

Access to Finance for Micro, Small, and Medium-Sized Enterprises in Azerbaijan

A Demand-Side Assessment

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WORLD BANK GROUP

Agenda

1

Setting the Stage

2

Main Findings of the MSME A2F Survey

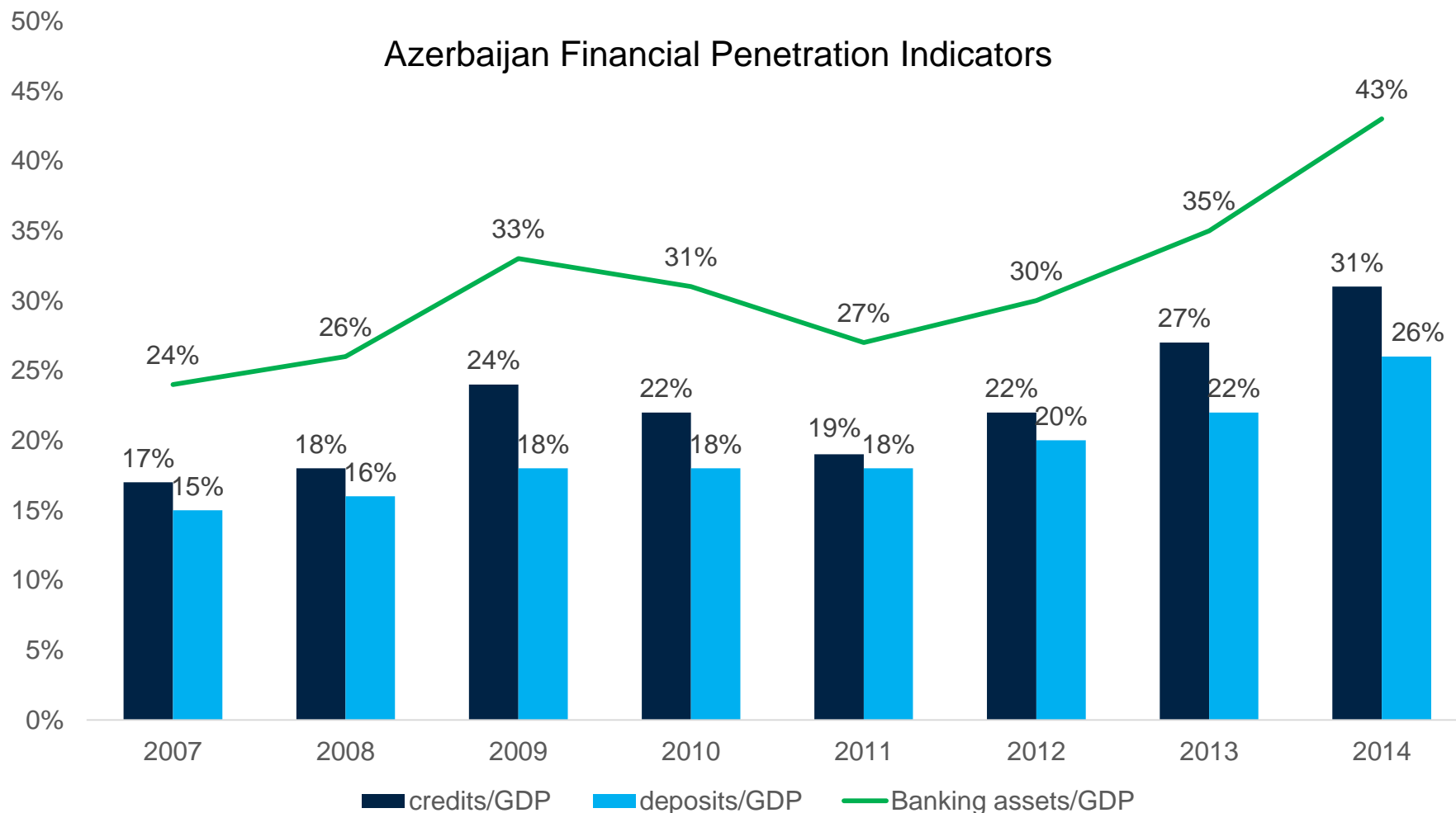
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Key Policy Recommendations

Setting the Stage

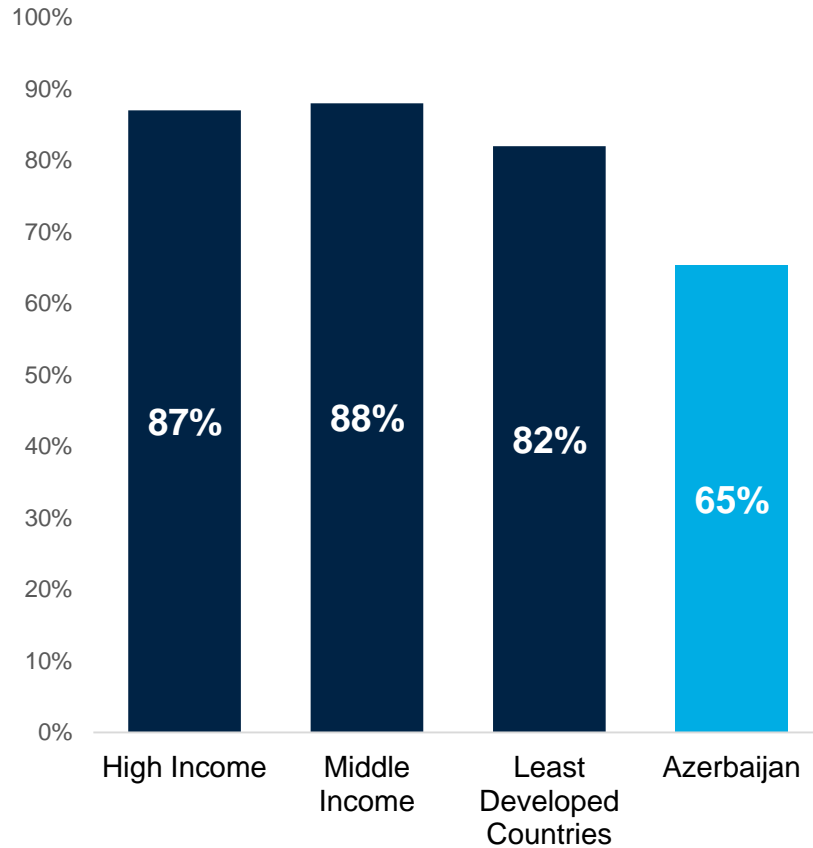
- Overview of the Azerbaijani Financial Sector – public data
- Financial constraints to MSME finance – public data

While financial sector nearly doubled along the oil boom, it remains fairly small

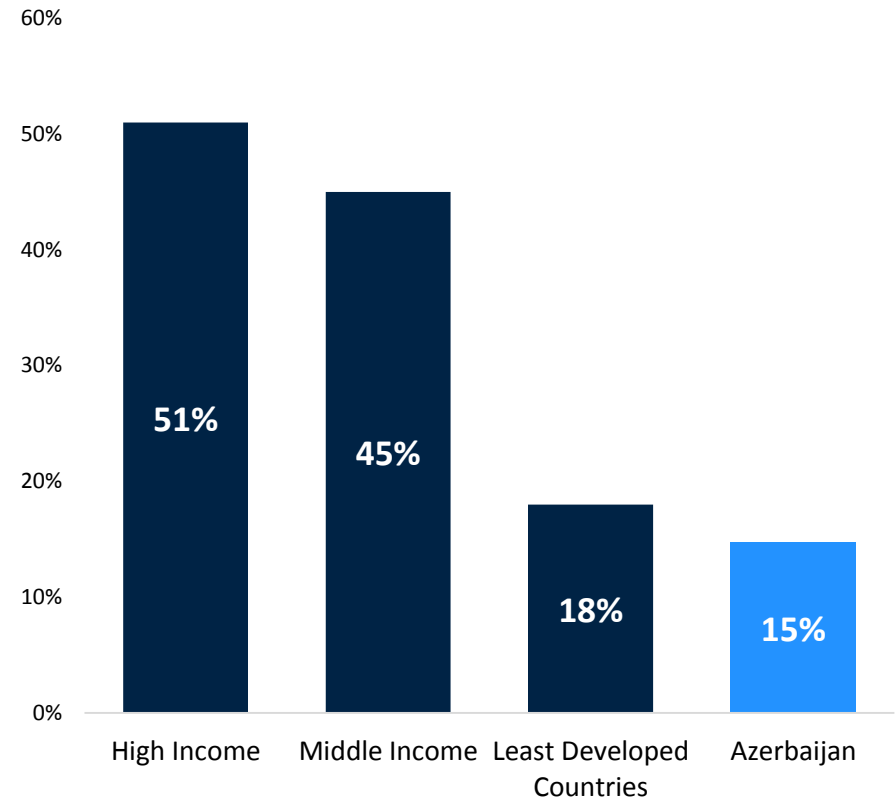


Many SMEs in Azerbaijan have bank accounts, but still don't have access to loans

Percentage of SMEs With a Checking or Savings Account

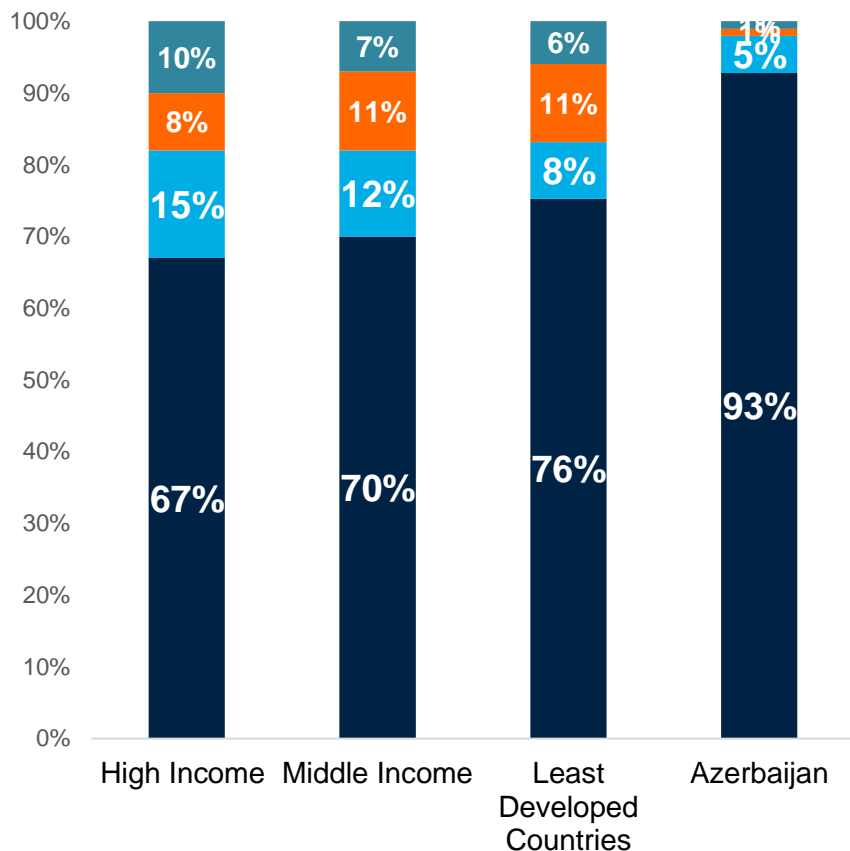


% SMEs with line of credit from financial institution

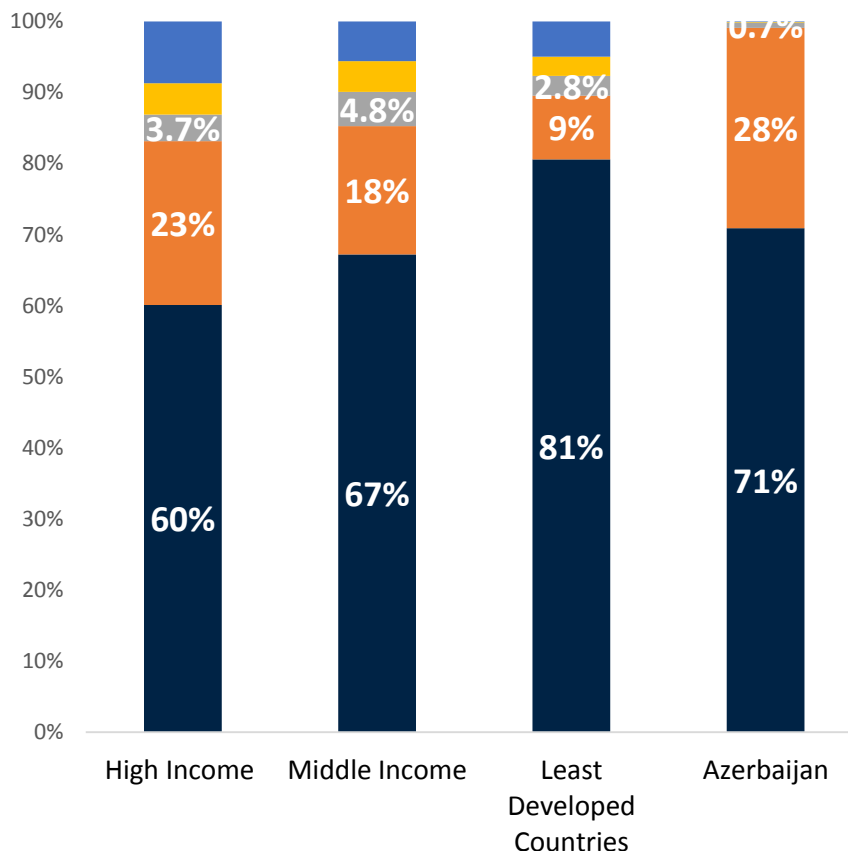


Azerbaijani SMEs rely primarily on self financing, while banking financing is the main source of external finance due to underdevelopment of other forms of financing

Financing sources for working capital



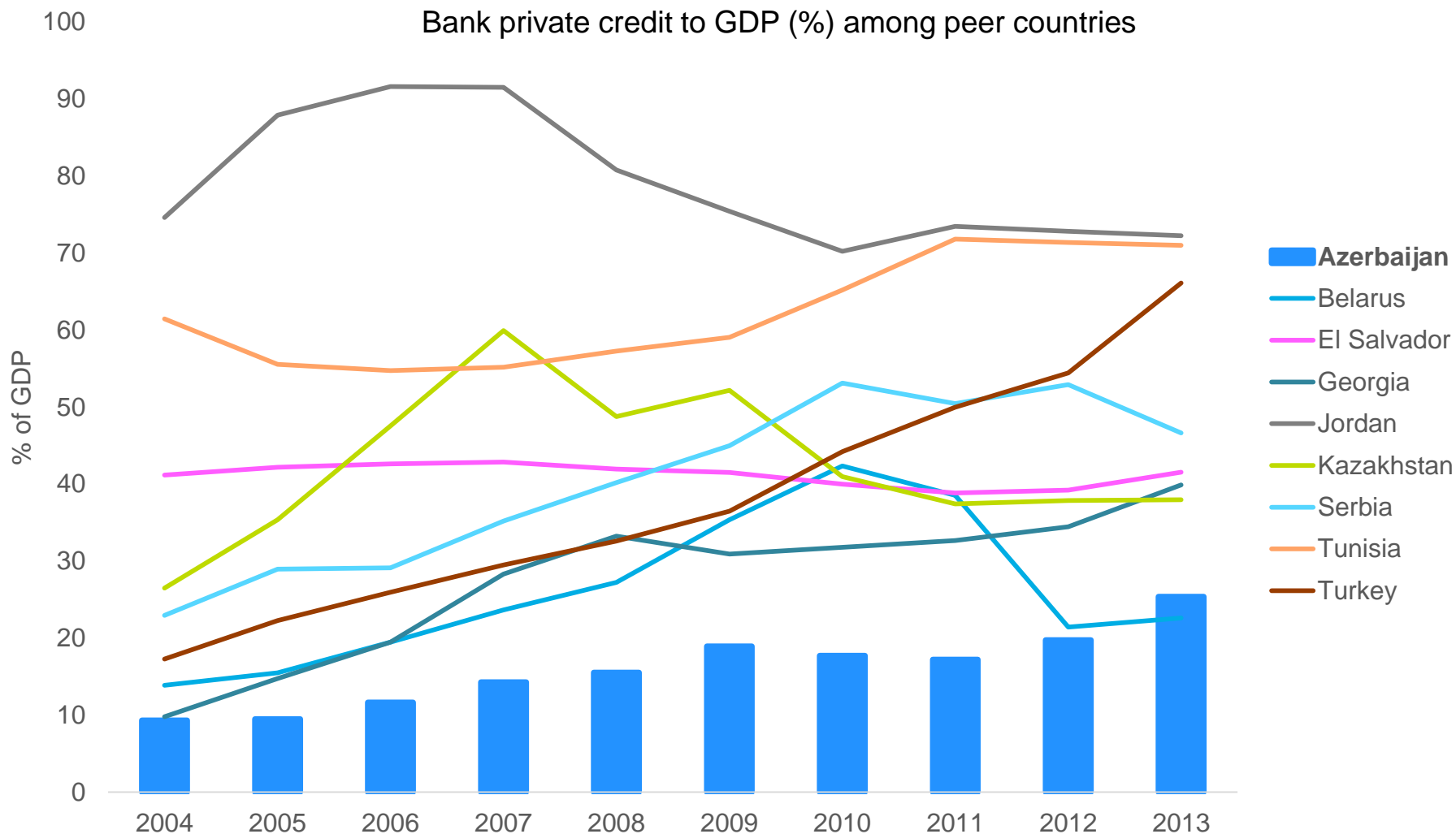
Financial sources for investment



Internal Financing
 Banking Financing
 Supplier Credit Financing
 Other Financing

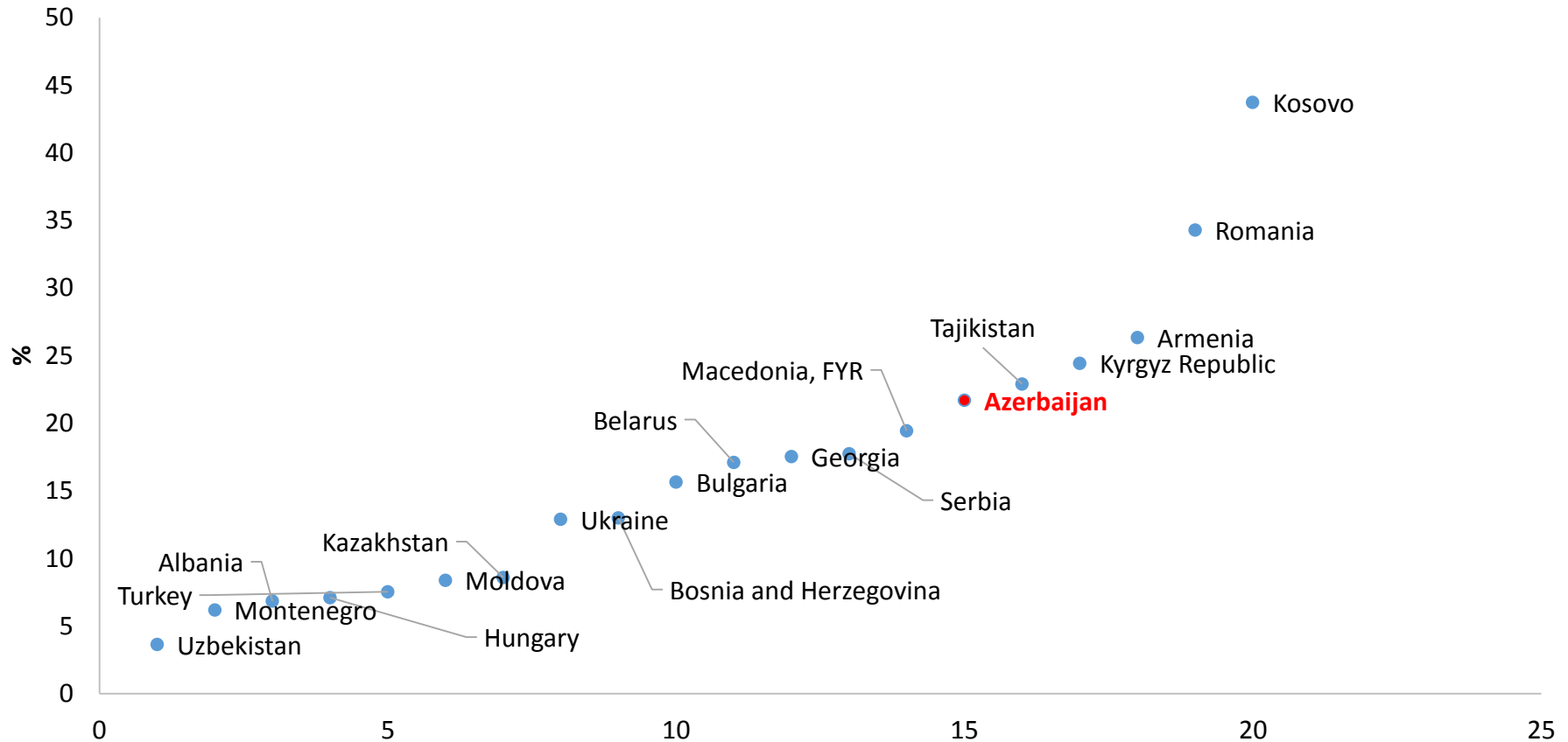
Internal Financing
 Banking Financing
 Trade Credit Financing
 Equity, Sale of Stock
 Other Financing

While bank credit is the main source of formal finance, the depth of the market is much lower than in peer economies



Constrained finance is the key business growth impediment

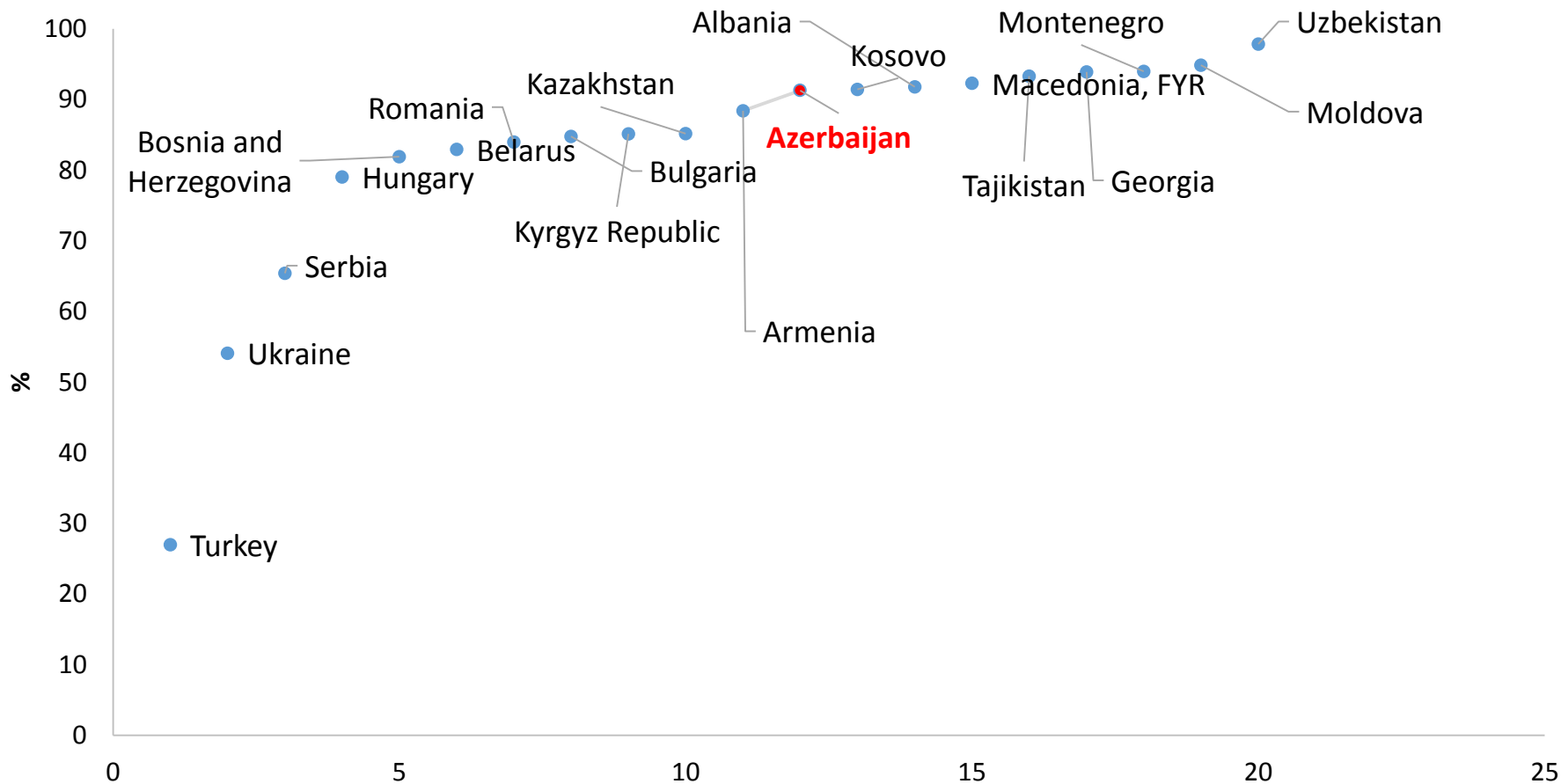
% of MSMEs reporting access to finance as a major obstacle to business operations



Source: WBG Enterprise Survey 2013, WEF Global Competitiveness Index

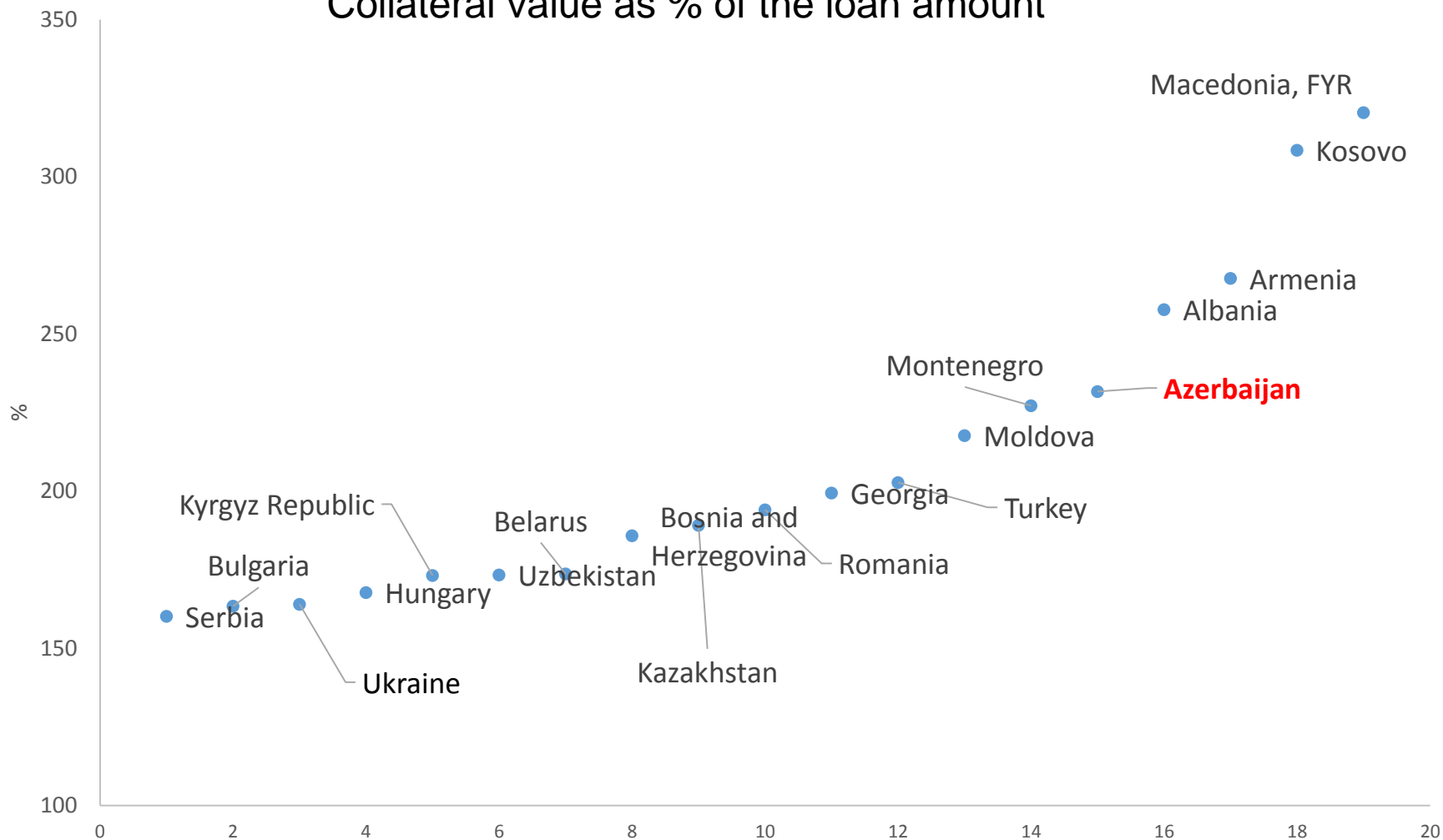
Collateral based lending is dominant, with reliance on cash flow/business analysis still rare

% of MSME loans requiring collateral



While requirements for collateral exceed 200% of loan value and rarely feasible for MSMEs

Collateral value as % of the loan amount



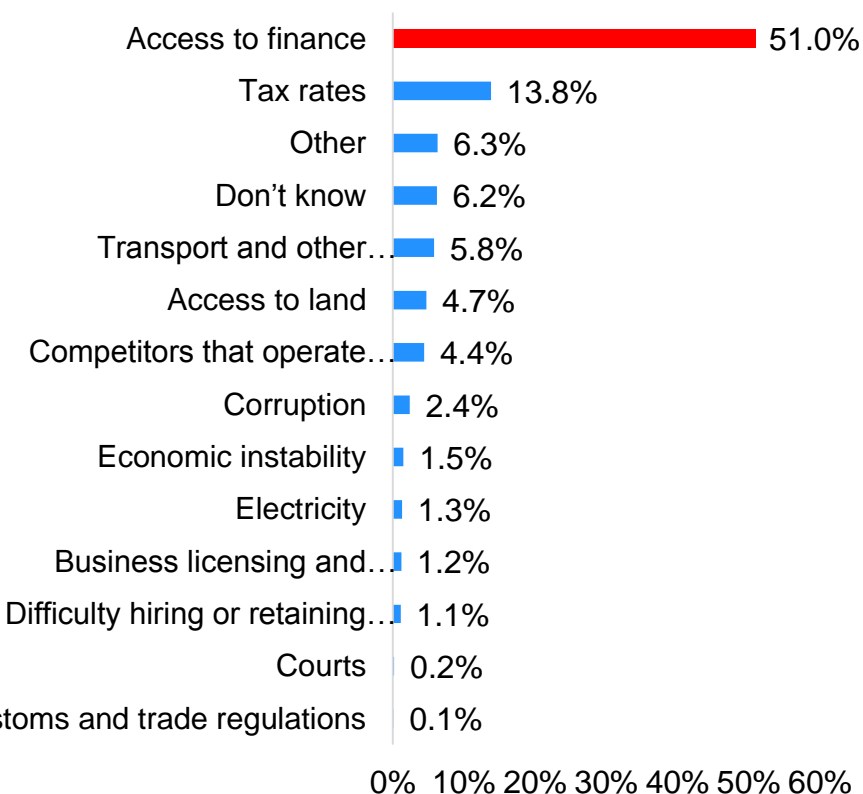
MSME Access to Finance Survey: What are the Key Findings?

Access to Finance is a Major Constraint for MSMEs

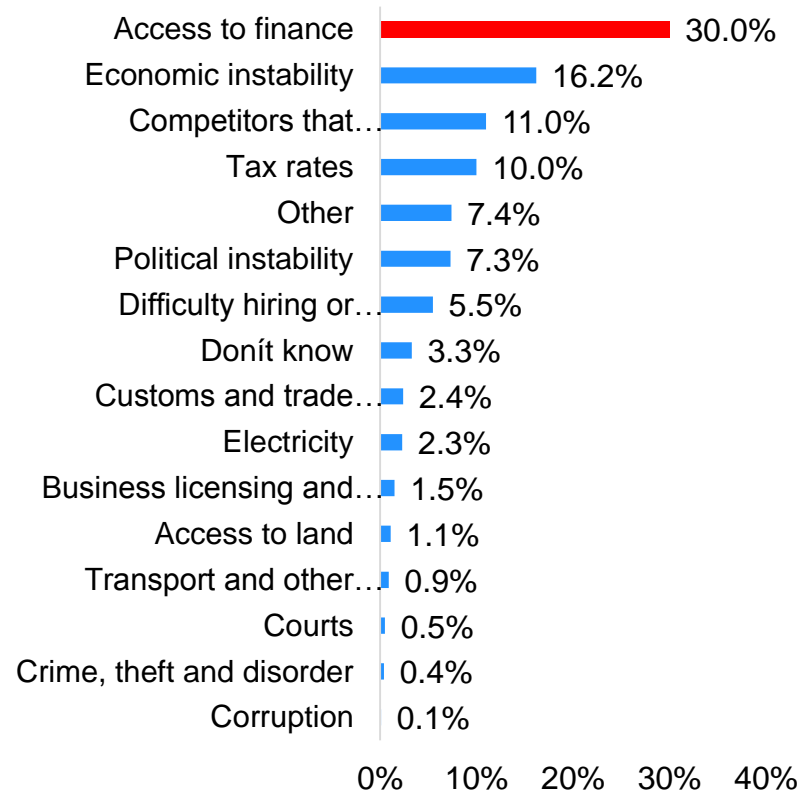
% of MSMEs cited the reason as the most important obstacle to business growth

Constrained access to finance is the most severe in Aran /Daglig-Shirvan region and is especially felt by the construction and trade sectors

Azerbaijan



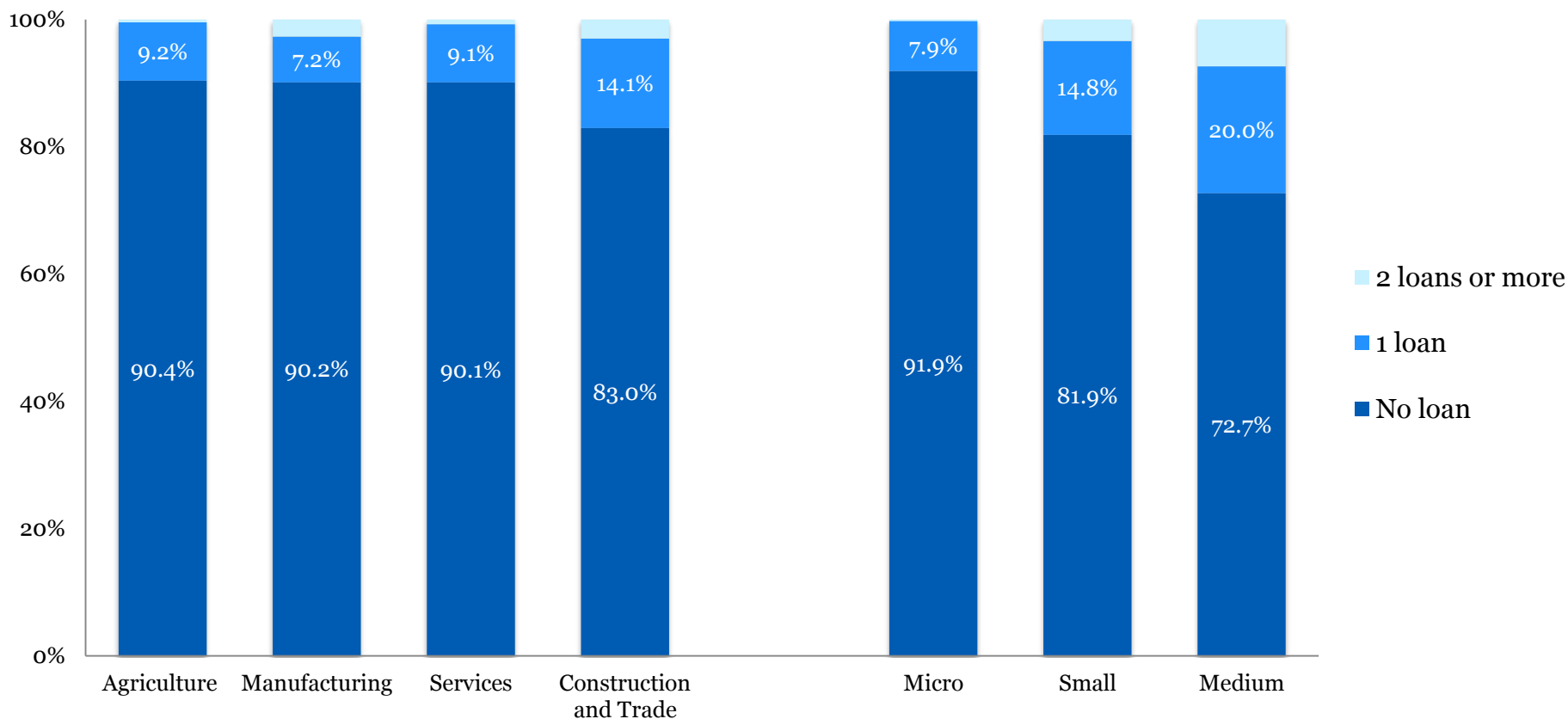
Georgia



Loan usage among MSMEs remains low through sectors and size

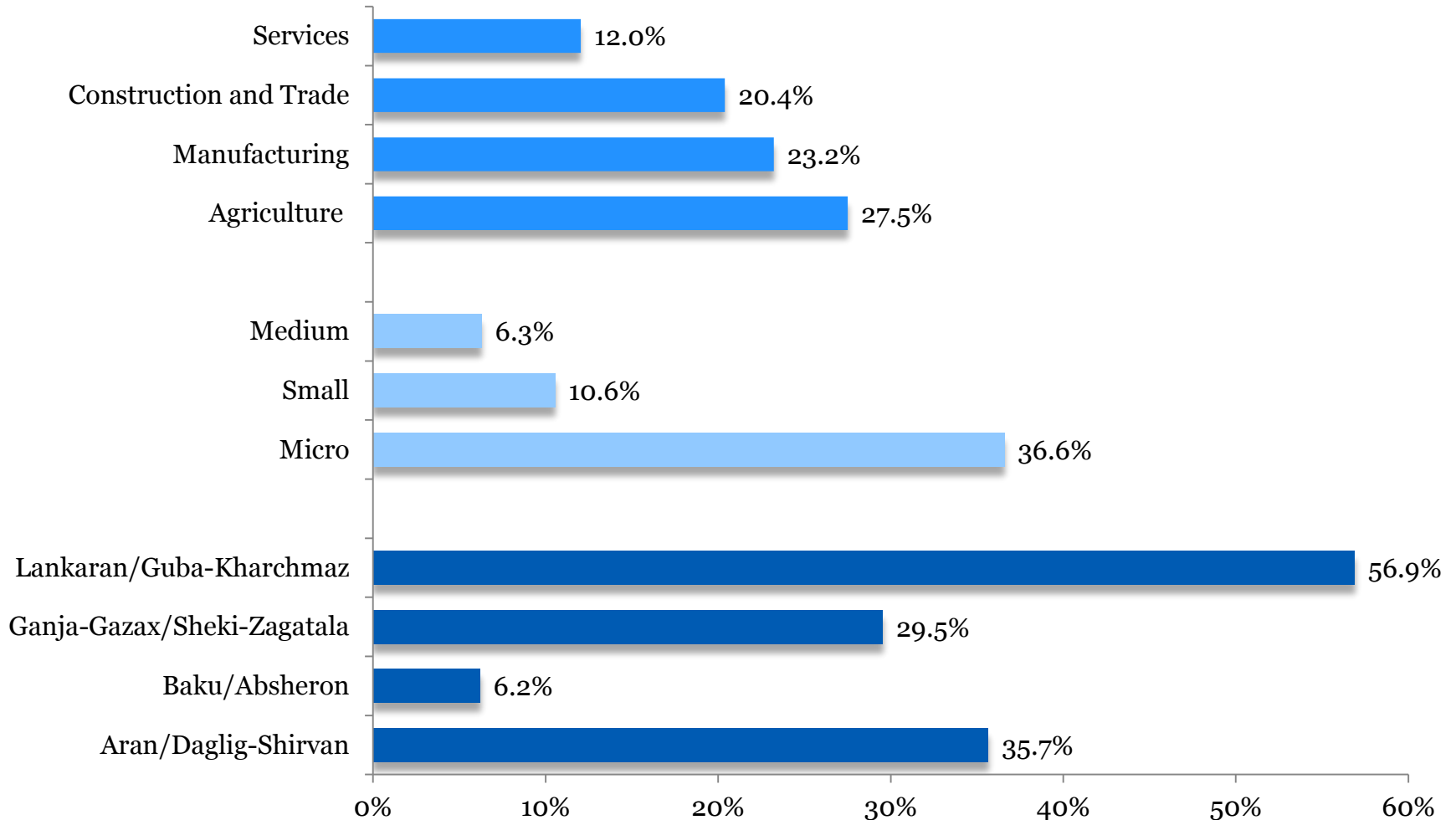
While 2/3 of firms have a bank account, only 13.5% of MSMEs have a loan/ a line of credit with a bank

Loan usage among MSMEs by sector and size



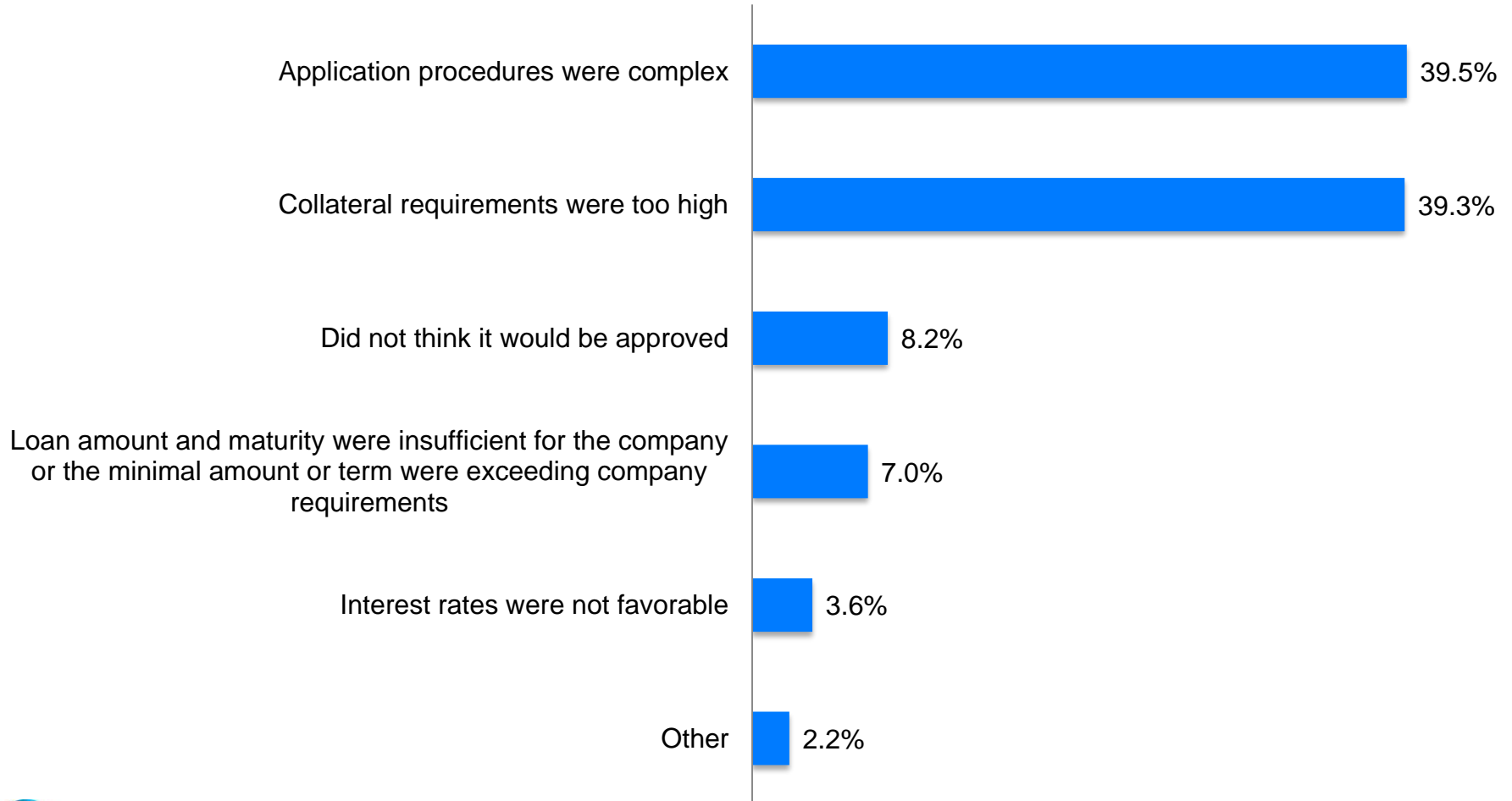
Loan rejection rates are high, especially in agriculture, for micro firms and businesses in some regions

Loan rejection rates for MSMEs by sector, size, and region



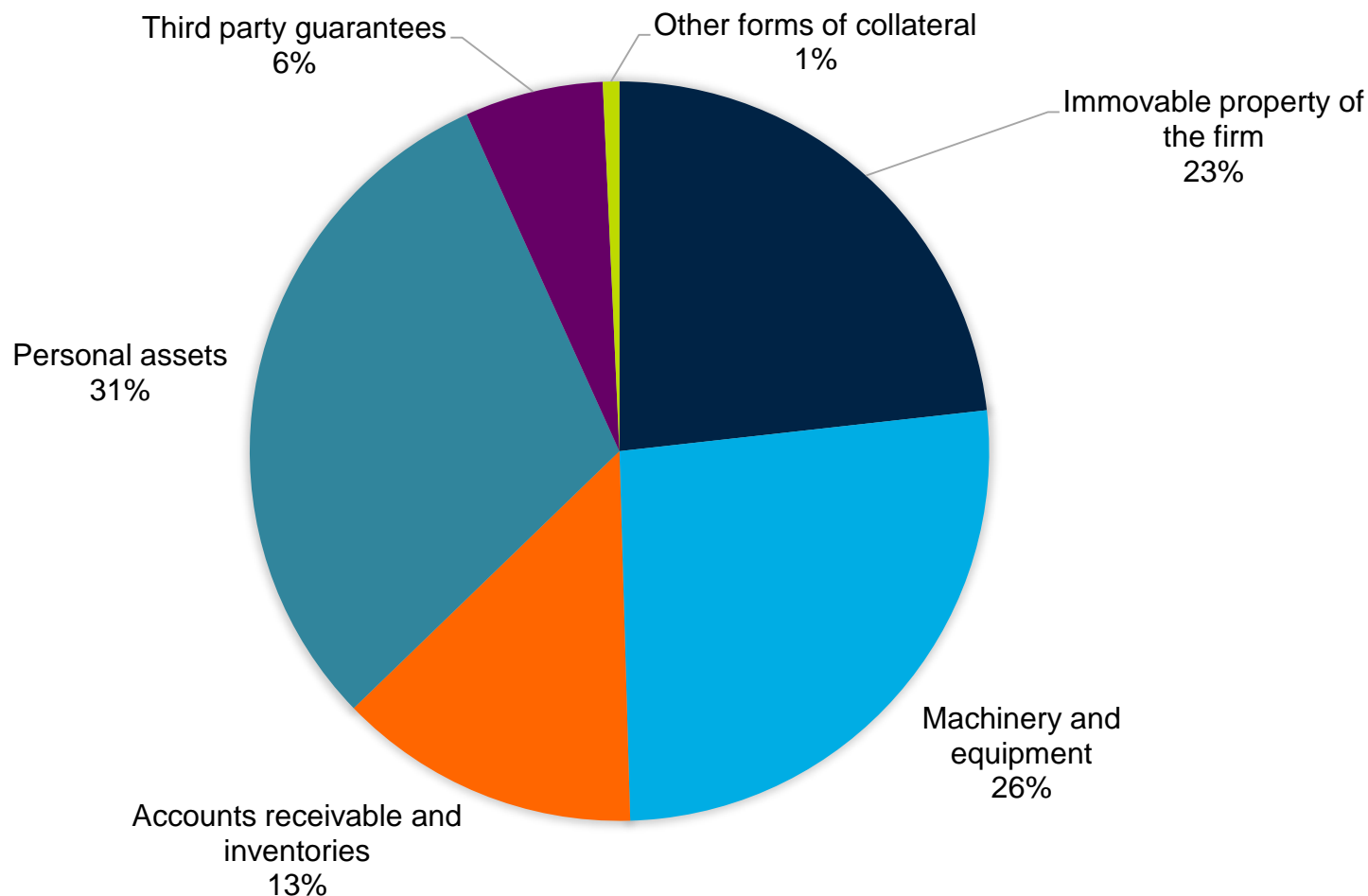
Main reasons why MSMEs do not apply for a loan?

% of MSMEs that cited the reason as the main reason for not applying for a loan



What Types of Collateral were Required for Outstanding Loans?

% of different types of collateral used for outstanding loans



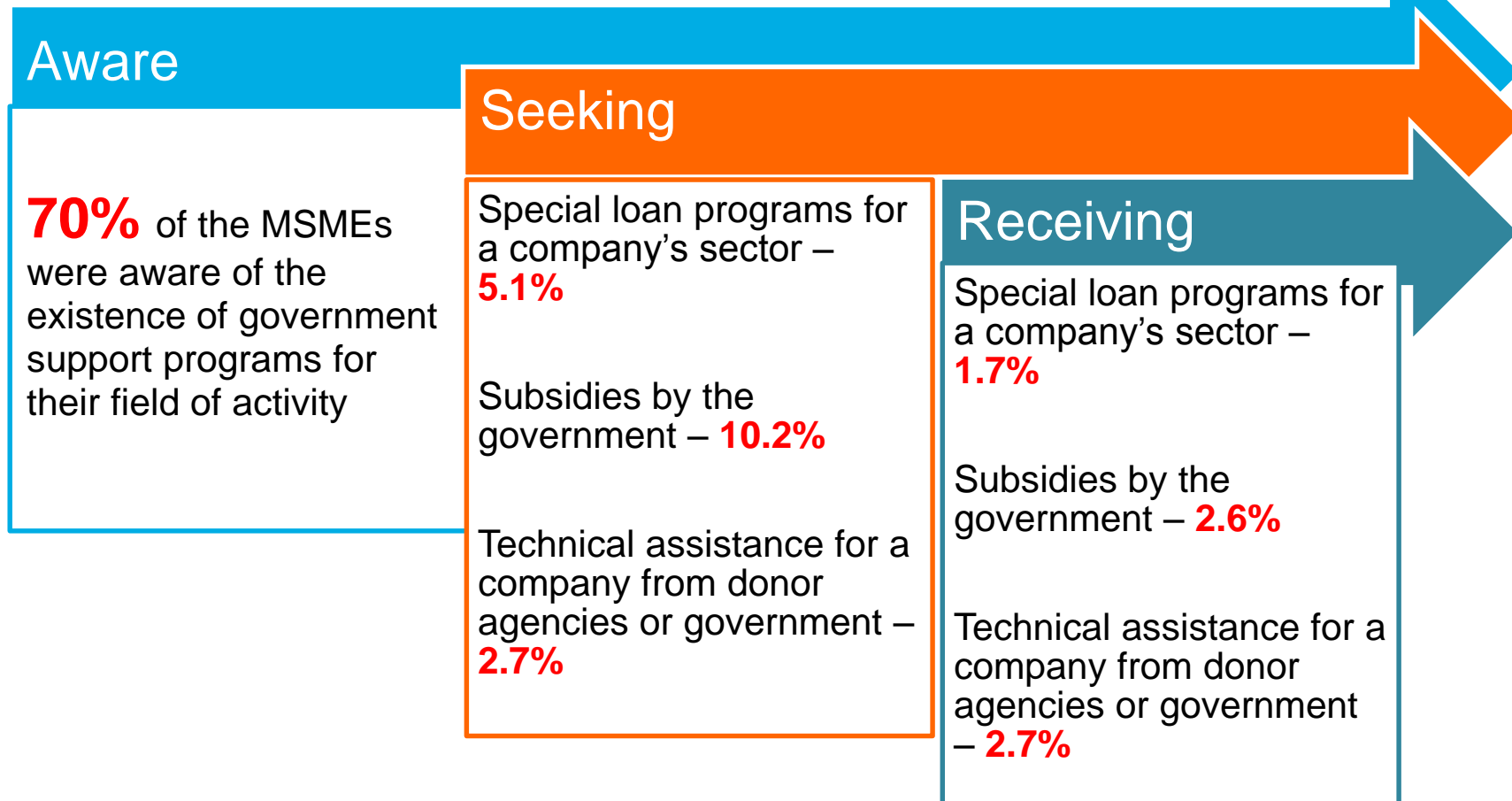
MSMEs are not familiar and don't use key financial products such as LC, insurance, leasing and factoring

% of MSMEs aware, seeking, and receiving other sources of financing

	Familiarity	Seeking	Receiving
Later payments on purchase of goods	67.4%	57.5%	56.7%
Advanced payments from customers	71.3%	59.9%	52.2%
Letters of credit	20.8%	1.2%	0.6%
Trade insurance	25.8%	5.3%	1.9%
Leasing	32.1%	5.8%	4.1%
Factoring	17.4%	2.3%	1.7%
Other	0.5%	0.0%	0.0%

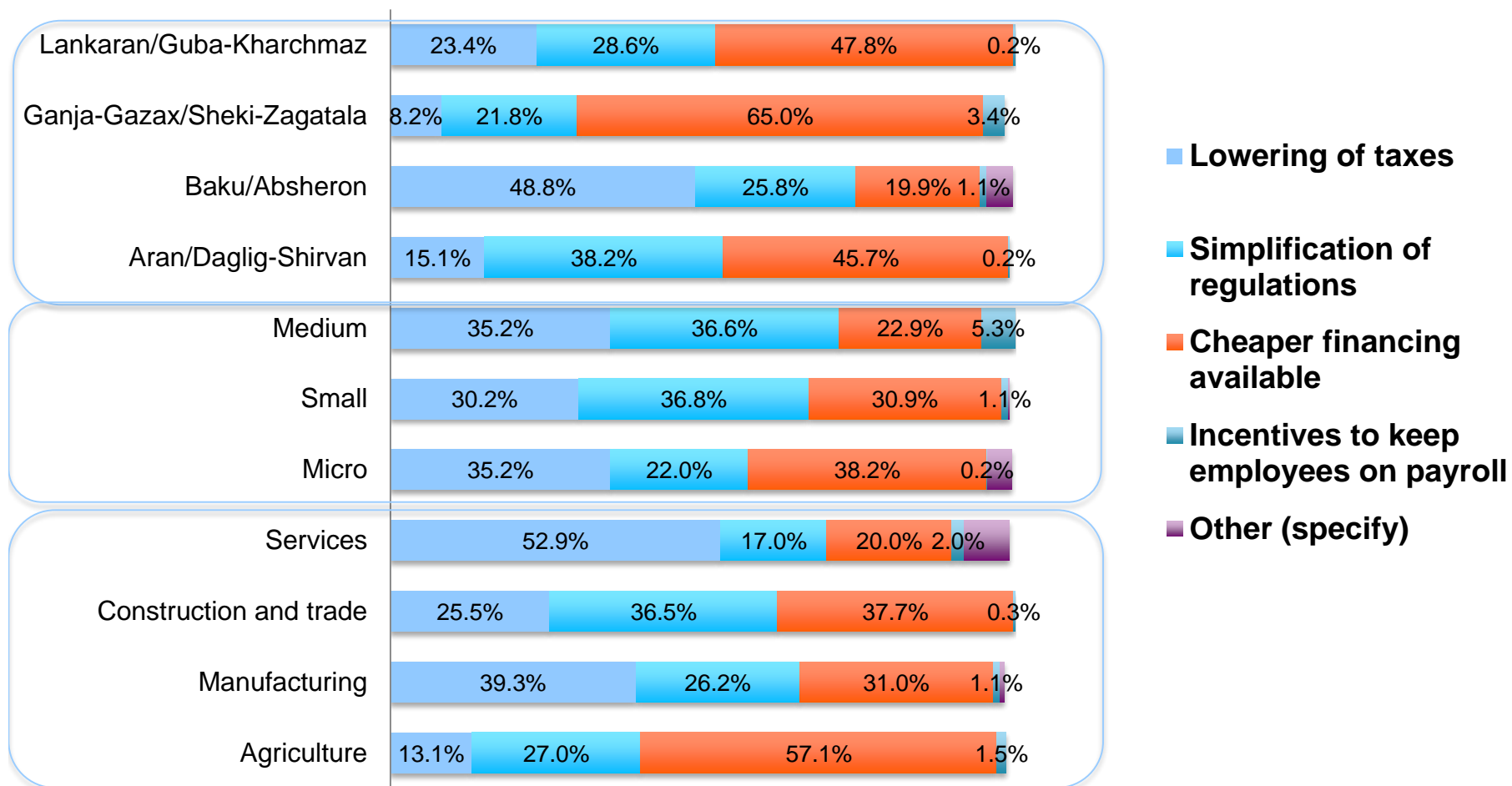
MSMEs know about Government's program but rarely access it

% of MSMEs seeking and receiving supports from different type of government program



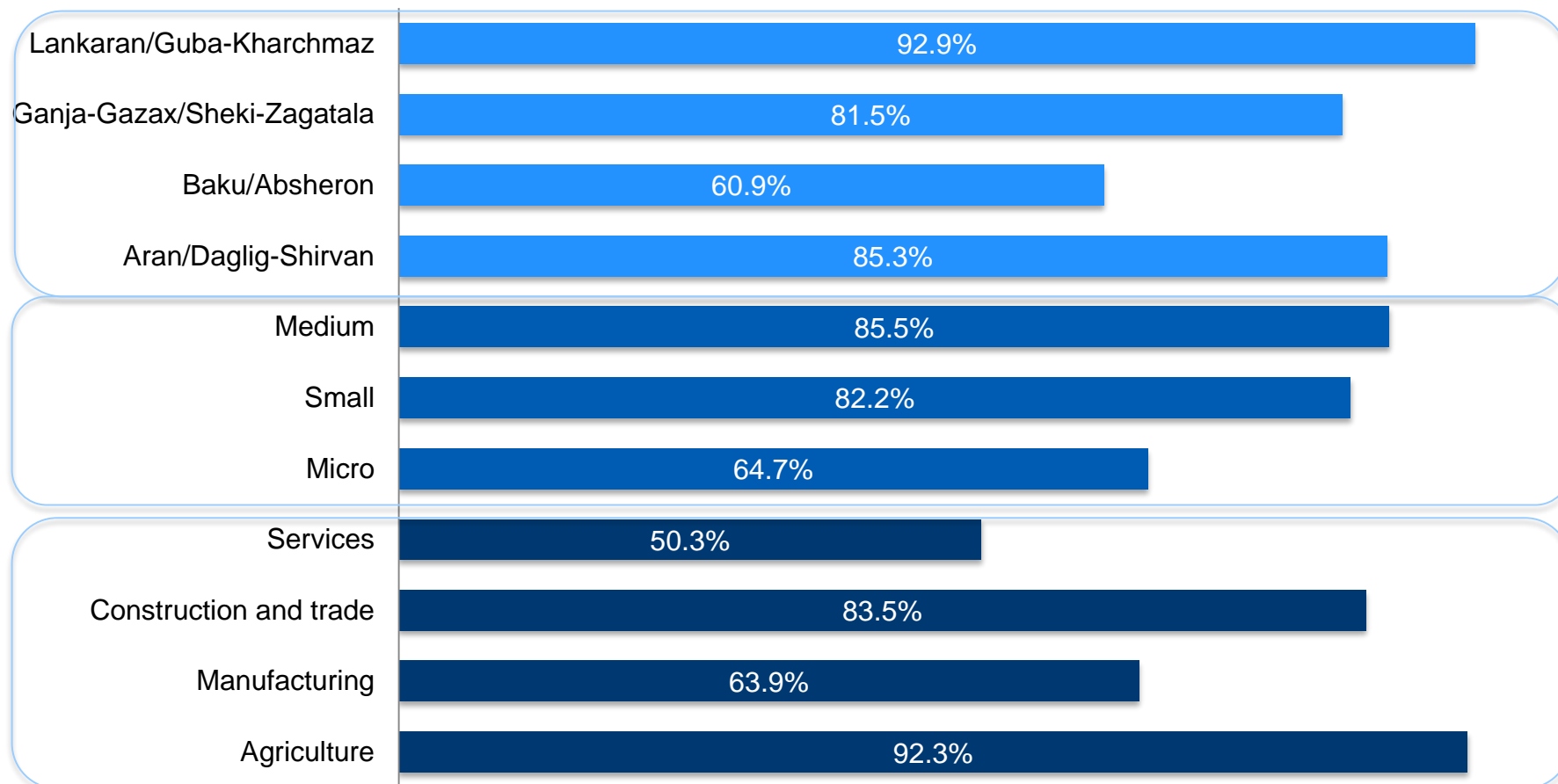
MSMEs most interested in Government's support to lower cost of funds, especially for micro and agribusinesses

Preferred government actions in % by MSMEs in different region, sector, and size



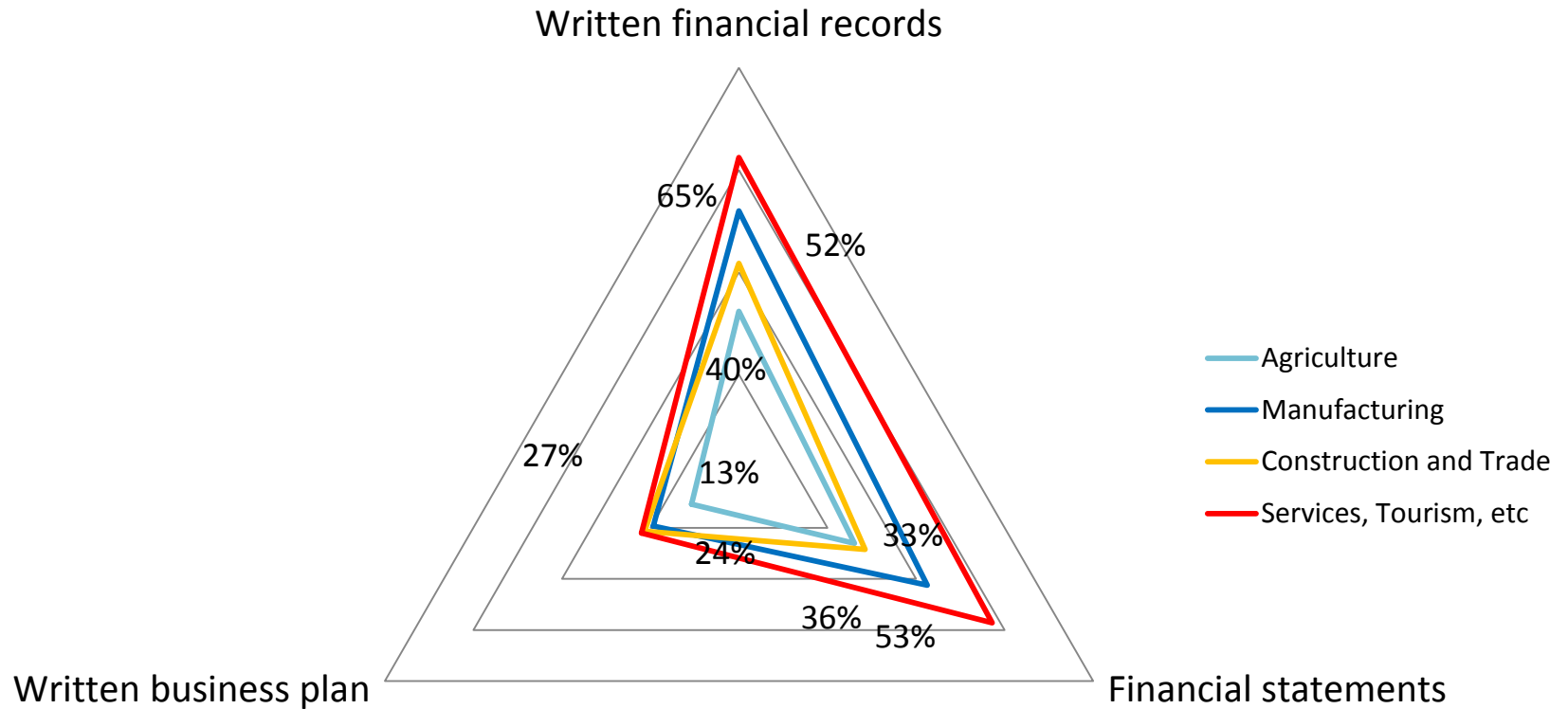
MSMEs have high demand for finance in the next 12 months

% of enterprises requiring financing within the next 12 months by region, sector, and size



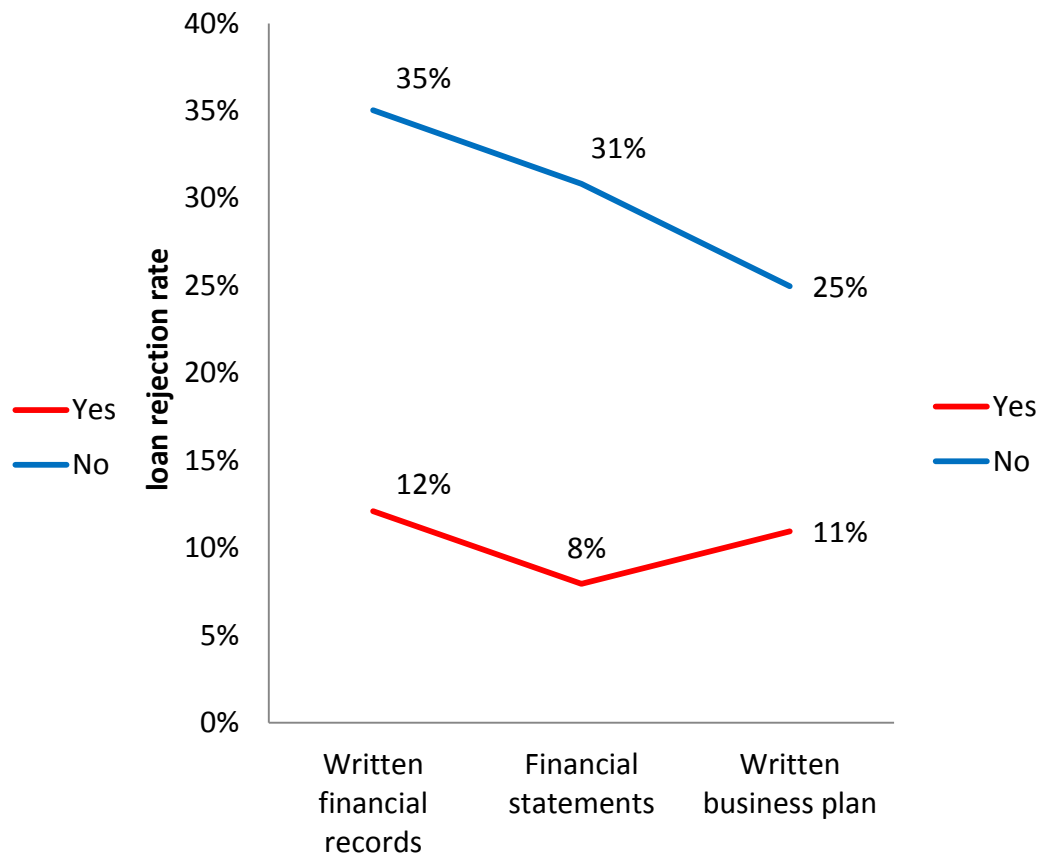
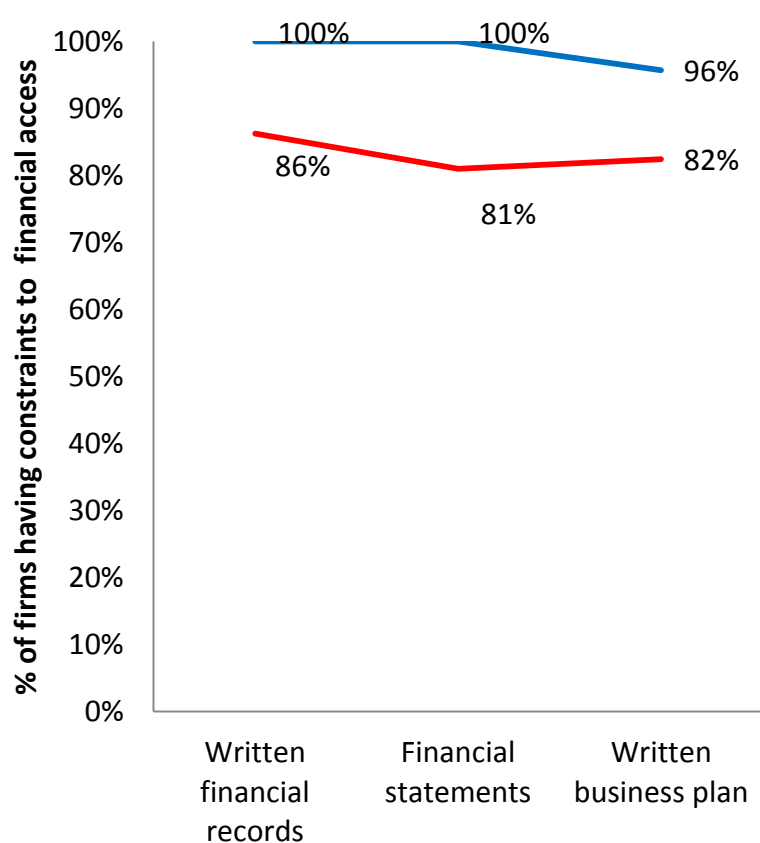
MSMEs have poor business practices

Business Management and Financial Reporting Practices



MSMEs with financial records and business plans have lower rejection rates

Financial constraints and loan rejection rate by different business practices



Recommendations

Enhance state policy and state financial support

- Introduce MSME development strategy as a key pillar of Azerbaijan growth and diversification strategy Vision 2020
- Evaluate, streamline and rationalize existing government financial support programs against international best practices in order to improve design, uptake and effectiveness of existing measures
- Review the existing legal and regulatory framework to foster development of sound, broader and deeper financial market, encourage investments/FDI

Broaden and deepen markets and products, foster innovation for more efficiency and financial inclusion

- Encourage new innovative financial instruments and lending technologies to tailor financial products to the MSME needs, including those for agribusinesses and rural entrepreneurs
- Explore impediments to and opportunities to the development of leasing, factoring and trade financing (including domestic supply chain financing and export financing)
- Facilitate development of non-bank financial institutions and products, including non-bank credit and investment institutions, capital markets investment vehicles (for collective investments and voluntary pension savings program).

Build credit market infrastructure and simplify procedures

- Encourage simplification and standardization of lending procedures and guidelines for MSMEs including loan application processes; enhance risks management
- Improve credit market infrastructure
 - Foster creation of a private credit bureau and ensure adequate regulatory framework for overview of its activities, data safety and consumer protection
 - Create movable assets secured transactions legal and registry system

Enhance MSMEs transparency and financial capability

- Address low levels of financial capabilities of MSMEs – particularly in new sectors and among agribusinesses – through providing simplified training to MSMEs in business & financial management (financial ‘rules of thumb’)
- Coordinate and consolidate efforts of private and public institutions, including the private financial sector, NGOs and training centers, to effectively enhance MSMEs’ financial capabilities by launching financial literacy programs to target groups via various distribution channels