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PAPSS and the Future of African Trade

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An Introduction

On January 13, 2022, the Pan African Payment and Settlement System ("**PAPSS**") was commercially launched by Africa's leading indigenous multilateral financial institution, African Export-Import Bank ("**Afreximbank**") in collaboration with the African Union and the African Continental Free Trade Area, following a successful pilot phase in the West African Monetary Zone ("**WAMZ**") countries. PAPSS, a brainchild of Afreximbank, is touted to revolutionize and significantly boost intra-African trade by its provision of a payments infrastructure that connects trading partners and African markets to each other.

Commentary on the intra-African payments regime that preceded PAPSS, PAPSS' mechanics, pros and cons will now follow.

The Mischief that PAPSS was Introduced to Remedy

PAPSS has been rightly hailed as the first centralised continent-wide payment market infrastructure for intra-African trade and commerce payments processing, clearing and settlement.[1]

Prior to the PAPSS, intra-African trade was riddled with heavy reliance on third currencies (usually the United States Dollar ("**USD**")) and non-African correspondent banks (usually a clearing bank on Wall Street, New York) – with the cost of the entire process parcelled to the consumers, thus discouraging intra-African trade. Originating a transfer of funds between trade partners in two African countries was no less complex than transferring funds to someone in Europe or the United States of America.

In Nigeria, international money transfer operators ("**IMTOs**") licensed by the Central Bank of Nigeria ("**CBN**")[2], such as Moneygram and Flutterwave, effected money transfers between African Countries. This regime had its limitations, perhaps the most significant of which is the prohibition by extant law of institutional or corporate transfers.[3] Hence, the movement of money from one African country to the other was strictly on a person to person basis.

Traders within Africa, but in different countries, also deployed creative methods as a means of advancing trade. For instance, it was not unusual for a Nigerian trader to open a bank account in Ghana for the purpose of warehousing funds, to the extent allowed by Ghanaian law, where the Nigerian trader has trade partners or patronage in Ghana.

Prior payments transfer regimes were not without shortcomings. For example, IMTOs could and can only effect transfers on a non-institutional basis. For an African trader with a bank account in Nigeria, for instance, repatriation of funds presented a serious challenge, under a national foreign exchange climate fraught with an intractable liquidity squeeze. The effect of

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[1] Ubah Jeremiah Ifeanyi, 'Understanding the Hype around PAPSS and How It Works' Available at < https://nairametrics.com/2022/01/17/understanding-the-hype-around-papss-and-how-it-works/> Information accessed on January 30, 2022.

[2] Guidelines on International Money Transfer Services in Nigeria, 2014 ("**IMTS Guidelines**"), s. 2.1.

[3] IMTS Guidelines, s. 3.2.

the foregoing challenges was a lack of growth, at the desired pace, in intra-African trade. Intra-African trade, which has been reported as among the lowest regional trades globally, contrasts sharply with intra-European trade, where seventy *percent.* of the European Union's trade occurs within the bloc.[4] Tellingly, observers and stakeholders have identified the lack of a central payments infrastructure on the continent as one of the chief causes of the slow growth registered in intra-African trade.[5] Hence, PAPSS.

How PAPSS Works, and the Legal Framework

Essentially, PAPSS is a centralised payments and settlement infrastructure for intra-Africa transactions. With the deployment of cutting-edge technology, PAPSS connects traders in different African countries with financial intermediaries for the consummation of real-time payment transactions. Under PAPSS, there is a near-instantaneous transfer of funds from an originator in one African country (say, Nigeria) and a beneficiary in another (for instance, Ghana).

Upon receipt of a payment instruction in local currency, the originator's bank or payment service provider disseminates the payment instruction to PAPSS for relevant validation and onward transmission to the beneficiary's bank or payment service provider, which in turn clears the funds to the beneficiary in the beneficiary's local currency.[6] PAPSS' compelling draw is that it allows the transfer of funds from an originator of the transaction to a recipient situate in a different national market without the need for the originator to source for the beneficiary's currency or even the USD. Thus, a Nigerian trader can, with PAPSS, originate a transfer of funds to a Ghana-domiciled counterparty in Naira, which will be remitted to the counterparty's bank account in Ghanaian Cedi.

In originating transactions on the PAPSS platform in Nigeria, it should be borne in mind that (a) the eligible payment of imports and receipt of export proceeds by the CBN shall be restricted to trade-backed transactions stipulated in memorandums 9 and 10 of the Revised Foreign Exchange Manual, 2018 ("**FX Manual**") and other rules and regulations issued by the CBN; (b) import payments under PAPSS shall be restricted to goods of African origin; (c) all required documentation in the FX Manual shall be provided before a transaction is initiated on PAPSS by an authorised dealer or its customer; (d) export proceeds repatriated to CBN under PAPSS shall be subject to certification by respective processing banks as being repatriated by the exporter; (e) the prevailing exchange rate at Investors and Exporters Forex Window, as advised by Financial Markets Department of the CBN, shall be used in cross-rates conversion between Naira, USD and the recipient's currency within Africa; (f) an authorised dealer shall obtain the CBN's approval for USD cover before initiating payments on PAPSS;

[4] Hugo Smith, 'A Smoother Payments Process Can Boost Intra-African Trade' Information available at < https://www.thebanker.com/Custom/Sections/View-from-ARC/2015/A-smoother-payments-process-can-boost-intra-African-trade> Accessed on January 30, 2022.

[5] *Ibid.*

[6] 'Connecting Payments. Accelerating Africa's Trade' Information available at < https://papss.com/> Accessed January 30, 2022.

and (g) only "eligible transactions" as may be determined by the CBN from time to time shall be eligible for payment on PAPSS.[7]

Benefits of PAPSS

The benefits of PAPSS are legion, and avail both the consumers (the originators and recipients of payments), African central banks and local African economies. With particular reference to Nigeria where there is a widely reported liquidity squeeze in the FX Market, PAPSS will bring a measure of relief to the FX Market as the ease of conducting business with African counterparties in local currency will reduce the pressure and demand for foreign currency. As noted during PAPSS' launch, PAPSS will reduce the cost, duration and time variability of cross border payments across Africa, decrease the liquidity requirements of commercial banks for cross border payments and strengthen oversight of cross border payment systems by African central banks.[8] Little wonder, PAPSS is projected by analysts to save Africa USD5 billion on an annual basis.[9]

PAPSS – Much Ado over Little?

As the excitement that precipitated PAPSS' historic launch subsides, concerns in some quarters that PAPSS will not be the ballpark messiah for trade on the African continent some have billed it to be merits evaluation.

While it is currently being piloted in the English-speaking WAMZ, whether it would be accepted and wholeheartedly embraced in Francophone West Africa and indeed other African countries remains to be seen. Needless to say, any prolonged hesitation of non-WAMZ African States to accept PAPSS – or their outright rejection of PAPSS – may sound the metaphoric death knell for the project even at its teething stage. It is unclear if non-WAMZ countries have irrevocably committed themselves, contractually, to trialling and accepting PAPSS in their respective countries.

Further, in Nigeria, PAPSS is subject to the regulatory restrictions that afflict sourcing foreign currency in respect of some items in the FX Market.[10] Items such as cement, margarine, and processed meat products, for instance, are "not valid for foreign exchange" at the FX Market.[11] These restrictions to sourcing foreign exchange for the importation of the "proscribed" goods and services extend to PAPSS, such that a Nigerian importer may have difficulty resorting to PAPSS to pay for a good or service red-flagged by the CBN as not valid for foreign exchange.

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[7] https://www.cbn.gov.ng/Out/2021/TED/PAPSS.pdf (the "Circular")> Accessed January 31, 2022.

[8] 'Pan-African Payment and Settlement System Launched by President Akufo-Addo Foreseeing $5 Billion Annual Savings in Africa' < https://www.afreximbank.com/pan-african-payment-and-settlement-system-launched-by-president-akufo-addo-foreseeing-5-billion-annual-savings-for-africa/> Accessed on January 30, 2022

[9] *Ibid*.

[10] The Circular.

[11] See CBN's circular dated June 23, 2015 titled 'Inclusion of Some Imported Goods and Services on the List of Items Not Valid for Foreign Exchange in the Nigerian Foreign Exchange Markets' Information available at < https://www.cbn.gov.ng/out/2015/ted/ted.fem.fpc.gen.01.011.pdf> Accessed January 30, 2022.

In terms of PAPSS' effect on the ongoing foreign exchange liquidity squeeze, it is not implausible that PAPSS, contrary to expectations, may not significantly lessen the present high demand for USD in the FX Market. At cursory glance, it would appear to be a no-brainer that PAPSS would ease a lot of the burden on the FX Market, given that a Nigerian transferor of funds, using the PAPSS, need not source for foreign exchange to effect payment to an account in another African country. However, there is simply not that much trading traffic between Nigeria and other African countries. According to the National Bureau of Statistics, China topped Nigeria's major import trade in the second quarter of 2021 on the import trade list – recording 29.9 *percent.* or ₦2.08 trillion of the total import which stood at ₦6.95 trillion in the same quarter.[12] In fact, no African country features in the list of Nigeria's top ten import trading partners as of Q2, 2021.[13]

It would also appear that the greatest impediment to intra-African trade is the low level of industrialization among African countries. The age-old rules of demand and supply continue to hold sway in the posturing of trade markets. Because African countries often produce raw materials and require manufactured goods, their natural trading partners are not each other, but more industrialized nations in other climes. As long as industrialization on the African continent remains low, there is only so much PAPSS can do to make African governments and businesses trade with each other.

Conclusion

While PAPSS may not solely be the intra-African trade messiah that African countries hope for, its introduction is set to unlock a new dispensation of economic intersection for small and medium-sized enterprises across Africa because if money can move easily, trade will follow, and economic growth is guaranteed.

It is G. Elias & Co.'s hope that the central banks and financial institutions across Africa accord the PAPSS the backing required to achieve its objectives and bolster intra-African trade. African countries within the WAMZ are also urged to harness this platform and encourage its adoption by their African counterparts in order to achieve a status fitting of its name as a truly pan-African digital infrastructure created by Africans for the benefit of Africans.

[12] Godfrey Bivbere and Providence Adeyinka, 'China Tops Nigeria's Import in Q2 2021, as India Leads Export' Information available at << https://www.vanguardngr.com/2021/10/china-tops-nigerias-import-in-q2-2021-as-india-leads-export/>> Accessed January 30, 2022.

[13] Simona Varrella, 'Main Import Trading Partners of Nigeria 2021' Information available at < https://www.statista.com/statistics/1193493/main-import-trading-partners-of-nigeria/> Accessed January 30, 2022.

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