Azerbaijan Microfinance Analysis and Benchmarking Trends Report 2008

A report from the Microfinance Information Exchange, Inc. (MIX) and Azerbaijan Micro-finance Association (AMFA) **September 2008**

Introduction

2007 proved to be another important year for microfinance in Azerbaijan, as microfinance institutions (MFIs) continued to grow in outreach and scale, with the outstanding portfolio exceeding 380 million USD as of December 31, 2007, and reaching more than 500 million USD as of June 30, 2008. The number of active clients stood at 167,000 in June 2007 and grew to 290,000 by June 2008. A few institutions saw a 200 percent increase in their loan portfolio during the year. The rapid economic growth of Azerbaijan and increased access to credit for MFIs, which prior to 2005 had very little leverage, explain these trends. However, the sharp rise in inflation by more than 100 percent since the end of 2006 has affected negatively the overall financial performance of MFIs in Azerbaijan. This report traces the performance changes in the microfinance sector of Azerbaijan within the context of the current macroeconomic conditions and regulatory environment, highlighting trends for a group of nine leading MFIs over the period 2004–2007 (comprising 90 percent of the non-bank sector).[1]

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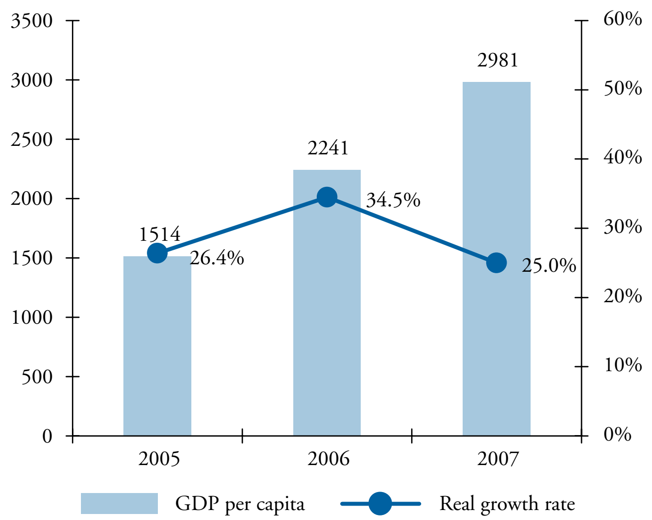
Macroeconomic Conditions

The economy of Azerbaijan continued its fast-paced growth in 2007, with GDP growth of 23.4 percent. Economic growth and increased government expenditure on social services resulted in higher income per capita, job creation and lower poverty levels. The growth was fueled mainly by the expanding oil and gas sector, which accounted for 58.6 percent of the economy. The non-oil sector continued to grow at an average of 11 percent, about the same as the previous year, driven by large increases in public expenditure, including a raise in pensions and wages. However, rising global fuel and commodity prices coupled with high internal demand pressures and an increase in government spending triggered an acceleration of already high inflation, which doubled from 8.3 percent in 2006 to 16.7 percent in 2007.

1 As a result of the rapid growth of small institutions in the microfinance sector, MIX in collaboration with AMFA published a number of new profiles for the credit unions Komak and some smaller scale MFIs, such as Icma, Umid Credit and Nakhichevan Credit.

This report was jointly produced by MIX and AMFA.

Figure 1 Economic Overview of Azerbaijan 2005–2007



Source: National Bank of Azerbaijan and the Azerbaijan State Statistics Committee. Growth rates and GDP per capita based on local currency figures.

Inflation was coupled with an appreciation of the manat against the US dollar. As a result, the demand for borrowing from international sources continued to grow. Banks increased their foreign liabilities by 138 percent between 2006 and 2007. Within the microfinance sector, these developments have meant that borrowing internationally also has become cheaper – an important factor since 95.5 percent of the leverage of MFIs in 2007 came from foreign sources.

Legal and Regulatory Environment

In principle, the microfinance industry in Azerbaijan is regulated by the *Law of the Republic of Azerbaijan on Banks*. Both banks and non-bank credit organizations are allowed to carry on microfinance activities. The National Bank of Azerbaijan (NBA) has not been active in regulating the sector and as a result, microfinance is not a highly regulated industry in Azerbaijan. However, some commercial banks also provide microcredit, and their activities are strictly regulated by the NBA. The current regulatory regime does not impose any prudential standards, such as capital and liquidity requirements, to non-bank credit organizations. Lack of prudential regulation also prevents the non-bank credit organizations from accepting deposits. Due to the above-mentioned regulations, there is no special tax regime for microfinance activities, and both banks and non-bank credit organizations are subject to a general corporate profit tax of 22 percent.

In 2007, the NBA took a lead in finalizing a new law *On non-banking credit institutions*. This draft law excludes credit unions, which are regulated by a separate law. Some major stakeholders, including the representatives of non-bank credit organizations, were invited to the working group before the draft law was presented in the Parliament. Similarly to the *Law on Banks*, this law does not intend to address and regulate microfinance activities specifically and exclusively. If the Parliament passes the law, non-bank credit organizations will face the following requirements:

- Higher capital requirements: Article 7.2 of the draft law stipulates that the minimum capital requirement for non-bank credit organization holding collateral deposits[2] should be no less than AZN 250,000 (302,500 USD) and no less than AZN 25,000 (30,250 USD) for those not collecting collateral deposits. Currently, the capital requirement stands at AZN 6,050 (5000 USD).
- Special qualification requirements for administrators.
- Quasi-banking prudential requirements (for non-bank institutions willing to attract collateral deposits).
- More involvement and control of the NBA over microfinance operations.

The law can qualify as microfinance-friendly for the following features:

- An option to operate as a non-bank credit organization, which has the right to accept collateral deposits.
- Formal access to the Centralized Credit Registry.
- No restrictions on interest rates or loan sizes.
- An opportunity for non-commercial entities. Operating as foundations to get a license for microfinance activities.

2 According to the draft law, non-bank credit organizations will have the discretion to require and keep some cash from clients (i.e. equal to 10% of the loan) as collateral or security. If the client fails to repay, the institution will be able to use the collateral deposit.

- Non-bank credit organization not willing to accept collateral deposits will not be subject to prudential standards.

The absence of detailed regulation leads to some uncertainty in the operating environment. Hopefully, a new law will contribute to the development of microfinance in Azerbaijan thereby creating more diverse opportunities and transparency.

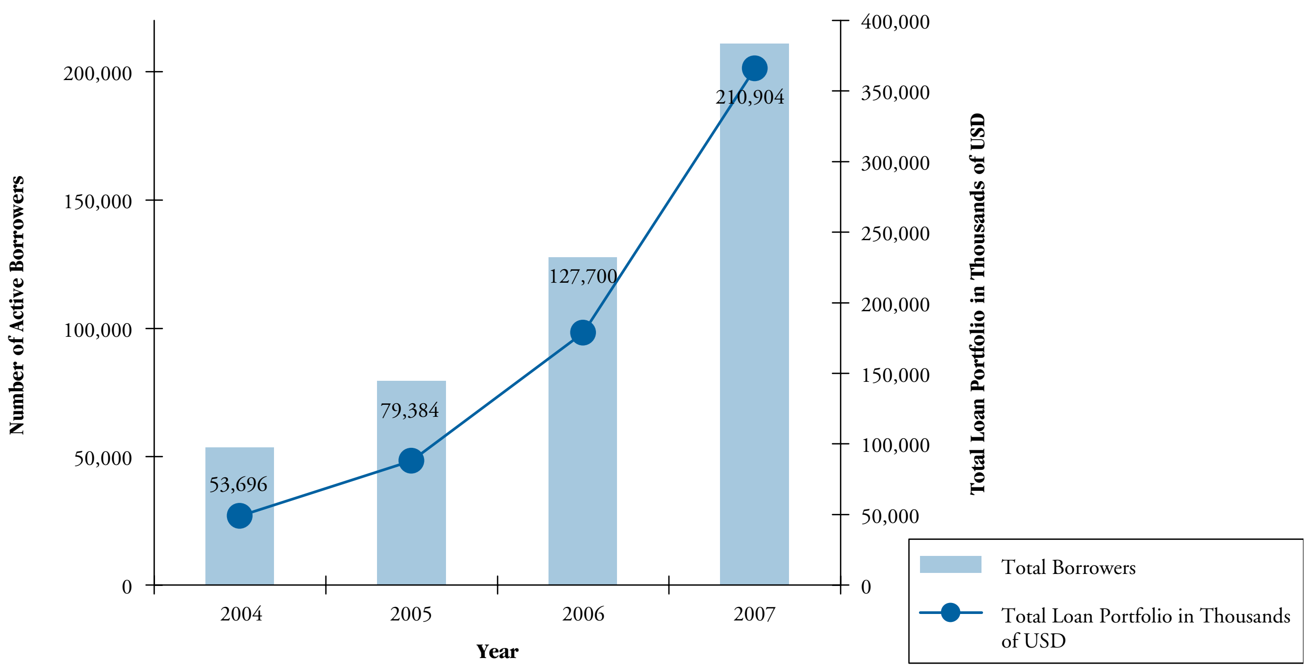
Outreach and Scale

MFIs in Azerbaijan exhibited strong growth in outreach and scale throughout 2007. Their total loan portfolio grew by 105 percent in USD terms, which was reflected in another positive development: an increased number of borrowers and greater rural outreach. It is important to note that until recently only banks had branches in rural regions of Azerbaijan, where they provided larger loan balances with high interest rates. Taking into consideration the needs of the population in rural areas for smaller size loans at lower interest rates, MFIs opened new branches and began to offer several types of microloans.

In fact, new branches were established in 2007 in eight new regions. FINCA Azerbaijan opened branches in Shamakhi, Devechi, Mingechevir and Agjabedi. CredAgro began serving clients in Mingachevir, Ganja, Barda and Sheki. Normicro expanded its operations in the Saatli region. In all, 4,827 new clients in these branches received microfinance services. Several branches were opened at the end of the year, so the number of new microfinance clients will grow as operations begin.

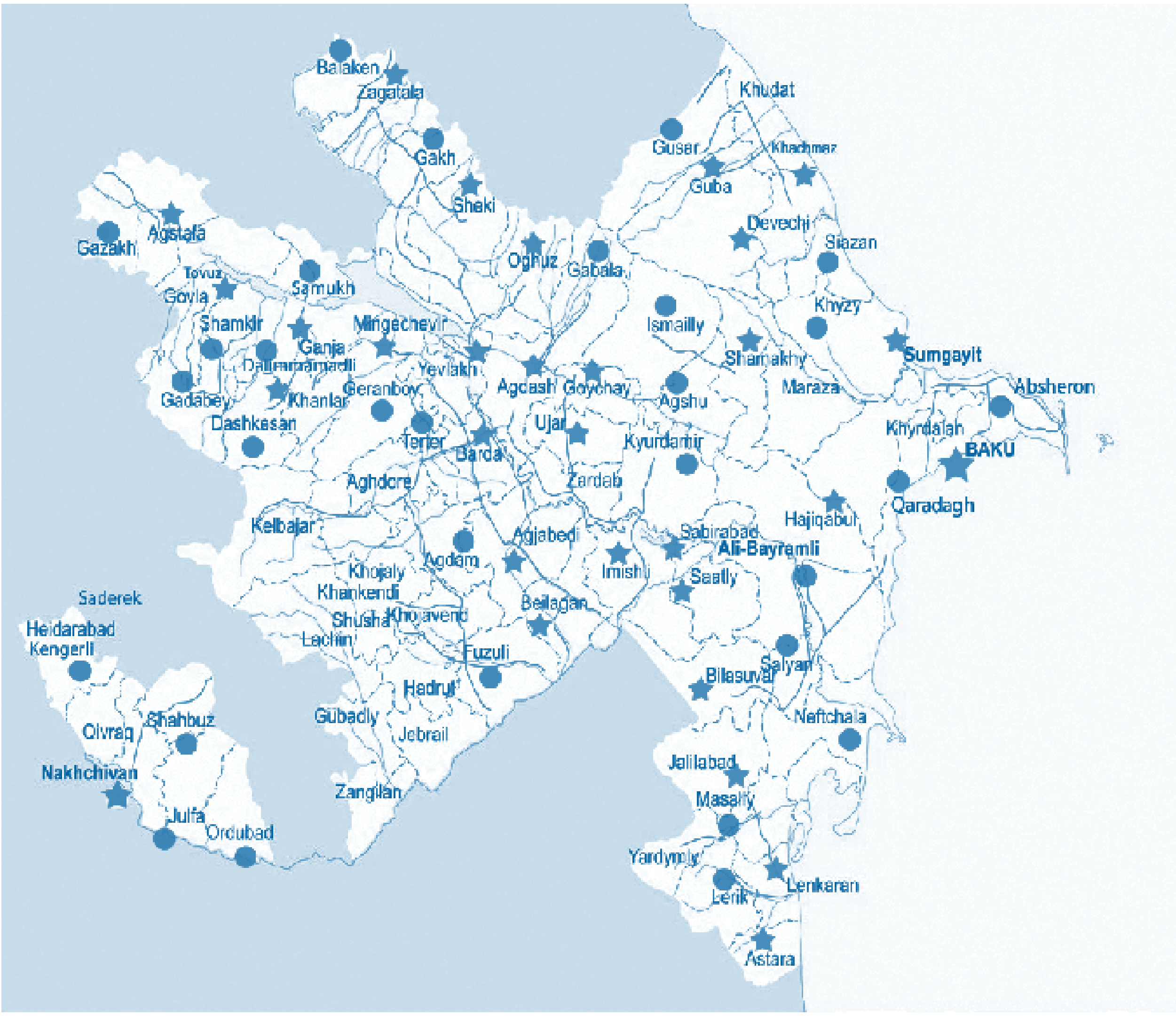
A look at the distribution of growth, however, indicates that Azerbaijan's microfinance market continued to be dominated this year by two MFIs – FINCA and MFBA. FINCA and MFBA were already the largest two institutions by far at the start of 2007. While other providers showed some expansion in outreach and portfolio, the growth of FINCA and MFBA outpaced them. In 2007, these two institutions alone captured about 75 percent of new market share. The one other MFI which exhibited a significant increase in scale and outreach is CredAgro. Whereas last year it explained 3 percent of the total growth in borrowers, in 2007 it contributed 8 percent. Its growth in GLP also was significant, composing 17 percent of the total growth of the GLP, an increase from 8 percent in 2006.

Figure 2 Total Borrowers and Total Loan Portfolio in USD Thousands, 2004–2007



Source: MIX Market. Figures based on trend data for 17 MFIs, participating in MIX Market.

Figure 3 AMFA Members Branches in Azerbaijan[3]



Source: AMFA

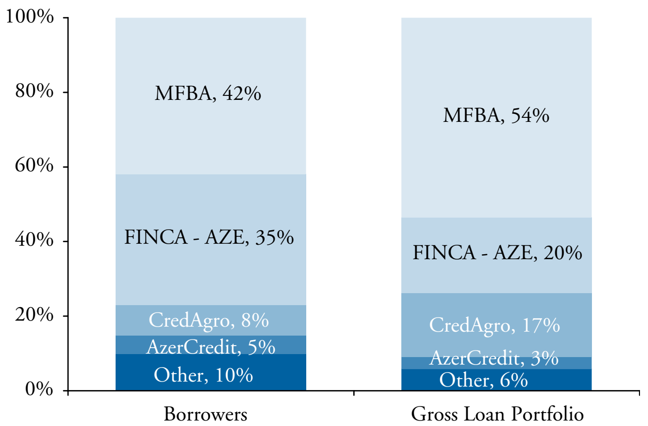
The increase in the median number of borrowers demonstrates that smaller MFIs have also been growing in outreach in contrast to the previous year. In 2006, the median number for active borrowers decreased slightly from its level in 2005, revealing that most of the expansion in outreach occurred in bigger institutions. However, a larger number of MFIs have begun serving more clients in 2007 due to greater availability of financing as well as the booming economy, which stimulates the demand for credit and provides more opportunities for entrepreneurial activities.

A comparison with peers from the Caucasus and Central Asia demonstrates a consistently increasing growth in outreach for Azerbaijani MFIs, while it has occurred at a decreasing pace in both Georgia and the Central Asian countries. Azerbaijani MFIs are still reaching their peak in outreach, a fact confirmed by the expansion of operations in previously underserved markets

While the median indicator for average loan balance (ALB) grew from 561 USD to 766 USD, it in fact

3 Stars indicate the locations where AMFA members currently have a branch.

Figure 4 Allocation of Growth in Outreach



Source: MIX Market 2007

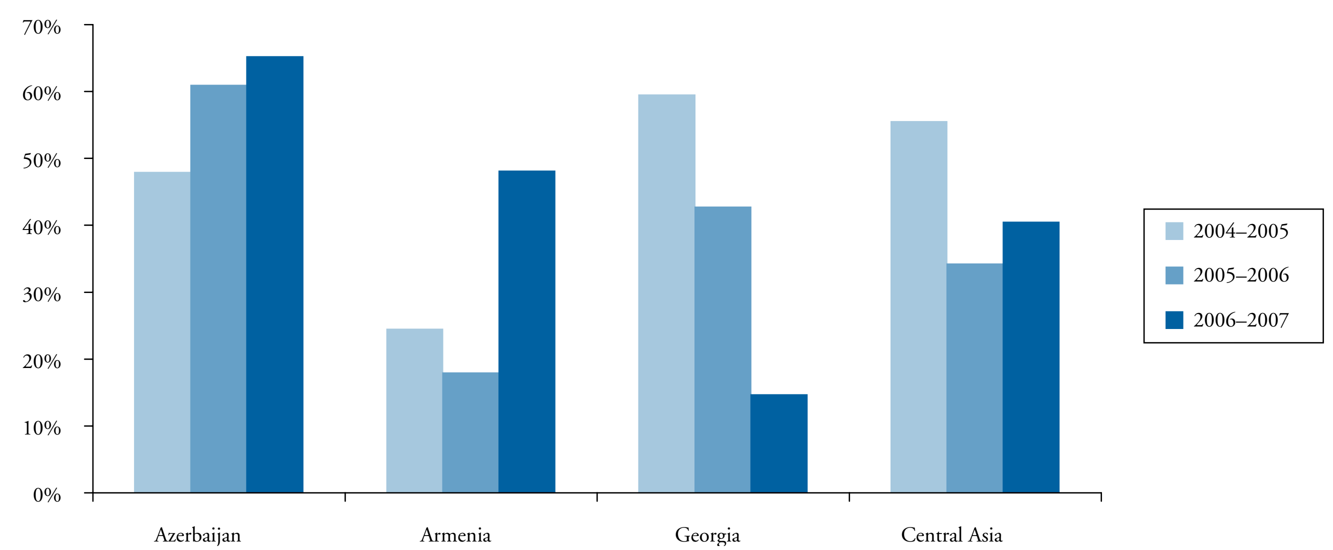
decreased as a percentage of GNI. Despite a consistent growth over the years, the median Azerbaijani MFI still offers smaller loans than its peers in Georgia and Armenia and in 2007 is on par with the Central Asian institutions. Additionally, Azerbaijan GDP growth has been one of the fastest in the world for the last two years with a correspondingly increasing GNI per capita, which, coupled with the overall lower ALB, means that the ALB as a percentage of GNI per capita is also the lowest in the peer group. Median ALB in Azerbaijan in 2007 stood at 28 percent versus 42 percent in Armenia, 73 percent in Georgia and 108 percent in Central Asia in 2007. Therefore, the large increase in the loan portfolio tracks with rising income levels and local market costs in this high inflation environment.

Regarding providing women with greater access to microfinance services, not much progress was achieved this year. The slight decrease in the median indicator of women borrowers from 38 percent in 2006 to 36 percent in 2007 signifies that women still remain an underserved segment of the population.

Financial Structure

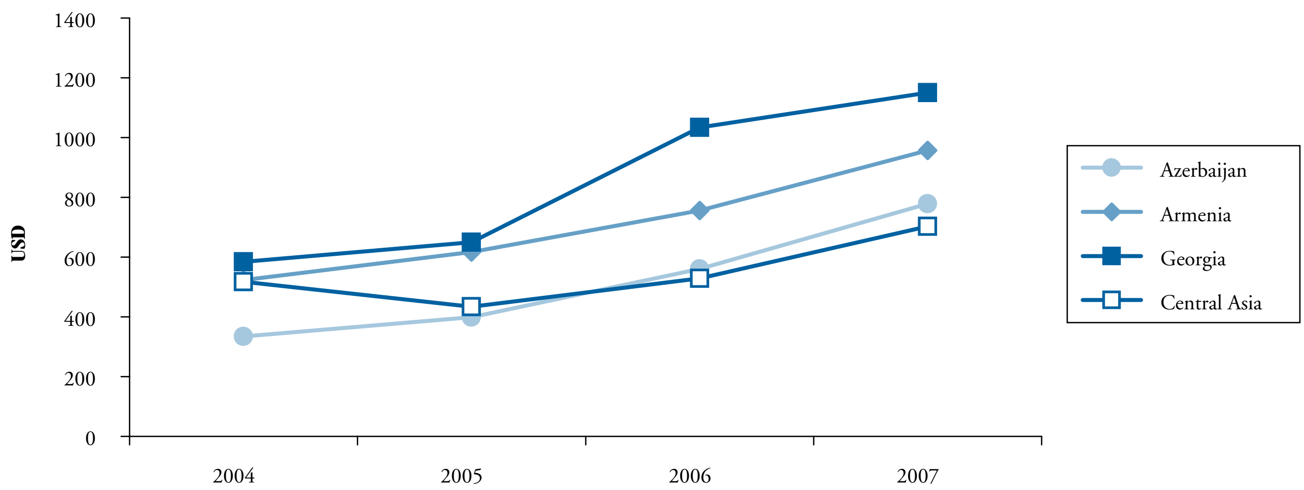
No significant shift occurred in the funding structure of MFIs in Azerbaijan in 2007. The majority of MFI's borrowings, approximately 95 percent, comes from foreign sources. However, in 2007 because of the sharp appreciation of the manat against the US dollar and the fact that MFIs have established themselves as reliable borrowers, outstanding borrowings increased 153 percent year-on-year from 74.6 million USD to 189 million USD. The largest increases in amounts came from foreign funds (223 percent increase) and foreign NGOs (225 percent increase). The proportion of all borrowings from foreign funds now stands at 69 percent, up from 54 percent in

Figure 5 Growth in Total Borrowers 2004–2007



Source: MIX Market.

Figure 6 Average Loan Balance per Borrower 2004–2007



Source: MIX Market. Figures are based on median indicators for average loan balance per borrower.

2006. Borrowings from foreign and local commercial banks also increased.

The terms for foreign funds increased from 47 to 55 months, while interest rates stayed around 9 percent on average. A proportional increase in commercial bank funding led to shorter average terms and higher average interest rates for local financing.

International lenders offer lower interest rates and longer maturities than local commercial banks, which is why they are still the preferred source of funding for Azerbaijani MFIs. Moreover, as competitors for the microfinance market, local banks are reluctant to lend to non-bank institutions. Out of the 46 banks in Azerbaijan, 10 engage in microlending activities. Some commercial banks offer to provide loans to MFIs, but the term, conditions and high interest rates are often not acceptable for MFIs.

Beyond the banking sector, there are only a limited number of institutions and funds dealing with loan services for MFIs. These include local institutions such as the Social Fund for Development of IDPs (SFDI), Credit Implementing Agency (IKA), National Fund to Support Entrepreneurship under the Ministry of Economic Development, Caucasus Credit LLC (CC LLC) and AgrarCredit Joint Stock Company (AgrarCredit). Each presents serious challenges, namely:

Table 1 Characteristics of External Debt for Azerbaijani MFIs in 2007

2007	Foreign			Local		
Lender Type	Outstanding Amt.	Term (months)	Interest Rate	Outstanding Amt.	Term (months)	Interest Rate
Commercial Bank	3,022,485	48.00	9.00%	6,337,167	12.00	12.21%
DFI	19,731,527	65.48	8.04%	0	0.00	0.00%
Fund	130,441,241	50.80	9.29%	479,318	16.14	12.99%
Government	0	0.00	0.00%	1,717,459	56.88	0.55%
NGO/Foundation	27,305,490	66.83	9.66%	0	0.00	0.00%
Grand Total	180,500,743	54.78	9.20%	8,533,944	21.26	9.91%

Source: *MicroBanking Bulletin 2007*. Figures represent weighted averages.

Table 2 Characteristics of External Debt for Azerbaijani MFIs in 2006

2007	Foreign			Local		
Lender Type	Outstanding Amt.	Term (months)	Interest Rate	Outstanding Amt.	Term (months)	Interest Rate
Commercial Bank	0	-	-	348,600	12.00	14.78%
DFI	23,744,886	61.77	8.89%	0	-	-
Fund	40,361,799	41.82	9.31%	356,309	18.60	11.50%
Government	0	-	-	1,271,676	58.83	2.16%
NGO/Foundation	8,405,462	32.16	8.86%	143,158	4.00	14.19%
Grand Total	72,512,147	47.23	9.12%	2,119,743	40.66	6.62%

Source: *MicroBanking Bulletin 2007*. Figures represent weighted averages.

1. SFDI is a government organization that lends at below market rates, but its funding base is limited. Like most government lending programs, it also places requirements on the terms and conditions charged by their partner institutions.

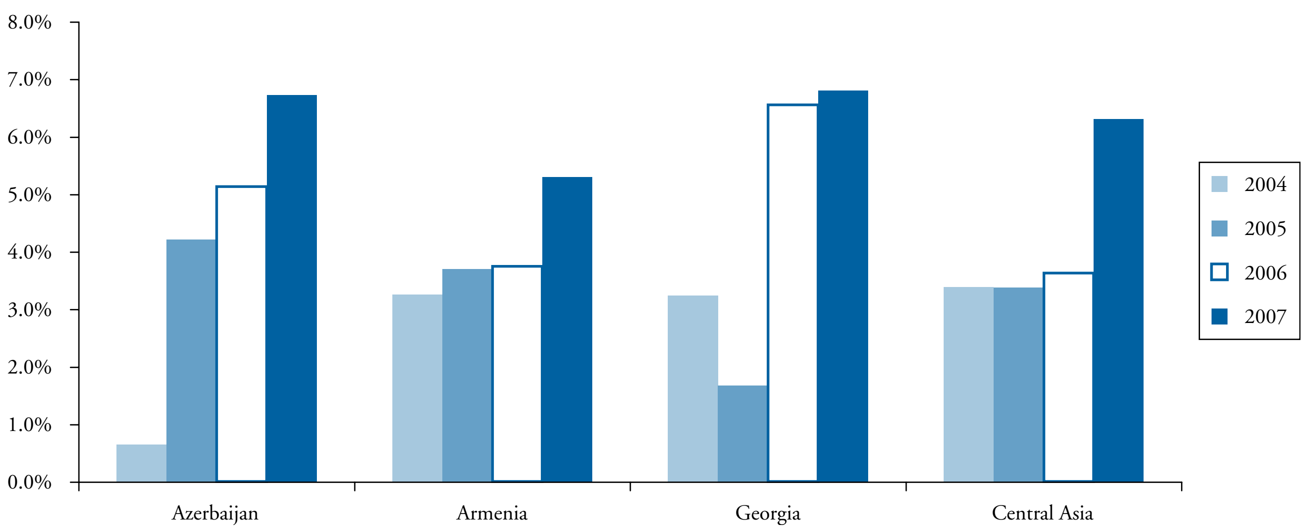
2. IKA lends only through credit unions affiliated with the Azerbaijan Credit Union Association and although an 'independent' legal entity, it is reliant on the Government of Azerbaijan and the World Bank loan funding. It places requirements on the loan terms and conditions charged by their partner institutions.

3. The National Fund to Support Entrepreneurship under the Ministry of Economic Development lends at below market rates, and places requirements on the loan terms and conditions charged by their partner institutions.

4. Caucasus Credit LLC is a wholesale lending institution with limited funding.

5. AgrarCredit lends only to credit unions at high rates, and places requirements on the loan terms and conditions charged by their partner credit unions.

Figure 7 Unadjusted Financial Expense Ratio 2004–2007



Source: MIX Market. Figures represent median indicators for unadjusted financial expense as a percentage of average total assets.

A look at the financial expense structure of peers also shows a consistent upward trend for Azerbaijan, which is a result of the significant increase in external financing from year-to-year. This indicator also increased significantly for MFIs in Armenia and Central Asia between 2006 and 2007. The sharp depreciation of the dollar in 2007, which makes borrowing internationally (in dollars) cheaper, is one explanation. Moreover, certain countries drove the sharp increase in the indicator for Central Asia in 2007. MFIs in Kazakhstan, whose economy is also heavily based on oil revenues, increased their financial expense ratio from 1 percent in 2006 to 3 percent in 2007 as a result of large inflow of investment in the country. The financial expense ratio for MFIs in Tajikistan also increased significantly from 2.5 to 5 percent.

Ratio Analysis

Trend analysis indicates that the doubling of inflation has seriously affected the financial performance indicators for MFIs in Azerbaijan. The median ROA dropped from 2.7 percent in 2006 to 0.7 percent, while ROE decreased from 6.3 percent to 2.5 percent. Due to the large inflation adjustment expense, the median financial self-sufficiency indicator also decreased, but only slightly from 119 percent in 2006 to 112 percent in 2007, indicating that despite the high inflationary environment Azerbaijani MFIs are equipped to cover all adjusted financial, operating and provisioning costs.

MFIs in Azerbaijan did not improve their bottom line through top line growth. In 2007, the nominal yield decreased slightly from 40 percent to 39 percent while real yield declined more sharply from 29 percent to 19 percent.

At the end of 2007, MFIs in Azerbaijan registered a drop in most of their expense ratios as the asset base against which they are measured increased due to rising loan balances in accordance with higher inflation and income levels. Total expenses as a portion of average total assets continued to decrease further in 2007, with a drop of 6.2 percent from 2006 to a median level of 28 percent, while operating expenses decreased by 23.9 percent to a median level of 14.7 percent. This year the decline was driven not only by a drop in administrative expenses but also in personnel expense. Personnel expense as a portion of average total assets decreased by 23.3 percent while the median number of staff actually increased from 70 to 83. The pay of personnel in 2007 has not kept up with rising inflation and income levels as the declining average salary per GNI per capita from 614 percent to 334 percent reveals. Finally, the adjusted financial expense has increased slightly, most of which is due to the large inflation expense rather than a shift in the expense profile on borrowings.

Productivity-wise, borrowers per staff member increased at a slower pace by 3.6 percent from 2006 vs. 15 percent from 2005, while the borrowers per loan officer decreased by 13 percent from 2006 vs. an increase of 49 percent in 2006 from 2005 levels. Productivity levels may have slowed down due to the increased outreach in secondary markets and rural areas. Cost per borrower increased by 36 percent partly due to the increased loan balance per borrower.

In 2007 all portfolio quality ratios improved in comparison with 2006 figures—an indication that management is performing proper due diligence throughout the lending and collection process. PAR >30 days, PAR >90 days, the write- off ratio and loan loss rate all decreased and remained below one percent. Much of the reduction in the portfolio at risk can be explained by the fact that 70 percent of all clients are repeat clients.

Conclusions

The data reveals that MFIs in Azerbaijan are becoming more efficient and increasing outreach despite difficulties such as high inflation, absence of a specific law on microfinance in Azerbaijan and the reluctance of local banks to provide funding. These institutions and their staff have the capacity to operate in areas where banks are not willing to work and are improving the transparency and openness of the microfinance sector.

In the year 2008, Azerbaijani MFIs will continue to benefit from the double-digit economic growth of the country. As Azerbaijan continues to enjoy high oil and gas revenues, government expenditure will continue to grow, exacerbating inflationary pressures. Rising inflation will continue to have a negative effect on the financial performance on MFIs, and institutions will have to address these challenges in their operations and financing choices.

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Data and Data Preparation

For benchmarking purposes, MIX collects and prepares MFI financial and outreach data according to international microfinance reporting standards as applied in the *MicroBanking Bulletin*. Raw data are collected from the MFI, inputted into standard reporting formats and crosschecked with audited financial statements, ratings and other third party due diligence reports, as available. Performance results are then adjusted, using industry standard adjustments, to eliminate subsidy, guarantee minimal provisioning for risk and reflect the impact of inflation on institutional performance. This process increases comparability of performance results across institutions.

The authors of this report are Nigar Pirmamedova, Finance Manager, AMFA, and Ralitsa Sapundzhieva, Analyst - Eastern Europe and Central Asia, MIX. MIX and AMFA thank all institutions participating in the industry benchmarks, and we extend our gratitude to the following individuals for their valuable support throughout the year: Jeff Flowers, Altay Mustafayev, Sevinj Rustamova, Zulfiyya Jafarova and Zuleykha Rasulova.

Azerbaijan MFI Participants

2008 Benchmarks (12 MFIs)
2004–2007 Balanced Panel Data (9 MFIs) *names in italics*

Aqroinvest, Azercredit, Azeri Star, CredAgro NBCO, DAYAQ-Credit, *FINCA – AZE, FinDev,* Komak Credit Union, *MFBA,* MikroMaliyye Credit, *Normicro, Viator*

Indicator Definitions

INSTITUTIONAL CHARACTERISTICS	
Number of MFIs	Sample Size of Group
Age	Years Functioning as an MFI
Total Assets	Total Assets, adjusted for Inflation and standardized provisioning for loan impairment and write-offs
Offices	Number, including head office
Personnel	Total number of staff members
FINANCING STRUCTURE	
Capital/Asset Ratio	Adjusted Total Equity/Adjusted Total Assets
Commercial Funding Liabilities Ratio	(Voluntary and Time Deposits + Borrowings at Commercial Interest Rates)/Adjusted Average Gross Loan Portfolio
Debt to Equity	Adjusted Total Liabilities/Adjusted Total Equity
Deposits to Loans	Voluntary Deposits/Adjusted Gross Loan Portfolio
Deposits to Total Assets	Voluntary Deposits/Adjusted Total Assets
Portfolio to Assets	Adjusted Gross Loan Portfolio/Adjusted Total Assets
OUTREACH INDICATORS	
Number of Active Borrowers	Number of borrowers with loans outstanding, adjusted for standardized write-offs
Percent of Women Borrowers	Number of active women borrowers/Adjusted Number of Active Borrowers
Number of Loans Outstanding	Number of loans outstanding, adjusted for standardized write-offs
Gross Loan Portfolio	Gross Loan Portfolio, adjusted for standardized write-offs
Average Loan Balance per Borrower	Adjusted Gross Loan Portfolio/Adjusted Number of Active Borrowers
Average Loan Balance per Borrower/GNI per Capita	Adjusted Average Loan Balance per Borrower/GNI per Capita
Average Outstanding Balance	Adjusted Gross Loan Portfolio/Adjusted Number of Loans Outstanding
Average Outstanding Balance/GNI per Capita	Adjusted Average Outstanding Balance/GNI per Capita
Number of Voluntary Depositors	Number of depositors with voluntary deposit and time deposit accounts
Number of Voluntary Deposit Accounts	Number of voluntary deposit and time deposit accounts
Voluntary Deposits	Total value of voluntary deposit and time deposit accounts
Average Deposit Balance per Depositor	Voluntary Deposits/Number of Voluntary Depositors
Average Deposit Balance per Depositor/GNI per capita	Average Deposit Balance per Depositor/GNI per capita
Average Deposit Account Balance	Voluntary Depositors/Number of Voluntary Deposit Accounts
Average Deposit Account Balance/GNI per capita	Average Deposit Account Balance/GNI per capita
MACROECONOMIC INDICATORS	
GNI per Capita	Total income generated by a country's residents, irrespective of location/Total number of residents
GDP Growth Rate	Annual growth in the total output of goods and services occurring within the territory of a given country
Deposit Rate	Interest rate offered to resident customers for demand, time, or savings deposits
Inflation Rate	Annual change in average consumer prices
Financial Depth	Money aggregate including currency, deposits and electronic currency (M3)/GDP
OVERALL FINANCIAL PERFORMANCE	
Return on Assets	(Adjusted Net Operating Income - Taxes)/Adjusted Average Total Assets
Return on Equity	(Adjusted Net Operating Income - Taxes)/Adjusted Average Total Equity
Operational Self-Sufficiency	Financial Revenue/(Financial Expense + Impairment Losses on Loans + Operating Expense)
Financial Self-Sufficiency	Adjusted Financial Revenue/Adjusted (Financial Expense + Impairment Losses on Loans + Operating Expense)
REVENUES	
Financial Revenue/Assets	Adjusted Financial Revenue/Adjusted Average Total Assets
Profit Margin	Adjusted Net Operating Income/Adjusted Financial Revenue
Yield on Gross Portfolio (nominal)	Adjusted Financial Revenue from Loan Portfolio/Adjusted Average Gross Loan Portfolio
Yield on Gross Portfolio (real)	(Adjusted Yield on Gross Portfolio (nominal) - Inflation Rate)/(1 + Inflation Rate)
EXPENSES	
Total Expense/Assets	Adjusted (Financial Expense + Net Loan Loss Provision Expense + Operating Expense)/Adjusted Average Total Assets
Financial Expense/Assets	Adjusted Financial Expense/Adjusted Average Total Assets
Provision for Loan Impairment/Assets	Adjusted Impairment Losses on Loans/Adjusted Average Total Assets
Operating Expense/Assets	Adjusted Operating Expense/Adjusted Average Total Assets
Personnel Expense/Assets	Adjusted Personnel Expense/Adjusted Average Total Assets
Administrative Expense/Assets	Adjusted Administrative Expense/Adjusted Average Total Assets
Adjustment Expense/Assets	(Adjusted Net Operating Income - Unadjusted Net Operating Income)/Adjusted Average Total Assets
EFFICIENCY	
Operating Expense/Loan Portfolio	Adjusted Operating Expense/Adjusted Average Gross Loan Portfolio
Personnel Expense/Loan Portfolio	Adjusted Personnel Expense/Adjusted Average Gross Loan Portfolio
Average Salary/GNI per Capita	Adjusted Average Personnel Expense/GNI per capita
Cost per Borrower	Adjusted Operating Expense/Adjusted Average Number of Active Borrowers
Cost per Loan	Adjusted Operating Expense/Adjusted Average Number of Loans
PRODUCTIVITY	
Borrowers per Staff Member	Adjusted Number of Active Borrowers/Number of Personnel
Loans per Staff Member	Adjusted Number of Loans Outstanding/Number of Personnel
Borrowers per Loan Officer	Adjusted Number of Active Borrowers/Number of Loan Officers
Loans per Loan Officer	Adjusted Number of Loans Outstanding/Number of Loan Officers
Voluntary Depositors per Staff Member	Number of Voluntary Depositors/Number of Personnel
Deposit Accounts per Staff Member	Number of Deposit Accounts/Number of Personnel
Personnel Allocation Ratio	Number of Loan Officers/Number of Personnel
RISK AND LIQUIDITY	
Portfolio at Risk> 30 Days	Outstanding balance, portfolio overdue> 30 Days + renegotiated portfolio/Adjusted Gross Loan Portfolio
Portfolio at Risk> 90 Days	Outstanding balance, portfolio overdue> 90 Days + renegotiated portfolio/Adjusted Gross Loan Portfolio
Write-off Ratio	Adjusted Value of loans written-off/Adjusted Average Gross Loan Portfolio
Loan Loss Rate	(Adjusted Write-offs - Value of Loans Recovered)/Adjusted Average Gross Loan Portfolio
Risk Coverage Ratio	Adjusted Impairment Loss Allowance/PAR > 30 Days
Non-earning Liquid Assets as a % of Total Assets	Adjusted Cash and banks/Adjusted Total Assets
Current Ratio	Short Term Assets/Short Term Liabilities

Azerbaijan

	Azerbaijan (all)	Azerbaijan Trend - 2007	Azerbaijan Trend - 2006	Azerbaijan Trend - 2005	Azerbaijan Trend - 2004	Caucasus non-bank	Central Asia non-bank	Armenia non-bank	Georgia non-bank
INSTITUTIONAL CHARACTERISTICS									
Number of MFIs	12	9	9	9	9	24	20	6	7
Age	7.5	8	7	6	5	9	4	9	9
Total Assets	4,158,591	6,972,106	3,369,371	2,560,433	1,905,442	4,785,054	4,176,597	8,100,159	5,163,184
Offices	8.5	9	6	4	5	8	7	8	10
Personnel	42	83	70	53	41	47	59	79	58
FINANCING STRUCTURE									
Capital/Asset Ratio	25.9%	31.1%	39.2%	69.2%	79.0%	27.5%	31.7%	30.3%	23.7%
Commercial Funding Liabilities Ratio	17.8%	12.3%	9.3%	4.5%	0.0%	44.5%	45.9%	59.4%	50.2%
Debt to Equity	2.90	2.2	1.6	0.4	0.3	2.6	1.9	2.3	3.2
Deposits to Loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Deposits to Total Assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Portfolio to Assets	90.5%	91.5%	95.4%	90.2%	86.1%	87.3%	89.2%	81.8%	90.9%
OUTREACH INDICATORS									
Number of Active Borrowers	8780	8,964	4,506	4,604	3,755	7,481	3,939	6,882	6,365
Percent of Women Borrowers	40%	34.6%	38.2%	39.3%	37.2%	43.8%	50.9%	42.2%	48.6%
Number of Loans Outstanding	8780	8,964	4,506	4,604	3,755	7,481	4,359	6,928	6,365
Gross Loan Portfolio	3,887,207	6,866,009	2,974,696	2,229,248	1,417,104	4,537,675	3,569,315	6,612,780	4,693,381
Average Loan Balance per Borrower	720	766	561	344	343	760	560	819	1,146
Average Loan Balance per Borrower/GNI per Capita	26.4%	28.1%	30.3%	27.3%	36.1%	41.5%	107.6%	42.4%	73.5%
Average Outstanding Balance	720	766	561	344	343	756	535	815	1,146
Average Outstanding Balance/GNI per Capita	26.4%	28.1%	30.3%	27.3%	36.1%	41.3%	107.6%	42.2%	73.5%
Number of Voluntary Depositors	0	0	0	0	0	0	0	0	0
Number of Voluntary Deposit Accounts	0	0	0	0	0	0	0	0	0
Voluntary Deposits	0	0	0	0	0	0	0	0	0
Average Deposit Balance per Depositor	0	0	0	0	0	0	0	0	0
Average Deposit Account Balance	0	0	0	0	0	0	0	0	0
MACROECONOMIC INDICATORS									
GNI per Capita	2730	2,730	1,850	1,260	950	1,930	490	1,930	1,560
GDP Growth Rate	23.4%	23.4%	34.5%	26.2%	11.2%	13.4%	7.0%	13.4%	9.4%
Deposit Rate	11.6%	11.6%	10.6%	8.5%	9.2%	9.5%	9.1%	6.3%	9.5%
Inflation Rate	16.7%	16.7%	8.3%	11.6%	6.7%	6.3%	10.8%	4.4%	6.3%
Financial Depth	19.0%	19.0%	19.0%	18.0%	14.7%	19.0%	28.6%	18.2%	20.0%
OVERALL FINANCIAL PERFORMANCE									
Return on Assets	0.6%	0.7%	2.7%	1.8%	-4.1%	0.5%	4.4%	1.0%	0.6%
Return on Equity	2.1%	2.5%	6.3%	2.5%	-5.1%	2.1%	13.6%	7.5%	3.4%
Operational Self-Sufficiency	146.7%	161.5%	138.2%	120.5%	129.8%	128.9%	132.3%	116.5%	110.7%
Financial Self-Sufficiency	111.5%	112.2%	118.8%	113.8%	84.5%	108.3%	121.3%	106.7%	105.0%
REVENUES									
Financial Revenue/Assets	36.9%	36.7%	37.3%	37.2%	29.0%	33.3%	37.7%	27.8%	29.5%
Profit Margin	10.3%	10.8%	15.8%	12.1%	-18.3%	7.7%	17.5%	6.0%	4.8%
Yield on Gross Portfolio (nominal)	39.3%	38.9%	40.0%	40.6%	36.7%	38.8%	42.4%	27.5%	38.7%
Yield on Gross Portfolio (real)	19.4%	19.0%	29.3%	28.3%	28.1%	23.0%	29.7%	22.1%	30.4%
EXPENSES									
Total Expense/Assets	30.6%	28.0%	29.9%	31.7%	30.5%	28.5%	31.5%	23.7%	28.9%
Financial Expense/Assets	11.8%	11.9%	10.0%	8.8%	6.3%	10.3%	11.0%	7.6%	8.9%
Provision for Loan Impairment/Assets	1.0%	0.7%	1.1%	0.4%	0.6%	0.8%	1.3%	0.5%	1.0%
Operating Expense/Assets	17.2%	14.7%	19.3%	22.5%	22.8%	18.0%	18.6%	15.6%	18.3%
Personnel Expense/Assets	10.2%	9.1%	12.0%	13.7%	13.9%	9.2%	10.8%	9.9%	8.9%
Administrative Expense/Assets	5.7%	5.6%	7.3%	8.8%	8.9%	7.4%	7.4%	6.4%	9.5%
Adjustment Expense/Assets	5.6%	6.1%	5.3%	7.1%	6.3%	3.4%	2.8%	1.6%	1.9%
EFFICIENCY									
Operating Expense/Loan Portfolio	19%	15.7%	20.4%	26.9%	26.8%	20.6%	20.9%	18.6%	23.2%
Personnel Expense/Loan Portfolio	11%	9.7%	12.7%	15.7%	18.3%	11.9%	12.9%	11.9%	11.1%
Average Salary/GNI per Capita	294%	333.8%	614.2%	631.9%	551.0%	396.5%	850.6%	513.3%	470.2%
Cost per Borrower	126	132	97	101	108	141	108	154	204
Cost per Loan	126	132	97	101	108	141	113	154	204
PRODUCTIVITY									
Borrowers per Staff Member	120	116	112	98	99	95	70	95	65
Loans per Staff Member	120	116	112	98	99	95	71	95	65
Borrowers per Loan Officer	224	233	269	180	189	207	159	198	167
Loans per Loan Officer	224	233	269	180	189	207	159	199	167
Voluntary Depositors per Staff Member	0	0	0	0	0	0	0	0	0
Deposit Accounts per Staff Member	0	0	0	0	0	0	0	0	0
Personnel Allocation Ratio	38.9%	40.0%	41.0%	38.3%	60.0%	38.9%	43.4%	40.7%	39.3%
RISK AND LIQUIDITY									
Portfolio at Risk> 30 Days	0.2%	0.2%	0.5%	0.5%	1.0%	0.2%	0.9%	0.2%	0.7%
Portfolio at Risk> 90 Days	0.1%	0.2%	0.2%	0.3%	0.7%	0.2%	0.5%	0.2%	0.4%
Write-off Ratio	0.1%	0.0%	0.5%	0.2%	0.4%	0.2%	0.3%	0.2%	1.3%
Loan Loss Rate	0.1%	0.0%	0.5%	0.2%	0.4%	0.2%	0.2%	0.2%	0.9%
Risk Coverage Ratio	286%	573.2%	146.8%	216.2%	406.8%	192.6%	149.7%	238.8%	169.2%

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This publication was jointly produced by the Azerbaijan Micro-finance Association (AMFA) and the Microfinance Information Exchange, Inc. (MIX).

About AMFA

Azerbaijan Micro-finance Association (AMFA) was established by ten international non-governmental organizations in 2001 and was officially registered in November 29, 2004. The purpose of AMFA is to educate and inform the broader community about importance of microfinance in the country and to serve as a focal point of microfinance for the region. As of August, 2008, AMFA`s membership constituted 24 organizations, 9 of which are downscaling commercial banks, 15 non-bank credit organization and credit union.

AMFA's 3 Strategic Pillars are:

1. **Develop Innovative Products and Services**
   Develop leading edge, demand-driven products and services for our members
   Focus on revenue generating products and services that promote AMFA's sustainability

2. **Continuing Education**
   Ensure members have access to international MF expertise
   Develop in house training using local talent
   Continuously upgrade and enhance the skill set of our members

3. **Industry Expertise**
   Be recognized as the "industry experts" of the MFI by governments, MFIs, and the financial community
   Offer leading edge market research and benchmarking studies that demonstrate AMFA's expertise

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