KPMG

The AfCFTA Series:

Introduction of the Pan-African Payment and Settlement System (PAPSS) for Intra-African Trade

KPMG in Nigeria | November 2021

The African Export-Import Bank ("Afreximbank") and African Continental Free Trade Agreement ("AfCFTA") Secretariat has announced the operational roll-out of the Pan-African Payment and Settlement System ("PAPSS" or "the System") to facilitate cross-border payments in local currencies between African markets.

The PAPSS, which is one of the key operational instruments of the AfCFTA, is a centralised system for processing, clearing, and settling of cross border trade and commerce payments among African countries. The System would replace the current corresponding banking for intra-African trade, especially for large-value cross-border payments. Expectedly, its roll-out and full implementation should herald the introduction of a single currency for the African Free Trade Area and the evolution of an African Central Bank.

Furthermore, PAPSS should facilitate the emergence of new businesses, enable existing businesses scale across the continent faster and potentially increase flow of foreign direct investment (FDI) into the Continent.

How the PAPSS works

The PAPSS operates on a multilateral net settlement basis with Afreximbank acting as the main Settlement Agent in partnership with participating African Central Banks. The System has an instant payment system (PIP™) which supports wholesale and retail real-time payments.

PAPSS transactions can only be conducted through a participating Bank or Payment Service Provider (PSP) – collectively referred to as the Participant. A Participant is required to sign-up to the System after completing the on-boarding process and fulfilling all requirements. Also, the Participant would maintain and pre-fund its settlement accounts with the local Central Banks and in PAPSS.

In summary, an importer only needs to issue a payment instruction to his/her participating Bank or PSP (i.e., "Participant"). The Participant would process the payment instruction through the PAPSS clearing system. After the payment instruction is cleared, the exporter receives value for the transaction. While the importer would be debited for the value of the transaction in the local currency, the beneficiary would receive value for the transaction in his/her local currency through a Participant in the Home country. The applicable exchange rates would be available to Participants and communicated to the importer when initiating the payment instruction. The above process should happen instantly or near instantly.

Currently, the final settlement of transactions on PAPSS occurs on an overall net basis at a designated time daily between participating Central Banks and the PAPSS' designated settlement Bank.

Commentary

The roll-out of PAPSS is an important milestone for the AfCFTA. In addition to facilitating trade between member countries on the continent, the PAPSS would lead to increased efficiency in supply chain and working capital management of African businesses. Furthermore, the System should reduce operational inefficiencies in the settlement of trade payments between African countries. Through its comprehensive legal, regulatory, and operational framework comprising standardised rules, message formats and governance arrangements, and harmonised Know Your Customer/Anti-Money Laundering requirements, PAPSS will reduce the current payment clearing period from 3 to 5 days to a matter of minutes.

In addition to the above, the System would enable the settlement of cross border African trade within the framework of existing exchange controls in the various jurisdictions. This should help to maintain fiscal stability and avoid any distortions of local monetary policy imposed by the respective Central Banks.

PAPSS will provide Banks and PSPs direct access to a network of payment institutions in Africa and across the globe, minimising liquidity complexities from operating multiple correspondent banking accounts and transaction processing fees. When fully implemented, it is estimated that the System would save importers, and the continent, more than United State Dollar (US$) 5 billion in transaction cost yearly. In addition, the System should improve the foreign exchange position of local economies.

© 2021 KPMG Advisory Services, a partnership registered in Nigeria and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Additional Considerations

Although payment settlement between importers and exporter within the continent is expected to happen in local currencies, the System may need to accommodate payment settlements in foreign currencies, especially the US dollar. About thirty percent (30%) of total intra-African trade in 2019 was in natural resources, based on the 2020 African Trade Statistics published by the African Union. Traditionally, the prices for these commodities are benchmarked to the US dollar, therefore, it is significant that 30% of African total intra-African trade can be transacted within the System.

Furthermore, both Afreximbank and the AfCFTA secretariat may need to consider the following issues with regards to the implementation of PAPSS:

(i) Measures that would ensure that PAPSS is competitive in view of the challenges of disparate foreign exchange rates within the region. For example, the Afreximbank would need to articulate a strong value proposition for the Francophone countries as the CFA franc is pegged to the Euro, thereby ensuring a stable currency and very low inflation rate for these countries compared to its counterparts.

(ii) Determine the approach for sourcing and maintaining sufficient local currency liquidity as required to support the payment system given liquidity challenges in certain countries.

(iii) Outlining and engaging stakeholders including Central Banks, capital markets and other key participants on their role in ensuring the success of the initiative.

Also, manufacturers on the continent need to actively identify substitutes for raw materials currently imported from outside the continent as an avenue to manage the persistent need/demand for foreign currencies to purchase these raw materials and to promote the acceptance of payment settlement in local currencies.

For further enquiries, please contact:

Goodluck Obi
T: +234 803 402 0950
E: goodluck.obi@ng.kpmg.com

Femi Babem
T: +234 803 975 4131
E: olufemi.babem@ng.kpmg.com

Uzodinma Nwankwo
T: +234 803 975 4053
E: uzodinma.nwankwo@ng.kpmg.com

Gbolahan Ashagbe
T: +234 802 832 0636
E: gbolahan.ashagbe@ng.kpmg.com

www.home.kpmg/ng
home.kpmg/socialmedia

© 2021 KPMG Advisory Services, a partnership registered in Nigeria and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.