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Assessment of Microfinance Impact and Social Performance of MFIs in Azerbaijan

Final Report

Baku - 2009

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Azerbaijan Micro-finance Association (AMFA) is uniting 26 members. AMFA was founded in 2001 and officially registered at the Ministry of Justice of Azerbaijan in November 2004.

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Acronyms and Abbreviations

1.	AMFA	Azerbaijan Microfinance Association
2.	AZN	New Azerbaijan Manat
3.	BP and its co-venturers	British Petroleum and its co-venturers
4.	CLED	Center for Local Economic Development
5.	Credit	Implies micro-credit
6.	GDP	Gross Domestic Product
7.	HH	Household
8.	HHH	Household Head
9.	HHM	Household Member
10.	IDP	Internal Displaced Person
11.	MDG	Millennium Development Goals
12.	MFI	Micro Finance Institution
13.	MFO	Microfinance Organization
14.	MIS	Management Information System
15.	NB	National Bank of the Republic of Azerbaijan
16.	NBCO	Non Bank Credit Organization
17.	PPP	Purchasing Power Parity
18.	PSU	Primary Sampling Unit
19.	SDC	Socio-demographic characteristic
20.	SOFAR	State Oil Fund of Azerbaijan Republic
21.	SSC	State Statistical Committee of the Republic of Azerbaijan
22.	USAID	United States Agency for International Development
23.	USD	United States Dollars
24.	WB	World Bank

Introduction and Background

Microfinance is one of the most effective and flexible strategies in the fight against global poverty. In this regard, microfinance is broadly used in underdeveloped, developing and transition economies as one of the main tools to achieve Millennium Development Goals, as well as, reduce poverty and ensure sustainable development in the wake of globalization. To this end, the World Bank, Asian Development Bank, USAID and other organizations actively support broad application of microfinance scheme.

There are some views regarding positive and negative impacts of Microfinance. The main argument behind positive impact of microfinance is that microfinance helps entrepreneurs develop, helping the development of micro and small businesses and the economy as a whole. This creates employment and ensures decrease of income/moral poverty while contributing to increase of revenues, assets and welfare of underprivileged layer of population. Furthermore, microfinance has positive impact on employment of women and increases business capacity, self-esteem and participation in community of vulnerable groups of population. Arguments conditioning negative impacts of microfinance are more impoverishment of clients due to high interest rates of micro credits, increase in child labour, psychological tension in society etc. In many countries of the world positive impacts of Microfinance are being reflected in poverty reduction. Bangladesh, Kenya, Peru and other countries can be cited as an example.

Microfinance was considered as one of the priority directions in poverty reduction in “The State Program on Poverty Reduction and Economic Development in the Republic of Azerbaijan for 2003-2005”, “The State Program on Social and Economic Development of Regions of the Republic of Azerbaijan for 2004-2008”, “State Program on improving living condition and employment of refugees and IDPs for 2005-2008”, “The Employment Strategy of the Republic of Azerbaijan for 2006-2015”, “The State Program on Implementation of the Employment Strategy for 2007-2010 of the Republic of Azerbaijan”, “The State Program on Reliable Provision of Foodstuff to Population in the Republic of Azerbaijan for 2008-2015” and “The State Program on Poverty Reduction and Sustainable Development in the Republic of Azerbaijan for 2008-2015”. This, in its turn, indicates that issues related to expansion and improvement of microfinance services are among main priority policies of the country aimed at reducing poverty. Results of this policy are already reflected in figures. Thus, the poverty level in the country decreased from 49% in 2001 to 16.8% in 2007.

Microfinance services have been provided in the Republic of Azerbaijan for over 10 years and these services aimed at meeting credit needs of underprivileged and middle strata of the population. But, there have not been any large scale researches on outreach and satisfaction level of underprivileged population, as well, as, negative and positive impacts of services on their living standards. Nevertheless, one thing is clear that enormous economic growth that has taken place in the country in recent years which has also influenced the microfinance market and currently, number of clients of that market exceeds 300,000 with a loan portfolio of about USD 600 mln. In other words, loan portfolio of microfinance amounts approximately to 1.5% of GDP. This fact, once more, highlights large scope of Microfinance.

In view of the above mentioned facts, AMFA which is the professional association of microfinance institutions in the country (representing 14 non-bank credit institutions, banks and credit unions) began to carry out a research and assessment of quality and quantity aspects of Microfinance in 2008.

The main objective of the study is to carry out qualitative and quantitative impact assessment of Microfinance at client/individual, household, business and community levels, as well as, evaluate social performance of Microfinance institutions. In order to achieve set objectives within the project i) impact survey was carried out among 2,000 microfinance clients (1,000 new clients and 1,000 longer-term clients); ii) discussions with microfinance clients were arranged in 6 regions; and iii) social performance of 10 microfinance institutions was evaluated.

Structure of Final Report:

The Final Report covers findings of researches implemented under three sub-components.

The first component of the Final Report includes results of impact assessment. Chapter 1 describes methodological approach and implementation stages of the study. Chapter 2 provides social-demographic characteristics of respondents. Chapter 3 describes general outline for Microfinance, including, interest rate of credits, satisfaction level of clients etc. based on indicators of clients participating in the survey. Chapter 4 focuses on negative and positive impacts of Microfinance at household level including incomes, expenditures, savings, borrowing, lending, housing, assets, business etc. At the same time, under Chapter 4 impacts of Microfinance on poverty reduction were calculated (estimated through income and expenditure methods). The final Chapter 5 of the first component of the report is completed with main findings and recommendations.

The second component of the Final Report covers outcomes of discussions held with microfinance clients in regions. These discussions aimed at defining quality aspects of Microfinance. Chapter 1 describes methodological issues concerning arrangement of discussions. Chapter 2 deals with main findings of discussions. Chapter 3 reflects proposals put forward by clients to strengthen positive impact of Microfinance.

The third component of the Final Report deals with findings of assessment of social performance of microfinance institutions. Chapter 1 of the report provides information on assessment and methodological approach. Chapter 2 reflects current status of social performance of microfinance institutions. Chapter 3 of the report includes recommendations aimed at strengthening social performance of microfinance institutions.

At the end of the Report Recommendations based on the findings of the Study were presented to the Government, MFIs and Local/International organizations in order to strengthen positive impacts of microfinance.

COMPONENT I: IMPACT ASSESSMENT SURVEY¹

1. Methodological Approach

The target population of the survey is 2,000 micro-finance clients divided in two equal groups: i) new clients – who joined recently the microfinance program or obtained their first micro-finance loan within last 17 months²; and ii) longer-term clients – who are in the program for 18 months or more. This sample represents approximately 1% of total microfinance client market. The confidence interval is equal to approximately 95% with $\pm 2\%$ ranges. Household, individual/client, business and community or in other words economic and social impacts of micro-financing were identified based on assumption through comparison between new clients and longer-term clients³.

The Impact Assessment Survey was implemented in the following stages:

- Identify sampling frame and sample size;
- Developing the survey design and conducting sampling for the survey;
- Select indicators and develop multiple-choice questionnaire;
- Identify software required for data storage and analysis; prepare instructions for data entry;
- Prepare instructions for Supervisors and Interviewers;
- Select and conduct trainings for supervisors and interviewers;
- Conducting a pilot survey;
- Collect data (face to face interviews with respondents);
- Interview quality control and checking;
- Data entry and cleaning;
- Initial analysis and construct Single Database;
- Prepare Draft Report for comments;
- Elaborate Final Report.

Hypothesis

Impact Assessment Survey envisaged testing the following hypotheses regarding economic social and community impacts:

(i) At the client/individual level:

- Increased control of clients on resources;
- Increased business knowledge and skills of clients;
- Increased esteem of clients etc.

(ii) At the household level:

- Increased income;
- Increased assets;

¹ The source of the data used within this component is DATA BASE of AMFA on Impact Assessment Survey.

² This was considered as a control group.

³ Group lending microfinance clients were individually selected at random and interviewed.

- No negative impacts on children's labour;
- Increased welfare (in such aspects as food security, housing, health etc.) and reduced poverty
- Reduced inequality etc.

(iii) *At the business level:*

- Increased employment;
- Increased women labour;
- Increased investment to the business;
- Increased business income;
- Increased proportion of loans repaid with business income etc.

(iv) *At the community level:*

- Increased employment on community level;
- Increased participation in local community;
- Increased donations to the religious organizations/ activities etc.

Identify sampling frame and sample size

Sampling base of the survey was Management Information System (MIS) of participating MFIs. 12 micro-finance institutions (10 NBCOs and 2 Banks) were involved in this process (see table 1.1).

#	Participated organizations in the Survey	# of clients, in thsd. person, end of March, 2008	Share of participating organizations in the market, in %	Share in sampling database	Number of respondents	Legal Status
1	FINCA AZERBAIJAN	78396	29.6	38.5	822	NBCO
2	ACCESS BANK	55456	20.9	27.3	336	Bank
3	VF AZERCREDIT	14134	5.3	6.9	182	NBCO
4	FINANCE FOR DEVELOPMENT	4966	1.9	2.4	140	NBCO
5	NORWEGIAN MICROCREDIT	10136	3.8	5.0	137	NBCO
6	CREDAGRO	10637	4.0	5.2	114	NBCO
7	BANK RESPUBLIKA	11280	4.3	5.5	101	Bank
8	VIATOR MICROCREDIT	9948	3.8	4.9	83	NBCO
9	AZERISTAR MICROFINANCE	4421	1.7	2.2	58	NBCO
10	DAYAG CREDIT	917	0.3	0.5	15	NBCO
11	AGRARCREDIT	2725	1.0	1.3	7	NBCO
12	UMID CREDIT	456	0.2	0.2	5	NBCO
SUB TOTAL		203472	76.8	100.0	2000	
TOTAL		265068	100.0			
<i>Source: AMFA's Quarterly Report</i>						

Clients of these institutions constitute 77% of clients of the total market. All the data on clients were gathered in Excel file and then was inputted to SPSS database. The sampling process was done in SPSS considering usual 20% refusal rate, the final number of sampled respondents were 2,400.

The survey was carried out among 2,000 micro-finance clients/respondents separated in two equal-sized groups (i) 1,000 new clients and ii) 1,000 longer-term clients) through face to face interviews. The survey covers clients randomly selected and representing all regions of the country (a total number of regions are 11, 2 of them are occupied by Armenia). At the same time, gender, geographical/locality distribution of respondents, IDPs and refugees, destination of loan etc. were considered during sampling.

Developing the survey design and conducting sampling for the survey

A stratified two-stage random sampling procedure was used in selecting clients that were surveyed. The procedure was implemented in the following steps:

- The clients included to the database, were divided into the categories by regions, living place (clients residing in the urban areas; clients residing in rural areas), groups on duration in the program, IDPs and refugees gender;
- The clients in each category then were grouped into primary sampling units (PSU) consisting of more than 30 clients (new and longer-term) residing within one region;
- The target sample size 2,000 clients were divided among the strata's by regions, living place (capital, other urban and rural areas) and new and longer-term groups proportionately to their share in the total number of clients in the MFI database;
- The resulting target sample sizes for individual strata were then adjusted, if needed, to ensure that they are all divisible by 30;
- The number of PSUs to be surveyed in each stratum were obtained by dividing the target sample size for the stratum by 30;
- This number of PSUs were then randomly selected separately for each stratum, with the probability that a particular PSU would be selected equal to the share of that PSU in the total number of clients in the stratum;
- 30 clients were randomly selected from each PSU selected at the previous stage, with all clients in a PSU having an equal probability to be selected.

The reason for using this procedure is to try to obtain a sample that would be representative not only for the country as a whole, but also for the regions, living place (urban and rural areas) and groups (new and longer-term).

Calculation of Response Rate:

The response rate was calculated based on following formula:

$$\text{Response Rate} = \frac{(\text{Completed Interviews})}{(\text{Completed Interviews}) + (\text{Refusals}) + (\text{Partial Interviews}) + (\text{Unable to find respondents})}$$

Select indicators and develop multiple-choice questionnaire

The indicators and questionnaires cover the following topics:

1. **At the client/individual level:** role of client at household and intra household decision-making, Age, Sex, Civil (marital) status, Participation in group/credit program/community,

Self-esteem/confidence, Leadership, Control over assets/resources, Behaviour of informal lenders, Trust, Money borrowing, Personal/social responsibility, Knowledge/Skills, Ownership of property and assets, time spent with family, holidays taken, frequency of eating out, frequency of having guests etc.

2. **At the household level:** Geographic location, Household size, Socio-demographic characteristic HHMs, Household employment, Number of unemployed in household, Household income, Sources of household income/number of income earners, livestock and crop income, Household expenditures, Household nutrition, Food expenditures, Ownership of household assets, Transport assets, Access to utilities or public services, Dependency ratio, Education/educational expenditures/literacy, Housing status/housing expenditures/housing improvements, Housing conditions, Household savings & investments, Health status/healthcare etc.
3. **At the business level:** Jobs created/persons employed, Enterprise/productive assets, Enterprise sales/turnover, Business knowledge/practice/skills, Working capital/inventory/stock, Enterprise income/cash flow, Family members in business, Enterprise/product/resource diversification, Use of loans, Use of business income, Current assets (other than inventory/working capital), Investment in premises, Enterprise costs, Liabilities, Accounts receivable, Source of money to repay debt, Proportion of loans repaid with business income, Increase in debt etc.
4. **At the community level:** Participation in community organizations/activities, Participation in religious activities, donation to the communities and religious organizations, community employment etc.

In addition, the survey questionnaire were consisted of questions on **received amount of micro-finance, advantages and disadvantages** of using micro-finance, **instrumental variables** to be used in analysis of effects of **micro-financing**.

Income of HHs and per capita income were calculated based on Income Aggregate consisting of the following components: i) Wage income; ii) Farming income (crop, livestock and other agricultural activities); iii) Non-farming business/entrepreneurial income; iv) Self-employment not related to agricultural activities/business; v) Income received abroad (cash remittances); vi) Interest/dividends; vii) Renting land, building or equipment; viii) Pensions; ix) Financial assistance from the Government (including targeted state social assistance); x) Financial assistance from relatives or friends in this country.

The expenditures of HHs were calculated based on the expenditure aggregate, consisted of three components: i) Consumption, ii) Investment and iii) Transfers. The following subcomponents are used for the calculation of the **Consumption**: i) consumption of in-kind incomes; ii) Expenditures on ritual ceremonies; iii) Expenditures on food, clothing, etc.; iv) Crop consumption; v) Livestock consumption; vi) Consumption of other agricultural products; vii) Food received from relatives/friends; viii) Explicit or implicit rent expenditure; ix) Share of consumption in the value of assets purchased or received as a present from another HH in the country; x) Share of consumption in expenditures on health care and education.

Thus, a questionnaire covered 14 sections and 152 questions on Client and Household Profile, Monetary and Non-Monetary Income of Household, Household Expenditures, Savings and Investment, Housing, Assets, Borrowing and Lending, Use of Health Services, Education, Access To Markets, Roads, Administrative Centers and Other Services, Business/ Entrepreneurial Activities, Microfinance Loan. A questionnaire prepared in Azeri and English languages.

Identify software required for data storage and analysis, prepare instructions for data entry

According to the structure of a questionnaire a special data input software was developed in SPSS data processing software in view of a large size of questionnaire. It eliminated mistakes to minimum in data entering process. At the same time, an instruction for data entering was prepared, distributed and explained to the operators. The instruction was used as a manual and explained technical issues on data entering. It reflected logical connections among questions in the questionnaire, while including the responses into the Database.

Prepare instructions for Supervisors and Interviewers

The instruction for supervisors explains the rules of receiving questionnaires from survey assistant; coordination with interviewers, controlling field work, receiving questionnaires from interviewers, checking questionnaires and submitting to the survey assistant etc. The instruction for interviewers explains the rules of receiving questionnaires from supervisors, rules of interviewing respondents, filling out questionnaires, controlling questionnaires with supervisors and submitting to the supervisor, as well as competitive behavior; re-conducting a survey, rules of using a waiting list; rules of abolishment or giving back spoiled questionnaires; rules of conducting survey in the next day if the survey break off; to whom apply in unexpected cases etc.

Select and conduct training for supervisors and interviewers

A team for the survey, 6 professional supervisors and 35 interviewers were selected and trained. Training of interviewers/supervisors was conducted in 3 regions in 2 days and in Baku in 3 days (see table 1.2). The first training workshop was organized in Baku for all 6 supervisors and interviewers living at a short distance from Baku. The training covered the following topics: i) review and apply best practices for conducting interviews and draft report; ii) discuss the purpose and objectives of the survey; iii) presentation of survey methodology; iv) review written protocol on how to introduce the study to respondents and explain to introduce the survey and respond to questions about it; v) discuss the meaning of each question; vi) explanation of instructions for supervisors and interviewers; vii) conducting group test survey or examination among participants (a group covers: one participant as a respondent, one as an interviewer and as a supervisor or vice-versa etc.).

Table: 1.2 Training for Supervisors and Interviewers and Pilot Survey				
#	Place	Date	Participants	# of participants
1	Baku	02.06.2008	Supervisors	6
2	Baku	03-04.06.2008	Supervisors/Interviewers	19
3	Lankaran	07-08.06.2008	Supervisors/Interviewers	7
4	Barda	11-12.06.2008	Supervisors/Interviewers	8
5	Ganja	13-14.06.2008	Supervisors/Interviewers	11

Conduct a pilot survey

At the end of training the interviewers and supervisors conducted a pilot survey. Each supervisor and interviewer conducted 1-2 surveys among households selected at random. Approximately 60 households were surveyed in Baku and regions. The point of the pre-test is to help ensure:

- the questions are well sequenced with sensitive questions placed near the end of the questionnaire;
- the questions are clearly understood by respondents and interviewers;

- the questions cover one thought at a time, rather than combine issues;
- the questions tend to be applicable to almost all of the respondents;
- the closed-ended response categories capture almost all of the responses, with only a few or no responses falling into the “other” category;
- the questions do not require unreasonable effort to answer; and
- the questions can and will be answered as accurately as possible.

The results of the pilot survey contributed to the creation of a database and making proposals on amending the text of the questionnaire. So, problematic questions were changed or eliminated and new questions were added.

Collect data (interviews with respondents)

The Microfinance Impact Assessment Survey was carried out from 14 June, to 11 July, 2008 in the selected areas of the country. The survey representatively covered the whole country, and selection of geographical areas was based on a representative sample. The survey was held in houses and work places of respondents, as well as at public places using “face-to-face” method. All answers received during the survey were entered in the standardized form questionnaire. The interviews were conducted in Azeri language. An average length of each interview was 1.2 hour and the refusal rate was 19%. At the same time, 34 mixed questionnaires (1.7% of total questionnaires) were found and cancelled, and a new survey with 34 respondents was carried out.

Interview quality control and checking

The control over the quality of interviews was checked by the supervisor who controlled the quality and the completion of questionnaires. In addition, the supervisors were made control visits (3 controls for each interviewer), visiting interviewed respondents selected at random, questioning them and completing the relevant check report. Supervisors submitted questionnaires to the Survey Assistant after checking. The survey assistant also made control visits. 5% of interviews were checked during second visit, 10% of interviews were checked by way of telephone calls. All these actions contributed to completion of check reports.

Involvement of Independent Monitoring Specialist: At the same time, the quality of interviews was checked by independent monitoring specialist. Randomly 5% of total respondents (100) including all regions were selected by independent monitoring specialist and checked through field work.

Data entry and cleaning

Input and processing of data was done by Operators, they used data processing software and then this data was converted and merged into a single database in SPSS format. All questionnaires were coded during entry. Additional control and cleaning process of the data was done by Specialist on data cleaning. After primary logical control a single database was tested through initial analysis.

Seasonal patterns didn't have any effect to the survey results because it covered the whole year.

Locality and Regional distribution of the respondents

As table 2.3 shows, the survey covered 2,000 microfinance clients, including 1,000 new microfinance clients and 1,000 longer-term microfinance clients. Approximately 15% of total

respondents were from Baku, 46% from other urban areas and 39% from rural areas (see table 1.3).

Table 1.3 Distribution of respondents by locality				
#		New clients	Longer-term clients	Total
		#	#	# %
1	Capital city	147	147	294 14.7
2	Other urban areas	457	460	917 45.9
3	Rural areas	396	393	789 39.4
TOTAL		1000	1000	2000 100

According to the results of survey, the distributions of respondents by regions were as following (see table 2.4). The survey covers all regions of the country, as well as IDPs and refugees envisaged as a separate IDP&Refugees group and they consisted 16.3% of the total respondents. This is representative to show the distribution of microfinance clients by regions.

Table 1.4 Distribution of respondents by regions				
#	Regions	New clients	Longer-term clients	Total
		#	#	# %
1	Baku	95	95	190 9.5
2	Absheron	50	50	100 5.0
3	Ganja-Gazakh	151	151	302 15.1
4	Shaki-Zagatala	71	71	142 7.1
5	Lankaran	132	132	264 13.2
6	Guba-Khachmaz	88	88	176 8.8
7	ARAN	190	190	380 19.0
8	Yukhari Garabagh	14	14	28 1.4
9	Daghligh Shirvan	32	32	64 3.2
10	Naxchivan	14	14	28 1.4
11	IDPs&Refugees	163	163	326 16.3
TOTAL		1000	1000	2000 100.0

As can be seen from the table above, number of new and longer-term clients is almost the same in terms of living places and regions. As availability of equal groups is essential for impact assessment, this factor was duly taken into account and necessary ratio ensured during sampling and survey processes. This, in its turns, secures representativeness for impact assessment.

2. Social-Demographic Characteristics of Respondents

The table below (Table 2.1) shows that men and women constitute, respectively 68.1% and 31.9% of respondents. This ratio is equal to that pertinent to microfinance clients at national level. It should be noted that the share of women is higher among new clients and the share of men is higher among longer-term clients.

Majority of respondents are 35-54 years old and the share of longer-term clients is higher at this age group. In general, the youth slightly prevail among new clients.

People with secondary education prevail among respondents (48%) and this figure is equal to 52% in the country level according to the SSC. The comparison suggests that people with secondary education are prevalent among new clients, while those with higher and specialized-secondary education constitute majority of longer-term clients. This means that the level of education of longer-term clients is higher than that of new clients.

Majority of respondents are married (81.4%). Comparison suggests that single persons, widows/widowers and divorced prevail among new clients. The share of married people is higher among longer-term clients. This indicates that more single persons, widows/widowers and married people are using microfinance services in recent years.

Majority of respondents were engaged in self-employment and public sector (70%) and only, 0.9% of respondents were unemployed. There is not a considerable difference between new and longer-term clients in terms of employment spheres other than private sector and entrepreneurial activities.

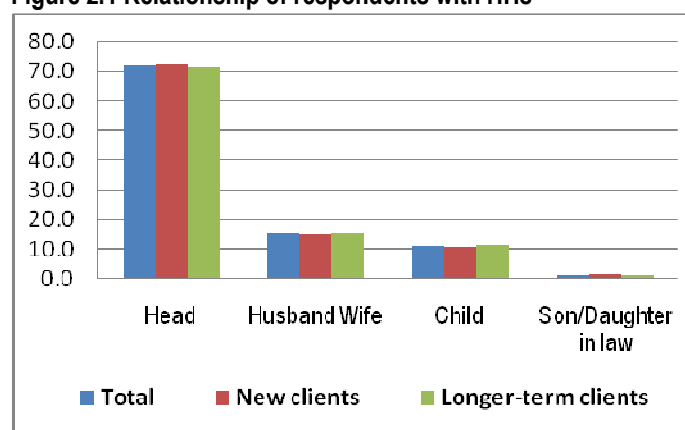
Analysis of respondents suggests that share of the unemployed, students and pensioners using microfinance services are very low. This may be mainly explained by restricted access of the unemployed, students and pensioners to microfinance services. In future special attention given to access of the unemployed to micro-finance services may be useful in terms of reduction of unemployment.

30.1% of respondents have additional works. This figure is 26% for new clients and 34% for longer-term clients. This indicates that people with additional work prevail among longer-term clients. This indicates positive impact of micro-finance on additional employment of people. On the other hand existence of additional works indicates that decent employment is not ensured. Thus, if a person can't satisfy his/her urgent needs, then he/she tries to find additional job. On one hand this improves living condition but on other hand reduces profitable working coefficient. In view of this, besides creation of new job places, ensuring decent employment should also be one of the priority directions in future (See: Table 2.1).

Table 2.1 Social-Demographic Characteristics of Respondents				
	Sample Size	Share in Total Sample	Share in new clients	Share in longer-term clients
	N	%	%	%
Male	1363	68.1	66.2	70.1
Female	637	31.9	33.8	29.9
16 – 24 Years Old	111	5.6	7.1	4.0
25 – 34 Years Old	426	21.3	22.5	20.1
35 – 44 Years Old	612	30.6	28.9	32.3
45 – 54 Years Old	636	31.8	30.7	32.9
55 – 64 Years Old	191	9.6	9.3	9.8
65 Years or Older	24	1.2	1.5	0.9
No Formal Education	12	0.6	0.6	0.6
Primary Education	6	0.3	0.4	0.2
Secondary Education	961	48.1	50.7	45.4
Specialized Secondary Education	455	22.8	21.5	24.0
Higher-Bach/Masters	506	25.3	23.1	27.5
Married	1627	81.4	78.5	84.2
Not Married	184	9.2	10.7	7.7
Widow	143	7.2	7.9	6.4
Divorced	38	1.9	2.3	1.5
Self-employed	843	42.2	41.1	43.2
Entrepreneurial activities	187	9.4	7.0	11.7
Employed in the public sector	552	27.6	27.9	27.3
Employed in the private sector	174	8.7	10.6	6.8
Unpaid family work	15	0.8	0.4	1.1
Unemployed looking for work	18	0.9	1.2	0.6
Unemployed not looking for work	6	0.3	0.5	0.1
Student	25	1.25	1.2	1.3
Retiree with pension	1	0.1	0.0	0.1
Community sector	179	9.0	10.1	7.8
Additional work	601	30.1	26.2	33.9
Total	2000	100.0	100.0	100

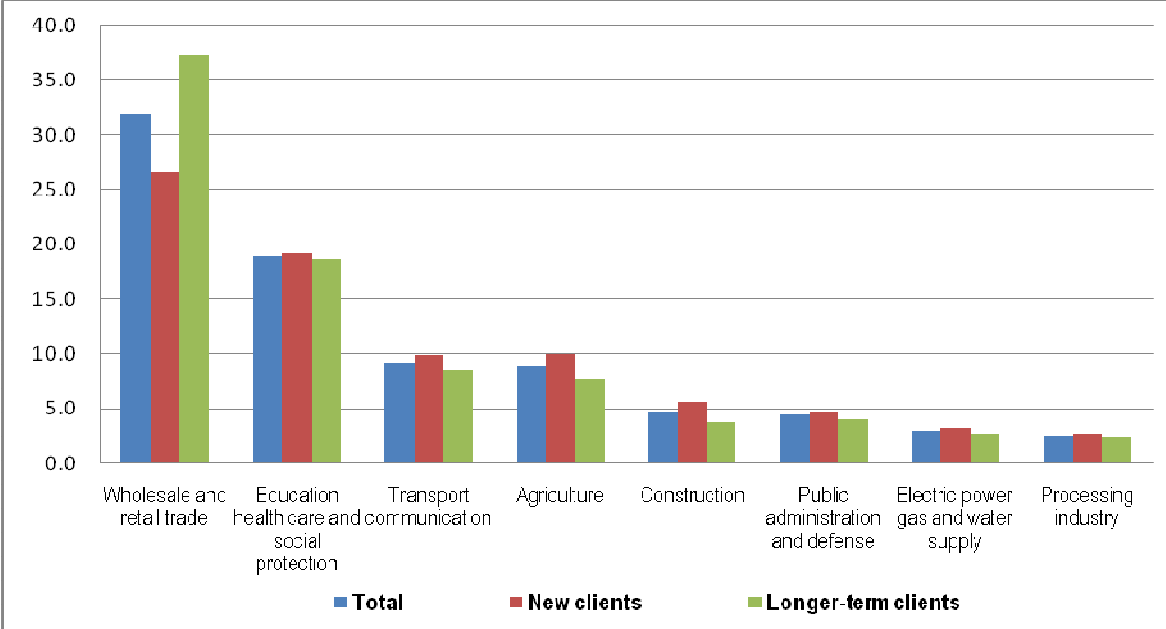
Majority of respondents involved in the survey are head of their families (72%). But, there are also wives of head of family, child and others among respondents. This figure is slightly different for new and longer-term clients. Thus, while number of respondents being in husband/wife and child relations to HH is high among longer-term clients, share of new clients among respondents being heads of HH is slightly higher (See: Figure 2.1).

Figure 2.1 Relationship of respondents with HHs



Majority of respondents are engaged in trade, social services (education, health etc), transport and agriculture sectors. Longer-term clients prevail in trade sector, while new clients are mainly involved in social services, agriculture, transport and construction sectors (See: Figure 2.2).

Figure 2.2 Sector of employment of respondents in %



3. Microfinance at a Glance and Impact on Client/individual Level

3.1 Microfinance at a glance

78% out of total respondents was clients of NBCO and 22% out of total respondents was clients of banks. Average amount of the loans is lower for new clients than for longer-term clients: 1,124 and 1,978 respectively. At the same time, the average amount of the credits is lower in rural areas in comparison with Baku. Longer-term clients need less days to get credits in comparison with new clients. Because all the longer-term clients have credit history and know what information is required. Almost 100% of credits is paying back with monthly payment schedule. According to the response of respondents they are able to pay back credits on time. Annual interest rate approximately was same for new and longer-term clients (See: Table 3.1).

Table 3.1 Conditions of the microcredits			
	Total	New clients	Longer-term clients
Average amount of the last loan, in AZN	1,550.9	1,124	1,978
Days to get a loan	5.4	6	5
Annual interest rate, in %	30	30	30

While getting loans clients mainly provide joint liability and guarantor/co-signer as collateral. This form is prevalent among longer-term clients. It's noteworthy to say that new clients use houses and lands as collateral more frequently than longer-term clients. Longer-term clients provide collateral in the form of commercial real estate more than new clients (See: Table 3.2).

Table 3.2 Provided Collateral			
	Total	New clients	Longer-term clients
Joint liability	26.35	24.1	28.6
Guarantor/co-signer	17.85	17.1	18.6
Did not provide collateral	14.3	15.1	13.5
Gold/jewelry	13.95	12.3	15.6
Home appliance/ electronics/furniture	10.7	9.8	11.6
Building&House	9.95	11.4	8.5
Commercial real estate	8.6	7.8	9.4
Salary	5.5	6.8	4.2
Land	5.1	7.3	2.9
Equipment, machinery	3.4	3.2	3.6
Vehicle	2.75	2.7	2.8
Promissory Note	0.9	1.2	0.6
Bank/pension account	0.05	0.1	0

Clients mainly used loans for expansion of existing primary business and personal consumption. New clients prefer personal consumption, agriculture inputs (seed, fertilizer, pesticides, etc.), equipment/machinery, starting-up new business, housing, while longer-term clients mainly spend loans on expansion of existing secondary business, inventory/working capital and education (See: Table 3.3).

Table 3.3 Destination of loan			
	Total	New clients	Longer-term clients
Expansion of existing primary business	51.2	43.6	58.9
Personal/Consumption	14.5	18.2	10.9
Agriculture inputs (seed, fertilizer, pesticides, etc.)	8.3	10.1	6.6
Equipment/machinery	7.2	7.5	6.9
Start-up new business	7.0	7.7	6.4
Housing	5.8	7.7	4.0
Expansion of existing secondary business	3.5	2.2	4.9
Education	1.9	1.6	2.2
Inventory/working capital	1.8	1.2	2.4
Other	9.15	9.5	8.8

Over the last 12 months, both new and longer-term clients were not active enough in purchasing major business tools or investing. Only 16% of all respondents spent funds to purchase equipment mentioned in the table below. In general, longer-term clients have slight prevalence here (See: Table 3.4).

Table 3.4 Purchasing or investing in assets for the major business activity over last 12 months			
	Total	New clients	Longer-term clients
Purchased small tools/accessories (cooking utensils, hoes, plow, baskets, basins)	3.35	2.7	4.0
Purchased major tools (such as stoves, equipment, machinery)	3.1	2.7	3.5
Purchased own means of transportation (such as bicycle, motorcycle)	0.8	0.4	1.2
Invested in a storage structure (granary, stock room)	0.85	0.9	0.8
Made a minor investment in your marketing site (such as by purchasing a chair, table)	3.4	4.3	2.5
Invested in structures for your marketing site (such as kiosk, shop)	2.55	2.2	2.9
Other	2.1	2.2	2.0

Over the last 12 months, receivable accounts of longer-term clients increased slightly higher than those of new clients. In general, this indicator is not high enough (See: Figure 3.1).

Microfinance clients use business incomes and salaries as a main source to repay loans. Longer-term clients use business incomes, while new clients resort to salaries more frequently to repay loans (See: Figure 3.2). This indicates, once more, that number of borrowers is increased due to salary based employees.

Figure 3. 1 Receivable of accounts over the last 12 months, in % **Figure 3.2 Source of money to repay loan, in %**



3.2 Microfinance: advantages, disadvantages and expectations of clients

Majority of respondents expresses their satisfaction with the membership in Microfinance programs. It's noteworthy to mention that more new clients are satisfied with the membership in microfinance programs than longer-term clients (7.5%) and more longer-term clients very satisfied with microfinance programs (4.1 percentage point). It should be noted that, the share of longer-term clients with very dissatisfied and dissatisfied in the microfinance programs are higher than new clients (See: Table 3.5).

Table 3.5 Overall satisfaction with the membership in MF programs			
	Total	New clients	Longer-term clients
Very satisfied	10.9	8.4	13.5
Satisfied	78.3	82.4	74.2
No opinion	5.2	5.6	4.8
Dissatisfied	3.1	2.2	4.1
Very dissatisfied	2.4	1.4	3.4

The table below shows that, in general, clients are mainly satisfied with accessibility of services, simplicity of procedures, transparency, rapidity of loan processing and other factors. While more longer-term clients are satisfied with accessibility of services and simplicity of procedures, share of new clients was higher regarding transparency. This may be mainly linked to two factors: i) transparency in micro-finance programs is improving year by year or ii) some clients may pay illegal amounts to get loans more quickly and easily or to get more loans while applying for credit in the next time (See: Table 3.6).

In overall, it should be noted that clients didn't satisfy for 100% with any of factors indicated in the table below and the highest satisfaction level is lower than 50%. It is subjective opinion of the clients but in its turns, suggest necessity for improvement of micro-finance services.

Table 3. 6 Advantages of microfinance programs			
	Total	New clients	Longer-term clients
Accessible services to receive loan	44.1	42.3	46.0
Simplicity of procedures to receive loan	36.8	36.5	37.1
Transparency	34.6	36.3	33.0
Rapidity of loan processing	32.9	30.3	35.6

Competency and well-treatment of staff and management	21.3	16.3	26.3
Appropriate repayment schedule	20.9	20.6	21.2
Reasonable credit length	17.4	15.8	19.0
Guarantor policy & requirements	12.7	11.2	14.3
Sufficient amount of loan	5.2	2.5	7.9
Low interest rate	3.05	2.7	3.4

The table below indicates that both new and longer-term clients cited high interest rate, low amount of loan and too short length of loans as the most disadvantages in the current microfinance program. It's noteworthy to say that more longer-term clients indicate high interest rates as disadvantage. Microfinance institutions should pay proper attention to these issues in future.

Table 3.7 Most disadvantages in the current microfinance program			
	Total	New clients	Longer-term clients
High interest rate	79.1	78.2	80.1
Low amount of loan	34.8	34.8	34.9
The loan length is too short	28.2	29.8	26.6
Intensive repayment schedule	8.3	4.7	12.0
Hard guarantor policy & requirements	4.8	5.1	4.5
Difficult procedures to receive loan	2.3	3.2	1.4
Long period for waiting loan	0.9	0.8	1.0
Corruption	0.8	1.2	0.4
Inaccessible services to receive loan	0.4	0.6	0.2
Incompetency or inadequate-treatment of staff	0.7	0.4	1.0

The graphic suggests that majority of microfinance clients are planning to expand their businesses in future. This ratio is higher among longer-term clients in comparison with new clients (See: Figure 3.3).

As can be seen from the table below, microfinance clients are mainly planning to get funds from NBCO for expansion of their businesses. This is mainly explained by that fact that clients are working with NBCO. It's noteworthy to say that 22% of respondents were clients of banks and 78% clients of NBCOs. Nevertheless, vast majority of NBCOs clients are planning to expand their businesses through self-funds. This may be mainly explained by high interest rates or inability of clients to get larger loans from NBCOs in the next times. It's a positive sign that more longer-term clients than new ones are planning to expand their businesses with self-funds (See: Table 3.8).

Figure 3.3 Plans to expand primary businesses over the next 12 months

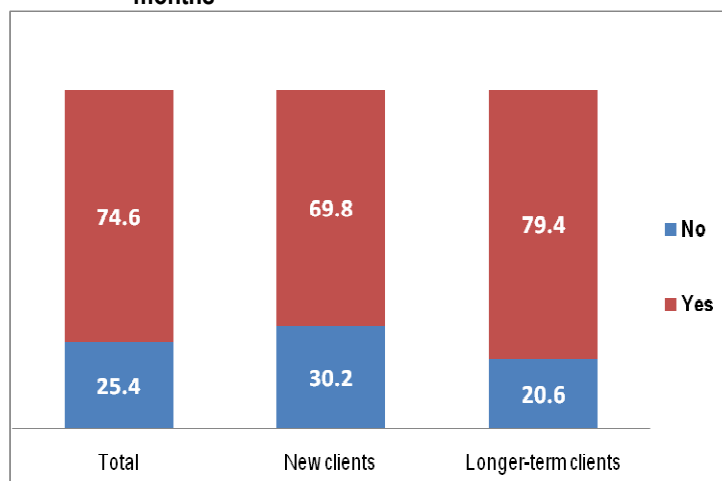


Table 3.8 Expected financing source of business expansion			
	Total	New clients	Longer-term clients
Non-Bank MFI loan	51.5	47.9	55.0
Self fund	28.2	25.9	30.5
Bank loan	25.0	22.8	27.2
Credit union loan	2.1	2.6	1.6
Loan from relative/friends	0.8	1.0	0.6
Lombard	0.4	0.4	0.4
Money lender	0.9	1.1	0.7
Business partner	0.6	0.9	0.3

The table below suggests that microfinance clients expect provision of some other financial services. These are mainly life insurance, health insurance, housing loan etc. Here, there are also some differences between new and longer-term clients in terms of attitude towards financial services (See: table 3.9).

Table 3.9 Expected financial products			
	Total	New clients	Longer-term clients
Life insurance	20.3	24.5	16.2
Health insurance	18.3	17.9	18.7
Housing loan	17.7	19.0	16.5
Supplier credit	17.6	17.5	17.8
Car insurance	11.9	9.7	14.2
Consumer loan	9.2	10.6	7.8
Property loan	8.4	7.2	9.6
Leasing	6.2	5.6	6.9
Personal/emergency loan	5.1	4.5	5.7
Education loan	4.7	5.1	4.3
Savings account	1.0	0.8	1.2

More longer-term clients than new ones want average amount of loans to be relatively higher. In terms of living places, clients in Baku wanted loans to be 3 times higher than those living in rural areas. Preference of men and women is also deferent. Thus, men wish average size of micro-credits to be higher. Analysis of preferable level of annual interest rates suggests that new clients want them to be lower. There is not a significant difference in terms of living places, Thus, according to microfinance clients, preferable amount of loans is 7.8 thsd. AZN and annual interest rate is 14.5% (See: table 3.10)

Table 3.10 Preferable loan and interest rate			
	Total	New clients	Longer-term clients
Preferable loan, AZN	7,852	7,556	8,147
Annual interest rate, %	14.5	14.0	15.0

As can be seen from the table below, clients prefer not to provide collateral or mortgage buildings/houses. At the same time, joint liability and salary is also found attractive by clients. Here, there are slight differences between desires of new and longer-term clients.

Table 3.11 Preferable collateral			
	Total	New clients	Longer-term clients
No collateral	38.7	40.0	37.4
Building&House	16.9	16.1	17.6
Joint liability	13.7	13.3	14.1
Salary	13.0	17.0	9.0
Commercial real estate	8.0	7.0	9.0
Land	7.6	8.6	6.5
Gold/jewelry	6.1	5.4	6.8
Vehicle	5.9	5.7	6.0
Guarantor/co-signer	5.1	3.1	7.0
Home appliance/electronics/furniture	3.4	2.4	4.4
Equipment, machinery	3.1	2.1	4.0
Promissory Note	0.7	0.8	0.5
Bank/pension account	0.5	0.4	0.5
Cash	0.1	0.0	0.2

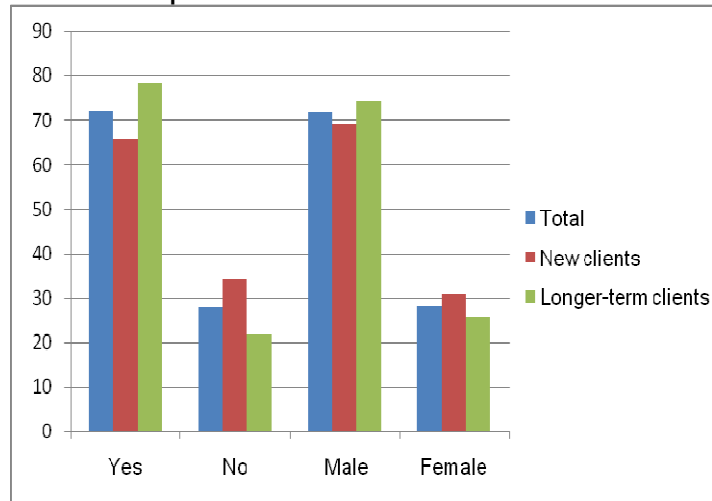
The table below suggests that preferable repayment schedule is a monthly schedule. But, there are also clients who prefer payment in every 3 months, 6 months and annually. These clients are mainly longer-term clients (See: Table 3.12).

Table 3.12 Preferable repayment schedule			
	Total	New clients	Longer-term clients
Every 2 weeks	0.3	0.3	0.2
Monthly	74.5	76.3	72.6
Every 2 months	6.7	7.0	6.3
Every 3 months	8.6	7.4	9.7
Every 4 months	0.8	0.6	0.9
Semi-annual	4.5	3.8	5.1
Annual	4.9	4.5	5.2
Other	0.1	0.1	0.0
Total	100.0	100	100

3.3 Impacts on Client Level

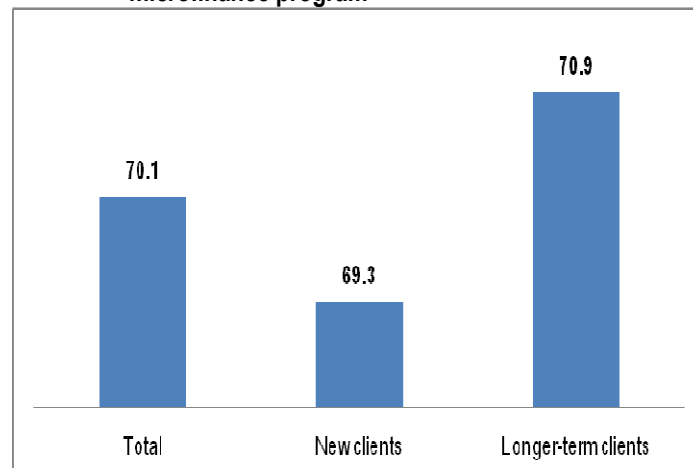
Business skills of clients: The survey shows that majority of respondents (70%) have business knowledge and skills. This indicator is higher among longer-term clients compared to new clients. Respectively: 78.4 and 65.7. Moreover, business knowledge and skills of men are higher than those of women. In terms of living places, business knowledge and skills is higher in Baku and lower in rural areas. This fact suggests positive impact of micro-finance on improvement of business knowledge and skills of clients. As to distribution by living places, weakness of business knowledge and skills of people living in remote and rural areas indicates more necessity for increasing enlightenment and training in those areas in future (See: Figure 3.4).

Figure 3.4 Business knowledge/practice/skills of the respondents



Majority of clients stated that they had made savings before they joined microfinance programs (See: Figure 3.5). This ratio doesn't differ significantly for new and longer-term clients. But, clients think that over the last 12 months they couldn't maintain what had been saved over previous 12 months. Only small portion of clients (8%) asserted that they could manage it.

Figure 3.5 Regularly saving among clients before joined microfinance program



The table below shows that business incomes over the last 12 months increased in comparison with the previous 12 months and this indicator was relatively higher among longer-term clients. (7.6 percentage points). This fact indicates more increase in income of longer-term clients

Table 3.13 Business incomes over last 12 months in comparison with previous 12 months

	Total	New clients	Longer-term clients
Decreased	3.85	4.6	3.1
Increased	75.6	71.8	79.4
Same	19.65	22.2	17.1

highlighting that their businesses are more stable and sustainable than those of new clients. Respondents mainly explained the growth in their business incomes with expansion of business, increase in demand and improvement in quality of goods.

The table below suggests that microfinance clients mainly use their business incomes for household consumption, for special events, for investment in a business or for payment of

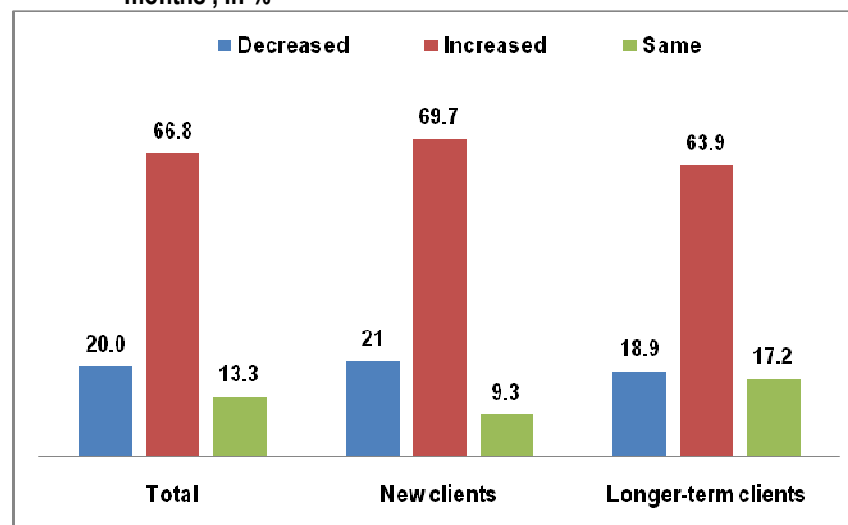
interest rates. Comparison between longer-term and new clients shows that share of longer-term clients in use of business income is higher in almost all directions compared to new clients. This, once more, indicates that longer-term clients have more disposable income which they can decide how to spend (See: table 3.14).

	Total	New clients	Longer-term clients
For Household Consumption	58.9	53.5	64.3
For special events (such as birthday party, wedding party, religious event, etc.)	38.8	37.3	40.3
Investment in a business	38.5	33.5	43.6
Payment of interest rate and other costs	35.6	33.4	37.9
Emergency (e.g. accident, illness, death)	32.3	30.1	34.6
For home improvements	23.5	20.2	26.9
To purchase other consumer goods (such as home appliances, etc.)	15.0	12.7	17.4
To repair or buy a car	13.4	9.9	17.0
For education	5.9	4.7	7.2
For savings	7.1	5.6	8.7
For purchase of real estate	3.7	2.3	5.1
For tourism	1.2	1.3	1.2
Others	11.8	14.3	9.4

Share of clients whose debts increased over the last 12 months compared to previous period is about 65%. This may be considered as an expected increase.

Comparison of new clients with longer-term clients suggests that share of new clients whose debts increased compared to previous period is higher (See: Figure 3.6).

Figure 3.6 Debt in comparison with the previous 12 months over the last 12 months , in %



The table below shows that ownership and control over all assets, except for non-agricultural lands, is higher among longer-term clients. This indicates tangible positive impact of micro-finance on increase of assets of clients.

Table 3.15 Assets owned and controlled by client			
	Total	New clients	Longer-term clients
Building/House	79.1	78.5	79.7
Mobile phone	78.0	76.0	80.1
Gold/jewelry	53.8	50.7	56.9
Home appliance/electronics/furniture	52.2	49.1	55.3
Agricultural land	29.0	28.2	29.9
Car	28.4	24.0	32.8
Commercial real estate	23.6	17.8	29.5
Computer	9.0	6.4	11.7
Equipment, machinery for business	7.6	6.4	8.9
Non-agricultural land	3.6	3.9	3.4
Heavy agricultural equipment (e.g., tractor)	1.0	0.5	1.5
Securities	1.0	0.8	1.2
Motorcycle	0.9	0.8	1.1

On average, longer-term clients eat out and have guests more frequently than new clients within a month. But, the time spent with family is the same both for new and longer-term clients (See: Figure 3.7).

The table 3.16 shows that over the last 12 months trust in family is increased more among clients but the trust to the friends, central and local governments is not very higher. The noted figures are higher among longer-term clients. In general, trust of longer-term clients is increased more than new clients over the last 12 months. This may be explained by the fact their living condition was more improved. On other hand, it should be noted that over the last 12 months trust of vast majority of micro-finance clients towards friends, general government and local government is not increased (about 67-83%).

Figure 3.7 Frequency of eating out, having guests and time spent with family

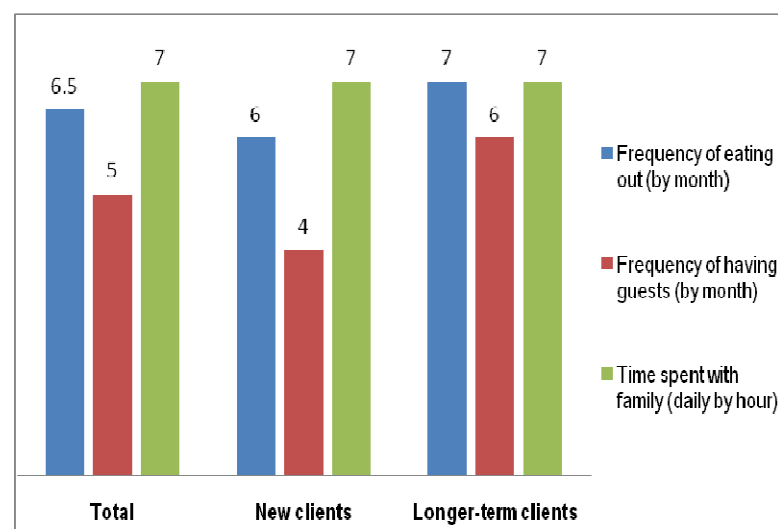


Table 3.16 Increasing trust over the last 12 months			
	Total	New clients	Longer-term clients
Family	82.75	80.4	85.1
Friends	33.1	28.2	38.0
Central government	26.5	22.0	31.0
Local government	17.0	14.4	19.6
Strangers	0.7	1.0	0.4

40.4% of respondents indicated that over the last 12 months trust of their spouses, other family members and friends towards them increased. This share was higher among longer-term clients than new ones: 43.1% and 37.7% respectively.

64% of longer-term clients consider that their living condition improved compared to previous period. This indicator was 58% for new clients. Furthermore, 57.8% of longer-term clients and 52.7% of new clients are of the opinion that their own future and future of their families will be better than it is today. Study of active participation of new and longer-term clients in community shows that 8.5% of longer-term clients and 4.9% of new clients indicated their active involvement in local community. It should be note that this is very low figure.

Thus, increase of self-confidence among clients is observed and this feeling is higher among longer-term clients (about 5%). In general, the level of self-confidence is on average 55% among micro-finance clients. This indicates that self-confidence of some microfinance clients is weak and they are not fully sure about sustainability of their business in future.

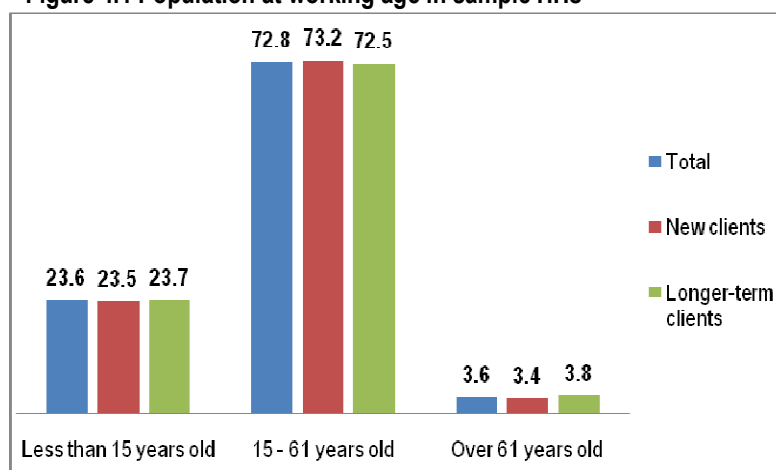
4. Impacts on Household, Business and Community Levels

4.1 Social-Demographic Characteristics of HHs

On average, 51% of HH members of respondents involved in the survey were men and 49% women. Share of men is slightly higher among longer-term clients. Average size of HHs of respondents participated in the survey is 4.3 persons. In general, minimum and maximum sizes of HHs are 1 and 13 persons, respectively. This indicator is also relatively higher among HHs of longer-term clients. This suggests that the size of HHs of longer-term clients is higher than that of new ones, so slight it was. It's explained by the fact that share of older is higher among longer-term clients HHs (See: table 4.1)

Analysis of HHs of respondents involved in the survey indicates that people at working age constitute, on average, 73% of these HHs. This figure is 66% at national level. This suggests that share of people at working age among HHs using microfinance services is higher than average national indicator, while the share of persons at pension age is lower. This is mainly explained by the fact that people at pension age are not frequently using microfinance services. At the same time, share of able-bodied persons in HHs of new clients is 0.7% higher than longer-term clients (See: Figure 4.1).

Figure 4.1 Population at working age in sample HHs



Education level of new and longer-term clients shows that majority of them have secondary and higher education. But, the share of persons with higher and secondary specialized education among HHs of longer-term clients is relatively higher than those of new clients. This is mainly explained by prevalence of the youth among HH member of new clients.

Analysis of HHs shows that majority of HH members are married and single. Comparison between HHs members of new clients those of longer-term clients shows that share of married people is higher in HHs of longer-term clients, while ratio of single, widow and divorced people prevails among HHs members of new clients.

Table 4.1 Social-Demographic Characteristics of HHs members				
	Number of HH members	Share of HH members	Share among HHs of new clients	Share among HHs of longer-term clients
	N	%	%	%
Male	4391	51.2	50.8	51.5
Female	4193	48.8	49.2	48.5

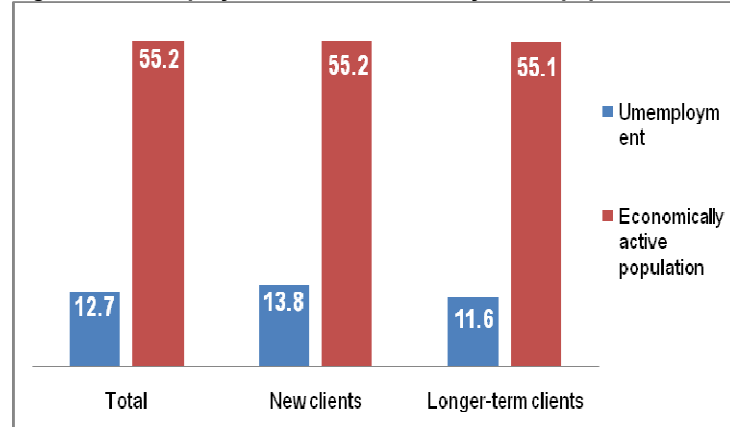
Size of household	4.3		4.2	4.4
Younger than 6 Years	752	8.8	8.4	9.1
6 – 15 Years Old	1303	15.2	15.6	14.8
16 – 24 Years Old	1791	20.9	21.3	20.5
25 – 34 Years Old	1370	16.0	16.1	15.8
35 – 44 Years Old	1191	13.9	13.5	14.2
45 – 54 Years Old	1363	15.9	16.1	15.7
55 – 64 Years Old	505	5.9	5.7	6.1
65 Years or Older	309	3.6	3.4	3.8
No Formal Education	44	0.5	0.5	0.6
Incomplete Primary Education	424	4.9	5.2	4.7
Primary Education	617	7.2	7.6	6.8
Incomplete Secondary Education	615	7.2	7.4	7.0
Secondary Education	3608	42.0	44.0	40.1
Specialized Secondary Education	1109	12.9	12.1	13.7
Incomplete graduate	188	2.2	1.9	2.4
Higher-Bach/Masters	1148	13.4	12.0	14.6
PhD	5	0.1	0.0	0.1
Kindergarten	107	1.2	1.3	1.2
Not applicable above mentioned	719	8.4	8.1	8.7
Married*	4188	48.8	47.8	49.7
Not Married	1866	21.7	22.0	21.5
Widow	400	4.7	5.1	4.3
Divorced	56	0.7	0.8	0.5
Live separately	19	0.2	0.4	0.1
Under 15 years of age	2055	23.9	23.9	23.9
Total	8584	100.0	100 (4173)	100 (4411)
<i>*Marital status indicators refer to people of 15 years and above</i>				

HHMs of new and longer-term clients are mainly engaged in self-employment, public and private sectors, as well as, entrepreneurship. HH members of new clients prevail in self-employment and private sectors compared to longer-term clients, while HHMs of longer-term clients are mainly involved in public sector and entrepreneurship activities (See: Table 4.2).

Table 4.2: Occupation of HH members over the last 12 months				
	Number of HH members	Share of HH members	Share among HHs of new clients	Share among HHs of longer-term clients
	N	%	%	%
Self-employed	1459	17.0	17.3	16.7
Entrepreneurial activities	240	2.8	2.2	3.4
Employed in the public sector	1191	13.9	13.0	14.7
Employed in the private sector	463	5.4	6.3	4.6
Community sector	34	0.4	0.3	0.5
Unpaid family work	748	8.7	8.5	8.9
Unemployed looking for work	600	7.0	7.6	6.4
Unemployed not looking for work	674	7.9	8.2	7.5
Student	1449	16.9	16.7	17.0
Retiree with pension	842	9.8	10.0	9.6

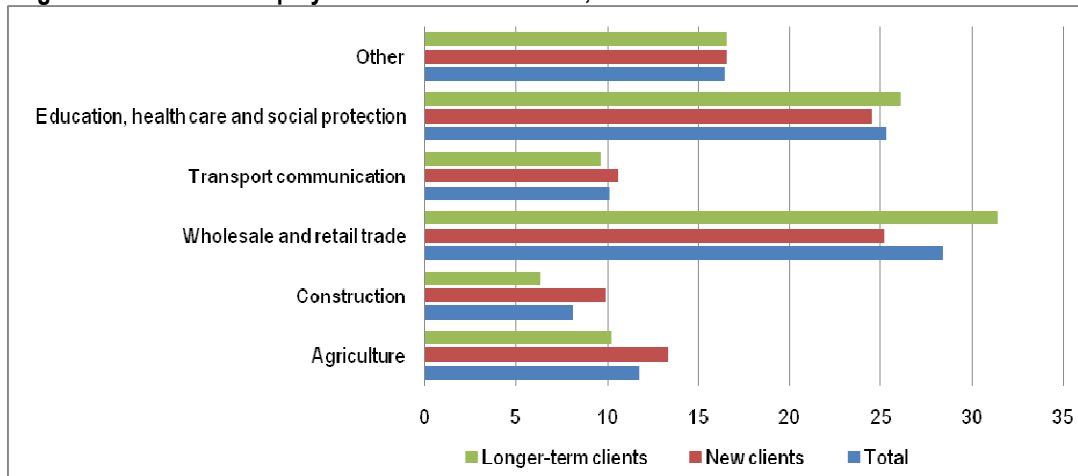
The level of economic activity of population stands at 55% and it's almost the same both for new and longer-term clients. The unemployment level among HHMS of new clients is higher than those of longer-term clients: 13.8% and 11.6%, respectively. This indicates positive impact of Microfinance on decreasing of unemployment. It should be noted that the unemployment level is much higher than that of national average. Thus, according to information of SSC, the level of unemployment was 6.5% in 2007. This suggests that unemployment risk of HHMs of clients using microfinance services is higher (See: Figure 4.2).

Figure 4.2 Unemployment and economically active population, in %



The graphic shows that majority of sample HHMs are engaged in trade, education, health care and social protection spheres. Distribution of HH members by new and longer term clients, shows that HH members of new clients prevail in agriculture, construction and transport sectors compared to longer-term clients. HH members of longer-term clients are mainly involved in trade and social sectors (See: Figure 4.3).

Figure: 4.3 Sector of Employment of member of HHs , in%



Participation coefficient of HHs of respondents in microfinance programs is on average 1.092 or in other words, number of borrowers is approximately 2 among 184 HHs out of total 2000 HHs involved in the survey. This indicator is higher among HHs of longer-term clients compared to HHs of new clients. In terms of living places, the highest indicator is in other urban areas, while the least indicators are observed in Baku city (See: Table 4.3).

Table 4.3 Participation level of HHs in the microfinance programs

	Baku	Other urban areas	Rural areas	Total
Participation coefficient of HHs in the microfinance programs	1.043	1.112	1.087	1.092
New clients				1.071
Longer-term clients				1.116

4.2 Incomes of HHs

Average annual income is higher for longer-term clients than for new clients. The difference is equal to 701 AZN. The same tendency is observed for the median (median is the level with the highest concentration of clients' by incomes). It shows positive impacts of microfinance on incomes. The range suggests that difference among longer-term clients is higher than among new clients. At the same time, it shows that income inequality is higher among longer-term clients than among new clients. By locality distribution the highest average annual income is observed in Baku and the lowest one in other urban areas. Higher range is observed in Baku and the lowest one in Rural Areas. By gender distribution the average annual income is observed to be higher for male than for female but the range is higher among female (See: Table 4.4).

	Total	New clients	Longer-term clients	Baku	Other urban areas	Rural areas	Men	Women
Mean	2378.3	2027.6	2729.0	4106.6	2063.4	2100.3	2360.6	2416.2
Median	1572.3	1410.3	1753.4	2856.7	1400.0	1547.6	1560.0	1596.7
Minimum	100.0	141.5	100.0	360.0	100.0	175.0	100.0	166.7
Maximum	52440.0	30000.0	52440.0	52440.0	42980	15046.7	42980	52440.0
Range	52340.0	29858.5	52340.0	52080.0	42880	14871.7	42880	52273.3

Incomes from self-employment not related to agricultural activities/business, working for a paid wages, non-farming business and farming (crops, livestock and other agricultural activities) prevail in formation of revenues of HHs using microfinance services. Distribution of incomes of HHs using microfinance services suggests that the role of financial assistance from the Government (including targeted state social assistance), cash remittances from abroad, dividends, financial assistance received from relatives and friends living in the country, as well as, revenues from rent of land, building or equipment is negligible in formation of incomes of new and longer-term microfinance clients. Thus, this figure is 10.4% for new clients and 9.7% for longer-term clients (See: Table 4.5).

	Item of incomes	Total	New clients	Longer-term clients
1	Self-employment not related to agricultural activities/business	30.7	31.6	30.0
2	Working for a paid wage	25.8	28.3	24.1
3	Non-farming business/entrepreneurial income	18.5	13.7	21.8
4	Farming income (crops, livestock and other agricultural activities)	15.0	15.9	14.4
5	Pensions	6.2	7.3	5.4
6	Income received abroad (cash remittances)	1.5	1.1	1.8
7	Renting land, building or equipment	1.4	0.9	1.7
8	Financial assistance from the Government, including targeted state social assistance	0.6	0.7	0.5
9	Financial assistance from relatives or friends in this country	0.2	0.4	0.1
10	Interest/dividends	0.1	0.0	0.1
	Total	100	100.0	100.0

Comparison between incomes of new and longer-term clients by regions suggests that annual per capita income of longer-term clients is higher than new clients by all regions, including among IDPs. This difference is more tangible in Baku, Absheron, Guba-Khachmaz and Nakhchivan regions. The least difference is observed in Shaki-Zagatala and Lankaran regions. It shows that the positive impact of microfinance is low in some regions, but at the same time it can be explained by the following factors: It's known that many people from Lankaran and Shaki-Zagatala regions migrate to Russia and other countries for employment and a big part of population living in that regions receive remittances. The study shows that clients sometimes use microcredits for their consumption needs instead of business. On the other hand, not all MFIs working in the country are performed \exist \work\ also in regions, for this reason different MFIs are dominated in different regions. This also makes an impact to the amount of incomes. (See table 4.6 for detailed information).

Range among minimum and maximum incomes is higher in Baku, Absheron and Ganja-Gazakh regions and lower in Shaki-Zagatala, Lankaran, Yukhari Garabakh regions and among IDPs.

Table 4.6 Annual per capita income by regions, in AZN											
	Baku	Absheron	Ganja-Gazakh	Shaki-Zagatala	Lankaran	Guba-Khachmaz	ARAN	Yukhari Garabakh	Daglig Shirvan	Nakhchivan	IDPs&Refugees
Total											
Mean	4451.1	4469.1	2141.3	1534.9	1654.6	2250.6	1981.6	1753.5	2488.7	1619.4	1762.8
Median	2870.0	2596.7	1368.4	1182.5	1338.2	1902.5	1368.6	1672.4	1776.0	1259.8	1296.0
Minimum	360.0	120.0	194.0	166.7	242.9	375.2	100.0	482.8	343.5	205.0	465.0
Maximum	52440.0	42980.0	29582.7	5378.8	6150.0	12110.0	19135.0	4108.8	13952.5	7548.4	7262.5
Range	52080.0	42860.0	29388.7	5212.1	5907.1	11734.8	19035.0	3626.1	13609.0	7343.4	6797.5
New clients											
Mean	3387.1	3521.6	1923.3	1499.3	1563.9	1693.5	1730.0	1484.5	2280.5	1119.0	1457.1
Median	1950.4	2271.0	1342.0	1163.3	1205.6	1444.2	1164.6	1533.1	1630.0	860.8	1280.1
Minimum	505.0	396.0	310.0	175.0	367.8	375.2	141.5	482.8	343.5	205.0	566.0
Maximum	27425.0	30000.0	27362.0	5378.8	5590.0	4970.0	10587.5	2966.5	13952.5	3286.7	2942.5
Range	26920.0	29604.0	27052.0	5203.8	5222.3	4594.8	10446.0	2483.8	13609.0	3081.7	2376.5
Longer-term clients											
Mean	5515.1	5416.6	2359.4	1570.4	1745.4	2807.6	2233.3	2022.5	2697.0	2119.9	2068.5
Median	3709.3	3254.0	1400.0	1346.7	1455.0	2270.3	1476.0	1931.0	1838.0	1585.3	1355.5
Minimum	360.0	120.0	194.0	166.7	242.9	638.3	100.0	784.8	515.7	360.0	465.0
Maximum	52440.0	42980.0	29582.7	4476.4	6150.0	12110.0	19135.0	4108.8	12020.0	7548.4	7262.5
Range	52080.0	42860.0	29388.7	4309.7	5907.1	11471.7	19035.0	3324.0	11504.3	7188.4	6797.5

Distribution of HHs of new and longer-term clients by income quintiles shows that majority of HHs of new clients are in poor quintiles (1 and 2) , while most HHs of longer-term clients are concentrated in average and rich quintiles (3, 4 and 5). This, once more, indicates positive impact of microfinance on incomes of longer-term clients (See: Table 4.7).

Table 4.7 Distribution of new and longer-term clients by income quintiles, in %			
Quintile	Total	New clients	Longer-term clients
Quintile 1	20	11.8	8.2
Quintile 2	20	11.2	8.8
Quintile 3	20	9.9	10.1
Quintile 4	20	9.2	10.8
Quintile 5	20	7.8	12.2

4.3 Expenditures of HHs

The graphic shows that share of expenditures on foods and nonfoods in the budget of HHs of new clients is slightly higher than HHs of longer-term clients. Furthermore, the share of services is higher in budget of HHs of longer-term clients. This fact suggests that living standard of longer-term clients is higher than new clients, so slightly it is (See: Figure 4.4).

Over the last 12 months, the number of weddings, circumcisions, funerals and other ritual ceremonies that took place in longer-term clients was higher than those in new clients. On average, HHs of longer-term clients spent more funds on organization of one of such ceremonies than HHs of new clients. In terms of distribution by living places, this kind of ceremonies is more expensive in urban areas in comparison with rural areas (see: table 4.8).

Figure 4.4 Distribution of expenditures among new and longer-term clients, in %

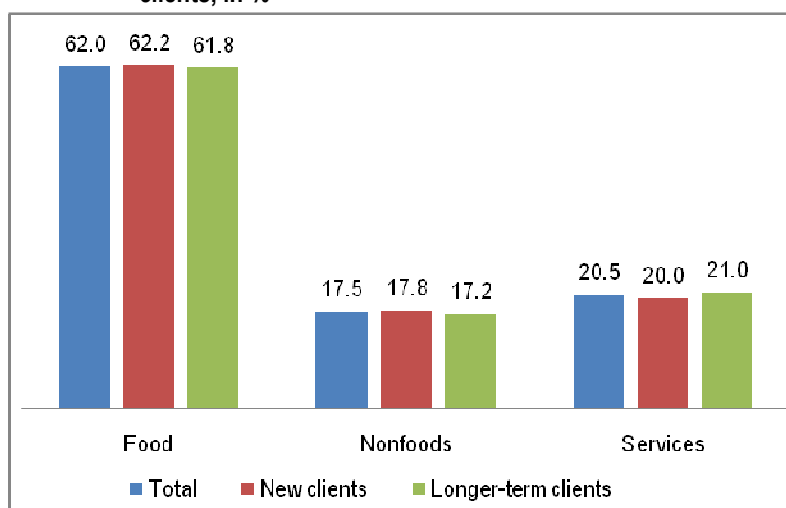


Table 4.8 Share of HHs took place weddings, circumcission, funerals or other ritual ceremonies over the last 12 months, in %			
	Total	New clients	Longer-term clients
Share of HHs, in %	15.65	12.5	18.8
Average expenditures, in AZN	2,439.2	2,133.5	2,642.5

4.4 Housing

More than 90% of longer-term and new clients live in detached houses and individual flats. But, this ratio is slightly higher among longer-term clients. Only 4.9% of new clients and 4% of longer-term clients live in dormitories, temporary houses and non-residential premises used as residence. It should be noted that IDPs and refugees constitute 16% of survey participants. This indicates that majority of IDPs and refugees using microfinance services have settled their housing problems. Purposeful policy pursued by the Government has also contributed to this issue (Construction of new settlement for IDPs).

Majority of HHs (90%) live in their own houses. This ratio is almost the same both for new and longer-term clients. Only 1.6% of HHs live rented houses. This indicator is higher among new clients compared to longer-term clients; 1.8% and 1.3%, respectively. On average,

Figure 4.5 Type of house, in %

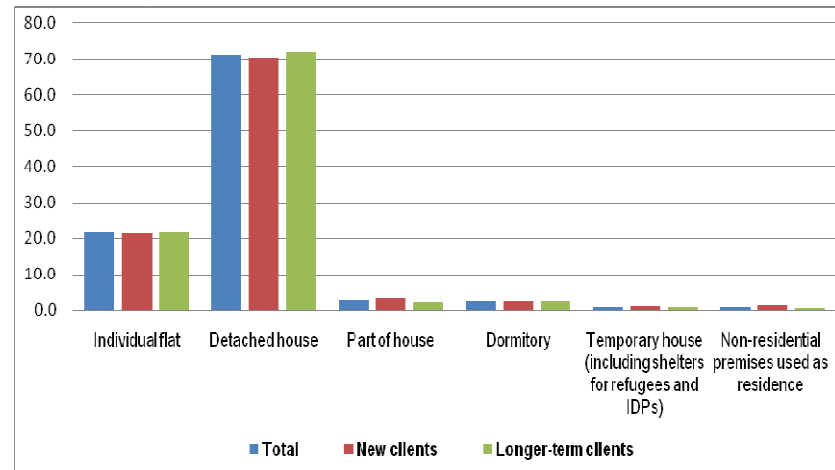


Figure 4.6 Housing status, in %

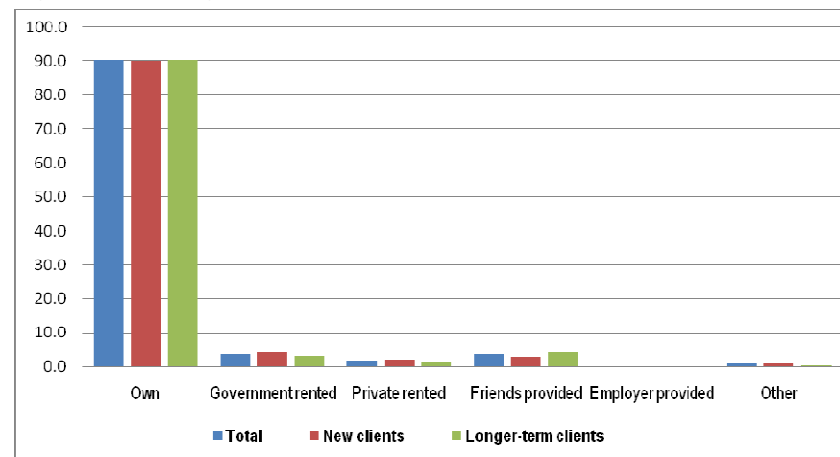
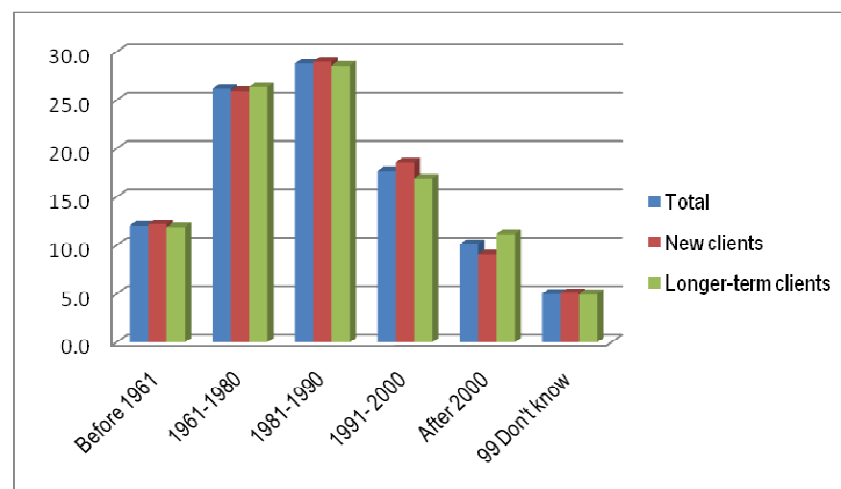


Figure 4.7 Construction of houses, in %



respondents pay 110 AZN for rent and this figure is relatively higher among new clients. Amount of rents is higher in the capital, standing at about 153 AZN. There is no significant difference in the number of rooms. Thus, on average houses of each HHs constitute 3 rooms and this is the same for longer-term and new clients.

The main reason behind the fact that majority of HHs possess detached houses and individual flats is that many of the households were impoverished as a result of economic decline that took place in the 1990s following the collapse of the Soviet Union and the centrally planned economy. Thus, the possession of housing by most respondents can be attributed to the provision of housing during the Soviet period. The graphic 4.7 confirms this fact. This is the case for almost all transition countries.

As can be seen from the graphic, majority of houses was constructed before 2000. But, the share of houses constructed after 2000 is relatively higher among longer-term clients.

Analysis of access of HHs to utility services (water and electricity) suggests that HHs are not provided with utility services all day long. But, access of

Table 4.9 Access to the water, gas and electricity in summer and winter (by daily hours)

	Total	New clients	Longer-term clients
Access to water in summer	12.8	12.4	13.2
Access to water in winter	13.0	12.6	13.4
Access to electricity in summer	22.7	22.5	22.9
Access to electricity in winter	21.5	21.2	21.8

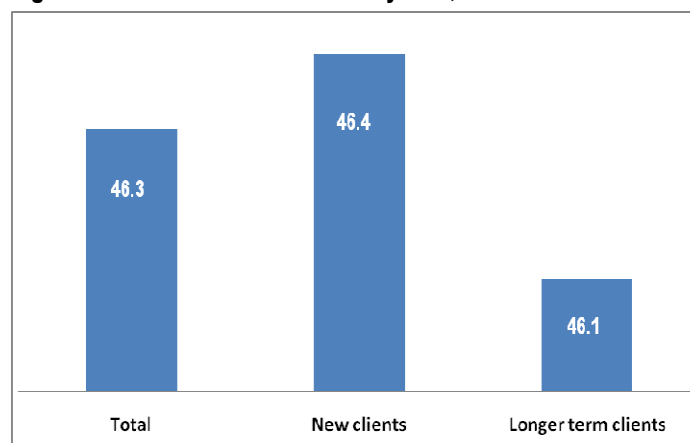
longer-term clients to utility services is slightly higher than new clients. It should be noted that access of people living in rural areas to such services is weaker compared to other areas. HHs use gas (44%), firewood and electricity as the main sources of heating. This indicator is almost the same both for new and longer-term clients. Shared water pipe, own water pipe and own wells are main sources of potable water. This indicator is almost the same both for new and longer-term clients too. Indicators related to disposal of household garbage are also the same both for new and longer-term clients. But, people living in Baku and other urban areas take household garbage to garbage bins near their houses, while persons living in rural areas use self-disposal ways (See: Table 4.9).

4.5 Health Services

About half of HHs of respondents involved in the survey did not use health care services over the past 12-months. This indicator is slightly higher for HHs of new clients (See: Figure 4.8).

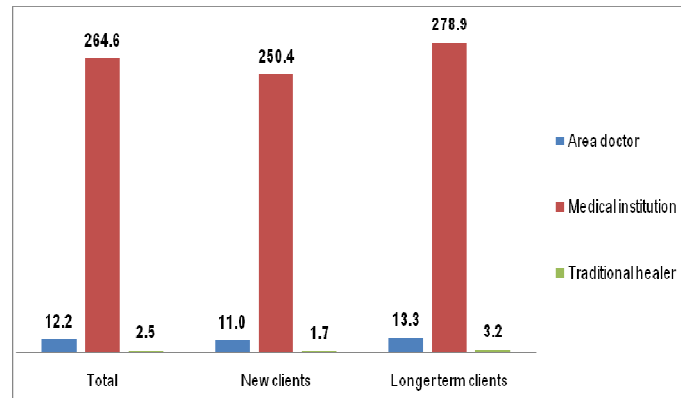
Analysis of health care services shows that HHs of longer-term clients spent more funds on sick persons than HHs of new clients (See: Figure 4.9). The highest spent amount on sick persons occurred when application was made to medical institutions,

Figure 4.8 Used medical services by HHs, in %



while the least amount was spent for traditional healer. Comparison of that indicator by living places indicates that persons residing in Baku and other urban areas spend more funds on health care services than those living in rural areas. Thus, higher living standards of HHs of longer-term clients than those of new clients allow them to spend more funds on health care services.

Figure 4.9 Expenditures for medical services, including official and non-official payments, in AZN



4.6 Education Services

Comparison of drop-out level of children of HHs of new and longer-term clients from education shows that such cases happen more frequently among HHs of longer-term clients (see: graphic). Main reasons for absence of school are closed roads in winter time and illness. But, there are also cases of use of child labour. This occurs in the form of help in home, working in household business and working outside home. While such cases happened in 17.4% of HHs of new clients, the same incidence was 14,1% for longer-term clients. We consider that this indicator is significantly higher. Nevertheless, positive tendency is that HHs are using child labour less frequently as their welfare is increasing. This, in its turn, indicates slight positive impact of microfinance on decreasing of child labour (See: Table 4.10).

Figure 4.10 Absence of school over the last 12 months by HHs, in %

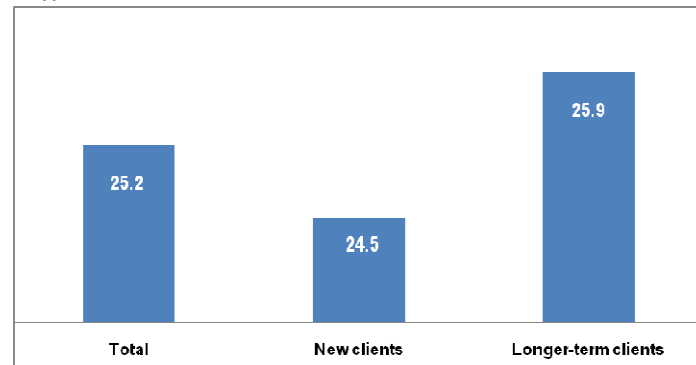
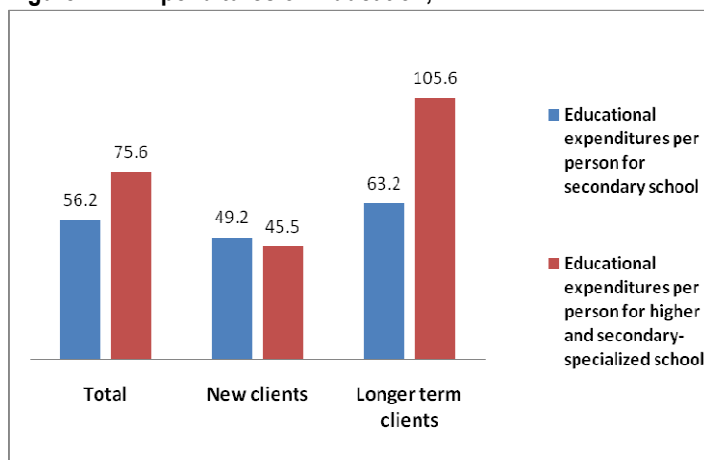


Table 4.10 Main reasons for absence of school over the last 12 months, in %

	Total	New clients	Longer-term clients
Roads closed	41.8	38.7	44.5
Illness	39.5	40.9	38.4
Help in home	13.4	14.6	12.4
Work households business	2.1	2.6	1.7
Work outside home	0.1	0.2	0.0
Cannot afford clothing	0.8	0.2	1.3
No desire to study	0.9	1.3	0.6

Comparison of education expenditures suggests that HHs of longer-term clients spend 29% more per person on general secondary education and 2.3 times more per person on post-graduate education than those of new-clients. This may be explained by ability of longer-term clients to spend more funds on education indicating their better well-being. On other hand, this suggests, once more, positive impact of microfinance on education opportunities (See: Figure 4.11).

Figure 4.11 Expenditures on Education, in AZN



4.7 Savings of HHs

The figure below shows that the share of HHs of longer-term clients making savings is higher. Over the last 12 months, the ratio of HHs of longer-term clients with increased savings was also higher. HHs make savings in the form of cash at home, precious metals and stones, as well as, investment in business. HHs of longer-term clients are more active in making such savings. At the same time, 2% of HHs of longer-term clients make saving as a real estate.

Figure 4.12 Share of HHs saving in any way, in %

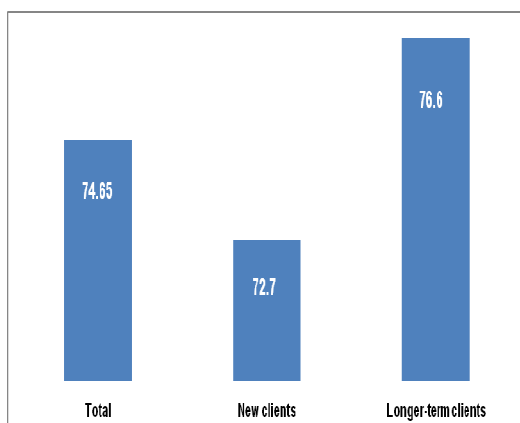
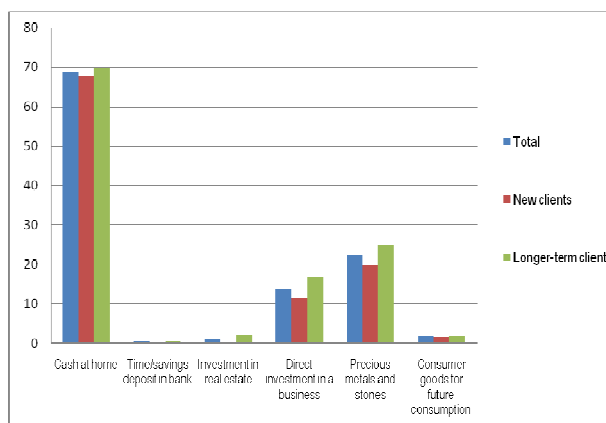
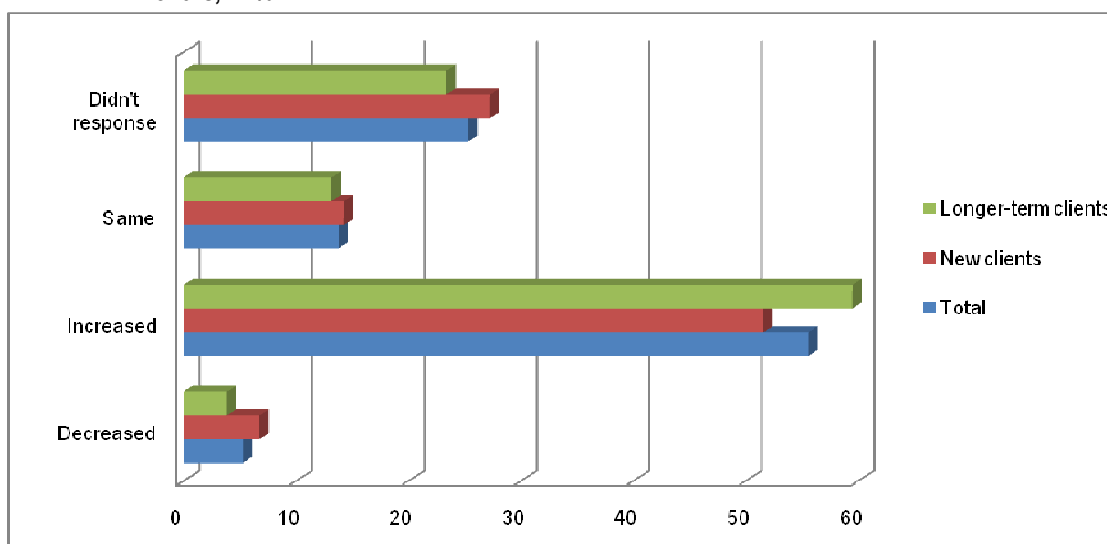


Figure 4.13 HH saving form, in %



The figure 4.14 shows that in comparison with previous 12 months the savings during the last 12 months have increased more among longer-term clients HHs in comparison with new clients HHs: 59.5 and 51.6 respectively. The difference is equal to 7.9 percentage points. It proves that the share of longer-term clients HHs with saving opportunity is higher than of new clients (See: Figure 4.14).

Figure 4.14 Changes happened in HH savings over the last 12 months compared to the previous 12 months, in %



The purposes for using savings suggest that there is not a significant difference between HHs of new and longer-term clients. But, HHs of longer-term clients spend significantly more savings on investment in business, buying a car, purchase of real estate, improvement of home, provision with equipment, education and tourism in comparison with HHs of new clients (See: Table 4.11)

Table 4.11 Using the savings by HHs			
	Share in Total Sample	Share in new clients	Share in longer-term clients
	%	%	%
In case of an emergency (e.g. accident, illness, and death)	60.4	58.5	62.3
For home improvements	37.1	35.1	39.0
For direct investment in a business	31.0	26.0	35.9
For special events (such as birthday party, wedding party, etc.)	20.8	20.3	21.2
For credit repayment	19.1	18.8	19.3
To purchase other consumer goods (such as furniture, home appliances, etc.)	11.4	9.6	13.2
To repair or buy a car	11.1	7.0	15.1
For education	4.7	3.8	5.6
For purchase of real estate	3.5	1.8	5.1
For tourism	1.7	1.2	2.1
For retirement	0.6	0.5	0.6

HHs of both new and longer-term clients explain the reason for not making savings at bank by the fact that they don't have enough money, there exist fear of depreciation, lack of trust in banks and low interest rate. This indicates that people have not yet forgotten economic regression that took place in the country in 90s of the XX century. It should be noted that

fear of depreciation and lack of trust in banks prevails among longer-term clients (See: Table 4.12).

Table 4. 12 Reasons for not savings at banks by HHs			
	Share in Total Sample	Share in new clients	Share in longer-term clients
	%	%	%
Do not have enough money	62.0	65.5	58.4
Fear of depreciation	28.2	26.3	30.1
Lack of trust	27.2	22.9	31.4
Pay low interest rate	22.6	22.6	22.6
Restricted withdrawals/access to savings	5.4	5.2	5.6
Requires minimum deposit/balance	1.6	1.9	1.3
Savings institution is far from my home or businesses	0.8	0.9	0.7
Lack of information about savings institutions/savings products	0.6	0.3	0.8
Corruption/bribery	0.4	0.2	0.6
Poor customer service/do not treat clients well	0.3	0.2	0.3

HHs of microfinance clients resort to relatives/friends, NBCOs and banks in case of emergencies (accident, death, illness etc) and when they don't have enough funds to cover relevant expenses. But, there are also cases when they apply to individual money lenders, community members/neighbours, credit unions and government. Comparison of new and longer-term clients doesn't suggest a significant difference (See: Table 4.13).

Table 4.13 Source of financial assistance in case of emergency (e.g. accident, death, illness, etc.)			
	Share in Total Sample	Share in new clients	Share in longer-term clients
	%	%	%
Relative/friends	68.3	65.2	71.3
Non-Bank Credit Institutions	52.2	54.7	49.6
Banks	17.3	15.7	18.9
Individual money lenders	7.0	6.7	7.3
Community member/neighbour	5.3	5.8	4.8
Credit unions	4.2	5.6	2.7
Government	2.9	3.7	2.0
Employer	1.0	1.3	0.7
Religious organization	0.1	0.1	0.0
Purchase on credit	0.7	0.8	0.5

4.8 Borrow and lending

In about 43% of HHs of microfinance clients at least one person uses a debit card. This indicator is almost the same for HHs of both new and longer-term clients (See: Figure 4.15). Credit cards are only used in about 9% of HHs of clients. This indicator almost doesn't differ for HHs of both new and longer-term clients (See: Figure 4.16).

Figure 4.15 Prevalence of Debit Card within HHs in %

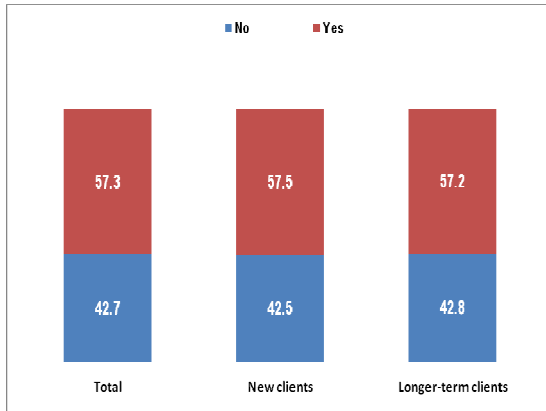
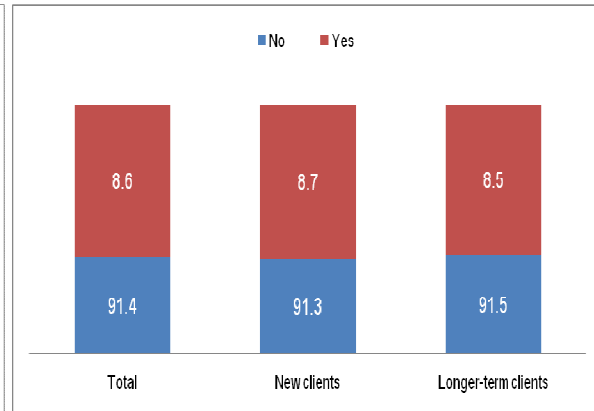


Figure 4.16 Prevalence of Credit Card within HHs, in %



According to data over the last 12 months, HHs mainly apply to NBCO and banks to borrow money. There are also cases when they address to relatives and friends. These funds are mainly spent on investment in a business/entrepreneurial activity (including self-employment) and purchase of consumer goods (including cars and furniture). HHs of new clients more frequently use debts on purchase of consumer goods, house repairs, health care services compared to HHs of longer-term clients. And, HHs of longer-term clients spend majority of debts on investment in business, ritual ceremonies and purchase of real estate in comparison with HHs of new clients (See: Table 4.14).

Table 4.14 Reason for using debt			
	Total	New clients	Longer term clients
Investment in a business/entrepreneurial activity (including self-employment)	68.2	62.5	73.9
Purchase of consumer goods (including cars and furniture)	18.1	20.4	15.8
House repairs	7.7	8.7	6.6
Ritual ceremonies (e.g., wedding, funeral, etc.)	4.6	4.4	4.9
Healthcare	3.5	4.2	2.7
Credit repayment	2.2	2.2	2.2
Purchase of real estate	1.3	1.1	1.6
Education	1.6	1.0	2.2

Analysis of lending of HHs of new and longer-term clients over the last 12 months indicates that HHs of longer-term clients lent more funds to relatives/friends and community members compared to HHs of new clients. The same tendency is also observed in giving money away to relatives/friends and community members. In general, capacity of HHs of microfinance clients is low in terms lending or giving money away.

Figure 4.17 Borrowing sources of HHs, over the last 12 months in %

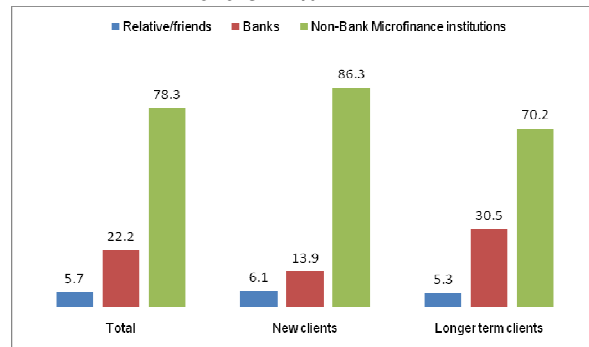


Figure 4.18 Lending by HHs, in %

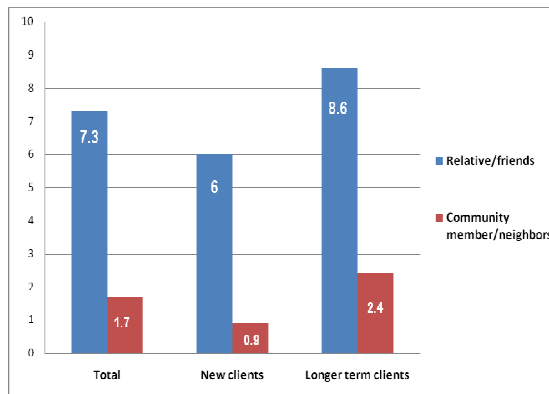
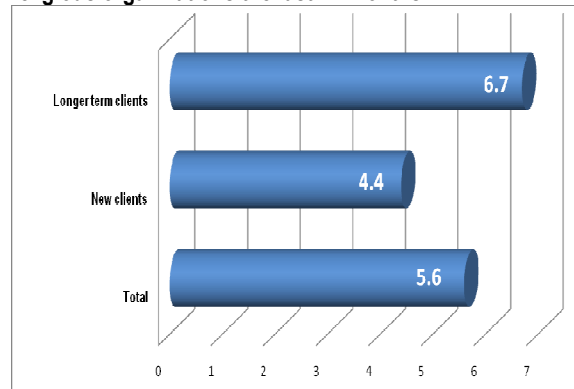


Figure 4.19 Grant from HH members to relative/friends, community member/neighbors, community organizations, religious organizations the last 12 months



4.9 Assets of HHs

Analysis of ownership of assets/properties by HHs of new and longer-term clients shows that HHs of longer-term clients are better provided with assets except for agricultural and non-agricultural land, securities, compared to HHs of new clients. This difference is rather higher in provision of such assets as other house/building, microwave oven, automatic washing/drying machine, CD/DVD player, computer, jewelry, landline telephone and electricity generator (See: Table 4.15).

Over the past 12 months new clients bought more furniture, carpet, electric/gas heaters, landline telephones and mobile phones than longer-term clients. This, once more, indicates that new clients prefer buying more urgent assets due to weakness of their welfare status. Moreover, over the past 12 months HHs of new clients received more assets as gifts from other HHs on majority of items (see: Table 4.15) in comparison with HHs of longer-term clients.

Table 4.15 Assets of HHs

		HH owned the asset before the last 12 months			HH bought the asset over the last 12 months			HH received the asset as a present from other household over the last 12 months		
#	Name of assets	Share in Total Sample	Share in new clients	Share in longer-term clients	Share in Total Sample	Share in new clients	Share in longer-term clients	Share in Total Sample	Share in new clients	Share in longer-term clients
1	House you live in	0.902	0.901	0.903	0.006	0.005	0.007	0.000	0.000	0.000
2	Other house/building	0.127	0.107	0.147	0.004	0.003	0.004	0.000	0.000	0.000
3	Agricultural land	0.414	0.420	0.408	0.002	0.001	0.002	0.000	0.000	0.000
4	Non-agricultural land	0.095	0.102	0.087	0.001	0.000	0.002	0.000	0.000	0.000
5	Heavy agricultural equipment (e.g., tractor)	0.016	0.009	0.023	0.001	0.000	0.002	0.000	0.000	0.000
6	Car	0.346	0.298	0.393	0.042	0.024	0.060	0.002	0.003	0.001
7	Motorcycle	0.013	0.007	0.019	0.001	0.001	0.001	0.000	0.000	0.000
8	Refrigerator	0.928	0.915	0.941	0.058	0.048	0.067	0.005	0.004	0.005
9	Microwave oven	0.450	0.358	0.541	0.019	0.014	0.024	0.002	0.003	0.001
10	Dishwasher	0.049	0.033	0.065	0.003	0.002	0.004	0.001	0.002	0.000
11	Furniture	0.953	0.946	0.959	0.045	0.054	0.035	0.010	0.013	0.007
12	Carpets	0.983	0.954	0.964	0.058	0.065	0.050	0.010	0.011	0.009
13	Automatic washing/drying machine	0.337	0.296	0.377	0.047	0.033	0.061	0.006	0.006	0.005
14	Electric/gas heaters	0.516	0.504	0.528	0.031	0.036	0.026	0.004	0.004	0.003
15	CD player	0.169	0.139	0.198	0.014	0.013	0.015	0.000	0.000	0.000
16	Color TV	0.961	0.954	0.967	0.078	0.077	0.078	0.006	0.005	0.006
17	DVD player	0.359	0.328	0.389	0.070	0.052	0.088	0.004	0.003	0.005
18	Computer	0.124	0.108	0.140	0.023	0.014	0.031	0.002	0.003	0.000
19	Jewelry	0.840	0.814	0.866	0.037	0.033	0.041	0.001	0.000	0.002
20	Landline telephone	0.726	0.695	0.756	0.009	0.012	0.005	0.000	0.000	0.000
21	Mobile phone	0.876	0.868	0.883	0.110	0.115	0.104	0.005	0.009	0.001
22	Securities	0.010	0.011	0.008	0.001	0.000	0.001	0.000	0.000	0.000
23	Electricity generator	0.076	0.048	0.103	0.008	0.008	0.008	0.000	0.000	0.000

4.10 Business of HHs

Majority (86.6%) of HHs of respondents involved in the survey possess business. But, only 17% out of them have 2 businesses. This indicator is higher for longer-term clients compared to new clients. Thus, average number of businesses per household is 1.2 (See: Figure 4.20).

The figure 4.21 shows that businesses of most HHs do not have legal status. This indicator is higher for new clients in comparison with longer-term clients. Survey shows that majority of businesses without legal status is situated in rural areas. In general, registration level of existing businesses is very low. Proper attention should be paid to registration of businesses in future. At the same time, this is important in terms of future pension provision of micro-finance clients.

The figure 4.22 suggests that businesses of microfinance clients are mainly involved in trade, agriculture and service sectors. Businesses of longer-term clients are mainly related to trade and industry sector compared to new clients. Businesses of new clients are mainly involved in agriculture, service and construction sectors.

People working in businesses are mainly heads of households and their spouses. In some case, children and their wives are also involved in businesses. The number of employees working in businesses belonging to new clients is slightly higher than those of longer-term clients. This is explained by the fact that their businesses are mainly related to agriculture. Only 9% of employees working in businesses are not family

Figure 4.20 HH members own a business engaged in entrepreneurial or self-employment activities--that is, production of goods and/or services specifically for earning cash income

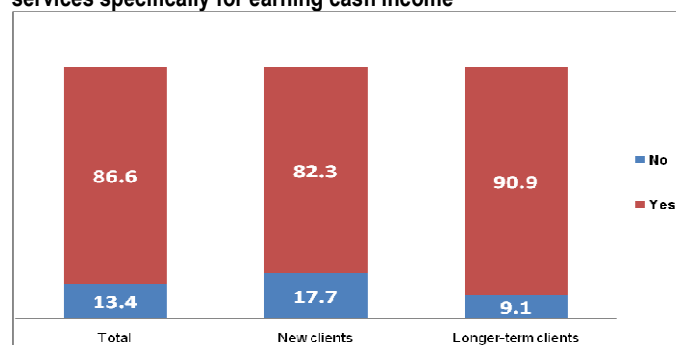


Figure 4.21 Physical or legal entity status of business, in %

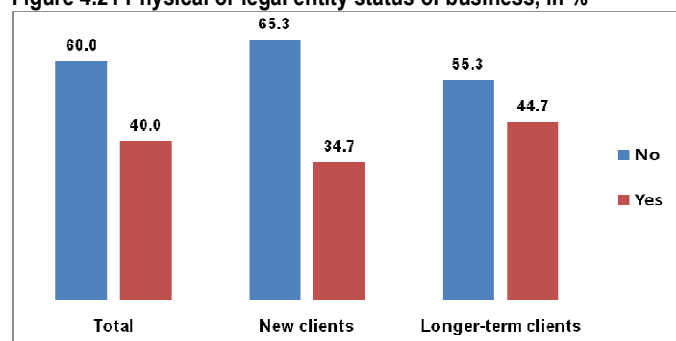


Figure 4.22 Sector of business of HHs, in %

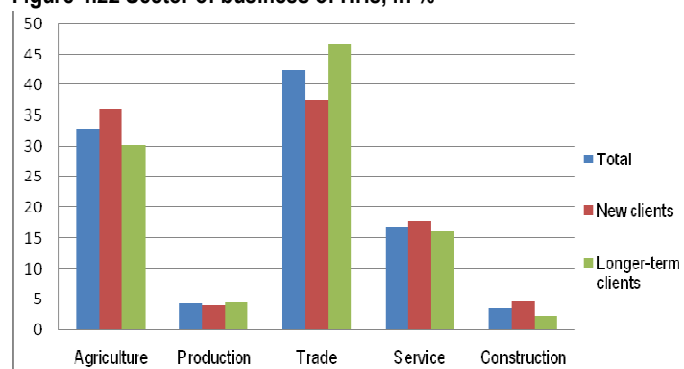
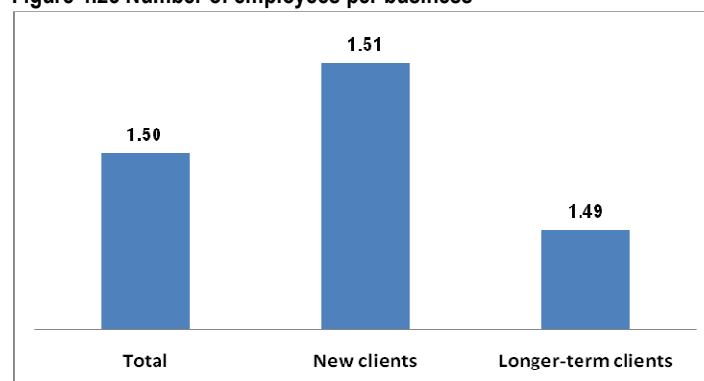


Figure 4.23 Number of employees per business



members. Outside work force is mainly involved in businesses of longer-term clients. It should be noted that over the last 12 months, positive balance between employees involved outside and those leaving businesses is not so high. This suggests that businesses of clients are not stable enough (See: Figure 4.23).

Over the last 12 months longer-term clients received, on average, 1.6 times more income from business than new clients. In terms of living places, in the capital city incomes from business, on average, were about 3 times higher than in rural areas and 2 times higher than in other urban areas. This situation indicates positive impact of microfinance on development of business. At the same time, citation of bribery as a main constraint may be considered as a positive sign (See: Figure 4.24).

HHs of longer-term clients invested more with own money and borrowed money to the business than HHs of new clients over last 12 months. It shows that financial situation for investment of HHs of longer-term clients is better than new clients (See: Figure 4.25).

Investments in premises by HHs of longer-term clients are higher 3 times than HHs of new clients. It shows higher investment potential of HHs of longer-term clients on premises (See: Figure 4.26).

Share of business incomes for repayment of loans is higher among HHs of longer-term clients compared to new clients. The difference is 10.5 percentage points. Thus, 76.7% of longer-term clients repay

Figure 4.24 Average income/cash flow from business/self-employment over the 12 months, in AZN

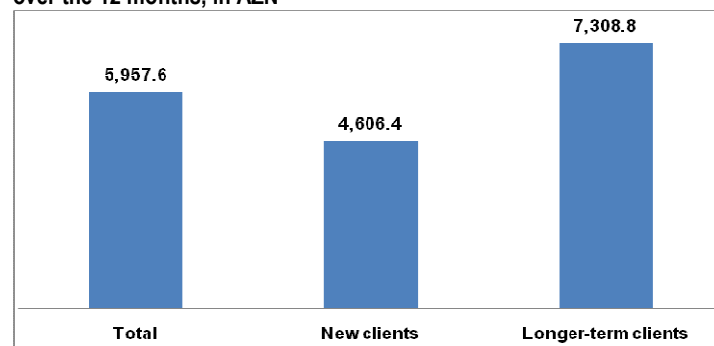


Figure 4.25 HH invest in business activities over the last 12 months, in AZN

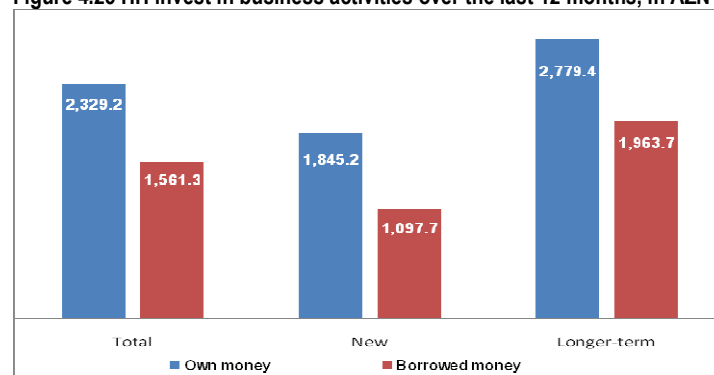


Figure 4.26 HH invest in premises over the last 12 months, in AZN

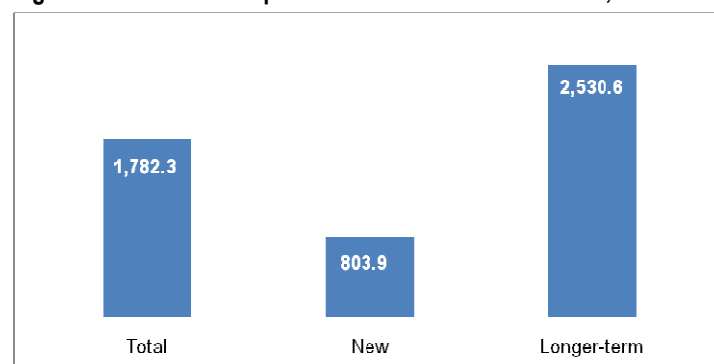
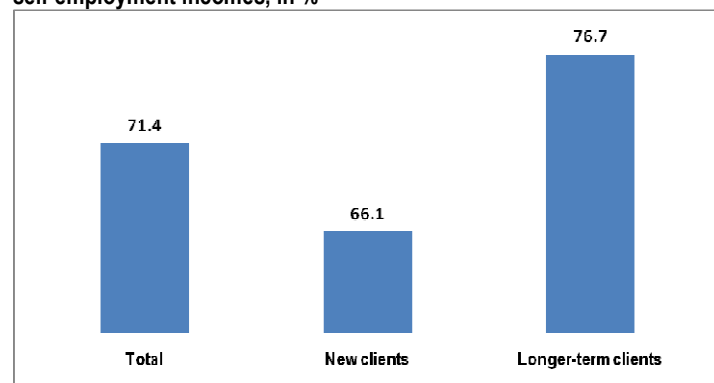


Figure 4.27 Proportion of loans repaid with business/entrepreneurship/self-employment incomes, in %



loans through business income and only, 23.3% resort to other sources (See: Figure 4.27)

Respondents noted inflation, competition, lack of access to financing and lack of market as most important constraints in business. Here, there is not a significant difference between answers of new and longer-term clients (See: Table 4.16).

Table 4.16 Most important constraints in business			
	Total	New clients	Longer term clients
Inflation	25.2	24.9	25.4
Competition	18.9	18.7	19.1
Lack of access to financing	10.8	10.8	10.8
Lack of market	9.2	9.6	8.8
Monopoly	8.3	8.7	7.9
High taxes	8.3	9.4	7.4
Lack of infrastructure (electricity, water, roads, etc.)	7.9	7.7	8.1
Transportation	4.2	4.5	3.9
Corruption/bribes	3.0	2.3	3.7
Lack of skilled workers	2.3	1.4	3.0
Lack of training	1.5	1.7	1.4
Other	0.5	0.3	0.6

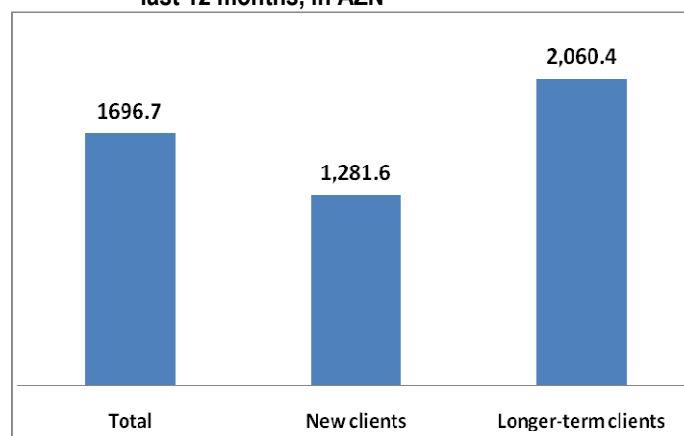
Respondents mainly assessed competition level in business as average and high. Here, longer-term clients have a slight prevalence. It is noteworthy to mention that share of longer-term clients is higher in these answers (See: Table 4.17)

Table 4.17 Competition level in business			
	Total	New clients	Longer term clients
Very high	9.3	9.0	9.6
High	42.4	39.3	45.3
Average	61.8	61.2	62.3
Low	6.3	6.8	5.9
Very low	1.5	1.6	1.4

As can be seen from the figure 4.28, over the last 12 months business costs of longer-term clients were, on average, 2 times higher than those of new clients. This may be mainly explained by larger size of business. Furthermore, in Baku business costs were about 4 times higher than in rural areas and 2.5 times higher than in other urban areas.

Analysis of business knowledge and skills among HHs members suggests that people with business knowledge prevail

Figure 4.28 Business/enterprise/self-employment costs over the last 12 months, in AZN



among longer-term clients (5 percentage points). Distribution by living places shows that business knowledge and skills is higher among HHs living in capital and lower among those residing in rural areas. In general, the level of business knowledge and skills is lower among HHs members (34.8%) (See: Figure 4.29).

There is not a considerable difference in participation level of HH members in decision making of HHs. Involvement of HH members in decision making of HHs can be considered as a positive sign (See: Figure 4.30).

Participation level of HHs members in community, religious and financial organizations is very low. 11.4% of HH members above 15 years of age take part in events of such organizations. HH members of new clients take more active part in such events than those of longer-term clients (See: Figure 4.31).

Figure 4. 29 Business knowledge/ practice/skills of HHMs

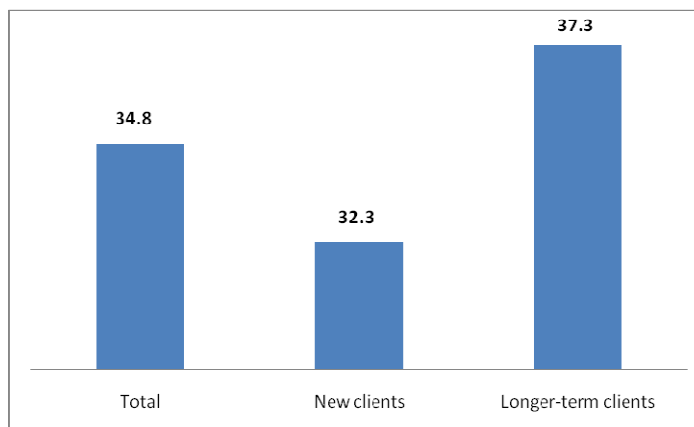


Figure 4.30 Participation in decision-making of HHs, in %

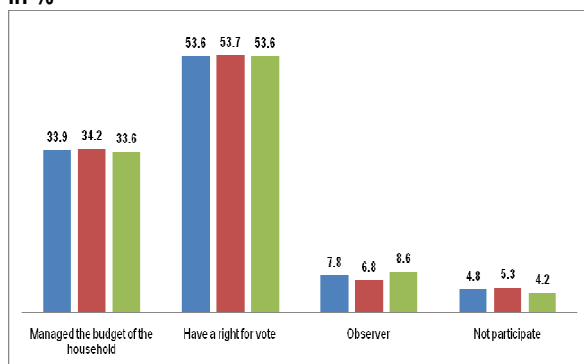
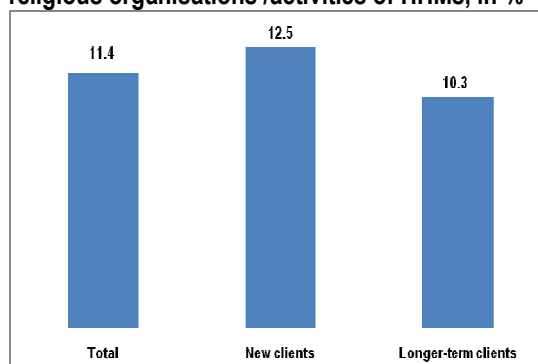


Figure 4.31 Participation in community and religious organisations /activities of HHMs, in %



4.11 Poverty

Poverty calculated by expenditure method

According to estimates made on *expenditure method*, **poverty incidence** among total microfinance clients is 19%. The poverty level was 16.8% in Azerbaijan in 2007 according to the SSC. Poverty level among longer-term clients of microfinance is 5.6 percentage points or 26% less in comparison with new clients: 16.2% and 21.8%, respectively. This demonstrates access of poor people to microfinance and positive impact of microfinance on poverty reduction. Positive impact of microfinance on poverty reduction is mainly observed in rural areas, especially, in Daghlig Shirvan, Yuxari Garabagh and Guba-Khachmaz regions.

Figure 4. Poverty level among new and longer-term clients by locality, in %

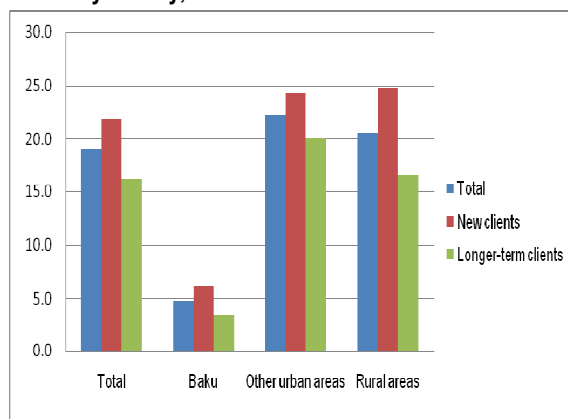
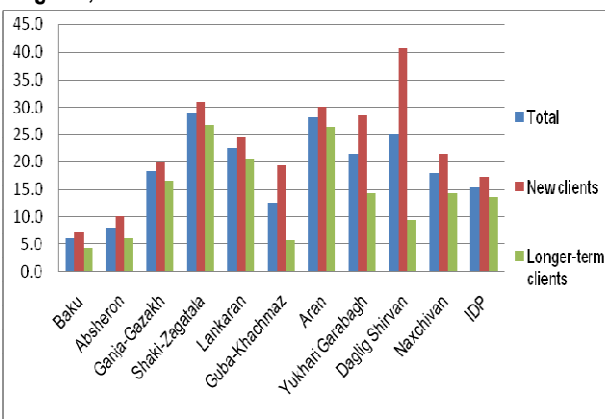


Figure 4. Poverty level among new and longer-term clients by regions, in %



According to estimates made on *expenditure method*, **extreme poverty incidence** among total microfinance clients is 7.1% at national level. Extreme poverty level among longer-term clients of microfinance is 4.7 percentage points or 2 times less in comparison with new clients: 4.7% and 9.4%, respectively. Positive impact of microfinance on extreme poverty reduction is mainly observed in rural areas, especially, in Daghlig Shirvan, Yuxari Garabagh and Aran regions.

Figure 4. Extreme poverty level among new and longer-term clients by locality, in %

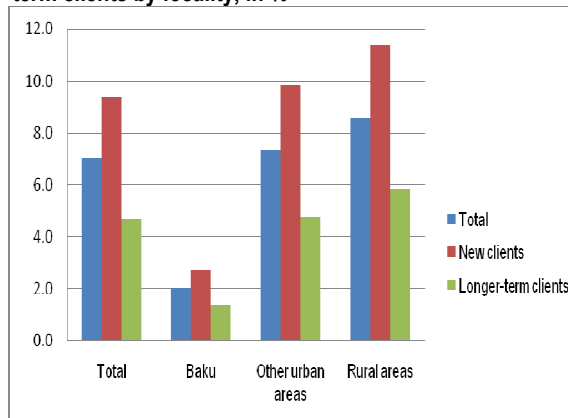
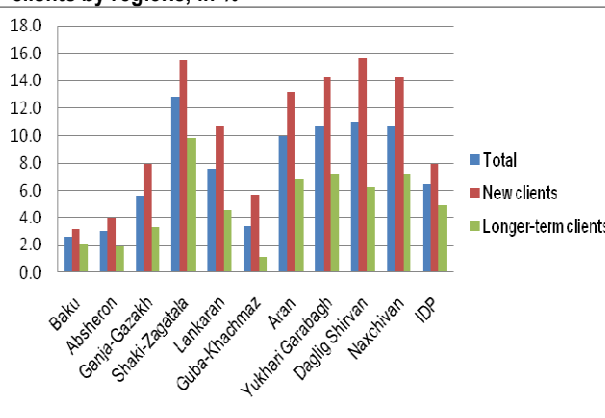


Figure 4. Extreme poverty level among new and longer-term clients by regions, in %



Poverty calculated by income method

According to estimates made on **income method**, **poverty incidence** among total microfinance clients is 27.6%. Poverty level among longer-term clients of microfinance is 10 percentage points or 30% less in comparison with new clients: 22.7%, and 32.4%, respectively. Comparison of new clients with longer-term ones suggests that impact of microfinance on poverty reduction is higher in rural areas than in other areas (about 15.5%). This regional impact is more obvious in Daghlig Shirvan, Guba-Khachmaz and Yukhari Garabagh regions.

Figure 4. Poverty level among new and longer-term clients by regions, in %

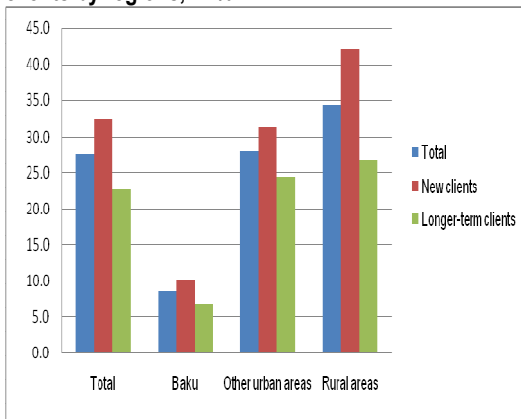
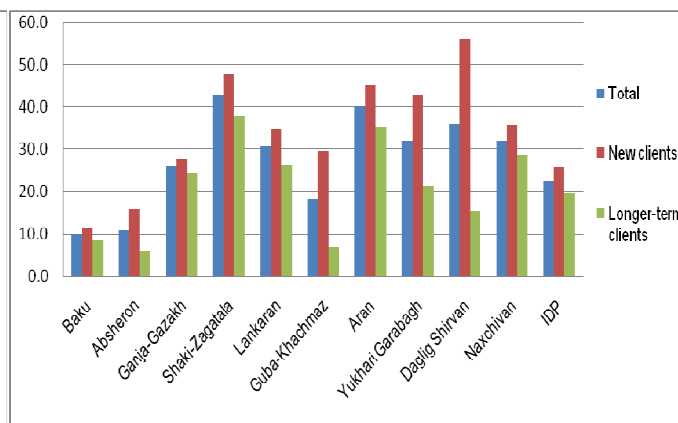


Figure 4. Poverty level among new and longer-term clients, in %



According to estimates made on **income method**, **extreme poverty incidence** among total microfinance clients is 12.5%. Extreme poverty level among longer-term clients of microfinance is 5.9 percentage points or 38% less in comparison with new clients: 9.5% and 15.4%, respectively. Positive impact of microfinance on extreme poverty reduction is mainly observed in rural areas, especially, Daghlig Shirvan, Yuxari Garabagh and Aran regions.

Figure 4. Extreme poverty level among new and longer-term clients, in %

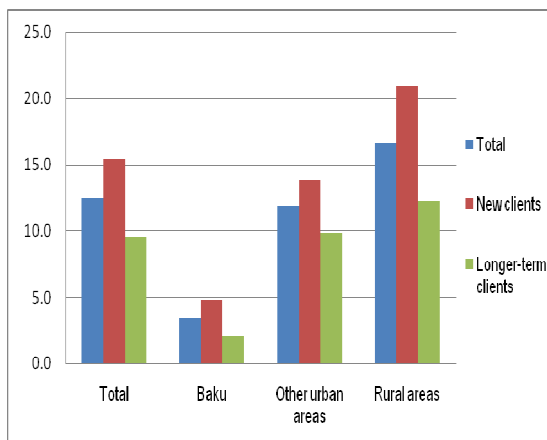
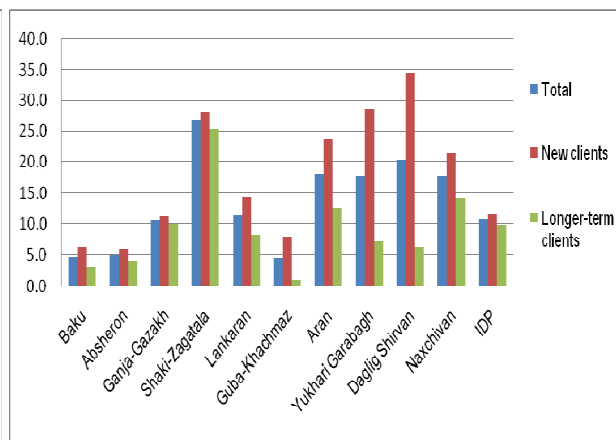


Figure 4. Extreme poverty level among new and longer-term clients by regions, in %



Note 1: **Subsistence minimum** for 2008 (70 AZN per capita) was used as a poverty line in calculation of poverty based on income and expenditure methods.

Note 2: 70% of poverty line for 2008 (49 AZN per capita) was used in calculation of extreme poverty based on income and expenditure methods.

Note 3: The reason for using expenditure method in calculation of poverty is that, during the survey respondents usually hide their income but, indicate expenditures more precisely. In this regard, the expenditure method is taken as a basis for defining poverty level.

Note 4: The reason for not using the method based on daily per capita income of 1 and 2 USD (by PPP) proposed by the World Bank for calculation of poverty is that this method is not applicable for Azerbaijan as prices and cost of living in Azerbaijan are much higher than in most developing and third-world countries and are en-par with some European countries. Thus, national poverty level calculated based on this method is very low or insignificant. In view of this fact, **National Poverty Line** was used in calculation of poverty.

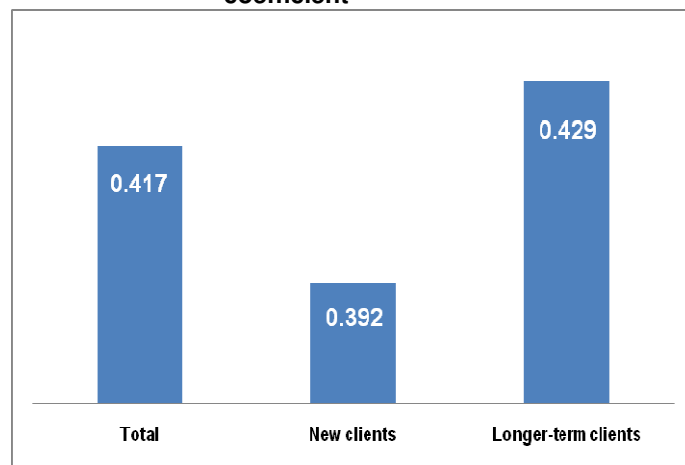
4.12 Inequality in terms of incomes and expenditures

The figure 4.39 shows that income inequality among HHs of micro-finance clients is 0.417. The inequality is higher among longer-term clients compared to new clients. This indicates increasing trend of inequality in micro-finance income. But, it should not be taken as a dangerous tendency. As underprivileged clients using microfinance services spend those funds on consumption and clients with medium income direct funds to business, this facts influence their income. Thus, while no tangible increase is observed in income of consumption oriented borrowers, business related borrowers experience growth in their revenues. Consequently, this leads to inequality among longer-term micro-finance clients. On other hand, total expenditures of clients are expanding as their income increases.

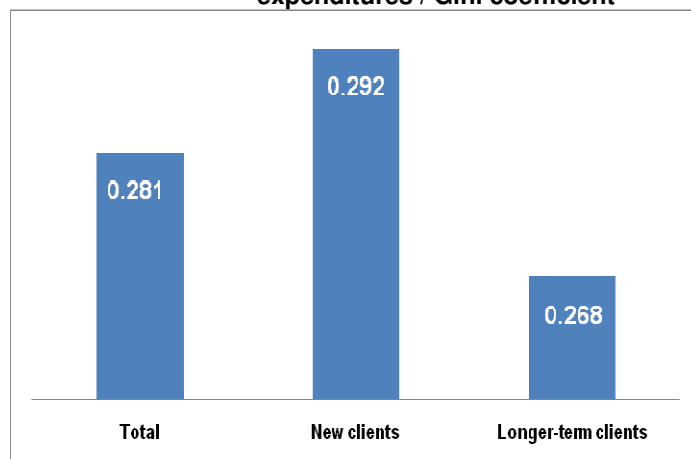
Main consumption expenditures show more precisely inequality on this impact. Inequality on main consumption expenditures is 0.281 among total HHs of micro-finance clients. Comparison suggests that

inequality is higher among HHs of new clients than those of longer-term clients: 0.292 and 0.268, respectively. This indicates that use of micro-finance has a positive impact on reduction of inequality in main consumption expenditures.

Graphic 4.39: Inequality in current incomes/ Gini coefficient



Graphic 4.40: Inequality in main consumption expenditures / Gini coefficient



5. Findings and Recommendations

The hypotheses of the study have been tested with survey results and the following findings have been revealed:

HYPOTHESIS	Total	New client	Longer-term clients	IMPACT
At individual level:				
Increased control of clients over resources, in %	28.2	26.4	30.2	Positive impact is 3.8 percentage points or control over resources among longer-term clients is 14% higher in comparison with new clients.
Increased business knowledge and skills of clients, in %	72.05	65.7	78.4	Positive impact is 12.7 percentage points or business knowledge and skills of longer-term clients is 19% higher in comparison with new clients.
Increased esteem of clients, in %	32.01	29.20	34.82	Positive impact is 5.6 percentage points or self-esteem of longer-term clients is increased 19% more in comparison with new clients.
At household level:				
Increased annual per capita income, in AZN	2378.4	2027.6	2728.8	Impact is positive. Annual income of longer-term clients is 35% higher than new clients.
Increased assets over the last 12 months	2.9	2.7	3.1	Positive impact is 0.6 percentage points or assets of longer-term clients are increased by 15% more in comparison with new clients.
No negative impact in terms of child labour, in %	15.6	17.4	14.1	There is no negative impact. Positive impact is 3.3 percentage points or involvement of child labour in HHs of longer-term clients is 19% less in comparison with new clients.
Decreased poverty level, in %	19.0	21.8	16.2	Positive impact on poverty reduction is 5.6 percentage points or poverty level among longer-term clients is 26% less in comparison with new clients. Positive impact on poverty reduction is higher in rural and mountainous areas.
Decreased extreme poverty level, in %	7.1	9.4	4.7	Positive impact on extreme poverty reduction is 4.7 percentage points or extreme poverty level among longer-term clients is twice less in comparison with new clients.
Increased annual per capita education expenditures, in AZN	56.2	49.2	63.2	Impact is positive. Thus, per capita education expenditures of longer-term clients are on average 28% higher than new clients.
Increased annual per capita post-graduate education	75.6	45.5	105.6	Impact is positive. Thus, per capita post-graduate education expenditures of longer-term clients are on average 2.3

expenditures (secondary specialized education, higher education etc.), in AZN				times higher than new clients.
Increased annual per capita health care expenditures, in AZN (Improved access to health care services)	279.3	263.1	295.4	Impact is positive. Thus, health care expenditures of longer-term clients are 12% higher than new clients.
Decreased inequality coefficient in current income	0.417	0.392	0.429	Negative impact is observed and inequality in current income is increased by 0.037 coefficients.
Decreased inequality coefficient in main consumption expenditures	0.281	0.292	0.268	Positive impact is observed and inequality is decreased by 0.024 coefficients.
At business level				
Decreased unemployment, in %	12.7	13.8	11.6	Positive impact on decreased unemployment is 2.2 percentage points or unemployment level among HH members of longer-term clients is 16% less in comparison with new clients HH members.
Increased employment among women				Impact is positive: i) there is a tangible impact on employment of borrowing women; ii) impact is not significant among borrowing HHs (unless borrower is woman).
Increased investment in business activity through self-funds, in AZN	2329.2	1845.2	2779.4	Impact is positive. Thus, longer-term clients invested in business activity 51% more in comparison with new clients through self-fund.
Increased annual business income, in AZN	5957.6	4606.4	7308.8	Impact is positive. Thus, average annual business income of longer-term clients is 59% more than new clients.
Increased portion of loans repaid through business income, in %	71.4	66.1	76.7	Positive impact is 10.6 percentage points. Thus, longer-term clients repay higher portion of loans through business income.
At community level				
Increased employment at community level, in %				Positive impact is negligible
Increased participation in local community, in %	6.7	4.9	8.5	Positive impact is 3.6 percentage points or this indicator is 73% higher among longer-term clients in comparison with new clients.

Increased contributions to religious organizations / friends / community, in %	5.6	4.4	6.7	Positive impact is 2.3 percentage points or this indicator is 52% higher among longer-term clients in comparison with new clients.
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Hypotheses show positive impacts of microfinance at client, household, business and community levels. Positive impact at community level is not tangible. Increasing positive impact of microfinance at community level should be one of the priority directions for relevant organizations in the future.

Key Recommendations

According to the survey results the following recommendations will be useful to increase the positive impacts of microfinance in the future:

1. Increase average amount of microcredits without collateral;
2. Increase diversification of microcredits products including financial products on service plus;
3. Increase length of loans especially for agriculture and give grace period;
4. Reduce interest rate of microcredits and decrease service costs required when getting micro credits;
5. Expand microfinance services in rural and mountain areas;
6. Increase awareness of vulnerable groups on banking-financial services, including management of household budget;
7. Increase business skills of vulnerable groups in rural and other urban areas through special trainings etc.;
8. Prepare insurance scheme for self-employed participating in microfinance programs;
9. Increase participation of Microfinance clients in local community;
10. Increase coverage of poor in microfinance program;
11. Special Microfinance programs for youth, women and vulnerable groups including start-up business;
12. Increase competition among MFIs in the regions;
13. Ensure sustainability of business of HHs;
14. Improve infrastructure in the rural areas.

COMPONENT 2: FOCUS GROUP DISCUSSIONS⁴

Qualitative survey was held (through discussions) with clients of microfinance institutions in 6 regions of the country in June-July 2007 in order to assess impact of microfinance in the framework of the project “Assessing impact of microfinance and social indicators” (see table 1). The objective of that survey was to analyze in details quality aspects of results revealed during quantitative study. That survey was held among clients of MFIs involved in quantitative study.

1. Methodological approach

As mentioned above, this survey covers quality aspects of assessment of impact of microfinance. To this end, discussions were arranged in Baku, Lankaran, Imishly, Sheki and Ganja cities with microfinance clients who have long been used these services (more than 1.5 year), who recently began using these services and who refused to use these services. Most discussions included 9-12 persons and lasted about 2 hours.

Table 1. Discussions held in regions to define quality aspects of impact of microfinance

#	Places of discussions	Date	Number of participants			New clients	Longer-term clients	Exits	Institutions represented by participants
			total	men	women				
1	Baku	27.06.2008	11	8	3	4	5	2	NorMicro, FinDev
2	Lankaran	30.06.2008	12	12	0	3	6	3	FINCA Azerbaijan, Access Bank
3	Khachmaz	09.07.2008	6	4	2	2	3	1	Credagro, Bank Respublika, Agrarcredit
4	Imishly	12.07.2008	12	9	3	4	5	3	VF Azercredit, FINCA
5	Shaki	18.07.2008	9	7	2	2	6	1	Viator Microcredit, Access Bank
6	Ganja	19.07.2008	5	5	0	2	2	1	Access Bank, Azeristar Microfinance
Total			55	45	10	17	27	11	

During meetings, views of participants, mainly, on following issues were learnt and discussions held:

1. Procedures and terms of granting micro credits
2. Demand for micro credits
3. Access to micro credits
4. Quality of micro credit services
5. Diversity of micro credit products
6. Borrowing and lending capacities
7. Impact of micro credits on living condition of clients
8. Satisfaction level of credit needs

⁴ The Report was prepared based on results of discussions held in different regions of the country aimed at defining quality aspect of impact of microfinance.

9. Competition level among MFIs
10. Feedback between MFIs and clients
11. Awareness level of banking-financing services

2. Key findings of discussions

Qualitative survey revealed that, generally, micro credits have positive impact on living condition of clients and this is at sensible level. Thus, more clients increased their businesses or maintained it stable since they used micro credits. At the same time, they partially improved their living conditions. But, besides all these facts, some severe challenges were arisen and remained unsettled due to fast development rate of microfinance sector. Following issues were raised as main challenges and relevant proposals put forward for their solution during meetings in Baku, Lankaran, Khachmaz, Imishly, Sheki and Ganja cities:

Procedures and terms for getting micro credits

- When longer-term clients apply for new credits they get through the same documentation procedures (all documents required in the first time are needed). This seems very boring for longer-term clients. Participants find it expedient to simplify this procedure for longer-term clients;
- Most participants highlighted high service cost for micro credits. They noted that high service costs make it inconvenient to take small credits. Majority of participants expressed their desire for reduction of service cost;
- In case of repayment of credits before due time, virtually no interest privileges are granted. Almost all participants disagreed with that mechanism. Reconsidering that policy is of high interest for clients;
- Participants consider that period of micro credits is short (maximum 18 months), there is not privilege period, interest rate is high and stimulation mechanism is almost absent, especially, for agriculture and longer-term clients. MFIs should seriously mull over that issue and take concrete steps;
- Most participants indicated that they are going to exit programs if there is no change in procedures of granting credits in future (high interest rate and small-sized credits). It goes without saying that this is a subjective point of view of participants, but it would be reasonable for credit organizations to overlook that issue.



External barriers in getting micro credits

- Main documentation problems in getting credits relate to larger micro credits. Usually, MFIs require collateral for getting credits more than 2000 AZN. But, micro credit clients face serious problems concerning collateral. Thus, they can't submit required reference to bank. Hence, the State Register Service indicates existence of problems in papers confirming their property rights (coupon) and rayon branches of the Land Committee cite irregularities in mapping land plots and yards and require illegal payments from clients to issue documents. It should be noted that currently the microfinance market covers about 300,000 clients, some of which have already been

used those services for a number of years. It's forecast that needs of these clients will exceed 2000 AZN in the nearest future. In view of this, the issue of collateral is likely to become a mass challenge and create serious obstacles in development of microfinance sector in the nearest future. Taking into account all of the mentioned facts, facilitation of barriers in registration of property and eradication of bureaucratic problems should be accelerated. To this end, it would be expedient for MFIs to make joint application to concerned structures.

Demand of clients for micro credits

- Participants mainly indicated their credit needs at 5,000-10,000 AZN and expressed their desire for interest rate to be 12-24%.



Access of persons without business and jobseekers

- The meetings revealed that persons without business and jobless people can't get credit and there is not any start-up credit program. This fact was highlighted at almost all meetings as serious problem. We think that it's one of the priority issues for credit institutions to offer new credit product for start-ups. At the same time, it could partially contribute to employment of the youth. Thus, studies suggest that the youth constitute majority of jobseekers, unemployment level is higher at 20-30 age group and unemployment risk of women is significant at that age group.

Satisfaction level of quality of services

- During meetings, clients noted that when branches of credit institutions open, at the outset credit officers are warmer. But, after some time and attraction of clients, the level of services decreases. This, in its turn, forms negative image about MFI. In future, preservation and upgrading of service level should be one of the priorities of MFIs and they should keep that issue under control.

Insurance of micro credits and express credits

- The meetings revealed that insurance mechanism offered by MFIs were underdeveloped or don't exist. Efforts should be further strengthened in this direction in the future.
- During meetings, clients highlighted low level of application of express credits and noted delays in granting such credits. Thus, sometimes it takes one week to get an express credit. In future, special attention should be attached to improvement and expansion of express credits.

Borrowing from other sources

- Sometimes, clients resort to usurers, relatives/friends and other sources to get funds. Those sources are usually used in emergency cases, when small amount of funds are needed and they failed to get credit from banks.

Lending capacity of micro credit clients

- In some cases, clients themselves lend short-term funds to relatives/friends. This is mainly more common among longer-term clients.

Impact of micro credits to living condition of clients

- During meetings, although some clients mentioned that their income was increased over the last year, they consider that their welfare remained unchanged. They explain that fact mainly with high inflation rate observed in the country over last years;
- Discussions revealed that living condition of longer-term clients is higher than new ones and their well-being is better (ownership of private houses, car etc). This justifies the view that more clients feel positive impact of microfinance;
- Clients mainly curtail their expenditures on non-food products, health and education (especially, higher education) while repaying credits. This is mainly the case for repaying consumer credits and sometimes, help of relatives/friends is used to repay such credits;
- The meetings confirmed once more the fact that micro credits positively influence increasing self-employment of underprivileged people;
- The meetings revealed that majority of micro credit users are engaged in small trade and agriculture. The fact that all micro credit clients involved in those areas are not insured will limit their opportunities to receive pensions in future. We think that preparation of insurance mechanism of micro credit clients engaged in self-employment should be in the limelight;
- Most clients don't get leaves. This is explained by the fact that their business revenues are not stable and sufficient.

Use of child labor

- During meetings, clients mentioned that they involve their children in family business. They justify this situation with the fact that they can not recruit external employees due to insufficient financial resources and revenues. This, in its turn, results in use of child labor.

Satisfaction level of credit needs

- Participants mentioned delays in granting credits. Studies show that this is mainly related to lack of funds. This fact confirms once more that micro credit needs of population are not satisfied by MFIs. But, this mechanism that has been formed in the country by non-bank credit institutions and banks proved its value with minimum risk level (less than 2%). In view of inflow of large oil revenues and concentration of significant funds at the Oil Fund, it would be expedient to finance those institutions through that Fund. This would increase diversification of economy while positively influencing development of non-oil sector.

Competition level among MFIs

- During meetings, participants noted that there is almost no competition among institutions offering microfinance services. This limits choice of clients. This is mainly explained with small numbers of branches of MFIs at regional level. It would be reasonable for stakeholder to keep the issue of increase of geographical scope of MFIs in the limelight.

Awareness level of clients of banking-financing services

- Awareness level of clients of banking-financing services is low. Some of them even don't know the meaning of bank account. We find it reasonable to increase awareness of clients of banking-financing services. Arrangement of relevant public awareness raising campaign would be useful.

Feedback between MFIs and clients

- The meetings revealed that feedback with clients is low and their views are not learnt by MFIs. Thus, meetings with clients or their active representatives are rarely held.

3. Main proposals put forward during discussions

Thus, mainly following proposals were put forward by participants of discussions to increase positive impact of microfinance services:

1. Decreasing service costs required when getting micro credits;
2. Simplifying documentation procedure for longer-term clients;
3. Increasing privileges applied to interest rates of credits repaid before due time;
4. Expanding period of micro credits and give grace period (especially, for agriculture);
5. Decreasing interest rate of micro credits and creating a stimulation mechanism for longer term clients;
6. Eradicating bureaucratic barriers in property registration to allow presenting collateral;
7. Increasing maximum level of micro credits provided without collateral;
8. Ensuring access of people willing to start their businesses (especially, the youth and women) to micro credits;
9. Improving level of services provided to clients;
10. Improving insurance mechanism of micro credits;
11. Preparing insurance mechanism for micro credit clients involved in self-employment;
12. Increasing promptness in getting express credits;
13. Eradicating delays in granting credits;
14. Expanding regional branches of MFIs and increasing competition among them;
15. Increasing awareness of clients of banking-financing services;
16. Strengthening feedback between MFIs and clients.

The above mentioned problems and recommendations are defined as a result of summarizing findings of meetings held with microfinance clients. These findings complete outputs of quantitative study, while being results of qualitative survey. Recommendations related to problems revealed through quantitative and qualitative studies and considered as being urgent will be presented on the final results and recommendation part of the report.

COMPONENT 3. ASSESSMENT OF SOCIAL PERFORMANCE of MFIs

1. Background

Currently, microfinance services are one of the rapid growing fields in developing, transition and underdeveloped countries of the world. As these services mainly aim at vulnerable and medium groups of the society, there is a need to analyze social performance of MFIs involved in provision of such services and prepare relevant recommendations.

In the Republic of Azerbaijan, mainly non-bank credit institutions, banks and credit unions provide microfinance services. Underprivileged and medium layer of population have access to these services for about 10 years. AMFA which is the professional association of microfinance institutions carried out a assessment among its 10 members (FINCA AZERBAIJAN; ACCESS BANK; VISION FUND AZERCREDIT; NORWEGIAN MICROCREDIT; AGRARCREDIT; CREDAGRO; AZERISTAR MICROFINANCE; DAYAG CREDIT; UMID CREDIT; VIATOR MICROCREDIT) in May-August 2008 in order to study social performance of and reveal challenges faced by member organizations in 2008. It should be noted that these organizations cover about 70% of clients using microfinance services.

Following questions were asked to get acquainted with social performance of MFIs during the study⁵:

1. **Outreach of poor and excluded population.** In this direction issues such as i) geographical outreach (geographical strategy + geographical scope); ii) personal outreach (personal strategy + personal scope); and methodological outreach (methodology for poor) were studied.
2. **Adjusting services and products to needs of target population groups.** In this direction issues such as i) type of services (diversity of credit products and adjustment to social needs of clients); ii) quality of services (promptness and transparency of services, access to credits, marketing surveys, exit of clients); iii) advanced services (innovative credit products, de-centralization, non-financial services provided to clients) were studied.
3. **Development of social and political capital of clients.** In this direction issues such as i) confidence and information sharing (access to information, deposits and efficient participation); participation of clients (participation level, democratic system, training); iii) empowerment etc. were studied.
4. **Social responsibility of MFIs.** In this direction human resources policy, social responsibility in relation to clients and local community was studied.

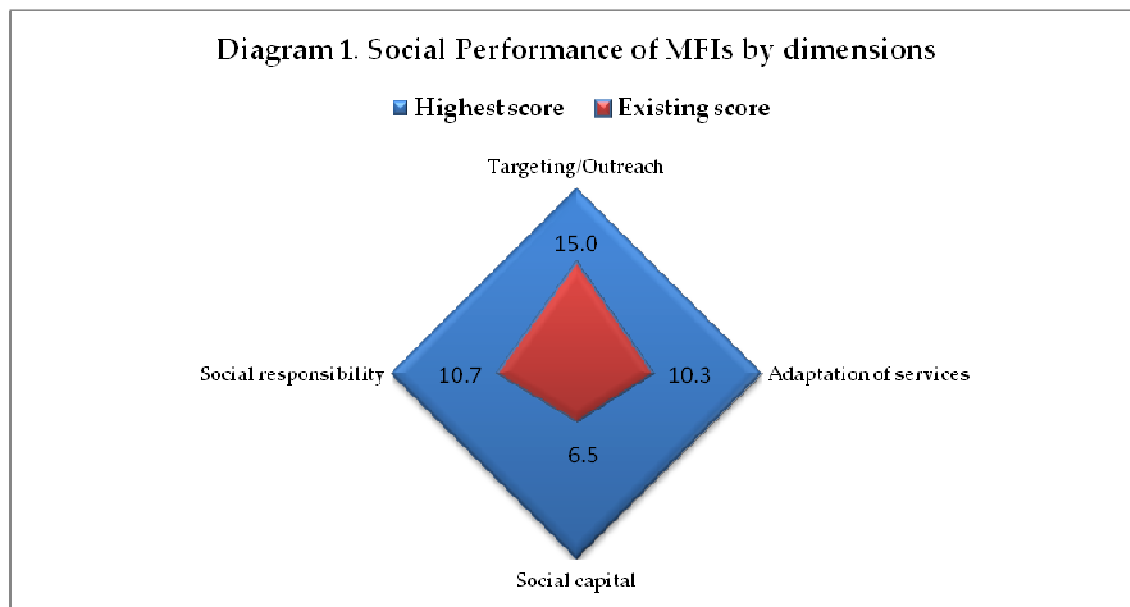
Authorized representatives of MFIs participated in the survey filled in questionnaires. Special software was created in Excel file to process results of survey and answers put in that software to get analyzed. During analysis, average indicators of participant organizations were used.

⁵ CERISE/SDC/FPH "SPI2 Report N°2 Guide to the questionnaire" was used for the elaboration of the methodology and questionnaire of the assessment of social performance of MFIs. www.cerise-microfinance.org.

Within the report, social performance of MFIs were analyzed and assessed based on different aspects, and concrete proposals put forward for strengthening social performance. We think that this report will support development of MFIs while being useful for strengthening their social performance.

2. Social performance of MFIs

Graphic 1 suggests that outreach/scope and adaptation of services of MFIs is better developed than social capital and social responsibility of MFIs. In general, social performance of MFIs is too low in comparison maximum level. This issue will be dealt in details during analysis of sub-indicators of social performance of MFIs (see: graphic 2)⁶.



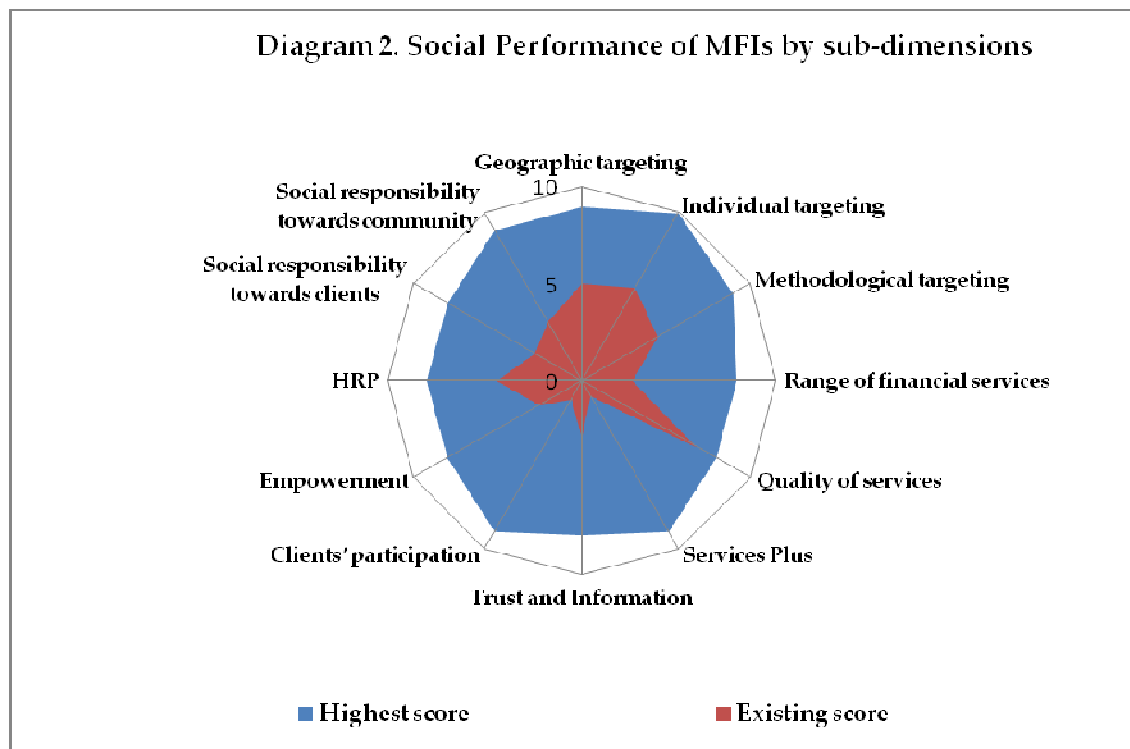
Graphic 2 describes in details social performance of MFIs. Comparison of existing situation with maximum level shows that social performance of MFIs is not sufficiently developed in the country and status of some sub-indicators, especially, confidence and information, participation of clients, advantage of empowerment and services is rather lower.

Geographical targeting: As can be seen from Graphic 2, geographical targeting of MFIs is better on other sub-indicators. Thus, MFIs pay special attention to operation in poor urban and remote rural areas. MFIs are operational roughly all over the country. In many cases, MFI defines those areas through informal surveys. It would be better for MFIs to frequently use formal surveys on poverty and exclusion levels in local areas to expand their operation in future.

Individual targeting: As can be seen from the graphic, individual targeting indicator of MFIs is higher compared to other indicators. Thus, some MFIs use indicators (provided directly by community) describing objective status of clients (illiteracy, size of economy, housing condition, property etc) and welfare of participants to ensure accuracy in reaching poor areas. But, this is not or rarely applied by MFIs involved in the survey. During application of that method, quality control is not undertaken or undertaken in informal way in many cases.

⁶ Highest score is the sum of the highest points among answers of questions according to CERISE/SDC/FPH "SPI2 Report N°2 Guide to the questionnaire"

It's expedient to enlarge application of those indicators and control them formally or informally in order to further improve personal outreach in future.



Methodological targeting: The graphic suggests that methodological targeting is also higher than other sub-indicators. Thus, MFIs largely use “social” security in providing credits. These mainly are group unity, collateral and material pledges that have very little commercial value but are of high importance for borrowers. MFIs are not very active in preparation of special policies or methodologies (except for social security) aimed at reaching remote areas and/or improve access of excluded population or poor clients. Thus, this indicator constitutes very little part of credits provided by MFIs. Only, for few MFIs this amounts to more than 50% of credits. Study of distribution of credit portfolio of MFIs over the last 12 months indicates that individual credits provided by only 25% of MFIs participated in the survey are higher than 50% of per capita GDP. Analysis of minimum payment level of monthly paid credits suggests that this indicator is higher than 1% of p.c. GDP (30 AZN) in 33% of MFIs.

According to the legislation, non-bank credit institutions and credit unions are not allowed to open savings account and take deposits from population. Therefore, non-bank credit institutions and credit unions can't take deposits from population. This, in its turn, leads to lower level of methodological targeting indicator.

Diversity of financial services: Analysis of diversity of services in order to direct services and products at target population shows that relevant indicators are lower than others. Thus, most MFIs offer two or more types of credit services and there is somehow free payment principle in repayment of these credits. But, majority of them virtually don't provide credits for social/urgent needs of clients, credits adjusted to social needs of clients and innovative financial services. All these factors conditioned low level of the indicator in question. In future, it would be better to provide financial services in the above mentioned direction.

Quality of financial services: Analysis of this sub-indicator suggests that it is much higher than other indicators. This is mainly conditioned by the facts that major branches of MFIs are

situated in specific areas of the country, average period between first time credit application by new clients and granting of credits is less than 2 weeks over the last 12 months, transparency is ensured, there exists equal access to financial services, regular market researches are carried out and exit level of clients from microfinance programs is lower. In future, it's necessary to keep clients exited from credit programs in the limelight through surveys.

Services plus: Findings of the survey indicate low development level of supportive financial services. Thus, most MFIs don't have a strategy coordinating supportive and financial services provided to clients, trainings on financial management (business training, management of household budget etc) are rarely organized (except for some MFIs, this is mainly arranged through donor projects), supportive services related to social needs (education, health care services, access to social workers, gender issues etc) are almost not provided. It's believed that MFIs should attach special attention to development of supportive services in future.

Trust and information: Analysis of this issue shows that although MFIs publish annual financial statements and clients can get these statements if they request them, distribution of these statements through presentation events are weakly organized. In case of confrontation/claim/complaint between client and MFI staff, a client has an opportunity to meet with a manager or authorized person. This allows prompt settlement of problems. We think that more regular meetings and awareness raising events should be held with clients in order to increase mutual confidence and strengthen exchange of information.

Participation of clients: Analysis of representation of clients and their participation in decision making process shows that decision making process at client level (for example, self-governing group) and control and involvement of clients in decision making process at MFI level is weakly organized. Only 2 MFIs out of 10 involved in survey have that mechanism. We consider that MFIs should pay special attention to these issues in future.

Empowerment: Only few MFIs take measures on strengthening social capital (for example, establishment of effective groups, joint events, cooperation towards achieving common goals, relationship with other programs, access to previously non-accessible services etc). At the same time, MFIs don't pay attention to formation of skills in local management or leadership (for example, trainings on creation of groups, representation etc; through assessment of skills in local management). Generally, we can conclude that empowerment process is weakly organized among clients of MFIs.

Human resources policy: Analysis of human resources policy of MFIs suggests that most MFIs have regularly renewing payroll scheme and annual training plan for each staff. But, involvement of staff in trainings by MFIs is weak. Thus, over the last 12 months, this indicator for most MFIs was less than 50% of all staff. Involvement of staff in decision making process is weakly organized. Thus, most MFIs settle issues through meetings between management and staff. Nevertheless, advisory body made of staff or mediators participating in management process are almost not used. 5 MFIs out of 10 involved in survey provide health care services (especially, insurance) for their clients. Ratio of persons leaving MFIs (voluntary leaving, dismissal, termination of contract etc) to average number of staff over the last 24 months shows that this indicator was more than 15% in 5 MFIs, less than 15% in 3 MFIs and less than 5% in 2 MFIs. Special attention should be paid to increasing capacity of staff of MFIs to ensure their sustainability in future.

Social responsibility towards clients: Analysis of social responsibility among clients of MFIs suggests that no MFIs carried out researches over the last 2/3 years to assess social and economic impact of provided services. Only 5 participating MFIs held interviews/focus group discussions with clients. Most MFIs learn borrowing level of clients and take necessary

measures against high borrowing level. These measures mainly include not providing credits or decreasing their amount. Studies show that most MFIs don't have written/explicit code of conduct in relation to performance with clients (policy aimed at decreasing high interest rate; ii) policy aimed at decreasing impact on credits that are higher than absorption capacity; iii) policy aimed at ensuring rights of clients to guaranteed collection etc). It's a positive sign that MFIs take measures to release families from debt burden in case of death of borrower. In such situations, some MFIs add additional interest rate related to such contingencies while providing credits or in case of group credits, group members repay remaining part of credit. We think that social responsibility for clients should be further strengthened in the abovementioned directions.

Social responsibility towards community: MFIs almost don't study compliance of their performance to local culture and values. This is only undertaken when new branch is open and mainly includes collection of informal information. Except for some MFIs, most MFIs don't implement measures positively influencing local culture (for example, empowerment of women, democratic decision making, transparency, combating corruption etc). MFIs don't have special policies on measures that are of "high social value" for local community and financed through individual credits (providing newly created enterprises with credits to finance risky, but innovative measures, financing activities with positive social impact, environment, creation of new job places, health care services, housing, skill development in local areas etc). MFIs very rarely provide financial assistance (grants or joint credits) to community projects (schools, hospitals, religious places, support to local custom, assistance/sponsorship to local cultural events, sport etc) or actively participate (support by MFI and/or participation of staff) in local social events. Except for few large MFIs, most MFIs don't have special measures/funds for mass disasters. Based on all these facts, we can say that MFIs don't pay serious attention to social responsibility in relation to community. We think that MFIs need to strengthen their efforts in this direction.

Findings of survey suggest that measurement and tracking of social performance of MFIs is weakly developed. This may be explained by following facts:

- Microfinance services being a new service type are provided for just 10 years in the country;
- As newly created structures with limited financial resources, MFIs pay more attention to financial-economic performance during initial years;
- As demand for micro credits still exceeds supply, many MFI's are growing rapidly and are focused on expansion of services. This, in its turn, is accompanied with lack of capacity of those institutions for duly dealing with other issues;
- There are no local organizations promoting application of social performance;
- There is no relevant experience in organization of social performance and MFIs don't have necessary capacity;
- There is no competition among MFIs concerning social performance;
- There are limited financial resources etc.

3. Recommendations to strengthen social performance of MFIs

It's recommended to implement following activities to strengthen social performance at MFI level⁷.

Development direction	Some activities recommended to get positive results on social performance management according to the methodological approach mentioned above
1. Achieve more outreach of poor and excluded population groups	<ol style="list-style-type: none"> 1. Using official surveys on poverty and exclusion levels to expand performance of MFIs in terms of geographical scope; 2. Collecting indicators (directly provided by community) reflecting objective status of each client (illiteracy, size of economy, housing condition, property etc) and influencing welfare of participants while granting credits in order to ensure more outreach of underprivileged population; 3. Providing more than 90% of micro credits based on "social security" (group unity, collateral and material pledges that have very little commercial value but are of high importance for borrowers); 4. Ensuring that more than 50% of current clients are located in poorer areas compared to national level, as well as, in remote and poor rural areas; 5. Ensuring that more than 60% of provided credits are equal or less than 50% of per capita GDP; 6. Ensuing that more than 50% of provided credits are focused in rural areas (areas of cultivation of food products or where majority of income come from agricultural activities); 7. Keeping minimum monthly level of payment at the rate of equal or less than 1% of per capita GDP; 8. Directing more than 20% of credits at people living in extreme poverty; 9. Keeping ratio of women clients more than 40%.
2. Ensuring adjustment of services and products to needs of target clients	<ol style="list-style-type: none"> 1. Providing micro credits for social needs of clients and innovative financial services to ensure diversity of financial services; 2. Keeping average period between application for credit and granting of credit less than 2 weeks; 3. Ensuring transparency, equal access to financial services and creation of free payment opportunity while providing credits; 4. Keeping exit coefficient of clients from microfinance programs at the rate less than 5% over a year; 5. Providing supportive services related to financial management (business training, management of household budget etc) and social needs (education, health care services, access to social workers, gender issues etc).
3. Developing social and political policy	<ol style="list-style-type: none"> 1. Ensuring access of clients to financial statements of MFIs through publications and/or presentation meetings;

⁷ It is informative recommendations and implementation of these recommendations is not obligatory. This is one of the existing approaches for strengthening social performance management

of clients	<ol style="list-style-type: none"> 2. Existence of special procedure or authorized person within MFI to settle problems in case of contradictions/claims/complaints between client and MFI staff; 3. Actively involving clients in decision making processes at local levels through establishment of self-governing groups; 4. Developing and strengthening skills on local management or leadership among clients through trainings.
4. Strengthening social responsibility of MFIs	<ol style="list-style-type: none"> 1. MFIs should have annual training plan for each staff according to relevant job description; 2. MFIs should actively involve their staff in trainings; 3. MFIs should provide their staff with health care services; 4. Keeping the ratio of persons leaving MFIs over the last 24 months to average number of all staff at the rate of less than 5%; 5. Carrying out researches at least every two years to assess social and economic impact of services provided by MFIs; 6. Learning borrowing level of clients and taking relevant measures; 7. MFIs should have written/explicit code of conduct in relation to clients; 8. Existence of insurance mechanism releasing family from debt burden in case of death of borrower; 9. Conducting activities closely with local community and taking measures positively influencing local culture/mentality (empowerment of women, democratic decision making, transparency, combating corruption etc); 10. Ensuring allocation of credits (minimum 5% of credit portfolio) for financing activities with positive social impact for local communities (environment, creation of new job places, health care, housing, increasing skills); 11. Providing financial assistance (grants or joint credits) to community projects (schools, hospitals, religious places, support to local custom, assistance/sponsorship to local cultural events, sport etc) or actively participating (this may be 1% of credits or 5% of annual income) 12. MFIs should have reserve funds for mass disasters or special events.
5. Forming capacity within MFIs to regulate social performance and undertake monitoring	<ol style="list-style-type: none"> 1. Improving Management Information System (MIS) to calculate indicators required for assessment of social performance; 2. Arranging trainings for relevant staff of MFIs on regulation of social performance and monitoring; 3. Preparing annual internal statements on social performance of MFI; 4. Implementing researches on satisfaction level of clients in relation to provided services, needs assessment, impact of credits on living standards of clients, reasons for exit from credit programs, etc.

Consolidated Recommendations

for strengthening positive impacts of microfinance

This study has clearly demonstrated positive impacts of microfinance based on descriptive analysis. Findings of this study indicate that over the last 2-3 years, microfinance decreased the share of clients living in extreme poverty by 50% and those living in poverty by 26%, increased annual per capita income of clients by 35% and assets by 15%, brought down inequality in main consumption by 0.024 coefficient and unemployment level by 16%, ensured 28% more spending on secondary education and 2.3 times more on post-graduate education by clients etc. In coming years, implementations of following recommendations are considered reasonable in order to further increase positive impact of microfinance in Azerbaijan.

Implementation of following measures is recommended to the Government, MFIs, and Local/International organizations to strengthen positive impacts of microfinance based on study findings⁸.

#	Recommendations	Descriptions
I. Recommendations for the Government		
1.	Improve legislation concerning MFIs	Although there is a relevant legislation concerning Credit Unions, such a law was not adopted for NBCO yet. Over the past 10 years, 16 NBCOs were established in the country and they are operating successfully. Thus, these organizations account for more than 55% of microfinance clients and 40% of credit portfolio in the country. As can be seen, although there are gaps in legislative framework, these organizations have found their places at market. In view of this, adoption of the above mentioned law will give impetuous to development of this sector. It should be noted that Law on NBCOs has already been drafted.
2.	Prepare mechanism for financing of microfinance programs through strategic currency reserves of the country (these funds are managed by the National Bank and SOFAR)	In view of significant impact that microfinance has on reduction of poverty and development of small business, microfinance sector should be supported by the government. Financing of microfinance programs through strategic currency reserves (these funds are managed by the National Bank or SOFAR) may be one of the forms of such support. This will ensure decreasing interest rate of micro credits and facilitate solution of problems concerning access to loans created as a result of international financial crisis, while improving access of MFIs to loans with lower interest rate. To this end, first of all mechanisms for financing of microfinance programs through strategic currency reserves of the country should be prepared. It should be noted that over the last 10 years, MFIs ensured sustainable operation, maintaining

⁸ This is a conditional distribution and participation of all stakeholders in implementation of each recommendation is necessary.

		risk under 2% level.
3.	Link targeted state social assistance to microfinance services	<p>The Azerbaijan Government has defined poverty reduction and socio-economic development of regions as one of its priority directions. One of the main ways to achieve these targets is to ensure wider outreach of microfinance services. Thus, according to international expertise, targeted state social assistance is used as a short-term tool (as a passive measure), while microfinance services are regarded as long-term tools (as an active measure) in poverty reduction.</p> <p>The Azerbaijan Government launched targeted state social assistance since 2006 and according to initial figures, more than 160,000 underprivileged families benefited from this assistance in 2008. Estimates suggest that it is possible to involve part of people applied for targeted state social assistance in microfinance services and micro credits may be allocated to applicants for benefits willing to start-up business. To this end, first of all, best practices should be studied, application opportunities for these mechanisms in the country analyzed, relevant mechanisms elaborated and applied as pilot initiatives. Being as an active measure complementing passive measures implemented by the Government in poverty reduction, this activity will increase business spirit of underprivileged population and decrease their dependence. Local and international MFIs should be actively involved in elaboration and implementation of this mechanism.</p>
4.	Prepare a grace mechanism for allocation of agricultural micro credits in terms of food security	MFIs should be stimulated to allocate agricultural micro-credits with lower interest rate and grace period, giving them some privileges concerning taxes and etc, in order to improve provision of foodstuff to population in short-term period. It is considered that such mechanisms may be more efficient than gratuitous subsidises.
5.	Prepare social insurance system for self-employed persons engaged in microfinance programs	Currently, more than 40% of micro-finance clients are engaged in self-employment. Estimates show that these people will face problems related to pension provision in about 20 years. Thus, microfinance clients engaged in self-employment do not pay social insurance fees. In view of severity of problem, the World Bank started preparation and implementation of some pilot projects in a number of countries. We think that there is also a necessity for implementation of relevant activities concerning pension provision of such persons in Azerbaijan. To this end, international expertise and local circumstances should be studied, relevant mechanisms elaborated and their efficiency level tested through implementation of pilot projects.
6.	Support development of small business and ensure sustainability of	Findings of survey indicate that businesses of HHs are not sufficiently sustainable and involvement of workforce in these businesses from local communities is weak. Comparison of businesses of new and longer-term clients

	businesses of HHs	suggests that although business incomes of longer-term clients are much increased, size of businesses remained unchanged. Implementation of relevant measures in this direction should be strengthened in future.
7.	Increase competition level among MFIs in regions	The survey shows that MFIs network is not sufficiently developed in regions and for this reason, almost all MFIs provide micro credits at similar/same terms. This restricts option of population and conduces to higher interest rate for micro credits at markets. The Government may achieve expansion of MFIs networks in regions by improving legislation on MFIs and providing some privileges for those involved in microfinance activities in regions.
8.	Improve infrastructure in rural areas	It's obvious that existence of relevant infrastructure is one of the preconditions for development of business. Study suggests that necessary infrastructure is underdeveloped in rural areas. Thus, interruptible water, gas and power supply to population is not fully achieved in rural areas. Moreover, road infrastructure is underdeveloped and provision with computer and access to internet is weak. In coming years, shifting focus from development of capital and regional centres to rural/mountain areas and support/growth of small businesses may increase positive outcomes in regional development, poverty reduction and employment provision.

II. Recommendations for MFIs

9.	Increase average size of micro credits provided without collateral	Clients can usually get credits up to 2,000 AZN without collateral. It should be noted that in 2008 per capita GDP amounted to 4,440 AZN. Growth rate of per capita GDP suggests that bringing the size of micro credits provided without collateral to 4,000-5,000 AZN may partly ensure meeting financial needs of small businesses, while positively influencing development of microfinance sector.
10.	Increase repayment period of micro credits and especially, set grace period for repayment of agricultural micro credits	<p>Today, in the country micro credits are provided for up to one year and in some cases, for up to 18 months. It's reasonable to increase repayment period of micro credits.</p> <p>One of the main issues in this direction is to apply grace period for repayment of micro credits. Introduction of grace period for producers of agricultural products is very important. Application of 3, 6 and in exceptional cases, 12 months grace period may yield positive results in terms of development of this sector.</p>
11.	Expand microfinance services in rural and mountainous areas	MFIs network is underdeveloped in rural and mountainous areas. MFIs should focus on establishment of branches in rural and mountainous areas in the nearest future.
12.	Increase outreach of microfinance programs to people living in	As it was already mentioned, since one of the main objectives of microfinance is to reduce poverty, involvement of more people living in poverty in these programs should be a priority direction. Currently,

	poverty	outreach level of microfinance programs to poor population stands at 22%. Cooperation with the Ministry of Labour and Social Protection of Population, which is responsible for provision of targeted state social assistance, should be established to increase this coverage in future (see Recommendation 3 for detailed information).
13.	Create special microfinance programs for the youth, women and vulnerable groups, as well as, for start-ups	The study shows that mainly youth, women and vulnerable groups face unemployment risk. Thus, people from these groups have very restricted access to loans when they start-up a business. Usually, they don't have property for collateral or have low opportunity to get loans due to unemployment. With a view to expanding access of such people to micro credits, they should be engaged in special trainings before provision of micro credits. At the same time, Government and International Organizations should support MFIs in this direction.
14.	Apply a stimulus mechanism for longer-term clients, as well as, simplify documentation procedures for them	The survey indicates that a stimulus mechanism is weakly arranged for longer-term clients and is not tangible. Thus, longer-term clients should get through same procedures while retaking loans. MFIs should strengthen stimulus mechanisms for longer-term clients and simplify documentation procedures (while not increasing credit risk) for them in the nearest future.
15.	Increase range of credit products and supportive financial services (service plus)	Observations suggest that range of micro credit services offered in the country is limited and they are not accompanied with supportive services (service plus). Supportive services should mainly be applied for longer-term clients. They may be loans for purchase/repair of houses, education, health care services, arrangement of events etc. as well as training on financial issues and household budgeting for clients.
16.	Grant privileges in calculation of interest rates to those repaying loans before due time	The study shows that when micro credits are repaid before due time interest rate for outstanding sum is taken in full sum or very little privileges are provided. It's considered expedient to facilitate terms in this direction in future.
17.	Increase promptness in getting express credits	Survey indicates that application level of express micro credits is limited and time spent on getting such credits is not significantly different from other micro credits.
18.	Strengthen feedback between MFIs and clients	Survey suggests that feedback between MFIs and clients is weak. Usually, some MFIs select representatives among active clients to establish such feedback. But, these representatives are not duly instructed. Special attention should be paid to this issue in the nearest future.
19.	Improve level of services provided to clients	Study shows that MFIs try to provide high level services when they open branches in regions. But, after attracting clients, the level of services is decreasing. Quality of services plays an important role in maintaining competitiveness at the market. To this end, MFIs should

		have a special strategy and code of conduct in order to maintain high quality level of services.
20.	Each MFI should have a Strategy on Social Performance Management	As it was mentioned one of the missions of microfinance is to reduce poverty and increase income generating opportunities. To this end, each MFI should have a Strategy on Social Performance Management. The final part of Component 3 provides detailed recommendations on priorities and targets of a Strategy on Social Performance Management.
21.	Improve MIS of MFIs	<p>Survey indicates that MIS of MFIs is underdeveloped and MFIs created these systems within different programs. It would be better if MFIs use some standards in collecting of information on main indicators in future. This will facilitate assessment of their activities. We think that it's necessary for MFIs to use MIS but, it's also understandable that a great deal of funds will be needed to this end.</p> <p>In the short-term period, MIS should contain brief information on sex, status (local resident or IDP etc), length of participation in micro finance programs, monthly and cyclic indicators, current and permanent addresses, regional placement of clients, as well as, their incomes and expenditures before and after returning micro credits. Availability of this data in MIS will allow evaluation of initial impact of microfinance.</p>

III. Recommendations for local and international organizations

22.	Establish a sustainable database on impact of microfinance	The study indicates necessity of creation a Sustainable Database on impact of microfinance. This database should be updated through annual impact assessment surveys based on panel method (i.e. keeping some clients took part in previous survey) (an Aggregate Database for 2008 is already established as a results of the mentioned survey). Existence of such database will allow observation of multidimensional impact of microfinance on living standards of clients, satisfaction tendencies with microfinance programs and etc. It usually takes 3-5 years to observe a tendency and create an automated database.
23.	Study impacts of microfinance at macro level	No study has been conducted in the country to learn how does macro-economic policy influence development of microfinance and which impacts does microfinance have on macro-economic balance. We think that there is a serious need for conducting such a survey. Availability of this survey will help taking into account possible negative impacts on development of microfinance while pursuing a macro-economic policy and considering vulnerable aspects of this sector during financial crisis etc. On other hand, ways to strengthen possible positive impact of microfinance on maintaining a macro-economic balance will be defined.

24.	Improve management system of NBCOs.	Upon adoption of a law on NBCOs a relevant project should be launched to establish/improve corporative governance system in these organizations. First of all, experience of similar countries in corporative governance should be studied, local condition analysed, principles of corporative governance defined and applied as a pilot project, and its wider application ensured in case of positive outcomes
25.	Protect consumer rights of microfinance clients	Formation of protection system of consumer rights of microfinance clients and their awareness raising in this field is required in terms of development of microfinance sector and increasing of its positive impact. Microfinance clients may be informed of their consumer rights while getting micro credits or through public awareness raising campaigns. At the same time, relevant rules and information means should be prepared.
26.	Increase business knowledge and skills of underprivileged population living in villages and other urban areas through special trainings and other events.	There is a serious need to increase business knowledge and skills of underprivileged population living in villages and other urban areas. This may be implemented through public training events in regions, awareness raising campaigns in TV and radios, distribution of hand-outs and etc.
27.	Increase awareness of underprivileged population on banking-financial services and improve their skills in management of household budgeting	The survey shows that awareness of underprivileged population on banking-financial services and their skills in management of household budget is weak. Some clients even have never heard of a bank account. Lack of knowledge and skills on the mentioned fields is understandable, taking into account the fact that half of microfinance clients possess secondary education. Skills and knowledge may be improved through public awareness raising events, public trainings, distribution of information leaflets and in other ways.
28.	Increase participation level of microfinance clients in local community	Participation level of microfinance clients in local community is weak. Relevant awareness raising and stimulating measures should be carried out in this direction.

Implementation of the abovementioned recommendations will improve sustainability of microfinance industry in Azerbaijan in the future ensuring positive impacts of microfinance on clients/beneficiaries⁹.

⁹ **Note:** Some of recommendations on the results of impact assessment survey could be the same with recommendations on focus group discussions. It shows that the same problem was revealed during quantitative and qualitative assessment.