

**THE PAYMENT SYSTEM IN
MOZAMBIQUE**

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OVERVIEW OF THE NATIONAL PAYMENT SYSTEM IN MOZAMBIQUE

The Mozambican payment system is undergoing a process of rapid transformation as a result of the overall changes occurring in the economy, namely the transition from a centrally planned economy to a market oriented one. Payment system reform originated in 1987 from IMF recommendations and started in 1994 under the advice of senior Bank of Brazil officers.

The Mozambican Payment System Project involves a process of rapid modernisation. It involves a senior consultant from the Bank of Brazil, the Banco de Mozambique (the Central Bank), commercial banks and other legally authorised financial institutions as well as air and road transportation companies.

The overall Payment System Project is composed of a number of sub-projects, namely:

- the New Regulation of the Settlement Service subsystem, which includes the review of the deadlines for the return of unpaid cheques and other instruments, the utilisation of Return Advice Communications and the set up of the Support Group on Payment Issues;
- the Transport of Settling Documents (payments) subsystem, which includes transportation companies and the appropriate mechanism for costs sharing by the banking system;
- the Overdraft Accounts Database (credit information) subsystem, including the respective regulation;
- the Database for the Management Information System, which includes Operations and Participating Financial Institutions codification.

All the sub-projects outlined above are now concluded. The Settlement Service can now centralise more than 95% of the settlement results in the Central Bank headquarters. The steps towards this achievement included the opening of the Central Bank's branches in the Central and Northern regions of the country thus enabling regional centralisation of the clearing results and thus the centralisation within the head quarters in a day plus one. The settlement is not only limited to national currency, but recently approval has been given to use the same process and regulation for foreign currency. The settlement process does not exceed four working days.

The clearing periods have been cut from a maximum of 60 days to a maximum of 25 days. However, it is important to note that more than 80% of the settlement is made in between two and four working days. Recent developments indicate that the above period will be decreased much more. The recent privatisation of all the state banks and the expected modernisation of their operations as a consequence will play a fundamental role in the process.

The next phase of the modernisation process includes the automatisisation of the Settlement System and entails the Banking System adopting standardisation of bank cheques.

1. INSTITUTIONAL ASPECTS

1.1 General legal aspects

The general legal aspects of payment systems in Mozambique can be summarised under the following legal framework:

- the major law, the “Organic Law of the Banco de Mozambique” (Law 1/92 of 03.01.92), which gives the legal authority to the Bank to act and behave as a central bank;
- the bylaw 43/94 of 28.12.89 which regulates financial intermediation;

- the bylaws 44/94 of 12.12.94, and 139/79 of 18.05.79 both of which introduce the regulation of “Financial Location Societies”;
- the bylaw 45/94 of 12.10.94, which regulates the “Financial Location Contracts”;
- the bylaw 46/94 of 12.10.94, which sets the regulation of Exchange Bureaux;
- the bylaw 20/90 of 18.09.90, that institutionalises the Secondary Exchange Market;
- the Cheque Act - approved by the Geneva Convention in 19.03.1931, and ratified in Mozambique (10.05.1934) and then published on 21.03.1934;
- uniform Law of Bonds, approved by Geneva Convention by the bylaw 23.721 of 29.03.1934, and ratified in Mozambique (10.05.34) and then published (21.06.34).

1.2 Role of financial intermediaries that provide payment services

Prior to the modernisation project that took place in 1992 with the constitution of Banco de Mozambique as a Central Bank, financial intermediaries comprised three major commercial banks whose function was to provide payments for economic agents; two of these banks were state owned. Since then a number of banks are emerging and expanding rapidly all over the country. These include Commercial, Investments, Credit Cooperatives, Leasing and Financial Location Institutions. All of these institutions are regulated by Supervision Department of the Central Bank. The Post Office does not yet play a role in the payment system, though with the termination of the civil war it is expected to resume such activities in the near future.

1.3 The role of the central bank

Under the Banco de Mozambique Organic Law the role of the central bank is to guarantee the supply of currency in the form of banknotes and coins as well as to regulate the volume of currency necessary for the economy according to the needs of economic agents.

The obligation of the bank, as stated in the Organic Law, is to provide the public with notes and coins in good condition for circulation. According to the Law the right of issuing commemorative coins belongs to the government, with the central bank as a consultant regarding the technical aspects.

Demand deposits and call deposits for individuals are kept in the commercial banks and credit institutions. These institutions in turn keep their reserves (both free and compulsory) in the central bank for clearing and settlement and custodial purposes, as well as for monetary and financial policy purposes.

The Central Bank, according to the aforementioned Organic Law, acts as a State banker thereby providing specialised services such as keeping deposits and processing daily payments.

Concerning the execution of monetary and financial policies, the Law establishes that the Bank, in so doing, must regulate the money market as well as supervising credit institutions to guarantee harmony with monetary and financial policies. It is up to the Bank to establish the quantitative and qualitative limits of credit as well as manipulation of the rate of rediscount.

The supervision of banking is also determined by the Law and deals with the application and the authorisation for the establishment of financial and credit institutions, their expansion, as well as the inspections of their activities so as to guarantee and safeguard banking activities. In this regard, financial and credit institutions must regularly submit reports for analysis.

1.4 The role of other institutions in the payment system

The payment system in Mozambique, according to the aforementioned Law, falls solely under the banking system, which is composed of the Central Bank and financial and credit institutions. Due to the fact that the banking system is still in an early stage of development, associations with other institutions do not, as yet, exist.

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

2.1 Cash payments

Household and other economic agents' transactions in Mozambique are mainly made in cash. Acceptance of cheques and other payment instruments is still marginal. Some modern credit institutions have struggled to introduce new modern instruments for payments, such as debit cards through electronic networks. It is important to note that these new products are not the objective of Interbank Settlement Service available at the Central Bank.

It is expected that soon the Settlement System in Mozambique will be modernised, through the innovations already taking place. This is the reason for the introduction of a Risk Management Centre and Database of Illegal Cheque Issuers in the Central Bank, as well as the Project for the Electronic Settlement System.

Given the high rates of inflation that characterised the last five years, the portfolio of currency in circulation has changed constantly. Before 1992 the banknotes in circulation were of six denominations: Mozambique Meticalis, MZM 10,000; 5,000; 1,000; 500; 100; 50 and prior to 1993 the coins were of seven denominations: MZM 50; 20; 10; 5; 2.50; 1; 0.50.

In 1994 for the reasons stated above, a new portfolio of coins was introduced composed of three denominations: MZM 1,000; 500; 100. In 1995 a further portfolio of new banknotes was issued comprising two denominations MZM 100,000 and 50,000.

When new denominations of banknotes are issued, the old ones of low denominations are withdrawn by the monetary authority. It is therefore important to note that the small denominations, both banknotes and coins, are rarely utilised in transactions. The strategy of the Central Bank to save costs related to the issuing process is to constantly withdraw the low denomination banknotes and replace them with coins whose life expectancy is high.

The banknotes in circulation amount to 95% of the total cash, while total cash accounts for over 65% of the broad money in circulation. Broad money in Mozambique is basically composed of banknotes and coins in circulation and bank deposits, both demand and call deposits. Hence the broad money is equivalent to M2, though recent developments point to the emergence of new financial products with the establishment of open market and stock exchange.

2.2 Non-cash payments

2.2.1 Credit transfers

The order to transfer funds is given by the customer after completing the application form or providing written instructions. Customers also provide standing orders to make regular transfers.

International credit transfers are made via the S.W.I.F.T. network using correspondents while local transfers, within the city of Maputo, are via an interbank exchange of payment orders through the Clearing House.

For the most part, credit transfers are used for payments made by corporate customers and individuals. In all cases handling and telex charges are recovered.

The international transfers system currently used has proved both efficient and effective, in that funds are received by the beneficiary within two days. The same time frame applies to local credit transfers in accordance with the Clearing House Regulations.

2.2.2 Cheques

Cheques are widely used as a payment medium in Mozambique. Bank customers continue to show a preference for cheques and at the present time the volume of cheques issued far exceeds payments effected by credit transfer.

Cheques are supplied to all clients. As a payment instrument, cheques are used by customers for the settlement of bills, withdrawals of cash, transfers between accounts, etc.

Cheques could be used for successive payments by means of endorsement, but due to attempts at fraud, restrictions are in place. Hence banks will certify a cheque and guarantee the payment providing the customer has sufficient funds in the account.

At the present time, banks do not supply cheque guarantee cards. With the rapid developments and transformation taking place in banking activity, it is expected that they will be introduced at some future stage which will further improve the acceptability of cheques.

2.2.3 Direct debits

A direct debit system has not yet been introduced in Mozambique.

2.2.4 Payment cards

Some modernised banks are introducing a payment cards system and also ATM machines for use throughout the country, as the communications and telecommunications infrastructure improves.

2.2.5 Other payment instruments

Travellers cheques are another form of payment instrument, mainly used by visitors to the country. They bring with them travellers' cheques because no ATM facilities exist in Mozambique for international credit cards. These cheques are used for settlement of hotel bills in foreign currency and conversion into local currency for other personal expenses.

3. PRESENT INTERBANK EXCHANGE AND SETTLEMENT CIRCUITS

3.1 General overview

The Clearing House, based within the Central Bank, is used for the settlement of all interbank transfers, e.g. cheques drawn on banks, credit transfers and Treasury bills. The function of the Clearing House is to facilitate the settlement of payments between participating credit institutions, all of whom maintain accounts in the various currencies at the Central Bank. The rules of the Clearing House insist that exchange and clearing are completed two times a day as follows:

- for local currency, twice a day, in the afternoon;
- a technical arrangement for “settlement” of foreign currency in order to shorten the clearing periods.

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

4.1 Exchange and settlement systems for international transactions

The flow of foreign exchange is regulated by specific legislation - the Exchange Law 3/96 of 4th January. The purpose and scope of application as stated in its Chapters I and II, can be summarised as follows: “This Law applies to any act, arrangement, transaction or operations of any nature, carried out by residents or non-residents, which result or may result in payments to or receipts from abroad, and, ... this Law governs exchange operations carried out by residents in respect of goods and monetary assets which are located within the national territory, or rights in respect of such goods and assets; goods and monetary assets or rights which are acquired, generated or located abroad and with regard to which there is a legal obligation to repatriate.” The same applies for non-residents as regard to these operations.

The Law referred to establishes an amount limit under which no regulation is required, e.g. economic agents are free to trade up to those amounts. The Law defines the appropriate institutions to handle these exchange activities, which comprise basically the commercial banks, financial and credit institutions in general, exchange houses and others, legally authorised by the Central Bank.

The entry and export of foreign currency is free, though it must be reported for registration purposes if greater than the limits fixed by the Central Bank.

The arrangements and facilities used for international payments are limited to telex and the S.W.I.F.T. system. The Central Bank does not have access to the system in its own right. Each credit and financial institution is free to affiliate and access the system. The Central Bank only acts in order to help those institutions with inadequate financial capacity to afford the required costs.

The range of currencies traded in the Republic of Mozambique is quite wide and it comprises 34 currencies: USA - dollar, South Africa - rand, Germany - Mark, Austria - schilling, Belgian - franc, Canada - dollar, Denmark - krone, Spanish - peseta, Finland - Mark, France - franc, Holland - guilder, England - pounds sterling, Italy - lira, Japan - yen, Malawi - Kwacha, Norway - krone, Portugal - escudo, Sweden - krona, Switzerland - franc, Zambia - kwacha, Zimbabwe - dollar, China - renminbi, Tanzania - shilling, Russia - rouble, European Union - ECU, Bulgaria - leva, India - rupee, Iraq - dinar, Kuwait - dinar, Australia - dollar, Independent Common States - rouble, African Development Bank - B.U.A, African Development Fund - F.U.A, Monetary International Fund - SDR.

All the above currencies are freely traded among economic agents either through banks or exchange houses and others legally authorised, as stated in the law referred to above. The payment instruments available for international clearing and settlement include:

- cheques;
- credit transfers;
- payment orders;
- travellers cheques.

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

5.1 General responsibilities

According to the Organic Law the Central Bank is responsible for providing the Interbank Settlement Service for cheques and other instruments under a specific regulation. According to this regulation the Central Bank must execute the payment of cheques and other instruments even if the banks are temporarily overdrawn, utilising its overdraft lending facilities, within the objectives of the credit policy under the umbrella of the broad monetary policy.

The regulation governing the Interbank Settlement Service calls for a Supporting Group for Payments Matters whose objective is to constantly examine and implement new strategies for the upgrading of the overall payment system of the country.

5.2 Provision of settlement and credit facilities

The provision and the ownership of settlement facilities are the responsibility of the Central Bank, though the related costs are shared by the participant members according to the proportion of the documents exchanged. The system is divided into three levels, comprising the central, regional and local levels. At the regional level there is a Central Bank branch and at the local level the Central Bank is represented by one of the credit institutions legally appointed by the monetary authority.

The facilities for communication include the national transport network as well as the telecommunication facilities for interchange of information.

To enable the clearing to take place, credit institutions keep deposits within the Central Bank, and the Central Bank reserves the discretionary power to allow overnight loans in case of the failure of a bank to maintain adequate reserves to meet its obligations. In so doing the Central Bank fixes a rediscount rate as well as a penalty rate according to period that a credit institution may run an overdraft.

5.3 Monetary policy and payment systems

The monetary policy in Mozambique is basically restrictive, and its objectives are to guarantee the stability of the domestic currency and the reduction of the inflation rate to a sustainable level. In order to achieve these objectives, the Central Bank utilises a number of instruments, namely:

- net domestic assets;
- reserves requirements;
- manipulation of rediscount rate.

The above-mentioned instruments will play a role in the payment system, either by affecting the liquidity of the system or by credit extension limits and the related risks resulting from the lack of funds.

5.4 Risk reduction measures

The main payment risks are related to fraud and to technical problems, since the risk due to a lack of funds does not occur. In the case of a bank running an overdraft, the Central Bank acts as a lender of the last resort, thereby charging a rediscount rate and a penalty premium, depending on the

extent of overdraft. On the other hand, the already approved Regulation for Settlement Services, introduces a number of innovations intended to ameliorate and reduce the risks arising from technical issues, e.g. the sub regulation governing the shared transportation mechanism.

6. RECENT DEVELOPMENTS IN THE PAYMENT SYSTEM

Apart from the developments given in the general overview of the payment system above, no further new developments are taking place. The payment systems project is subject to review by a consultancy approximately twice a year.

7. INFRASTRUCTURE

Transport, telecommunications and electricity are the responsibility of several entities and ministries and are not directly related to Central Bank activities. Technical information is still being gathered.

7.1 Telecommunications infrastructure

Network overview

Telecommunications of Mozambique (TDM) served a total of 61,175 telephone subscribers at the end of 1996. Total exchange capacity was 103,753. More than 91% of the subscribers are connected to digital exchanges and the remainder to analogue exchanges, which are gradually being replaced.

More than 100 towns and large villages in the country now have access to the telecommunications network.

Over 96% of the customers are connected to the national automatic service.

During the last five years, an additional 19,000 telephone connections have been installed. As a result, the unsatisfied demand for telephone services has been reduced substantially.

There are three telex exchanges in service with a total capacity of 2,246 lines. The international telex service uses 83 trunk lines and the national telex service has been allocated 107 trunk lines. The capacity of the main exchange at Maputo is 1,386 lines whilst the Beira exchange has a capacity of 686 lines. There is one electro-mechanical telex exchange in Nampula with a capacity of 170 lines. Existing capacity is considered to be adequate for current demand.

Urban network

At the end of 1995, 31 digital exchanges, 12 Strowger type analogue and 57 manual exchanges were in operation. The cities of Maputo and Beira have a multi-exchange network.

The total exchange capacity of network has increased by 84% since the process of digitalisation was first started in 1989. The switching equipment will be fully digital by the end of current investment programme in 1998.

Local cable network rehabilitation has been nearly completed in the main centres of Maputo and Beira. New cable networks were constructed in 7 other major towns. These towns

account for more than 90% of the total local network. The rehabilitation of the local network has resulted in marked improvement in the fault rate per telephone and quality of service in these towns.

Rural network

A rural network rehabilitation programme with a number of links is presently being installed. A network of high frequency stations is in operation, linking rural localities with the provincial centres.

Developments of telecommunication facilities

Technological change has transformed the industry over the last decade. The exchange of information in digital form is breaking down barriers that have traditionally existed between the telecommunications industry and other related industries.

The development of the public telecommunications network in Mozambique is driven by complex relationships between external environmental forces and developing technologies.

Two major contributions to the success of Telecommunications of Mozambique are its opening of relationships with the international community and its concentration on the use of technology to enhance its core business.

The challenge now is for TDM to attract the correct strategic alliances with which it can successfully accept the technological challenges of the future. Simultaneously this also creates opportunities for international telecommunications role players to align with TDM in accepting the challenges of Southern Africa, the biggest of which is to continuously identify the most appropriate and profitable future technologies for Mozambique to leapfrog into.

The existing telecommunications infrastructure plays an important part in the movement of funds both internally and externally, with all the banks linked by telex and S.W.I.F.T. to their respective correspondent banks.

Table 1
Basic statistical data

	1992	1993	1994	1995	1996
Population (millions)	14.79	15.58	16.61	17.42	18.03
GDP (MZM billions)	1.30	1.50	1.50	1.60	1.50
GDP per capita (MZM)	86.90	94.20	88.00	103.30	122.40
Exchange rate (domestic vis-a-vis USD)					
<i>year end</i>	2,742.14	5,238.38	6,552.50	10,776.00	11,295.00
<i>average</i>	2,432.38	3,724.40	5,918.09	8,819.75	11,139.67

Table 2
Settlement media used by non-banks
 (at year-end, in MZM millions)

	1992	1993	1994	1995	1996
Notes and coins	257,508	469,444	762,434	1,130,155	1,405,480
Transferable deposits:	766,349	1,326,364	2,132,578	3,362,810	3,856,280
Narrow money supply (M1)	1,023,855	1,795,808	2,895,012	4,492,965	5,261,740
Broad money supply (M2)	1,129,244	2,180,654	3,180,824	4,919,934	5,982,643

Table 3

Settlement media used by banks
(in MZM millions)

	1992	1993	1994	1995	1996
Reserve balances held at central bank	871.738	1,549.210	2,418.390	3,789.779	4,577.183
Transferable deposits at other institutions	766.349	1,326.364	2,132.578	3,362.810	3,856.260
Required reserves	106.389	222.846	285.812	426.969	720.903
Institutions' borrowing from central bank	904.794	1,134.201	1,634.704	2,216.967	2,793.813

Table 4

Banknotes and coins
(value in MZM millions)

	1992	1993	1994	1995	1996
Banknotes and coin held by credit institutions	94.836	114.390	168.007	170.323	269.620
Total banknotes and coin outside credit institutions	257.506	469.444	762.434	1,130.155	1,405.460
Banknotes held in overseas territories	-	-	-	-	-

Table 5
Institutional framework
 (at end-1996)

Categories	Number of institutions	Number of branches
Central bank	1	1
Commercial banks	5	239
Savings banks	-	-
Public credit institutions	-	-
Post Office	-	-
<i>Memorandum item:</i>		
Branches of foreign banks	1	1

Table 6

Cash dispensers, ATMs and EFTPOS terminals

	1992	1993	1994	1995	1996
<i>Cash dispensers and ATMs:</i>					
Number of networks	-	-	1	1	1
Number of machines	-	-	4	4	4

Table 7

**Payment instructions handled by selected payment systems:
volume of transactions**
(thousands)

	1992	1993	1994	1995	1996
Cheques	704.190	765.973	580.625	765.973	951.321
ATMs and POS	37.458	40.118	32.138	40.118	48.098

Table 8
Indicators of use of various cashless payment instruments
value of transactions
(in MZM thousands)

Instruments	1992	1993	1994	1995	1996
Cheques issued	491.179	606.215	580.625	286.698	n.a.