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2022 FAQS PAPSS

In this series, we will be discussing some frequently asked questions on PAPSS and its benefits to intra-African trade:

What is PAPSS?

PAPSS is a centralised payment and settlement infrastructure for intra-African trade and commerce payments. PAPSS is regarded as a revolutionary financial market infrastructure that will enable instant, cross-border payments in local currencies between African markets by simplifying cross-border transactions and reducing the dependency on hard currencies for these transactions.

What role will PAPSS serve?

PAPSS will serve as a continent-wide platform for the processing, clearing and settling of intra-African trade and commerce payments, leveraging a multilateral net settlement system. Juxtaposing the Nigerian Interbank Settlement System (NIBSS) with PAPSS, their role is similar. However, whereas NIBSS is restricted to Nigeria only; **PAPSS is intra-African transactions.**

Banks and Financial Institutions

- simplified process of foreign exchange for cross-border transactions between African markets;
- instant and secure cross-border payment capability to their customers across Africa; and
- innovation in cross-border trade and access to new African markets

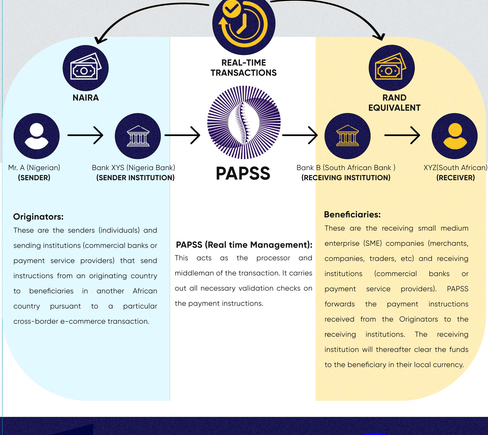
Government and Central Banks

- easing the pressure on current accounts and demands for foreign exchange liquidity;
- increased transparency of cross-border trade activity, and increased potential to generate revenue; and
- enhanced financial inclusion opportunities and improved economic growth through intra-African trade

Corporates, SMEs and Individuals

- instant/near instant payments of cross-border transactions without the hassle of currency conversion;
- improved working capital through payment certainty and faster transactions;
- access to various payment facilitating options through a growing network of financial intermediaries.

Who are the players/ participants of PAPSS?



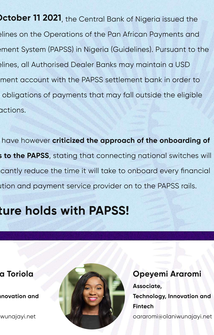
Originators:
These are the senders (individuals) and sending institutions (commercial banks or payment service providers) that send instructions from an originating country to beneficiaries in another African country pursuant to a particular cross-border e-commerce transaction.

PAPSS (Real time Management):
This acts as the processor and middleman of the transaction. It carries out all necessary validation checks on the payment instructions.

Beneficiaries:
These are the receiving small medium enterprise (SME) companies (merchants, companies, traders, etc) and receiving institutions (commercial banks or payment service providers). PAPSS forwards the payment instructions received from the Originators to the receiving institutions. The receiving institution will thereafter clear the funds to the beneficiary in their local currency.

What currencies are used for the transaction?

The sender sends in his **local currency** and the receiver receives in his local currency. For instance, Mr A makes payment with Naira while XYZ receives the Rand equivalent of the Naira deposited. **PAPSS carries out the settlement and conversion of the Naira to Rand.**



How does PAPSS work?

PAPSS supports three core processes: instant payment, pre-funding and net settlement.

Instant Payments
PAPSS ensures instant or near-instant fund transfer between Originators in one African country and beneficiaries in another. Prior to PAPSS, participants were required convert local currencies into foreign currencies which then entailed the funds leaving one African country to be converted before being sent back again to the beneficiary bank – adding days to the transaction time.

Prefunding Works
Due to the speed of the real-time payment process, PAPSS needs to guarantee that funds are available to complete the Originator's transaction before effecting the movement of debits and credits between participants' accounts. Hence, participants are required to execute pre-funding agreements.

Direct Participants – participants with the real-time gross settlement (RTGS) accounts – integrate directly with PAPSS and the RTGS systems of central banks in the pre-funding process.

Indirect Participants - participants without an RTGS account – are able to fund or defund their clearing accounts on PAPSS with the aid of a Direct Participant providing the required liquidity.

How does net settlement work?

PAPSS ensures prompt settlement within **24 hours**. Net settlement across all participating central banks occurs at the same time – **11.00 UTC – each day.** As with the pre-funding process, notifications are carried via an **ISO 20022 messaging system**, notifying PAPSS, the Participants and RTGS of the status of every stage of the transaction

Conclusion

PAPSS is a welcome development to expand the growth of trade and commerce in Africa. More awareness will be required to intimate participants in African countries of PAPSS, benefits and use case. As it stands, only a few central banks like the **Central Bank of Guinea, Sierra Leone, Liberia, Ghana, Senegal, the Gambia, and the West African Monetary Zone with the pilot phase of the PAPSS, the efforts of Afreximbank, are currently backing PAPSS**. To make PAPSS achieve its intended objectives, more countries should be on board and signed up to the platform.

On October 11 2021, the Central Bank of Nigeria issued the Guidelines on the Operations of the Pan African Payments and Settlement System (PAPSS) in Nigeria (Guidelines). Pursuant to the Guidelines, all Authorised Dealer Banks may maintain a USD settlement account with the PAPSS settlement bank in order to settle obligations of payments that may fall outside the eligible transactions.

Many have however **criticized the approach of the onboarding of banks to the PAPSS**, stating that connecting national switches will significantly reduce the time it will take to onboard every financial institution and payment service provider on to the PAPSS rails.

Regardless, we are excited to see what the future holds with PAPSS!

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