

ADDENDUM

SOUTHERN AFRICAN DEVELOPMENT COMMUNITY (SADC) PAYMENT SYSTEM PROJECT

COUNTRY-SPECIFIC PROGRESS REPORTS FOR PERIOD APRIL 2005 TO MARCH 2006

1. ANGOLA

1.1. Introduction

Angolan Payment System(SPA) has been developed in harmony with the" SPA Project – Architecture and Strategy of the Implementation", approved on January 2000 and revised May 2003, prepared by Task Force Group for the Payment System. The new version of this document can be found in website of BNA in Internet www.bna.ao.

1.2. Sensitisation, information gathering and stocktaking

Study and discussion are underway with banks in order to create the acquiring of credit card in Angola Study about installation of the ACH in Angola

1.3. Vision and strategy issues

Discussions are currently underway about permanence of the Network ATM owner or his migration, in the medium term by the open Network of international flag.

1.4. Conceptual design, technical, business process specification and development

Acquiring for credit card and ACH

1.5. Procurement and implementation

Angolan Real Time Payment System (SPTR) has started in production on 18th November 2005; it is the Real Time Gross Settlement System (RTGS) of Angola.

Publication of law n° 05/05, of 9th de July (Angolan Payment System Law)

Publication of Notice n° 03/05 and Instructive n° 03/05, both of 9th November (Proceedings Manual of RTGS)

Publication of Ruling n° , de (Internal Proceedings Manual of RTGS)

Publication of Notice n° 02/05 and Instructive n° 02/05, both of 9th November (Rules of BNA Oversight, adapted with the workings rules of RTGS of Angola.

Signature of participation agreement in the RTGS among BNA and Commercial Banks.

1.6. Oversight developments initiatives

The law n. 05/05, 9th July (Angolan Payment System Law), BNA has the responsibility for oversight of the Angolan Payments System and the principles for BNA to carry out this function

The principles related are the same that are referred to in the Document “Central bank oversight of payment and settlement systems”, published by BIS in May/2005 other words: transparence, international standards, effective power and capacity, consistence and cooperation with other authorities

The scope of oversight of the Payments System in Angola are the Payment sub-systems (SPTR, MULTICAIXA and Clearing Value System), any clearing house, including of financial instrument, that will be implemented in Angola and the supplies of payment services, financials institutions or not, in what refer specifically to payment services supplied.

The oversight of the Payments Sub-System has been done through monitoring process, promoting necessary alterations in the systems operated by BNA and ask to MULTICAIXA sub-system operator to implement all necessary changes. However, it was established in SPA law the mandatory external audit yearly. The audit is responsibility of the operator.

Internally, BNA has established the mandatory of internal audit half-yearly in SPTR, it must be done according to all the rules including on internal Proceedings Manual of RTGS, and on the User Guide of RTGS. And also it is being concluded the document that will be the guide of Payment System Department and Supervision of Financial Institutions Department in the oversight functions of the Payment Systems and Supervision of the Financial Institutions.

1.7. Other

Create the acquiring firm for credit card transactions.

2. BOTSWANA

2.1. Overview

This report summarises progress on payments system reform programme for the period April 2005 to March 2006. During this period, the Bank was engaged in a number of projects/activities notably:

- (i) National Payments System (NPS) legislation Review and Implementation;
- (ii) Real Time Gross Settlement Project (RTGS) Implementation;
- (iii) NPS newsletter (Tsa Tuelano) publication/production;
- (iv) Smart Card/e-money issues; and
- (v) Southern African Development Community (SADC) Payments System Project activities like the Financial Sector Assessment Programme (FSAP).

Considerable progress was made on all fronts as reflected hereunder:

2.2. Sensitisation, information gathering and stocktaking

Topics for the next edition of the NPS Newsletter, “Tsa Tuelano” were identified. Work is in progress for the information compilation process.

The Bank continues to improve on collection and collation of information and data for use in the Green-Book. The major sources of data/information are the commercial banks, the Research and Banking Supervision Departments of the Bank of Botswana and statistics available from the Electronic Clearing House (ECH).

2.3. Vision and strategy issues

During the reporting period, a new Department formally known as Payments and Settlement Department (PSD) was formed. This was done with a view to expedite and strengthen the reform and modernisation of payments systems in the country. The Department is largely responsible for payments and settlement issues.

The Bank initiated the efforts to join the Smart Card Association of Southern Africa to be able to attend activities in this area and to keep abreast with developments in the region and elsewhere. The Framework and Strategy document of the NPS had recommended developments in this area as part of the modernisation programme.

The sequencing of the next review of legislation relating to the NPS is ongoing. The Bank has received input from the National Payments Systems, International Monetary Fund (IMF) expert on the Bills of Exchange Act. The first draft is under review in-house in liaison with the relevant authorities and stakeholders. The Bank is also in liaison with the Ministry of Science and Technology to make appropriate arrangements, to ensure that the legislation

impacting on the NPS had been covered in their wholesale review of the legislation relating to electronic transactions and evidence, cyber law, etc.

2.4. Conceptual design, technical, business process specifications and development

Considerable groundwork was covered on the implementation of the Botswana Inter-bank Settlement System (BISS) RTGS project. During the period, the initial study report was signed-off. Following that a project plan was firmed up setting the live-take-on date of the Project to the first quarter of year 2006. The implementation of the project commenced. The Bank planned to put in place all the necessary requirements notably, hardware testing; test bed integration testing; training and user acceptance testing before the end of the year to facilitate the live-take-on of the project as agreed with Montran Corporation, the suppliers of the BISS RTGS project.

2.5. Oversight development initiatives

The Bank worked progressively on the implementation of the National Clearance and Settlements Systems (NCSS) Act and regulations following the announcement of the commencement date of March 1, 2005. To-date the Bank has issued a certificate of recognition to the Electronic Clearing House (Botswana) on August 31, 2005, effectively transferring the Electronic Clearing House (ECH) out of the Bank to the newly registered company under the auspices of Banker's Association of Botswana (BAB). Operations at the new ECH site commenced on September 1, 2005, and clearing has now stabilised.

Arrangements are ongoing for the local VISA system to be properly constituted and recognised. Work on this is expected to be concluded by the end of the reporting period.

Significant progress was made in the area of reviewing the Electronic Clearing House rules and regulations. The review is due to be concluded within this period. An agreement between the ECH and the RTGS was drafted and will soon be signed off.

2.6. Other payment system project management issues

The Department continued to attend the SADC Payments System Project Team activities arranged to keep SADC member countries abreast with payments system developments regionally and internationally and for capacity building. During the year, representatives from the Bank attended the Committee of Payments and Settlements Systems/SADC Conference; annual regional conference; and the Financial Sector Assessment Program (FSAP) preparatory workshop.

Work is at an advanced stage in terms of self-assessment on the Bank for International Settlements (BIS) Core Principles for Systemically Important Payment Systems. This will be concluded soon and submitted to the SADC Payments Project Team for deliberation at the workshop scheduled at end of March 2006.

3. DEMOCRATIC REPUBLIC OF CONGO

3.1. Introduction

Within the framework of the initiatives to strengthen the operational capacities and to modernise the Central Bank of Congo, the strategic plan is proposing the implementation of new information systems as follows:

- Electronic management of Forex reserves (Front and Back offices combined,
- Accounting and Financial Management of the Bank,
- Oversight of financial intermediaries and the RMA network,
- The National Payment System,

- Joint Electronic management of the Treasury's revenue and expenses (State Cashier) between the Department of Finance and the Central Bank.

At this stage of the upgrade, the Governor, who wanted to convey a strong message decided to restructure the Bank and appointed a member of his cabinet in the capacity of Representative of the National Payment System and VSAT (Autonomous Telecommunication Network) Projects

3.2. Awareness, information gathering and stocktaking

The Central Bank of Congo, together with the SADC Payment System Project Team, organised an information workshop on the upgrade of the National Payment System, at the Grand Hotel de Kinshasa from the 14th to the 16th March 2005:

- ***Governor's address***

The Governor of the Central Bank of Congo made a speech centred on the following main points

- o The importance of the National Payment System and the role of the Central Bank in its implementation,
- o The reasons and goals of the Democratic Republic of Congo's National Payment System upgrade,
- o Expectations regarding the SADC initiatives and its impact in the Democratic Republic of Congo.

His Excellency, the Governor mentioned in his address that the Democratic Republic of Congo's National Payment System had remained in an embryonic state for decades, characterised by the following:

- o Increased use of fiat money,
- o The low use of banking methods of payment,

- The market absence of electronic systems of payments in general, giving rise to slow payment of operations and related treasury problems,
- The existence of a legal framework that is not suited to the modern payment systems.

3.3. Strategic vision

The Central Bank Governor has issued a Service Order clearly defining all the structures that will be involved in the modernisation of the National Payment System, namely;

- The National Payment and Settlement Committee (CNP),
- The Steering Committee of the National Payment System (CPSNP),
- The Mission for the modernisation of the National Payment System (MIMOSYS).

The National Payment Committee

Created by Decree no.04/083 dated 27 September 2004, the CNP is the organ that will drive and supervise the NPS's upgrade process

The Committee is made up of the Central Bank's Governor, directors of commercial banks, the Chairman of the Project's Steering Committee, the Representative of certain Ministries, including the Department of Finance, Budget, Post and Telecommunications, etc.

The Steering Committee of the National Payment System (CPSNP)

The main mission of the CPSNP, which is made up of experts from Central Bank and commercial banks, is to develop the strategic vision that will drive the modernisation process of the National Payment System. The committee includes representatives of the Central Bank of Congo and Congolese Banks Association.

Mission for the modernisation of the National Payment System

The mission for the modernisation of the national payment system is an internal organ of the Central Bank, responsible for the daily management of the National Payment System.

3.4. Other activities

The National Payment System Steering Committee is proposing to finalise the Strategic Vision document towards the end of the first semester in 2006, will include eight important steps:

- The official launch of the SNP' modernisation project; (done)
- The creation of a Steering Committee, confirming the support of the banking profession and other partners (done)
- Resource identification and planning, followed by the creation of standing project management structure, (done),
- Study of payment system and telecommunications' network in DRC (to be undertaken with the assistance of a consultant and commercial banks),
- Approval of the report on the state of the payment system and telecommunications' network in DRC by the CNP,
- Undertake feasibility study on the upgrade of the SNP with the possible assistance of an international panel of experts; and
- Approval of the feasibility study by the CNP; and distribution of the "Strategic Vision and Framework Document".

3.5. Conclusion

Despite delays in the upgrading of our Payment System, the following activities have been undertaken:

- Setting up of a LAN network: The Bank is now equipped with the local client/ server architecture interconnecting its four buildings via optic fibre,
- Call for tenders on 22nd December 2005 to supply autonomous satellite communications' network for the head office and provincial branches.

4. LESOTHO

4.1. Introduction

The year 2005 saw a kick-off of the implementation of the strategies as contained in the Vision and Strategic Framework of the Lesotho National Payment System (LNPS) Modernisation Project.

Developments of the Project were as follows:

4.2. Legal and Regulatory Framework

The requested technical assistance that had been sought from the International Monetary Fund (IMF) to review the LNPS legal framework was finally granted. This assistance was with regards to the establishment of a legal and regulatory framework that supports a modern payment system.

Towards the end of the year, a Legal Expert from IMF visited Lesotho for a preliminary and fact finding mission. This was carried out through meetings with stakeholders, commercial banks and legal practitioners in the country. He also held a workshop to sensitise the LNPS project members, commercial banks and other major players in the payment system, on legal and regulatory matters as they affect the payment system.

A first draft of the mission report (Aide Memoire) was prepared. This identified a number of sections from the existing legislation that will need to be

amended to cater for the LNPS as well as the need for a fully fledged NPS Act.

The second mission of the IMF is expected in February, during which drafting of the new NPS Act as well as the proposed amendments shall commence, and this exercise is expected to be completed by the end of April 2006.

4.3. Real Time Gross Settlement

A Request for Proposal (RFP) was issued in July 2005 for the establishment and installation of a Real Time Gross Settlement (RTGS) system at the Central Bank of Lesotho. This system is intended to settle large value and time critical payments in real time and at gross value without netting. This project was given top priority given its importance in reduction of settlement and associated risks and shall be followed by the ACH project.

In response to the RFP, four companies tendered and Montran Corporation won the bid. The project start date has been scheduled for January 2006, and the implementation period for the project is expected to be between eight to nine months and if all goes well the RTGS system in Lesotho shall go live sometime in August 2006.

4.4. Automated Clearing House (ACH)

An ACH project is expected to follow the RTGS project and commence subsequent to the RTGS going live. Millennium Challenge Corporation (MCC) has tentatively shown an interest in providing assistance for the establishment of an ACH in Lesotho, following the initial study and the recommendations from FIRST Initiative (FIRST). FIRST has promised to send a consultant from Electronic Payments and Commerce to Lesotho in January 2006 to undertake the study and come up with a strategic plan for the proposed ACH. It is expected that the ACH shall be a joint venture between the Central Bank of Lesotho and the commercial banks and shall be housed outside the CBL.

4.5. Developments in the banking sector

4.5.1. Debit cards

One of the key strategies of the LNPS modernisation project is to establish the debit card payment stream as a backbone for the retail payments in Lesotho. The preferred debit cards are interoperable, universally accepted and can be also used as an Automated Teller Machine (ATM) card for cash withdrawal at the ATMs. Standard Bank Lesotho Ltd issued Maestro Debit Cards towards the end of 2004 and these cards are internationally accepted and are interoperable, but there is no local switch. The other problem is that there are few merchants with Point of Sale (POS) machines where the cards can be operated. The challenge now is to encourage more merchants to install POS card readers in order to promote the use of debit cards and to encourage all the commercial banks to issue universally acceptable interoperable debit cards. This could largely reduce the use of cash and the risks associated with it.

Following its introduction in October 2004, FNB (Lesotho branch) also issued VISA Electron debit cards which are also internationally acceptable and are interoperable.

4.5.2. Internet banking

Nedbank Lesotho introduced Internet banking in 2005 with the main aim of providing customers with real time access to their accounts and ability to perform electronic transfers to third parties. The project is reported to have gone well in its pilot year and the bank intends to undertake intensive marketing to promote this product.

5. MADAGASCAR

6. MALAWI

6.1. Introduction and project overview

During the one-year period under review, April 2005 to March 2006, Malawi continued to consolidate the various payment systems reform activities in line with the objectives of the National Payment System Vision and Strategy Framework. Significant progress was made following the launch of the Electronic Cheque Clearing House (ECCH) project. The ECCH became operational on 1st August 2005. Malawi also upgraded her Real Time Gross Settlement (RTGS) system software in May 2005 by migrating from Version 1.0 to Version 3.0.

The Reserve Bank of Malawi (RBM) continued to play a leading role in all the payment systems activities that were carried out during the period under review, in respect of funding, providing human resources as well as policy guidance. These efforts were well complimented by other institutions such as the National Payments Council (NPC) and the Bankers Association of Malawi (BAM).

6.1.1 Real Time Gross Settlement Upgrade Project

The principal activity during this period was the upgrading of Malawi's Real Time Gross Settlement System (RTGS) from Version 1.0 to Version 3. Malawi became live in Version 3 on 30th May 2005 after Zambia, Zimbabwe and Namibia.

6.1.2. Advanced Statistics Module for the Real Time Gross Settlement System

During the upgrade of the RTGS system in May 2005, the RBM also enhanced its data collection and analysis capabilities in the RTGS system by installing an Advanced Statistics Module. The module was developed by Perago, the RTGS suppliers.

The module has simplified the way Payment Systems Division (PSD) analyses data from the RTGS system. It is now easy to extract data and analyse it in terms of volumes and values, charges, performance of individual participants, utilisation of windows, participant exposures to one another and intra-day borrowing, among others. The Advanced Statistics Module has also enhanced capabilities for PSD to implement risk mitigating measures in the RTGS system.

6.1.3. Electronic Cheque Clearing House (ECCH)

BAM in conjunction with NPC launched the ECCH on 1st August 2005. The ECCH replaced the manual cheque clearing processes. Prior to the implementation of the ECCH, all clearing banks used to meet in the Clearing House at the RBM to exchange physical cheques and manually calculate their clearing obligations. After this exercise, a batch was prepared which was manually input in the RTGS for settlement.

Following the implementation of the ECCH, all manual processes were eliminated. The ECCH uses code line clearing based on cheque imaging and truncation. Cheques are truncated at the point they are read by MICR Readers. Subsequent processing is accomplished by using cheque images and data that are transmitted to the central ECCH system which is hosted by the Malawi Switch Centre (MALSWITCH). Calculation of settlement obligations as well as posting of the settlement file into the RTGS is also done automatically. The ECCH has reduced the clearing period from seven days to less than three days. However, the ultimate goal is to attain same-day clearing.

6.2. Project management issues

Apart from the RTGS upgrade, ECCH project management issues dominated the period under review. BAM owns the ECCH and during the implementation

period, it employed a full time ECCH Project Manager who was answerable to both its President and the ECCH Project Steering Committee. After the commissioning of the ECCH, BAM has employed a full time Operations Officer who is responsible for overseeing the day-to-day operations of the ECCH. Technical management of the ECCH has however been outsourced to MALSWITCH.

During and after the implementation of the ECCH, the RBM played a leading role. The RBM provided policy guidance throughout the planning and implementation phases of the ECCH Project. In addition, the RBM, headed two Task Teams that were mandated to prepare ECCH Rules and the Multilateral Legal Agreement. In the absence of the National Payment Systems (NPS) Act, banks resorted to the Multilateral Agreement to govern the operations of the ECCH.

To date the RBM, in addition to using the ECCH as a participant, continues to provide policy guidance and also conducts oversight activities to ensure that operations are executed according to internationally accepted best practices. One major oversight activity that is underway is the self-evaluation exercise that is aimed at ascertaining the compliance of the ECCH operations to the BIS Core Principles for Systemically Important Payment Systems (CPSIPS). The RBM is using IMF Assessment Guidelines in evaluating the ECCH. This exercise is being undertaken under the SADC Payment Systems Project initiative.

MALSWITCH, which was established and managed by the RBM has been operational and technically de-linked from the RBM, effective 1st January 2006. Meanwhile, arrangements are at an advanced stage to incorporate MALSWITCH into a company limited by shares (i.e. a limited liability company.) Despite being de-linked from the RBM, MALSWITCH will continue to provide technical administration of the RTGS and the ECCH and an

appropriate Service Level Agreement has been drawn. However, the RTGS and the ECCH shall continue to be owned by the RBM and BAM, respectively.

6.3. Sensitisation

Apart from individual financial institutions intensifying product awareness campaigns to sensitise both their customers and the general public on new payment products and services, BAM and NPC took the lead in sensitising the general public on the implementation and operations of the ECCH. The awareness campaign was done through the country's leading daily newspapers as well as business magazines. Some commercial banks sensitised their customers about the ECCH by printing text messages at the back of bank statements.

On its part, the RBM through PSD, headed two Task Teams that were set up to prepare ECCH Rules and the Multilateral Legal Agreement. As part of the sensitisation process, PSD made presentations on the ECCH Rules and Legal Agreement to Chief Executives of all ECCH member institutions including the RBM. The purpose of the presentations was to create awareness among, and have a buy-in from, the Chief Executives on the operational procedures that would govern the ECCH. The RBM felt that it was necessary for every Chief Executive to have a deeper insight of both the Rules and the Agreement before they were adopted. The presentations proved useful because the process of appending signatures to the Rules and the Agreement by the Chief Executives was speedy.

On the ECCH launch date, BAM in conjunction with the RBM held a press conference concluding the sensitisation campaign. This provided an opportune forum for BAM and the RBM to inform the general public and other stakeholders of the discontinuation of the manual cheque clearing system and the subsequent migration to the electronic cheque clearing system.

The RBM undertook various sensitisation activities to RTGS participants. The RBM through PSD, conducted training sessions for all RTGS system users drawn from the country's banking industry. The training sessions were aimed at equipping the participants with the necessary skills and knowledge to effectively operate the RTGS system. PSD included in its training programme (identified or potential) risks and risk mitigation techniques. This was meant to create awareness among all participants in a bid to minimise risks in the RTGS system. The training sessions were also meant to ensure that the banking industry has adequate numbers of skilled personnel that can effectively operate the system. The increased availability of skilled personnel would ensure business continuity since participating institutions would no longer rely on the services of few officers that are well conversant with the RTGS system.

6.4. Information gathering and stocktaking

RBM took the leading role in gathering and compiling payment systems related information. Through the PSD, the RBM collected and analysed information for various purposes like updating the SADC Green Book, sharing payment systems statistics with other international bodies such as the Bank for International Settlement (BIS) and International Monetary Fund (IMF).

6.5. Vision and strategy formulation

Malawi has a comprehensive National Payment Systems Vision and Strategy Framework which was prepared in collaboration with and endorsed by all payment systems stakeholders. The document was prepared under the auspices of the NPC and the SADC Payment Systems Project. The National Payment Systems Vision and Strategy Framework remains the only source document that articulates all payment systems modernisation initiatives in Malawi.

6.6. Conceptual design, technical specifications and development

With the recent launch of the ECCH, almost all of Malawi's payment systems modernisation projects as articulated in the National Payment Systems Vision and Strategy Framework have surpassed the conceptual design stage, though one outstanding modernisation project namely the Book Entry System, is yet to take off.

In every payment systems project, the RBM ensures that there have been extensive consultations with the major stakeholders. The discussions, among others, include business and technical specifications that should address the needs of the entire banking industry while at the same time conforming to international standards.

6.7. Procurement and implementation

Malawi has implemented almost all payment systems projects outlined in the National Payment System Vision and Strategy Framework. The commissioning of the ECCH on 1st August 2005 marked the conclusion of major projects to be implemented as contained in the Framework Document.

6.8. Conclusion

It is quite evident that significant progress was made in consolidating payment systems reforms in Malawi during the period under review. The period was dominated by the upgrade of the RTGS system and the implementation of the ECCH. By shortening the clearing period, the ECCH complements the pace induced by the RTGS in speeding up the circulation of funds within the country.

In general, Malawi has made tremendous progress in her payment systems reform programme. This has been possible due to the collective effort by all stakeholders in the banking sector including Government. The Central Bank's

role has however been critical in providing the necessary leadership, financial and human resources without which, not much progress would have been achieved.

7. MAURITIUS

A Real Time Gross Settlement System known as the Mauritius Automated Clearing and Settlement System (MACSS) is operative since 15 December 2000. Further, the clearing house has been automated using code line clearing principles and settlement is effected directly through the MACSS.

New legislations have been enacted in order to enhance the legal framework with respect to the payment system.

The Bank of Mauritius Act 2004 empowers the Bank to manage, in collaboration with other relevant supervisory and regulatory bodies, the clearing, payment and settlement systems of Mauritius. It further states that the Bank may, in conjunction with banks, organize a clearing house to facilitate the clearing of cheques and other payment and credit instruments and issue instructions concerning such instruments, their processing, collection, payment and retention and the functioning of other clearing houses that it may authorize.

Following the promulgation of the Banking Act 2004, consequential amendments were brought to the Bills of Exchange Act in order to provide for the truncation of cheques. Under the Bills of Exchange Act (as amended), a banker may present a cheque for payment to the banker on whom it is drawn by notifying him of its essential features by electronic means, as the Bank of Mauritius may specify, instead of physically presenting the cheque itself. A committee on cheque truncation has been working since September 2005 to identify relevant legal and practical implications and devise the best methods to be applied for an effective implementation.

The Port Louis Automated Clearing House (PLACH) Rules have been revised in order to reflect changes brought about by the Bank of Mauritius Act 2004 and the Banking Act 2004. The revised Rules were approved and have been adopted.

The Bank of Mauritius carries out an ongoing oversight of the payment system including the collection of information from daily liquidity reports and data from other sources, the analysis of the information and the initiation of action as appropriate.

In order to ensure business continuity in case of eventual disruption of the service of the primary site, MACSS is supported right from the inception by a fallback arrangement. The operations of the MACSS are conducted from the fallback site once every quarter in order to ensure that participants are prepared and are aware of procedures in case of contingencies.

The Mauritius Credit Information Bureau (MCIB) became operational since 1 December 2005. The MCIB collects, stores and provides credit information to lending institutions about customers' credit exposures. It is mandatory for all participating banks to make the necessary enquiry from the MCIB as from 1 December 2005 before approving, increasing or renewing any credit facility of customers. Banks, which are participants of the MACSS, are submitting their information to the central database of the MCIB using the MACSS network. They are also having access to the database through the same network. It is contemplated to extend the coverage of the MCIB to significant non-bank lending financial institutions for comprehensiveness.

Following a request from SWIFT regarding the implementation of the International Bank Account Number (IBAN) for cross-border payments in the

foreseeable future, a committee comprising all banks was set up in order to discuss an appropriate IBAN format for Mauritius.

The Committee on IBAN, at its last meeting held on 28 September 2005, agreed on the IBAN format for Mauritius, comprising thirty characters, as follows:

The first two letters represent the Country code.

The next two digits represent the Check Digits.

The next twenty-six characters represent the Basic Bank Account Number (BBAN).

The first four letters of the BBAN represent the first four letters of the SWIFT code of the bank servicing the account.

The next two digits the Bank code.

The next two digits the Branch code.

The next twelve digits the National Account Number.

The next three characters have been reserved for any future needs (to be filled in with zero for the time being).

The next three characters have been reserved for the currency code.

Banks have been requested to take necessary steps to implement the IBAN format by 31 March 2006 at latest and to submit a monthly progress report on the status of the implementation, starting from end October 2005.

All SWIFT Users in Mauritius have successfully migrated to SWIFTNet within the SWIFTNet migration window. Banks have been given the option to connect to the SWIFT network via local Internet Service Providers through a new connectivity solution known as the ISP local loop. This solution was

launched in March 2005 by SWIFT in co-operation with BT Infonet, one of SWIFT's accredited Network Partners.

8. MOZAMBIQUE

8.1. Introduction and project management issues

The National Payment System (NPS) Project development and implementation is guided by the Strategic Framework Development Plan designed in 2000. This is the major tool and guidance for all the activities in view to achieving the defined and underlined strategic objectives. As time and circumstances change, the mentioned Strategic Plan is subjected to revision in order to incorporate new realities.

The NPS modernisation development includes the successful implementation of the Electronic Clearing of Cheques (CEL) countrywide and the Government Electronic Funds Transfer System (STF), which will culminate with the implementation of the RTGS system thereafter.

The Interbank Clearing and Settlement Regulation rules have been revised to reflect changes that have occurred in the environment of cheque processing. This revision culminated with a new Interbank Clearing and Settlement Regulation being approved by Bank of Mozambique, which will contribute to the safe and efficient conduct and support of the Payment System.

After having created the Currency and Payment Systems Department (2003) as one of the objectives defined in the Strategic Framework

Plan, efforts are being made to establish an oversight unit that will effectively carry out the oversight functions within the central bank.

The major goals still to be achieved includes the establishment of the legal basis for a modern National Payment System. In this regard, the drafting of the National Payment System Act has been completed and it is due for submission to the Parliament.

All these actions are revolutionising the payment and settlement process in the country, by creating efficient payment and settlement processes.

8.2. Sensitisation

Sensitisation activities are in an ongoing process as various sub-projects are underway. Normally it takes a form of seminars with the Payment Systems Division playing a leading role together with other Departments within the Bank that comprises the strategic development team (GDSNP).

The Bank of Mozambique, on its role as a central bank, has promoted a series of courses, presentations, discussions and workshops in several areas of central banking, including payment systems, to create awareness to the stakeholders and participants about payments systems and the move towards the implementation of the RTGS system.

8.3. Information gathering and stocktaking

The Bank of Mozambique has approved a data-base model to be followed by all relevant stakeholders in order for them to submit, in a monthly basis, information about the use of their payment instruments to be included in the NPS statistical data-base. The data-base model in use is that recommended by the BIS – G10 statistical book.

As of now, Bank of Mozambique is in the process of publishing its first NPS Bulletin to be distributed to the various stakeholders throughout the country.

8.4. Vision and strategy issues

The Vision and Strategy process formulation has been concluded and approved by the board of the central bank in 2000, with time horizon of five years. In 2004 the Strategic plan was updated for another three years, up to 2007. The major goals to be achieved include the establishment of the legal framework of the NPS, namely the NPS Act which will constitute the legal basis for (i) a modern NPS as well as other regulations that might be needed; (ii) the introduction of the RTGS system; (iii) the integration of all the payment streams, including retail electronic clearing houses and, (iv) the integration of NPS to the SADC financial environment according to the ongoing projects.

8.5. Conceptual design

The conceptual design of the RTGS system has been carried out by the SADC Payment System Project Team and Bank of Mozambique has adopted it as a guiding instrument in building its own RTGS system, suitable for Mozambique's unique environment. However, the Bank recognises the procurement process carried out by the SADC Payment Systems Project

Team and the two vendors that best responded and qualified to the supply of the RTGS systems.

The Bank of Mozambique has also developed a new payment instrument to accommodate the needs of the Government in its effort to better make use of public funds. The core of these reforms fall in the introduction of the Treasury's Single Account (CUT) into a newly implemented Government Funds Management System (SISTAFE).

In this regard the central bank developed an electronic fund transfer system, denominated Government Electronic Funds Transfer System (STF), which enables the Government to manage funds electronically to and from the Treasury Single Account held at the central bank, in a wide network involving government institutions, commercial banks, central bank and the Ministry of Finance. Since then, there has been a significant increase in Government's utilization of this system for payments. This project represents an intermediate phase before the implementation of the RTGS system.

8.6. Procurement and implementation

The Bank of Mozambique is now preparing to embark on the next major project: the implementation of the Real Time Gross Settlement System which will address the processing, transmission and settlement of high value payments.

The Bank of Mozambique recognises the procurement process carried out by the SADC Payment Systems Project Team which culminated with the selection of two vendors that best responded and qualified to supply the RTGS systems. However, due to a number of reasons, the RTGS system for Mozambique was built-in-house and it's now going live for the Government operations through the Government Electronic Funds Transfer System (STF) since 2004. It is currently blocked for the commercial banks awaiting the approval of the NPS Act. By the end of the year, all the other payment streams will be integrated, including the financial markets operations.

8.7. Oversight development initiatives

The Electronic Clearing of Cheques (CEL) is the systemically important payment systems for Mozambique. CEL caters for both retail and large value inter-bank settlement transactions and it has been in operation countrywide since November 2003.

The Bank of Mozambique strives to ensure that risks associated with payment and settlement systems are kept at an acceptable level. In this regard, a new Inter-bank Clearing and Settlement Regulation was approved, effective August 2005, to reflect changes that have occurred in the environment of cheque processing since the launch of CEL in 2003. It defines clearly the rights and obligations of all the parties involved and the key rules that will help to minimize the credit exposures produced by the participants. One of the rules is the loss sharing agreement where all members in the agreement should contribute with collateral according to the risk they bring to the system. With the newly approved Regulation, there has been a reduction in the clearing cycle from 72 hours to 24 hours.

The liquidity risk in the payment system of Mozambique is being managed using analytical procedures including ongoing monitoring and analysis of daily balances in order to have early warnings of eventual liquidity risks participants could pose to the system.

The Bank of Mozambique is in the process to formalize, in the near future, the payment system oversight function as a unit within the Currency and Payment System Department (DEP). Payment system oversight will include the development of risk assessment as well as help assessing the reform process against the international best practices and standards such as the core principles for systemically important payment systems. The risk assessment will be performed through the use of the Payment and Settlement System Simulator (BoF-PSS2) developed by Bank of Finland. The simulator is designed for analysing liquidity needs and risks in payment and settlement

systems. It has proved to be an excellent tool for conducting a variety of payment system analyses and for studying liquidity needs and systemic risks.

Recent Developments:

- In order to adequate the Metical currently in circulation (national currency) to the actual stage of development of the economy in the country (price stability and modern payment system), there was a need to adjust its structure through the reduction of the last 3 digits. To carry out this objective, it was required to create an appropriate conversion rate between the Metical currently in circulation and the new Metical to be achieved, which we denominate “Metical of the new family”. Among the other benefits that can arise from this reform, emphasis goes to the increased efficiency in implementing modern payment system, improved security in handling notes and coins and better functioning of the ATM’s. As of now, several actions are in place that will culminate with the implementation of the “Metical of the new family” on July 1st 2006, as scheduled.

- The Bank of Mozambique will officially launch an important highlight in the payment system reform initiatives by acting as a Settlement Agent for the National Net Settlement Service (NNSS) of Visa International. So far, five large commercial banks operating in the country have entered into agreements with Visa International and are both issuers and acquirers of Visa payment cards (debit and credit cards). This service will provide the banking community with a cheap, secure and reliable funds transmission network domestically. On due time, the Bank will conduct stakeholders’ sensitization meeting on the importance of implementing NNSS that would be used by all banks conducting Visa cards operations, allowing then to share infrastructure and improve card payment system.

9. NAMIBIA

9.1. Introduction

In the year 2005, the Bank of Namibia together with the Namibian banking industry, made further progress in the implementation of major payment system reform projects. In July 2005, Namibian banking institution went live with shared electronic cheque processing platform. A tender was rewarded to Bankserv Pty Ltd, a South African services provider to build a local switch for Namibian banks which will switch domestic automatic teller machine and point of sale transactions. The industry also migrated to a new version (version 3) of Namibia Inter-bank Settlement System (NISS).

9.2. Sensitisation, information gathering and stock taking

The sensitisation, information gathering and stocktaking phase has successfully been completed and has been closed.

9.3. Vision and strategy issues

The first draft of the vision and strategy document has been completed. This vision was set for 2005. Bank of Namibia has already started the process of reviewing the vision and strategy document. It is envisaged that during the course of 2006 the Namibian banking industry will review the payment system vision and strategy with an objective to assess its relevance and take stock of new developments.

9.4. Technical design, technical specifications and development

No significant conceptual design and technical specifications were carried out in 2005. As far as the Cheque Processing System is concerned, the focus in 2005 was on development and implementation. The awarding of Card Switching System project to Bankserv Pty Ltd kick-started the conceptual

design and technical specification processes, which will be completed in earlier February 2006.

9.5. Procurement and implementation

9.5.1. Implementation of cheque processing system (CPS)

The Namibian banking institutions, represented by the Bankers Association of Namibia (BAN), together with the Bank of Namibia, implemented a multi-bank electronic Cheque Processing System (CPS) on 18th July 2005.

The CPS involved setting up of a shared centralised and interlinked infrastructure for the electronic code-line-clearing of cheques. The CPS solution has replaced the manual cheque clearing system which was in existence for the past 85 years with Code Line Clearing (CLC) system. Code line clearing enables banks to capture the information of a deposited cheque electronically by reading the magnetic code line and transmitting the information via a clearing house to the paying bank for settlement before the paper cheque is delivered to the paying bank for final approval.

The cheque processing service is provided through the vehicle of a new company that was established and is owned by the participating banks. The newly established entity, (Namclear) has set up an operational environment (in Windhoek), which provides cheque processing services to the participating banks. This decision is in line with the Namibia clearing systems conceptual blueprint to locate cheque-processing facilities within Namibia. It is currently most convenient to locate these facilities in Windhoek because the participating banks produce the highest volumes of cheques in Windhoek. The location of a suitable disaster recovery site is still under consideration.

Namclear has implemented imaging technology for the scanning (imaging) of payment transaction documents such as cheques, deposits, debits and credits. Imaging technology is a fundamental building block in the design of the CPS.

9.5.2. Card switching system project

The final project to be implemented as part of the national payment system reform projects is the Card Switching System project. The aim of this project is to establish local infrastructure for all ATM, debit and credit card and point-of-sale transactions. These types of transactions are currently processed through South African institutions and settled at the South African Reserve Bank. The tender to establish "NamSwitch", which will be a Namibia switch similar to SaSwitch to switch local ATM and POS transactions, has been awarded to Bankserv by the Bankers' Association of Namibia. This project is planned for completion by the first quarter of 2006.

9.5.3. Namibia Inter-bank Settlement System (NISS) operations

In March 2005, Bank of Namibia and NISS participants migrated successfully to NISS version 3. This is the first time since implementing NISS three years ago that the settlement system has undergone a version change. The new version offers enhancements to current functionality and also provides new functionality which Bank of Namibia, as a settlement provider, has already introduced to participants. Since 18 June 2005, the settlement schedule of NISS has been extended to 22h30 to accommodate settlement of CLC payment stream.

9.6. Oversight development issues

Oversight of payment systems is seen as a public policy activity focused on the efficiency and safety of payment systems rather than individual participants (banking institutions). In this regards, the Payment System Management Act, 2003 was gazetted in May 2004. The Act forms the legal basis upon which the Bank carries out oversight of payment systems and payment instruments to ensure the financial and technical integrity of the National Payment System, including its overall resilience against shocks and its overall efficiency and cost effectiveness through rules, standards, monitoring, analyses, disclosure and enforcement.

In carrying out its payment system oversight function, the Bank issued a certificate of commencement of business to the Payments Association of Namibia (PAN) on 11 August 2005. In terms of the Payment System Management Act (18 of 2003), Section 2(2) (c), the Bank has the function to authorize the operations of a payment system management body. Having satisfied itself with the constitution, rules, competences and readiness of Payments Association of Namibia (PAN) to manage the national payment system, the Bank authorized PAN to commence business in terms of Section 2(2) (c) of the Act.

PAN, which is a statutory Payment System Management Body, held its first inaugural meeting on 21 September 2005 and was legally constituted in terms of the Act on 13 October 2005. PAN is constituted of representatives of the four banking institutions and Bank of Namibia. Given its oversight and regulatory role in the national payment system, the Bank is a non-voting member of PAN. PAN is tasked with the technical management and regulation of the National Payment System and has the responsibility to manage the National Payment and Clearing Systems within the Namibian National Payment System in order to:

- provide the Namibian banking community with safe and efficient facilities to exchange payments;
- protect the integrity of the National Payment System;
- manage the clearing and settlement risks in the National Payment System;
- facilitate access of participants and prospective participants to the National Payment System on a fair and equitable basis;
- facilitate communication between participants; and
- enable proper understanding of the system and the rules applicable to it.

9.7. Current project management issues

The Cheque Processing System implemented on 18 July 2005, was a challenging project for the Namibian industry. Not only did it involve

implementation of shared multi-bank centralized infrastructure, but it also required a complete re-engineering of the business processes of cheque processing in the industry. Because this project was multi-bank in nature, it required skilled project management approaches to deliver the project on time. The normal project management issues were experienced, namely; resources, skills and time.

9.8. Conclusion

For the year 2006, the focus of Namibia Banking industry will be on the implementation of the Card Switching System Project. Significant work still has to be done to resolve all outstanding problems which are still hampering the smooth operation of cheque processing system implemented. Bank of Namibia has also prioritized the possible reduction of cheque clearing cycle and further reduction of limits on cheques as issues which will be taken up with banking industry in 2006.

10. SOUTH AFRICA

10.1. Introduction

During the period under review, the main activities in South Africa include continued development initiatives of the oversight of payment system, upgrade of the real time gross settlement (SAMOS) system, the common monetary area cross-border issues and other activities that are for the future developments within the South African National Payment System (SANPS).

10.2. Developments during the period under review

10.2.1. Payment System Oversight

The Oversight of the national payment system (NPS) is continuously being developed. Developments in both the local and international payment system environments were monitored and where applicable, changes were

implemented to reduce risk in the domestic payment system. In the period under review further progress was made with the finalisation of directives for the conduct of participants in the NPS.

Oversight visits to participants in the domestic settlement system continued to be a focus area for the National Payment System Department (NPSD) of the South African Reserve Bank.

10.2.2. Self assessment (FSAP)

A report on the findings of a self-evaluation of the South African NPS, based on the World Bank and International Monetary Fund's Financial Sector Assessment Program (FSAP) guidelines was completed. The report revealed that the NPS observed, or broadly observed all of the BIS Core Principles for Systemically Important Payment Systems.

10.2.3. South African National Payment System Stakeholder Issues

The NPSD revised the membership of the South African National Payment System Forum (SANPAY). Currently, membership includes officially constituted associations and bodies that represent individual, corporate and government stakeholders within the South African NPS. The first meeting under the revised membership criteria was held to discuss issues of importance to stakeholders.

10.3. Operational issues in the NPS

10.3.1. Continuous Linked Settlement related

As the Rand has joined the Continuous Linked Settlement (CLS), the National Payment System Department (NPSD) embarked on the implementation of procedures that facilitate the smooth settlement of the Rand leg of CLS transactions. CLS is a service that reduces foreign exchange settlement risk by settling both legs of a foreign exchange transaction simultaneously. The core of these procedures is a SARB/CLS co-ordination manual that outlines

relevant actions to be carried out by the involved parties. The manual also includes procedures agreed upon by both CLS and the South African Reserve Bank for the purpose of ensuring a coordinated approach to problem and change management. Procedures for Business Continuity were also implemented and these are tested regularly with CLS and the applicable participants.

10.3.2. Business Continuity Issues and capability of the settlement system

A Business Continuity Plan (BCP)¹ for NPSD and specifically the settlement system has been reviewed and updated based on a revised format adopted by the Bank. The revised plan was tested with positive results. This plan is comprehensive and addresses all the relevant aspects of Business Continuity Management required to ensure continued execution of business processes of the department in the event of a disaster. Three Disaster Recovery tests of the settlement system technical infrastructure were conducted in the past year.

10.4. CMA Oversight developments

South Africa is a member of the common monetary area (CMA) with three other countries (also SADC member states), namely Lesotho, Namibia and Swaziland. These countries are collectively referred to as the CMA countries.

Important developments, especially on payment system oversight initiatives, have been remarkable. The terms of reference were developed jointly by CMA countries to govern the management of risks and oversight initiatives in the area and these were finalised in 2004. This was in line with the international developments in the treatment of cross-border transactions.

¹ Collection of procedures and information, which is developed, compiled and maintained in readiness for use in the event of an emergency or disaster.

Cross-border correspondent banking agreements are being finalised. These agreements relate to the management and the treatment of the CMA cross-border transactions.

Further developments will be advised in the next review period.

10.5. Future developments and the way forward

10.5.1. Foreign exchange settlement

Upon the inclusion of the South African Rand as a settlement currency on the Continuous Linked Settlement (CLS) System, the South African Reserve Bank was invited to participate in the Bank of International Settlements Foreign Exchange Risk sub-group of the Committee on Payment and Settlement Systems (CPSS). During 2006, the South African Reserve Bank together with other members of the sub-group will carry out a survey of how banks and other selected institutions manage the risks they can incur when settling foreign exchange transactions. More than 100 institutions around the world that are active in the foreign exchange market will be invited to take part in the survey.

10.5.2. Upgrading of the real time gross settlement system (SAMOS)

With the planned implementation of version 6.3 of the settlement system, changes are being made to provide for an ISIN number to uniquely identify financial instruments. Previously instruments were not uniquely identified on the settlement system by means of an ISIN number. This upgrade of the settlement system will pave the way for the settlement of money market instrument trades on a PVP basis.

10.5.3. Revised Vision and Strategic Framework – Vision 2010

The NPSD developed a high-level strategic framework for the domestic payment system for the period up to 2010. This document emanated from “The South African National Payment System (NPS) Framework and Strategy document” (“The Blue Book”) that was published in 1995. The new document, entitled “The South African National Payment System (NPS) Framework and Strategy document (Vision 2010)” will be published early in 2006.

10.6. Conclusion

The continued relationship management through both oversight visits and communication through customer service centre of the operations of the NPS, remains an important element in the efficiency of the SANPS.

The above coupled with the business continuity planning issues are indeed an integral part of a robust national payment system in the country.

Through the revised vision and strategy that is being reviewed, it is expected that the SANPS will play a pivotal role in both the CMA and SADC.

11. SWAZILAND

11.1. Introduction

The period under review had a moderate progress in the payment systems reform programs. There have been some delays in the implementation of certain projects, which should have been undertaken and completed before the end of the review period. Paramount to the delays is the introduction of the Real Time Gross Settlement (RTGS) system attributed to financial constraints.

11.2. Sensitisation

Completed

11.3. Information gathering and stocktaking

Completed

11.4. Vision and strategy issues

Completed

11.5. Conceptual design and technical specifications

In progress

11.6. Developments

11.6.1. Technical assistance by IMF Payment Systems advisor

The visit by Mr. Mike Robotham in furtherance of the technical assistance provided through the IMF initiative to the country was from 23rd May, to 3rd June, 2005. His terms of reference for this assignment focused on the following specific areas:-

- a. Conduct a review of the progress of the reform and modernization program in line within the recommendations provided during the last visit and the 'Framework and Strategy' document developed by the Central Bank of Swaziland.
- b. Review the progress and operations of the Swaziland Automated Electronic Clearing House EFT Payment stream and address any issues that may have developed during the early part of the initial phase.

- c. Review the SAECH Rules and ensure that the Rules have been signed off by all participants to ensure compliance by members and evaluate the overall merging of the two payment streams to ensure accuracy and data file compatibility for all banks.
- d. Review with Central Bank of Swaziland's management the procedures for the acquisition of a Swaziland suitable RTGS system. Agree, the Requirements Destination for an RTGS System together with the invitation to Tender (ITT). Discuss budgetary allocations for the acquisition and agree outline project plan with CBS management.
- e. Review the progress of the Swaziland National Clearing and Settlement System (SNCSS) Bill with CBS Legal Department. To draft the Supporting Regulations in support of the Bill. Assess other legislations that are currently in work progress.
- f. Review the SAECH rules to reflect the revised clearing and settlement arrangements.
- g. Prepare foundation for oversight for the National Payment System.

11.6.2. EFT Project

The above project was formerly closed in March 2005, which endorsed the final and irrevocable transfer of funds thereby improving liquidity and reducing the level of float within the overall clearing and settlement system.

11.6.3. Revised clearing arrangements

In an endeavour to improve the clearing cycle on paper based instruments within Swaziland, and to allow a higher proportion of each days payment instruments being presented and processed through the Swaziland Automated Electronic clearing house, the Central Bank of Swaziland, together with the Commercial Banks agreed to introduced the second clearing in the afternoon which went 'live' with effect from 15th June 2005.

11.6.4. Oversight

The Central Bank of Swaziland has approved on its structure an additional office for an Oversight Function under the NPS Division. Recruitment of the officer is being processed.

11.6.5. Swaziland National Clearing and Settlement System Bill

A final draft of the above Bill is at an advanced stage waiting for presentation to the houses of Parliament.

11.6.6. Real Time Gross Settlement System Project

Having participated in SADC selection process, wherein Perago and Montran were recommended, Central Bank of Swaziland has issued a Request for Information (RFI) and both companies have already done their presentations and tendered their responses to the RFI. Site visits to the SADC Central Banks that were provided with RTGS solutions by both vendors will be completed by mid February.

11.6.7. Procurement and implementation

In progress with regard to RTGS.

11.7. Other payment system project management issues

Future planning concerning the implementation of additional Payment System services are to be phased in as illustrated in the Swaziland Framework and Strategy document over the coming years as follows:-

- a. The introduction of image based “Truncation” for cheques that will contribute to the overall reduction of the clearing cycle in Swaziland.
- b. The development of switching systems that will provide inter-bank facilities for payments using plastic cards media.
- c. Integration of RTGS Services within the SADC region.
- d. The integration of Payment Systems on both regional and international.
- e. The development of “E” commerce payment system solutions.
- f. The continued examination of legislation that will be required to support the future NPS developments together with a National Payments Systems Bill and the Central Bank of Swaziland Oversight mandate.

12. TANZANIA

12.1. Introduction

The Tanzania National Payment Systems (NPS) modernization project was established in 1996, with the aim of developing an efficient payment system to meet the broader needs of the economy. The project that went through a strategic phased approach is currently in the implementation phase as stipulated in the 2005 NPS Vision and Strategic Framework.

This report summarises the activities of the Directorate of National Payment Systems at the Bank of Tanzania for the period between April 2005 and March 2006.

12.2. Sensitisation, information gathering and stocktaking

In October 2005 the Visa Member banks Tanzania National Net Settlement Services (TNNSS) through the Visanetwork, went live. The Bank of Tanzania is the settlement Agent of this system that clears visa domestic transactions.

Subsequent to the implementation of the TNNSS, several commercial banks took the Banks proposal of implementation of local card switch infrastructure. The commercial banks formed two major groups for implementing their shared card switch; the first group consists of 5 members, and the other 9 members. The Bank held several meetings with these groups together with solution providers. The aim of the meeting was to sensitize them on the Bank's policy on interoperability (inter-link switches), mandatory requirement of settlement through Tanzania Inter-bank Settlement System (TISS).

The Bank also conducts several training on new members of the TISS. During the period, 5 new members were trained on the use of the system. This brings the total of 24 trained commercial banks on the use of TISS system so far. The Banks policy is to ensure that all new participants of TISS are adequately trained on the use of the system.

The Bank has also implemented the review of payment systems data collection forms. They are now used for collection of payment systems information on monthly basis from various stakeholders.

12.3. Vision and strategy issues

The Bank has successfully implemented the NPS projects as stipulated in the year 2005 NPS Vision and Strategic Framework. The projects include the Electronic clearing house system and MICR that processes paper based

instruments; the Electronic Fund Transfer System (EFT) for processing small to medium bulk electronic payments; and the Tanzania Inter-bank Settlement System (TISS) a real time gross settlement system (RTGS) that processes large value and time critical payments. All these systems are up and running. In addressing impediments to improving efficiency and safety on government revenue collection and expenditure the Tanzania Revenue Authority (TRA) has been connected to the TISS system and arrangements are underway to provide connectivity to Ministry of Finance.

The Bank is also discussing with the Tanzania Bankers Association of the take-over of the Dar es Salaam Electronic Clearing House (DECH) and the country clearing house operations plan.

12.4. Conceptual design, technical specifications and developments

The development of Conceptual Design for payment system and components proposed in the vision document was implemented on project-to-project basis in the previous reporting periods. The conceptual designs for the core systems Paper Based Transfer System, Electronic Based Transfer System and the Large Value Transfer System were conducted prior to their implementation.

12.5. Procurement and implementation

During the period under review, the TISS and the EFT systems operated optimally without any system failures.

Membership of the TISS has steadily increased from 18 members when the system went live in April 2004 to 24 members as at December 2005. Plans are advance stage to include the Ministry of Finance as a participant to the system. This will greatly increase the volumes and values of payments through the system.

12.6. Oversight development initiatives

During the reporting period the Bank's National Payment Systems Directorate continued with the Oversight activities so as to enhance safety, efficiency and minimize risk in payments clearing and settlement systems. Oversight activities were monitoring and assessment of performance and efficiency trends of the existing payment systems, provision of guidelines for introduction of privately owned payment schemes, and invocation of corrective measures for further developments.

In view of the oversight activities various periodic reports were made, they include weekly, quarterly and annual reports. The annual oversight report was produced in July 2005 to highlight the activities of the previous financial year 2004/2005. The report contained a self-assessment of safety and efficiency trends based on national and international standards such as the Core Principles for Systemically Important Payment System and BIS Recommendations on Securities Settlement Systems. The report also covers the trend performance for the clearing and settlement systems, a review of legal and regulatory framework, as well as regional harmonization initiatives.

The Directorate drafted various documentations as tools for oversight activities such as examination manual, retail policy, retail on-site guide etc. The documents take cognizance of international standards in payment system oversight.

12.7. Legal and regulatory framework NPS

The national payment system in Tanzania is governed by the Bank of Tanzania Act, 1995 as amended in 2003. The effect of the amendment is to provide explicit statutory powers on the Bank of Tanzania for the regulating, supervising and conducting oversight functions on the national payment systems.

During the reporting period the Directorate made various legislative reform proposals, which were also forwarded to IMF legal-Department for their comments; these include National Payment System law, Electronic Transaction Law, amendment proposal to Evidence Act, and Bills of Exchange Ordinance amendment proposals. These legislative reform proposals have been forwarded to the management of the Bank for onward submission to the Minister for promulgation process.

13. ZAMBIA

13.1. Introduction

This report reviews the developments that took place in the Zambian National Payment Systems between April 2005 and March 2006. During the aforementioned period, the Bank of Zambia implemented a few programmes aimed at enhancing the efficiency, safety and soundness of the payment systems. In undertaking these programmes, the Bank consulted a wide spectrum of relevant stakeholders.

13.2. Sensitisation, information gathering and stocktaking

During the period under review, the Bank of Zambia undertook the following activities:

13.3.1. *Consultation on implementation of Item Value Limits*

The Bank of Zambia, in conjunction with the Bankers Association of Zambia (BAZ), decided to introduce Item Value Limits (IVLs) on the transactions processed through the Physical Inter-bank Clearing (PIC), Direct Debit and Credit Clearing (DDACC) and the Real Time Gross Settlement (RTGS) systems. Following this decision, the Joint Bank of Zambia/Bankers Association of Zambia (BoZ/BAZ) Working Group undertook sensitisation trips to the Copperbelt, Eastern and Lusaka Provinces to consult the business communities in these provinces on the implementation of Item Value Limits (IVLs), as part of the RTGS system rules

and procedures.² When implemented, IVLs are expected to enhance the safety and efficiency of large value transactions.

13.3.2. *Mid-term review of the National Payment Systems Vision and Strategy: 2002 – 2006.*

The Bank of Zambia convened a two-day workshop in May 2005 at the Holiday Inn Hotel, Lusaka, at which stakeholders assessed the progress made in achieving the goals, vision as well as the implementation of the strategies contained therein. Generally, the workshop participants noted the progress achieved and came up with resolutions on outstanding matters in the National Payment Systems Vision and Strategy 2002-2006. The participants also proposed further revisions to some of the strategies.

13.3.3. *Self Assessment against BIS Core Principles for Systemically Important Payment Systems*

In January 2006, the Bank of Zambia held an internal retreat to conduct a self-assessment of the Zambian National Payment Systems against the international best practice as promulgated by the Bank for International Settlements Committee on Payment Systems. The internal self-assessment revealed that there is still more to be done for the Zambian National Payment Systems to reach the international standards.

13.3.4. *A Workshop to review the Draft National Payment Systems Bill*

The Bank of Zambia held a consultative workshop, in October 2005, involving all the relevant stakeholders to review the National Payment Systems Bill before it is submitted to Parliament sometime in 2006.

13.3.5. *Request by Visa International for Bank of Zambia to become the Visa Kwacha transactions*

² The Joint BoZ/BAZ Working Group toured the Copperbelt Province in July 2005; Eastern Province in September 2005 and Lusaka Province in July 2005.

Visa International conducted workshops in 2005 for commercial banks. Following these workshops, the banks agreed to use the Bank of Zambia as the settlement agent for Visa Kwacha transactions.

13.3. Vision and strategy issues

During the period under review, the Bank of Zambia's vision and strategy continued to take a consultative approach in furtherance of its payment systems objectives. Accordingly, the Bank worked closely with the Bankers Association of Zambia (BAZ), the Financial Sector Development Plan-Payment Systems Working Group (FSDP-PSWG), and the National Payment Systems Committee (NPSC) to strengthen its oversight function of the payment systems. The NPSC, FSDP and the BAZ Working Groups provided support to the implementation of most of the Bank's objectives under the National Payment Systems Vision and Strategy: 2002-2006.

13.4. Conceptual design, technical, business process specifications and developments

13.4.1. Real Time Gross Settlement (RTGS) System

Following the implementation of the Real Time Gross Settlement (RTGS) system, the conceptual design of the National Payment Systems in Zambia changed to focus on credit push as opposed to debit pull. This has also been done in accordance with the underlying business and technical specifications based on the SADC agreed standards. Consequently, the business process has improved remarkably, leading to reductions in risks associated with payment systems.

13.4.2. Implementation of straight-through processing

Further, during the period under review, the Bank of Zambia undertook major enhancements to the RTGS system by linking its Globus banking platform to the RTGS system to allow for straight through processing (STP). By so doing,

the Bank's general ledger accounts are updated online with the transactions coming through the RTGS system.

13.4.3. Implementation of the Liquidity Optimisation Mechanism

Furthermore, the Bank installed the Liquidity Optimising Mechanism (LOM) module as part of the RTGS system in February 2006. The LOM module will assist participants in the payment systems to queue their settlement instructions, thus, allowing them space to manage their liquidity efficiently.

13.4.4. Launch of a Common Switch

In October 2005, four commercial banks launched a common switch system, known as E-Switch, that would allow them to share their automated teller machines (ATMs) and point of sale (PoS) terminals. This will soon be complemented with the introduction of the Visa National Net Settlement System that will be linked to the RTGS system for settlement of Visa Kwacha transactions.

13.5. Procurement and implementation

The Bank of Zambia procured and implemented the G-link software and the LOM module in May 2005 and December 2005 to allow for straight through processing and efficient management of liquidity in the payment systems, respectively. The Bank has also planned to procure and implement the Reserves and Charges Modules to be part of the RTGS system to cater for the sourcing volumes being processed through the RTGS system.

13.6. Oversight development initiatives

The Bank of Zambia has been working closely with the Ministries of Justice and Finance and National Planning in the drafting of a National Payment Systems Bill. Following this collaboration, the National Payment Systems Bill was presented to Parliament, for enactment, in January 2006. The enactment of the National Payment Systems Act will go along way in providing the Bank with a legal foundation upon which to carryout its oversight function of the

National Payment Systems. The Act will also be expected to provide an avenue for the introduction of positive changes in the National Payment Systems including the usage of electronic payment streams.

13.7. Other project management issues

Other issues, which the Bank of Zambia, in conjunction with the relevant stakeholders, is considering to undertake in 2006 include:

- (i) Review of the National Payment Systems Vision and Strategy 2002-2006 and formulation of the successor vision and strategy for the period 2007-2011;
- (ii) Linking the Ministry of Finance and National Planning to the RTGS system;
- (iii) Linking the Zambia Revenue Authority to the RTGS system;
- (iv) Linking the Lusaka Stock Exchange (LuSE) to the RTGS system;
- (v) Linking the Zambia Electronic Clearing House Limited to the RTGS system;
- (vi) Procurement and the implementation of the Reserves and Charges Modules; and
- (vii) Implementation of the Visa National Net Settlement System (V-NNSS).

14. ZIMBABWE

14.1. Introduction

The report covers developments that have taken place from April 2005 to March 2006.

The main focus during the period under review was on:

- The implementation of the Electronic Financial Surveillance (EFS) system which went live on the 2nd of November 2005.
- The implementation of the Central Securities Depository (CSD) system for Government Securities
- Deepening Oversight activities.

14.2. Sensitisation, information gathering and stocktaking

14.2.1. Sensitisation

On-going activity

14.2.1.1. The Reserve Bank of Zimbabwe continued with efforts to improve utilization on the Zimbabwe Electronic Transfer and Settlement System (ZETSS) (the Zimbabwean RTGS system), by conducting education and awareness campaigns that were targeted at companies with a high incidence of cheque issuance.

14.2.1.2. A significant shift from cheques to ZETSS has been noted since the awareness campaigns started.

14.2.1.3. Notwithstanding this development, issuance of high value cheques is still prevalent and the Reserve Bank continues to step up the education campaigns.

14.2.1.4. The banking industry, in collaboration with the Central Bank also intensified awareness campaigns to promote the use of plastic cards. Targeted campaigns to major retail outlets were undertaken in the country's capital Harare. Plans are underway to intensify and extend the campaigns to other towns throughout the country.

14.2.2. Information gathering and stocktaking

Ongoing Activity

14.2.2.1. Using the BIS statistical format as a guide, the Central Bank continued to enhance information gathering mechanisms,

thereby facilitating meaningful analysis of payment systems data. This has helped Zimbabwe to timeously contribute to the SADC Green Book Statistics Project. In addition, the sound payment systems data base aids decision making in the execution of monetary policy.

- 14.2.2.2. ZETSS utilization maintained an upward trend during the period under review. An average utilization level of 78% was recorded for the Year 2005, with a peak of 94% being registered on a single day. This was a significant increase compared to the average of 70%, with a peak of 84% registered on a single day during the year 2004.

14.3. Vision and strategy issues

Using the accepted Framework and Strategy document, the Reserve Bank in consultation with relevant stakeholders, continues to put in place projects aimed at enhancing efficiency and stability of the payment system to internationally recognized standards.

14.4. Conceptual design, technical specifications and development

- 14.4.1. The Reserve Bank successfully established a fully functional Disaster Recovery (DR) site in an effort to ensure adequate contingency arrangements for the RTGS system.
- 14.4.2. In response to the ever increasing pressures on compliance issues and international standards in the fight against money laundering and the financing of illegal and suspicious activities, the Reserve Bank introduced the Electronic Financial Surveillance (EFS) system on the 2nd of November 2005. The system will strengthen the Central Bank's capacity of monitoring money flows within the financial system.

14.4.3. As part of the ongoing efforts to progressively align Zimbabwe's payment system with global trends, a decision was made in July 2005 to introduce a Central Securities Depository (CSD) system for Government securities. The CSD project, which has gone through various implementation stages, is expected to go live during the first quarter of 2006.

14.4.4. The new CSD system will be interfaced with the RTGS system, thereby facilitating the achievement of Delivery versus Payment (DVP) and better management of collateral in the RTGS system

14.5. Procurement and implementation

14.5.1 Completed for the RTGS and Financial Surveillance systems.

14.5.2 The CSD system is in the implementation process.

14.6. Oversight development initiatives

14.6.1 Effective oversight activities continue to be undertaken. These include, inter alia:

- Onsite inspections
- Off-site analysis
- Proactive assessment of the reform process
- Enforcement of rules and regulations
- Compliance with international standards

14.6.2. Achievement of a very significant shift towards electronic means of payment still remains at the top of the Reserve Bank's agenda given its correlation with the notes and coin production costs. To this end, the Central Bank is in discussions with banks and other stakeholders to facilitate interoperability of debit and credit cards on Point of Sale (POS) and ATMs infrastructure.

14.6.3. The Reserve Bank is fully participating in Financial Sector Assessment Program (FSAP) self evaluation exercise as agreed on by the SADC Payment Systems Project Steering Committee,

14.6.4. The self evaluation report is expected to be completed by the 20th February 2006. This will provide input into a consolidated regional report for the IMF/World Bank on the status of payment systems in the SADC region.

14.6. Other Payment System Project management issues

Through its ongoing collaborative efforts with the banking industry, the Reserve Bank remains committed to embarking on projects that are aimed at further enhancing efficiency in the Zimbabwean payment system.

14.6.1. *Straight-through processing (STP) project*

On the 1st of April 2005, a Forum to facilitate discussions on the implementation of the STP project within the banking industry was established. Implementation of STP will facilitate end to end processing of transactions with minimal human intervention. The Forum is currently working on standardization issues before identifying preferred suppliers to implement the project.

14.6.2. *Automation of clearing house (ACH)*

A project to establish an Automated Clearing House is underway to modernize the current manual and paper based cheque clearing process. A stock take report detailing the current situation and the preferred way forward has been prepared as the basis for driving the project forward.

Three (3) main models of the automated Clearing House solution were identified and a common position on the preferred model is still to be taken.

14.6.3. *Collaborative efforts with Zimbabwe Stock Exchange*

The implementation of the CSD for Government securities is only a part of a long process that still needs to be completed in order to bring Zimbabwe's securities settlement system in line with international standards. To this end, the Reserve Bank is pursuing collaborative efforts with the Zimbabwe Stock Exchange, Government and other relevant stakeholders to ensure the introduction of efficient systems in the equities market.

14.7. Conclusion

The Reserve Bank of Zimbabwe remains focused in upholding the objectives of the SADC Payment Systems Project by continuously embarking on initiatives that help in sustaining a robust and efficient payment system that is in line with international best practice.