



Project title	Azerbaijan and Central Asia Financial Infrastructure (ACAFI) Project, Phase 3
Project duration	2016-2018
Swiss contribution	CHF 1'126'000
Project partners	International Financial Corporation (IFC); Financial Market Supervisory Authority of Azerbaijan (FIMSA);
SCO strategic goal	Inclusive and sustainable economic development

Background

The current third phase of the Azerbaijan and Central Asia Financial Infrastructure Project (ACAFI III) focuses on two key reforms in the area of financial infrastructure:

- 1) Establishment of a **Private Credit Bureau** in Azerbaijan for better credit rating
- 2) Completion of the **Secured Transactions Reform**, allowing for more flexible lending

These two elements of the financial infrastructure have proven to be very effective enablers for an easier and cheaper access to capital for SMEs (small and medium enterprises) in various context, especially in emerging economies. In emerging markets, financial institutions are often reluctant to lend to SMEs because their risk management practices are not well developed and sufficient information about applicants' credit history and credit worthiness is not available. Sophisticated credit bureaus reduce such information asymmetries and allow banks to better score the credit risk of an applicant. The secured transactions reform in turn allows for alternative collaterals by SMEs, for instance, inventory, contracts or even intellectual property rights. Currently, financial institutions accept only real estate or land as collaterals for loans. Very often, SMEs do not have neither land nor real estate and are therefore not seen as a good borrower.



Project objective

The objective of the third phase of the project is to complete the two reforms, from developing the necessary legislation to the operationalization of both the Private Credit Bureau and the Movable Assets Registry.

Project activities and results to date

- Legislation on private credit bureaus developed by the project, approved by parliament and adopted by the President
- Guidelines on sharing of credit history developed and approved by FIMSA (Oct 2017)
- Regulation of supervision of Private Credit Bureaus developed and approved (Jan 2018)
- Establishment and registration of a Private Credit Bureau in January 2018 (after an unsuccessful attempt in April 2017), although of limited range and participation by financial institutions
- Legislation on secured transactions developed by the project, approved by parliament and ratified by the President of the Republic of Azerbaijan in 2017
- Government funds for set-up of movable assets registry mobilized by FMSA
- Cooperation Agreement signed with Standardization Institute in order to support it in the preparation of a standard allowing for the evaluation of movable assets
- The project connected Public Credit Registry to the ASAN service in order to achieve its wider usage by MFIs (micro-finance institutions). As a result of this, MFIs increased usage of newly established credit reporting by 35% in one year.

Expected project results

- Private Credit Bureau operational
- Financial intermediaries' awareness raised on the role of credit bureaus and professional risk certifications
- Financial intermediaries have credit underwriting policies and practices
- Establishment and management of the actual movable assets registry (FIMSA)
- Assets based lending practices applied by local financial institutions.

Perspectives

The third and last phase of the project will end in 2018. On a legislative level, the project has fully achieved its objectives, by newly developing the necessary legislation for both reforms according to international standards. The project has thus created more favorable framework conditions for improved credit reporting and more flexible lending in Azerbaijan.

In terms of implementation and operationalization of the Private Credit Bureau and the yet to be established Movable Asset's registry, results should be expected by the end of 2018 and beginning of 2019.

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