



**SOUTHERN AFRICAN DEVELOPMENT COMMUNITY (SADC)
PAYMENT SYSTEM PROJECT**

**REPORT ON THE ACHIEVEMENTS AND HIGHLIGHTS
DURING THE PERIOD OF THE WORLD BANK
IDF GRANT FUNDING
(1996 – 2006)**

September 2006

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1. Introduction

1.1 Reason for the report

The Southern African Development Community (SADC) Payment System Project (the Project) report aims to highlight the achievements, challenges and opportunities for the Project within the context of regional payment, clearing and settlement systems. The Project is charged with the responsibility to facilitate and support Finance and Investment Sector development initiatives in the SADC region. The Project was launched in 1996 to:

- Assist individual SADC countries to define a domestic payment strategy and a development plan; and
- Define a coordinated regional approach to cross-border payment, taking into consideration the implications for trade, central bank policy, foreign exchange positions and control.

The Project's Vision: Each country has an efficient and effective payment system that is internationally acceptable and is interlinked within the SADC region and supports the aims of free trade within the SADC region.

The World Bank has been funding the Project activities since 1997, which has enabled this project to make great development strides in assisting individual member countries to define a domestic payment strategy and a development plan as well as define a co-ordinated approach to cross-border payments, taking into consideration the implications for trade, central bank policy, foreign exchange positions and controls.

The reason for this report is to:

- Report to the SADC Committee of Central Bank Governors (CCBG) on the full status of the Project since its inception;
- Highlight the impact of World Bank assistance in the development of the regional payment systems; and
- Highlight challenges and opportunities for further development of payment systems in the region.

1.2 Structure of the report

The structure of the report covers the activities from the initial planning phase to the current position of the modernisation process. It will take the following format, namely;

- Historical background of the SADC Payment System Project;
- The strategic process of modernisation of regional payment systems;
- Projects (within the Project) undertaken since 1996;
- Peer review or self assessment using the FSAP Guidance Note; and
- Capacity building issues that have been identified and that need attention.

2. Historical background

The Committee of Central Bankers (CCBG) in SADC (SADC CCBG) launched the SADC Payment System Project (the Project) in accordance with South Africa's responsibility for the SADC Finance and Investment Protocol. Some of the Finance and Investment Protocol objectives were to:

- Facilitate regional integration, co-ordination and co-operation with Finance and Investment with an aim to expand the productive economies;
- Create a favourable investment climate with an aim to promote and attract investment;
- Achieve and maintain macro-economic convergence; and
- Establish a framework for co-operation and co-ordination between SADC Central Banks on payment, clearing and settlement systems.

The South African Reserve Bank was responsible for the co-ordination and facilitation of the Project activities. To this end, it was clear that other member countries had to be involved and play an active role in the Project. This resulted in the formation of the Steering Committee, members of which are from each country in SADC. These members were referred to as country representatives and are responsible for the co-ordination of the activities of the Project.

It was recognised that the development and/ or modernisation initiatives could not take place in isolation or in the region alone without open communication and indirect involvement of international institutions, such as central banks of developed economies, International Monetary Fund (IMF), the World Bank, Bank for International Settlements (BIS) and others. This ensured that the modernisation initiatives are compatible with international best practice.

The above relationship resulted in a structure depicted by *figure 1* below.

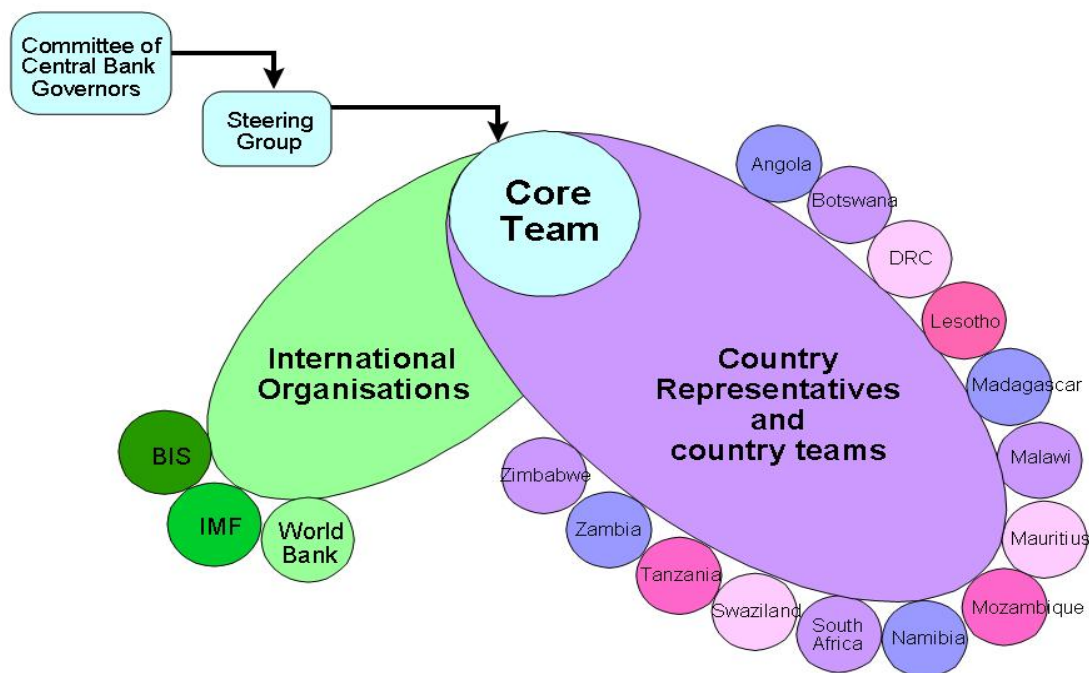


Figure 1: The SADC Payment System Project Structure

In viewing *figure1*, the Project is under the auspices of the Committee of Central Bank Governors (SADC CCBG). The Steering Group reports periodically to the SADC CCBG through SADC CCBG Secretariat on the progress of the Project. The Core Team is responsible for the co-ordination and facilitation of the Project activities. The Project team further maintains relationships with other international institutions such as the IMF, BIS and World Bank and other central banks.

2.1 Comment on the Seychelles, Democratic Republic of the Congo (DRC) and Madagascar

The Seychelles was initially a member of the SADC Payment System project and only participated in two or three of the project meetings. The development process was never formally launched in the Seychelles before their withdrawal from SADC.

The Democratic Republic of Congo (DRC) and Madagascar joined the Project when the regional modernisation initiatives were well into advanced stages. They have therefore not been through a number of phases suggested in the strategic approach. However, the DRC commenced its modernisation process through a Sensitisation Workshop in March 2005. The

understanding of the Project Team is that there are a number of modernisation initiatives that are taking place such as:

- Service Order by the Central Bank Governor of Banque Centrale du Congo, clearly defining all the structures that will be involved in the modernisation of the National Payment System, namely;
 - o The National Payment and Settlement Committee (CNP),
 - o The Steering Committee of the National Payment System (CPSNP),
 - o The Mission for the modernisation of the National Payment System (MIMOSYS).

- Implementation of new information systems as follows:
 - o Electronic management of foreign exchange reserves (Front and Back offices combined),
 - o Accounting and Financial Management of the Bank,
 - o Oversight of financial intermediaries and the RMA network,
 - o The National Payment System,
 - o Joint Electronic management of the Treasury's revenue and expenses (State Cashier) between the Department of Finance and the Central Bank.

Madagascar is the latest member to join the SADC region and its position is yet to be fully assessed by affected stakeholders. Although a member of the Project team attended a joint introductory workshop with other project leaders in Madagascar, no formal plan has been formulated for their payment system development.

The Project team recognises that modernisation initiatives take various forms and a country can choose what is best for its circumstances. However the strategic approach as suggested by the Project has and does provide practical guidelines to manage progress.

3. The strategic process¹

The NPS is multi-dimensional and can be viewed from different perspectives, examples of which include risk, financial, business, legal, and technological and many other business dimensions. Awareness of different NPS dimensions equips member countries with skills to identify payment system issues that need to be addressed and prioritised accordingly. The

¹ This process is fully documented in a guide developed by the Project team, styled as "Guide to Developing a Strategic Framework for Payment System Modernisation" and is complemented by the recently published BIS document, "General Guidance for National Payment System Development."

pressing issues that need to be attended to urgently could at times impact negatively as other important aspects are ignored or inadvertently left out of modernisation initiatives. As a consequence, this could derail overall development focus as resources are directed to short-term pressing issues. This is one of the main reasons that led the Project to recommend a holistic strategic approach to modernisation.

The strategic approach comprises different phases, which include:

- Project launch;
- Sensitisation;
- Information gathering and stocktaking;
- Vision and strategy formulation;
- Conceptual design;
- Business specifications;
- Technical specifications;
- Acquisition;
- Development; and
- Implementation.

Although such phases appear discreet, they are not mutually exclusive phases and could therefore be run parallel with one another depending on the unique circumstance of a member country. A brief description of these phases is given below.

3.1 Project launch, sensitisation and information gathering and stocktaking

In launching the NPS modernisation project, the central bank governor has to appoint the project director, the project manager and the NPS project team. Discussions should also be held with other key stakeholders. Together with other key stakeholders, the central bank governor should discuss issues relating to the resources required, time frames and the changes sought by the NPS modernisation project. Commercial banks should appoint knowledgeable senior officials to serve on the strategy team and expert groups/ teams. It is also necessary that there should be an adequate budget to enable the project director to manage the project effectively. Added to this a dedicated NPS department or division should be established.

The central bank, commercial banks and other key stakeholders should set up a National Payments Council to oversee the project. The strategy team should also be established in this phase.

The sensitisation phase focuses on creating awareness about the payment system issues among wide range of stakeholders, promoting cooperation and commitment among those banks and stakeholders actively involved in the NPS reform process and identifying knowledgeable individuals who may assist in the modernisation project. The Sensitisation has generally been achieved through a two-day workshop involving the Project team and invited international experts and relevant stakeholders in a country, e.g. Central Bank, Telecoms, Power/ Electricity utilities, government representatives, etc. The workshop is used to enlighten stakeholders as to what is involved in payment system development and in turn, for the stakeholders to brief the Project team on the status of the Country's Payment System.

The stocktaking phase involves documenting information about the current state of the country's NPS, including information collected about the country's payment-related infrastructure, the financial system and the existing payment and clearing systems. Stocktaking assists the strategic process by providing and understanding of "where a country is coming from". Stocktaking achieves the following objectives:

- To conduct an analysis of the current situation;
- To identify the capabilities and deficiencies of the current NPS;
- To highlight areas of high priority for immediate attention;
- To make preliminary recommendations on the way forward; and
- To prepare a report on the situation.

The stocktaking report should be comprehensive to inform key stakeholders about the state of current NPS. It forms the basis for the next phase of NPS reform process, which is the vision and strategy formulation.

3.2 Vision and strategy formulation

It was recognised in the SADC region that although payment systems may share common elements and functions, they still differed in terms of their cultural, economic, institutional, legal and political environments. In this manner the model of NPS chosen by a country should take into consideration the unique circumstances of the local environment and the economic objectives of that country.

Early in the vision and strategy formulation phase (of the strategic process), consideration is given to which components of the new NPS would be systemically important. Once this has been decided, those components can be designed so as to comply with the Bank for

International Settlements (BIS) Core Principles for Systemically Important Payment Systems (SIPS).

The components of the vision and strategy should comprise the following elements:

- Vision and future characteristics;
- Critical success factors;
- Fundamental principles; and
- Strategies for aligning the current NPS with the envisaged NPS.

A vision is a desired end state of the envisaged NPS. The future characteristics of the envisaged NPS should broadly address the following NPS core components, namely:

- Payment instruments;
- Settlement of payment instructions;
- Risk management issues;
- Regulation and oversight of NPS;
- Ownership and participation;
- Cooperation and competition;
- Cost recovery and pricing methodologies; and
- International compatibility and standards.

Critical factors, against which the success of the modernised NPS can be measured, play an important part in the phase of the vision and strategy formulation. The strategies should be identified to align the current NPS with the envisaged NPS. This is achieved by analysing future characteristics to understand how these should be achieved. Strategies are easily identified as the current discrepancies between the current NPS and the envisaged NPS are identified and analysed.

The suggested strategies should assist in bridging the gaps identified. The members of the strategy team should have familiarised themselves with the current NPS and also with the future characteristics of the envisaged NPS.

The vision, future characteristics, critical success factors, fundamental principles and strategies are consolidated into a Vision and Strategic Framework document, which becomes a blueprint for the envisaged NPS once approved by a national payments council (NPC). The document should be extensively communicated to the broader community of

stakeholders. Communication could take the form of workshops, road-shows and briefing sessions.

3.3 Conceptual design

The objectives of the conceptual design phase are to provide a high-level design that incorporates the vision and strategic framework of the new NPS, to provide an architecture within which every desired component of the system will interact and interface with other components to provide operational efficiency and to identify short-term operational problems that could be resolved immediately.

The other most important issues in a conceptual design include such issues as risk management, particularly in large-value payments as these are critical for the whole financial system. Risk management measures incorporated include pre-funding arrangements, exposure limits, collateralisation and loss-sharing arrangements. Other issues in the conceptual design taken into account are the NPS infrastructure, legal framework, technology standards and the management of change.

3.4 Business specifications

The business specification phase of the strategic process translates the vision, strategy and conceptual design into business requirements and specifications for each individual payment system to be implemented. The main objectives of this phase are to prepare a business requirements document that will set out the business specifications to be addressed by the new or envisaged payment system and to develop a business model for the benefit of all NPS key stakeholders which details the functionality of the new or envisaged payment system, and generates an implementation action plan. A number of business requirements issues are addressed during this phase and which affect the payment system process and the management thereof. These should be compiled and a document developed.

3.5 Technical specifications

The technical specification phase looks at all the technical specifications that should be discussed and agreed to before a new system is developed or purchased. The objectives of this phase are therefore to establish technical specifications for the new or envisaged payment system, and to input technical specifications into the procurement phase. It is important that the technical specifications support the business requirements for the new

system and procurement needs. The issues of technical specifications hinge around the system architecture, capacity, reliability, security, communication networks and many other issues related to the operation of the system. These are also documented to ensure minimum criteria for considering system providers (vendors).

3.6 Acquisition and development

As a project moves to this phase, the question of whether to “build or buy” often arises. “Build” or development of a system can be done using internal resources (should these be available) or can be outsourced to a specialist company to develop.

Acquisition is sometimes a better option as there are several companies around the world which provide both clearing and settlement systems. These can often be “customised” to meet the unique requirements of a particular country. The guiding document in the acquisition process should be the business and technical specifications document to ensure that all the criteria are met.²

3.7 Implementation

The objective of this phase is to ensure a proper testing, implementation, operational, management and on-going maintenance of the new system. Implementation is preceded by the acceptance of end-users after they have effected testing. A number of processes are followed in this phase including pilot implementation, parallel implementation, replacement, and phased implementation. However it was important that for any country to be successful in its implementation initiatives, it was necessary for that country to choose a product that would suit and meet its long-term view and to satisfy the objectives of the vision and strategy that was documented.

3.8 Current position vis-à-vis strategic process

The country leaders play a pivotal role in planning for periodic activities of the Project for the purposes of meeting agreed to milestones. Additionally, the strategic approach to modernisation process enables member countries to monitor their progress in relation to the milestones whilst taking into account their own and unique domestic circumstances.

² In this regard please see section 5.2.3 relating to a “SADC-suitable RTGS” specification undertaken by 7 countries in SADC with the assistance from the Project team.

Each country's unique domestic circumstances are influenced by a level of economic development, infrastructural issues, banking and other financial system structural issues, capacity and many others. The position in relation to the strategic process reflects progress that was recorded until September 2006 as summarised below (*figure 2*).

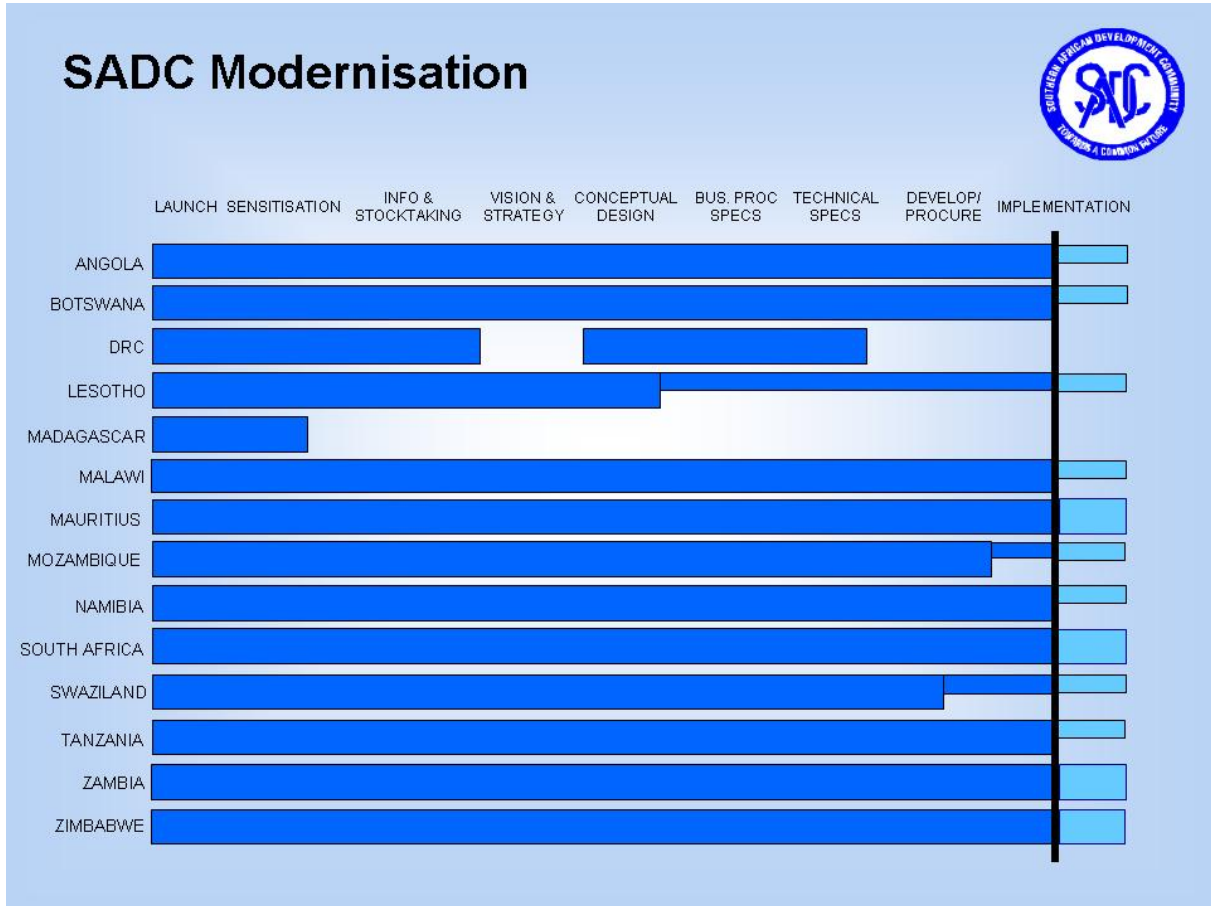


Figure 2: Progress of member countries as at 1st September 2006

Depicted on the above illustration are the different phases of the strategic process with the horizontal bars indicating the level of progress made by each country. It is clear that the most of the member countries have reached an implementation stage. The implementation relates to the implementation of the real time gross settlement (RTGS) and automated clearing house (ACH) systems.

4. Funding

4.1 World Bank funding

The progress of the Project would not have taken such strides without the funding that was provided by the World Bank. The first World Bank IDF Grant for US\$ 500 000.00 became

effective in May 1997 and the funds had to be expended by May 1999. However due to various difficulties, the World Bank agreed to extend the grant to May 2000 and by then the funds were completely utilised. These funds were instrumental in driving and supporting the aforementioned strategic process in the region.

Although it is accepted that different forms of financing would be required by the individual countries at the implementation stage of their payment system reform, the request for financial assistance was related directly to the harmonization and capacity building requirements of the project.

Having achieved notable success with the first IDF-Grant funding and to maintain the momentum of the project, the Project Team applied to the World Bank for an additional IDF Grant of US \$500 000.00 to enable the project to progress towards the completion of the strategic reform process. After negotiation the World Bank agreed to a second Grant of US \$460 000.00.

Owing to other requirements that the second application had to satisfy, the funds from World Bank were not available until May 2003. The second World Bank grant was aimed at funding activities summarized in the table below.

<p>Sensitisation stocktaking strategy workshops Annual regional conferences Business & technical specs w/shops Training courses Video project Newsletter/ Vulindlela Country leaders meetings and workshops Individual country visits Coordination, liaison and communications</p>

4.2 Willingness to self-fund

Whilst the process of applying for the second World Bank funding was underway, seven member countries in the procurement stage of the strategic process were willing to contribute towards the development of the SADC-suitable business and technical specification document. The joint effort was indicative of the willingness by members to self funding, albeit limited. The SADC-suitable real time gross settlement model is discussed elsewhere in this report.

5. Projects activities undertaken since inception of the Project

The discussion is divided into project activities that were undertaken during the funding by the first grant and those activities covered by the second funding from the World Bank.

5.1 Projects undertaken under the funding of the First World Bank IDF Grant

The activities that were undertaken during the First World Bank Grant were part of the initial phases of the strategic process. These included:

- The publication of the stocktaking report, referred to as the Green Book;
- Sensitisation workshops in various member countries;
- Annual Regional Conferences; and
- Workshops, specific for the initial stages of the project.

5.1.1 The Green Book³

The Green Book was the first joint co-operative initiative. This was a stocktaking exercise that painted a picture on the status of the payment systems in the region, which described the situation in SADC countries as at the end of the year 1997. The focus was on the domestic payment system situation in each member country. Given the level of economic development, some areas according to the publications reflected in the BIS, such as the Red Book, were missing. It was the best publication in the circumstances supporting the regional payment system development initiatives.

5.1.2 Sensitisation workshops and annual regional conferences

The first annual regional conference was held in 1997 in Zimbabwe, which focused on a comparison of experiences and developments in five SADC member countries, namely, Tanzania, South Africa, Mauritius, Zimbabwe and Zambia.

Country-specific sensitisation workshops, in which a broad spectrum of stakeholders were involved, were held in a number of countries with the aim of establishing common frameworks for modernisation and even common terminology. The objectives of these workshops are covered under the strategic process discussed above.

³ Payment Systems in the Southern African Development Community – Basel, June 1999

Other supportive workshops held during this period include country leaders' workshops, which were aimed at discussing and monitoring the direction of the project and to establish the progress in each member country and providing a support network within the region.

The specific objectives of the annual regional conferences were to remain informed on international and regional payment system developments, align the progress of the reform process in the region and to elicit support, specifically from the executive management of various institutions including central banks and commercial banks within the region.

Other workshops requiring special mentioning

The first SADC/BIS Payment System Workshop (1998)

The aim of the SADC/BIS Payment System Workshop was to support the development of a national vision and strategic framework on payment system of each country. In the workshop topical issues including the Lamfalussy standards on inter-bank netting schemes, payment system core principles, large-value payments and foreign exchange and securities and e-money were covered.

Harmonisation workshop (May 2000)

The Harmonisation Workshop was held towards the end of the first World Bank funding. This was an important workshop in that it identified areas of development with the payment system which are common or could be developed according to common principles and/ or standards within the region. One of the products of the harmonisation workshop is the development of the SADC-suitable real time gross settlement model.

5.1.3 Focus groups

Focus groups consisted of individuals with different expert knowledge to focus on different areas of payment systems, such as risk management issues, legal issues, automation and/ or e-money, payment instruments, clearing issues and many other areas within payment systems. It was hoped also that focus groups would contribute meaningfully towards the building of payment system related knowledge and capacity within the region.

5.1.4 Training workshops and courses

The training workshops and courses were intended for capacity building in the region. These included such workshops and courses as

- Clearing workshop: This workshop was intended to investigate the process of clearing system reform, from basic manual systems through to electronic and automated systems.
- Payment system principles workshop: The workshop was intended to discuss and understand the Core Principles, which were, at the time, being developed by the BIS Committee on Payment and Settlement Systems.
- Strategic management course: This was intended to build capacity within the countries in SADC and in order to ensure that the strategic process was understood and applied accordingly. This was a result of a profiling exercise that had been undertaken previously.
- Business analysis course: This course was intended to ensure that the countries were able to continue beyond the vision and strategy formulation phase. It was also therefore intended to enable identified individuals to develop necessary business requirements skills.

5.1.5 Profiling initiative (Psychometric analysis)

The profiling initiative was a direct result of a harmonised regional effort to attempt to build up various skills in project management, business analysis, strategic thinking, research and many other areas. In this regard the profiling exercise was intended to identify the right incumbents in a given country that would support the payment system modernisation initiatives in that country and to form a suitable team with the required competences to effect the reform programme successfully.

5.1.6 Video Project

The Video Project was to gain optimum use of information obtained from workshops and selected presentations. Videos of important presentations and capacity building initiatives were made and distributed to the various countries. It was intended to share information among members and stakeholders. The video project was instrumental in improving feedback to member countries and enabling the project team to access a larger audience for capacity building purposes. The videos produced were distributed to members to disseminate such information.

5.1.7 Newsletter

The newsletter was established as a result of numerous requests from SADC participants to communicate wider than just the central bank. It was established with the aim to keep readers, specifically, members informed of developments in the project and to create an opportunity to discuss matters pertaining thereto.

5.1.8 The SADC Central Bankers Website

The SADC Website is administered by the Secretariat of the SADC Committee of Central Bank Governors (CCBG). All projects that are under the auspices of the SADC CCBG, including the Payment System Project, use this website to publish up to date information to member countries in SADC and other interested parties.

The Website is one of the highlights of the Project as the team utilises it to share pertinent information with the members in SADC along the lines of the Video and Vulindlela newsletter through a restricted access.

5.1.9 SADC-suitable RTGS Project

In September 2000, the SADC Payment System project had reached the phase where the majority of individual countries had completed the formulation of their Vision and Strategy documents and were embarking on the conceptual design of the component systems and elements which would require implementation in order to realise the vision and strategy.

Of the countries that had completed their Vision and Strategy documents all had indicated that they aimed to implement modern clearing and settlement systems. Some countries had progressed beyond the then current strategic phase of the project and had, or were in the process of, developing and implementing electronic clearing and Real Time Gross Settlement (RTGS) systems. Based on this information it became apparent that significant cost and resource savings could be achieved if sufficient agreement could be reached on the specification of common or harmonised business and systems requirements. These specifications could form the basis for the development and implementation of SADC suitable solutions in the payment systems environment and thereby provide economies of scale to those countries wishing to participate in such a project.

The secondary objectives of the project included *capacity building, cost savings due to the collaborative effort, and stronger negotiating power when dealing with the bidders.*

The process followed for the project was the following:

- Project Initiation;
- Defining Business Requirements;
- Producing the Request for Proposal (RFP);
- Request and Receipt of Proposals;
- Proposal Evaluation;
- Bid Clarification;
- Presenting the Findings; and
- Project Closure.

All work on the project was co-ordinated by the IT-Forum Project Team with the Payment System Project Team providing business related inputs and assisting with workshop arrangements.

The bids were evaluated against 4 principle areas of interest. These four areas were: Technical Evaluation; Financial Evaluation; SADC Suitability and Risk Evaluation.

At the conclusion of the project two vendors were recommended and agreed to by the CCBG. This project proved to be a huge success.

5.2 Projects under the funding of the Second World Bank IDF Grant

As indicated, the second World Bank funding provided invaluable assistance which enabled the modernisation initiatives within the region to maintain momentum. The activities that were undertaken during this phase are mentioned below. Some of these were funded through the willingness to contribute by some member countries. These include the Guide and the SADC-suitable RTGS Project. Other projects or activities included those already mentioned, such as the video project, the newsletter, broad capacity building initiatives and training workshops

5.2.1 SADC Guide to Developing a Strategic Framework for Payment System Modernisation (The Guide)

The project team realised that the co-operation and experiences in applying the strategic approach towards the payment system development process were invaluable and it was necessary that these be documented. The Guide was then produced with the following objectives:

- To provide developing countries with a systematic approach to modernising their national payment systems; and
- To serve as a means of enhancing payment system skills in developing countries.

The Guide was deliberately written in a general manner to enhance its usefulness in developing countries and was therefore not necessarily restricted for use by the SADC member-countries only.

The Guide highlights the importance of a three-dimensional model of NPS modernisation process comprising:

- Strategic process;
- NPS knowledge and perspectives that a country should consider during the process; and
- Structures and skills necessary to support the strategic process.

The importance of international best practice in payment systems is highlighted in the Guide as it is necessary that all payment systems should be assessed against the BIS Core Principles for Systemically Important Payment Systems.

5.2.2 SADC Cross-border settlement model initiatives

Deliberations around a cross-border settlement model for the SADC region commenced in 2004 and were concluded at the Annual Regional Conference in August 2005.

There were two workshops held prior to the conference, to determine cross border requirements for the region.

(a) Cross-Border Model Workshop – July 2004

The workshop was arranged for delegates to become familiar with cross-border models used in different regions around the world, and to document SADC relevant requirements. The project team invited experts to present models they were familiar with and give insight to cross border models generally.

The workshop developed a vision and a set of principles and compiled a framework for a SADC cross-border model.

The principles identified were:

- A free flow of funds in the region to support free trade;
- Eligible financial instruments, acceptable within the region, must be available for collateral purposes;
- A market driven payment system where participation by eligible institutions is voluntary;
- Settlement of transactions should be final and irrevocable and preferably in central bank money;
- A harmonized national and regional legal framework;
- A legally recognized regional oversight body be established wherein interaction with stakeholders is ensured;
- Members to be responsible for oversight within their own jurisdictions;
- Compliance with international best practice and standards (e.g. CPSIPS, Lamfalussy) is essential; and
- The cross-border system should support multi-currency transactions.

Other considerations and principles addressed business continuity planning, risk management and system interfaces. These were based on a number of assumptions such as the political will to integrate the region, infrastructural support requirements being in place, adequate resources and member countries having implemented electronic settlement systems.

(b) Cross-Border Model Workshop – June 2005

The June 2005 workshop focused on the development of a SADC-suitable cross-border settlement model based on the principles compiled and agreed to at the initial workshop. It was intended that the RTGS systems implemented by member countries be linked to settle cross-border trade in the region. The workshop was given an opportunity to assess a model

designed by the SADC Payment Systems project team and make recommendations to refine the model.

The workshop was informed by delegates that a major part of the cross-border trade in the region was concluded in US Dollars.

The model developed by the project team and other suitable models was presented to the Annual Regional Conference in 2005.

The models presented included:

- A single correspondent model, using US Dollar as a settlement currency;
- Continuous Linked Settlement;
- Correspondent banking between the transacting banks within SADC; and
- A model based on the macro-economic convergence initiatives for the region; these initiatives include the formation of a regional central bank.

The conference noted the high percentage of cross-border trade in SADC being transacted in US Dollars.

It was decided that any initiative in developing cross-border settlement structures had to take into account the macro-economic convergence program initiated for the region and the timetable set out in this regard.

The conference concluded that as an initial step banks in the region consolidate and expand the correspondent banking arrangements between them. This would assist initiatives later to develop an umbrella settlement system.

5.2.3 Supporting workshops and seminars held during the Second World Bank IDF Grant

Notwithstanding a discussion on the cross-border development initiatives and workshops, a number of other workshops and seminars took place during the second World Bank IDF Grant funding. These were according to the application that had been submitted and included, Country Leaders' Workshop (May 2003), Annual Regional Conference (September 2003), Annual Regional Conference (September 2004), CPSS/SADC Conference (February 2005), DR Congo Sensitisation Workshop (March 2005), Self-assessment FSAP Preparatory

Workshop (October 2005), FSAP Workshop on presentation of country reports (March 2006), assistance to Lesotho on their self assessment (FSAP) (April 2006).

5.2.3.1 Country Leaders' Meeting & Workshop – May 2003

The purpose of the meeting was to develop a plan of action to guide the project over the term of the Grant, towards the final achievement of the original objectives of assisting SADC countries to modernize their payment systems and to develop a cross-border payment and settlement system. Progress per country, in terms of the modernisation process, was also discussed to enable country leaders to prioritise accordingly.

5.2.3.2 Annual Regional Conference – September 2003

This was an important event, which aimed to consolidate strategic and working level commitment to the agreed objectives and individual country action-plans as had been discussed in the Country Leaders' meeting in May 2003. It also included such issues as Payment System Oversight, the Financial Sector Assessment Program, and RTGS Implementation. Other issues also covered included Risk reduction measures, SWIFT, Disaster Recovery and Business Continuity Planning and Cross-Border issues.

The regional conference also included a separate meeting of Country Leaders' to identify and confirm priority areas of the Project that were to be undertaken in the next eighteen months. Priority areas identified included cross-border issues, capacity building in payment system oversight, the Green-book update project and FSAP peer-review mechanism. Country leaders agreed to seek the support of the respective Governors to have these areas attended to with minimum delay.

5.2.3.3 Annual Regional Conference – September 2004

The 2004 Annual Regional Conference focused on payment system oversight and related issues. The conference gave some of the member countries an opportunity to discuss their experiences on payment system oversight issues. These countries were Mauritius, South Africa and Zimbabwe. Issues on co-operative oversight were also presented and these were viewed as important and beneficial as these would help avoid duplications and gaps. In this regard a possible SADC regional oversight framework was mentioned. Some of the elements of a regional framework could include:

- Evaluation of stakeholders;

- The cost of compliance (and other regulations);
- Globalisation issues current and future;
- Future developments in payments and related areas;
- Collaboration and inter-operability;
- The effect of technological innovation; as well as
- Consumer requirements.

5.2.3.4 CPSS/SADC Conference – February 2005

In February 2005 the BIS Committee on Payment and Settlement Systems (CPSS) meeting was held in Cape Town, South Africa. The opportunity was used to arrange a one-and-a-half day workshop with the CPSS and SADC Country Leaders. The Country Leaders had an opportunity to participate and discuss conclusions on the main three draft reports on General Guidance for Payment Systems Development, oversight of payment systems and remittance systems; developed by the CPSS.

The SADC Payment System Project was able to provide significant input to the “General Guidance for National Payment System Development” draft documents based on the work done when producing the SADC Guide to Developing a Strategic Framework for Payment System Modernisation.

5.2.3.5 DRC Sensitisation Workshop – March 2005

As noted under “the strategic process”, the sensitisation workshop is an important step a country has to take towards the modernisation of its national payment system and as a way of creating awareness to a variety of stakeholders in the country and to promote co-operation and commitment to the payment system modernisation process.

During the three day workshop in Kinshasa, important issues were discussed including the acknowledgement by the Governor of Banque Centrale du Congo (BCC) that national payment system modernisation in the DRC has been at an embryonic stage for some time and that, for example, clearing between national provinces within the DRC takes too long.

The importance of the legal framework was considered as the most important step towards the reform process including the respect for privacy of consumers.

In the near-term, the improvements in payment system modernisation are expected to include:

- Modernisation of the exchange and clearing of large value payments;
- Automation of retail payments;
- Review of legal framework;
- Implementation of electronic cards, with an emphasis on interoperability; and
- A focus on developing a national payment system that will support economic development through financial institutions with a view to attract foreign direct investments.

5.2.3.6 FSAP Preparatory Workshop – October 2005

The FSAP Preparatory Workshop was considered important by country leaders in their meeting during the August 2005 Conference, as it would enable the Project to present a clear picture of the achievements of the SADC Payment System Project, and to identify capacity building gaps where applicable. The objective of the preparatory workshop was to explain how a self evaluation process would be undertaken and to form groupings on how to conduct FSAP evaluations in order to facilitate the self assessment process. An experienced consultant on FSAP was invited to facilitate the workshop.

5.2.3.7 Self Assessment (FSAP) Workshop – March 2006

During the workshop held in October 2005 the requirements for, and guidelines on how to undertake the self-evaluation process were agreed. Resulting from this workshop, all SADC countries represented were required to embark on a self-evaluation of their respective payment systems, compile a report based upon the FSAP guidelines, and prepare to present their findings to their peer groups at a follow-up workshop scheduled for March 2006.

During the March 2006 workshop member countries presented their self assessment reports. A summarised report is included under paragraph 6 with individual country reports attached.

6. FSAP Self Assessment

During the meeting of the country leaders held during the Annual Regional Conference on the 4th August 2005, it was agreed that a self-evaluation based on the Core Principles for Systemically Important Payment Systems (CPSIPS) would be an advantage to the region. The self-evaluation would facilitate the simultaneously evaluation of the member country's

systemically important payment systems (SIPS), and enable the submission of a clear picture of the achievements of the SADC Payment System Project to the World Bank, and to identify capacity building gaps, where necessary.

During a workshop held in October 2005 the requirements for, and guidelines on how to undertake the self-evaluation process were explained. Resulting from this workshop, all SADC countries represented embarked on a self-evaluation of their respective payment systems, compiled reports based upon the FSAP guidelines, and presented their findings to their peer groups during the first quarter of 2006.

A detailed assessment of the SADC region and the observance of the CPSIPS by the countries is attached as Appendix A. Copies of the individual country's self-assessment reports are available on the Internet (www.sadcbankers.org).

7. The way forward and Issues outstanding in the SADC Region

7.1 Regional

7.1.1 Oversight

The current Country Leaders Steering committee should be maintained to ensure continued safety and efficiency of payment systems in the region. This issue has already been debated amongst the Country Leaders and there appears to be consensus that the current Steering Committee be transformed into a regional oversight committee. This committee will meet at least once a year to report on payment system safety and efficiency in the region. The committee should also keep itself up to date with international developments and best practice and attempt to maintain the compliance with these in the region. As developments with other macro-economic convergence initiatives in the region progress the committee should also continue to evaluate the possibility of a cross border model for the region. To this end the concept of inter-operability of systems within the region should always be an objective.

7.1.2 Remittances

Studies commissioned with the assistance of the World Bank and Finmark Trust reveal that there is a serious requirement to provide for a more stable, efficient and affordable remittance system or systems in the SADC region. This is a project which could be

undertaken by the SADC Payment System grouping. Previous investigations into possible cross border models could serve as a basis for development of a remittance system.

7.1.3 Securities Systems

One of the shortcomings which have been identified during the SADC Payment System project is the under developed securities markets in the region. More developed securities systems would not only be beneficial to the various economies but would also benefit the payment and settlement systems in the region in terms of collateral provision for national and possibly cross border models.

Although much interest has been shown in developing Stock Exchanges in the region by the SADC Stock Exchange Committee and in particular the JSE Securities Exchange and their operator STRATE, as privately owned companies they lack the support and drive of the central banks. This type of support has been crucial to the success of the SADC Payment System project. Many central banks in the region are also responsible for securities settlement and possibly with the assistance and knowledge of privately owned stakeholders, the central banks under the auspices of the Oversight Committee could assist in the development of securities systems in the region.

7.1.4 Capacity building

The SADC Payment System project team believes that it is necessary to continue capacity building exercises in the region. This initiative should take the form of centrally organised workshops and courses to be offered in an organised and planned way on an annual basis. The reason to continue with such workshops and training is that the depth of payment system knowledge in the region still resides in one or two layers within the central banks.

Workshops and training to be considered should include:

- Understanding payment system concepts;
- Understanding clearing and settlement;
- Legislative and contractual aspects of payment systems;
- Analysis, project management and facilitation skills;
- Understanding the BIS Core Principles for Systemically Important Payment Systems; and
- Understanding the BIS general guidelines for national payment system development.

7.1.5 Updated statistics

The SADC Payment System project team should continue to ensure that payment system statistics from the region are continually updated and published on the Internet site. This will allow information to be publicly available on a regional and international basis. Statistics should be based on internationally accepted norms eg. The BIS, but should also be applicable to the regional requirements.

7.2 Individual projects

7.2.1 Capacity building and assistance to DRC and Madagascar

The DRC and Madagascar have been late entrants to the SADC Payment System Project. The DRC has participated in many of the projects activities but due to mainly political considerations could not host a sensitisation workshop until March 2005. The DRC central bank is currently in the process of stocktaking and formulation of a Vision and Strategy document with which the project team believes they will require assistance.

On the other hand Madagascar only entered the SADC grouping in August 2005. An introductory workshop of all CCBG projects was held in Madagascar in May 2005. The next step in the strategic process would be a sensitisation workshop followed by stocktaking of the current scenario and the formulation of a vision and strategy document.

As both the DRC and Madagascar are French speaking countries, it is possible that some economies of scale could be reached in the strategic development progress if certain processes and capacity building are held on a centralised basis.

7.3 Funding

7.3.1 Funding from external sources

The SADC Payment System Project Team should continue to seek sources for funds to continue the momentum of development in the region and for individual country projects. The various possibilities for further development initiatives regionally and in individual projects have been described in the above sections of the document.

7.3.2 Future funding

Every effort should be made to continue the momentum of development that has been achieved by the project. To this end self funding initiatives should be undertaken, with consent of the CCBG, to continue with identified projects that will benefit progress in the region. Efforts will be made to obtain funding from external sources to assist the project with further regional and individual project initiatives.

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