Prepared by SPI Albania Secretariat

SPI Project: Reducing cash transactions
Note on the proposal to perform a national-wide survey

1. SPI project on reducing cash transactions

1.1 Background

SPI Albania has undertaken this project based on the banks' indications on the high volume of cash transactions and the associated costs (fixed costs with office space, personnel, security and ATM network, and variable costs with transportation, handling and ATM cash replenishing) and risks. The Central Bank incurs also costs with the production, distribution and the operational management of cash (security, transport, administrative and maintenance costs) that are to be recovered from banks.

The Albanian authorities have undertaken in the past 5 years several legal and administrative initiatives to reduce cash transactions in economy with final objective to combat the informal economy. BoA conducted a campaign for the reduction of the use of cash in the economy and implemented the electronic payment system (please find more details in the attached Project ToRs – Appendix I). As the impact of these measures was not the estimated one, there is the need for additional actions for a decrease in the cash transactions.
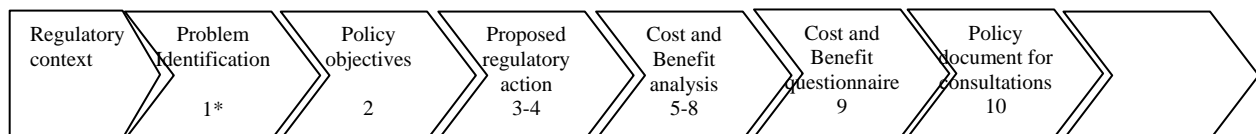
1.2 Project Objectives

1. To prepare a protocol on a common policy in respect of the actions and measures to by 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.

1.3 Project Steps
The Project steps are based on the EU Better Regulation Approach as outlined below

=========*Scoping of Problem*=========‖======*Analysis* ====‖= *Policy* =‖=*Conclusion*=
                                                                    Of Impact   *Consultation*

Regulatory context	Problem Identification 1*	Policy objectives 2	Proposed regulatory action 3-4	Cost and Benefit analysis 5-8	Cost and Benefit questionnaire 9	Policy document for consultations 10

1.4 Current Status.

SPI Secretariat prepared the draft ToRs and gathered with AAB and BoA support the PWG. In its first meeting, the PWG approved ToRs and scoping the problem document and decided to extend PWG composition by inviting Ministry of Finance, telecommunication and other utilities companies, as well as Customs' Offices to appoint their representatives.

At AAB invitation and on the occasion of the first PWG meeting, an ABI expert delivered a presentation on the Italian "war against cash". Based on a study of the causes for which consumers and companies prefer to deal with cash, ABI was able to formulate regulatory and non regulatory proposals in order to reduce cash transactions. The non-regulatory measures were mainly directed to creating new benefits for merchants and developing new products and included a major promotional and educational campaign on the use of cards. The regulatory proposals formulated by ABI included: obligation for professionals, merchants and Public Administration Offices not to accept cash for payments which top a determined amount; definition of a cap above which wages/salaries cannot be paid by cash, credit transfers to citizens be executed by Public Administration Offices using modern payment means, etc.

2. The need for the national wide survey

The Italian experience showed that for the effectiveness of the proposed measures, causes of the consumers' and companies' apprehension for cash have to be determined. At the same time, as ABI presentation showed, the largest cost savings generated by cash reduction are, in fact, registered by consumers and companies, not by the banks.
Project Working Group concluded that a national-scale study in order to identify the causes and costs of the high volume of cash in Albania for consumers and companies would be highly necessary in order to formulate the most effective and customized measures for cash reduction.

In addition to the national scale study the Project Working Group will perform an assessment of the impact of the cash reduction in the banks' income statements. With the support of AAB, the Project Working Group will collect the data for the Impact Assessment through a questionnaire to be sent to all the 16 banks in Albania.

3. The selection process for a survey company

3.1. Brief of RFP

Based on PWG proposal, SPI Secretariat prepared a Request for Proposal (see Appendix II) to be addressed to the research companies operating in Albania. The RFP outlined the background of the project, the need for research and its objectives as well as the required deliverables that would satisfy the requirements of the identification step for this project.
A successful research would satisfy the following objectives:
Objective 1
To identify the causes of why consumers choose cash versus 'banking'
Objective 2
To quantify the cash transaction costs for individuals (households) and businesses.

3.2. Companies approached

Based on all information available and in consultation with banks and other businesses and international organizations, SPI Albania short-listed the following research companies/organizations.

1. IDRA sh.p.k (Institute for Development and Research Alternatives) www.idra-al.org
2. UBO Consulting (Market Research and Business Service Provider) www.uboconsulting.com
3. BBSS Gallup International www.gallup-bbss.com
4. ASET (Albanian Socio Economic Think Tank) www.aset-al.org

Out of the 4 approached organizations only BBSS Gallup International was not able to send us a proposal within the required timeframe.

3.3. Profile of the respondents

IDRA sh.p.k is a member of ESOMAR (European Society for Opinion and Market Research), with more than 7 years experience in the Albanian market, IDRA performs both quantitative and qualitative research. IDRa has served clients like: Raiffeisen Bank, Procter and Gamble, Tirana Airport Partners, procredit Bank, Vodafone, Japan Tobacco International, and has conducted opinion polls for USAID, EBRD, OSCE, Soros Foundation, Tirana Municipality, etc.

UBO Consulting is a market research firm and business service provider who has served Kosovo, Albania and the region of South-East Europe for more than 7 years. Some of their previous research includes projects such as: Market Research for Outdoor Advertising effects in Albania; Kukes Economic Development Potential Assessment for UNDP; Raiffeisen Bank Market Research; Study of the Microfinance Sector In Kosovo for the Community Development Fund; Review of Marketing practices in the Financial Sector in Kosovo (Commissioned by Business Startup Center, Kosova); Market Research for real-estate in Prishtina, UNDP Human Development Report 2008; Market Research for Business Development Services for Swisscontact; etc.

ASET is a member of the International Association for Surveys Statisticians (IASS) and was founded in 1999. Asset has carried out with success similar projects for The Government of Albania, World Bank, EBRD, Soros Foundations, US Embassy, IFAD (Italy), GTZ, IFC, Brookings Institutions (US); UNIFEM; IOM; Development & Training Services Inc.; Interreg/Cards IIIA (EU), etc.

3.4. Proposed Methodologies

3.4.1   Sampling

IDRA.

Household sample:
For a National sample IDRA has calculated an optimal sample size of **1200** respondents which would ensure a confidence interval (less than ±2.8%)

There are three selection methods needed to be employed to have an accurate and representative sample of households.

i)   Selection of Sampling points

Voting centers as per the database of the last local elections. (The total universe is the voting population (18+)).
ii)   Selection of Household
A classic method used there where proper listings of residents are missing. This method requires strict following of the procedures and rules (Starting point, rule of the left hand, every third door) and as a result of these procedures, we have a sample, which will comply with the highest representative's requirements and provides true results
iii)   Selection of Respondent
Nearest birthday method**.** The respondent should be of age 18 or more normally living in the private household whose birthday is nearest to the date of contacting.

Private sector sample:
For the private sector sample we propose a QUOTA sample of **300 or 400 businesses** based on:
1. Sectors
2. Size
3. Geographic location

UBO Consulting

The proposed sample for the household survey would be comprised of **1,600 adult respondents** across Albania. The sample will be stratified according to age, gender, and settlement (geography) and it will be custom designed to accurately portray the demographic composition of Albanian population

The first sampling stratification will be conducted along territorial lines, namely each municipality will be assigned a representative sample of respondents. These municipal sub-samples will then be stratified according to age, gender and settlement, thus providing for a faithful and representative selection process.

When conducting the surveys in the regions, the surveyors will follow a random route which they will interview persons by attending residential houses of potential participants of the survey and conducting face-to-face interviews.

The households will be chosen randomly by using 'every other house' method, and when surveying participants in apartments, the surveyors will choose one random door as a starting point and then interview one person every third floor. If more than one person is eligible to be interviewed within a household, the enumerators will use dates of birth as a random method for choosing the respondent.

Survey of Businesses is the second parallel process that will take place during project implementation. It will include a total of **600 businesses** sample throughout Albania. The sample will be stratified according to geographic location, size, field of activity (i.e. trade, manufacturing and services). The businesses will be identified from the existing business database that UBO Consulting has.
The sample of respondents for the business survey will be stratified according to the following criteria:
- Size of business (number of employees, turnover proportional to the percentages reported by the Ministry of Economy)
- Field of activity (trade, services, manufacturing proportional to the percentages they take in the economy)
- Geographic location

ASET

For the household survey ASET will construct a national sample of **1000 individuals**. The sample will be constructed based on very precise determinative characteristics, including the distribution in urban and rural areas. The survey will address some specific questions for the rural population, based on the fact that the banking system is not present at the majority of rural zones.

For the business survey ASET will construct a sample of **500 companies**. The sample will be constructed based on the INSTAT data regarding the distribution of companies according to 36 districts, economic activity and size.

3.4.2 Quantifying

IDRA

In order to have a complete picture of CASH TRANSACTION COSTS vs CARD TRANSACTION COSTS some other data from a different type of research are needed. These data include but are not limited to:
Nr. of POS accepting card payments
Nr. of Card holders (debit/credit)
Volume of card transactions overall (number and Lek)
Bank costs for ATM withdrawals (cash distribution costs)
Bank costs for OTC withdrawals
Costs for withholding cash at ATM-s and branches (estimation), etc.

The data that will come out of the survey of households and businesses will be complementary to the "macro" data in order to have a clearer picture of CASH TRANSACTIONS COSTS.

Some of the costs incurred to consumers are:
Cost of holding liquidity (for both individual consumers and businesses but more of an issue for businesses). This cost usually is calculated as the interest rate cost on the average holdings of cash for transaction purposes.
The so-called "Shoe-leather" cost of going to the bank, post-office or ATM to withdraw cash
Time costs at the cash register

UBO Consulting

UBO Consulting has designed an approach that attempts to accurately assess the spending habits of citizens, as well as lifestyles and types of payments made. With regards to this aspect, a set of questions regarding payments made in cash and those made via bank transactions will be incorporated in the questionnaires for both target audiences—individuals and businesses alike.

Additionally, UBO Consulting will conduct **40 in-depth interviews with key informants** (National Bank of Albania, Ministry of Finance, Albanian Association of Banks, INSTAT), and other sources identified in the process.

While the first method of data gathering will offer data from the perspective of target audiences, the second method will enable UBO Consulting to gather the official data available. It should be noted that based on the previous experience in conducting research in Albania, UBO Consulting expects that there

will be a significant discrepancy in data depending on the source of information. The foundation for this expectation lies in the fact that a significant degree of financial and economic activity in Albania is conducted informally, hence, making it impossible for authorities to record a significant portion of transactions.

ASET

ASET will deal only with the cash transaction cost for households and the businesses. The mosaic of the cash versus card transaction cost will be fulfilled with other data, which will not be generated through the questionnaire survey. These data will be collected through desk research and the contact to the banks and other institutions. The research will be focused on three dimensions: an indentified set of products (current accounts, savings accounts, credit and debit cards, and personal and business loans); five customer groups (students, young professionals, low-income families, median-income families and pensioners) and a tentative comparison with other countries. Among the data that will be collected through research, we could mention:
o Costs of transaction for banking products;
o Fees for using banking products;
o Nr. of POS existing in country and their network
o Availability to use banking products and POS;
o Data and statistics on number of using banking products (mainly and POS, volume of transactions, etc.
o Details on obtaining or using banking products for business and people;
o Details on each type of a banking service related to time waited before obtaining it;
o Types of documents and complexity of procedures needed to be fulfilled for each type of banking service;

3.6. Proposed Timelines

Company	IDRA	UBO Consulting	ASET
No. of Weeks	7	12	14

3.7. Proposed Costs

Company	IDRA	UBO Consulting	ASET
Total Costs in EUR	24,150	48,151	22,900
Total Costs Including VAT	28,980	57,782	22,900*
Cost/ Bank	1,812	3,612	1,432

* ASET is registered as an NGO, and does not charge VAT.

Summary of offers and rating

Companies / Criteria		IDRA	UBO Consulting	ASET	
1, Methodology 30 %	a. Sampling 10%	6	8	6	
	b. Quantification 20%	6	8	7	
2. Proposed Deliverables 15 %		8	8	8	
3. Profile and Reference 10%		9	8	9	
4. Costs 30 %		8	5	9	
5. Timeline 5%		10	7	6	
6. Structure of proposal 5%		6	8	7	
7. Others 5%		9	4	7	
		62	56	59	**Total Score***
		755	**685**	**780**	**Total Weighted Score**

* Scoring is based on a simple 1-10 scale and weighted accordingly with the proposed relevance for each criterion.

Scoring Explanation
1. Methodology.
   a. Sampling: UBO Consulting proposes a larger and more diverse sample than IDRA and ASET. While the latter detail the strata for the individuals and the criteria for random selection, UBO develops more on criteria for the business segment. They also develop on the in-depth interviews and their snow-balling method of selecting the relevant organizations.
   b. Quantifying: None of the Companies has provided a specific methodology on how they plan to make the quantitative assessment. However, they mention that the secondary data, the desk research and some of the questions they will include in the household and business survey will provide them with enough information to derive an estimation of the costs for the entire economy. UBO Consulting enters gives more information on where the secondary and primary data to be computed can be found. In addition to the above they mention the specific institutions to be interviewed for more accurate estimations.
2. Proposed Deliverables:
The three companies propose the same deliverables of the survey. The marking is satisfactory but not maximum since none of them is able to give enough evidence for the accurate quantification deliverables.
3. Profile and References:
The 3 companies have almost the same experience and they have been operating in the market for nearly 7-8 years. All the companies have performed studies for International Companies and Organizations as well as Local ones. UBO Consulting operates in Albania as a branch of the Kosovo based company and they might be disadvantaged due to lack of experience in Albania.
4. Costs:
The highest mark is given to the lowest offer.
5. Timeline:
The highest mark is given to the shortest timeline proposed.
6. Proposal Structure:
The highest mark is given to the most structured and detailed offer.
7. Others:

The score for this item was given by taking into consideration some general research and reference checking, the correctness of answering to the RFP, the accuracy of the information and references, as well as the company context and the compatibility of their profile with the requirements of this study.

4. PWG recommendations

The Project Working Group suggests that this Note should be sent to the Albanian Association of Banks for further analysis and approval. Upon approval, the AAB, with SPI Secretariat support may contract and sponsor the survey following up on the selection and preparatory work done by the SPI Secretariat and the Project Working Group.

The Results of the survey will be used in the SPI Project for Reducing Cash Transactions in order to formulate accurate and concrete proposals.

The Results will be property of all the banks participating in the sponsorship and may be part of their database on the most updated market information for cash usage in Albania.

Request for Proposal

Background Information

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 2003 Bank of Albania in collaboration with other institutions initiate a campaign for the reduction of the use of cash in the economy. In addition to this campaign, in order to facilitate the interbank payments BoA has implemented the Albanian Interbank Payment System (AIPS) that settles systemically important payments and the Albanian Electronic Clearing House System (AECH), an electronic clearing system owned and operated by BoA. 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.

There are several socio-economic issues that favor cash usage in Albania. Customers seem to have:
- low sense of confidence in the ability of the current POS-es (traditionally cash transaction places) to correctly process their payments,
- reluctance to use "official" channels,
- general distrust of technology
- continue to suffer from the trauma caused by the pyramid scheme era
- the perception of high cost of fees and commissions for making payments versus no costs perceived from cash usage.
- suppliers prefer to be paid in cash.
- fear of being unable to control the spending amount, etc

Research Need

The anti cash initiatives are not mere measures to increase the business for the banks, but they benefit many more actors, be them public or private. If this is a valid assumption, in order for the Project Working Group Members to undertake effective measures in reducing cash transactions, they should undertake a study on the causes and costs of such a high volume of cash transactions.

Research Objectives

Objective 1
To identify the causes of why consumers choose cash versus 'banking'

Objective 2
To quantify the cash transaction costs for individuals (households) and Businesses.

Proposal Requirements

The proposal should contain the following:
1. Summary of the Research that answers the two main objectives.
2. Costs and payment requirements for a national scale research, divided per objective and in total.
3. Proposed Sampling information
4. Detailed Methodology proposed (with particular emphasis to the quantification under Objective 2)
5. Research and Deliverables Timeline.