THE PAYMENT SYSTEM IN ZIMBABWE

Table of Contents

OVERVIEW OF THE NATIONAL PAYMENT SYSTEM IN ZIMBABWE 241

1. INSTITUTIONAL ASPECTS 241

1.1 General legal aspects 241

1.2 Role of financial intermediaries that provide payment services 242

1.2.1 Commercial banks 242
1.2.2 Building societies 243
1.2.3 Merchant banks 243
1.2.4 Discount houses 243
1.2.5 Finance houses 243
1.2.6 The Post Office Savings Bank (POSB) 243
1.2.7 Non-banking institutions 244

1.3 The role of the central bank 244

1.3.1 Issuing of currency 244
1.3.2 Banker to government and banks 244
1.3.3 Execution of monetary policy 244
1.3.4 Banking supervision 245
1.3.5 Custodian of country’s gold and other foreign assets 245
1.3.6 Lender of last resort 245

1.4 Role of other private sector and public sector bodies 245

1.4.1 Bankers Association of Zimbabwe 245
1.4.2 Financial Traders Association of Zimbabwe 245
1.4.3 S.W.I.F.T. users group 245
1.4.4 Treasury - Ministry of Finance 246

2. SUMMARY INFORMATION ON PAYMENT MEDIA USED BY NON-BANKS 246

2.1 Cash payments 246

2.2 Non-cash payments 246

2.2.1 Credit transfers 246
2.2.2 Cheques 246
2.2.3 Direct debits 247
2.2.4 Payment cards 247

3. INTERBANK EXCHANGE AND SETTLEMENT SERVICES 247

3.1 General overview 247

3.2 Structure, operation and administration 248

3.2.1 Major legislation, regulation and policies 248
3.2.2 Participants in the system 248
3.2.3 Types of transactions handled 248
3.2.4 Operation of the transfer system 248
3.2.5 Transaction processing environment 248
3.2.6 Settlement procedures 249
3.2.7 Pricing policies 249
3.2.8 Credit and liquid risk 249

4. **SPECIAL USE OF INTERBANK TRANSFER SYSTEMS FOR INTERNATIONAL AND DOMESTIC FINANCIAL TRANSACTIONS** 249

4.1 Exchange and settlement systems for international transactions 249

4.2 Exchange and settlement systems for securities transactions 250

5. THE ROLE OF THE CENTRAL BANK IN INTERBANK SETTLEMENT SYSTEMS 251

5.1 General responsibilities 251

5.1.1 Statutory responsibilities 251
5.1.2 Establishment of common rules 251

5.2 Provision of settlement and credit facilities 251

5.3 Monetary policy and payment systems 252

5.4 Risk reduction measures 252

6. RECENT DEVELOPMENTS IN THE PAYMENT SYSTEM 253

6.1 Description of the new system 253

6.2 Other developments 253

7. INFRASTRUCTURE 253

7.1 Telecommunications infrastructure 253

7.2 Availability of electricity 254

7.3 Road infrastructure 255

7.4 Economic reforms 255

Tables 257

OVERVIEW OF THE NATIONAL PAYMENT SYSTEM IN ZIMBABWE

The opening up of the Zimbabwe economy which started in 1990 has resulted in notable developments in the number of participants in the financial sector and also in the range of payment instruments used. These developments have exposed banks to greater competition and increased operational and liquidity risks. The Reserve Bank has an interest in ensuring that banks and other stakeholders operate in a stable and efficient market and that the payment, clearing and settlement systems function smoothly. In this regard, the Reserve Bank has therefore undertaken to actively coordinate the development of the payment system and to work closely with banks in implementing the National Payment System Project (NPS Project).

A working party comprising the Reserve Bank and commercial banks' representatives was put in place in January 1996 to discuss issues pertaining to payment systems developments and make recommendations on the way forward.

The National Payment System Steering Committee, which is chaired by the Governor of the Reserve Bank, was subsequently formed in January 1997 as a result of one of the recommendations made by the working party. Its main objective is to act as the driving force of the National Payment System Project. Membership currently comprises the Chief Executives of commercial banks, the Reserve Bank, Posts and Telecommunications Corporation and the Registrar of Banks and Financial Institutions. What has been a striking feature of the project so far is the high level of cooperation between the banks and the Reserve Bank. Generally, there has been a realisation of the need for harmonisation and modernisation and this will greatly assist in driving the project towards the desired goal. A strategy formulation team has since been set up to map out a strategy for the NPS Project.

The current clearing and settlement system is manual and paper-based. Banks meet at the Reserve Bank Clearing House twice every business day to exchange paper instruments and establish their net positions before final settlement over their accounts held by the Central Bank. There is no electronic system for handling interbank transactions, and hence settlement of all paper instrument transactions is done on a deferred basis. Electronic data interchange within the interbank circuits is very minimal at present. An interbank switching system for Automatic Teller Machine (ATM) and Point of Sale (POS) transactions is the only electronic interbank system in existence. This is owned by a consortium of some commercial banks and building societies. However, settlement of positions over this system is still done on a deferred basis since the cheque instrument is used for settling.

As part of the reform of the clearing and settlement systems for interbank and securities transactions, there are plans to introduce a Real-Time Gross Settlement System (RTGS). This is the only way irrevocability of settlement and finality of payment can be guaranteed.

In order to realise this goal, institutional participants within the financial sector have to be prepared to invest in modern information technology systems. This, and a well developed telecommunications infrastructure, are pre-requisites for the success of the National Payment System Project. It is noted that considerable progress has been made by banks and the Posts and Telecommunications Corporation in this regard.

1. INSTITUTIONAL ASPECTS

1.1 General legal aspects

There are no special regulations or any specific law governing the provision of the national payment system in Zimbabwe. The Reserve Bank Act Chapter 22:10 of 1964 empowers the Reserve Bank to organise and provide facilities for the collection and clearance of cheques and similar instruments. However, the Act does not make specific provision for the Reserve Bank to set up and supervise the current payment system.

Commercial law, which has been influenced by both Roman-Dutch law and English law, is generally used to regulate payment systems in Zimbabwe. Banking payment services are governed by various Acts which include the following:

– the Banking Act, Chapter 24:01 of 1965;
– the Bills of Exchange Act, Chapter 14:02 of 1895;
– the Building Societies Act, Chapter 24:02 of 1965;
– the Post Office Savings Bank Act, Chapter 24:10 of 1965;
– the Reserve Bank Act, Chapter 22:10 of 1964;
– the Companies Act, Chapter 24:03 of 1952;
– the Insolvency Act, Chapter 6:04 of 1975.

The cheque is the major paper based instrument used in Zimbabwe. This is regulated by the Bills of Exchange Act, together with other instruments like promissory notes and bills of exchange. Electronic and credit card payment methods are currently controlled by private contracts concluded between the banks and their clients. Such contracts must, however, comply with the provisions of the Consumer Contracts Act Chapter 8:03 of 1994 and the Contractual Penalties Act Chapter 8:04 of 1992 which generally require fair play in the formation of contracts.

The Banking Act does not specifically provide for banking supervision activities by the Reserve Bank. The Banking Act is, however, currently going through amendment. The major focus of the proposed changes is to give the Reserve Bank a proper legal basis for all its responsibilities, including banking supervision. In the interim, the Reserve Bank has put in place a mechanism to carry out both off-site surveillance and on-site examination of banking institutions, and is receiving full cooperation from these institutions.

The Reserve Bank of Zimbabwe Act came into force in 1964. The power to control banking business and other general banking arrangements resides with the Reserve Bank through Section 22 and 24 of the Reserve Bank Act. In terms thereof, the Reserve Bank may make recommendations to banks or building societies and, with approval from the relevant Minister, issue directives to any bank or building society.

1.2 Role of financial intermediaries that provide payment services

The current structure of banking in Zimbabwe is characterised by segmentation which confines financial institutions to specific areas of operation. However, legislation governing the operations of financial institutions is currently being reviewed to ensure that there are no impediments to the growth of financial institutions and to enable the financial sector to effectively adapt to the dynamic and changing economic environment. This legislative review should therefore allow financial institutions to offer various financial services without being confined to particular segments of operation.

1.2.1 Commercial banks

There are currently seven commercial banks carrying out business in Zimbabwe through a network of branches, agencies and mobile facilities. With the opening up of the economy and increased competition in the financial sector, more banks are expected to join the market. Commercial banks are authorised and regulated under the Banking Act. They offer a wide range of commercial banking services which include the following:

(a) current and deposit account facilities;

(b) provision of loans and overdrafts;

(c) foreign exchange facilities including accepting foreign exchange deposits;

(d) financial advice and provision of facilities for the purchase and sale of investments;

(e) involvement in the clearing system.

1.2.2 Building societies

Building societies are authorised under the Building Societies Act. They are mainly involved in savings, fixed deposits, a wide range of share deposits and mortgage lending. Five building societies are currently carrying out business in Zimbabwe through a network of approximately 195 branches spread throughout the country. One building society is 100% foreign owned while the remaining four are locally owned. Building societies are not members of the Clearing Banks Committee, and hence their cheque clearing requirements are handled through commercial banks where they hold accounts.

1.2.3 Merchant banks

There are nine merchant banks licensed to operate in Zimbabwe under the Banking Act. Merchant banks mainly provide wholesale banking services to complement the banking facilities extended by the commercial banks. In particular, merchant banks are specialists in the money and capital markets, offering fee-based services such as corporate advisory services, underwriting of securities and portfolio management. They provide trade financing through acceptance credit facilities, short and medium term credit, negotiable offshore financing facilities and foreign exchange facilities. Merchant banks only hold reserve accounts with the Reserve Bank and are not part of the clearing banks community.

1.2.4 Discount houses

These institutions perform a unique function in Zimbabwe’s banking system. Their main operation is to discount and hold bills with funds borrowed at call from the banks. These bills can then be rediscounted with the banks at the Reserve Bank. Discount houses are also not members of the clearing bank community and do not hold any accounts with the Reserve Bank. There are seven discount houses currently operating in Zimbabwe.

1.2.5 Finance houses

This segment currently comprises six finance houses whose activities are mainly concentrated on offering asset based instruments in the form of hire purchase and lease hire advances to the corporate and individual sectors. Factoring services are currently being offered by only one finance house.

1.2.6 The Post Office Savings Bank (POSB)

The POSB, which is governed by the Post Office Savings Bank Act Chapter 24:10, complements the payments processing infrastructure through its network of post offices and banking halls. There is, however, limited integration between the banking industry and the Post Office in that some of the payment instruments issued by the Post Office are not acceptable in the banking industry. The POSB is not a member of the clearing bank community. However, with its extensive network of

185 branches, the Post Office facilitates communication and provides convenient alternative banking services in remote areas where commercial banks are not represented.

Services offered by the Post Office include a cash transfer facility through money and postal orders, cash payment of government benefits, savings and fixed deposit account facilities. As at 31st December 1996, the Post Office Savings Bank attracted 12.84% of total deposits in the country.

1.2.7 Non-banking institutions

Apart from the banking industry and the Post Office, payment services are also provided by other non-banking bodies in the private sector. The instruments used by these non-banking institutions have mainly been confined to payment cards and credit cards which are used to obtain credit from retail outlets.

1.3 The role of the central bank

The Reserve Bank of Zimbabwe has its origins from the Bank of Rhodesia and Nyasaland which was established in 1956 as the note issuing authority of the Federation in succession to the Central African Currency Board. The dissolution of the Federation of Rhodesia and Nyasaland and the consequent winding up of the Bank of Rhodesia and Nyasaland led to the establishment of successor central banks in the three former Federal Territories, namely Reserve Bank of Rhodesia, Bank of Zambia and Reserve Bank of Malawi. Each of these central banks became responsible for the issue of banknotes in their respective countries.

1.3.1 Issuing of currency

Under the Reserve Bank Act, the Reserve Bank of Zimbabwe has the sole right to issue notes and coin which are accepted as legal tender in Zimbabwe. The notes are printed by the Bank's subsidiary company, Fidelity Printers and Refiners, while the coin is minted by the Royal Mint, United Kingdom.

1.3.2 Banker to government and banks

The Reserve Bank provides banking services to government and financial institutions. However, it does not undertake commercial risk lending, save for advance facilities given to government and the banks. The primary role of the Reserve Bank in government financing is to ensure that government borrowing needs are met at the lowest possible cost and the outstanding debt is efficiently managed.

A number of current accounts are held for government, while reserve and current accounts are held for commercial banks. Government cheques drawn on accounts held at the Reserve Bank and presented to commercial banks for payment are cleared to the Reserve Bank through the normal Clearing House procedures. Government deposits and cheques handled by commercial bank branches outside Harare and Bulawayo are subject to a handling fee which the Reserve Bank pays as turnover commission to the commercial banks.

1.3.3 Execution of monetary policy

The Reserve Bank of Zimbabwe is tasked with the responsibility of formulating and implementing monetary policy which essentially entails maintaining both the internal and external value of the Zimbabwe dollar.

1.3.4 Banking supervision

The Reserve Bank of Zimbabwe performs bank supervision and enforces the recommendations of Basle Committee for Banking Supervision. In carrying out this function, the Reserve Bank aims at promoting and maintaining a safe and sound banking system and preventing financial instability. It also aims at fostering efficient and competitive banking as well as protecting depositors' funds.

The supervisory function currently covers all deposit taking institutions namely, commercial banks, merchant banks, discount houses, finance houses and building societies. Arrangements are currently under way to incorporate the POSB into the supervisory framework.

1.3.5 Custodian of country's gold and other foreign assets

It is the Reserve Bank's function to ensure that the country has an adequate level of reserves for confidence purposes, operational reasons and to provide for contingencies.

1.3.6 Lender of last resort

This is a role that the Reserve Bank carries out in line with assisting the smooth functioning of the money market. If liquidity tightens, banks approach the Reserve Bank for accommodation. The Reserve Bank reserves the right to grant assistance on its own terms.

1.4 Role of other private sector and public sector bodies

1.4.1 Bankers Association of Zimbabwe

The main banking association in Zimbabwe is the Bankers Association of Zimbabwe whose membership comprises the commercial banks and merchant banks. The Bankers Association basically provides a forum through which its members can communicate freely and contribute towards the progress of the members' interests. All initiatives relating to new interbank payment arrangements are driven through the Association. The existence of this association also allows the creation of sub-committees like the Clearing Banks Committee which deals with any issues relating to retail operations. These sub committees make recommendations for policy changes on related matters.

1.4.2 Financial Traders Association of Zimbabwe

Membership includes the Reserve Bank, commercial and merchant banks. This association has an interest in local and foreign settlement of deals. Members meet monthly to discuss any matters arising, recommend policy changes and new products for the market.

1.4.3 S.W.I.F.T. users group

This group is made up of institutions who belong to the S.W.I.F.T. network in Zimbabwe. It represents the interests of its members in as far as they relate to day to day network operation at national level. The group also provides an easier way for S.W.I.F.T. to communicate with its users through an established body rather than communicate with them individually.

1.4.4 Treasury (Ministry of Finance)

The Treasury, through the Registrar of Banks and Financial Institutions, handles the registration of all banks and financial institutions. The Treasury also plays a pivotal role in the administration of all state payments through the cheque instrument.

2. SUMMARY INFORMATION ON PAYMENT MEDIA USED BY NON-BANKS

2.1 Cash payments

The Reserve Bank of Zimbabwe has the sole right to issue notes and coin under the Reserve Bank Act.

Five denominations of banknotes are currently printed, namely $5, $10, $20, $50 and $100 while the coin is minted in denominations of 1c, 5c, 10c, 20c, 50c, $1, and $2.

The cash is put into circulation through withdrawals made by commercial banks and the POSB from the Reserve Bank. Any surplus cash is likewise deposited back into the Reserve Bank.

As at 31st December 1996, the value of notes in circulation totalled approximately Z$2,342.4 million. This represented 84.57% of total currency issued, 17.6% of M1 and 9.12% of M2. (M1 - defined as notes and coin in circulation plus demand deposits with banking system. M2 - defined as M1 plus savings deposits plus under 30-day deposits with banking system.)

2.2 Non-cash payments

2.2.1 Credit transfers

Credit transfers are a commonly used payment medium in Zimbabwe. The transfer is usually executed from a standing order or a variable order that is given from time to time. The orders are mainly given in paper form. However, some customers deliver their payment orders to banks on diskettes and magnetic tapes. The main users of credit transfers are big institutions like government, pension funds and local authorities. Credit transfers are mainly used for recurrent payments like salaries, dividends and pensions.

2.2.2 Cheques

The cheque is still by far the most utilised instrument despite the increasing importance of other paperless means of payment.

Cheques are generally acceptable at purchase points as long as they are backed by a cheque guarantee card. The cheque guarantee cards act as a guarantee to the payee that the cheque will be honoured to the extent of the amount reflected on the card. This guarantee is binding whether or not there are sufficient funds in the drawer’s account to cover the cheque. Cheque guarantee cards are issued by the drawee banks to creditworthy customers and the extent of the guarantee is dependent upon the bank’s rating of the customer’s creditworthiness.

Only the Reserve Bank and the commercial banks offer cheque books to their customers. Building societies do however offer bank certified cheque facilities for customers wishing to withdraw substantial sums of money from their accounts.

2.2.3 Direct debits

Like credit transfers, direct debits are mainly used for recurring payments initiated by the receiver of the service being paid for. These recurring payments include public utility charges, insurance premiums, subscriptions, mortgage and loan repayments. Users of this payment medium include individuals and corporate bodies. This medium of payment is generally acceptable and offers certainty and convenience to consumers.

2.2.4 Payment cards

Debit cards. These allow the cardholder to withdraw funds from his account at the issuing bank. Debit cards require a personal identification number (PIN) to be keyed into the terminal before services can be provided. They are mainly used at Automatic Teller Machines (ATMs) and Point of Sale (POS) terminals.

Credit cards. These are generally issued by banks and allow cardholders to obtain cash advances from their accounts and to pay for purchases at the outlets of all participating merchants or service providers. Credit cards like Visa or Mastercard are issued by banks under licence from the international organisations. The international credit cards can be used locally and internationally. If they are issued for external use, banks are required to comply with certain Exchange Control requirements that govern the issuance of these cards.

A number of retail outlets also issue their own inhouse credit cards which allow their customers to conduct credit purchases within a specified credit limit.

Prepaid cards. The only prepaid card that is currently widely used is the telephone card issued by the Post and Telecommunications Corporation. This card allows telephone calls to be made from public telephones.

ATM and POS Networks. ATMs offer a wide range of services which include cash withdrawal, account balance enquiries, ordering of cheque books, funds transfer and utility bill payment facilities. Zimswitch, an on-line ATM network set up by six financial institutions, provides a shared network for switching ATM and POS transactions. Interparty indebtedness is currently being settled outside the clearing house through the cheque medium. Other financial institutions providing ATM facilities run their own individual networks for both ATMs and POS terminals. As at the end of 1996 there were approximately 200 ATM machines and 2,000 EFTPOS terminals operating on two and four networks respectively. With new banks emerging in the market and existing banks expanding their networks, the number of ATMs is expected to grow.

3. INTERBANK EXCHANGE AND SETTLEMENT SERVICES

3.1 General overview

There is currently no electronic system used for handling interbank transfers. The Bankers Clearing House which operates from the two major towns, Harare and Bulawayo, provides a manual and paper based interbank clearing system. Participants have to carry the paper debit instruments (mainly cheques) to the Clearing House and physically exchange them before establishing their settlement positions. Both large and low value items are channelled through the same route.

3.2 Structure, operation and administration

3.2.1 Major legislation, regulation and policies

There is no specific legislation that covers the field of interbank payments and settlement. Participants of the Clearing House have themselves put together a set of rules that regulate the operation of the Clearing House. This set of rules - the Bankers Clearing House Rules - lays down the criteria relating to specific areas which include membership, management, clearing times and processes. The business of the Clearing House is conducted in the Reserve Bank of Zimbabwe premises and is managed by a Committee composed of one representative from each member bank. The Reserve Bank of Zimbabwe chairs the Committee and also supervises the operations of the Clearing House. The Reserve Bank does not impose decisions but plays a coordinating role in order to ensure the efficient functioning of the system.

3.2.2 Participants in the system

Membership of the Clearing House is currently restricted to the Reserve Bank and the seven commercial banks that currently exist in Zimbabwe. There is a standing requirement for all registered commercial banks to automatically become members of the Clearing House since it is this category that handles payments through the cheque instrument. Transactions for other financial institutions like building societies and merchant banks are indirectly cleared through the respective commercial banks where they hold accounts.

3.2.3 Types of transactions handled

The cheque is the main instrument that is cleared through the Clearing House. However, physical exchange of credit items can be done through the clearing house. Such an exchange does not affect the banks’ clearing accounts as it is used entirely as a means of channelling items to the intended destinations for processing.

3.2.4 Operation of the transfer system

Clearing banks meet twice every business day to exchange items and establish their net financial positions. At the morning clearing, each participant clears out any items processed on the previous day and drawn on the other banks. The indebtedness of each participant to the other is established, and through a multilateral netting process the net position of each participating bank is determined. The relevant entries are manually raised in the Clearing House and the responsibility for ensuring that the banks settle their positions lies with the Reserve Bank. The afternoon clearing is basically an exchange process for large value and wrongly cleared items. Because of its manual nature, this clearing system operates on a deferred settlement basis.

3.2.5 Transaction processing environment

The Clearing House operation is manual and paper based. Banks have in the past considered moving towards the establishment of an Automated Clearing House which would be jointly owned by all clearing banks.

This consideration did not get very far at that time due to problems posed by lack of standardisation of cheques. Government cheques were not MICR encoded and the quality of MICR printing was poor. However, this situation has improved to a point where some form of automated clearing can be considered. It is envisaged that the automation of the clearing house processes will be one of the first tasks to be considered under the National Payment System Project.

3.2.6 Settlement procedures

Every clearing bank participating in the clearing house operations has to hold a current account with the Reserve Bank of Zimbabwe through which settlement is effected. These accounts are not allowed to be overdrawn and are subject to certain minimum balances.

The Reserve Bank carries out the function of settlement agent. Once the multilaterally netted positions of the member banks have been established, they are posted into the individual banks' current accounts. The onus is on each participant to ensure that their positions are fully covered to avoid an overdraft position.

Once entries have been passed over the individual bank accounts, finality is basically deemed to have occurred. The current system has so far served the banking sector well. There has never been any case of a participant failing to settle since the Central Bank has always intervened as lender of last resort. The legal implications of participant failure and unwinding will be explored in greater detail under the new payment system initiative.

3.2.7 Pricing policies

The cost of running the Clearing House is borne entirely by the Reserve Bank of Zimbabwe. There are currently no arrangements in place for the recovery of the costs from the participating banks.

3.2.8 Credit and liquidity risk

These risks have never really posed a threat to the current payment system since the Reserve Bank has always intervened to provide liquidity where it is needed. Banks experiencing liquidity problems are always accommodated overnight by the Reserve Bank against acceptable securities.

There are no loss sharing agreements or specific risk reduction measures in place. Any inherent risks are currently borne by the Reserve Bank in that no intraday controls on banks' balances exist. Commercial banks therefore effectively get "free credit" from the Reserve Bank as the latter is not able to monitor the account balances on a real time basis. Risk reduction strategies will be considered under the National Payment System Project.

4. SPECIAL USE OF INTERBANK TRANSFER SYSTEMS FOR INTERNATIONAL AND DOMESTIC FINANCIAL TRANSACTIONS

4.1 Exchange and settlement systems for international transactions

The Zimbabwean banking system is still, to a certain extent, governed by Exchange Control regulations. While a few Exchange Controls still exist on the current account, Zimbabwe acceded to Article VIII of the IMF Agreement where section 2(a) provides that subject to the stated provisions "no member shall without the approval of the fund impose restrictions on the making of payments and transfers for current international transactions". The Reserve Bank has plans to dismantle all Exchange Controls and completely liberalise the current account so that there will be no limits given to banks on current payments. Exchange Controls however, still significantly affect payments related to the capital account. These are mainly in the areas of cross-border investments and disinvestment proposals.

The main network used for transmitting information on international payments is the S.W.I.F.T. network. The telex system is also used mainly for communication with countries who are not on the S.W.I.F.T. network. Most banks in Zimbabwe have correspondent relationships with other banks abroad. These links are used for payments and receipt of foreign currency. The international transactions are conducted in any of the seventeen currencies that have been denominated as official trading foreign currencies in Zimbabwe, these are:

United States dollar, South African rand, Botswana pula, British pound, Deutsche Mark, Japanese yen, Italian lira, French franc, Dutch florin, Swiss franc, S.D.R., Mozambique meticais, Norwegian krone, Swedish krona, Danish krone, Canadian dollar and European Currency.

The most commonly used instrument for international face to face payments is the travellers cheque. This instrument is readily available to a wide section of the population. The use of international credit cards is still tied to Exchange Control restrictions. Banks issuing these cards cannot do so freely, without taking into account the conditions stipulated by Exchange Control. Up to four international credit cards may be issued to a business organisation for use on business trips. Credit cards may also be issued to individuals in their own right. However, these are also subject to Exchange Control conditions. Other instruments used for international transactions are bank cheques and bank drafts which are drawn on correspondent banking accounts.

4.2 Exchange and settlement systems for securities transactions

The Zimbabwe Stock Exchange which is located in Harare is governed by the Stock Exchange Act. Its main objective is to operate a stock exchange with due regard to the public interest and to maintain fair and efficient dealing in securities. The securities that are traded on the Stock Exchange include:

- equity;
- government stocks;
- municipal paper - long term paper issued by municipalities;
- parastatal paper - long term paper issued by parastatals.

There is no electronic system that is specifically dedicated to the clearing and settlement of securities transactions. Securities are recorded on paper and there is no central depository institution. There is a standing requirement for the settlement of trades to be fixed on the seventh day following the date of transactions (T + 7).

Only stockbrokers are allowed to deal in equity. However, government stock deals can be handled by both stockbrokers and banks. The means of settlement is manual and paper based with settlement between brokers being made by cheques which are subsequently cleared through the Clearing House. Buyers pay brokers either in cash or by cheque. There is no over the counter market for shares; all shares have to be traded through the Stock Exchange.

The Reserve Bank of Zimbabwe acts as issuers and transfer secretaries for government stock. Hence, once the stock changes hands, the Reserve Bank has to be notified in order to effect the transfer.

Government stocks can be traded over the counter. The market for government stocks includes commercial banks, discount houses, finance houses, pension funds and insurance companies. Apart from setting up policies relating to the inflows and outflows of foreign currency on the Stock Exchange, the Reserve Bank has no major role to play in the equities market.

Developments on the payment system project will encompass the Stock Exchange market. It is hoped that in the long term, investment in automation will be undertaken in order to cater for the needs of issuers and provide more efficient trading and settlement facilities for institutional and retail investors. The establishment of a central depository is a prerequisite if the securities market is to deal with the inconveniences caused by a paper based settlement system and keep abreast with developments around the world.

5. THE ROLE OF THE CENTRAL BANK IN INTERBANK SETTLEMENT SYSTEMS

5.1 General responsibilities

5.1.1 Statutory responsibilities

The Reserve Bank of Zimbabwe is empowered by the Reserve Bank Act to organise and provide facilities for the collection and clearance of cheques and similar instruments. There is no specific legislation that is directed at controlling the interbank clearing and settlement systems. However, the Reserve Bank has an interest in ensuring the efficiency and stability of the financial system. It supervises the banking system and ensures that banks settle their obligations in the interbank clearing system.

5.1.2 Establishment of common rules

The Reserve Bank's interest in ensuring the existence of a sound and efficient payment system stems from its statutory responsibility for monetary policy formulation and implementation. Under the current Clearing House operations, members have put together a set of contractual rules which govern the operations of the Clearing House. Initiatives have also been taken by the members to standardise the paper instrument by making it mandatory to have a MICR line encoded at the bottom of all cheques issued. This move was aimed at facilitating the processing of cheques through electromechanical item processors. The Reserve Bank plays an important role in ensuring that members comply with agreed rules and standards.

Under the new payment system initiative the Reserve Bank of Zimbabwe took a leading role in the establishment of a National Payment System Project, which is to facilitate the automation of operations throughout the processes. Banks have to collectively tackle standardisation issues and ensure existence of common rules for operation through various committees set up within the National Payment System Project.

5.2 Provision of settlement and credit facilities

Commercial banks are required to hold two types of accounts with the Reserve Bank, namely a current and a reserve account.

Current accounts are used for liquidity purposes and for settling interbank obligations. The Reserve Bank offers rediscount facilities to other banks and is able to intervene in the securities market to control liquidity. Overnight advances are also offered to banks in the event of liquidity problems. These are secured to the extent of 100% if security is in the form of Reserve Bank paper and 150% in the case of government securities. However, this facility is currently not being extended as paper is bought when the market is short.

Commercial banks, merchant banks and finance houses are subject to reserve requirements which do not qualify for settlement purposes. In practice, the statutory requirement is applied to banks' total liabilities to the public which include demand and time deposits, foreign currency deposits inclusive. However, the following are excluded:

- uncleared effects for discount houses, merchant banks and commercial banks;
- deposits secured by pledge of securities issued by the State which have a final maturity date of no more than twelve months;
- 50% shareholding in Venture Capital Company of Zimbabwe;

– foreign currency deposits of individuals, embassies and non-governmental organisations.

The following reserve ratios are currently applied:

– for commercial and merchant banks:

  – local deposits 20%
  – foreign currency deposits 20%

Adjustments for commercial and merchant banks are done every Friday based on the liabilities to the public of the previous Friday. Returns are submitted by close of business on Thursday;

– for finance houses; the ratio is 4% of total deposits on total liabilities to the public of the previous month (i.e. last day of previous month). Collection or adjustment is done mid-month (i.e. on the 15th). Returns must be submitted by the 14th of the current month;

– 0% - discount houses, building societies and the Post Office Savings Bank.

The RBZ does not pay interest on the reserve amounts held by these banks.

5.3 Monetary policy and payment systems

The conduct of monetary policy in Zimbabwe is designed to influence the rate of growth in money supply (M3), which is the intermediate target, in order to achieve a low and stable inflation, the ultimate goal. This is consistent with the Reserve Bank of Zimbabwe's mission to maintain the internal and external value of the currency. The Bank uses a number of instruments to implement monetary policy. These include the reserve requirements, the rediscount rate and open market operations. The reserve requirements, currently at a ratio of 20% for deposit money banks, constitute a quantitative limit to credit creation by banks. The rediscount rate, which is set by the Reserve Bank in line with it's monetary policy objectives, is an indicator of the Bank's view of inflation as well as the floor rate for most short-term interest rates. Open market operations are designed to influence the supply of bank reserves as well as the liquidity situation on the market.

The payment system has important implications for the design, conduct and effectiveness of monetary policy. The Bank provides liquidity through repurchase agreements, rediscounting bills and extending overnight loans. The issuing of treasury bills and acceptance of deposits by the Bank withdraws excess liquidity from the banking system. Commercial banks, which are also the clearing institutions, maintain current accounts at the Reserve Bank through which settlement and other clearing transactions take place. New clearing and settlement arrangements effected by the Bank in August 1997 require that banks clear among themselves and that the Reserve Bank accommodate only the market position via commercial banks. The payment system in Zimbabwe is largely paper-based and the processing is manual. Clearing back-logs normally occur during the festive seasons due to large numbers of cheques and other paper-based transactions. This tends to affect money supply patterns and hence monetary policy. Uncleared effects, which are currently exempt from statutory reserve requirements, also impact on the effectiveness of the reserve requirement ratio as a monetary policy tool. The efficiency of the payment system, therefore, generally influences the transmission process of monetary policy.

5.4 Risk reduction measures

The delayed settlement in the current payment system has inherent risks which are not obvious to participants in the interbank clearing arrangements. The fact that there has never been any major disaster in the settlement system has given a lot of comfort to the participants. The Reserve Bank however, has the control of settlement risks at the top of its list. By controlling membership of the clearing house, the Reserve Bank cuts down on settlement risks and ensures that banks settle their positions. Penalties are levied on banks with insufficient funds to cover their liabilities in the conclusion phase of clearances. The gap between initiation and effective settlement of transactions could be drastically reduced through investment in modern automated processes. The final goal of the NPS Project is to introduce an RTGS system that will provide an almost complete control over risk. A comprehensive risk reduction programme will be put in place to address the various risks associated with payment systems.

6. RECENT DEVELOPMENTS IN THE PAYMENT SYSTEM

6.1 Description of the new system

There is no new system that has been put in place as yet. The Clearing House remains the major operation through which interbank transactions are cleared and settled. With the setting up of the National Payment System Project it is envisaged that more modern systems will be implemented for transaction processing and settlement. Risk reduction measures for containing both credit and liquidity risks will be clearly defined. The current set up whereby the Reserve Bank of Zimbabwe meets all costs incurred through the Clearing House operations will be a thing of the past. Banks have already started contributing towards the upkeep of the National Payment System Project. A more definitive cost structure will be put in place together with a cost sharing mechanism for all participants. The NPS Project is currently at the strategy formulation stage.

6.2 Other developments

Although not overwhelming in numbers, electronic payments are continuing to grow through ATMs and EFTPOS terminals. Smart cards have not been piloted in Zimbabwe, although some banks have seriously considered the prospects of introducing smart card technology.

There are plans by some building societies to provide convenience to customers by increasing the range of accounts that can be paid through the ATMs.

There has generally been a lot of cooperation amongst the banks in as far as reforming the payment system is concerned. It is envisaged that this cooperation will extend to the provision of payment instruments in order to save on costs through shared structures. One of the building societies introduced telebanking service in November 1996. This basically provides the convenience of paying accounts from home or office using swift and secure means. Electronic commerce (e-commerce) developments are expected to grow following the launching of Zimbabwe’s first electronic commerce company in October 1997. It is envisaged that most businesses will take advantage of this and move to a situation where they undertake transactions electronically instead of the current manual methods that are becoming economically unviable and sometimes lead to organisations losing competitiveness.

7. INFRASTRUCTURE

7.1 Telecommunications infrastructure

The Posts and Telecommunications Corporation (PTC) is the sole provider of telecommunications services in Zimbabwe. While the present telecommunication system lags behind in terms of international trends, various projects are under way to rectify the situation with digitalisation of the national trunk transmission network and major strides are being made in upgrading the local distribution network. While PTC has operated under various constraints, it has managed to expand the telephone network from 2,416 new customers in 1991 to 20,689 in 1996 and 36,687 in 1997 giving an equivalent compound annual growth of 136%. Electronic data transfers to and from the rest of the world are possible through the PTC's packet-switching data network - ZIMNET. This network was expanded to provide X-400 E-mail services during the last quarter of 1996. Plans are under way to expand the recently launched cellular mobile telephone service (CMTS) to 70,000 lines by the year 2002.

Despite these improvements, the demand for service is high and the quality of service in some areas is still unsatisfactory. The telecommunications infrastructure is mainly concentrated in the major urban centres of the country. The rural areas are poorly serviced. However, there are a number of projects lined up for the development of rural networks. Telecommunications is a key driver of economic growth and an essential conduit to payment systems. The current telecommunications infrastructure is inadequate to fully support payment systems developments. In some instances, disruption in telecommunications have led to revenue losses for some sectors of the economy.

The various projects that the PTC has embarked on show its commitment to rectifying the current situation. As part of its thrust to contribute to economic development, the PTC has continued to modernise, expand and improve the quality of the telecommunications services. According to its approved plans to the year 2002, the PTC intends reducing its waiting list to zero. The commercialisation of the Corporation (which is currently government owned) is a necessary pre-condition for the achievement of these plans. The reform process therefore needs to be speeded up in this regard in order to bring into effect the necessary instruments that will improve finance conditions, speed up procurement, establish favourable tariff policies and provide flexibility in the hiring of skilled and professional manpower.

7.2 Availability of electricity

The Zimbabwe Electricity Supply Authority (ZESA), a parastatal body, is solely responsible for supplying electricity throughout Zimbabwe. The urban areas of Zimbabwe enjoy almost 100% availability of electricity. Reticulation has kept abreast of the growth in these urban areas and in some instances, in advance of the building structures being put in place. The national electrification rate is 20% which means that 80% of the population have no access to electricity. The majority of those people live in the rural areas. The rural electrification programme under ZESA's Master Plan is concentrating on providing supplies to service centres. These service centres are ranked on the basis of their viability. The communities surrounding the service centres will benefit from this programme provided they can afford to pay for their connection fees and electricity bills thereafter. Considerations are being made for a 1% rural electrification levy to be charged on customers in order to improve the financing of the project.

The absence of a backbone infrastructure in the rural areas has particularly hampered the development of payment systems in the rural areas. Banks have generally not extended their services to rural areas resulting in most of the rural societies remaining totally unbanked. In some instances, communal farmers have to travel a long distance to access banking facilities, at the nearest Post Office or major town.

Currently, the availability of electricity supplies is dependent on growth or expansion of the urban centres. However, there are plans to embark on closer consultations with local authorities in order to synchronise the development plans of the two bodies.

ZESA is mindful of the fact that it will take many years and a huge financial outlay to electrify the entire country. In this regard, a pilot scheme on solar energy is currently underway to connect 500 households throughout the country. If this pilot scheme proves to be viable, households resident in outlying areas will be offered solar systems in an endeavour to provide them with cleaner energy for light and power appliances.

7.3 Road infrastructure

Zimbabwe, as a landlocked country, depends heavily on the road and rail network for its transportation needs. In comparison with countries of similar development, a good road network exists, with tarred roads linking the main urban centres and well maintained gravel roads leading to the rural areas. Tarred roads cover about 15,000 km throughout the country. These are maintained by the state. The rural areas have a 77,574 km road network consisting mainly of gravel and single lane tarred roads which are maintained by local, rural and district councils. In some instances, accessibility in the rural areas becomes a problem during the rainy season as some of the roads become waterlogged and bridges are submerged under floods. The existing road infrastructure has facilitated the development of postal and courier services to remote parts of the country using rural transportation. In the main centres, inter-branch remittance of paper-based instruments has been enhanced by the good road network. The local authorities and government have invested in the rehabilitation and maintenance of the road network through financial support from the World Bank and African Development Bank. Under the transport reform programme the government envisages the participation of the private sector in the provision and maintenance of the road infrastructure. The involvement of the private sector will go a long way towards improving and expanding the existing infrastructure.

7.4 Economic reforms

In 1990 the Zimbabwean Government embarked on a five year Economic and Structural Adjustment Programme (ESAP) commencing in 1991 and ending in 1996. This Programme was a package of reforms that represented a fundamental departure from the comprehensive system of direct controls that characterised Zimbabwe's pre-and post independence era. The main objective of the economic reform programme was to create an economic structure whose premise was to rely more on market forces and indirect instruments of economic management in order to encourage growth, increase employment opportunities and reduce poverty.

ESAP had a number of components which included the following:

- reduction of central government budget deficit from 10% to 5% GDP by fiscal year 1994/95;
- monetary policy and financial sector reform;
- implementation of a trade and exchange liberalisation programme which would result in a fully market based foreign exchange system by 1995;
- reform of public enterprises with the aim of eliminating their budgetary burden and making them more efficient.

It is the component of monetary policy and financial sector reform that led to the current developments in the payment systems arena. The liberalisation and deregulation of the financial sector has been underpinned by the opening up of the sector to new entrants and the introduction of new payment instruments.

In order to promote activity on the Zimbabwe Stock Exchange (ZSE) the latter was opened up to foreign investors at the end of June 1993. Foreign investors have also been allowed to invest on the local capital market up to a maximum of 35% per primary issue of government bonds and stocks.

The liberalisation of the financial sector requires that both legislative and supervisory systems be transformed to reflect the changing market conditions. While financial sector liberalisation has broadly presented new opportunities to the financial sector, the vulnerability of some institutions to increased risks, after operating for more than a quarter of a century under controlled conditions, cannot be ruled out. In this regard it is imperative that legislative measures and supervisory mechanisms are strengthened in order to adequately cope with potentially damaging developments in the financial sector.

Government, the Reserve Bank and business sector all have important roles to play in the implementation of economic reforms. The achievement of objectives relating to the reform programme is therefore dependent on the performance of each of these players. Apart from Government and the Central Bank taking care of their traditional responsibilities, the business sector has to contribute towards economic growth through production and increased export earnings.

The economic reforms are expected to boost economic growth and maintain macro-economic stability. The introduction of a new economic reform programme, ZIMPREST is envisaged to further consolidate the performance of the market economy.

Table 1

Basic statistical data

	1992	1993	1994	1995	1996
Population (millions)[1]	10.40	10.80	11.20	11.50	11.90
GDP (billions) Z$[2]	34.40	42.50	56.40	66.60	85.60
GDP per capita (US$ millions)	601.00	571.00	603.00	621.00	665.00
Exchange rate (domestic vis-à-vis US$)					
year end	*5.50*	*6.90*	*8.40*	*9.30*	*10.80*
average	*5.09*	*6.59*	*8.22*	*8.67*	*10.00*

Table 2

Settlement media used by non-banks

(in billions of Zimbabwe dollars at year-end, not seasonally adjusted)

	1992	1993	1994	1995	1996
Notes and coins	1.0	1.3	1.4	1.8	2.3
Transferable deposits:					
Corporate sector	2.3	4.2	5.4	8.3	10.9
Household	-	-	-	-	-
Other	-	-	-	-	-
Narrow money supply (M1)	3.1	6.2	6.9	10.1	13.3
Broad money supply (M3)	7.2	10.3	22.2	28.8	36.8

Table 3

Settlement media used by banks

(in billions of Zimbabwe dollars)

	1992	1993	1994	1995	1996
Reserve balances held at central bank	0.9	1.1	1.8	1.5	3.4
Transferable deposits at other institutions	-	-	-	-	-
Accounts at the Post Office	-	-	-	-	-
Accounts at the Treasury	-	-	-	-	-
Required reserves	0.9	1.1	1.8	1.5	3.4
Institutions’ borrowing from central bank	0.4	0.2	0.4	1.3	1.3

Table 4

Banknotes and coins

(in millions of Zimbabwe dollars)

	1992	1993	1994	1995	1996
Total banknotes and coin outstanding	997.17	1,346.7	1,720.2	2,158.4	2,769.7
Banknotes and coin held by credit institutions	135.8	155.3	287.8	407.8	427.3
Total banknotes and coin outside institutions	861.3	1,191.4	1,432.4	1,750.6	2,342.4
Banknotes held in overseas territories...........	-	-	-	-	-

Table 5

Institutional framework

(as at end-1996)

Categories	Number of institutions	Number of branches	Number of accounts (thousands)	Value of accounts (millions of Zimbabwe dollars)
Central bank	1	2	-	7,370.0
Commercial banks	5	131	-	17,193.6
Merchant banks	-	-	-	-
Savings banks	10	11	-	4,143.4
Building societies	5	195	-	12,259.2
Post Office Savings Bank	1	181	-	5,738.8
Finance houses	6	16	-	3,145.8
Discount houses	5	5	-	2,248.4

Table 6

Cash dispensers, ATMs and EFTPOS terminals

	1992	1993	1994	1995	1996
Cash dispensers and ATMs:					
Number of networks	-	-	-	-	2
Number of machines	-	-	-	-	200
Volume of transactions (in millions)	-	-	-	-	11.0
Value of transactions (in billions)	-	-	-	-	4.0
EFTPOS:					
Number of networks	-	-	-	-	4
Number of machines	-	-	-	-	2,000
Volume of transactions (in millions)	-	-	-	-	2.0
Value of transactions (in billions)	-	-	-	-	0.5

Table 7

Participation in S.W.I.F.T. by domestic institutions

	1992	1993	1994	1995	1996
Members:			8	8	8
of which: live	-	-	*8*	*8*	*8*
Sub-members:					
of which: live	-	-	*2*	*2*	*2*
Participants:					
of which: live	-	-	*0*	*0*	*0*
Total users:					
of which: live	-	-	*10*	*10*	*10*

Source: S.W.I.F.T.

Table 8

S.W.I.F.T. message flow to/from domestic users

	1992	1993	1994	1995	1996
Total messages sent of which:					
category I	-	-	*13,800*	*78,376*	*95,442*
category II	-	-	*14,188*	*67,905*	*85,846*
sent to domestic users					
Total messages received of which:					
category I	-	-	*9,122*	*69,634*	*83,167*
category II	-	-	*1,314*	*8,981*	*11,251*
received from domestic users					

Category I = customer (funds) transfer); Category II = bank (funds) transfer.