



Azerbaijan

With the dissolution of the Soviet Union in 1991, 15 newly independent countries emerged with fragmented agricultural, industrial and financial systems. Like its fellow former Soviet republics, Azerbaijan faced the daunting prospect of replacing the crumbling infrastructure of Soviet collectivized agriculture and building a new market-oriented system virtually from scratch.

Adding to this challenge, Azerbaijan was also engaged in a six-year war with neighboring Armenia that drained its treasury, displaced families and cost many lives on both sides. An estimated 800,000 Azerbaijanis were internally displaced, living in refugee camps for years after the conflict ended in 1994. Since the early 1990s, ACDI/VOCA has been providing support to agriculture, enterprises and the country's growing financial system through a variety of programs.

Technical Support to Agribusinesses and Small Enterprises

As Azerbaijan began to adopt a market orientation in the early 1990s, ACDI and VOCA focused on supporting the agricultural sector with funding from USAID and USDA. ACDI and VOCA provided short-term technical assistance to strengthen private farming and agribusiness, develop cooperatives and



expand understanding of market-based agriculture.

In 1992, VOCA began facilitating people-to-people learning and improved farm and agribusiness operations through USAID's **Farmer-to-Farmer (F2F) Program**. For nearly 16 years, F2F volunteer experts provided Azeri counterparts with insight into business strategy, processing, marketing, product diversity and quality control. They also helped develop food processing and packaging, marketing and rural credit capacity.

More recently, in 2007, the oil and gas company BP awarded ACDI/VOCA a

multimillion dollar contract to implement the three-year **Enterprise Development and Training Program**. This program aimed to help local suppliers bring their services up to the standards necessary to supply BP and other multinational corporations. ACDI/VOCA helped small and medium-sized Azeri companies—from translation firms to chemical suppliers to food services—supply BP and other companies by helping them meet international standards and BP requirements.

Strengthening the Financial Sector to Reach the Rural Poor

ACDI/VOCA's most significant work in Azerbaijan has targeted the fledgling financial systems, especially those that reach the rural poor, in an effort to revitalize the economy. From 2000 through 2003, ACDI/VOCA addressed Azerbaijan's economic and humanitarian crises through the USAID-funded **Central Area Economic Opportunities Program** and the **Community Economic Revitalization Project**. We helped integrate and build the capacity of the population through market-chain participation and enhanced technical and managerial capabilities. In particular, we targeted internally displaced people and rural women, hoping to increase their participation as well as the types of financial resources they could access.

In a related initiative, under the **USAID SME Support through Financial Sector Development Project**, we introduced reforms to improve credit reporting in the country. These efforts greatly expanded credit

opportunities for small and medium-sized enterprises (SMEs), allowed banks to make more accurate credit decisions and gained favorable notice from the World Bank.

Reform Helps Azeri Banks Serve as Regional Models

As of 2007, the National Bank of Azerbaijan's central credit registry was operational but not user-friendly. It was cumbersome, paper-based and fell far short of international best practice. Because of its deficiencies, many banks did not submit their information to the registry, and many would-be borrowers could not obtain credit.

To address these shortcomings, ACDI/VOCA engaged a specialist to work with the registry to introduce needed reforms. Structural, operational and legal improvements to the registry significantly expanded the database. From May 2007-July 2008, the number of loans reported by banks rose from 181,000 (38 percent of loans in the banking system) to 592,000 (85 percent).

A key reform was to eliminate the reporting threshold for banks to report loans. Before the change, 40 percent of active loans were excluded from the registry because they were deemed too small. Removal of the threshold was one of the changes that led the World Bank to recognize Azerbaijan as the leading reformer in the world in their 2009 "Doing Business" report and to raise the country's ranking under the "Getting Credit" category.

In addition, the project increased access to credit by working with banks and nonbank

financial institutions, including microfinance organizations, to improve their capacity and increase their access to capital. It supported institutions at the meso level, such as the Azerbaijan Bank Training Center, Azerbaijan Microfinance Association, Azerbaijan Mortgage Fund and other partner organizations to build local training capacity. The project also worked at the policy level, employing a rating fund to encourage ratings by banks and other financial institutions. These reforms have expanded opportunities for banks and SMEs in Azerbaijan while boosting transparency and investor confidence. Such efforts have enabled the country to serve as a model for reform in the region.

KredAqro: An International Reputation for Providing Local Financial Services

In July 2000, with a \$3 million grant from USAID, ACDI/VOCA established a small microfinance institution called Cred Agro to provide financial services to rural entrepreneurs in Azerbaijan. Renamed KredAqro, the institution now has an active loan portfolio of 26.4 million *manat* (approximately \$33.6 million) extended to nearly 20,000 borrowers.

KredAqro has become a leading nonbank credit institution in Azerbaijan and has twice received the **Company of the Year UGUR Award** from *Consulting & Business* magazine in the category of nonbank credit institution. The national UGUR award is Azerbaijan's first economic and business award given to business, state and public figures for their

contribution in developing the national economy, creating new jobs and improving the well-being of families.

The UGUR award noted that KredAqro was the first nonbank credit organization in Azerbaijan to receive the high "A-" international microfinance rating by Microfinanza, an Italian microfinance rating agency. KredAqro now operates 20 branches and suboffices with plans for more. In 2013 it will establish an in-house training center and plans to continue to expand its reach into Azerbaijan's rural areas.

Future Work

Over the past two decades, ACDI/VOCA has worked with local Azeri partners—progressive agricultural producers, entrepreneurs and local financial organizations—to build capacity in agribusiness and rural credit. In our future work, we will build off the successes of KredAqro and other economic development activities to ensure that Azeri farmers and enterprises can access the resources they need to engage in sustainable livelihoods.

Published May 2013