

# MICROCREDITING OF SMEs IN AZERBAIJAN

by

Sabit Bagirov, Ph.D.

President,

Entrepreneurship Development Foundation

## ECONOMIC SNAPSHOT

2013 was another year of consistent economic growth for the country, primarily due to the extraction and export of hydrocarbon resources and to a lesser extent, due to the development of institutions. Below are a number of key macroeconomic indicators for 2013<sup>1</sup>:

Indicator:	Value	Growth Rate %
▪ GDP:	57,708.2 million. AZN <sup>2</sup>	105.8
▪ Non-oil GDP:	32,637.9 million AZN	110.0
▪ The volume of industrial production	33,696.7 million AZN	101,8
▪ The volume of agricultural production	5,244.6 million AZN	104,9
▪ Fixed asset investment:	17,872.1 million AZN	115.1
▪ Nominal incomes of population:	37,555.5 million AZN	108.0
▪ Average monthly nominal salary:	419.0 AZN	106.6
▪ Average annual consumption index of goods :		102.4

Last year, the share of oil sector in GDP was still very high: 43.4%. In 2013, the country produced nearly 43.5 million tons of oil and 29.5 billion cubic meters of natural gas<sup>3</sup>.

However, it should be noted that the non-oil sector of the economy is growing more rapidly. For example, in 2013 the growth rate of the non-oil sector was 10.0%, which was 10 times higher than the growth rate of the oil sector which constituted 1%.

---

<sup>1</sup> <http://www.stat.gov.az/macroeconomy/indexen.php?page=9&estat=archive&topic=30>

<sup>2</sup> AZN – Manat – national currency of Azerbaijan. 1USD = 0.7844AZN according to exchange rate of Central Bank of Azerbaijan

<sup>3</sup> <http://new.socar.az/socar/en/economics-and-statistics/economics-and-statistics/oil-production>  
<http://new.socar.az/socar/en/economics-and-statistics/economics-and-statistics/gas-production>

Growth rate in different spheres of the non-oil sector in 2013 is following: 10.7% in communications sector, 6.3% in transport, 23.0% in construction, 4.9% in agriculture and 9.9% in trade.

In 2013, the total volume of investment from all sources to the country's economy amounted to 28,010.5 million USD<sup>4</sup>. At the same time, foreign investments were in the amount of 10,540.9 million USD. Almost half of this amount - 4,935.2 million USD, was directed to the oil sector. In 2013, domestic investment amounted to more than 62% of the total investment. Foreign investments have tended to increase in almost all the years of independence. Only in 2009, there was a decline in foreign investment, due to the global financial crisis.

Foreign investment in the oil sector allowed to develop hydrocarbon projects that generated revenue in amount of billions of dollars. On July 1, 2014, assets of the State Oil Fund, where revenues flock from the development of hydrocarbon resources, amounted to 37,305.3 million USD<sup>5</sup>. The sum which is almost 2 times more than this amount from the Fund's assets was spent for financing the budget (through annual transfers) and purposes such as: 1) improving the social situation of refugees and internally displaced persons; 2) financing Azerbaijan's part of the project of the Baku-Tbilisi-Ceyhan pipeline; 3) laying of Oguz-Gabala-Baku water pipeline; 4) reconstruction of the Samur-Absheron channel; 5) The construction of the Baku-Tbilisi-Kars Railway; 6) education of young people abroad and other projects.

The volume of transfers from the Oil Fund to the state budget is quite significant (58.2% of budget revenues in 2014).

An aggregated foreign exchange reserves of the country (including the State Oil Fund and the reserves of the Central Bank) exceeds 50 billion dollars.

The external debt of the country on January 1, 2014 amounted to 4,753.2 million AZN, representing 8.2% of GDP<sup>6</sup>. This is considerably less than in many developed countries.

Hydrocarbon exports prevail in foreign trade (about 94%). With the volume of exports to 23,975.4 million USD in 2013<sup>7</sup>, the volume of non-oil exports amounted to 1,615.2 million USD only. Very high value of the surplus in foreign trade is due to this factor.

The main partners in foreign trade are European countries (more than 54% of exports and more than 57% for imports)<sup>8</sup>.

According to the official statistics<sup>9</sup> for 2013 with a population of 9,356.5 thousand, the number of employed population is 4,521.2 thousand. The number of unemployed

---

<sup>4</sup> <http://www.stat.gov.az/source/finance/indexen.php>

<sup>5</sup> [http://www.oilfund.az/az\\_AZ/hesabatlar-ve-statistika/son-reqemler.asp](http://www.oilfund.az/az_AZ/hesabatlar-ve-statistika/son-reqemler.asp)

<sup>6</sup> <http://www.maliyye.gov.az/en/node/1702>

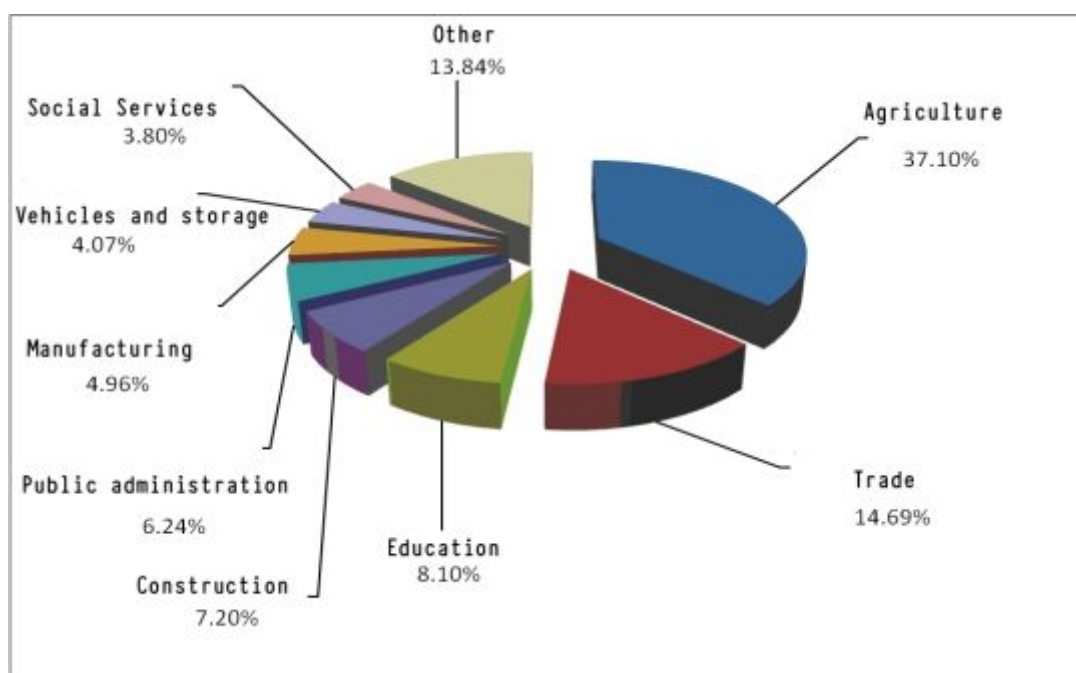
<sup>7</sup> <http://www.stat.gov.az/source/trade/indexen.php>

<sup>8</sup> <http://www.stat.gov.az/source/trade/indexen.php>

<sup>9</sup> <http://www.stat.gov.az/source/labour/>

people slightly is less than 5% (236.6 thousand people). Only 36,206 people out of this are officially unemployed, since they registered with the relevant governmental body.

The following diagram shows the structure of the employed population of the country<sup>10</sup>:



However, many people (especially the rural population) emigrated to other countries (Russia, Turkey, Kazakhstan, Ukraine, and others.) in search of work. Official statistics do not show them.

## CHARACTERISTICS OF THE SME SECTOR

According to the Ministry of Economy and Industry<sup>11</sup> (MEI), at the end of 2013 the share of the private sector accounted for 85% of GDP, 72.4% of taxes. Table 1 shows the dynamics of the private sector share in GDP for the period of 2009-2013.

Table 1.

	2009	2010	2011	2012	2013
The private sector share in GDP, %	81.2	81.7	82.5	83.0	85.0

<sup>10</sup> <http://www.stat.gov.az/source/labour/>

<sup>11</sup> <http://www.economy.gov.az/media/pdf/analitika-2013.pdf>

Private entrepreneurship entities operate either as legal persons (15.9% of all private sector entities) or as individual entrepreneurs (84.1%).

At the beginning of 2014, there were 86,010 registered legal entities. The dynamics of growth of private entrepreneurship entities operating as legal entities in the period of 2008-2013 is presented in Table 2.

Table 2.

	2006	2007	2008	2009	2010	2011	2012	2013
The number of private companies and other organizations	74534	79147	85618	89939	93416	75632	78966	86010

On January 1, 2014, 68642 (79.8%) enterprises out of 86010 enterprises were private enterprises based on local capital, 9087 (10.6%) - state-owned enterprises, 4922 (5.7%) - private companies with foreign capital, 1601 (1.9%) - companies with a mixed (Azerbaijani-foreign) capital, 1758 (2%) - municipally-owned companies.

53.4% of all private business entities operating as legal entities were concentrated in Baku - the capital of the country.

According to the Ministry of Economy and Industry, at the beginning of 2014, the number of registered individual entrepreneurs reached to 454,997 persons. Only 17.9% out of this number were women entrepreneurs. 34.8% of all individual entrepreneurs operated in the capital of the country.

At the end of 2013, 80.5% out of the total number of enterprises were classified as small businesses. Table 3 shows the dynamics of growth for small businesses registered in the period 2007-2013.

Table 3.

	2007	2008	2009	2010	2011	2012	2013
The number of small businesses	59553	65986	73776	77225	60223	62899	69219

Official criteria were defined only for small businesses in Azerbaijan. According to the Cabinet of Ministers of Azerbaijan, since 2009, those companies that meet the given criteria in Table 4, refer to the category of small companies.

Table 4.

Sector of activity	Average annual number of employees	Annual Turnover
Industry and Construction	<50	≤ 500 thousand AZN

Agrarian	<25	≤ 250 thousand AZN
Wholesale Trade	<15	≤ 1 million AZN
Retail trade, Transport, services and other activities	<10	≤ 250 thousand AZN

Thereby, in Azerbaijan, the formal definition for micro and medium enterprises do not exist yet.

Table 5 presents data on the number of small businesses operating in the country<sup>12</sup>.

Table 5.

	2007	2008	2009	2010	2011	2012	2013
Total economy	196 972	204 960	205 028	207 120	223 547	248 288	260 563
of which – individual entrepreneurs	182 268	186 491	186 765	192 588	210 643	234 634	246 102

Table 6 presents a number of key macroeconomic indicators for small businesses (including legal entities and individuals, but with the exception of farms)<sup>13</sup>.

Table 6.

	2007	2008	2009	2010	2011	2012	2013
Value added, million AZN	449,2	718,7	844,8	1 120,0	1 227,0	1 346,5	1 620,0
Gross surplus, million AZN	41,7	51,9	65,8	78,3	85,3	122,8	165,4
Average annual number of employees, thousand. person	92,1	103,2	105,9	93,2	90,2	95,5	109,0
Average monthly nominal wages, AZN	170,7	182,1	195,2	207,0	222,2	263,3	303,5
Investments directed to fixed capital, million AZN	289,4	371,2	289,3	276,3	737,6	531,6	486,5
Turnover, million AZN	1 653,5	2 475,7	2 910,1	3 835,5	4 208,5	5 100,6	6 072,6

Table 7 shows the share of small business in economic indicators<sup>14</sup> of Azerbaijan in 2007-2013.

<sup>12</sup> <http://www.stat.gov.az/source/entrepreneurship/indexen.php>

<sup>13</sup> Ibid

<sup>14</sup> Ibid

Table 7.

%

	2007	2008	2009	2010	2011	2012	2013
Value added,	1,6	1,8	2,6	2,8	2,6	2,7	3,0
Average annual number of employees	6,7	7,3	7,6	6,7	6,5	6,4	7,9
Investments directed to fixed capital	3,9	3,7	3,7	2,8	5,8	3,5	2,7
Turnover	4,2	4,5	6,1	8,6	8,1	9,6	10,5

Diagram below shows the structure of the entrepreneurship by sectors of the economy<sup>15</sup>:

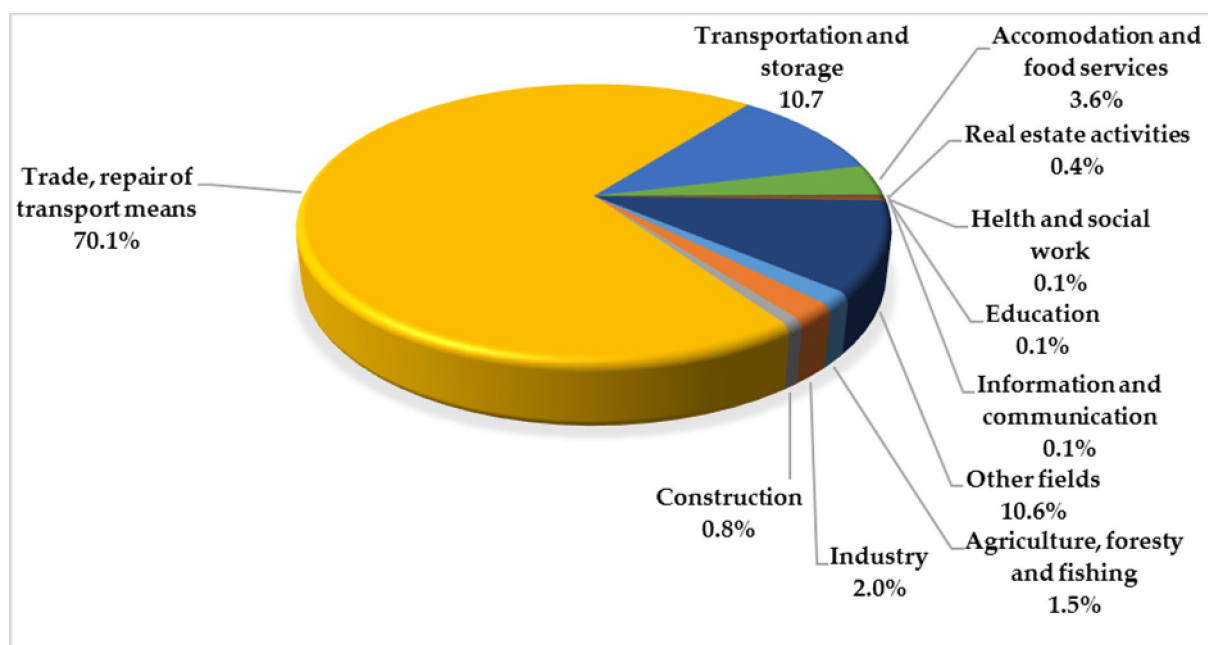


Table 8 presents data on the number of employees in small business entities<sup>16</sup>.

Table 8.

	2007	2008	2009	2010	2011	2012	2013
<b>Average annual number of employees of small enterprise</b>	92 108	103 246	105 902	93 205	90 182	95 503	108 976

According to the report Doing Business, the most problematic for businesses in Azerbaijan are the following: 1) connection to electric networks, 2) foreign trade and 3) construction permits. All this is also true for SMEs. To this list must be added problems as hard conditions for obtaining credit (high interest rates and collateral requirements).

<sup>15</sup> Ibid

<sup>16</sup> Ibid

## LEGISLATIVE FAREWORK ON MICROFINANCE

There are no special laws on microfinance in Azerbaijan. However, there are many laws regulating the activities of credit institutions. The most important normative acts for microfinance institutions in the country are:

1) Laws:

- “On the Central Bank”;
- “On Banks”;
- “On credit unions”;
- “About non-bank credit institutions”;
- “On Currency Regulations”;

2) Regulations of the Central Bank:

- “Rules of bank loans”;
- “Prudential regulations of non-bank credit institutions”;
- “Procedures for appeal of non-bank credit institutions, in order to obtain licenses for the issuance of loans”;
- “Rules for issuing licenses to the credit union for its banking activities”;
- “Rules of management and use of the Central Credit Register”;
- “Rules of the economic regulation of the credit union”;
- “Rules of the organization and implementation of cash transactions in credit institutions”;
- “Rules of the risk management in banks”.

In addition to these normative acts, there are many other acts of the Central Bank regulating the activities of institutions that provide loans, in particular microcredits.

## GOVERNMENT PROGRAM OF SUPPORTING MICROFINANCE

Special governmental programs for the provision of microcredits do not exist, but there are a number of governmental development programs (State program on “Socio-economic development of regions”, for the period of 2014-2018<sup>17</sup>, the State Program on “Socio-economic development of Baku and its regions”, 2014-2016<sup>18</sup>, the State Program on “Reliable Food Supply to the population”, for the period of 2008-2015<sup>19</sup>, the State Program on “Poverty

---

<sup>17</sup> [http://www.economy.gov.az/index.php?option=com\\_content&view=article&id=2097:dovlet-proqrami-2014-2018&catid=116:2014-2018-dp-reg&lang=az](http://www.economy.gov.az/index.php?option=com_content&view=article&id=2097:dovlet-proqrami-2014-2018&catid=116:2014-2018-dp-reg&lang=az)

<sup>18</sup> [http://www.economy.gov.az/index.php?option=com\\_content&view=article&id=1913:dp-2014-2016&catid=114:2014-2016-ci-iller&lang=az](http://www.economy.gov.az/index.php?option=com_content&view=article&id=1913:dp-2014-2016&catid=114:2014-2016-ci-iller&lang=az)

<sup>19</sup> [http://www.economy.gov.az/index.php?option=com\\_content&view=article&id=255:dp-with-a-reliable-supply-of-food&catid=30:%C9%99halinin-%C9%99rzaq-m%C9%99hsullar%C4%B1-il%C9%99-etibar%C4%B1-t%C9%99minat%C4%B1na-dair-dp-2008-2015&lang=az](http://www.economy.gov.az/index.php?option=com_content&view=article&id=255:dp-with-a-reliable-supply-of-food&catid=30:%C9%99halinin-%C9%99rzaq-m%C9%99hsullar%C4%B1-il%C9%99-etibar%C4%B1-t%C9%99minat%C4%B1na-dair-dp-2008-2015&lang=az)

Reduction”, for the period of 2008-2015<sup>20</sup>) for the realization of the each direction, the government initiates the allocation of loans to small businesses, mainly in the regions of the country. This is done through the Azerbaijan National Fund for Entrepreneurship Support (ANFES)<sup>21</sup>.

Activities of ANFES is regulated by a special normative act - the "Regulations on the National Fund for Entrepreneurship Support<sup>22</sup>" approved by the Decree of the President of the country, as well as “The rules on use of funds from ANFES<sup>23</sup>”. According to Article 5 of these rules, entrepreneurship entities are provided with soft loans in the following amounts:

- Small loans – 5000 – 50000 AZN;
- Average loans – 50001 – 500000 AZN;
- Large loans – 500001 – 10000000 AZN.

The decision to grant a loan is taken by ANFES, loans are granted through special agents - authorized banks or non-bank credit institutions. A list of these institutions is determined in accordance with the criteria established by the Supervisory Board of ANFES. The Supervisory Board, in accordance with the directions of socio-economic development of the country, decides on the allocation of funds of ANFES to the projects in these directions.

Loans are granted for the following periods:

- Small loans – up to 3 years;
- Average loans – up to 5 years;
- Large loans – up to 10- years.

Interest rates on loans of ANFES:

- For the media development projects – 0.5%;
- For other projects – 1%.

Authorized credit institutions add their margin to interest rates of ANFES. It should not exceed 3% for media projects and 5% for other projects.

In 2013, ANFES issued loans amounting to 275 million AZN. 19.2% out of them were small loans, 1.6% - average loans, 79.2% - large loans.

## MAJOR MICROFINANCE INTERMEDIARIES/INSTITUTIONS

In the previous section we described the activities of the National Fund for Entrepreneurship Support. Also in Azerbaijan Loans and as well as microcredits are issued by commercial banks (CB) and non-bank credit institutions. According to the Central Bank, 44 commercial banks and 160 non-bank credit institutions operated in

---

<sup>20</sup> [http://www.economy.gov.az/index.php?option=com\\_content&view=article&id=249:state-programme-on-poverty-reduction&catid=29:poverty-reduction&lang=az](http://www.economy.gov.az/index.php?option=com_content&view=article&id=249:state-programme-on-poverty-reduction&catid=29:poverty-reduction&lang=az)

<sup>21</sup> <http://anfes.gov.az/en/>

<sup>22</sup> <http://anfes.gov.az/az/pages/e1fb4c3a-1f0d-11e0-abe4-2f80f755c2ce/Esasname.html#submenu>

<sup>23</sup> <http://anfes.gov.az/az/pages/b07b11a6-1f0e-11e0-abe4-2f80f755c2ce/Qaydalar.html#submenu>



Azerbaijan, by the end of September 2014. 113 non-bank credit institutions out of them are credit unions (CUs), 46 - credit institutions financed by international humanitarian organizations and one of 160 is Limited Liability Company «AZƏRPOÇT».

Among international organizations financing credit institutions in Azerbaijan, such as:

- ACDI/VOCA;
- ADRA Azerbaijan;
- FINCA Azerbaijan;
- Norwegian Humanitarian Enterprise (NHE);
- Norwegian Refugee Council (NRC);
- Mercy Corps (through other INGO)s;
- OXFAM GB;
- International Organization for Migration (IOM);
- Save the Children;
- World Vision International (WVI).

46 credit institutions financed by international humanitarian organizations have 209 branches across the country. Credit unions do not have branches in the regions.

## **MODELS OF MICROFINANCE OF SMEs**

Above provided information on the model of credit issue (including microcredit loans) by ANFES (Azerbaijan National Fund for Entrepreneurship Support). Models of the microcredit issue of other institutions (banks, credit unions, credit institutions financed by international humanitarian organizations), are not the same but similar enough. For example, the amount of microcredits issued by the AccessBank, ranges from 100 to 30,000 USD<sup>24</sup>. Credits are issued for up to 60 months. Monthly interest rate is in the range of 1.58% - 2.75%. Real estate (house, apartment, residential premises, land), vehicles, equipment are used as collateral. According to the organization MIX Market<sup>25</sup>, at the end of 2014, the volume of the crediting of the bank (AccessBank) amounted to 1,047,258,959 USD, and the number of creditors has exceeded 157,000. According AccessBank information<sup>26</sup>:

---

<sup>24</sup> [http://www.accessbank.az/az/page/micro\\_loans/#contentLeft](http://www.accessbank.az/az/page/micro_loans/#contentLeft)

<sup>25</sup> <http://mixmarket.org/about>

<sup>26</sup> Investor Presentation on the FY 2014 result.

<http://www.accessbank.az/uploads/pdf/p19densfdu1o7i1p4o1bfq1h4i1i0o4.pdf>

	Amount	Clients
	USD m	
▪ Micro Portfolio	459	124,501
▪ SME Portfolio	447	2,618
▪ Retail Portfolio	95	27,830
▪ Mortgage Loan Portfolio	38	1,052

Another popular bank in Azerbaijan Bank of Baku issues microcredits for the business in the amount of 500 - 30,000 USD<sup>27</sup> for the period of 9-36 months at a monthly interest rate at 1.83% - 2.67%.

Amrahbank offers micro loans in between of 100 and 20.000 AZN for 25% of annual interest rate for up to 36 months.

For micro business, Unibank offers from 200 to 30.000 AZN. These loans are up to 36 months, 2% of interest rate per month.

A credit institution FINCA Azerbaijan issues microcredits for business in the amount of 50 000 - 100 000 dollars for the period of 4 to 18 months at an annual percentage rate starting from 33%.

Credit union – Agroinvest offers loans for agriculture. Depending on business project, as a rule the amount of the loan is not exceeding 5000 azn for annual 7-36% of interest rate. The loans are due from 6, up to 60 months depending on project plan.

As a rule, the requirement for offering a loan is following: 1) identity card; 2) business plan; 3) income statement and 4) collateral.

According to research of the Responsibility Investments AG, the average amount of microcredit in Azerbaijan is 3276 USD<sup>28</sup>. When the amount of microcredit is 4000 USD average profitability is 27.7%<sup>29</sup>.

<sup>27</sup> <http://www.bankofbaku.com/az/loans/business-loans/kredyty-do-30-tysiach/srochnye-kredyty-dlia/>

<sup>28</sup> Microfinancial climate: global experience and Azerbaijan. Presentation: Responsibility Investment AG at 7<sup>th</sup> Microfinance Conference. October 9-10, 2014. Baku, Azerbaijan.

<sup>29</sup> Ibid