

Microcredit - an 'oxygen infusion for a better life'¹

by Merethe Kvernöd

Since 1998 the Norwegian Refugee Council has taken a lead role in providing microcredit to enable IDPs in Azerbaijan to stand on their own feet.

Azerbaijan is home to 575,000 IDPs who left Nagorny Karabakh and surrounding districts in the early 1990s. According to the UN and World Bank, 70% live below the income poverty line (US\$24

per person per month). Azerbaijan's new oil and gas wealth has not removed the need for creating viable livelihoods for a population with no immediate prospects of return to Armenian-held Nagorny Karabakh.

NRC's programme - which since 2002 has been implemented by our subsidiary, Normicro Ltd - has been very successful. Repayment rates have been exceptionally high and there are today 3,500 clients. Family businesses enabled by the programme provide employment to over 7,000 people. Normicro is one of ten local organisations fostered by international agencies engaged in creating economic opportunities both for IDPs and

poor Azerbaijanis. These serve close to 20,000 clients and have enabled around 40,000 job places.

While this is a drop in the ocean compared to the need to provide viable livelihoods for several million poor people, a start has been made and the viability of microcredit has been proven. Microfinance in Azerbaijan has reached the 'non-bankable' – those who would not otherwise meet criteria for a bank loan. IDPs have little or no collateral, having lost homes and other material assets.

Encouragingly, the majority of the small family enterprises supported by microcredit providers are now able to survive without additional support.

While NRC and a few other organisations do not require loan clients to provide collateral, most micro loans in Azerbaijan are given against collateral. Of the ten active microcredit agencies those with the largest number of clients are FINCA, World Vision and NRC. Others include Oxfam, Adventist Development and Relief Agency (ADRA), Viator, the International Organisation for Migration (IOM), the Danish Refugee Council (DRC) and the Agricultural Cooperative Development International (ACDI/VOCA). Microfinance is additionally provided by larger actors such as Shorebank (USAID-funded), the Azerbaijan Microfinance Bank (EU-funded), the Bank of Baku (supported by the European Bank for Reconstruction and Development) and the World Bank-backed Social Fund for Development of IDPs.

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Mehman Mammadov is typical of those who have created a new life from a modest initial loan from NRC. In 1999 he took out an initial \$300 loan which helped him to subsequently expand the turnover of his food business, to open a grocery and to hire three assistants. He has recently established a bakery and with an \$800 loan bought an oven and was able to employ six more people. Today he supplies baked goods to 20 bakery shops in and around Baku and provides for his family of seven. In common with other Normicro clients, around half of his profits are invested

in the business and the rest used to raise the living standards of his dependants. By local standards his family now has a good income. Mehman would like another larger loan to further expand his business.

Loan schemes targeted at both urban and rural IDPs have succeeded because Normico has:

- worked to build trust and transparency and to enable a credit culture
- established credibility in the community before issuing collateral-free loans
- held meetings with community elders and leaders to make sure loan terms and conditions are known to all potential borrowers
- regularly communicated with clients and ensured Normicro staff make follow-up visits

Challenges to microcredit programmes in Azerbaijan

The legal framework is not conducive to microcredit. The tax authorities see microcredit programmes as profitable activities and seek to apply complicated tax rules. They tax the income from interest on loans on the same basis as they do with any other large-scale business activity – regardless of the fact that the nominal 'profit' is not taken out but is ploughed back to increase the loan capital available for further distribution to vulnerable families. If the heavy tax burden is not reduced, interest rates on loans will have to remain high and only the bigger organisations with a large capital will be able to survive in the long run.

Building transparency is vital in a country where corruption is rampant. NRC is helping by promoting client decision making. Annual general assemblies of clients have been convened since 2000. Representatives from client communities are involved from the beginning of the loan process. Advisory boards – of community representatives and our staff – make decisions on loan eligibility and actions to take when clients are unable to meet repayment schedules.

In a male-dominated society like Azerbaijan, most of the IDP loan takers are men but a fairly large number of loans are given to families where both the husband and the wife are equally responsible for the loan and the development of the business. NRC, FINCA and Oxfam are among the agencies looking for better strategies to provide women with equal opportunities for business development and to avert the risk that loans targeted at women are actually used by men. Skills training initiatives for women could raise the percentage of loans given to women.

Vocational training is a major challenge for those clients who have been economically inactive for many years and lost their previous skills. Many left rural areas and their skills are not relevant for urban labour markets. It is thus hardly surprising that most credit clients are engaged in urban trade rather than productive activities. Microcredit providers must do more to boost the service sector in Azerbaijan and to develop synergy between credit, vocational training and business skills development.

Entrenched positions may make the Nagorny Karabakh conflict seem insoluble. For the foreseeable future large-scale return is not feasible. Livelihood strategy support must be part of durable solutions for IDPs in Azerbaijan, whether they integrate or eventually return home. Although some have voiced the opinion that making life in urban areas too comfortable for IDPs risks hampering return, the Norwegian Refugee Council believes that strengthening their ability to take charge of their own lives will empower IDPs whatever the future holds.

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For extensive information on IDPs in Azerbaijan, see the Global IDP Project's database at: www.db.idpproject.org/Sites/idpSurvey.nsf/wCountries/Azerbaijan

1. Comment made at a recent meeting of microfinance institutions in Azerbaijan.