



ARAN
HUMANITARIAN REGIONAL DEVELOPMENT ORGANIZATION

**CREDITS ACSESSIBLE TO THE POPULAITON IN THE CENTRAL REGION AND
THEIR COMPARATIVE ANALYSIS**

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GENERAL INFORMATION ON THE STUDY

One of the necessary conditions of engaging in entrepreneurship is financial resources. A very small part of the population engaged in entrepreneurship activities in the region can get privilege state credits. The National Fund of Assistance to Entrepreneurship (NFAE) was established under the Ministry of Economic Development in 1992. New regulations of the Fund and rules on usage of its resources were affirmed in 2002. According to the Fund's report of 2003 the resources of the Fund for the same year constituted 15,9 billion manats (~27.588.300 USD).

Despite many credit-related activities described in the State Program Poverty Reduction And Economic Development (SPPRED) in several sectors, namely "Fiscal and credit policy and Development of the Bank Sector", "Labor Market and Employment", "Refugees and IDPs", "Development of Rural Areas", main sources of credit getting for population are credit institutions created on the base of International Non-Governmental Organizations(INGOs), credit unions, commercial credits provided under high interest rates and non-official credits-loans given by physical persons being a "debt swamp". These are not considered privilege credits.

MAIN OBJECTIVE

Main objective of the study is definition of privilege credit demand and accessibility (current situation) by the population, provision of refugees and IDPs with credits, problems with getting financial resources necessary for starting entrepreneurship, drawing of the attention of the society and the government to this issue and definition of ways of solution of the problem.

INFORMATION COLLECTION METHODOLOGY

Aran Humanitarian Regional Development Public Union has created Information Consulting Centers in the areas (communities) it considered most important during implementation of its previous projects. Field Officers selected from local areas operate in the Centers and work in close cooperation with the population. The importance of the studied problem has been confirmed on the basis of the meetings with the population organized by Centers. After confirmation of the problem's importance the study strategy, areas of study, masses and target groups have been defined. The information necessary for the study has been obtained mainly by means of direct interviewing, distribution of questionnaires and method of observation and has been broken down by quality analysis method.

The following target groups have been defined for conduction of the study:

- Officer of the National Fund of Assistance to Entrepreneurship – 1 person
- The Authorised Bank Officer (Deka Bank) – 1 person
- Officers of non-bank credit organizations created on the base of INGOS - 4 persons
- Credit Union officers – 2 persons
- Officer of the Agrarian Industrial Bank -1 person
- Representative of the International Bank of Azerbaijan-1 person
- Citizens providing non-official credits -2 persons
- Beneficiaries of non-bank credit organizations created on the base of INGOs -5 persons
- Credit Unions beneficiaries -3 persons
- Beneficiaries of the Agrarian Industrial Bank – 3 persons
- Entrepreneurs engaged in business activity on the basis of non-official credits.
- Citizens engaged in entrepreneurship without getting credits from any source – 3 persons
- Community leaders -21 persons

Definition of the number of each group of respondents had its own peculiarities. Thus, due to the fact that the number of cases of getting credits from INGOS was higher, a bigger number of both credit organization representatives and their beneficiaries was defined during selection of respondents. Thus, in the case when the interview was conducted with 3 beneficiaries of the Credit Union, it was necessary to take interview from 5 beneficiaries of credits provided by INGOs. The same principle was applied to selection of officers of these structures. The main reason of including Deka Bank representative in the list of respondent groups was the fact that it was functioning in Barda, the area of study. As to credit unions, only one of them operates efficiently in the area of study. It was sufficient to take interview only with one credit organization amongst unsatisfactorily operating credit organizations.

Quality analysis information: Individual interviews with all groups of respondents excluding the respondent of the last group (community leader) have been conducted for preparation of the study report. During the interview with credit providing organizations the subjects of credit environment, problems in credit provision, main problems of beneficiaries and other aspects have been touched upon. The logical purpose of the interview with beneficiaries was to obtain the information of the issues related to credit getting conditions, credit getting problems and other information necessary to make mutual analysis of credits. All interviews aimed to obtain information both on the stance of the interested parts (creditors and beneficiaries) and the ways of efficient use of NFAE credits by the population.

Alongside with this the information on the existing legislation, NFAE credits, regulations of non-bank credit institutions and the NFAE report of 2003 has been analysed and used during preparation of the study report.

The interview with community leaders had the purpose of obtaining the **information on quantity**. 21 communities among those closely collaborating with Aran Public Union have been selected at random and provided the statistic information on the number of entrepreneurs operating on the basis of credits and credit sources.

GENERAL OVERVIEW

As a result of the study it was found out that financing necessary to develop the entrepreneurship activity in the region is provided by 5 main sources:

1. Privilege state credits (NFAE)
2. Non-bank credit institutions - founders of International Humanitarian Organizations(INGOs)
3. Credit unions
4. Commercial credits(Agrarian Industrial Bank)
5. Non-official credits

Privilege state credits (NFAE)

The “Regulations of the National Fund of Assistance to Entrepreneurs of the Azerbaijan Republic” and the rules of using the financial resources of “The National Fund of Assistance to Entrepreneurs” have been affirmed by decree of President of the Azerbaijan Republic dated August 27, 2002. The financial sources of the National Fund of Assistance to Entrepreneurs include state budget, income obtained from privatization of state property, revenues obtained from the fund’s activity, voluntary donations by local and foreign physical and legal persons, etc. According to the Regulations, the authorised banks are selected in order to provide the fund’s money to the consumers, and these banks act as credit providing part. Selection of the authorised banks is made by the Ministry of Economic Development of the Azerbaijan republic, Ministry of Finance of the Azerbaijan Republic and the National Bank of the Azerbaijan Republic in accordance with the legislation. During placement of resources of the Fund in the regions the regional network of authorised banks is taken into consideration.

Resources of the Fund are directed to financing of projects in the following priority directions related to the development of entrepreneurship:

- Support of the private sector within the framework of purposeful social and economic development related programs
- Production of import substituting products
- Production of export-oriented products
- Innovative programs
- Development of ancient national trade
- Receipt of raw material and circulating capital
- Development of tourism infrastructure
- Mass media development

The authorised banks use the following amount of financial resources of the Fund as credits:

- Up to 1.000 USD equivalent – microcredits
- From 1.000 to 10.000 USD equivalent – small credits
- From 10.000 to 30.000 USD equivalent – medium credits
- From 30.000 to 100.000 USD – large credits

The longest period of credit is defined as follows depending on its designation:

- Up to 1,5 year for microcredits and small credits
- Up to three year for up to 30.000 USD equivalent credits
- Up to 5 years for credits exceeding 30.000 USD

The annual interest rates of the Fund’s credits are defined as follows:

- Financing of mass media development programs – 0,5% of the credit sum
- Financing of production and processing related projects – 2% of the credit sum
- Financing of projects in non-production sphere – 4% of the credit sum
- Microcredits – 1,5% of the credit sum

The maximum limit of the annual interest rates applied to credits of the authorised banks should not exceed 7% of the total credit sum including the interest rates envisaged by the Regulations (for financing of projects on mass media development - 5 % of credit sum).

The first 2/3 of the period of credit usage is defined as privilege period. During the privilege period the beneficiaries only pay the interest rates and do not make any payments of the main debt. Proportional payments of both interest rates and main debt are made quarterly.

Non-bank credit institutions - founded by International Humanitarian Organizations

Finance for Development, Azercredit, Azerstar Microfinancing Enterprise non-bank credit institutions founded by Oxfam, World Vision and Save the Children respectively, and FINCA-Azerbaijan non-bank credit organization operate in the area of study. Credits provided by these institutions are very similar in general contents and essence. Thus, differing from banks and other financial institutions these organizations work in close collaboration with their debtors. Finance for Development, FINCA and Azerstar Microfinancing Enterprise provide credits on the principle of group bail which does not require making mortgages. Group guarantee and mutual bail of group members are the most important factors for them. Due to this reason credits provided by these organizations serve to the poor strata of the population. The poor strata, especially represented by IDPs not having any property for paying mortgage, can get credit in the group form on the basis of mutual trust. The sum of the first credit is not very large. In different organizations the average sum of the initial credit constitutes 100 USD per group member though it may vary. The duration of credit can embrace the period of three months to a year depending on the desire of debtors. After paying off the full sum of credit a person is entitled to get the credit for the second period and in this case the conditions are slightly facilitated. Thus, certain concessions are made in credit period, sum and interest rates depending on organization.

The interest rates of the provided credits range within 3-4 % and are paid according to the decreasing balance. Decreasing balance means that at the next stage a debtor, having returned a certain portion of the credit, only pays interest rates of the sum left at this disposal. For instance, in case if a community member got a credit in the sum of 1000 USD and has paid the sum of 100 dollars and 3,5% (35 dollars) during the first month, he will pay 3,5% interest rates (35 dollars) out of the sum of 1000-100=900 next month. This sum will decrease again in the second month.

As to the stable-balance credit, 3,5% of the credit is returned on a monthly basis regardless of the returned portion of the total sum.

On the face of it, decreasing balance credits are understood as the necessity to pay too large interest rates, for instance, 3% per month means paying 36% per year. However due to the decreasing balance paying off mechanism, the annual interest rates constitute 19,5%.

Credit unions

Credit union is a non-bank credit organization created by physical or legal persons having a small entrepreneurship object voluntarily united on the basis of community of profit by merging independent financial resources in order to ensure mutual crediting. These are the following principles of the activity of a credit union:

- Uniting on the basis of community of profit and mutual trust
- Voluntary membership
- Publicity of the activity
- Association of personal profit with collective profit
- Legal equality of members regardless of the sum of their share
- Personal participation of members in credit union management
- Direction of the obtained profit to the entrepreneurship activity
- Self-control basis of organization of the activity

Credit unions are entitled to get grants and credits from banks, international and foreign financial institutions, to give credits to their members in accordance with the Regulations, to make deposits of free capital to banks and other credit unions and also spend them on purchase of state securities.

A Credit union creates a mutual fund being a source of credit getting. Mutual credit fund is formed at the expense of Regulations capital, profit obtained by the credit union and capital obtained from other sources in accordance with the legislation. This fund is used only for providing credits to members. The sum of credit provided by the fund cannot exceed 10 parts of the member's share or 10% of mutual credit fund's resources.

Commercial credits (Agrarian Industrial Bank)

The Agrarian Industrial Bank is a state bank by its structure. It implements all types of financial and credit operations characteristic of banks. It provides credits only for the agrarian sphere. Realisation of credit resources is done within the framework of financing and requirements of the World Bank. Small credits are mainly provided to the agricultural sphere, especially farming and cattle-breeding. A leasing system, not

active now, had been applied before. This system was mainly directed to construction of processing and production shops. Bank does not impose any restrictions on the sum of up to 100 000 USD. Credits in the sum of up to 30 000 USD are independently provided by the branch. In order to get credit exceeding the sum of 30 000 USD assessment is made by Special Credit Commission of the World Bank and ASB. Depending on the sum and the period of implementation indicated in the business plan, credits are provided for the period of up to three years. 1 year privilege period is applied to credits provided for cattle-breeding and 6 month privilege period is applied to credits provided for farming.

Credits applied for development of the agriculture within the framework of the World Bank's program are provided for the period of 1 year under 10% interest rates. Besides credits of the World Bank, the Bank has its own commercial credits which are given for the period of 1 year under interest rates constituting 18-25%.

Land and private block of flats, immovable property, all types of construction and units are accepted as mortgage. The value of the paid mortgage should amount to 150% of the required credit. The current number of debtors in Barda region constitutes 972.

Non-official credits

The method of providing non-official credits (salams) have been widely spread since the ancient times, and at present this method has been preserved as the most popular financial source. These are the following peculiarities of this type of credit:

- It is a non-official form of credit
- It is provided by physical persons
- It has very high interest rates (10-15 % per month)
- In the majority of cases it is provided without mortgage on the basis of mutual relation and trust
- It doesn't have any assignment (can be provided for different purposes - starting of a business, making a wedding, purchase of a car and even the necessity to pay off another debt).
- There are not generally accepted provisions defining its period – it is defined by mutual agreement.
- It doesn't require administrative procedures (no documents, business plan, etc. are required).

This type of credit is rarely used for the purpose of development of business and entrepreneurship. It is applied for in force-majeur cases – during any accident, inaccessibility of other sources of credit, in case of urgent need of money. Unfortunately, even at present some people desiring to start their own business, have to resort to non-official credit as the only way out.

We bring to your attention an excerpt from the interview with a respondent: *"There are groups getting credit from a foreign companies (non-bank credit organizations created on the base of the International Organizations are implied) in our village. We also wanted to receive membership. However we weren't contented with conditions. Procedures taking up several months should be previously passed in order to get a credit... The initial fee, meetings, etc. But we need the money at the beginning of March in order to buy and saw the seeds and to build a hothouse"*.

It is obvious that some procedures for getting other types of credit seem unclear to people still not being able to get rid of the swamp of administrative power system. This type of people are loyal to the "traditional" form of credit – non-official one.

As is seen, though there are not many sources of credit in the regions there are many differences between the conditions of credit getting. These differences are presented in the form of table.

Main differences (Advantage of NFAE credits over others)

During the analysis of the credits accessible to entrepreneurs in the studied area we came to the conclusion

	Privilege state credits (NFAE)	Non-bank credit institutions founded by NGOs	Credit unions	Agrarian Industria Bank	Non-official credits
Interest rates (annual)	max. 7	19-25	1,5-18	10-25	120-180
Duration (annual)	1-5	0,5-1	0,5-3	1-3	-
Privilege period (annual)	2/3	-	-	0,5-1	-
Maximum sum (USD)	100.000	1.000	10 parts of the member's share or 10% of the mutual credit bank	100.000	1.000
Mortgage conditions (percents)	200-300	-	100	150	100-150

that possibly NFAE credits are the most profitable and rational ones.

They are in a certain sense short of the conditions of credit unions only due to the interest rates (maximum 7%). However the number of credits provided by credit unions under 1,5% interest rates is very limited and the financing of this credit is done by the Social Development Fund of IDPs which allows to provide services to only a very small number of IDPs. Credits from other sources, provided by credit unions, namely, by Nurana Credit Union are provided under 8 to 18% interest rates. This is the large interest rates in comparison with NFAE credits. Besides, NFAE credits have the advantage of providing maximum possible amount of credits. Thus, it is possible to get the credit in the sum of 100.000 USD from NFAE which would require paying 10.000 USD membership fee in case of getting credit from a credit union.

The advantage of NFAE credits over other credits in the sphere of credit duration and privilege period is evident. No credit institution defines 2/3 of the credit duration as privilege period. This credit is inferior to other credits only by mortgage conditions.

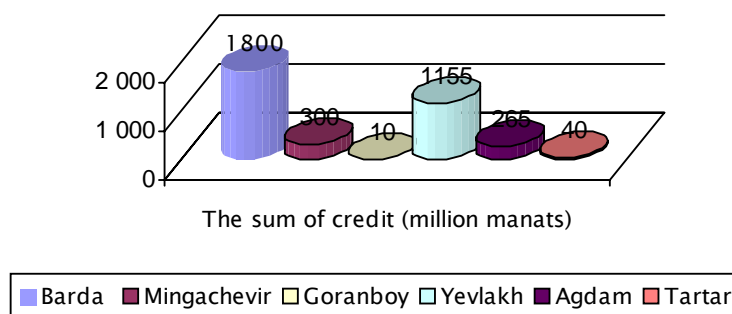
MAIN RESULTS (FINDINGS)*WHICH CREDITS ARE USED BY THE POPULATION?*

In order to conduct the study Aran organization has selected 21 communities for the purpose of collecting all needed information. The needed information has been obtained by Aran Field Officers during meetings with community members. As a result of meetings with community members it was found out that in 21 communities nobody managed to get credits provided by the National Fund of Assistance to Entrepreneurs. However it was found out during the study that 46 people out of 21 communities made efforts, to be more exact, applications, in order to get NFAE credits. However all these efforts have proven unsuccessful. Paying attention to the NFAE report of 2003, it becomes clear that the regions' residents have not been able to sufficiently use the NFAE resources.

S/n	Region	Number of projects	The sum of credit (Million manats)
1	Barda	6	1.800
2	Goranboy	1	10
3	Agdam	1	265
4	Mingachevir	1	300
5	Tartar	1	40
6	Yevlakh	7	1.155
Total		17	3.570

According to NFAE report of 2003, out of 57.285.639.000 manats provided by the fund in 2003, 21.812.110.000 (38 %) manats have been realised in Baku (the credibility of this information is doubted in Aran HRDPU operating in the region in close collaboration with the population.

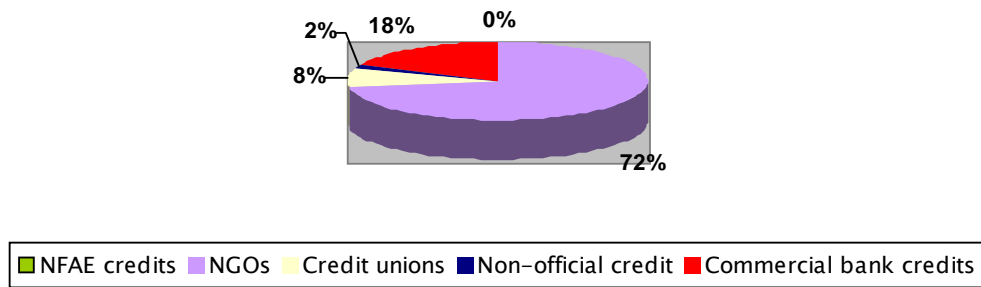
Diagram 1



Though during conversation with a representative of Deka Bank selected as authorised bank for distribution of NFAE credits he mentioned the fact of provision of credits in the sum of 1.140 million manats (208.324.873 USD by) by this bank, the efforts of a reporter (a person conducting interview) trying to obtain addresses of these entrepreneurs ended in failure. Only the owner of credit obtained in Tartar region had been defined and interviewed. During the interview it was found out that this entrepreneur had used relative connections in order to get this credit. The representative of Deka Bank noted that there had been up to hundred applications from 6 regions.

According to the results of the interviews conducted in communities, credits provided by non-bank credit institutions founded by NGOs are most widely used by the population. Only 8% of the population in the studied area get credits from credit unions. All of these 50 people representing 8% are residents of Mehdili village of Barda region. This is conditioned by the fact that Nurana credit union being one of the few satisfactorily operating credit unions has been created at the own initiative of entrepreneurs of Mehdili village.

Diagram 2



Nurana Credit Union has been operating since 1998. It has provided credit services on the basis of four different sources – funds up to now. Conditions of the provided credits have been different depending on the obligations assumed by these funds. Thus, as the Social Development Fund of IDPs provided credits without interest rates, the Nurana Credit Union defined 1,5% interest rates for the resources distributed to the population. However, there have been such credits obtained from other funds, which have been provided to the population under 21% interest rates.

S/n	Source of capital	Interest rates of the fund	Interest rates paid by the population	Duration (months)	Privile period, payment of interest rates (monthly)	The starting period of payment of the fixed capital (months)
1	TACIS	5	8	30	From the 6th month	The 6th month
2	Agrocredit fund	12	15	30	From the 6th month	The 6th month
3	Social Development Fund of IDPs	0	1,5-2,5	24	Every month	The 1st month
4	Agrocredit organization	12-18	15-21	36	Every month	The 3rd month

During the conversation with the Chairman of Management Board of Credit Union it was found out that there were up to 140 clients in 6 regions of the studied area. The sum of the provided credits range from 10 to 50 million manats. It should be noted that a person desiring to get credit from the Credit Union should become its member as the payment of the membership fee is required. The sum paid defines the maximum amount of money the client will be able to take in the future. Thus, member of the Credit Union will not be able to take credit exceeding 10 times more of the paid membership fee.

ANALYSIS OF THE RESULTS

SHORTCOMINGS OF CREDITS, CONTRIBUTING TO THE DEVELOPMENT OF ENTREPRENEURSHIP IN THE STUDIED AREA

As it was mentioned above, **NFAE credits** have a complete advantage over other credit types in the sphere of its conditions. Unsatisfactory realization of these credits in the region has the following main reasons:

1. **Lack of branches of the authorised banks in the regions** - Out of 11 authorised banks which had won tenders for distribution of NFAE credits only Deka Bank has representation in Barda and the Bank of Republic in Yevlakh in 6 regions of the area of conduction of study. Taken as a whole, only 7 authorised banks out of 11 have 19 branches outside Baku. Four out of them are situated in Sumgayit and 4 in Ganja.
2. **Excessive bureaucratic obstacles** - The authorised banks demand too many documents even from citizens desiring to get small credits. This includes registration in the Tax Office (VOEN), obtaining identification code in Statistics Office, opening a bank account, submission of a business plan, documents on property and etc. People desiring to start entrepreneurship, say that "a good deal of money" is needed in order to obtain these documents and this makes them to refuse from credit getting saying they are not sure they should do it.
3. **Lack of hope to get credit** - After getting the information on the resources of the Fund the process of mass applications of the population had immediately started, and the failure of the majority of these people led to losing hopes by the rest of the population.
4. **Lack of mortgage property required from the poor strata of the population by the authorised banks** - if we pay attention to credit conditions we will see that lack of mortgage property required from the poorest strata of the population, which is one of the conditions of credit getting, automatically excludes this strata from the process. Too large mortgage is required (three times exceeding the sum applied for) which is completely inaccessible for the poor population.
5. **Inexperience of people in preparation of business plans** - The process of business plan preparation being one of the main requirements of banks and new in the market economy is one of the main difficulties in the direction of crediting of regions lacking the appropriate experience. Foretelling the events, we would like to note that non-bank credit organizations created on the base of INGOs are not so demanding in the business plans issue, as they try to solve problems in this direction. Here is an excerpt from the conversation with representatives of such organizations: "Mr. Seyfaddin, from Lachin region, does not have any knowledge of Latin alphabet. However, during conversation with him it was found out that he had sufficient experience in the sphere of cattle-breeding. But if we had required him to write a business plan, he would have hardly managed to do this. However after getting the credit he had worked so well that the obtained results five times exceeded the expectations". This proves that inexperience of the population in writing business plans does not mean their being inexperienced in work planning. The regions simply haven't mastered the requirements of the market economy. (another sign of regional syndrome).

Provision of credits by non-bank credit organizations founded by INGOs also has a number of shortcomings in the direction of crediting rural areas:

1. **High interest rates** - Main obstacle is created by high interest rates, constituting 3-4% a month and 20-25% by a decreasing balance. In comparison with NFAE credits (maximum annual 7%) this interest rates is significantly higher.
2. **The low initial funds** - Due to the fact that these organizations do not require a mortgage, providing credits on the basis of mutual trust, the initial sum obtained by a debtor is small. This sum approximately constitutes 100 USD which doesn't allow to expand the scope of activities. A debtor can hope to get a bigger sum only after long-term collaboration and this factor can restrain a person from credit getting as on the face of it it seems a remote perspective.
3. **Short duration of credit and privilege period** - this factor has a negative impact on credit directing process. Community members getting such credits are usually engaged in small business (trade) activity. Conditions of such credits are not very profitable for production-oriented spheres of activity (agriculture, cattle-breeding, creation of processing enterprises). And it is known that production-oriented spheres of activity involve personnel and such activities could provide job opportunities not only to a person getting credit but also to other people.

Credits provided by credit unions differ from other credits by a number of factors;

1. **Difficulties in finding credit funds** – Operation of credit unions only on the basis of funds collected by their members is not possible. Generally according to the Regulations of Credit unions the financing of the activity of this structure should be based not on the internally collected funds, but on other external funds. The existing credit unions face great difficulties in finding of such funds. There is a sufficient number of credit unions in the central region that have suspended their activities due to difficulties in finding the funds.
2. **Dependence of the required credit sum on the membership fee** – According to the Law on credit unions a citizen should become a member of a credit union and pay a membership fee in order to get money from this structure. The provided sum should not exceed 10 parts of the paid membership fee. It is not very profitable for the poor population not having any funds. Such procedures are profitable mainly for the strata of population without means desiring to be engaged in medium and large entrepreneurship activities.
3. **Low interest rates in comparison with other credit sources** – There is only one satisfactorily operating credit union in the central region. This is a very low index in comparison with other credit providing structures. Correspondingly, the number of beneficiaries of credit unions is also very small in comparison with that of other credit organizations, for instance, of non-bank credit organizations – founded by INGOs.
4. **Lagging behind of other credit organizations in the sphere of management** – Personnel of credit unions is less skilled and experienced in comparison with that of non-bank credit organizations founded by INGOs which has its impact on the management capacity. Thus, differing from credit unions INGOs provide higher salaries to their employees which creates conditions for attracting experienced personnel. According to the Law on Credit Unions, Management Board, Supervision Council and Credit Commission of this structures should necessarily include only members of these unions. Members of credit unions mainly have entrepreneurship objects and its very difficult to find people with financial education or experience in credit providing organizations among them.

Commercial credits of Agrarian Industrial Bank take one of the important places in the area of conduction of the study.. Let's pay attention to shortcomings of this type of credits:

1. **Provision of mortgage:** It is not always calculated in written business plans. During private meetings with credit beneficiaries it was found out that bank provides not the sum required for the development activity planned by an entrepreneur, but the sum previously defined in accordance with the value of mortgage accepted by bank for the proposed activities. As a result it results in less fruitful activity of entrepreneur than he had planned. During the study it was found out that provision of mortgage and reliable connections matter more in credit getting than submission of a complete business plan.
2. **Monitoring and the system of supervision are not applied:** The assessment is usually made before credit allocation. Differing from other credit organizations, monitoring during credit usage period is not conducted. Due to this fact cases of usage of credits for other purposes has become habitual. Among the respondents we met with there were people using credits for buying a car, construction of a house or return of a debt.

POSITIVE SIDES OF CREDITS PROVIDED FOR DEVELOPMENT OF ENTREPRENEURSHIP IN THE AREA OF STUDY

Credits of NFAE are one of the tools of increasing the efficiency of the activities aimed at poverty reduction and crediting of regions

1. **Very profitable interest rates** – NFAE credits are provided to the population under maximum 7 % annual interest rates. This is the lowest interest rates after privilege credits provided to IDPs by Social Development Fund of IDPs(2-2,5% a year).
2. **Profitable credit and privilege period duration** – Credits are provided for a very long period of time(1-5 years) and the 2/3 of this period is considered a privilege period. So payments of the main sum are not made during 2/3 of the general period of received credit depending on credit duration.
3. **Large sum of given credits** - credits in the sum of up to 100. 000 USD are given thus providing the opportunity for organization of large entrepreneurship activities requiring personnel.

Credits given by non-bank credit organizations founded by INGOs is one of the most popular credits used by the population. This is the evidence of the fact that this type of credit is the most accessible and profitable. Let's analyse these advantages:

1. **Debitors are free from bureaucratic obstacles** – no documents and guarantees are required. The only requirement is a group guarantee obligation which means that if the number of people desiring to get credit exceeds 7 they should create a credit group or join the already existing one. Another requirement is that a person getting credit from this organization should know the direction of credit usage in advance.
2. **Work in close cooperation with the population** – Credit officers in these organizations (sometimes credit inspectors) work in close cooperation with the groups organized in certain areas. Credit office closely know (learn) members of the group they cooperate with and support them by providing consulting and information in the sphere of entrepreneurship activity on a regular basis. The most important thing is that they provide assistance in business plans preparation. This is a very good opportunity for the rural population, not having the knowledge on business plan preparation, but at the same time having a sufficient experience in the proposed sphere of activity. Spending of credit taken by debtor by its designation is strictly observed. Permanent consulting services are provided to the population in order to eliminate difficulties faced during the period of activity.
3. **Provides services to the poorest strata of population** – guarantee on the basis of mutual trust of the group, lack of the requirement to provide financial property creates conditions and impetus for participation of the poor strata of population in the entrepreneurship activity.
4. **Observation of the envisaged procedures is strictly controlled** – a citizen desiring to get a credit should strictly observe the learned rules and requirements during the ensuing activity. The defined rules are very categorical allowing no change which reduces corruption tendencies to the minimum.
5. **Engages in professional activity** - due to the fact that these organizations operate with the support of international organizations the personnel gets salaries being higher of the average ones. This factor has a very positive impact on attracting professional, i.e. the needed specialists. High salary prevents cases of corruption, nepotism and other negative tendencies.

Credit unions also have their own positive peculiarities.

1. **Relatively low interest rates** – Provides credits under lower interest rates excluding NFAE credits.
2. **Profitable credit and privilege period duration** – Despite different credit and privilege period duration depending on the requirements of the involved fund it is profitable for the population.
3. **Mortgage provision mechanism is realised in the above-mentioned manner** – provision of mortgage being one of the main difficulties is made by the advanced method. Thus, Credit Commission of the Credit Union makes assessment of the entrepreneurship object property and the credit providing issue is discussed on its basis. This procedure is considered much simpler than other credit types excluding credits provided by INGOs.

Commercial credits of the **Agrarian Industrial Bank** have many advantages from the point of view of the rules and requirements defined for their obtaining. Unfortunately, the corruption environment formed around this organization creates some obstacles for observation of these rules. However despite all this reflection of these advantages in the report is important.

1. **Credit interest rates** – Credits provided within the framework of the program of the World Bank aimed at agrarian development are given under 10% interest rates, which is considered very profitable condition. Other credits are provided under 18-25% annual interest rates.
2. **Credit and privilege period duration** – the period ranging from 6 months to one year has been defined and it is considered quite a profitable condition.

GENERAL INFORMATION ABOUT THE ARAN HUMANITARIAN REGIONAL DEVELOPMENT ORGANIZATION

The Aran Regional Humanitarian Development Organization was founded in May 2001 from the Oxfam International Humanitarian Organization of Great Britain. Since June 30 2001, Oxfam has ceased its operations in Barda and the surrounding regions. Within this same time frame, the Aran Regional Humanitarian Development Organization has been established and has been deemed worthy of continuing Oxfam's plan of action. The organization has been operating in the central regions (Barda, Tartar, Agdam, Yevlakh, Goranboy and Mingachevir) with the highest IDP population density. Aran is focused on Civil Society development. The organization has begun closely cooperating with Oxfam's other partners for the purposes of more efficient coordination and the implementation of its activities. Oxfam successfully completed its registration of the Justice Ministry of the Republic of Azerbaijan in August 2003.

Purposes of the Aran Regional Humanitarian Development Organization: To support the process of Civil Society development by focusing on the following activities: assisting with mobilization and the movement of IDP/refugees through their established Community Organizations, ensuring the active participation of refugees, improving skills, aptitudes and abilities, setting up relations with other communities and governmental/non-governmental organizations, resolving socio-economic and cultural issues and offering welfare and legal assistance.

In conjunction with this, the Aran Regional Humanitarian Development Organization has implemented a range of large-scale projects, such as the Oxfam-assisted "Support to Civil Society Development in Azerbaijan" and the "Legal Assistance Service" of the Integral Society Development Program under the Save the Children Organization of the United States of America. These implemented projects were targeted at the development of Civil Society in the region, reducing the level of poverty and raising legal literacy of the population. This in turn has introduced positive changes in the socio-economic life of the beneficiaries.

Since January 2003, Aran has been implementing a project of monitoring over the State Program on Poverty Reduction and Economic Development (SPPRED) supported by Oxfam. The main task of the project is to achieve a maximum level of transparency and accountability for activities carried out within the SPPRED framework. During the first period of project implementation, Aran discovered that the movement of refugees and IDP settled in schools was not included in activities provided by the SPPRED section on Refugees and IDP for the period of 2003-2005. As a result of its past experience in the field, Aran realized the global scope of this problem, and has started to study the problem more closely in the hope of finding solutions.

The Aran organization started work on two more sectors of SPPRED in August 2003. Those were the Agricultural Development and Labor Market and Employment sectors. The choice was made on the basis of population requests and specific features of the area of Aran operation. As in the implementation of previous projects, Aran started these two with an information supply to the population. The distribution of information leaflets was effected and meetings with communities were held in the Refugee and IDP sector. A total of 63 meetings with communities were held, the main topic on the agenda being the non-cultivation of agricultural land. The Aran organization then decided to study the problem in detail.

In close cooperation with the regional population, Aran outlined the basic needs and problems of the population during the process of project implementation and developed a professional strategy of activities in this field in the region.

ANNEX

DECREE OF PRESIDENT OF THE AZERBAIJAN REPUBLIC ON RATIFICATION OF THE REGULATIONS ON THE NATIONAL FUND OF ASSISTANCE TO ENTREPRENEURS OF THE AZERBAIJAN REPUBLIC

In order to improve the mechanism of financing of measures on assistance to entrepreneurship in the Azerbaijan Republic I decree:

1. To ratify the Regulations on the National Fund of Assistance to Entrepreneurs of the Azerbaijan Republic (attached).
2. To ratify the Rules on usage of funds of the National Fund of Assistance to Entrepreneurs of the Azerbaijan Republic.
3. The Cabinet of Ministers of the Azerbaijan Republic:
 - to ensure concentration in the National Fund of Assistance to Entrepreneurs of the funds from other sources related to development of entrepreneurship in the country and report on this to President of the Azerbaijan Republic.
 - to solve other issues entailed by this decree.
4. The Ministry of Economic Development of the Azerbaijan Republic should ensure implementation of this decree and to solve issues entailed by the decree within its authorities.
5. To consider invalid the decree № 269 of President of the Azerbaijan Republic on Ratification of the Regulations of the National Fund of Assistance to Entrepreneurs of the Azerbaijan Republic dated October 12, 1992.
6. This decree is effective from the date of its issuance.

Heydar Aliyev,

President of the Azerbaijan Republic

Baku, August 27, 2002

RULES OF USAGE OF FUNDS OF THE NATIONAL FUND OF ASSISTANCE TO ENTREPRENEURS OF THE AZERBAIJAN REPUBLIC

General provisions

- 1.1. These rules have been worked out in accordance with the Laws of the Azerbaijan Republic and Regulations on the Ministry of Economic Development of the Azerbaijan Republic ratified by the decree № 495 of President of the Azerbaijan Republic dated June 11, 2001 and define the mechanism of usage of funds of the National Fund of Assistance to entrepreneurs.
- 1.2. The resources of this fund are directed to realisation of the objectives envisaged in provision 2 of the Rules, creation of supporting infrastructure for entrepreneurs, including agrarian services, technical parks, small industrial towns and also financing of field and regional programs.
- 1.3. In order to ensure more flexible and efficient implementation of the project the resources of the Fund will be placed at the own risk and behalf of the authorised banks that will be selected for participation in the project. The authorised banks bear responsibility before the Fund regardless of the fact whether beneficiaries fulfill their obligations or not.
- 1.4. Selection of the authorised banks is realised by Ministry of the Economic Development of the Azerbaijan Republic and the National Bank of the Azerbaijan Republic in accordance with the legislation. During placement of the Fund's resources in the regions the regional network of the authorised banks is taken into consideration.

III. Directions of usage of Fund's resources

Resources of the Fund are directed to financing of projects (Hereinafter referred to as Project) in the following advanced directions related to development of entrepreneurship:

- Support of private sector within the framework of purposeful programs related to social and economic development of the country;
- Production of import replacing products;
- Production of export-oriented products;
- innovative projects;

- Development of ancient national trade;
- Receipt of raw material and circulating capital;
- Development of tourism infrastructure;
- Development of mass media.

III. Opening of credit line to the authorised banks, providing services to them

3.1. The agreement on direction of usage of the resources, duration and other conditions is signed between the banks authorised to credit line and the Fund. The initial credit line is defined for each authorised bank on condition of not exceeding 500.0 million manats. The following credit sum is agreed upon between the Bank and the Fund.

3.2. Credit is provided for the maximum period of five years and in case of expedient usage can be prolonged by mutual agreement. Applications in order to open new credit lines by the authorised banks can be made only after complete usage of credit sums. The funds attracted by the authorised banks within the framework of the project should not exceed 30% of their total capital.

3.3. In case if credit line hasn't been used over 6 (six) months, the authorised bank pays commission for the unused part of the credit. The sum of commission is defined in the agreement indicated in provision 3.1 of these Rules.

3.4. The authorised banks pay the interest rates for the used sums of credits on the last working day of each quarter starting from the next quarter. Commission for the unused sums are paid on the last day of each quarter for the previous period starting from the 7th month. The main debt is paid off within 5 days following completion of credit duration

3.5. The obligations of the authorised Banks before the Fund do not depend on their relations with beneficiaries. The banks should fulfill their obligations before the Fund regardless of return of credits by beneficiaries. The authorised banks pay 0,1% fine for each day of delay of fulfilling their responsibilities, however not exceeding 10% of the used part of the credit.

3.6. The Fund is not responsible for obligations of the authorised banks (including final consumers (beneficiaries) of the project) and credits cannot be used for these purposes. The beneficiaries of fund's resources are small and medium entrepreneurship subjects.

IV. Allocation of credits to final consumers (beneficiaries) and their usage

4.1. According to these Rules the authorised banks place the capital of the Fund on their own behalf and risk.

4.2. Entrepreneurs apply to the authorised banks in order to get credits within the framework of the project. These applications are considered at the authorised banks, preparation of necessary documents and implementation of other project requirements by the applicant is checked and the decision on providing the credit is made.

4.3. After completion of the initial examination and implementation of all the requirements an order on credit allocation is sent to the Fund. On the next day after acceptance of the order the Fund sends instruction on allocation of credit to the authorised bank. After receipt of the instruction the authorised bank transfers the money to the beneficiary's account during one working day and informs the Fund about it. On the next day after transference of money to correspondent account the authorised bank sends to the beneficiary a notification confirming his right to use the money. Starting from this date beneficiaries use credit within the framework of the project.

V. Credit limits

The authorised banks use the following sums of the Fund's resources as credits:

- Up to 1000 USD equivalent - microcredits;
- From 1000 to 10000 USD equivalent – small credits;
- From 10000 to 30000 USD equivalent – average credits;
- From 30000 to 100000 USD equivalent – large credits.

VI. Credit duration and interest rates

6.1. The longest period of the Fund's credits are defined as follows depending on the directions of usage:

- up to 1,5 year for microcredits and small credits;
- 3 years for 30000 USD equivalent credits;
- 5 years for credits exceeding 30000 USD equivalent.

6.2. The annual interest rates of the Fund have been defined as follows:

- financing of mass media development projects – 0,5% of the credit sum;
- financing of production and processing related projects – 2% of credit sum;
- financing of projects in non-production sphere – 4% of credit sum.
- microcredits – 1,5% of credit sum.

6.3. The highest annual interest rates applied by authorised banks to the Fund's credits should not exceed 7% of the total credit sum including the interest rates envisaged in provision 6.1 of these Rules(5% of credit sum for financing of mass media development projects)

VII. Privilege period

The first 2/3 of the credit usage period is defined as privilege period. During the privilege period beneficiaries pay only the interest rates and do not make any payments of the main debt.

VIII. Credit services

Beneficiaries pay off interest rates on the obtained credits on the last working day of each quarter. The main debt is paid off in equal parts on the last working day of each month following completion of privilege period.

IX. Monitoring of the project

9.1. A permanent monitoring of beneficiaries is conducted by authorised banks and reports are provided to the Fund on quarterly basis. Purposeful monitorings are conducted by the Fund in order to control usage of money according to its designation.

If cases of infringement of credit agreement conditions are found out during the monitoring, the bank gives instruction to entrepreneurs to pay off credit and interest rates ahead of schedule.

Provision of credits to such entrepreneurs within the framework of the project in the future is prohibited.

In case of finding out the infringement of the defined project conditions by authorised banks they are excluded from the project and the main debt and credit interest rates are paid to the Fund regardless of fulfillment of obligations by final consumers(beneficiaries).

Affirmed by Decree of President of the

Azerbaijan Republic dated August 27, 2002.

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