



TERMS OF REFERENCE

Project: Reducing cash transactions

Project Owner: Mr. Oliver WHITTLE, Raiffeisen Bank.

Project Manager: Mr. Robert Wright, Retail Division, Raiffeisen Bank.

Deputy Project Managers: Marseda Dumani, Payment Department, Bank of Albania.

Technical Anchor (TAN): Oscar Occhipinti, Italian Association of Banks

Project Working Group: Representatives of banks, BoA, Other public and Private Institutions

I - Background - Identification of the problem

The Albanian authorities have undertaken several legal and administrative initiatives to reduce cash transactions in economy with final objective to combat the informal economy.

- In July 2007, the Albanian Government amended some articles in the Law on Taxation Procedures in the Republic of Albania that are in line with cash reduction initiative. The upper limit allowed to use cash for the purchase of goods and services was revised downward from 1,000,000 lek to 300,000 lek, but not more than 10% of the total purchases of that fiscal year / tax period. All the acquisitions above this amount should be paid through the banking system.

SPI Albania Secretariat

Mrs. Anuela Ristani, Director of Operations, anuela.ristani@spi-albania.eu

Ms. Elona Bollano, Director of Analytics and Policy, elona.bollano@spi-albania.eu

Address: Twin Tower I, Kati 6, Apt. A3. Tirana, Albania. Tel. +355 42 280 359; Fax. + 355 42 280 371



- Prior to this law amendment, the Council of Ministers has issued a decree on May 2007 on the minimal reference monthly wage to be used in the computation of the social security, health insurance and tax contributions with the provision that contributions have to be paid to the respective state institutions through the banking system or the post office network.
- In addition to the legal aspect the General Directorate of Taxation is working for modernizing the payment procedures in order to facilitate the non-cash payment of the taxes. They are working on the implementation of an on-line payment system and on the reduction and the simplification of the procedures to be followed by the taxpayers.

In 2003 Bank of Albania in collaboration with other institutions initiate a campaign for the reduction of the use of cash in the economy¹. In addition to this campaign, in order to facilitate the interbank payments BoA has implemented:

- (i) the Albanian Interbank Payment System (AIPS) that settles systemically important payments (such as payments between settlement participants, bank-to-bank payments, including payments to and from the BoA; payments on government securities transactions, using the DVP mechanism; net transfers of funds requiring designated time settlement; and large-value customer payments. This is a system based on the core RTGS principles;
- (ii) The Albanian Electronic Clearing House System (AECH), an electronic clearing system owned and operated by BoA, in which files of bulk (high volume) low value payment instructions (both credit transfers and direct debits) are exchanged among banks and other credit institutions after the net positions have been settled through RTGS.

AIPS and AECH have automated the clearing service provided by the Bank of Albania to commercial banks for processing payments to their clients. The implementation of these systems improvements in the national payments system in terms of increasing speed, reducing cost and security increasing in their processing. Did banks decrease their charges for payments according to the cost reduction?

Despite these initiatives undertaken it seems that the intended effects are not completely materialized and the volume of cash transactions continues to be high. **The high level of cash transaction raises concerns to the banks. These concerns are related to the costs associated with handling the cash and with the inefficiency produced by the high level of unused liquidities.**

II - Project Objective – Definition of policy goals

¹ Some of the changes and amendments presented above were identified during this campaign.

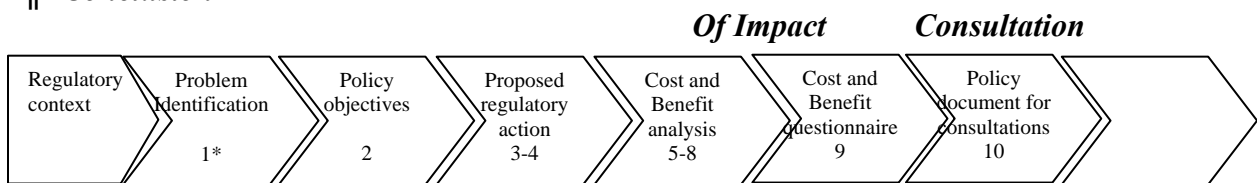


1. To prepare a protocol on a common policy in respect of the actions and measures to be undertaken by the banks for reducing the volume of cash transactions.
2. To build consensus among banks in order to sign and implement the protocol.

In order to further reduce cash transactions, in a later stage SPI Albania and the local stakeholders could undertake a project on the possibility of setting up a domestic hard currency payment system.

III – Intended Strategy – Description of the Better Regulation 9 steps

=====Scoping of Problem===== || =====Analysis ===== || = Policy
 = || =Conclusion=



* See attachment

The project management group (Project Owner, Project Manager, Deputy Project Manager, supported by the SPI Secretariat) will act based on the mandate received from the SPI Committee to undertake initiatives to further reduce the volumes of cash transactions within the banking system.

1. The project management group (PMG), with the support of SPI Albania Secretariat, will work to build consensus among banks for signing a self regulatory protocol / agreement that will lead to the reduction of cash transactions volumes. The main purpose of this protocol will be:
 - a. the reduction of cash transaction by creating disincentives for cash use; combined with
 - b. the increase of non-cash transactions by creating incentives for the costumers to use alternatives to cash.

The protocol will be prepared based on the outcomes of the following actions:

- PWG will conduct through AAB a market survey to collect information on the level of commissions for domestic payments; how are set prices² for domestic payments; banks’ costs generated by the process of handling, depositing, securing

² In the term “price” includes the term commissions, fee, interest or any other type of payment charged by the bank to the costumer for the use of a certain product or service.



and transporting cash and bank’s potential impact of lowering the commissions for non-cash transactions; identify and draw the transactions profile of the biggest clients (like e.g. the communication companies, the water supply company or KESH) that process high volumes of cash transactions.

- PWG with the support of SPI Secretariat will conduct a research on the international experience;

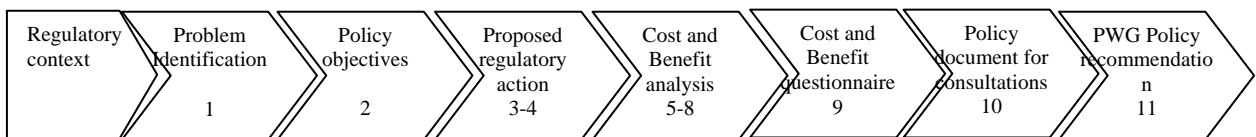
- SPI Secretariat will prepare a summary document based on the survey results and on the international experience for the PWG discussions. PWG should identify possible solutions that tackle bank-client and bank-bank relations with regard to the types of products and services, identify alternative methods and should formulate the protocol.

2. The project management group (PMG), with the support of SPI Albania Secretariat, will work:
 - a. To promote the implementation of the protocol through moral suasion. In this part BoAs’ support will be very important;
 - b. To build an information campaign on the inconveniencies of using cash and the benefits of using alternative payments. In this part media collaboration will be crucial.

IV- Methodology: from kick off to the accomplishment of the project

A. First PWG Meeting

Preparation of PWG 1st meeting (PM/DPM and SPI Secretariat)



The Project Owner will appoint PM and BoA will appoint the DPM. SPI Secretariat will draft the invitation letter.

SPI Secretariat will conduct a research in the international (European) experience on pricing the domestic payments and the strategies of pricing the products and services. Based on the collected information SPI Secretariat will prepare a draft note on the international experience.



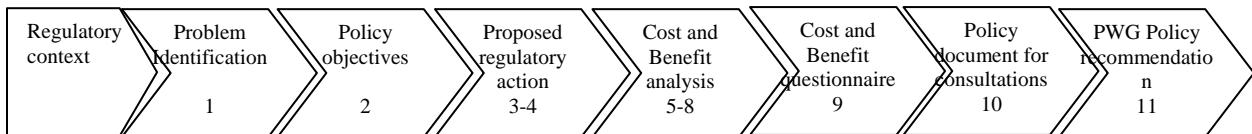
PMG and SPI Secretariat to prepare: a. a background note on current situation. b. a note on international experience.

Output: First Draft of “Scoping of Problem” for PWG discussion

After PMG clearance and before the 1st meeting, SPI Secretariat will send to PWG members the following documents:

1. The present draft TORs.
2. Draft “Scoping of Problem” document.

PWG 1st meeting

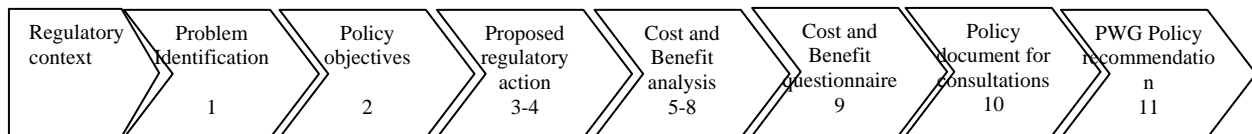


- Objectives:
- a. To understand the current context and the policy goals;
 - b. To formulate recommendations on policy options;
 - c. To analyze the impact for users, regulated firms and regulators

Output: Information to complete a document comprising the Scoping of the Problem and the Impact Assessment (Impact Assessment Analysis Document - IAAD) to be endorsed in PWG 2nd meeting. The IAAD covers steps 1-8 of the Better Regulation Template.

B. Second PWG Meeting

Preparation of PWG 2nd meeting (PM/DPM and SPI Secretariat)



PMG and SPI Secretariat to draft the questionnaire for data collection.

PWG 2nd meeting

Objective: To discuss and agree on the cost and benefit questionnaire.

Output: (a) Endorsement of IAAD (1-8) and (b) Final questionnaire



PM/DPM establishes **homework**:

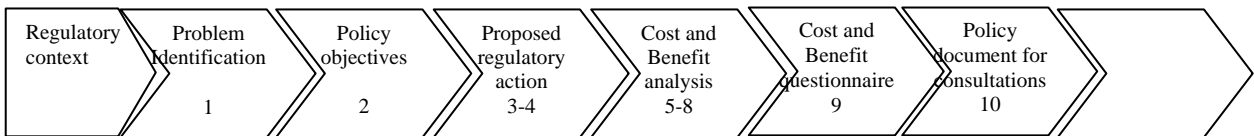
- SPI Secretariat: will prepare the minutes of the meeting; will integrate the individual contributions on the cost and benefit questionnaire.

C. Third PWG Meeting

Preparation of PWG 3rd meeting (PM/DPM and SPI Secretariat)

SPI Secretariat to: collect data from PWG participating banks analyzing; summarize questionnaire results and prepare draft “summary impact assessment” for PWG discussion and endorsement.

PMG and SPI Secretariat to draft policy option consultation paper



Objectives: (a) To endorse Impact Assessment Analysis Document including “Summary Impact Assessment”; b) To finalize policy option consultation paper.

Output: a) IAAD; b) final policy option consultation paper.

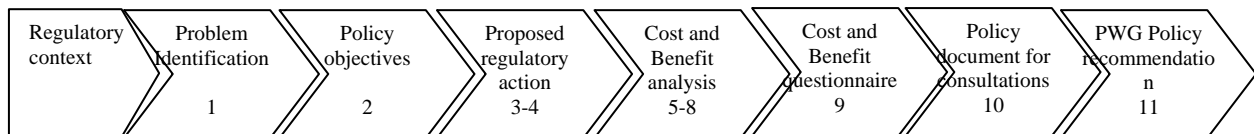
D. Fourth PWG Meeting

Preparation of PWG 4th meeting (PM/DPM and SPI Secretariat :

PM/DPM and SPI Secretariat to:

- Run consultations with stakeholders based on the policy option consultation paper;
- Draft feedback document;
- Prepare draft action plan for consensus building among the banks and for informing the public on the initiative.

PWG 4th meeting



Objective:



- a) To discuss the consultation feedback document and the policy document; and
- b) To agree on the policy recommendations regarding the main provisions of an inter banking protocol.
- c) To agree on the action plan for consensus building among the banks and for informing the public on the initiative.

Output: Policy recommendations, b) Draft protocol; c) Action plan for consensus building among the banks and for informing the public on the initiative.

Following PWG 4th meeting: Preparation of the SPI Committee paper.

After getting PWG agreement on the SPI Committee paper, SPI Secretariat will send the document for SPI Committee endorsement. The final document approved by the SPI Committee will be forwarded to the AAB and BoA for agreement and support. PMG and SPI Secretariat will follow with the implementation of the action plan asking for the involvement of all parties.

VI - Project Team

The team is composed of:

- Banks
- Bank of Albania
- Other public and private institutions.

VII – Tentative PWG meeting schedule

- First meeting July 2008
- Second meeting September 2008
- Third meeting October 2008
- Fourth meeting October 2008

VI - Consulted documents:

- Bank of Albania web address www.bankofalbania.org.



- Decree No. 285, dated 04.05.2007, “On the definition of the monthly referring wage, for calculating social and health securities and taxes on income provision”.
- Law No. 8560, dated 22.12.1999, “On Taxation Procedures in the Republic of Albania”.



The EU Better Regulation Approach	
Steps	Purpose
Scoping of problem	
1. Problem identification	To understand if a market/regulatory failure creates the case for regulatory intervention.
2. Definition of policy objectives	To identify the effects of the market /regulatory failure to the regulatory objectives.
3. Development of “do nothing option”	To identify and state the status quo.
4. Alternative policy options	To identify and state alternative policies (among them the “market solution”).
Analysis of impact	
5. Costs to users	To identify and state the costs borne by consumers
6. Benefits to users	To identify and state the benefits yielded by consumers
7. Costs to regulated firms and regulator	To identify and state the costs borne by regulator and regulated firms
8. Benefits to regulated firms and regulator	To identify and state the benefits yielded by regulator and regulated firms
9. Data Questionnaire	To collect market structure data to perform a quantitative cost and benefit analysis
Consultations	
10. Policy Document	To learn market participant opinions on various policy options
Conclusion	
11. Final Recommendations	Final report to decision-makers, based on Cost Benefit Analysis and market feedback

Source: CESR-CEBS-CEIOPS 3L3 Guidelines, adjusted by the Convergence Program based on experience.