

R E P O R T

**on the works done on implementation of the ‘State Program on
Development of the National Payment System for 2005 – 2007’
approved by Decree of President of the Republic of Azerbaijan
dated 9 December 2004**

The National Bank implemented a number of critical actions with related institutions with respect to the ‘State Program on Development of the National Payment System for 2005 – 2007’ and efforts keep going.

The following work has been done over recent two years on the most critical actions to achieve the goals tasked by the State Program:

Efforts on **further development of card payments in the country and launch of a new infrastructure – the MilliKart Processing Center to complete the National Payment System (NPM) architecture** have finalized.

A hi-tech based processing center has been created for management and use by 18 banks operating in the Republic (this action specified in the State Program completed ahead of time).

The President of the Republic of Azerbaijan signed Decree on 22 November 2005 on **Additional Measures on Improvement of Payment Systems in the Republic of Azerbaijan** to further develop a plastic card market in the Republic of Azerbaijan. As part of implementation of the decree, the National Bank and the Ministry of Taxes elaborated the ‘Regulations on installation and use of POS-terminals in the Republic of Azerbaijan’, the ‘Criteria to identify retail trade, catering and service entities where POS-terminals are advisable to be installed’, and the ‘Schedule of stage by stage introduction of POS-terminals on territories’, which were approved by resolutions of the Cabinet of Ministers.

Commercial banks have installed 1500 POS-terminals in retail trade, catering and other service entities over the past period.

According to the Decree, the National Bank launched a task force with the management of the Ministry of Finance on the basis of the related decree of the Cabinet of Ministers with an eye to implement the assignment on payment of salaries with payment cards in all organizations financed from the state budget, in public enterprises and joint-stock companies whose majority holding belongs to the state and the budget for 2007 includes funding required for these expenses.

One of the measures implied in the State Program is **further development and adjustment to international standards of internal information and settlement systems of commercial banks, in particular, systemically important banks and those with wide branch network**, main NPS participants. A methodological base was developed which set normative requirements and standards with respect to banks' internal information and settlement systems. Over the reported period internal information and accounting systems in 17 commercial banks that account for 85% of banks assets were rebuilt with the support and assistance of the National Bank, while in remaining 26 banks the process will have been finalized by the end of 2017.

To further improve effective control over inflow and use of budget funds and management of public funds the Bank works with public authorities on an ongoing basis to **complete technological integration of tax, customs and other public institutions to the payment systems infrastructure**, implied in the State Program.

New functional capacities were included to the NPS infrastructure to automate treasury operations, collect budget revenues directly to a unified account in a centralized order and automatically record in MIS of the treasury, the normative methodological base was updated and preparatory works in commercial banks internal information systems under the requirements of the project completed.

Currently, comprehensive tests are underway with the General State Treasury and assigned banks and related efforts will be fully finalized depending on the levels of preparation of local treasury bodies in the next phases.

One of the most critical actions specified in the State Program is **to ensure collection of utility fees via e-payment systems created by the National Bank and accordingly maintain technological integration of payment systems of utilities to the payment systems infrastructure**.

The National Bank of the Republic of Azerbaijan (NPA) developed a concept on launch of the **centralized information system** for more efficient and effective use

of the NPS capacity by utilities, boost collection and transparency of utility payments, and attract related financial turnover to the banking system.

According to the concept in question, a centralized database rested upon a unified encoding of subscribers across all utilities should be created, linked to databases of utilities and cover the entire country in the long view. The system to be launched will allow every subscriber to get full information on utility debts from any bank or post office close to him/her and make payments either in cash or with cashless payment tools. At the same time, customers will be able to get detailed information about their utility debts using Internet Banking and make their payments.

To realize the project, the Bank studied international practice, international experts were attracted for consultations as part of the World Bank's Financial Sector Technical Assistance project, and international bid procedures are under way.

The NBA and the Ministry of Communication and Information Technologies of the Republic of Azerbaijan (MCIT) are maintaining relevant works on implementation of the **Azerpost project to expand geographical coverage of payment systems, orient towards regions, with parallel higher access of households and economic agents to financial services.**

The project is currently being successfully implemented in line with the actions plan developed with the MCIT of the Republic of Azerbaijan. New draft charter of accounts has been developed for the Azerpost PE (public enterprise) on the basis of international accounting standards with the technical assistance of the NBA and coordinated with the Ministry of Finance. At the same time, according to the Law of the Republic of Azerbaijan on Public Procurements and related regulations of the World Bank the tender on supply of the central server room in the headquarters of the Azerpost PE and automation of the headquarters has been finalized, winners selected and implied works completed. A project consultancy company has been selected, negotiations are being completed on the contract to be signed.

Draft amendments and additions to the Postal Law of the Republic of Azerbaijan have been developed as part of the implementation of the project to allow the Azerpost PE to supply both traditional postal and financial services. The WB experts studied the draft law and issued a positive opinion.

As a result of completion of the works on implementation of the project, an information system covering postal and financial services in the Azerpost PE will be created, relevant structural reforms conducted for supply of new financial services, and a risks and liquidity management system will be created. In upcoming phases over 1200 regional branches and departments of the Azerpost PE will be integrated to the head office through the telecommunication network to be created in phases and supply financial services depending on the level of preparation.

Realization of this measure will further expand access to financial services in rural areas with more concentration of poor population, contribute to poverty reduction and overall growth of the country.

The related normative legal base was improved to **make risk management in payment systems more effective, and establish security standards**, security standards were set for information and settlement systems of payment system participants and payment systems are overseen in line with international standards.