

DEPUTY GOVERNOR'S SPEECH (at the Launch of the Uganda National Inter-bank Settlement (UNIS) System on 21st February 2005)

Managing Director, Perago Financial Systems Enablers Ltd of South Africa;
The Representative of the GTZ Director, Financial Systems Development Programme in Uganda;
Executive Directors and Directors;
Distinguished Guests,
Ladies and Gentlemen

This morning, as all of us have just witnessed, Uganda's RTGS System, the **Uganda National Inter-bank Settlement (UNIS) System**, has been launched. This is indeed a significant watershed in the development and modernization of the national payment system.

A payment system, as you may be aware, is the infrastructure that facilitates the transfer of monetary value between transacting parties. You can envisage it as a highway for the circulation of money in the economy, or a pipe network through which monetary value is transmitted from a payer to a payee.

In a developed and modern payment system, monetary transfer of value is fast, safe, reliable, cost-effective and convenient. The state of a payment system (that is the efficiency and safety with which money is transferred in an economy) significantly impacts on economic performance, both at national and international levels.

You will recall that in February 1998, against a background of global financial crises especially in Asia, Bank of Uganda embarked on a systematic and structured process of developing the country's payment system. Structures were put in place, including the National Payment System Secretariat (NPSS) and the Payment System Policy Committee, and were charged with the task of developing and modernizing the national payment system.

As a first step, the NPSS carried out a comprehensive stocktaking survey of the national payment system, and prepared a stocktaking report that detailed the strengths and challenges of the payment system. The stocktaking report was subsequently used to formulate a strategic plan, which spelt out the low-value,

high-value and other related projects which should be undertaken to improve the safety and efficiency of monetary value transfer in the economy.

Since the establishment of NPSS in 1998 and the formulation of the payment system development strategic plan, Bank of Uganda has implemented or completed a number of payment system projects. These include:

- The **National Cheque Standard** in 1999
- The **Electronic Cheque Clearing System** in May 2002
- The **Electronic Fund Transfer System** in August 2003
- **Payment System Oversight** in October 2003
- **Review of the Payment System Legal Framework** in October 2003
- **Development of a Payment Card Regulatory Framework** in January 2004
- **Evaluation and Clearance of a Private Switch Operator** in October 2004; the operator, Bankom was cleared to set up and operate a payment card switching business in the country.
- The implementation of the Real Time Gross Transfer (RTGS) System, which is called the **Uganda National Inter-bank Settlement (UNIS) System** in February 2005

The UNIS system is expected to fundamentally transform the country's payment system landscape. Indeed, RTGS systems are universally recognized as important national economic infrastructure in the promotion and sustenance of macro-economic stability and development. In this regard, the expected benefits of the UNIS system include the following:

- (i) To significantly reduce the possible precipitation of systemic risk, which could otherwise arise in multilateral netting systems should a participant with a large net debit obligation fail to settle. As you all know, resolution of systemic crises is extremely costly to the economy.
- (ii) To promote economic efficiency through the expeditious transfer of funds to payees (e.g. companies), which can quickly re-invest the funds in other economic activities.
- (iii) To enhance Uganda's competitiveness in the attraction of international investment capital as investors now recognize a functional RTGS system as a critical component in a country's economic and payment infrastructure

- (iv) To strengthen the management of monetary policy through timely availability of data on the stock of money flows in the financial system and the facilitation of quick and efficient adjustment of liquidity levels in the economy.
- (v) To promote regional trade and the development of regional financial markets by providing an infrastructure that can be leveraged to facilitate efficient, safe, secure and convenient cross border payments within East Africa and beyond
- (vi) To improve the security of person and property in large value transactions; as you know, moving large amounts of cash has led to loss of lives.
- (vii) To save the Bank part of the currency printing, distribution and security costs currently incurred, as large value payments are made electronically; in developed countries, RTGS systems typically constitute over 90% of the transaction value of all payments that are made.

The acquisition and implementation of an RTGS system is both a complex and elaborate project, requiring skills and competencies in finance, accounting, economics, information technology, project management, banking and currency operations, and human resource management. I would therefore like to thank all the BOU staff who have been involved in this project for your dedication and commitment to work. Bank of Uganda is also grateful to our development partners, GTZ and KFW for both the technical and financial assistance they extended to the project.

I would also like to thank Perago for having completed the project on time. I understand that you have a proud track record of completing projects on time. I am happy to note that Bank of Uganda is now an associate of your proud record, and a beneficiary of the skills and professionalism of your staff.

Ladies and Gentlemen, as we celebrate the implementation of the UNIS system, we need to recognize a number of challenges that lie ahead. We must ensure that the UNIS system is adequately utilized, well maintained and always in conformity with the strategic and global trends in risk management and efficiency. We should leverage the safety and efficiency features of the UNIS System to re-structure and streamline the Government and tax payment processes

One of the indicators of an underdeveloped payment system is the dominant use of cash as a payment instrument, relative to the non-cash instruments. With the implementation of UNIS and EFT systems, and the forthcoming implementation of a payment switch in the first half of this year, we need to embark on an extensive public sensitization and awareness campaign to promote and encourage the use of non-cash instruments. This will not only put Uganda in line with global trends and practices, but we shall be promoting a banking culture among our people.

Finally, let me conclude by congratulating both the Bank of Uganda and Perago project teams for having successfully implemented the UNIS System project both on time and within budget.

Thank you.