DECREE of PRESIDENT of the REPUBLIC of AZERBAIJAN

on approval of the

State Program

on Expansion of Digital Payments in the Republic of Azerbaijan for 2018-2020

Digital transformation and technological innovations allow fast, easy and effective access to a number of financial services.

The strategic goal of the State Program on Expansion of Digital Payments in the Republic of Azerbaijan for 2018-2020 (hereinafter – the State Program) is to highly expand cashless payments environment among citizens, economic agents and public authorities, minimize the size of cashless circulation eventually strengthening banking sector's financial resource base. Accordingly, the key strategic priorities include amplification of the institutional and legal base of digital payment services in the country, expansion of the range, quality and coverage of those services by increasing infrastructure capacity and massification of their use.

Wider introduction and use of digital payments will lessen cost of cash and operational expenses of banks and enterprises, which in its turn, will allow broader access of the tax base, as well as the population and enterprises to financial services, strengthen banking sector's lending and investment capacity, eventually pushing economic growth meanwhile making economic turnover more transparent.

The State Program has been developed in order to implement the actions provided for in the 'Strategic Roadmap on Development of Telecommunication and Information Technologies in the Republic of Azerbaijan' approved by Decree# 1138 of the President of the Republic of Azerbaijan dated 6 December 2016 and attain the established implementation indicators.

Being guided by Item 32, Article 109 of the Constitution of the Republic of Azerbaijan, in order to develop and expand electronic payment services in the Republic of Azerbaijan I **decide** to**:**

1. approve the State Program on Expansion of Digital Payments in the Republic of Azerbaijan for 2018-2020 (attached).

2. the Central Bank of the Republic of Azerbaijan:

2.1. coordinate implementation of the actions provided for in the State Program approved by Section 1 of the present Decree;

2.2. advise the President of the Republic of Azerbaijan on the progress of the actions provided for in the State Program on an annual basis.

3. the Center for Economic Reforms Analysis and Communication to monitor and assess the implementation of measures provided for in the State Program at the request of the Central Bank of the Republic of Azerbaijan.

4. the Cabinet of Ministers of the Republic of Azerbaijan settle the issues arising from this Decree.

Ilham ALIYEV,
President of the Republic of Azerbaijan
Baku city, 26 September 2018, № 508

Approved by Decree
No. 508 of
the President of the Republic of Azerbaijan
dated 26.09.2018

STATE PROGRAM on EXPANSION of DIGITAL PAYMENTS in the REPUBLIC of AZERBAIJAN for 2018-2020

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1. SUMMARY

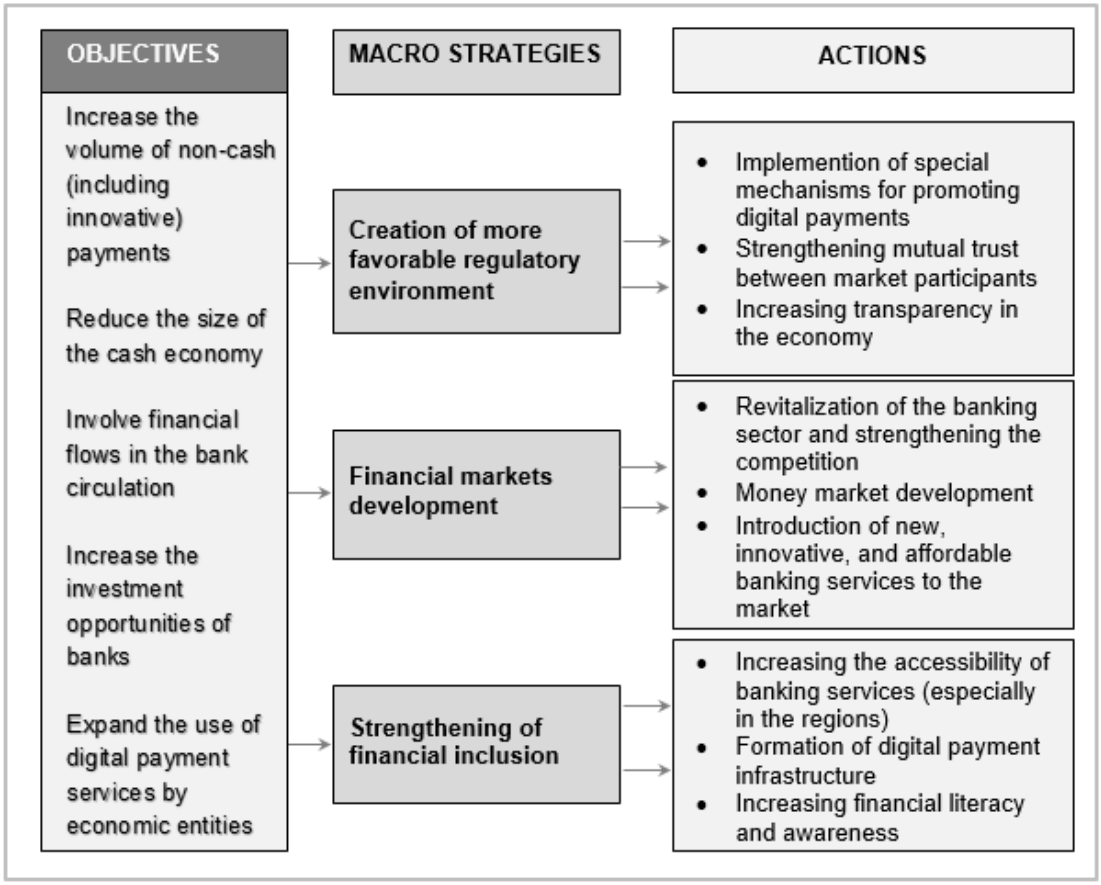
The 'State Program on Expansion of Digital Payments in the Republic of Azerbaijan for 2018-2020' (hereinafter referred to as the "Program") has been developed for the purpose of implementation of the measures envisaged, for expansion of digital payments, in the "Strategic Roadmap on Development of Telecommunication and Information Technologies in the Republic of Azerbaijan" approved by the Decree dated December 6, 2016 of the President of the Republic of Azerbaijan.

The Program is strategically aiming to significantly expand the cashless payments in the economy and thereby to minimize the volume of cash payments, to strengthen the base of financial resources of the banking sector, and to reduce transactional costs associated with cash circulation.

To this end, the Program covers systematic and comprehensive reform efforts aimed at (i) elimination of institutional factors that prevent the development of digital payments, (ii) improvement of financial intermediation, (iii) introduction of innovative payment systems, and (iv) strengthening of financial inclusion.

The program defines 3 macro strategies for speeding up digital payments and specific actions for each of them *(Figure 1)*.

Figure 1. Objectives, macro strategies and actions



1. Creation of more favorable regulatory environment requires use of specific incentive mechanisms and prohibitive regulatory norms. Elimination of institutional barriers that hinder development of digital payments is required for transparency of the economy. To achieve this goal, entrepreneurs' ownership and contractual rights should be completely provided, effective and competitive markets created, and tax system improved, while the tax evasion is being eliminated.

2. For financial markets development it is crucial to increase the activity of the banking sector, strengthen the competition in the sector, create active money market, improve the risk assessment abilities of the banks and take measures for offering affordable and high quality banking services to the entrepreneurs and other people.

3. For strengthening of financial inclusion, it is required to provide accessibility of the banking services in all regions of the country, expand the range of banking products and services, and improve their quality, reduce the costs and increase public awareness on digital payments.

To ensure the macro strategies for expansion of digital payments, the Program has identified 4 strategic pillars and 17 priorities (*Figure 2*).

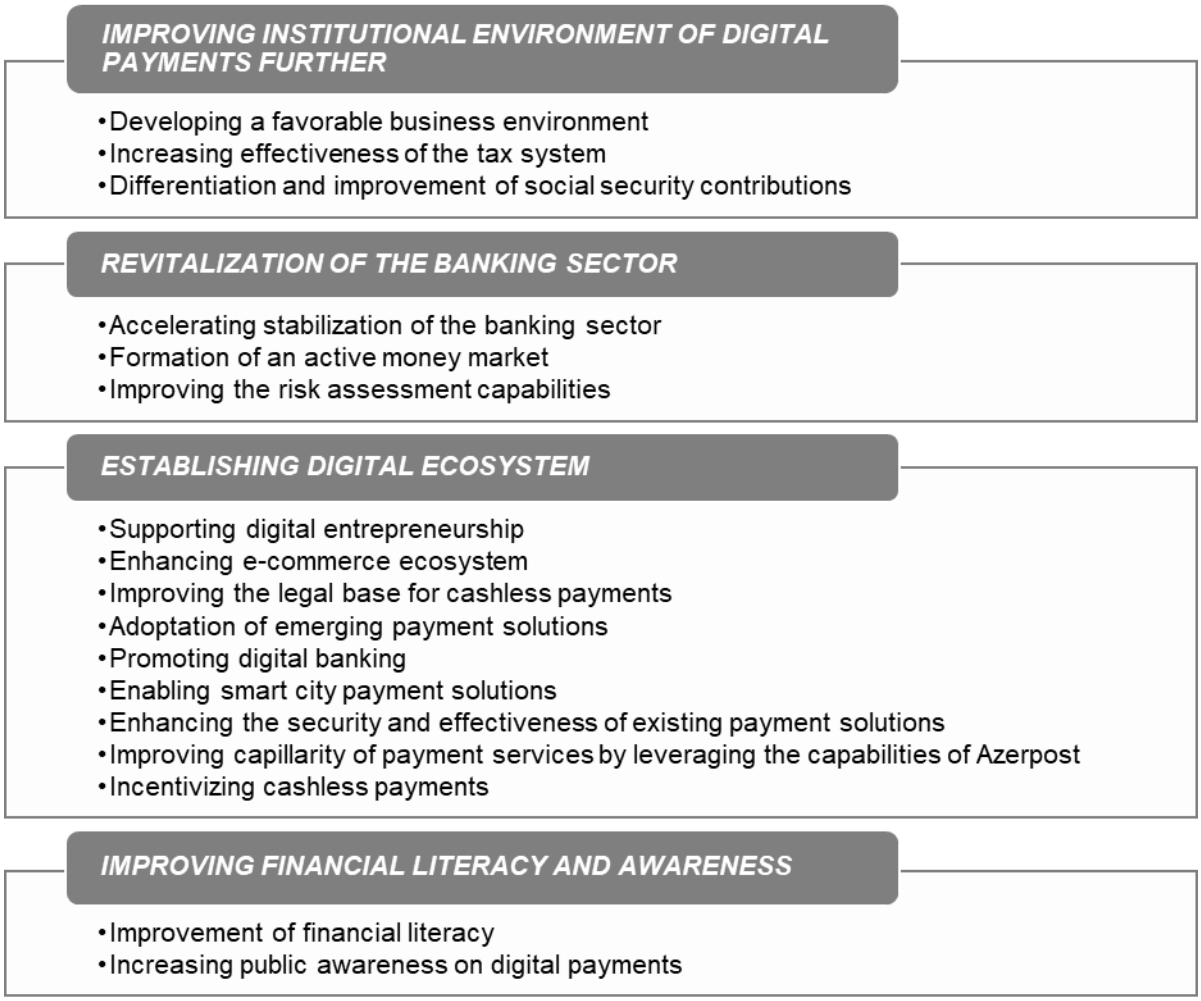


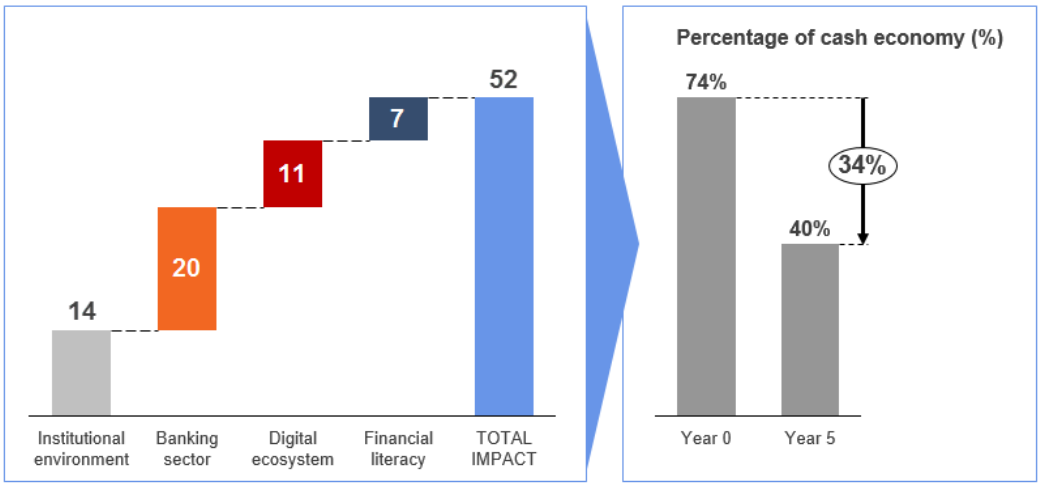
Figure 2. Strategic pillars and priorities

As a result of implementation of the measures envisaged in the Program, transparency of the country's economy will increase, tax evasion will be prevented, banking sector will recover, financial transparency between employer and employee will be ensured, volume of social insurance contributions will increase, range and scope of electronic banking transactions will expand, the number of citizens using electronic banking will increase, and the volume of electronic commerce will grow. All of these will accelerate formation of cashless economy in Azerbaijan and make a substantial contribution to the growth of real GDP, increase in state budget revenues, and overall improvement of the living standards of the population.

As a result of realization of the Program, annual volume of cashless payments is expected to increase by approximately 17 billion AZN, corresponding to 7% improvement in the share of cashless payments annually.

As a consequence, total share of cash payments in economic transactions is expected to decrease from 74% to 40% in 5 years upon implementation (*Diagram 1*).

Diagram 1. Increase in cashless payments (billion AZN)



2. GOAL OF THE PROGRAM

The Program is strategically aiming to significantly expand cashless transactions in the economy and thereby to minimize the volume of cash payments, to strengthen the base of financial resources of the banking sector, and to reduce transactional costs associated with cash circulation.

Expansion of the range and scope of digital payment services, improvement of their quality and promotion of their use through strengthening institutional and legal framework and increasing the infrastructure capabilities are main priorities.

Expansion of the application and use of digital payments will lead to (i) the reduction of the expenditures related to cash handling, operating costs of the banks

and enterprises, (ii) growth of tax base, (iii) strengthening of the banking sector's lending and investment opportunities, and (iv) expansion of access to finance for the population and enterprises and ultimately will boost economic growth.

Through implementation of the Program, the result indices envisaged in the "Strategic Roadmap on Development of Telecommunication and Information Technologies in the Republic of Azerbaijan" for the priority of expansion of digital payments will be achieved.

3. CURRENT STATE ASSESSMENT

A number of serious steps have been taken in recent years in Azerbaijan to maintain macroeconomic stability, to create favorable business environment, and to develop non-oil sector, and progressive reforms have been continued. "Strategic roadmaps for the national economy and main economic sectors" and many State programs have been adopted, and targets for the development of the economy for the short, medium and long perspectives have been identified.

Formation of digital economy is one of the most important targets among these. The application of digital technologies in financial services, especially in payment services, is important to limit the cash turnover in the economy by enabling consumers and enterprises to make digital payments in a seamless and secure way.

In recent years, a number of legislative acts have been adopted in Azerbaijan to expand cashless payments and increase transparency in the economy. The Law on "Cashless Settlements" adopted in 2016 provides for possible forms of digital payments, types of payments to be made only in cashless form, list of the goods that can be purchased in cash form from individuals who are not taxpayers, and maximum limits for cash payment that can be made within a month. At the same time, amendments and changes were made to the Tax Code, and relevant additions have been made in connection with (i) application of financial sanctions against taxpayers who conduct cashless transactions in cash form and (ii) taxation of cash operations.

Taking into account the impact of expansion of digital payments on the economic growth, the Central Bank of the Republic of Azerbaijan (CBA), together with the relevant government agencies and the banking sector, is continuously implementing various projects and taking strategic initiatives to improve electronic payment systems and increase the volume of cashless payments.

As a consequence of the systemic reforms conducted in this area, the CBA has established the National Payment System (NPS) with a structure built on advanced technology and software. (i) The Interbank Payments System (AZIPS) in the real time regime for large-volume and rapid payments, and (ii) Settlement and Clearing System for Small Payments (SCSSP), which are among main components of the above-mentioned system, were brought into use in the beginning of 2000s. NPS,

which differs for its infrastructure capabilities in the region, allows economic entities to make payments securely within seconds.

In order to reduce the risk of external threats to NPS operations, in 2015, in AZIPS, it was realized to conduct operations via Local Telecommunication Network in parallel to SWIFT platform, which is an international telecommunication network, and thereby sovereignty of NPS was fully provided.

The "State Program for Development of the National Payments Systems in Azerbaijan for 2005-2007" approved by the Decree of the President of the Republic of Azerbaijan dated December 9, 2004 and the Order of the President of the Republic of Azerbaijan on “Additional Measures for Improvement of Payment Systems in the Republic of Azerbaijan" dated November 22, 2005 fostered development of payment systems in a significant way. In 2016, the volume of transactions conducted through NPS was 145.4 billion AZN, increasing by 34.8% (37.6 billion AZN) compared to the preceding five years.

To use the NPS components more effectively and collect taxes, duties, lease fees and other budgetary payments, payments for the electronic services provided by the state bodies, and payments for utilities, communications and other public services, the CBA created the “Government Payment Portal” (GPP), and expansion of the infrastructure capabilities of this portal is always in the spotlight.

At present, 11 central executive authorities, 96 judicial bodies, 10 pilot municipalities, 8 state-owned legal entities, 6 state higher educational institutions, 13 insurance companies through Compulsory Insurance Bureau, and 3 mobile operators have been integrated into GPP structure. Payments for more than 430 services, including more than 400 public services (tax, duties, lease fees, administrative fines, etc.) on GPP-integrated institutions are received in cash or via payment cards or bank accounts by using the internet resources of the portal, e-banking services of the banks in “Azerpost” LLC, “Nakhchivanpost” LLC and 31 banks with about 2,500 payment points and more than 1,000 payment terminals.

State information resources such as "E-Government" portal, “ATIS” (Automated Tax Information System), and “IADSS” (Interagency Automated Data Search System) have been integrated into the system, receipt of payments via “ASAN Payment” system, ASAN Payment terminals, and Mobile buses of ASAN Service over GPP infrastructure have been provided. In 2016, 30.3 million payment transactions worth of AZN 2.1 B were processed in the portal, the volume and number of operations increased by 47.3% and 8.4%, respectively, in comparison with the previous year.

To make card payments more effective and safer, the CBA established the Interbank Card Center (ICC) in 2017. Significant growth has been observed in the payment card infrastructure over the past 5 years. As of 1 September 2017, the number of payment cards issued by banks was more than 5.6 mln, ATMs - over 2.5 thousand, and POS terminals - 68.4 thousand units. Currently, there are 570 payment cards per thousand people, 25.3 ATM per 100 thousand people, and 69.4 POS terminals per 10

thousand people. Pensions, grants, a number of social benefits, and salaries of employees working in public institutions are paid through payment cards. Work on card payment of salaries to the hired employees of private institutions is continued.

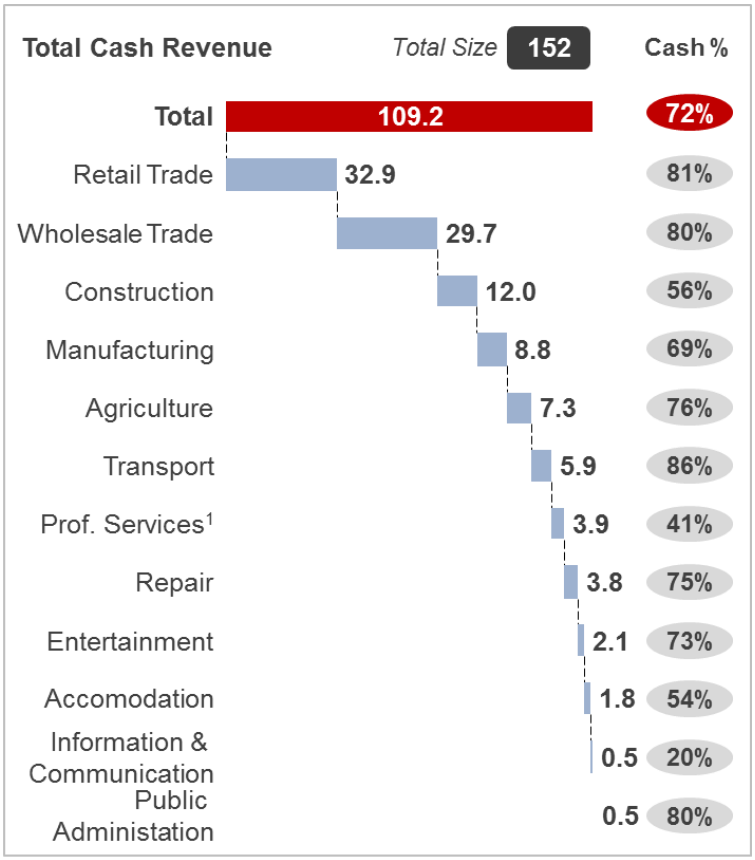
Relevant measures have been taken to allow "Azerpost" LLC to provide financial services as part of works implemented to further expand NPS infrastructure and increase access to financial services of population and economic entities in the regions. At present, about 1180 branches and departments of "Azerpost" LLC offer financial services.

A number of factors hinder development of digital payments – lack of mechanisms to encourage cashless settlements in the legislation (and generally in the economic regulation), low level of institutional trust, tax evasion motivation of enterprises, insufficient and costly banking services, lack of financial literacy and public confidence towards the banks and electronic payments.

Cash turnover of enterprises

According to results of the field research and market sizing calculations conducted by MasterCard, transactions of enterprises are the main driver behind the cash prevalence. Thus, AZN 152 B out of the total turnover of AZN 180 B are comprised of total revenues of enterprises. According to the results of the field research, AZN 109 B (72%) of these revenues are cash revenues. Except for IT and professional services, cash payment is very common in enterprise payments *(Diagram 2).*

Diagram 2. Volume of enterprise revenues by sector (in billion AZN, 2016)



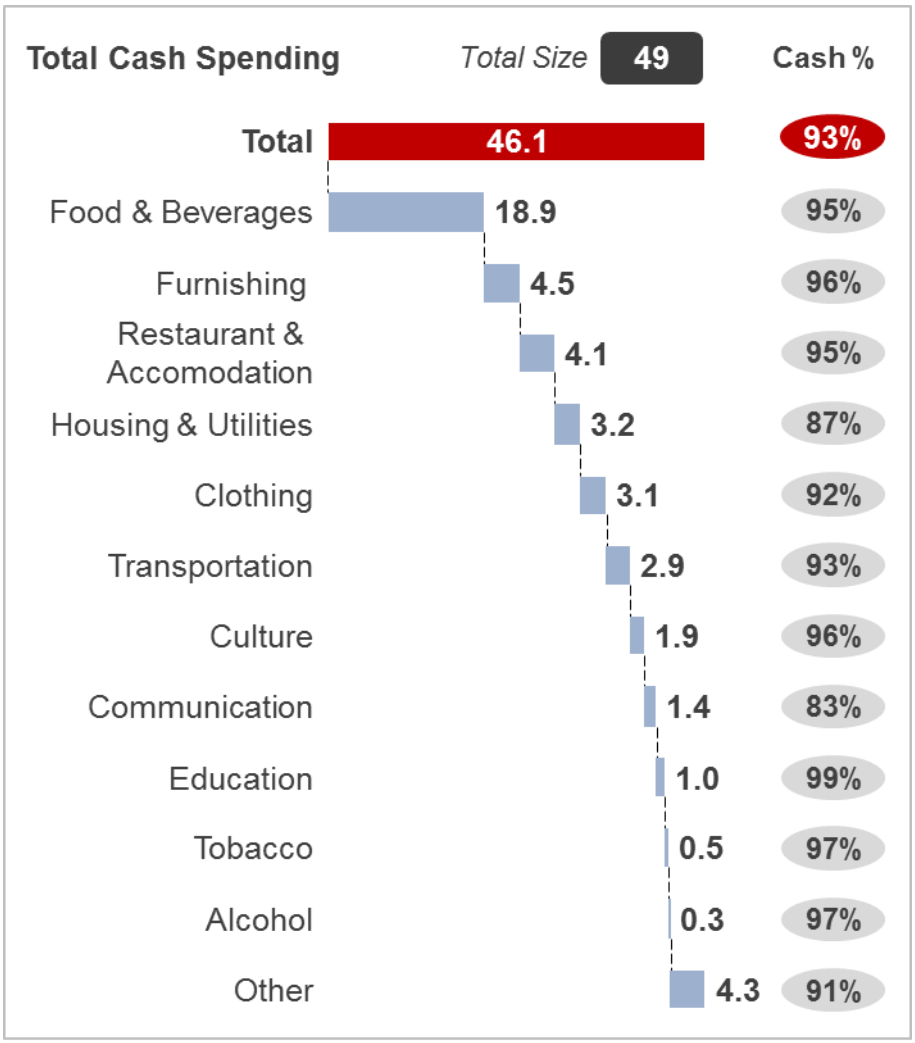
Source: MasterCard calculations

1) Financial and insurance, real estate, professional, scientific and technical, administrative and support service activities

Cash turnover of consumers

AZN 52 B of the total turnover (AZN 180 B) are produced by consumers, AZN 49 B of which are recorded in C2B transactions. According to the results of the field researches, AZN 46 B of this turnover are carried out in cash, showing that cash payments are high across all consumption areas.

Diagram 3. Volume of consumer expenditures by sector (in billion AZN, 2016)



Source: MasterCard calculations

The large volume of cash turnover deprives the economy of large investment resources, restricts financial intermediation of the banking system, and causes a number of structural problems, including violation of financial discipline, reduced transparency, and predominance of unorganized retail trade.

4. GLOBAL TRENDS

4.1. Growth of cashless payments

Over the past decade, range of payments based on new digital technologies and number of such financial transactions have increased rapidly. As the cashless payments are convenient and secure, socio-economic value of cash and financial behavior patterns of population have radically changed in most countries. In particular, proliferation of mobile device usage has paved the way for the rapid growth of digital payments.

4.2. Rapid development of innovative digital payment technologies

Expansion of technological capabilities has raised financial institutions' relationships with customers to a new level of quality, created additional incentives for modernization of business models and stimulated formation of new markets.

Choices of consumers play a leading role in applying innovations in cashless payments. Consumers' requests for faster and safer payments determine future trends of innovations. Use of innovations increases the volume of transactions carried out with electronic means, reduces financial and operational costs, and prevents the liquidity risk in settlements. Wide use of new technologies in all areas of everyday life (either in electronic commerce or in physical workplaces) causes rapid development of digital payments. Furthermore, Fast Payments, Quick Response codes and mobile applications, as well as new methods such as cloud-based point-of-sale applications and POS devices help reduce user costs and create easier and more affordable payment and acceptance opportunities.

4.3. Extensive application of instant payment systems

One of the latest trends observed in several countries (Sweden, Denmark, Great Britain, Singapore, etc.), which hold leading positions in the field of cashless payments, is the application of payment mechanisms called instant payments. These mechanisms allow real-time realization of cashless payments in 24/7/365 mode. Instant payment system increases the level of effectiveness of digital payments, and thereby immediately provides liquidity for the participants, and lowers the level of credit and liquidity risks. Instant payments are mainly applied to payment order, direct debit and payment cards.

4.4. New identification methods and cyber security

Development of digital payment technologies and payment data collected from payers require application of strict security measures. Payer's individual biometric data is used (fingerprints, retina scan, or voice patterns) in order to strengthen security measures and simplify the payment process. Since biometric data can provide the highest level of security, today the leading global banks use such information to allow customers to access digital banking sites and to confirm payments. Generally, advancement of cyber security is one of the major international

trends. Cyber security systems mainly protect databases and payment channels from external attacks, damages, and malfunctions. In particular, devastating cyber-attacks of recent times have led the world's leading financial institutions and some central banks to revise their cyber security strategies.

4.5. New "players" in the payment market

Reduction of service costs for electronic resources and sufficient level of security measures as a result of rapid development of digital technologies in recent years have made the payment market accessible for the new participants; especially payment services offered by non-FIs are gradually expanding. Mobile operators, electronic money institutions and non-FI payment service providers are successfully operating not only in developed countries, but also in developing countries.

These institutions are strongly competing with the banks in digital payments area, using advanced digital technologies and innovative payment methods.

4.6. “Blockchain” technology and “cryptocurrencies”

As the application solutions realized via “Blockchain” platform have met the expectations in recent times, these technologies are used more widely globally. “Blockchain” technology is used for transparency and acceleration of activities during business processes. At present, “Blockchain” is considered one of the key technologies that will form the basis for the infrastructure of new-generation financial services. Emergence of cryptocurrencies on the basis of “Blockchain” technology and expansion of their application are one of the important trends of the recent years. Use of virtual currencies for replacing the cash as electronic payment instrument causes concerns in several countries. Some countries, such as Malaysia and Austria, are planning to regulate the cryptocurrencies in 2018. However, there are Central Banks all over the world trying to leverage the blockchain technology in financial record keeping.

5. KEY PILLARS OF THE PROGRAM

5.1. PILLAR 1. Improving institutional environment of digital payments further

The current political stability of Azerbaijan and the political will of the President are the main success factors of the implemented reforms and economic achievements. It is important to establish effective economic institutions in the country, set a competitive economic landscape, and create a more favorable institutional environment for businesses for the purpose of continuously improving welfare of the population and providing sustainable economic growth. These are also crucial for promoting cashless payments. In a broader framework, the program also covers strategic pillars and actions which form the basis for the development of digital payments, eliminate the motives for using cash in settlements between economic entities, and encourage cashless payment transactions.

- It is planned to (i) develop a favorable business environment, (ii) promote effective tax system, and (iii) carry out measures to differentiate and enhance social security system within the framework of the Program for further improvement of institutional environment of digital payments in Azerbaijan.

5.1.1. Priority 1.1. Developing a favorable business environment

In order to develop a favorable business environment, it is important to establish a more competitive market structure, improve the protection of property rights of entrepreneurs, further enhance the framework and practice of business regulation, and strengthen mechanisms of contractual compliance between business subjects.

In recent years, a number of structural and institutional reforms have been implemented in Azerbaijan to develop more favorable business environment and increase the economic activity in the private sector, and measures have been carried out to improve the legislation. In 2016, the President of the Republic of Azerbaijan has signed an order on "Additional Measures for Increase of Favorableness of the Business Environment and Improvement of the Country's Position in the International Ratings". Effective implementation of the measures resulting from the Order will allow improvement of the regulation of business activities, effective protection of entrepreneurs' property rights, further strengthening of judicial institutions, advancement of the practice of execution of court decisions, and gaining of significant achievements in strengthening compliance with contractual terms between business entities.

In order to form a fair and competitive market structure, various regulatory instruments are applied in different countries. The principal mechanism for ensuring fair competition is, in most cases, the elimination of monopoly or limiting as much as possible. At present, many countries in the world have anti-monopoly laws, but their legislative norms have different strictness levels, and they are implemented at different stages. Therefore, the freedom and intensity of competition in the domestic markets of different countries are different, too.

In order to accelerate the formation of fair market structure in Azerbaijan, it is important to adopt the Competition Code in due course (it has been envisaged in the Action Plan on the Order No. 2199 dated July 13, 2016 of the President of the Republic of Azerbaijan on "Additional Measures for Increase of Favorableness of the Business Environment and Improvement of the Country's Position in the International Ratings"). One of the important issues is to prevent informal monopoly agreements. Relevant administrative regulatory decisions should be adopted to address this issue.

It is required to increase effectiveness of the activities of the institutions forming and implementing anti-monopoly policies in the country and to expand their powers and responsibilities.

The following measures are planned to be implemented soon to develop a favorable business environment.

Actions

Action 1.1.1. Empowering the governmental body responsible for competition, to ensure a favorable business environment

Powers and responsibilities of the government agencies that form and implement anti-monopoly policy will be enhanced. These agencies will be responsible for (i) preventing monopoly activities of large enterprises, (ii) strengthening the fight against the companies that introduce products and services to the market on unfair terms, and (iii) taking measures to eliminate monopoly control over supply, price, and technology, and to prevent possible horizontal and vertical integration agreements between market participants. Also, digital accounting and reporting system will be established for the enterprises.

"The Strategic Roadmap on Increase of the Favorableness of the Business Environment of the Republic of Azerbaijan and Prospects of the National Economy of the Republic of Azerbaijan" (strategic objective 4, priority 4.1) envisages implementation of measures in this field.

Action 1.1.2. Increasing the competitiveness of small and medium enterprises

Small and medium entrepreneurs will be provided with consulting and financial support. The perspective of establishing a separate agency responsible for the development of small and medium enterprises will be considered. Opportunities will be created for the participation of small and medium entrepreneurs in the state procurement with privileged terms.

"Strategic Roadmap for the Manufacturing of Small and Medium Entrepreneurship-Level Consumer Goods in the Republic of Azerbaijan" (Strategic objective 1, priority 1.1 and 1.3) envisages execution of relevant measures in this field.

Action 1.1.3. Adoption of the Competition Code

The process of adoption of the Competition Code providing equal working conditions and fair competition rules for all companies, regardless of size, will be accelerated.

The Action Plan on execution of the Order No: 2199 dated July 13 of 2016 of the President of the Republic of Azerbaijan on "Additional Measures for Increase of Favorableness of the Business Environment and Improvement of the Country's Position in the International Ratings" (action 13.1.1.1) and "Strategic Roadmap for the Manufacturing of Small and Medium Entrepreneurship-Level Consumer Goods in the Republic of Azerbaijan" (priority 1.4.1) envisage implementation of relevant measures in this field.

Action 1.1.4. Promoting creation of sectoral clusters along various sectors

Establishment and activity of sectoral clusters (business associations) will be promoted by the state.

The Action Plan on execution of the Order No: 2199 dated July 13 of 2016 of the President of the Republic of Azerbaijan "On Additional Measures for Increase of Favorableness of the Business Environment and Improvement of the Country's Position in the International Ratings" (action 13.1.2.3.) and "Strategic Roadmap for the Manufacturing of Small and Medium Entrepreneurship-Level Consumer Goods in the Republic of Azerbaijan" (priority 1.6) envisage implementation of relevant measures in this direction.

5.1.2. Priority 1.2. Increasing effectiveness of tax system

One of the reasons for encouraging the economic entities to make cash payments is the existence of tax evasion motives in the economy. Therefore, first of all, it is important to eliminate tax evasion cases with tax incentives. Replacing tax evasion motives with tax incentives will lead to transparency and legalization of the economic turnover, thus expansion of cashless settlements and increase of interest in more flexible and convenient electronic payments.

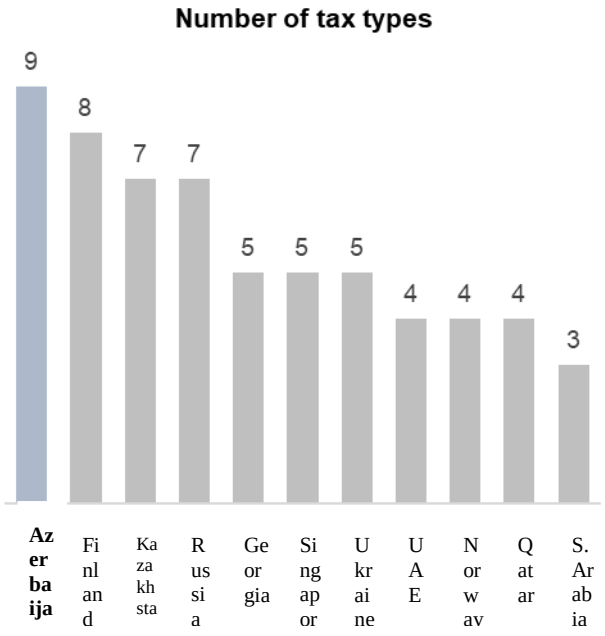
Recently, a number of normative-legal acts aimed at expanding digital payments have been adopted, and relevant reforms have been conducted. An Automated Tax Information System (ATIS) was created to carry out flexible and efficient tax administration. Currently, exchange of information at all levels of tax administration is realized by ATIS. Registration of entrepreneurs is carried out in simplified form with the principle of "One-Stop Shop". It significantly improved the business environment, and reduced entrepreneurs' physical dependence on government agencies.

Despite the important reforms conducted in the tax system, administrative and economic motives that lead to tax evasion have not been completely eliminated. It is important to analyze and evaluate the existing tax burden of entrepreneurs, the number of tax types and the rules of calculation of the taxes in accordance with international practice, and to continue reforms in this area.

"The Strategic Roadmap on the National Economy and Main Sectors of the Economy" approved by the Decree No: 1138 dated December 6, 2016 of the President of the Republic of Azerbaijan envisages continuation of the tax reforms and promotion of efficient tax system. Reforms cover measures such as reducing the number of taxes and simplifying them, optimizing the tax burden in the economy, improving tax administration that stimulates taxation, and simplifying tax accounting and reporting. Effective implementation of these measures can create a favorable environment for (i) reduction of informal economic turnover, (ii) the use of the most up-to-date forms of cashless payments, and (iii) wide-scale application of digital payments.

Diagram 4. International Tax Comparison

Country	Ratio of paid taxes to the turnover of enterprises (%)	Time required for tax payment (hours/year)
Turkey	41.1	217
Russia	47.4	168
Kazakhstan	29.2	178
Belarus	54.8	176
Azerbaijan	**39.8**	**195**
Georgia	16.4	270
Ukraine	51.9	356

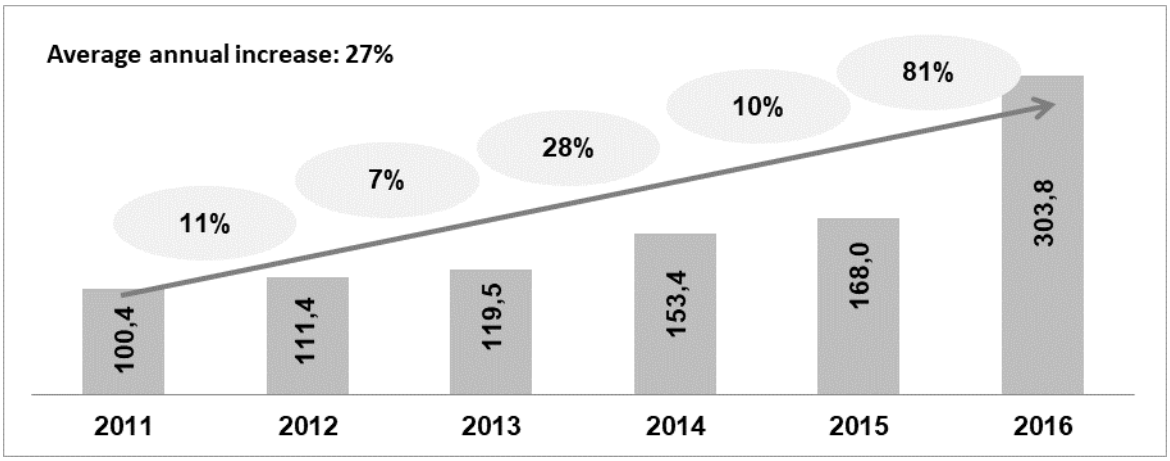


Source: World Bank

Low share of tax collection to GDP indicates that the tax base is not wide enough. At present, only one type of tax is applied to small entrepreneurs pursuant to the simplified tax system. However, this rule is not only ineffective for tax base expansion, but also stimulates cash usage in the economy.

Despite the fact that 97% of taxpayers are taxpayers of simplified tax, the share of simplified tax revenues in total tax revenues was only 4.3% in 2016 (in 2015: 2.4%, in 2014: 2.2%, in 2013: 1.8%). Simplified tax receipts have increased over the years *(Diagram 5)*.

Diagram 5. Simplified tax receipts (million AZN) and its increase (in comparison with previous year, %)

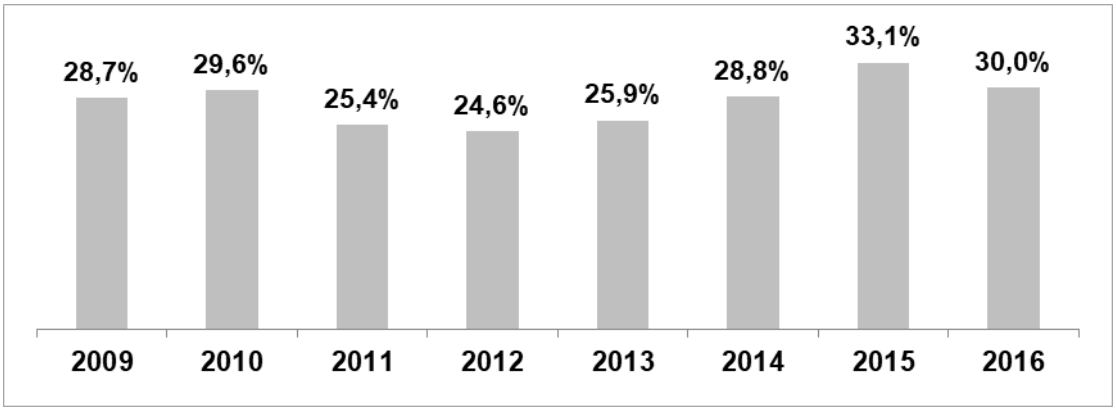


Source: Ministry of Taxes of the Republic of Azerbaijan

If small enterprises gradually become VAT payers in accordance with international best practices, tax evasion and reasons for cash settlements will be largely eliminated.

As in most countries of the world, VAT has a major share in tax collection. Circumstances for tax evasion are relatively limited in the VAT system (Diagram 6). The application of VAT to all economic entities also allows higher degree of cashless payments.

Diagram 6. Share of VAT in total tax collection



Source: Ministry of Taxes of the Republic of Azerbaijan

Standard VAT (same for all payers) is applied in some developed and developing countries where VAT is low, and differentiated VAT is applied in countries where VAT is relatively higher. Azerbaijan ranks among the countries with relatively high VAT, and here VAT rates may be differentiated according to product and service groups.

Changes to the applicable law aimed at stimulating cashless payments and restricting conducting operations in cash can also be taken into account.

The followin ion within the State program.

Actions

Action 1.2.1. Reduction of tax types and simplification of the taxes and optimization of tax burden

The fair tax level will be assessed, reduction of tax types and tax simplifications will be studied in accordance with the international best practices, and formation of more advanced tax structure (types) and tax burden will be achieved, facilitating the predetermination and predictability of tax liabilities arising from the activities of entrepreneurial entities and generally stimulating their taxation. Also, reviewing the new cash withdrawal tax on business accounts will be beneficial for decreasing the

cash circulation by removing the extra burden put on banking transactions for enterprises.

the Action Plan on execution of the Order No: 2199 dated July 13 of 2016 of the President of the Republic of Azerbaijan on “Additional Measures for Increase of Favorableness of the Business Environment and Improvement of the Country's Position in the International Ratings" (action 8.1.1.1), “Strategic Roadmap for the Manufacturing of Small and Medium Entrepreneurship-Level Consumer Goods in the Republic of Azerbaijan” (priority 1.5.3) and measures stipulated in the Order No: 2257 dated August 4, 2016 of the President of the Republic of Azerbaijan on “Improvement of tax administration and approval of the priority directions of reforms in taxation to be implemented in 2016” envisage implementation of relevant measures in this field.

Action 1.2.2. Further improvement of tax administration

The tax administration, which stimulates taxation and envisages broad and effective application of tax related services on tax accounting and reporting, will be strengthened.

The Strategic Roadmap on the National Economy and Main Sectors of the Economy” approved by the Decree No: 1138 dated December 6, 2016 of the President of the Republic of Azerbaijan (strategic objective 4, priority 4.1.2), the Action Plan on execution of the Order No: 2199 dated July 13 of 2016 of the President of the Republic of Azerbaijan on “Additional Measures for Increase of Favorableness of the Business Environment and Improvement of the Country's Position in the International Ratings" (action 8.1.1.1), “Strategic Roadmap for the Manufacturing of Small and Medium Entrepreneurship-Level Consumer Goods in the Republic of Azerbaijan” (priority 1.5.2) and measures stipulated in the Order No: 2257 dated August 4, 2016 of the President of the Republic of Azerbaijan on “Improvement of tax administration and approval of the priority directions of reforms in taxation to be implemented in 2016” envisage implementation of relevant measures in this field.

Action 5.1.2.3. Increasing the effectiveness of tax audit and reporting

Implementation of tax liabilities will be simplified, measures will be taken to stimulate tax inspectors in short and medium terms, the scope of e-audit will be expanded, electronic accounting system will be improved, and frequency of e-audit activities will be increased.

The Strategic Roadmap on the National Economy and Main Sectors of the Economy” approved by the Decree No: 1138 dated December 6, 2016 of the President of the Republic of Azerbaijan (strategic objective 4, priority 4.1.2), the Action Plan on execution of the Order No: 2199 dated July 13 of 2016 of the President of the Republic of Azerbaijan on “Additional Measures for Increase of Favorableness of the Business Environment and Improvement of the Country's Position in the International Ratings" (action 8.1.1), “Strategic Roadmap for the Manufacturing of

Small and Medium Entrepreneurship-Level Consumer Goods in the Republic of Azerbaijan" (priority 1.5.2) and measures stipulated in the Order No: 2257 dated August 4, 2016 of the President of the Republic of Azerbaijan on "Improvement of tax administration and approval of the priority directions of reforms in taxation to be implemented in 2016" envisage implementation of relevant measures in this field.

Action 5.1.2.4. Gradual replacement of the simplified tax system with VAT system and differentiation of VAT rate

A mechanism will be developed for phased transition of the economic entities from the simplified tax system to the VAT system. The gradual application plan will be developed depending on the sector and size of enterprises. Issue of applying differentiated VAT rates will be reviewed upon completion of the transition. This approach will support the replacement of the simplified tax system with the VAT system.

Action 5.1.2.5. Application of the "Single Accounting System"

Transition of all taxpayers to the "Single Accounting System" will be accelerated, and the expansion of electronic accounting will be promoted. To ensure easy transition of small and medium enterprises to a new accounting system a gradual migration plan will be developed. Small enterprises are envisaged to participate in drafting the migration plan.

5.1.3. Priority 1.3. Differentiation and improvement of social security contributions

While salaries are paid by cards in the public sector, the share of cash payments in the private sector is still high. 67% of the employers are accepting making cash payments to the employees while 57% of the employees declare that they are accepting cash salaries, according to countrywide market research conducted in 2017. As a result of full or partial informal payment of salaries, income of the population is significantly higher than the figures presented by the official statistics. Unregistered employment remains a fundamental social and economic problem. As one of the main components of the informal economy, this problem can have negative impact on total amount of public revenues and on the well-being of the budget-funded population groups and can increase the social burden in future and create difficulties for provision of pensions for the population.

The following actions will be made to improve social insurance contributions under this Program.

Actions

Action 1.3.1. Optimization of social security burden between employer and employee, enhancement of relation between social benefits and incomes

Distribution of the social security burden between employer and employee will be changed in favor of the former. The reform will be implemented in stages gradually.

Order on the President of the Republic of Azerbaijan number 3287 dated 9 October 2017 "On measure to combat unregistered workplaces in the Republic of Azerbaijan" envisage implementation of relevant measures in this field.

Action 1.3.2. Development of "Minimum Labor Standards" to prevent unregistered activity in sectors with a high number of unregistered employees

"Minimum Labor Standards" will be applied in the sectors where the informal employment is high (primarily in construction), taking into account international experience. These standards will define the minimum wage, work quality and the technologies used for concrete works under existing market conditions, taking into account the opinion of relevant government agencies.

Action 1.3.3. Creation of risk-based audit mechanisms

Key risk indicators monitoring and analyses system will be established to improve the purposefulness and effectiveness of social protection measures, and risk management systems will be improved.

Action 1.3.4. Strengthening of public awareness on the importance of social protection

Various activities (including marketing campaigns) will be implemented to inform the society about the importance of the social protection system, as well as to educate young citizens in schools.

5.2. PILLAR 2. REVITALIZATION OF THE BANKING SECTOR

One of the main conditions for the expansion of digital payments is the advanced banking system. In countries where financial mediation is developed, the volume of cashless payments is traditionally higher.

For restoring financial sustainability in the banking sector of Azerbaijan, the Program envisages measures for *(i) acceleration of the measures for rehabilitation of the banking sector, (ii) formation of an active money market, and (iii) improvement of risk management capabilities of the banks.*

5.2.1. Priority 2.1. Accelerating stabilization of the banking sector

As a result of the transformation of the country's major foreign exchange incoming into public investment during the period of 2005-2014, business and consumer demands have expanded, and optimistic expectations about economic growth have substantially increased demand for banking services. The banking sector has met the demands for bank services through the accumulation of internal and external resources, which actively participated in the financing of the economy. During this period, the financial depth (assets / non-oil GDP) reached 77%, and the loan portfolio increased by 30 times. The amount of deposits and savings kept in credit institutions have significantly increased *(Diagrams 7 and 8)*.

At the same time, a legislative and regulatory framework, which forms the legal basis of the banking sector's activities, has been created, and an adequate regulatory framework has been established.

Diagram 7. Total loan volume (2005-2014, million AZN)

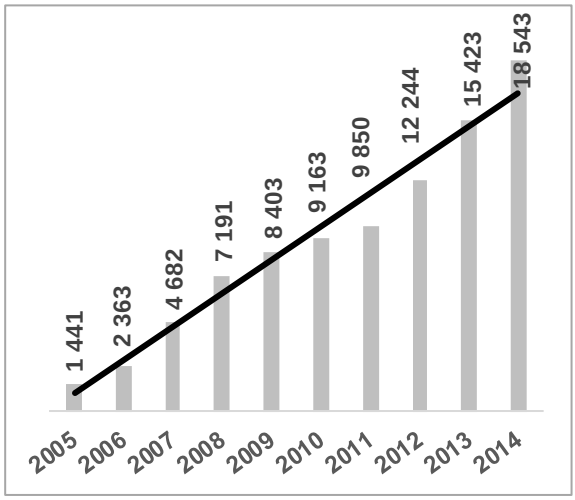
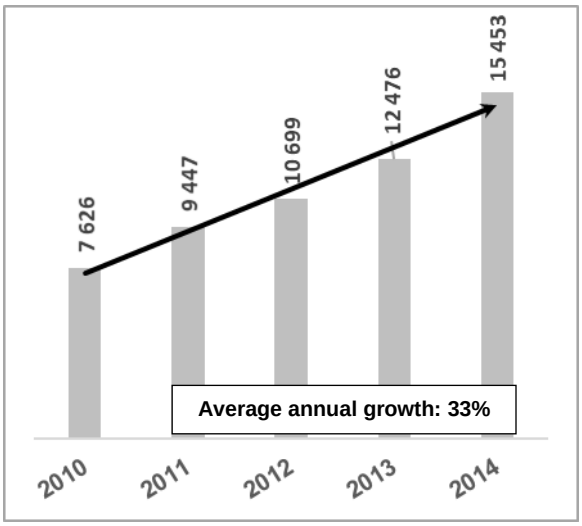


Diagram 8. Deposits and savings kept in the credit organizations (2010-2014, million AZN)



Source: Central Bank of Azerbaijan

Changes in macroeconomic conditions as a result of sharp decline in oil prices since 2014 and weakening of commercial activity have aggravated the quality of banks' loan portfolio and caused significant losses. At the same time, access to foreign markets deteriorated, and number the domestic recourses reduced. On the one hand, the loss of the value of assets, difficulties in repaying loans especially in foreign currency, and, on the other hand, loss of confidence in banks and the national currency have led some banks to leave the sector and weakened the economic activity of others *(Diagrams 9 and 10).*

Diagram 9. Volume of bank loans after devaluation (million AZN)

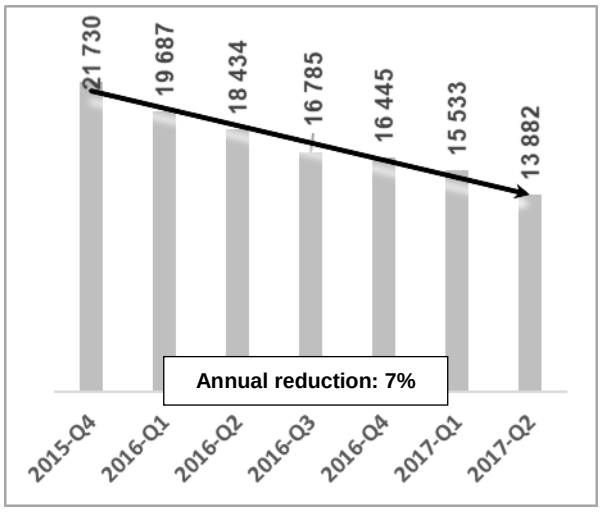
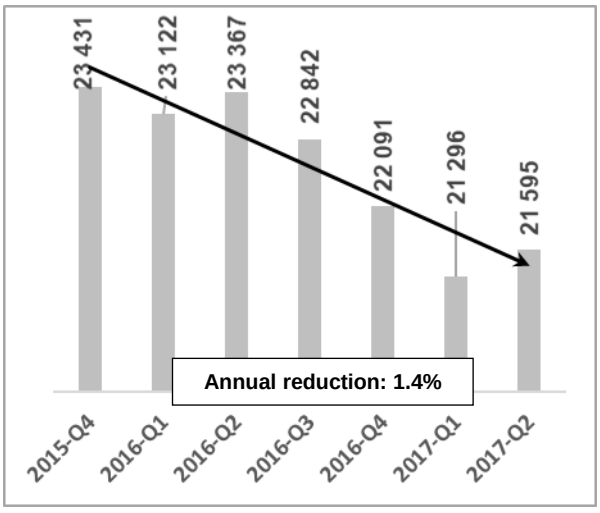


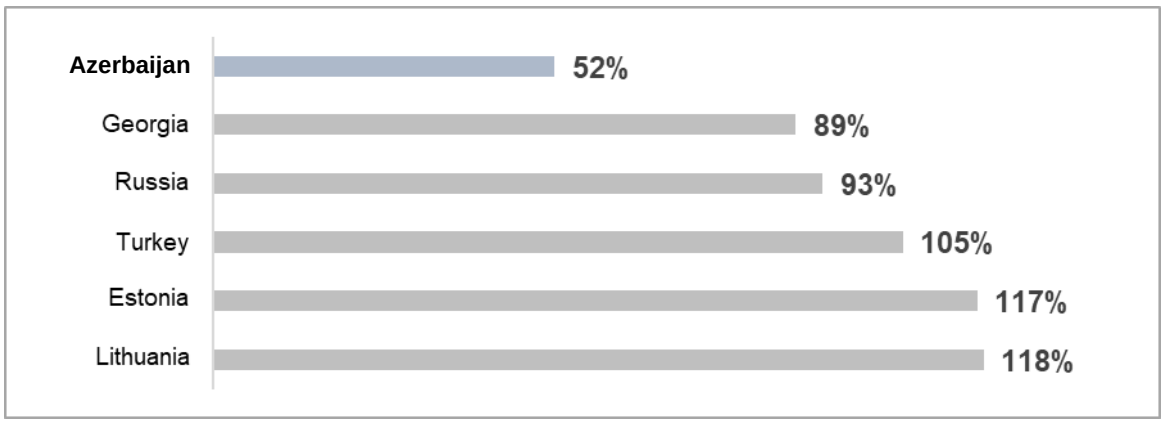
Diagram 10. Volume of bank deposits after devaluation (million AZN)



Source: Central Bank of Azerbaijan

The slowdown in general economic activity has affected the banking sector, and the share of troubled (overdue) loans in the total loan portfolio increased from 5.3% at the end of 2014 to 14.1% in the middle of 2017. Banks were forced to reduce operating costs: a decline was observed in the number of bank branches and ATMs over the past year. Number of employees in the banking sector dropped, too. Current situation of the banking system does not create favorable conditions for the expansion of cashless payments. Ratio of bank assets to GDP is lower than benchmarking countries *(Diagram 11)*.

Diagram 11. Ratio of bank assets to GDP (Azerbaijan and benchmark countries, 2016, %)



Source: Central Bank of Azerbaijan, Central Banks of benchmark countries

Financial sustainability of the sector should be restored in the existing situation. At the same time, the banks should focus on capitalization and liquidity problems. At present, several works are being executed on these issues. "The Strategic Roadmaps for Development of National Economy and Main Economic Sectors of the Republic of Azerbaijan" envisage complex measures for recovery of the banks and increase in their incomes.

The following measures will be implemented within the framework of this Program for the development of the banking sector in order to increase the contribution of banks to the expansion of digital payments.

Actions

Action 2.1.1. Capitalization of banks and provision of their liquidity

Capitalization plans will be approved with banks requiring additional capitalization. The "restructuring" consolidation capabilities of banks that cannot recover their capital sustainability will be considered. For even distribution of the sector's liquidity among banks and its management measures on development of the more efficient tools for liquidity monitoring and forecasting will be implemented.

"Strategic Road map on development of financial services" (priority 1.1.) envisages implementation of measures in this field.

Action 2.1.2. Development of new mechanisms to management of troubled assets

Solving the issues about troubled assets is crucial to strengthen the financial sustainability of the sector. Solution of this problem will have a positive impact on the sector's capitalization and liquidity. In this regard, new mechanisms will be created to stimulate the sale of such assets, and, alternatively, centralized restructuring instruments will be developed. The issue of setting up a centralized platform for solving troubled loans and making incentive adjustment will be considered. For troubled assets management, a regulatory base will be formed.

Mechanisms, for guaranteeing the loans, to be created will reduce risk-weighted assets of the sector and allow the banks to lend at more attractive interest rates.

"The Strategic Roadmap for the Development of Financial Services in the Republic of Azerbaijan" (priority 1.2.) envisages implementation of measures in this field.

Action 2.1.3. Improvement of supervision of the banks' activities

Bank supervision activities and related regulatory base will be enhanced to support the rehabilitation of banking industry. At this point, risk-oriented regulations and early warning potential should be increased. Principles of corporate governance will be applied at a much higher level in the banks. The bank sector will be channeled through macro and micro prudential policies in line with the country's strategic line. Opportunities related to improvement of the existing prudential instruments will be reviewed.

Application of differential regulatory mechanism for the system's major banks will be considered.

"The Strategic Roadmap for the Development of Financial Services in the Republic of Azerbaijan" (priority 4.1 and 4.2) envisages implementation of measures in this field.

Action 2.1.4. Improvement of creditors' rights protection mechanism

Given the advanced international practice, a special plan will be developed and implemented to improve the protection of creditors' rights. The legal basis for the adoption and implementation of court decisions and mortgage clearing and the direction of securing the guarantee will be improved.

"The Strategic Roadmap for the Development of Financial Services in the Republic of Azerbaijan" (priority 3.1 and 3.2) envisages execution of relevant measures in this field.

5.2.2. Priority 2.2. Formation of an active money market

The active money market plays an important role in strengthening financial intermediation and meeting the demand for financial resources of the economy in more complete form and promotes effective management of liquidity by financial institutions. In the money market, liquidity is constantly moving between financial institutions, and

the banks are actively lending to the economy. In recent years, a number of measures have been taken to form and develop the organized interbank money market in Azerbaijan. However, the volume of transactions conducted in the money market is still small.

Mutual trust is one of the main conditions for the effective functioning of the lending and borrowing mechanisms among the banks. In the international practice, regulatory state bodies acted as a mediator in this mechanism at an early stage of market development.

Central banks, as a rule, expand the collateral list of interbank borrowing operations to intensify them. Interbank operations are carried out in Azerbaijan in return for relevant collaterals, and therefore expansion of collateral list may trigger the money market activation.

Moreover, limited volume and range of securities available as collateral and absence of an effective infrastructure for interbank money market operations hamper activation of the money market.

The following measures are planned to be implemented within the framework of the Program for the expansion of cashless payments through the activation of the money market.

Actions

Action 2.2.1. Assessment of potential to create an institute of market-makers

Potential to create an institute establishing market-makers will be assessed. If identified as required criteria to select market-makers (size of assets, systemically importance, experienced staff, resources to attract modern technology, financial viability, etc.), as well as requirements and incentives for market-makers will be identified.

“The Strategic Roadmap for the Development of Financial Services in the Republic of Azerbaijan” (strategic objective 2, priority 2.3.3) envisages execution of relevant measures in this field.

Action 2.2.2. Development of necessary infrastructure for the development of interbank money market

In this regard, required measures must be taken, such as (i) formation of system for forecasting representative market interest rate index and liquidity in the money market, (ii) creation of mechanism for obtaining online information on transactions of interbank money market, (iii) determination of the terms for non-residents' participation in the money market, and (iv) open communication of monetary policy instruments.

"Strategic Roadmap on Development of Financial Services in the Republic of Azerbaijan" (Strategic Objective 2, action 2.3) and “Strategic Roadmap for the National Economy Perspective of the Republic of Azerbaijan” (Strategic Objective 1, action 1.3.4) envisage execution of relevant measures.

Action 2.2.3. Extension of the securities market and development of the interbank REPO market on this basis

Securities market and, on this basis, financial instrument base of interbank money market will be substantially expanded. This base will be expanded primarily by increasing the volume of government securities, which are the most liquid securities, and short-term notes of the Central Bank. In order to increase the volume of corporate securities that can be used as a collateral, the loan portfolio securitization mechanism may also be considered.

Ministry of Finance jointly with the Central bank will analyze the potential to increase types and volumes of government securities taking into account macroeconomic stability objectives. Transfer of transactions of both the primary and secondary markets of government securities and Central Bank's short-term notes to single electronic trading platform will be considered.

"Strategic Roadmap on Development of Financial Services in the Republic of Azerbaijan" (Strategic Objective 2, action 2.3) and "Strategic Roadmap for the National Economy Perspective of the Republic of Azerbaijan" (Strategic Objective 1, action 1.3.4) envisage execution of relevant measures.

5.3. PILLAR 3. ESTABLISHING DIGITAL ECOSYSTEM

Modern society is heavily dependent on digital infrastructure, and this dependence gains momentum. Digital payment infrastructure is one of its most important components. In countries where the digital payment infrastructure is poorly developed, there are problems with the quality and availability of financial services, transparency of the economy and economic activity of the community.

Significant works have been executed to form and develop digital payment infrastructure in Azerbaijan. However, measures in this direction should be continued to respond to new challenges that are emerging at the present stage of building of information-oriented society.

For the formation of digital payment infrastructure in Azerbaijan, the following are the main priorities: (i) development of digital business, (ii) development of e-commerce, (iii) improvement of the legal framework for payment services, (iv) introduction of new digital payment technologies, (v) digital banking development, (vi) wide application of smart payment instruments, (vii) enhancement of the security and efficiency of existing electronic payment services, (viii) promotion of the financial inclusion in the regions and remote areas, and (ix) stimulation of digital payments.

5.3.1. Priority 3.1. Supporting Digital Entrepreneurship

In recent years, rapidly developing digital business has played a major role in expansion of cashless payments. In developed countries, special reforms are carried out, and stimulating mechanisms are used to develop digital business. Being a part of this trend is crucial for the long-term sustainable development of Azerbaijan's economy.

Some steps have been taken in Azerbaijan to develop digital business. At present, in Azerbaijan, state-supported High-Tech Park has been created in close cooperation with universities. Students and businessmen who are willing to start digital business activities in the country are provided with workplaces supplied with free of charge computers and internet, and they are also provided with legal assistance and consulting services.

Grants are given to entrepreneurs through the State Fund for Information Technology Development. Although financial support is provided by the government, participation of the private sector in entrepreneurship financing is crucial in the long run. Formation of a regulatory framework, which provides certain incentives for the creation of venture capital funds, may encourage the private sector to provide financial support to digital business ideas.

The following measures for the development of digital businesses in the country will promote formation of digital ecosystems by expanding this area:

Actions

Action 3.1.1. Improvement of the regulatory framework

Legal and institutional framework for the management and promotion of innovative digital business activities will be improved. Regulatory standards will be developed for establishment of private investment funds (e.g. venture capital). Facilitation of the procedures for entry to the country (for example, granting special entrepreneurship visa) will be considered for the digital entrepreneurs who wish to come to Azerbaijan in order to work in start-ups or to launch a new business.

"Strategic Roadmap for the Manufacturing of Small and Medium Entrepreneurship-Level Consumer Goods in the Republic of Azerbaijan" (strategic targets 5, priority 5.1.1) envisages execution of relevant measures in this direction.

Action 3.1.2. Providing non-financial support to start-up projects

Providing legal assistance (e.g. for obtaining a patent) and IT support (e.g. internet infrastructure) for digital business entities will be intensified, mentoring and business relationships will be supported, and awareness-raising workshops will be held.

"Strategic Roadmap for the Manufacturing of Small and Medium Entrepreneurship-Level Consumer Goods in the Republic of Azerbaijan" (strategic targets 4, priority 4.1.3) envisages execution of relevant measures in this direction.

Action 3.1.3. Promotion of cooperation with business and academics, start-ups and large companies

The state will support business-academics cooperation for participation of talented youth in the business activities and effective use of their knowledge and skills in the start-ups. Cooperation will be established between start-ups and large public institutions and private companies in order to introduce new products, services and technologies to domestic and foreign markets in a short time.

"Strategic Roadmap for the Manufacturing of Small and Medium Entrepreneurship-Level Consumer Goods in the Republic of Azerbaijan" (strategic targets 4, priority 4.1.3) envisages execution of relevant measures in this direction.

5.3.2. Priority 3.2. Enhancing e-commerce ecosystem

E-commerce has been growing rapidly for the last decade. Electronic commerce is essential for the growth of digital transactions among economic entities and formation of cashless payment habits in the population.

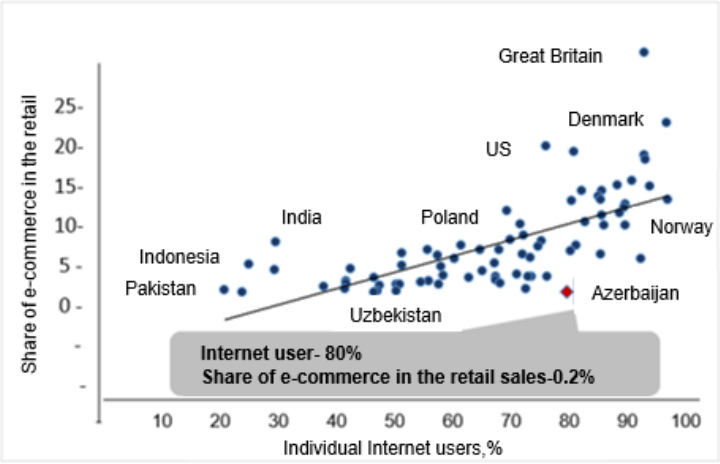
Important measures are being taken to develop e-commerce in Azerbaijan. The internet portal www.azexport.az, created under the Order of the President of the Republic of Azerbaijan in 2016, has assisted the entrepreneurs to introduce their products via electronic trading channels to the foreign and domestic markets. A web portal integrated with the worldwide sales networks such as Amazon and Alibaba and with the world's leading transport and logistics companies such as DHL and TNT has given a powerful boost to the development of e-commerce in the country. Card payments are accepted over the website with all the security features in place.

Under the Decree dated February 23, 2017 of the President of the Republic of Azerbaijan on "Additional Measures for Strengthening the Position of the Republic of Azerbaijan as Digital Trade Junction and Expansion of Foreign Trade Operations", it was assigned to create the section "Azerbaijan Digital Trade Junction" in the internet portal www.azexport.az, which provides for transboundary electronic services, and to ensure real-time payment of the goods offered through this portal and creation of a digital wallet.

All these measures, along with increasing non-oil export of Azerbaijan, will also help entrepreneurs develop skills to sell their products online and thus improve the digital ecosystem.

In recent years, the annual volume of e-commerce has increased to 300 million AZN. However, international comparison shows that there is still a long way to go to reach benchmark level *(Diagram 12).*

Diagram 12. Penetration of Internet users and the share of e-commerce in retail sales



Source: Euro monitor

Share of e-commerce in retail sales is 0.2%. This is much less than that of the countries where the share of Internet users is much lower than in Azerbaijan. Reasons behind the relatively low e-commerce penetration are, mainly, problems regarding the return policies of e-commerce platforms and weak logistic infrastructure for delivery of the products. Also, introduction of VAT on services received from non-resident vendors over the internet since 2017 (excluding hotel services and airline tickets) has led to decrease of turnover in this area.

Modern delivery infrastructure must be created for the development of electronic commerce. Smart mailboxes are one of the initiatives to be taken to improve the delivery quality. This service is widely used in countries where electronic commerce level is high. With smart parcel lockers, products can be delivered to the boxes which can be opened by a code sent to the buyer's e-mail address or mobile phone, removing the need for waiting for delivery to arrive at home/office. Problems in the address system, removal of mailboxes, lack of post offices and "Smart parcel lockers" running 7/24, and delivery of mail notification to recipients in paper carrier negatively affect the quality of shipping in Azerbaijan.

Within the framework of this Program, the following measures are envisaged for the development of electronic commerce for the expansion of digital payments in Azerbaijan.

Actions

Action 3.2.1. Expansion of e-commerce infrastructure

In relation to internet providers and mobile operators, requirements for minimum internet speed will be determined, and modern logistics infrastructure will be created.

In addition to post offices, the "smart lockers" running 7/24 will be used. The potential to increase "AzerPost" LLC capacity to ensure accurate and timely delivery of goods purchased from e-commerce networks will be assessed.

Action 3.2.2. Identification of minimum security requirements for e-commerce providers

Security standards will be identified for electronic trading platforms, and protection of personal (including payment) data of consumers and security of trading transactions will be ensured.

Action 3.2.3. Improvement of taxation mechanisms for non-resident taxpayers

Taxation mechanisms applied to non-resident tax payers will be improved to achieve expansion of e-trade and to stimulate resident and non-resident users to increase use of electronic payment tools offered by local banks.

Required investment

No significant investment is required for realization of this priority

5.3.3. Priority 3.3. Facilitating the legal base for cashless payments

In international practice, the activity and role of non-bank payment service providers are gaining importance in the payment market. By establishing a legal framework for non-bank payment service providers, application of innovative payment products, such as electronic money and mobile wallet will be expanded.

To expand digital banking, the legislation should allow customers to remotely identify themselves and to open bank accounts without coming to the bank branch. Currently, in international practice, one-time password (OTP) and biometric identification (fingerprint, face recognition, voice authorizations, etc.) as well as electronic signature are widely used for identifying customers. Increase in the use of new generation smartphones leads to the improvement of customer authentication and transaction confirmation processes through these technologies in digital banking channels.

Requirement for identification of customers with enhanced authentication tools in digital banking has also been reflected in the relevant directive of the European Parliament.

It is necessary to improve the existing rules for the development of the internet and mobile banking, which are critical components of digital banking in the country.

Actions

Action 3.3.1. Establishment of a normative legal framework defining the economic, legal and organizational basis of non-bank payment service providers' activities

Legal framework will be adopted to determine the bases of payment services, duties and obligations on these services and economic, legal and organizational basis of establishment and operation of payment service providers and electronic money organizations. Thus, non-bank payment service providers will be equally involved in the payment ecosystem.

Action 3.3.2. Improvement of digital banking and legal framework of digital payment technologies

For the development of digital banking, a regulatory framework will be created to use modern remote identification means in the process of opening and managing a bank account. The customer will be provided with the opportunity of using bank products and services without coming to the bank branch and conducting transactions through digital bank accounts. As well, a regulatory framework for e-money issuance will be created in the country.

Required investment

No significant investment is required for realization of this priority

5.3.4. Priority 3.4. Supporting emerging payment solutions

New and innovative payment methods are widely used in the countries where digital technologies have been developed, to increase the effectiveness of cashless payment

transactions. In recent years, the widespread use of payment services of non-FI providers has significantly fostered competition in the digital payment market.

Access of both physical and legal entities to payment services everywhere and at all times and full settlement immediately after the payment are important to boost new payment methods. Currently, the main components of the National Payment System infrastructure operate at interval of 09:00-17:00 in Azerbaijan. Although the Government Payment Portal and overall card infrastructure operate 24/7/365, the settlements on the executed transactions can be completed next business day and on the card payments within a few days. However, in 31 countries of the world, instant payment systems that fully complete settlement transactions within 5-10 seconds are already used, and in 17 countries, preparatory works are being carried out in this regard.

In some countries, QR *(Quick Response)* code technology is used to make digital payments without POS terminals and payment cards. Despite the high internet and mobile phone penetration in Azerbaijan, new payment technologies such as QR or POS payments are not yet implemented. For this purpose, first of all, relevant legislative base and required infrastructure should be created.

In addition, to improve the quality of communication among financial institutions, application of ISO20022 financial messaging standards are being applied in leading countries. Application of standards in the country's financial sector will increase the automatic processing ratio in electronic payments.

Digital transformations and technological innovations facilitate access to financial services quickly, easily and efficiently. New generation with digital knowledge creates demand for more modern banking services. Introduction of FinTechs creates a strong competition in the financial sector, which in turn accelerates launch of better quality, low cost and more modern services. Establishment of cooperation with traditional participants of financial markets is a key factor for successful introduction of FinTechs to the existing financial ecosystem.

Recently, as the application solutions on the “Blockchain” platform have proven themselves, this technology has become more popular in the neighboring countries. Azerbaijan might also consider to study the application areas of "Blockchain" technologies.

Actions

Action 3.4.1. Development of instant payment system available 24/7/365

Development of Instant payment system in Azerbaijan will be considered. After bringing the system into use, digital payment transactions between individuals, enterprises and government agencies will be implemented 24/7/365. Each payment transaction will be fully completed within 5-10 seconds. Instant payment system users will be able to use internet banking and mobile banking functionalities to access the payment infrastructure.

Affordable and convenient instant money transfer will be one of the most important actions to pave the way for cashless transition in Azerbaijan. Currently, money transfers

are mostly conducted through private money transfer companies (e.g. Monex, etc.) in cash form. These companies are providing real-time money transfer for small amounts even for the consumers with a bank account. Creating a convenient and affordable alternative for money transfer companies will be vital for decreasing the cash turnover in C2C money transfers.

Action 3.4.2. Implementing ISO20022 universal exchange standards for the financial system that enables automation of operations between users

The existing situation in the banking sector will be assessed from the point view of implementation of ISO20022. Based on the readiness of the sector to implementation of the said standards a relevant Action plan will be drafted, migration plan and deadlines will be identified. By applying these standards; communication standards, procedures and formats between financial market participants will be adjusted. In addition, payments between payment system participants will be facilitated through optimization of procedures and business processes in this area.

Action 3.4.3. Introduction of affordable acceptance methods enabling especially micro enterprises to receive cashless payments

Affordable payment acceptance methods such as QR code and mPOS allowing small businesses to accept cashless payments will be provided. For this necessary amendments to the applicable law will drafted and promotional activities carried out.

Action 3.4.4. Expansion of digital payments using the functionalities of payment system providers and electronic money organizations

With this action, non-FI payment system providers and e-money institutions, including telecom operators, will be a significant part of the payment ecosystem. By involving mobile operators with a large customer segment into the payment market, modern payment mechanisms such as "mobile wallets" will be created and used more frequently and conveniently.

Action 3.4.5. Studying the application of the latest financial technologies in the country

The potential for implementation of this technology in the banking sector will be assessed. A working group will be created, implementation of a pilot project and its technical conditions will be assessed.

Required investment

As a result of implementation of this priority digital payment infrastructure will further develop. Investment estimated for realization of this priority is 20 million AZN.

5.3.5. Priority 3.5. Promoting Digital Banking

As a result of the development of information technologies, traditional banking services have undergone significant transformation. With the increase in the internet speed and widespread use of smartphones, banks gradually replace the activities of physical branches with digital banking platforms. In many countries, banks have completely ceased the operations of their physical branches, and all of their services commence to

be provided through digital channels. Digital banking, while reducing operating costs, also offers customers faster, more flexible and more affordable services.

Assigning the required physical environment and labor force required to serve the banking customers are very costly for the banks, increasing the cost of banking services for customers. Enabling customer to conduct certain banking transactions without visiting branch will help banks serve more customers at more affordable fees. This improvement in affordability will reflect in the banking penetration of the country. Countries making price differentiation in digital channels showed a significant improvement in banking penetration. In Azerbaijan, affordability problem about the basic banking services can be addressed via improving the digital banking channels.

Although a number of steps have been taken in recent years to develop digital banking in Azerbaijan, the country still falls behind developed countries in that area. Some banks still do not provide electronic banking services, and electronic services provided in some banks are informative only, and they do not allow carrying out monetary transactions.

Development of digital banking in Azerbaijan will directly contribute to reducing bank's operational costs, compensating for the low capillarity of the branch network especially outside Baku, increasing the range and quality of services, and eventually expanding share of cashless transactions.

Actions

Action 3.5.1. Ensuring mutual use of electronic signature centers' capabilities

Electronic signatures will be available to benefit from all digital banking services and to be mutually used on the government platforms; users will be offered favorable service fees on digital banking transactions.

Action 3.5.2. Expanded applications of remote banking services by the banks

The range of remote banking services will be increased in order to improve the performance and operational efficiency of banks and to promote access to banking services, regardless of time and location.

Required investment

No substantial investment is required for implementation of this priority.

5.3.6. Priority 3.6. Enabling smart city payment solutions

Daily payments (including public transport payments, parking fees, food orders, etc.) are among the main drivers of cash prevalence in the economies. Digitalization of such payments is crucial for increasing cashless payment of people's daily expenditures and formation of habitual behavior.

Significant efforts have been made in recent years to create contactless card infrastructure in the country to transform the daily micro payments into cashless transactions. As of 01.08.2017, number of contactless cards increased by twice, number

of POS terminals accepting contactless payments by 2.6 times, and number of contactless transactions about 29 times compared to the same period of 2015.

Contactless payments allow reducing operational costs in the transport service. While operating costs in public transport in London amounted to 14% of the income in 2010, this figure dropped to 9% in 2015. The next target is to lower operating costs to 6% by expanding usage of contactless cards.

The use of cashless payments in the transport sector also accelerates the usage in other daily expenditure items by forming a cashless payment habit.

Given that the current students will the direct users of the financial services in future, issuance of cards that combine student ID and payment functionality increases the potential to expand cashless payments in the long run. Currently, student ID cards are also used as debit cards in more than 40 countries.

Furthermore, tourists are another important consumer group to focus on to reduce the cash usage in the economy. Expansion of cashless payment opportunities for tourists visiting the country is very important for countries, especially for Azerbaijan which has declared development of international tourism as one of its key economic development milestones.

Within this Program, the following measures are envisaged for expansion of smart electronic payments.

Actions

Action 3.6.1. Expansion of cashless payment opportunities in public transportation

Contactless payment terminals will be installed in all public transport means and cashless top-up opportunities for closed-loop transportation cards will be created.

Action 3.6.2. Creating opportunities for cashless payment of parking fees

In Baku and other major cities of the country, an appropriate infrastructure will be created to make digital payments for parking, and cashless payments will be ensured.

Action 3.6.3. Providing multifunctional and prepaid card products for tourists

Special prepaid tourist cards will be issued for enabling the tourists to make cashless payments for their daily spending, including transportation and entertainment. Tourist card is a common practice used by most of the developed countries to attract more tourists and to decrease the cash volume in the economy created by foreign tourists.

Action 3.6.4. Providing students with smart student ID cards

A new unified standard of student ID card will be approved, new type of student ID cards will be issued based on this standard, and all students of the country will be equipped with such student ID cards. These cards will meet the requirements of international standards (*"International Student Identity* Card*" – ISIC* standards) and combine the functionality of regular student ID cards and payment cards. These cards will enable students to make cashless transactions for their daily and educational

spending as well as to collect the educational subsidies distributed by the government and other scholarship providers.

Required investment

Investment required for implementation of this priority is 2 million AZN.

5.3.7. Priority 3.7. Increasing security and effectiveness of existing payment solutions

One of the essential conditions for expanding the use of payment services is availability and affordability of these services for consumers. In practice, it is observed that consumers prefer affordable, easy-to-use, and secure services.

Currently, salaries, social benefits and pensions of the people working in the public sector are completely paid through payment cards. Work is underway to pay salaries in private sector also through cashless means. Thus, as the Law of the Republic of Azerbaijan on "Cashless Settlements" came into force on 01.01.2017, the number of salary cards of non-state enterprises and organizations increased more than two times in comparison with the beginning of the year. As of January 1st, 2018 there are 5.87 million payment cards, including 1.85 million salary cards and 2.54 million social insurance cards available.

However, the number of people using cashless payment means is still negligible, which is partially due to financial inclusion problems. In some countries, "basic bank accounts" are provided for free to ensure the access of low-income population to the financial services. Such mechanisms can also be applied in Azerbaijan.

Although today pensions and social benefits are paid through payment cards in the country, there are certain problems in this area. Since limited number of banks are involved in pension distribution process, on the days when pensions and benefits are given, density is observed in front of those banks. It is crucial to increase the number of authorized banks involved in the distribution of social payments and to allow citizens to make a choice among them independently. Besides improving the quality of banking services, it may also have positive impact on strengthening of competition in the banking sector. In the areas not densely covered by the service network of the banks, free-of-charge use of the infrastructure of "AzerPost" LLC should be ensured in the distribution of pensions and benefits through payment cards.

In international practice, the "cash withdrawal" function of POS terminals is used to expand accessibility and trigger electronic payments. After making a certain amount of cashless payment with debit card, the customer can cash out money from his/her bank account. Statistics show that cash withdrawal at POS is beneficial for creating a cashless payment habit among consumers. Arrangement of receipt of cashless payments in the large economic entities can also attract population to carry out cashless settlements.

Also, incentivizing the bank customers by providing appealing interest rates on deposit accounts will be a good practice to keep the money in the banking system as much as possible.

In this case, security and safety of the banking customers should also be addressed to increase the inclusion to the banking system. IT security of financial institutions, especially, immediate detection of possible cyber-attacks and prevention of their negative impacts are crucial both for financial stability and protection of consumer rights. Therefore, adherence of financial institutions (primarily banks) to the international standards of IT systems should be periodically detected by independent auditors.

The following measures will be undertaken within the framework of this Program to increase the efficiency and safety of existing payment infrastructure.

Actions

Action 3.7.1. Implementing the free of charge "Basic Banking Services Package" for low-income population groups

Banks will be encouraged to offer free banking services to low-income population groups to increase the affordability. Population groups to be eligible for free services as well as types and number of free services will be identified based on joint proposals by banks and Azerbaijan Banks Association.

Action 3.7.2. Strengthening the interbank competition environment in the distribution of social payments

The number of authorized banks distributing social payments will be increased, and citizens will be given the opportunity to independently make a choice among the authorized banks. In the areas less covered by the service network of the banks, free-of-charge use of the infrastructure of "AzerPost" LLC should be ensured in the distribution of pensions and benefits through payment cards.

Action 3.7.3. Strengthening of security requirements for IT systems in the banks

Security requirements for information systems will be strengthened, the banks will be subject to periodic and risk-based IT audits conducted by independent auditors, and standards and minimal requirements will be defined for monitoring fraud in the field of payments.

Action 3.7.4. Optimization of fee policy on payment services

Fee policy for domestic payment services will be revised, and affordability of service fees will be ensured for consumers.

Required investment

No significant investment is required for implementation of this priority.

5.3.8. Priority 3.8. Improving the capillarity of payment services in regions and remote areas

The practice of creating a payment agent network is successfully implemented in many countries where the development of financial inclusion is a priority. According to the international practice, in many countries, where the legal framework for payment

services is established, payment agent network plays an important role in expanding access to financial services and providing more effective services. Lack of strict requirements in the legislation for payment agents in comparison to other financial institutions and the diversity of payment services provided enable faster growth of country's payment agent network.

Financial services should be accessible both to citizens and commercial entities not only in large cities and regions, but also in remote areas of the country to facilitate full-fledged financial inclusion. There is substantial potential for expanding digital payments in the regions of Azerbaijan. To this end development of new agent networks should be ensured.

The following measures are planned to be undertaken within the framework of this Program for the purpose of expanding digital payments and financial inclusion across the country.

Actions

Action 3.8.1. Expansion of relevant infrastructure to create opportunities for citizens and businesses to use financial services outside the city centers

The organization's cooperation with the banks will be developed in order to provide the consumers with financial services in the areas where bank branches do not exist or their number is less, especially in the remote residential areas outside the city centers.

Action 3.8.2. Promoting development of new methods to achieve greater financial inclusion

Expansion of network of "payments agents" by non-bank payment service providers will be promoted. Implementation of this priority will result is strengthening competition among service providers and increased access to financial services for citizens in the regions and remote areas.

Required investments

For implementation of this priority investment requirements are 1 mln manat.

5.3.9. Priority 3.9. Incentivizing Cashless Payments

One of the most important conditions for expansion of digital payments is the elimination of institutional barriers. International experience shows that restrictive administrative rules are not sufficient to expand cashless payments, and financial stimulus measures (incentives) are more effective. Many countries gradually abandon administrative restrictions and widely use the incentives. In some countries, administrative restrictions have been completely removed.

As a result of economic incentives, both consumers and enterprises will be more actively involved in making digital payments.

The following measures will be taken within the framework of this Program to stimulate cashless payments:

Actions

Action 3.9.1. Providing tax discounts on cashless transactions of economic entities and consumers

Referring to the best international practice incentive mechanism based on tax discounts will be developed to encourage commercial entities and consumers to make electronic payments.

Action 3.9.2. Encouraging consumers to carry out cashless transactions with non-tax stimulus measures

Various material and non-material incentives will be applied to the consumer in exchange for cashless payment of goods and services in retail trade and public catering enterprises. A good example for non-tax stimulus can be state lotteries to which citizens can participate with their digital payment receipts and win prizes like mobile phones.

Action 3.9.3. Promotion of digital banking among corporate customers by banks

The banks will take measures to promote internet and mobile banking services among their corporate customers in order to eliminate submission of documents in paper carriers.

Required investment

Investment required for implementation of this priority is 5 million AZN.

5.4. PILLAR 4. IMPROVING FINANCIAL LITERACY AND AWARENESS

Public awareness about cashless payments and the importance of being a responsible tax payer is crucial to create a habit among the citizens on the way of cashless economy.

Within the framework of awareness, propaganda and promotion works related to expansion of digital payments in Azerbaijan: *(i) improvement of financial literacy* and *(ii) increase of public awareness about digital payments* are planned.

5.4.1. Priority 4.1. Improvement of financial literacy

Financial literacy of the citizens is very important for financial stability and economic growth. According to the leading international organizations and experts, lack of knowledge on financial issues is one of the major factors of financial crises. This problem also applies for the Azerbaijan case. "Strategic Roadmap on Development of Financial Services" identifies “improvement of financial literacy and strengthening of consumer rights protection” as one of the main strategic objectives.

The following measures are planned within the framework of this Program.

Actions

Action 4.1.1. Providing school and university students with the necessary knowledge about digital payment services

Special training programs on financial issues will be developed and taught in higher grades of secondary schools. These programs will include trainings that create practical skills for digital payments. Trainings and lessons will be organized for primary school

pupils on basic economic concepts. Topics on digital payments will be included in economic subjects taught to secondary and higher school students studying on non-economic majors.

Action 4.1.2. Sharing knowledge on electronic payments

Seminars and workshops on electronic payment will be organized for staff of various public organizations and private companies.

Action 4.1.3. Improvement of knowledge and skills of bank specialists in the field of digital banking services

Various trainings and seminars will be held to improve the knowledge and skills of bank specialists on digital banking and innovative cashless payment methods.

Relevant measures are envisaged in the "Strategic Roadmap on Development of Financial Services in the Republic of Azerbaijan" (strategic objective 5, priorities 5.1 and 5.2).

Action 5.4.1.4. Improvement of knowledge and skills of the non-FI payment provider employees

Various trainings, conferences and seminars will be held to improve knowledge and skills on classification of payment services of non-bank payment service providers and payment system operators, rights and obligations of market participants on these services, division of responsibilities, awareness and other fields.

Required investment

Investment required for implementation of this priority is 1 million AZN.

5.4.2. Priority 4.2. Increasing public awareness on digital payments

Various projects are continuously being implemented in Azerbaijan to raise public awareness about digital payments, and useful information on bank, deposit, loan, budget calculations and digital payments is published on the website developed for this purposes.

It is observed that public awareness on cashless payments is significantly low especially in the regions. Lack of awareness of certain groups of the population (pensioners, housewives) is particularly serious, negatively impacting the cashless transition of the country.

Actions

Action 4.2.1. Conducting nationwide campaigns

The capabilities of mass media will be used more widely to create the cashless usage and tax awareness. Advertising clips and posters addressed to the public will be prepared; competitions, workshops, and "financial literacy weeks" will be held; information materials will be published; TV programs will be broadcasted; and social networks will be actively used.

Entertainment programs (addressed to different target groups, especially school children, students and youth) will be broadcasted on television and radio channels.

Action 4.2.2. Creating a search system that provides information about banking products and services

To inform the society about financial products and services and their fees (including payment cards offered by banks and their features), a website will be created, and quality of its functions will be ensured.

Required investment

Investment required for implementation of this priority is 3 million AZN.

6. EXPECTED RESULTS

Implementation of the Program is expected have the following results:

- Shadow economy will shrink as the result of a stronger financial discipline in economic entities, increased transparency of the corporate sector, and elimination of tax evasion motives
- Cash circulation will decrease; as a result, costs of printing, storage and transportation of cash will be reduced
- Investment opportunities in the economy will increase with reduction of out-of-banking system turnover
- Formation of a society with high cashless payment culture will be encouraged
- Financial services and markets will develop, and mutual relations of economic entities, households and financial systems will be strengthened
- Significant achievements will be gained in accordance with improving the well-being of the population, further reducing poverty, creating a favorable environment for domestic and foreign investment, and ensuring economic development
- Achievements will be gained in bringing the level of cashless settlement and use of cashless payment instruments to the level of developed countries
- Targets set for the expansion of digital payments in the "Strategic Roadmap on Development of Telecommunication and Information Technologies in the Republic of Azerbaijan" will be achieved

7. FINANCING OF THE PROGRAM

Implementation of the measures envisaged by the State Program will be funded at the expense of the following sources:

- Funds of the Central Bank of the Republic of Azerbaijan
- State budget
- Extra-budgetary funds
- Funds of the National Fund for Entrepreneurship Support
- Funds of the Azerbaijan Investment Company
- Local budgets

- Funds of local governments, enterprises and organizations irrespective of the form of ownership
- Direct foreign investments
- Loans and grants of the country's banking system
- Loans, technical and financial assistance from international organizations and foreign states
- Instruments of financial markets
- Other sources not prohibited by legislation

8. IMPLEMENTATION, MONITORING AND EVALUATION

Implementation of the State Program

Coordination and guidance: Relevant coordination and guidance will be provided to accelerate adoption of decisions, identify accountability and create additional executive capacity.

The mechanism of acceleration of decision-making for the State Program at the highest political level will be created. This mechanism will enable decision-makers to provide the necessary guidance for the implementation of the program by other key stakeholders.

Main executive organization will appoint responsible parties on each priority and measure for timely and proper execution of actions. Main executive organization will involve other executors in implementation of the actions. Main executive organization will be responsible for implementation of the measures and, if necessary, will involve other relevant institutions and private sector in conducting additional measures.

An appropriate coordinating body ("delivery unit") will be identified to control the implementation of the State Program, to solve the problems or to arrange proper coordination among the units. The core work of the organization will be comprised of organization of coordination between necessary institutions, processes and technologies for effective implementation of measures.

Report on quarterly works will be submitted to the delivery unit by key executive organizations.

Mobilization of partners: Local and international partners from both the government and non-government sectors will be involved in the implementation of the State Program.

Relevant measures will be taken to identify and involve key strategic partners. Successful implementation of each action requires involvement of relevant organizations and stakeholders.

Civil society and think tanks will be involved to comprehensively support the State Program. In addition; active communication, transparency and participation will help mobilize the public and private sectors, as well as the whole community and other stakeholders.

Monitoring and Evaluation of the State Program

Monitoring and evaluation of the State Program will be carried out to ensure effective and efficient implementation. Monitoring and evaluation will focus on the implementation of the actions on their merits, the expected results will be kept in mind, and compliance with the performance period will be verified. Monitoring and evaluation will be referred to methodological framework based on international and local experience.

The delivery unit shall receive reports from main executors, summarize them and submit the final report to the monitoring and evaluation body. The monitoring and evaluation body shall (i) analyze the final report and, when necessary, other information collected from relevant sources, (ii) draft monitoring and evaluation report, and (iii) submit it to the coordinating and supervision bodies in the proper manner.

8. ACTIONS PLAN

Name of action	Main executor	Other executors	Execution period	Annual increase in cashless turnover (billion AZN)	
PILLAR 1. FURTHER IMPROVEMENT OF THE INSTITUTIONAL ENVIRONMENT OF DIGITAL PAYMENTS					
1.1. Development of favorable business environment					
1.1.1. Development of proposals on increasing competitive environment for the purpose of creating a favorable business environment	MEc	MJ	2018-2019	1.35	
1.1.2. *Development of proposals on increasing competitive environment for small and medium enterprices*	MEc	MJ	2018-2019		
1.1.3. *Adoption of the Competition Code*	MEc	MJ	2018-2019		
1.1.4. *Promoting the creation of sectoral clusters in various sectors*	MEc	MJ	2018-2020		
1.2. Increasing the efficiency of the tax system					
1.2.1. Reduction of tax types and simplification of the taxes and optimization of tax burden	MT	MEc, MF	2018-2020		

1.2.2. Further improvement of tax administration	MT	MEc, MF, MLSPP, MJ	2018-2020	3.0	
1.2.3. Increasing the effectiveness of tax audit and reporting	MT	MEc, MF, MLSPP, MJ	2018-2020		
1.2.4. Gradual replacement of the simplified tax system with VAT system and differentiation of VAT rate	MT	MF	2018-2020		
1.2.5. Application of the "Single Accounting System"	MF	MT	2018-2020		
1.3. Measures to reduce nonregistered employement for improvement of social protection system					
1.3.1. Optimization of social protection burden between employer and employee, enhancement of relation between social benefits and incomes	MLSPP	MF, MT	2018-2020	0.75	
1.3.2. Development of "Minimum Labor" standards to prevent unregistered activity in sectors with a high number of unregistered employees	MLSPP	ANASIE	2018-2020		
1.3.3. Creation of risk-based audit mechanisms	MLSPP	MF	2018-2020		
1.3.4. Strengthening of public awareness on the importance of social protection	MLSPP	MF	2018-2020		
PILLAR 2. REVITALIZATION OF THE BANKING SECTOR					
2.1. Acceleration of rehabilitation of the banking sector					

2.1.1. Capitalization of banks and provision of their liquidity	FMCC	CB, MF, DIF	2018-2020	3.34	
2.1.2. Proposals for development of new mechanism for management of troubled assets	FMCC	MF, MJ,MT, CB	2018-2019		
2.1.3. Improvement of supervision over the activities of banks	FMCC		2018-2020		
2.1.4. Improvement of creditors' rights protection mechanism	FMCC	MJ	2018-2020		
2.2. Formation of active money market					
2.2.1. Assessment of potential of creation of market makers institute	CB	FMCC, MF	2018-2019	3.3	
2.2.2. Development of infrastructure elements that contribute to the development of interbank money market	CB	FMCC, MF	2018-2020		
2.2.3. Extension of the securities market and development of the interbank REPO market on this basis	CB	MF	2018-2020		
PILLAR 3. FORMATION OF DIGITAL ECOSYSTEM					
3.1. Development of digital business					
3.1.1. Improvement of the regulatory framework	MEc	MTCHT, MJ, ME, SACSSI	2018-2020	0.03	
3.1.2. Intensification of non-financial support to startup projects	MEc	MTCHT, MJ, ME, SACSSI	2018-2020		
3.1.3. Promotion of cooperation with business and science, startups and large companies					
3.2. Development of e-commerce					

3.2.1. Expansion of e-commerce infrastructure	MEc	MFA, SCC	2018-2020	0.15	
3.2.2. Identification of minimum security requirements for e-commerce providers	MTCHT	MEc	2019-2020		
3.2.3. Improving the mechanisms of taxation of non-resident tax payers	MT		2019		
3.3. Improvement of the legal framework for payment services					
3.3.1. Establishment of a normative legal framework defining the economic, legal and organizational basis of non-bank payment service providers' activities	FMCC	CB	2018-2020	0.6	
3.3.2. Improvement of digital banking and legal framework of digital payment technologies	FMCC	CB	2019-2020		
3.4. Application of new digital payment technologies					
3.4.1. Development of instant payment system available 24/7/365	CB	FMCC, MT, MEc, MTCHT	2019-2020	0.75	
3.4.2. Implementing ISO20022 universal exchange standards for the financial system that enables automation of operations between users	CB	FMCC	2019-2020		
3.4.3. Introduction of cheap payment methods that enable small enterprises to receive cashless payments	CB	FMCC, MT	2019-2020		
3.4.4. Expansion of digital payments using the functionalities of payment organizations and electronic money organizations	FMCC	MTCHT	2019-2020		

3.4.5. Studying the application of the latest financial technologies in the country	CB	MEc, MT, MTCHT,FMCC, CERAC	2018-2019		
3.5. Development of digital banking					
3.5.1. Ensuring mutual use of electronic certification centers' capabilities	MTCHT, MT,CB	MT, CB	2019-2020	0.55	
3.5.2. Expansion of application of remote banking services by the banks	FMCC	CB	2018-2020		
3.6. Wide application of smart payment instruments					
3.6.1. Expansion of cashless payment of fees in the public transport in Baku	BTA	CB, FMCC	2018-2020	0.09	
3.6.2. Creating opportunities for cashless payment of parking fees	BTA	CM,CB, FMCC	2018-2019		
3.6.3. Providing multifunctional and prepaid card products for foreign tourists	MCT	CB, FMCC	2019-2020		
3.6.4. Providing students with smart student ID cards	ME	CB, FMCC	2019-2020		
3.7. Increasing the efficiency and security of existing electronic payment services					
3.7.1. Implementation of free "Base Banking Services Package" for low-income population groups	FMCC	CB	2019-2020	0.4	
3.7.2. Strengthening the interbank competition environment in the distribution of social payments	MLSPP	CB, FMCC	2018-2019		
3.7.3 Strengthening of security requirements for IT systems in the banks	FMCC		2019-2020		

3.7.4. Optimization of tariff policy on payment services	CB	FMCC	2019-2020		
3.8. Increase of financial inclusion in the regions and remote areas					
3.8.1. Expansion of relevant infrastructure for use of financial services by businesses and population in regions outside the regional centers	MTCHT	CB	2018-2020	0.06	
3.8.2. Promoting the application of new methods for development of financial inclusion	FMCC		2019-2020		
3.9. Stimulation of digital payments					
3.9.1. Provision of tax discounts on cashless transactions for economic entities and consumers	MT		2018-2019	0.5	
3.9.2. Encouraging consumers to carry out cashless transactions with non-tax stimulus measures	CB	ABA	2018-2020		
3.9.3. Promotion of digital banking among corporate clients by banks	CB	ABA	2018-2020		
PILLAR 4. STRENGTHENING OF AWARENESS AND PROMOTION ON DIGITAL PAYMENTS					
4.1. Improvement of financial literacy					
4.1.1. Providing school and university students with the necessary knowledge about digital payment services	ME	CB	2018-2020	0.35	
4.1.2. Establishment of financial literacy association	CB	ABA, MC, MT, TN, MLSPP	2019		
4.1.3. Improvement of knowledge and skills of bank specialists in the field of	FMCC	CB	2018-2020		

digital banking services					
4.1.4. Improvement of knowledge and skills of the specialists of non-bank payment service providers	FMCC	CB	2018-2020		
4.2. Increasing public awareness on digital payments					
4.2.1. Conducting nationwide campaigns	CB	NTRC	2018-2020	0.9	
4.2.2. Creating a search system that provides information about banking products and services	CB	ABA	2018		

Abbreviations:

Administration of the President of the Republic of Azerbaijan	PA
State Agency for Citizens Service and Social Innovations under the President of the Republic of Azerbaijan	SACSSI
Ministry of Education of the Republic of Azerbaijan	ME
Central Bank of the Republic of Azerbaijan	CB
Ministry of Transport, Communications and High Technologies of the Republic of Azerbaijan	MTCHT
Ministry of Culture and Tourism of the Republic of Azerbaijan	MCT
Ministry of Taxes of the Republic of Azerbaijan	MT
Ministry of Economy of the Republic of Azerbaijan	MEc
Ministry of Justice of the Republic of Azerbaijan	MJ
Ministry of Finance of the Republic of Azerbaijan	MF
Ministry of Labor and Social Protection of Population of the Republic of Azerbaijan	MLSPP
Baku Transport Agency under the Cabinet of Ministers of the Republic of Azerbaijan	BNA
Financial Market Control Chamber of the Republic of Azerbaijan	FMCC
Ministry of Foreign Affairs of the Republic of Azerbaijan	MFA
State Committee for Standardization, Metrology and Patent of the Republic of Azerbaijan	SCSMP
Small and Medium Entrepreneurship Agency	SME Agency

National Television and Radio Council	NTRC
State Customs Committee	SCC
Azerbaijan National Academy of Sciences, Institute of Economy	ANASIE
Association of Banks of Azerbaijan	ABA
Center for Economic Reforms Analysis and Communication	CERAC