

The State Program for development of the National Payments Systems in Azerbaijan on 2005-2007

I. Introduction

In the last years National Bank of Azerbaijan (hereinafter referred to as the NBA) in the framework of the National Payment System establishing and development strategy launched a number of electronic payment systems based on the new technologies and software in compliance with international standards, using the assistance provided by the international financial institutions. As a result of carried out reforms - was created important components of the National Payment Systems architecture. So, in the beginning of 2001 was created and launched – AZIPS (Azerbaijan Inter-bank Payment System). As a result these systems using state-of-the-art technologies allowing for the conduct of payments in a speedy and secure manner served their purpose of eliminating financial losses typically occurring when payments were made between companies, ensuring that payments would only take few seconds instead of days and weeks as it used to be the case, dramatically increasing the speed of cash turnover and promoting more effective liquidity management at banks.

Since the end of 2002 was created and launched the second important element of the National Payment System – LVPCSS (Low Value Payment Clearing Settlement System). Thus, was established favorable atmosphere for low value, but always-recurring electronically based low payments (salary, pension, telephone, gas, water, electricity and etc.), at the same time the main participants of low value payments – utility companies and organizations, large value operations (local and central taxes, customs, pension payments) to integrate to the National Payment System infrastructure.

During the creation of abovementioned systems based on the new technologies and software, and systems based payment systems were made in compliance with the international standards. All these, of course, had a positive impact on the monetary policy by shifting it farther towards market-based principles of conduct, enabled favorable environment for development of financial markets in the country, and promoted economic growth and financial stability within the country.

Nonetheless, there is still an urgent need for future improvement of the payment system strategy in order to attract cash in bank system, to establish solid payment area in the republic by increasing of areas where electronic payment systems could be used, to expand of using financial services in the rural areas, to allow effective usage of the payment technologies and provide fair access to low cost payment services for all category of population.

According to abovementioned during the State Program preparation took into account requirements of:

- “2003 – 2005 State Program for poverty reduction and economic development in Azerbaijan Republic” approved by 20.02.2003 President Decree;
- “Actions on development of the state pension system in Azerbaijan Republic” approved by 04.08.2003 President Decree;
- “Actions on acceleration of the social-economic development” approved by 24.11.2003 President Decree;
- “2004 – 2008 State Program for social-economic development of the regions in Azerbaijan Republic” approved by 11.02.2004 President Decree.

Implementation of the State Program make positive effects on measures and actions mentioned in these State Programs and President Decrees.

II. State Program Objectives

The main purposes of the program are to provide more active involvement of each agricultural subject, trade-service establishments, large number of population, in fact each utility to the electronic payment system, establish for them unified electronic payment system surrounding all parts of country not depending of the area possession, as well as to increase the access of physical and legal entities to financial services and otherwise access of bank system and financial markets to farming subjects and utilities, to involve the cash money in turnover with small trade institution to cashless circulation, create favorable condition for the allocation of the accumulated amount of the development of state economy. 2

Directions of the State Program implementation:

- As a main part of modern payment technologies - creation of National Card Processing Center.

To achieve this NBA will establish CPC, which meet international standards, in order to develop card payments and provide low cost and high quality bank services in all regions. After 3-5 years CPC ownership and management will transfer to banking community on the equitable principle basis.

The establishment of National Card Processing Center considered for the utilization of the large number of population and oriented to the small and medium payment markets would create a great opportunities for the use of micro processing payment cards (chip) as well as it would create a favorable opportunities for the optimization of communication, transport and communal services fees gazering process, transportation of cash turnover into cashless, improvement of salary, pension and bonus disbursement process. Also it would create a good opportunity for the useful utilization of business services by population, as access to electronic trade markets.

As well as a suitable opportunity will be created for the transparency of financial flows under the circulation of retail trade and service establishments and through the payment systems their more active involvement into the bank systems. On this purpose, the definite measures will be taken to widely use POS-terminals in retail trade and service establishments.

The establishment of National Card Processing Centres will stimulate the development of credit relations simplified by the smart-card technology that is the chipset and simplest part of small crediting, as well as it will largely reduce the amount of bank services provided in this direction and help the formulation of free and transparent environment for competition in market.

- The improvement of internal information and accounting systems of commercial banks and their adaptation to the international standards.

The National Bank of Azerbaijan in conformity with the current legislation will define and assist to realize appropriate requirements and standards to improve and provide the adaptation to the international standards, the internal information and accounting systems of banks that are the main participants of payment systems within the Corporative Management Standards and especially banks having wide branch network.

By the help of it, more effective, safely and rapid implementation of payments in bank systems that is the most important part of payment system infrastructure, the acceleration of money circulation, reduction of financial resources “on the way” will be provided, the opportunity will be created for the extension of client bases of banks involvements of additional financial allocations and crediting of different sectors of economy through the provision of qualified services to population and legal entities and all of these will positively affect for the increase of believe and confidence to the bank system and improvement of financial market.

- The completion of technological integration to the payment systems infrastructure of the public utilities organizations providing the grate number of small payments (energy, natural gas, water, telephone payments etc.), as well as State Entities providing tax, custom, pension and other social defence payments.

On this purpose, the reconstruction of internal information systems of these entities and organizations in conformity with the international standards and the formation of interface relationship for the exchange of information with the other banks are taking into consideration.

The realization of this activity in the public utilities organizations will create an opportunity for more effective use of possibilities of established electronic payment systems, increase of gathering levels of payments on communal services, involvement of financial circulation to the bank system in this sphere and increase of transparency.

The completion of technological integration to the payment systems infrastructure of tax, customs organs and state organizations providing pension and other social payments will create an opportunity for the organization of effective control on the entrance and utilization of budget resources and more effective management of state resources and create a need for the simpler and 3

more comfortable distribution of salaries, pension and bonus to the population through the payment technology.

- **The extension of geographical environment of payment systems and directing them to the regions, increasing the access of farming subjects and households to the financial services.**

On this purpose, The National Bank of Azerbaijan will take definite measures on the adjustment of technical and safety standards for the establishment of post savings and post accounting systems and in compliance with this the definition of appropriate legal, organizational and regulatory procedures, as well as the integration of post network to the electron payment system in the post network platform of “Azerpost” State Organization having wide branch network and experience in the distribution of pension, bonus, as well as gathering the communal payments.

The realization of this activity will result the extension of payment systems and financial services infrastructure in the districts and villages, the realization of social payments through the electronic devices in the regions, elimination of obstacles existing in the gathering of payments related with the communal services. As well as, it will create a good opportunity for the access of farms to the financial services and vice versa the access of financial sector and financial market to the farming subjects and households.

It will positively affect to the poverty alleviation, establishment of new working opportunities, development of non-oil sector, especially agricultural sector and improvement of social and financial services and infrastructures in the regions.

- **The increase of risk management effectiveness in payment systems, definition and regulation of safety standards.**

In this direction will be taken measures on improving of legislation and normative-legal base, also NBA will define security and efficiency standards of payment system participants and settlement systems, and, will be created supervision system based on payment systems function, which meet international standards. As a result, this will provide efficient risk management, and, effective, uninterrupted and productive function of payment system.

III. Main principles in the State Program implementation

Implementation of actions mentioned in the State Program should be guided by the following principles:

- **Individuals should be able to choose the branch of the bank or post office, where they wish to receive their salaries, pensions, scholarships, and convenient means and location for paying their utility and other bills;**
- **Utility companies should be free in choosing the bank for utility payments collection;**
- **All POS-terminals and ATMs should be accessible by card holders of any card issuing organization in the country;**
- **All processing centers established by commercial banks should be integrated to the payment systems established and operated by the NBA;**
- **NBA should define technical and security standards for all participants of electronic payment infrastructure. Also NBA should oversight realization of these standards and risk management issues in the system;**
- **Minimize the cost to users as required to support the government’s poverty reduction and development objectives, ensure fair and equitable access and encourage competition for low cost, safe and efficient payment solutions.**

IV. Expected Outcomes

Implementation of the plans stated in the State Program will help to get the following results:

1. For overall economy:

- Completion of transparent, secure, efficient, up-to-date technology and software, international standards based payment systems infrastructure:
- development of financial services and financial markets, increase of merchant and service providers access to that services, also increase of financial systems access to their merchants;
- opening of new workplaces, improve of living conditions, poverty reduction, and establishment of favorable condition for attraction of local and foreign investments and development of overall economy;
 - Conversion from a cash to a non-cash payment system will have positive effects in reversing dollarization, also on improving of financial discipline, in increasing of transparency, in decreasing of tax evasion, in decreasing of shadow economy, on reduction of the expenses on emission, collect and storage of cash money, on creating of favorable opportunities for the state bodies;
 - For function of financial sector more effectively will be created a healthy competition environment, and as a result of it, the financial sector will operate more effectively, and as a consequence, service fees for clients will be reduced.

2. For general public:

- Disbursement of salaries and pensions in a timely and convenient manner, payment of bills at a location convenient to the individual bill payer and through a bank, post office or using other facilities (internet or mobile banking and etc.), also e-business, e-trade services and possibility to get to the e-markets.

3. For utility companies:

- Execution of utility payments through the commercial banks will improve transparency and reduce the expenses and risks related with the collection, receipt, storage and transfer of cash;
- An improved collection process will raise revenues to improve the service to customers. An improved bill collection process and record is a pre-requisite for privatization.

4. For commercial banks:

- It will result in the expansion of the customer base by providing high quality services, attracting additional financial resources, lending of different areas of economy and support expansion of branch networks.

5. For “AzerPost” SC:

- Will be provided creation of an atmosphere for improving the existing network of “AzerPost” SC, provision of implementation of bank-financial services and expansion of post section service.

V. Funding Sources

Implementation of the State Program and establishment of a comprehensive payment system in the Republic of Azerbaijan require a comprehensive solution for funding sources.

The primary funding sources for the principal projects under the program include loans from the international financial institutions, state budget funds, NBA’s resources, as well as investments to be made by member banks and organizations that will participate in the State Program.