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FINAL REPORT ON FINANCIAL INCLUSION SURVEY RESULTS

Prepared by "Finance and Social Innovation Consulting" LLC in association with AMFA (Azerbaijan Microfinance Association)

Baku, Azerbaijan

Asian Development Bank

CONTENTS

ABBREVIATIONS

ADB	Asian Development Bank
MFI	Microfinance Institution
NBCO	Nonbank credit organization

AZERBAIJAN FINANCIAL INCLUSION SURVEY RESULTS EXECUTIVE SUMMARY

This Financial Inclusion Survey, one of the most comprehensive financial surveys conducted in Azerbaijan, looks at financial access, attitudes of households towards financial services, knowledge and usage of a broad range of financial service providers and products. It was conducted in late 2015 during a challenging economic period in Azerbaijan as global crude oil prices tumbled, but before the country's second major devaluation of the manat in 2015. This timing likely colored consumer's attitudes towards their financial situations. As such, the survey results constitute a valuable baseline on how individuals perceived and used financial services prior to the second devaluation and during a downturn of the economy.

SURVEY OBJECTIVES:

1. Provide information for policy makers on barriers to financial inclusion,
2. Gather insights for the private sector into market opportunities and consumer attitudes, and
3. Develop an empirical basis for tracking progress and data for further research.

The survey, part of an Asian Development Bank (ADB) technical assistance project to the Central Bank of Azerbaijan,[1] was conducted by Finance and Social Innovation Consulting in partnership with the Azerbaijan Micro-Finance Association. The executive summary and interpretation of results was compiled by Dave Grace, a financial inclusion consultant to the ADB. The survey employed a robust methodology, yielding a statistically significant sample, with data gathered from November 19, 2015 to December 9, 2015 through a random sample of face-to-face interviews with 1,200 heads of households in Baku and 8 economic regions of Azerbaijan. Each interview averaged 45 minutes to cover in-depth financial services behaviors and attitudes. The survey findings were then authenticated through five focus groups comprising 47 participants (see Annex 2). The focus groups were held in February 2016, after the second devaluation of the manat and included single and mixed gender groups to delve deeper into the important gender differences that the survey revealed. In total, 55% of the interviews were conducted in urban areas (24% in Baku alone) and 45% in rural areas, reflecting the geographical distribution of the population. A roughly equal distribution of men and women were surveyed.

The findings from this survey provide unique insights relative to other recent financial sector surveys. For example, this survey was designed by financial sector professionals in Azerbaijan, includes detailed break downs by instuitional type, gender, rural vs urban location, and access to and usage of various institutions and products. As such, it provides a more nuanced view on the use and perceptions of a wide-range of payment, insurance,

[1] ADB. 2014. *Republic of Azerbaijan: Microfinance Sector Development*. Manila. http://www.adb.org/projects/documents/microfinance-sector-development-azerbaijan-tar

savings, and credit services in this country. In addition to this demand-side survey, the Asian Development Bank also commissioned and published in 2015-16 supply-side studies on electronic payments, insurance, savings and credit institutions. The most important high-level findings of this survey are:

- Active usage of financial services is much lower in Azerbaijan than peer jurisdictions.
- Financial literacy levels are higher among men than women.
- Financial inclusion is higher among men than women.
- Financial inclusion is higher in urban areas than rural areas where distances to providers is further and more costly.
- Having a low income has a negative impact on a household's financial inclusion.
- 80% of households indicated that their income was not enough to cover household expenses.

Together these findings suggest that the limited usage of and confidence in formal financial services could be a bottleneck for the country as it seeks to diversify from the oil sector.

This executive summary presents the methodology and key findings in savings, credit, insurance, and payment product usage. It also reveals the vast potential for improving financial inclusion in the country. Figure 1 provides a high-level snap shot of some key findings regarding use of financial services.

Figure 1: Financial Inclusion Snapshot

Product Usage in **Previous 2 Years** Previous to Survey	**Men**	**Women**	**Average**
Checking or savings account	5.1%	2.5%	4.5%
Loan (any type)	52%	44%	49%
Insurance (any type)	28%	6%	23%
ATM	61%	70%	63%
Payment kiosk	41%	38%	41%

Source: ADB. Financial Inclusion Survey

Savings and Income Patterns

- While 95.9% of respondents did not *intentionally* open or *actively* use a savings or checking account at a bank, the survey found that 70% of people did use banks. These seemingly contradictory results occur because many people use bank offices for some type of remittance, bill payment, loan, benefit, or salary transfer, and because clients are legally required to have a current account to send or receive money or when taking

out a credit or debit card.[2]

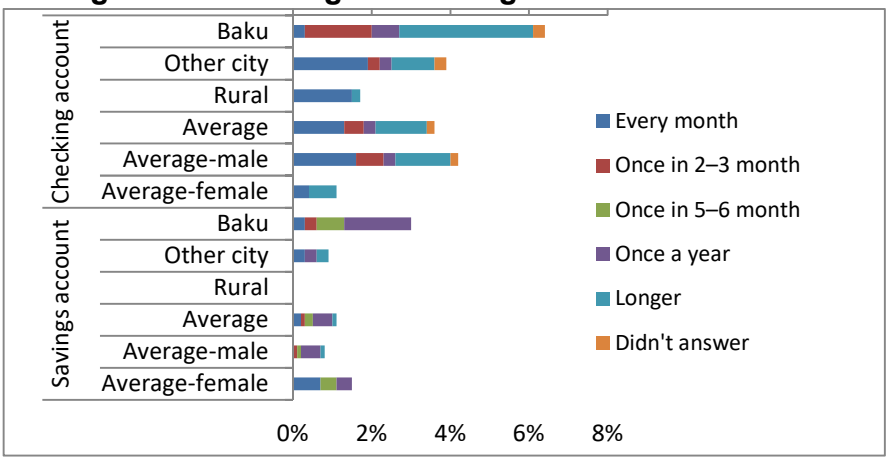
- Salaries, pensions, and benefits are important components of a household's income. Less secure self-employment income was the main source of income for people in rural areas. Over the previous 12 months the average monthly per capita income of households amounted to manat (AZN) 130 ($123). Average monthly per capita income was 89% higher in Baku (AZN192 or $182) than in rural areas (AZN103 or $98).

- Only 1% of respondents reported having used a savings account. Savings accounts are mainly used for personal purposes rather than business and are used primarily to store money in a safe place. In addition, 7% of respondents saved money at home over the 12 months previous to the survey. People save mainly to smooth future consumption when incomes may be lower. Men are more likely to save for income smoothing, emergencies, and weddings. Women save for education. These findings on savings patterns suggest significant scope for designing low-cost savings products that focus on safety and accessibility to money and could pay limited, if any, interest.

Bank Account Use

- Figure 2 shows the very low use of checking and savings accounts across geographical areas and genders.

Figure 2: Checking and Savings Account Use



Source: ADB. Financial Inclusion Survey

- Of the 3.5% of adults who use checking accounts, 53% do so for making payments.

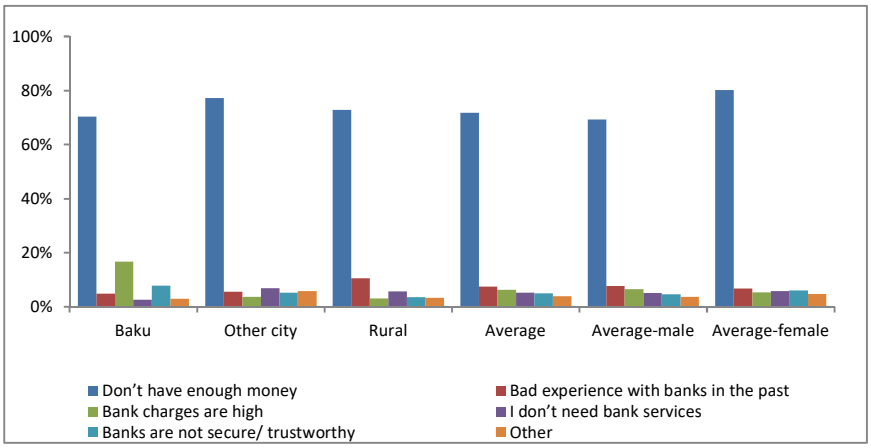
- Figure 3 indicates that among people with no savings or current account, 72% said

[2] In contrast, a World Bank financial sector survey conducted in 2015 found that 36% of adults over 18 years old were financially included. These differences in findings are the result of different definitions of what is considered a "bank account". In this survey, a bank account is defined as a savings account at a licensed bank. In the World Bank survey, a "formal financial account" included any bank or MFI savings or loan account, debit or credit card or mobile money account. Both the broad measure in the World Bank survey, and more detailed findings presented here, can be help the private sector and policymakers to determine various actions. The differences in definitions, however, should be noted.

they did not have enough money to open one, and 8% didn't have such an account because of previous bad experiences with a bank. To improve financial inclusion, efforts should seek to overcome the significant perceptual barrier that a person must have a lot of money to have a savings account.

- Only 37% of respondents, however, had heard of nonbank credit organizations (NBCOs), and 23% were aware of credit unions. This finding regarding the awareness of non-bank financial institutions is likely lower than in other surveys because this survey asked separate questions about specific types of non-bank credit organizations (i.e., MFIs and credit unions) as opposed to lumping several of these institutions together under the same question.

Figure 3: Reasons for Not Having a Bank Account



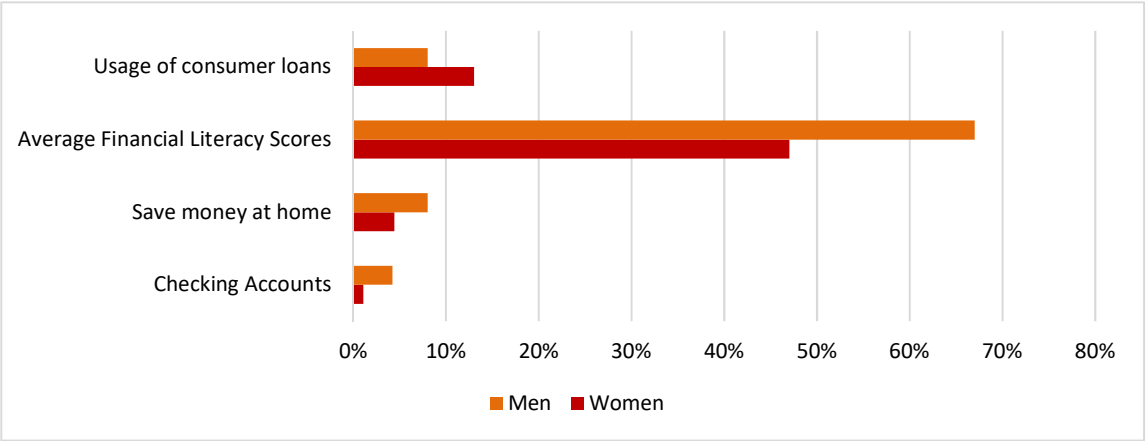
Source: ADB. Financial Inclusion Survey

- Awareness of banks is not the problem as knowledge of banks is universal. This is also generally the case with insurance companies as 90% of consumers were aware of them.

Gender Differences Revealed

- Gender differences in aspects of financial inclusion are consistent and often pronounced as shown in Figure 4. That is, more men have checking accounts (4.2%) than women (1.1%), men use insurance services (28%) considerably more than women (6%), men are nearly twice as likely (8%) to save money at home, than women (4.4%), and the financial literacy questions revealed a 15–20 percentage point shortfall in women's knowledge of financial issues than men. In addition, households headed by women use consumer loans more (13%) than men do (8%). Combined, these indicate a more precarious financial position for women than men.

Figure 4: Gender Difference in Financial Inclusion

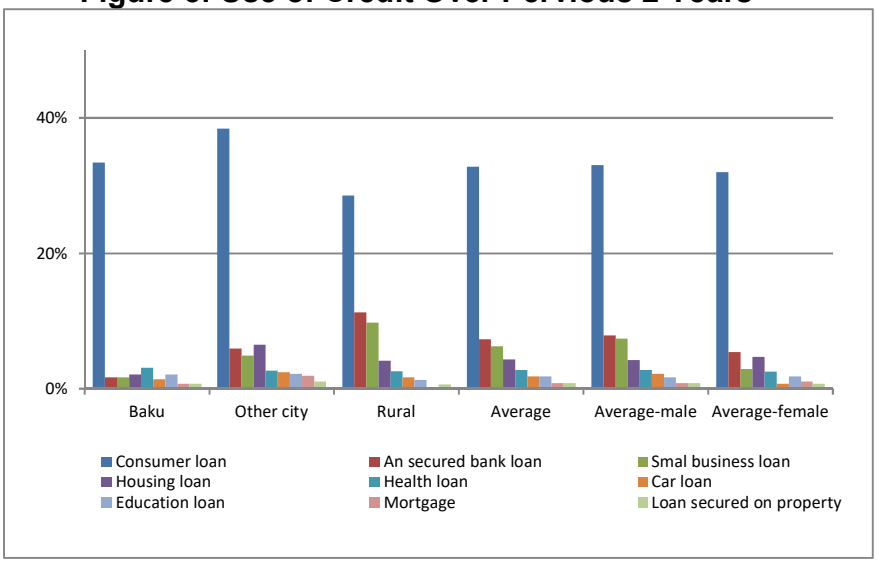


Source: ADB. Financial Inclusion Survey

Credit Use and Bank Cards

- Respondents mainly borrowed from banks (49%) and took money from friends, neighbors, and relatives without interest (26%) to meet needs over the 12 months previous to the survey. Debt from other sources was relatively low.
- As shown in Figure 5, during the 2 years prior to the survey, 32% of respondents used consumer loans, collateralized bank loans at 7%, 6% had small business loans, 3% had health care loans, 2% had auto loans, 2% had education loans, just 1% had mortgages and 4% had housing loans. This limited usage of housing finance and mortgages suggests an area for potential growth.

Figure 5: Use of Credit Over Pervious 2 Years



Source: ADB. Financial Inclusion Survey

- 51.2% of respondents used debit cards and 11.3% used credit cards. Credit card use was considerably lower in rural areas (4%) than Baku (19%) and other urban areas (16%). Over the 12 months previous to the survey, respondents mainly used 1 credit card (9%), and borrowing via credit cards was mainly for consumption purposes (8%).

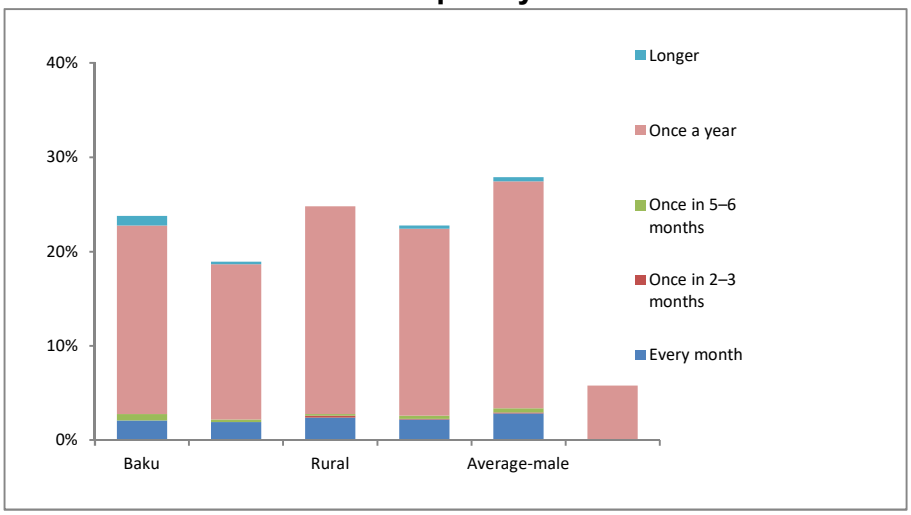
- 35% of respondents had 1 loan, 11% had 2 loans and 3% had 3 or more loans. Loans were taken mainly from banks. This reliance on the formal sector suggests that once the national credit information system is more widely used (it is still a relatively new facility) or once a private credit bureau(s) is in place, credit providers will be better positioned to understand borrowers' debt burdens and capacity to repay. This is critical to protect consumers, aid financial sector stability and improve inclusion.

Insurance

- 23% of respondents had an active insurance product in the previous 2 years: male respondents had a considerably higher percentage of contracting for insurance (28%) than females (6%) as seen in Figure 6.

- Respondents mainly used compulsory auto insurance (16%) and home insurance (4%) over the previous 12 months.
- The perceived high cost of insurance (75%), lack of trust in insurers (49%), and lack of information about insurance services (58%) appears to present significant barriers to sector growth.
- However, more than 57% of the respondents either disagreed, strongly disagree, or were not sure about the statement that insurance is mainly for the rich.
- Similarly, 56% of respondents either disagreed or were not sure about the notion that insurers do not pay benefits. These findings suggest that much work needs to be done to educate consumers about the real benefits, costs, and risks of insurance and not insuring one's assets.

Figure 6: Use of Insurance Services & Premium Payment Frequency

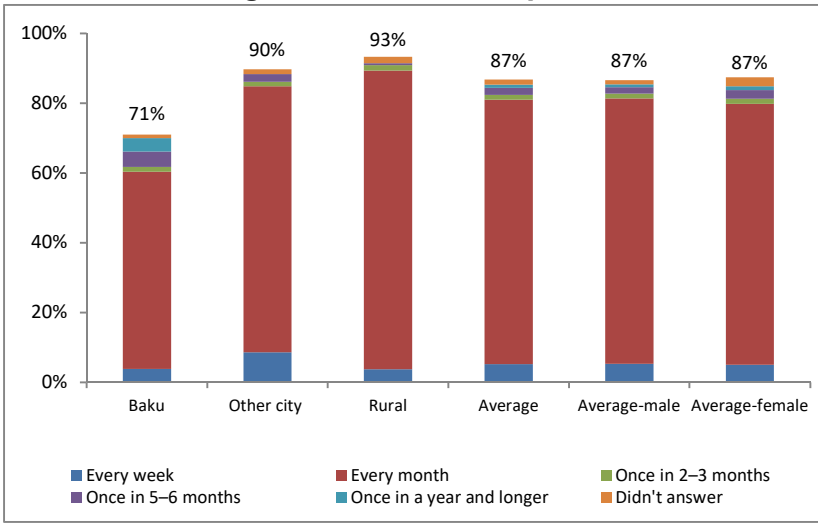


Source: ADB. Financial Inclusion Survey

Payment Services

- Use of stand-alone payment kiosks to initiate electronic transfers differs significantly between Baku (82%), other residential urban areas (52%), and in rural areas (11%), partly reflecting the under-developed infrastructure of payment kiosks outside of Baku.
- 63% of respondents had used ATMs over the previous 2 years. Monthly use of ATMs prevails which is explained by the fact that many employees receive their salaries on cards and immediately withdraw it; card usage for purchases is otherwise limited.
- The relatively high use of kiosks for electronic payments and debit cards for benefit payments, despite low levels account ownership in Azerbaijan, suggests an important potential role for financial technology to deepen financial inclusion.
- Respondents use Azerpost heavily (70%) for a variety of financial and nonfinancial services and most people use it monthly (Figure 7). Seventy percent said that an Azerpost office was less than 1 kilometer from their home. As a result of the proximity to consumers, it's a convenient way for unbanked consumers, especially in rural areas where few other options exist, to make payments or receive remittances.

Figure 7: Use of Azerpost



Source: ADB. Financial Inclusion Survey

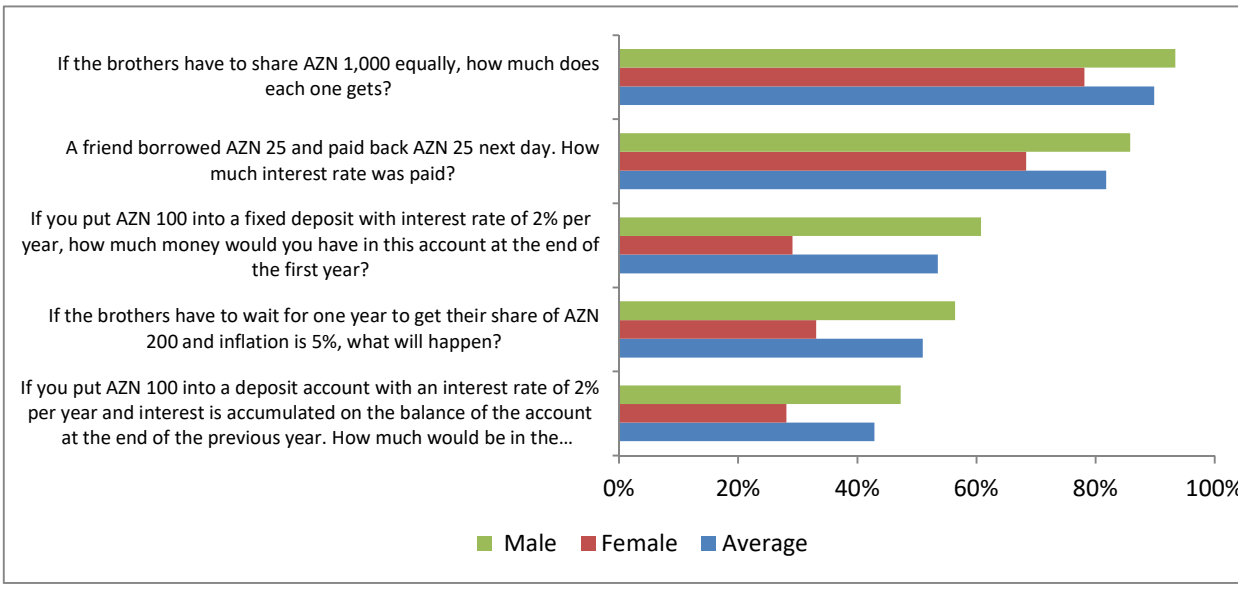
Financial Capability and Attitudes

- Similar to many markets, the advice of friends and relatives (30%) and information from a company representative that offers products (29%) were the main factors influencing a respondent's decision in selecting financial products and services.
- Information transmitted through television impacted the decisions of 55% of respondents who use financial services and information obtained through the internet impacted 10%

of respondents.

- 74% of respondents who use financial services wished the staff of financial service providers gave them more detailed information to make better decisions. This important finding suggests that financial service providers need to do a much better job at educating their clients and ensuring they understand products they select.
- 22% of respondents regretted using a financial service, particularly loans for consumption (74%) and insurance services (11%). This suggests that products helping consumers accumulate assets are preferred. This sentiment could be stronger than under "normal" conditions as the survey was conducted only weeks before the country's second devaluation.
- Five quantitative financial literacy questions were asked of participants as shown in Figure 8. Most people answered the basic math questions correctly, but as questions increased in difficulty, such as enquiring about interest rates, scores consistently decreased. Most notably there are large financial literacy differences between men and women. Addressing these knowledge gaps, which are more pronounced in rural areas, may help women improve their financial inclusion and financial security.

Figure 8: Provided Correct Answer to Financial Literacy Question



Source: ADB. Financial Inclusion Survey

Changes in Financial Status and Authenticating Results through Focus Groups

- The survey indicated that the financial status of most households (62%) deteriorated in 2015 over 2014. For 29% of households, the situation remained the same and 9% saw improvements. Households with worse financial conditions were more common in urban areas, where 80% of respondents had difficulties covering their expenditures in the previous 12 months to the survey. This could be the result of urban households taking on more consumer loans, 35% of urban households had such loans, compared rural households where only 28% had consumer loans.
- 7% of respondents had kept savings at home over the previous 12 months to the survey, putting aside the money mainly as a safeguard against any future diminishing income.
- Respondents use of ATMs (68%), debit cards (58%), payment kiosks (45%), consumer loans (27%) and insurance services (27%), in the previous 2 years and planned use in the coming 2 years did not differ significantly. However, the financial crisis that unfolded since 2015 does appear to be encouraging households to deleverage as 5% and 4% drops in the use of consumer loans and secured bank loans were anticipated by consumers in the next two years. Likewise, consumers anticipated an uptick, albeit a modest 3%, in the usage of savings accounts.

- To understand the financial lives of consumers at a deeper qualitative level than the survey instrument, and after the second devaluation, five focus group meetings were held with clients from non-bank credit institutions in the regions in February 2016. A total of 47 participants were involved, including 32 men and 15 women—mostly aged late 20s to mid-40s. Eighteen participants had some level of higher education and the remaining 29 only had secondary educations. The majority were entrepreneurs in the agriculture and service sectors. Focus group participants stressed the need for longer-term loans, lower interest rates, and lower penalties for restricting loans or late payments made for salaries and benefit payments. Participants also showed interest in learning more about online and mobile banking, the benefits of ATMs and cards, and a broader array of service offerings in the regions, including insurance, mortgages, emergency and education loans.

Conclusion and Recommendations

This in-depth survey of financial services use and perceptions reveals key insights previously not well-understood and provides a detailed picture of the financial lives of adults in Azerbaijan. When considering these findings, the reader should note that the field observations were collected in late 2015 before the second manat devaluation and thus should be seen as a point in time when financial stress was building for consumers. They describe a scenario of economic changes towards a prolonged period of a new “normal” in Azerbaijan. These findings will also serve as an important reference point for the use and

attitudes towards financial services near the start of the current crisis and could help assess the consequences.

Some of the findings which may on a first look appear contradictory—such as 70% of adults using banks for some services but only 4.5% having savings or checking accounts in banks—may be the result of a high fee structure in banks and the lack of trust in banks, as well as lack of transparency and education in financial services. The active use of payment technology at kiosks (41%) and ATMs (63%), but very few people borrowing formally for home (1%) or auto loans (2%), could reflect the use of consumer credit to finance assets and the role of cash in, what is perceived to be, a large grey economy. A more nuanced view toward these apparent contradictions suggests that consumers' financial behaviors are heavily influenced by incentives as they try to best manage their scarce resources. In addition, new insights into women's gaps in financial services use may also be tied to their lower levels of financial literacy.

Statistical tests were conducted on the use of various types of financial institutions (banks, nonbank credit institutions, Azerpost, and insurance companies) and several independent variables were tested to determine correlations. The independent variables tested included income level, education, gender, and proximity to a financial institution. The only strong correlations were found between a user's proximity to a non-bank credit institution or to an insurance company and the likelihood of use. Correlation was weaker to the proximity of Azerpost and use of it.

Based on the survey, the following recommendations are made for improving financial inclusion in Azerbijan:

- Implement a comprehensive financial inclusion strategy that defines targets for improved financial inclusion.
- Expand the network of healthy financial institutions and nonbank credit institutions able to accept savings and support the design of tailored savings products.
- Expand the geographical reach of payment systems through agent banking and the passage of the Payment Services Bill.
- Seek to improve the financial lives of consumers, with a special focus on women, by providing unbiased information on the costs and benefits of savings accounts, payment, credit, and insurance services as part of an effort to increase financial literacy.
- Monitor financial inclusion indicators regularly to measure progress and focus interventions.

I. SOCIAL DEMOGRAPHICS OF SURVEY RESPONDENTS

1.1 Social-demographic characteristics of households

Survey household members were 50.8% men and 49.2% women. The majority of household members (80%) consisted of parents and children and the average size of the household was 4.01 people, slightly below the national average. The average size of households was slightly bigger in rural areas than urban. And composition of household members was quite young: 22% children (0-14 years) and 16% youth (15-24 years).

Working family members were mainly employed in the public and private sectors (20.6%), as well as engaged in self-employment (9.9%). Around 9.8% of household members indicated that they were unemployed and actively looking for a job.

Around 46% of household members had income sources. Vocational Education and Training among household members was around two times higher in Baku than in rural areas.

Table 1.1: Social-Demographic Status of Households

Baku		Other city		Rural		Total	
n*	%	n		%	n	%	n	%
570	51.8	699	Male	48.0	1,175	52.1	2,444	50.8
531	48.2	758	Female	52.0	1,080	47.9	2,369	49.2
1,101	100.0	1457	Total	100.0	2,255	100.0	4,813	100.0
			Relationship to the household head					
290	26.3	370	Head of household	25.4	540	23.9	1,200	24.9
213	19.3	263	Spouse/unofficial marriage	18.1	443	19.6	919	19.1
413	37.5	516	Son/daughter	35.4	780	34.6	1,709	35.5
99	9.0	150	Grandchildren	10.3	227	10.1	476	9.9
10	0.9	46	Parent/father	3.2	85	3.8	141	2.9
6	0.5	15	Brother/sister	1.0	25	1.1	46	1.0
56	5.1	77	Daughter-in-law	5.3	139	6.2	272	5.7
14	1.3	20	Other	1.4	16	0.7	50	1.0
			Age					
221	20.1	324	0–14 years	22.2	502	22.3	1,047	21.8
60	5.4	92	15–19 years	6.3	146	6.5	298	6.2
102	9.3	117	20–24 years	8.0	244	10.8	463	9.6
127	11.5	132	25–29 years	9.1	211	9.4	470	9.8
93	8.4	122	30–34 years	8.4	163	7.2	378	7.9
79	7.2	105	35–39 years	7.2	122	5.4	306	6.4
81	7.4	99	40–44 years	6.8	106	4.7	286	5.9
64	5.8	81	45–49 years	5.6	142	6.3	287	6.0
99	9.0	100	50–54 years	6.9	198	8.8	397	8.2

Baku		Other city		Rural		Total	
n*	%	n		%	n	%	n	%
76	6.9	89	55–59 years	6.1	161	7.1	326	6.8
79	7.2	136	60–69 years	9.3	158	7.0	373	7.7
20	1.8	60	70 and higher	4.1	102	4.5	182	3.8
			Marital status					
560	50.9	722	Married	49.6	1,201	53.3	2,483	51.6
234	21.3	260	Single	17.8	389	17.3	883	18.3
56	5.1	114	Widowed	7.8	132	5.9	302	6.3
27	2.5	34	Divorced/separated	2.3	30	1.3	91	1.9
2	0.2	3	Other	0.2	0	0.0	5	0.1
222	20.2	324	Less than 15 years	22.2	503	22.3	1,049	21.8
			Education level					
1	0.1	8	No education	0.5	32	1.4	41	0.9
21	1.9	30	Kindergarten/preschool training	2.1	35	1.6	86	1.8
73	6.6	167	Elementary/primary	11.5	242	10.7	482	10.0
77	7.0	97	Basic (9 years)	6.7	194	8.6	368	7.6
436	39.6	593	Secondary (11 years)	40.7	1,097	48.6	2,126	44.2
47	4.3	30	Initial vocational	2.1	67	3.0	144	3.0
106	9.6	180	Secondary-specialized vocational education	12.4	177	7.8	463	9.6
251	22.8	216	Higher education (bachelor and master)	14.8	171	7.6	638	13.3
4	0.4	0	Candidate/doctor of sciences	0.0	0	0.0	4	0.1
0	0.0	1	Other	0.1	0	0.0	1	0.0
84	7.6	134	Less than 6 years	9.2	238	10.6	456	9.5
1	0.1	1	Didn't answer	0.1	2	0.1	4	0.1
			Engagement status					
158	14.4	212	Public sector employee	14.6	271	12.0	641	13.3
162	14.7	117	Private sector employee	8.0	71	3.1	350	7.3
1	0.1	2	Employee of nongovernmental organization	0.1	6	0.3	9	0.2
10	0.9	13	Entrepreneur	0.9	15	0.7	38	0.8
87	7.9	86	Self-employment	5.9	303	13.4	476	9.9
3	0.3	9	Temporary/seasonal work	0.6	25	1.1	37	0.8
0	0.0	1	Unpaid household work (assistance in farm and household work)	0.1	58	2.6	59	1.2
196	17.8	175	Housewife	12.0	359	15.9	730	15.2
87	7.9	169	Student	11.6	240	10.6	496	10.3
103	9.4	231	Pensioner	15.9	316	14.0	650	13.5
74	6.7	185	Unemployed (job-seeker)	12.7	215	9.5	474	9.8
16	1.5	26	Unemployed (non job-seeker)	1.8	15	0.7	57	1.2
199	18.1	231	Less than 15 years	15.9	357	15.8	787	16.4

Baku		Other city		Rural		Total	
n*	%	n		%	n	%	n	%
2	0.2	0	Army	0.0	2	0.1	4	0.1
3	0.3	0	Didn't answer	0.0	2	0.1	5	0.1
1,101	**100.0**	**1,457**	Total	**100.0**	**2,255**	**100.0**	**4,813**	**100.0**
3.80		**3.93**		**4.18**		Average size of family (p)		**4.01**

* n = number.
Source: ADB. Financial Inclusion Survey.

1.2 Social-demographic characteristics of respondents (heads of households)

As can be seen from the table below, the majority of household heads were men (77%) and the majority of heads of households who participated in the survey were above 40 years (83.3%). This age cohort was higher among female heads of households than male heads of households. Married people constituted 77.3% of respondents. Female heads of households were mainly widows and divorced (74.1%).

Around 42.4% of respondents had Vocational Education and Training education. This figure was higher in urban areas than rural areas, as well as it was higher among men than women. This conforms to the existing national statistic indicator.

People working in public and private sectors, self-employed, and retired people were the majority of survey participants. Heads of households in Baku (47.6%) and other urban areas (36.9%) were mainly engaged in paid employment, while the self-employed were higher in rural areas (29.6%) (Table 1.2).

Table 1.2: Social-Demographic Status of Respondents

	Baku		Other city/town		Rural		Male		Female		Total	
	n*	%	n	%	n	%	n	%	n	%	n	%
Age												
15–19 years	0.0	.0	1.0	0.0	0.0	.0	1.0	.1	0.0	.0	1.0	.1
20–24 years	2.0	.7	6.0	1.6	5.0	.9	11.0	1.2	2.0	.7	13.0	1.1
25–29 years	5.0	1.7	19.0	5.1	17.0	3.1	35.0	3.8	6.0	2.2	41.0	3.4
30–34 years	20.0	6.9	16.0	4.3	48.0	8.9	76.0	8.2	8.0	2.9	84.0	7.0
35–39 years	25.0	8.6	29.0	7.8	44.0	8.1	82.0	8.9	16.0	5.8	98.0	8.2
40–44 years	33.0	11.4	45.0	12.2	44.0	8.1	94.0	10.2	28.0	10.1	122.0	10.2
45–49 years	35.0	12.1	39.0	10.5	58.0	10.7	103.0	11.2	29.0	10.4	132.0	11.0
50–54 years	59.0	20.3	57.0	15.4	96.0	17.8	166.0	18.0	46.0	16.5	212.0	17.7
55–59 years	48.0	16.6	50.0	13.5	95.0	17.6	149.0	16.2	44.0	15.8	193.0	16.1
60–69 years	52.0	17.9	77.0	20.8	87.0	16.1	145.0	15.7	71.0	25.5	216.0	18.0
70 and higher	11.0	3.8	31.0	8.4	46.0	8.5	60.0	6.5	28.0	10.1	88.0	7.3
Marital status												
Single	13.0	4.5	14.0	3.8	8.0	1.5	25.0	2.7	10.0	3.6	35.0	2.9
Married	219.0	75.5	267.0	72.2	441.0	81.7	865.0	93.8	62.0	22.3	927.0	77.3
Widowed	41.0	14.1	69.0	18.6	78.0	14.4	24.0	2.6	164.0	59.0	188.0	15.7
Divorced/separated	17.0	5.9	20.0	5.4	13.0	2.4	8.0	.9	42.0	15.1	50.0	4.2
Education												
No education	0.0	.0	2.0	.5	6.0	1.1	1.0	.1	7.0	2.5	8.0	.7
Elementary/primary	2.0	.7	5.0	1.4	9.0	1.7	7.0	.8	9.0	3.2	16.0	1.3
Basic (9 years)	5.0	1.7	20.0	5.4	36.0	6.7	28.0	3.0	33.0	11.9	61.0	5.1
Secondary (11 years)	127.0	43.8	172.0	46.5	304.0	56.3	472.0	51.2	131.0	47.1	603.0	50.3
Initial vocational	20.0	6.9	17.0	4.6	36.0	6.7	60.0	6.5	13.0	4.7	73.0	6.1
Secondary-specialized vocational education	43.0	14.8	66.0	17.8	71.0	13.1	135.0	14.6	45.0	16.2	180.0	15.0
Higher education (bachelor and master)	90.0	31.0	87.0	23.5	78.0	14.4	216.0	23.4	39.0	14.0	255.0	21.3
Candidate/doctor of sciences	2.0	.7	0.0	.0	0.0	.0	2.0	.2	0.0	.0	2.0	.2
Didn't answer	1.0	.3	1.0	.3	0.0	.0	1.0	.1	1.0	.4	2.0	.2

	Baku		Other city/town		Rural		Male		Female		Total	
	n*	%	n	%	n	%	n	%	n	%	n	%
Engagement status												
Public sector	69.0	23.8	78.0	21.1	132.0	24.4	219.0	23.8	60.0	21.6	279.0	23.3
Private sector employee	69.0	23.8	57.0	15.4	24.0	4.4	125.0	13.6	25.0	9.0	150.0	12.5
Employee of nongovernment organization	0.0	.0	1.0	.3	2.0	.4	3.0	.3	0.0	.0	3.0	.3
Entrepreneur	6.0	2.1	10.0	2.7	10.0	1.9	24.0	2.6	2.0	.7	26.0	2.2
Self-employment	50.0	17.2	57.0	15.4	160.0	29.6	253.0	27.4	14.0	5.0	267.0	22.3
Temporary/seasonal works	0.0	.0	4.0	1.1	8.0	1.5	12.0	1.3	0.0	.0	12.0	1.0
Unpaid household works (assistance in farm and household works)	0.0	.0	0.0	.0	31.0	5.7	25.0	2.7	6.0	2.2	31.0	2.6
Housewife	8.0	2.8	14.0	3.8	18.0	3.3	0.0	.0	40.0	14.4	40.0	3.3
Student	2.0	.7	3.0	.8	0.0	.0	4.0	.4	1.0	.4	5.0	.4
Pensioner	65.0	22.4	112.0	30.3	127.0	23.5	189.0	20.5	115.0	41.4	304.0	25.3
Unemployed (job-seeker)	16.0	5.5	34.0	9.2	28.0	5.2	64.0	6.9	14.0	5.0	78.0	6.5
Unemployed (non job-seeker)	5.0	1.7	0.0	.0	0.0	.0	4.0	.4	1.0	.4	5.0	.4
Total	**922**	**100.0**	**278**	**100.0**	**1200**	**100.0**	**290**	**100.0**	**370**	**100.0**	**540**	**100.0**

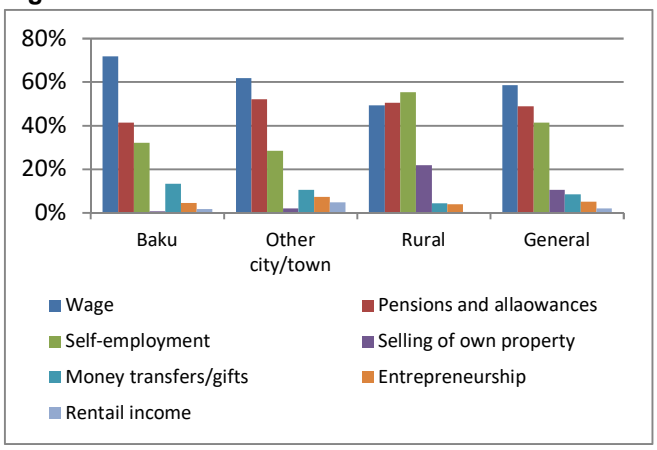
* n = number.
Source: ADB. Financial Inclusion Survey.

1.3 Household Income and Financial Management

Figure 1.1 suggests that salaries, pensions, and benefits played an important role in household income in the year previous to the survey. In total, 58.6% of households received income in the form of salary and 48.8% as pensions and benefits. Although the same tendency was observed in Baku and other urban areas, self-employment, pension and benefits were most common in the incomes of rural households (55.4% and 50.6%, respectively).

Over the 12 months previous to the survey, the average monthly per capita income of households amounted to AZN130, which was AZN192 in Baku and AZN103 in rural areas (Figure 1.2). Analyses show that the share of low-income households was higher in rural and other urban areas, than Baku. Thus, households with less than 100 AZN per

Figure 1.1: Sources of Household Income[3]



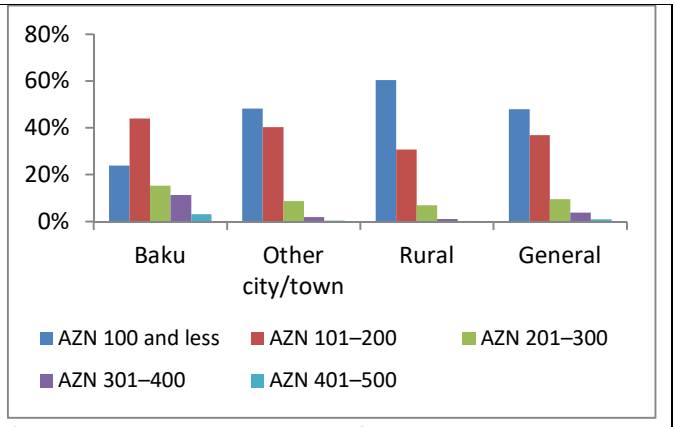
Source: ADB. Financial Inclusion Survey

Figure 1.2: Average Monthly Incomes per Households

[3] The term "General" refers to the average value.

capita cash income were 60% in rural areas, 48% in other urban areas, and 24% in Baku.

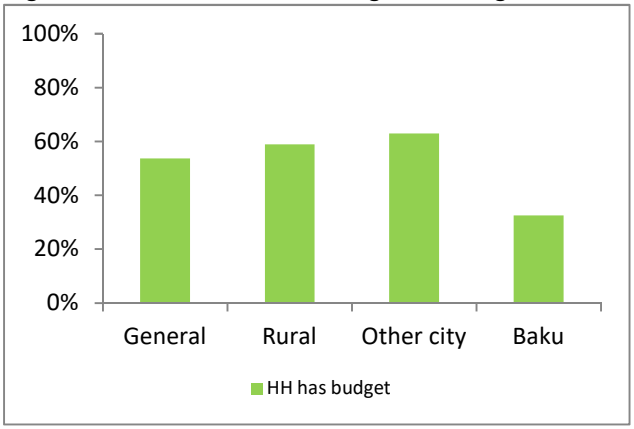
Of the surveyed households, 5.1% were engaged in entrepreneurship, of which 11% employed at least one non-household member. This indicator was the highest in Baku and other urban areas (15%), and lowest in rural areas (5%). All respondents who employed external people paid salaries in cash.



Source: ADB. Financial Inclusion Survey.

As figure 1.3 makes clear, 54% of respondents indicated having a household budget. In this survey, household budget meant planning what share of household income should go to expenditures, savings, and payment of debts.

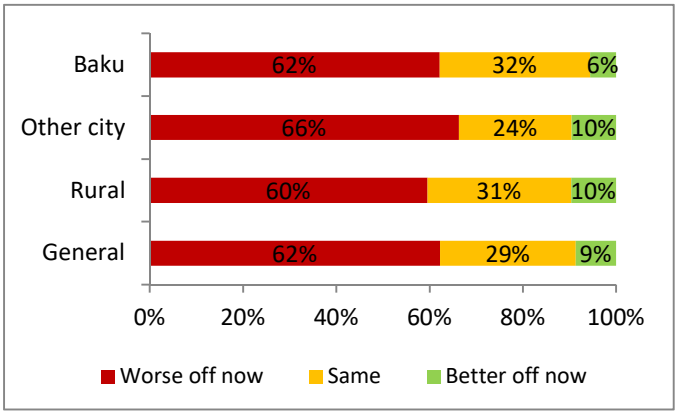
Figure 1.3: Households with Budget Planning



Source: ADB. Financial Inclusion Survey.

The financial status of the majority of households (62%) deteriorated in the year immediately prior to the survey in comparison with the previous one. As can be seen from Figure 1.4, 29% of households' financial status remained the same in year previous to the survey, and 9% of households said they were better off. Households with deteriorated financial conditions were most common in other urban areas. Devaluation of the national currency (manat) in 2015, a decrease of investment expenditures in the state budget, a slow-down in economic activity, a fall in GDP, and lower remittances from workers in neighbouring countries were among the main reasons leading to the deterioration in household financial condition. Although this matches the overall tendency in the country, this is a subjective assessment and may not accurately reflect the real situation. It

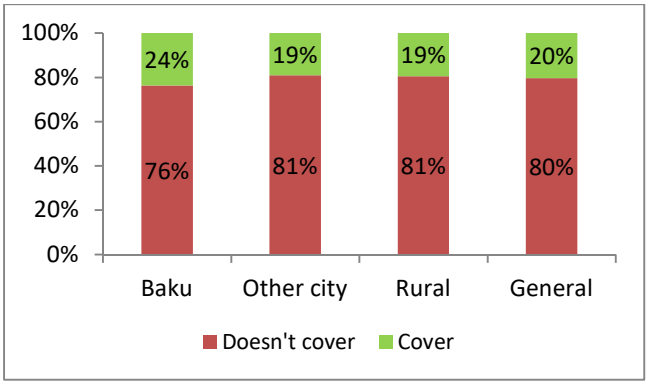
Figure 1.4: Financial Situation of Households than the Previous Year



Source: ADB. Financial Inclusion Survey.

Figure 1.5: Coverage Rate of Incomes of Household Expenditures Over the Previous 12 Months

nonetheless gives an impression of how respondents themselves evaluate their own financial condition.

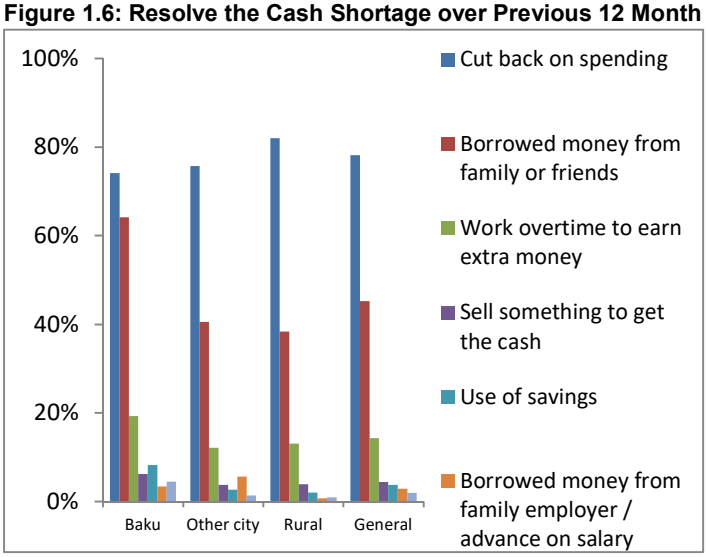


Source: ADB. Financial Inclusion Survey.

Among respondents, 80% said that over the previous 12 months, household income was insufficient to cover expenditures (Figure 1.5). This figure was higher in rural and urban areas other than Baku.

Source: Financial Inclusion Survey.

Figure 1.6: Resolve the Cash Shortage over Previous 12 Month



Source: ADB. Financial Inclusion Survey.

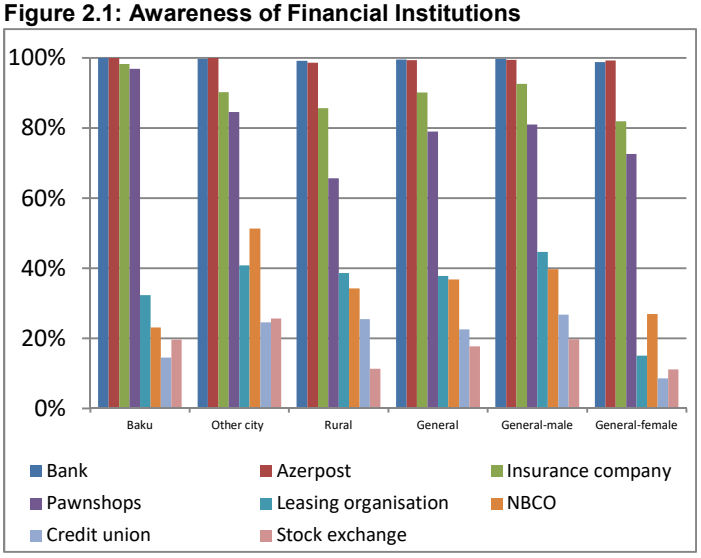
Figure 1.6 shows that heads of households mainly reduced expenditures (78%) and borrowed from relatives and friends (45%) to resolve cash shortages. The share of households that cut expenditures was higher in other urban and rural areas than in Baku, while people who borrowed from relatives and friends was higher (at 64%) in Baku than in other areas and may explain why Baku residents indicated they could cover expenses better.

II. ACCESS TO FINANCIAL SERVICES

2.1 Awareness of Financial Institutions

Figure 2.1 shows that people who were aware of banks (100%), Azerpost (94%) and insurance companies (90%) were most common in all residential areas. People in other urban and rural areas are more informed about nonbank credit institutions (NBCI) and credit unions. This explained the large-scale activities of nonbank credit organizations and credit unions in Azerbaijan's regions. People aware of pawnshops was higher in the Baku (97%) than in other residential areas.

Figure 2.1: Awareness of Financial Institutions



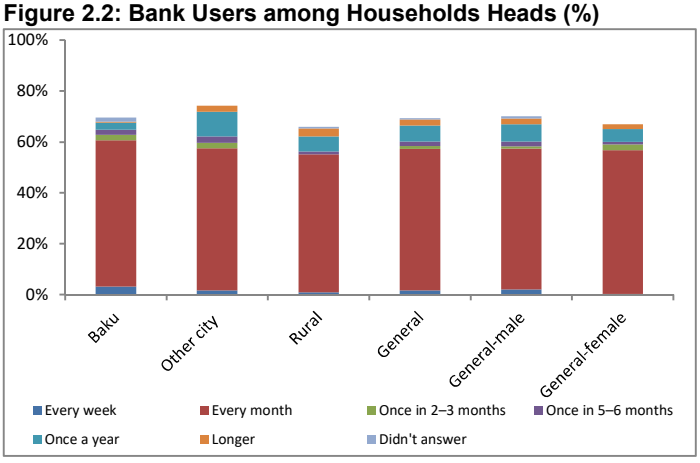
Source: ADB. Financial Inclusion Survey.

Only 18% of respondents had heard about stock exchanges. Men were better informed about all financial institutions than women.

2.2 Banks

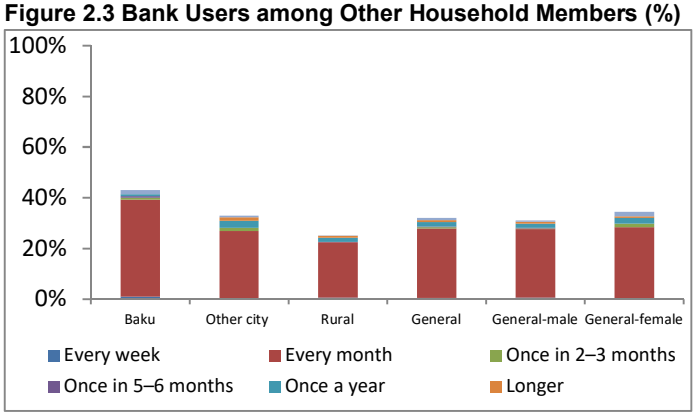
Figure 2.2 indicates that 70% of respondents used banks, with the share higher among men than women. Around 57% of respondents said that they usually used banks once a month. Use of banks among other members of households was 32% (Figure 2.3). Use of banks among female headed households was relatively lower than male. Use was higher in Baku than in other residential areas, and females using banks more than males. As noted, 77% of "heads of households" are male and the second active member of households in most of cases are female (wife).

Figure 2.2: Bank Users among Households Heads (%)



Source: ADB. Financial Inclusion Survey

Figure 2.3 Bank Users among Other Household Members (%)

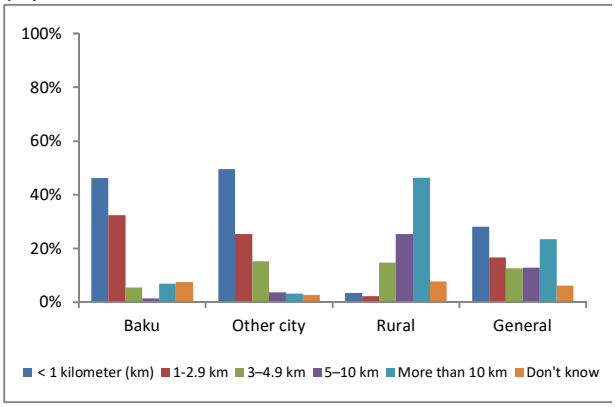


Source: ADB. Financial Inclusion Survey.

Around 29% of respondents said that banks were situated within one kilometre (Figure 2.4) of their household, with more people saying that in Baku and other urban areas. Distances from rural households to banks were longer, with 46% of rural households saying that the distance between the bank and their home was more than 10 kilometres.

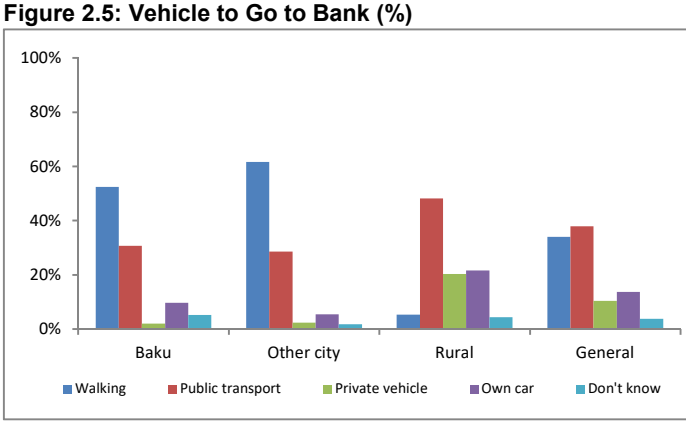
The distance between the financial institution and the home was the main factor determining the means of transport to the bank. Thus, in Baku, 52%, and in other urban areas, 62%, of respondents usually went to the bank on foot, while in rural areas, 67% used vehicles (Figure 2.5).

Figure 2.4: Distance between Household and Bank (%)



Source: ADB. Financial Inclusion Survey.

Figure 2.5: Vehicle to Go to Bank (%)

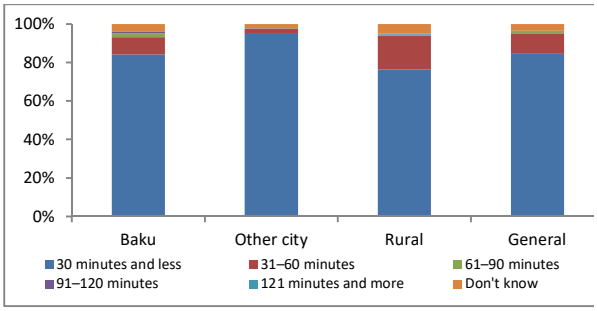


Source: ADB. Financial Inclusion Survey.

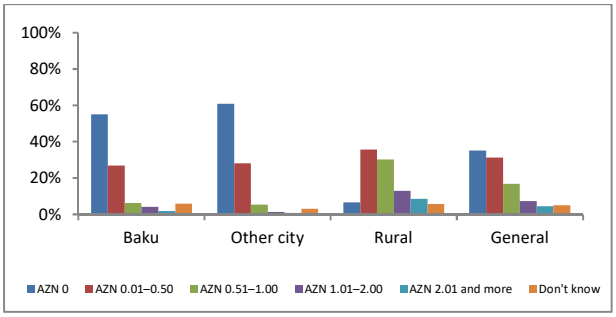
Among respondents, 84% traveled 30 minutes to go to the bank on foot or with a vehicle (Figure 2.6), while people in rural areas required more time. Among respondents, 19% of those in rural areas took more than 30 minutes to go to the bank, which is reflected in higher costs to reach the bank. Baku respondents and in other urban areas with a vehicle spent up to AZN0.5 to go to the bank, but respondents spent more than AZN0.5 in rural areas (Figure 2.7). Moreover, for 55% of respondents in Baku and 61% in other urban areas, trips to the bank were cost free. This figure was just 7% in rural areas.

Figure 2.6: Time to Travel to the Bank (%)

Figure 2.7: Cost of Travel to the Bank (%)



Source: ADB. Financial Inclusion Survey.

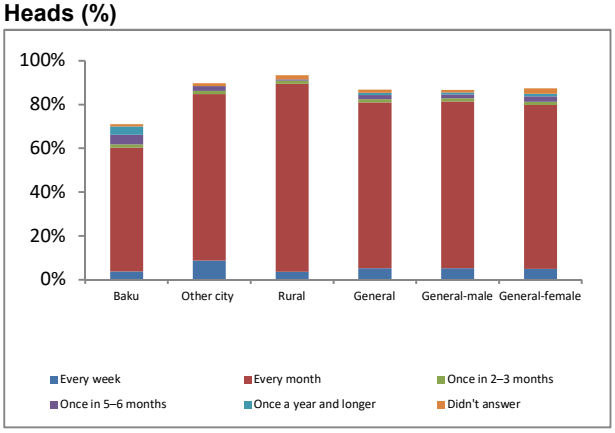


Source: ADB. Financial Inclusion Survey.

2.3 Azerpost

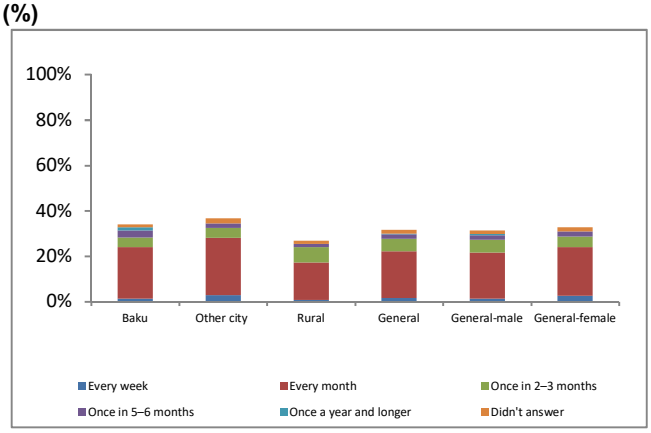
Figure 2.8 suggests that 87% of respondents used Azerpost and even higher in rural areas. Around 76% of respondents used Azerpost once a month. Use of post services by other members of households was 32% (Figure 2.9). In female-headed households, other household members used Azerpost more than men.

Figure 2.8: Users of Azerpost among Households Heads (%)



Source: ADB. Financial Inclusion Survey.

Figure 2.9: Users of Azerpost among Household Members (%)



Source: ADB. Financial Inclusion Survey.

Around 70% of general respondents said the distance between Azerpost and their home was up to 1 kilometre (Figure 2.10), 85% of respondents in Baku, and 61% in villages. Because the distance from the home to Azerpost is not long in all residential areas, people usually walked (Figure 2.11). Thus, 77% of respondents needed no vehicle for travel to the post office, even more in Baku, and less in rural areas.

Figure 2.10: Distance between Azerpost and Home (%)

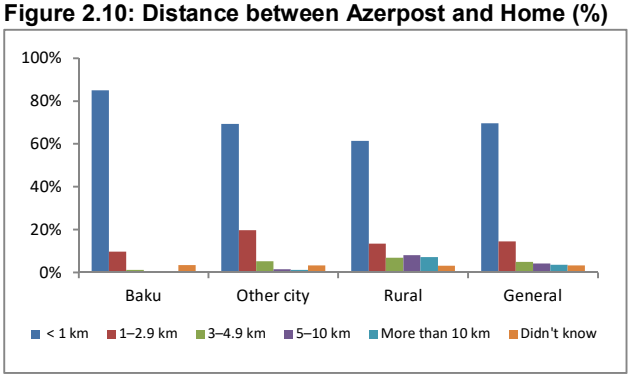
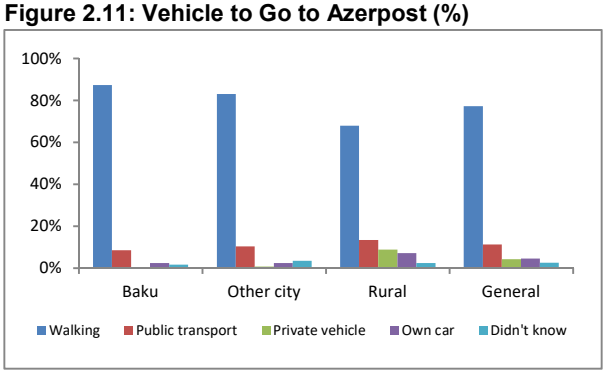


Figure 2.11: Vehicle to Go to Azerpost (%)

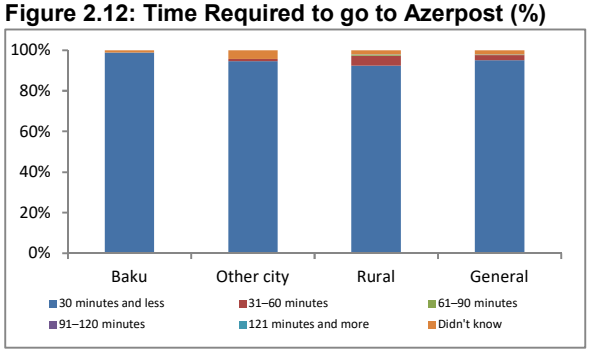


Source: ADB. Financial Inclusion Survey.

Source: ADB. Financial Inclusion Survey.

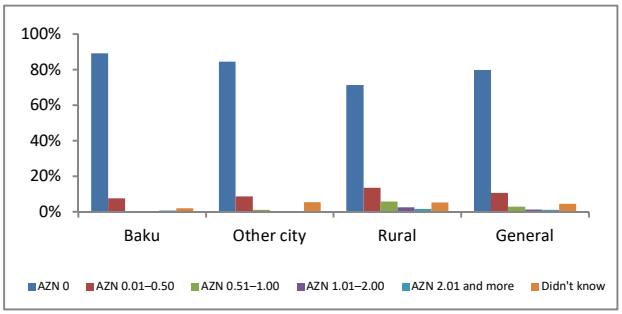
Figure 2.12 indicates that 95% of respondents spent up to 30 minutes to go to the bank on foot or with a vehicle. It took more time for this purpose in rural areas. As the distance from Azerpost to homes is short in all residential areas and no vehicle is used, 80% of respondents spent no money to go to Azerpost (Figure 2.13). This indicator is a little bit higher in Baku and other urban areas, and lower in rural areas. These findings highlight the potential important role of Azerpost, as an agent or directly, for financial inclusion.

Figure 2.12: Time Required to go to Azerpost (%)



Source: ADB. Financial Inclusion Survey.

Figure 2.13: Cost to Go to Azerpost (%)

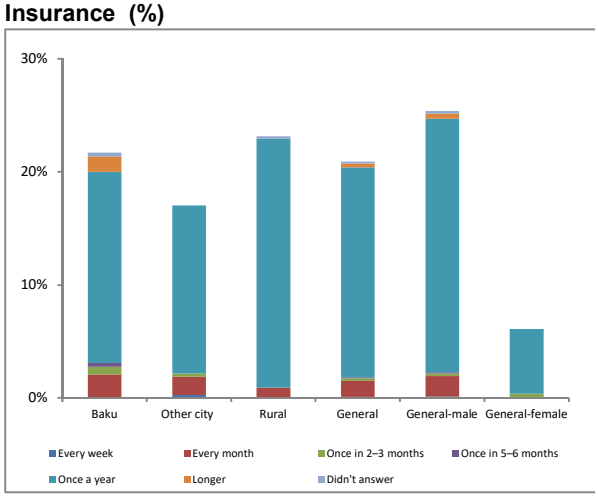


Source: ADB. Financial Inclusion Survey.

2.4 Insurance companies

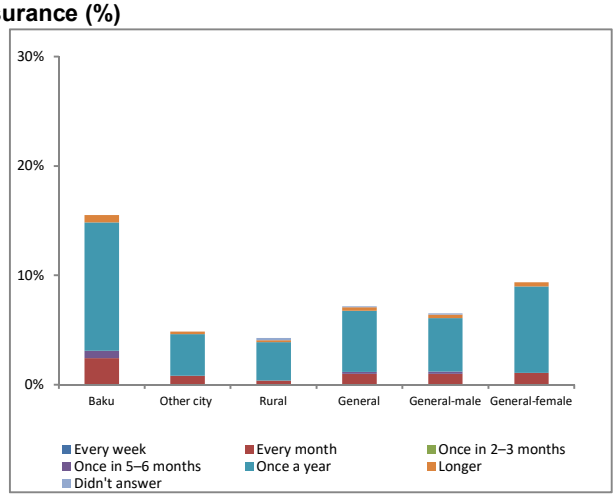
Figure 2.14 shows that 21% of respondents used insurance company services. Male respondents resort to insurance companies more than female. This is explained by the prevalence of people who had compulsory car insurance, and the fact that more men tend to own cars than women. In female-headed households, the share of other household members using insurance companies was higher than in male-headed households (Figure 2.15). In Baku, use of insurance companies among other household members (16%) was considerably higher than in other urban residential areas.

Figure 2.14: Household Heads Frequency of Using Insurance (%)



Source: ADB. Financial Inclusion Survey.

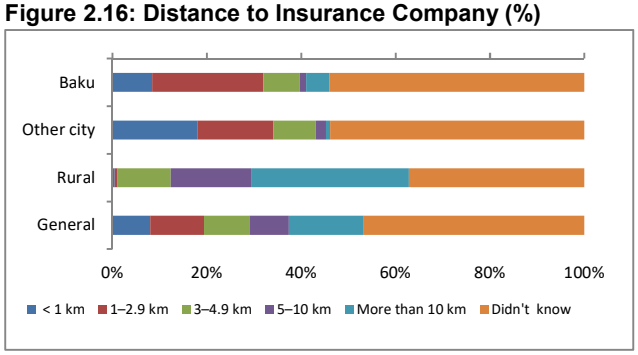
Figure 2.15 Other Household Members Frequency of Using Insurance (%)



Source: ADB. Financial Inclusion Survey.

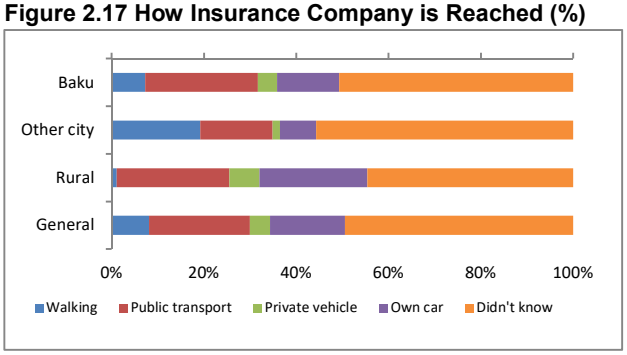
Figure 2.16 shows that 52% of respondents knew the distance from home to insurance company, while others had no idea or had never heard of insurance companies. Given this, half of respondents did not know how to go to the insurance company (Figure 2.17).

Figure 2.16: Distance to Insurance Company (%)



Source: ADB. Financial Inclusion Survey.

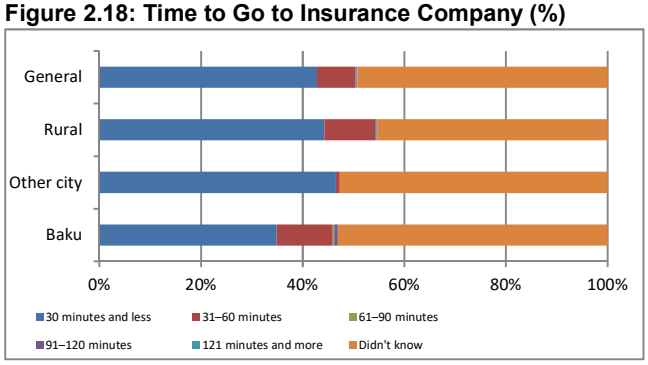
Figure 2.17 How Insurance Company is Reached (%)



Source: ADB. Financial Inclusion Survey.

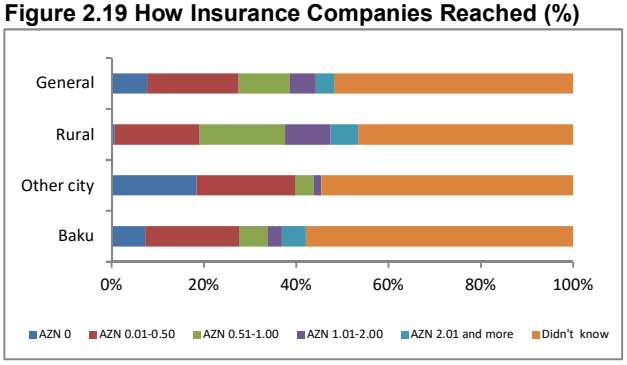
The majority of respondents were unaware of the location of insurance companies or distance to them, and naturally, therefore, had no accurate information about the time and funds required to go to one (Figures 2.18–2.19). The number of respondents without information was higher in other urban and rural areas.

Figure 2.18: Time to Go to Insurance Company (%)



Source: ADB. Financial Inclusion Survey

Figure 2.19 How Insurance Companies Reached (%)



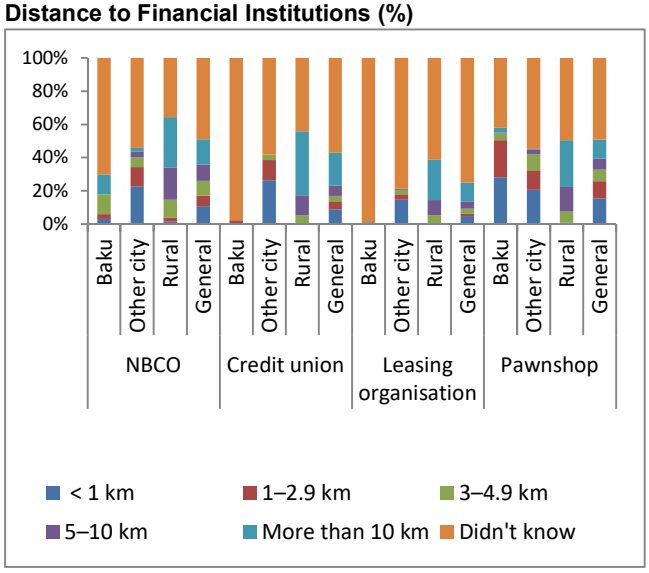
Source: ADB. Financial Inclusion Survey

2.5 Other financial institutions

The survey indicated that a great majority of respondents had never heard of nonbank credit organizations, credit unions, leasing companies, and pawnshops, or had no information about their locations, distances, time, and funds to reach them (Figure 2.20).

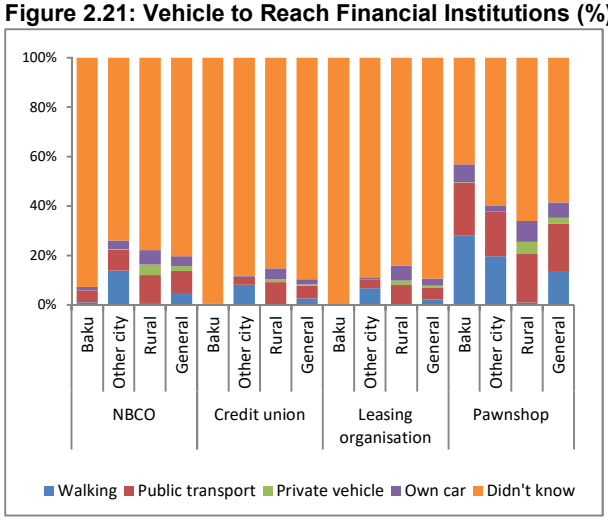
Because nonbank credit organizations and credit unions are largely operated in regions, the level of awareness about those institutions was higher in other urban and rural areas than in Baku. Furthermore, since "Agro-leasing" company (which purchases agricultural machinery, fertilizers, pedigree cattle and productive seeds with government funds to sells them to farms at concessional prices) operates in regions, the level of awareness about leasing companies was higher in other urban and rural areas than Baku. More people know about pawnshops in Baku, where they are prevalent.

Figure 2.20: Access to Other Financial Institutions, Distance to Financial Institutions (%)



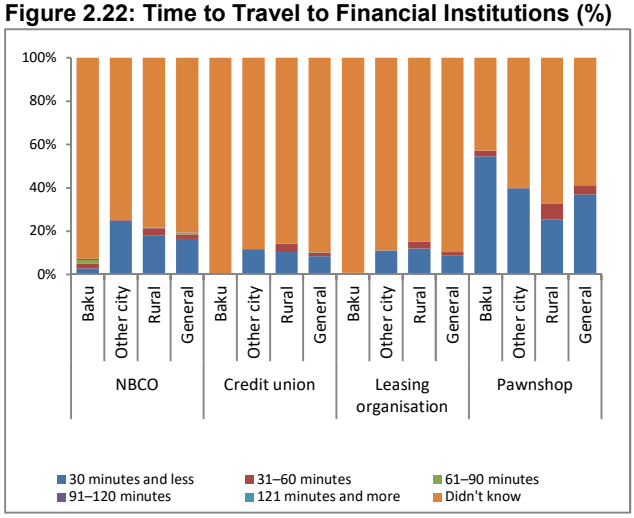
Source: ADB. Financial Inclusion Survey.

Figure 2.21: Vehicle to Reach Financial Institutions (%)



Source: ADB. Financial Inclusion Survey.

Figure 2.22: Time to Travel to Financial Institutions (%)



Source: ADB. Financial Inclusion Survey.

III.FINANCIAL SERVICES AND PRODUCTS

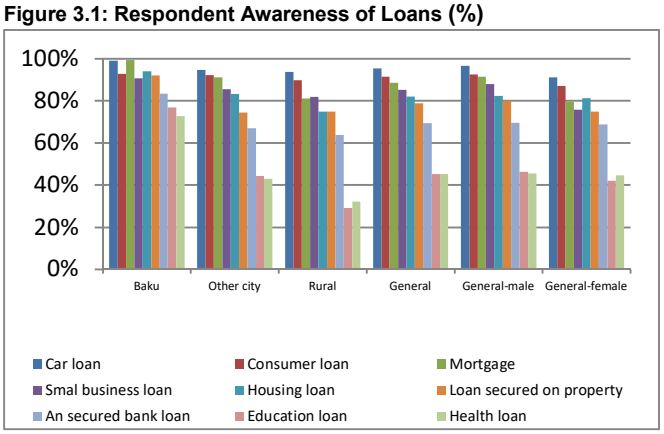
3.1 Loans

As can be seen from the analysis of the survey results, respondents' awareness of different types of loans varied (Figure 3.1). Almost all respondents in Baku had heard of mortgages and car loans. Fewer people knew about education and health care loans in rural areas than did respondents in other residential areas. Men were better informed than women about all types of loans.

Figure 3.2 shows that respondents mainly used consumer loans over the previous 2 years; 33% of heads of households benefitted from that type of loan over that period. Consumer loans were used more in other urban areas (38%). People who used collateral (real estate) and small business loans were more numerous in rural areas than other residential areas. Over the previous 2 years to the survey, more men received loans than women.

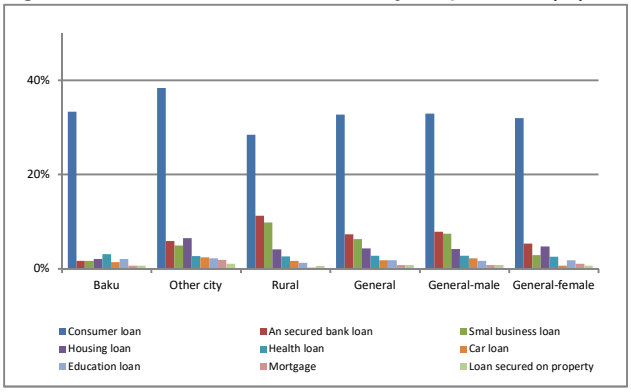
In addition to heads of households, other members of households had also used loans over the previous 2 years (Figure 3.3). Other members of households mainly used consumer loans (9%). Other members of households in Baku used more loans. Moreover, in families with female heads of household other members used more loans than men.

Figure 3.1: Respondent Awareness of Loans (%)



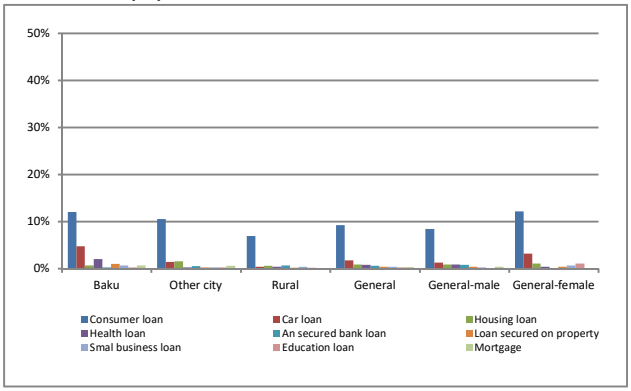
Source: ADB. Financial Inclusion Survey.

Figure 3.2: Destination of Loans Used by Respondents (%)



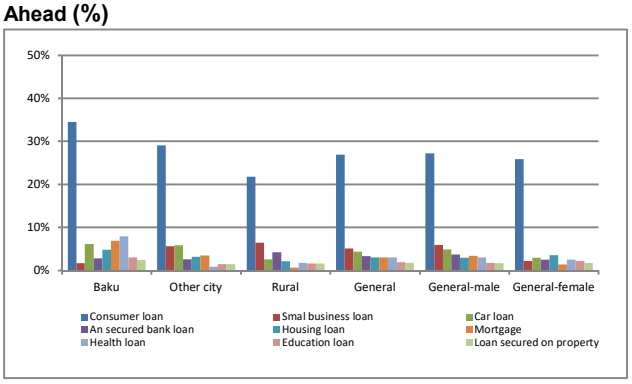
Source: ADB. Financial Inclusion Survey.

Figure 3.3: Destination of Loans Used by Other Members of Households (%)



Source: ADB. Financial Inclusion Survey.

Figure 3.4: Credit Services Respondents Planning Period 2 Years Ahead (%)



Source: ADB. Financial Inclusion Survey.

According to Figure 3.4, 27% of respondents were planning to use consumer loans, 5% small business, and 4% car credits in the coming 2 years. People who were planning to use other loans was relatively lower. People willing to get consumer loans in the coming 2 years were most common in Baku (35%), while those planning to get small business loans were higher in rural areas (6%). More men were planning to get loans than women for the majority of loan types.

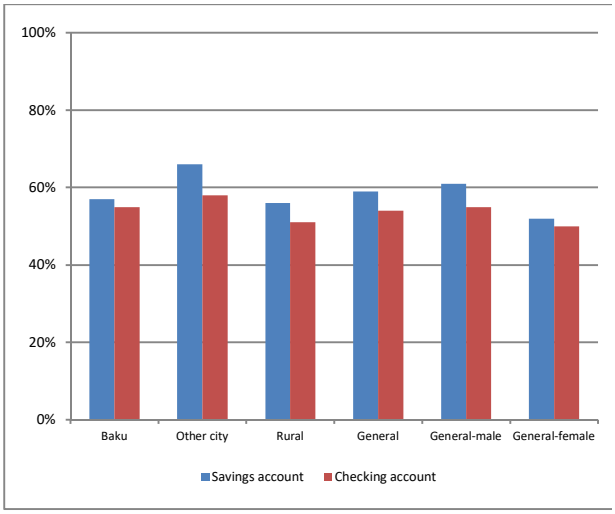
3.2 Bank accounts

Among respondents, 54% had heard of checking accounts and 59% of savings accounts (Figure 3.5), while in other urban areas, respondents' awareness of those bank accounts was higher (66% and 58%). More respondents had heard of deposit accounts than checking accounts, and men were more informed about bank accounts than women. A very small percentage of respondents used current and savings accounts at banks over the previous 2 years; 3.5% of respondents had checking accounts and 1% savings accounts.[4] Respondents who used both current and savings accounts over the previous 2 years was higher in Baku than other residential areas. More men (4.2%) held checking accounts than women did (1.1%); 3.8% of respondents had one account and 0.3% had two accounts (both current and deposit).

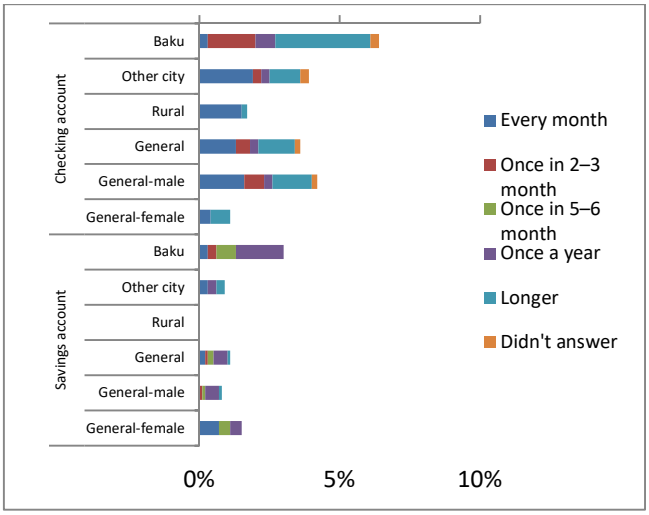
Figure 3.5: Respondents Awareness of Bank Accounts (%)

Figure 3.6: Use of Bank Accounts (%)

[4] According to the banking legislation, when debit and credit cards are opened for a client, and when a client sends or receives money remittances through an account, he or she should have a current account. In other words, when using debit and credit cards, using credit services, and transferring money through accounts, first of all, a current account should be created. But not all of customers are aware of that. To avoid confusion during the survey, respondents were asked about current accounts created at their own request and used for business and personal purposes, not for accounts that were required. In reality, respondents who used debit and credits cards also indirectly had current accounts. Hence, the share of respondents with current accounts was higher.



Source: ADB. Financial Inclusion Survey.



Source: ADB. Financial Inclusion Survey.

At the time of the survey, 2.2% of respondents had checking accounts for only personal use, 1% for only business, and 0.3% for both. Savings accounts were mainly used in the previous 5 years. Most respondents said that the main reason for opening a checking account at the bank was to electronically transfer money and receive remittances (Table 3.1.) Savings accounts, mainly, had been opened to store money in a safer place. In the previous 12 months, respondents mainly used their checking accounts at the bank to receive funds for sold goods and services (1.8%), to get money or payments from the government (0.8%), and to send and receive money from family members living elsewhere (0.4%). As can be seen from Table 3.2, there was regular inflow and outflow of funds in the checking accounts of a majority of respondents who used them. Savings accounts were used less frequently.

Table 3.1: Reason to Open a Bank Account (number of respondents)

	Checking Account	Savings Account
To keep money in a safe place	2	9
To transfer money	22	0
Necessary to receive a payment	12	0
To receive government benefits	2	0
To finance a purchase	1	1
To travel	0	1
To live on interest	0	1
Didn't answer	2	0
Total	41	12

Source: ADB. Financial Inclusion Survey.

Table 3.2: Inflow or Outflow of Funds by the Owner of Account and Other Person the last time used (number of respondents)

	Checking Account	Savings Account
In the past 30 days	17	4
In the past 6 months	9	3
In the past year	0	4
Over a year ago	9	1
Don't know	6	0
Total	41	12

Source: ADB. Financial Inclusion Survey.

As can be seen from Table 3.3–3.4, respondents mainly withdrew or deposited funds into checking accounts and savings accounts at bank or financial institution counters. Respondents used ATMs as an alternative withdrawal method.

Table 3.3: Cash Withdrawal from Current or Savings Account (number of respondents)

Table 3.4 Putting Cash in Current or Savings Account (number of respondents)

	To get cash	
	Checking Account	Savings Account
At an ATM	9	4
Over the counter in a branch of your bank or financial institution	16	6
Over the counter at a retail store	2	1
Didn't withdraw cash	9	1
Didn't know/refused	5	0
Total	41	12

Source: ADB. Financial Inclusion Survey.

	To put cash	
	Checking Account	Savings Account
Over the counter in a branch of your bank or financial institution	17	11
Over the counter at a retail store	2	1
Using some other person who is associated with your bank or financial institution	1	0
Didn't deposit cash	15	0
Didn't know/refused	6	
Total	41	12

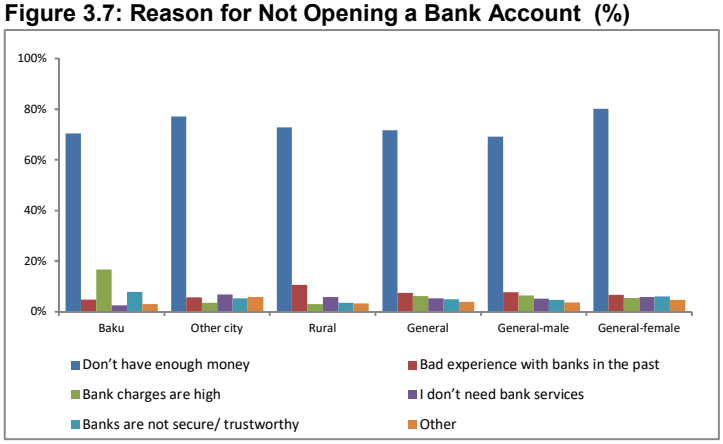
Source: ADB. Financial Inclusion Survey.

Other members of households used bank accounts less; 4% of other members of households had checking accounts and 0.2% a savings account.

People without bank accounts

In general, 95.9% of respondents did not have bank accounts, and 72% of respondents said they did not have enough money to open one (Figure 3.7). This percentage was higher in *other urban* areas and among women. Past negative experience with banks hampered 8% of respondents from opening a bank account; 5.3% of respondents said they did not need to open a bank account.

Figure 3.7: Reason for Not Opening a Bank Account (%)



Source: ADB. Financial Inclusion Survey.

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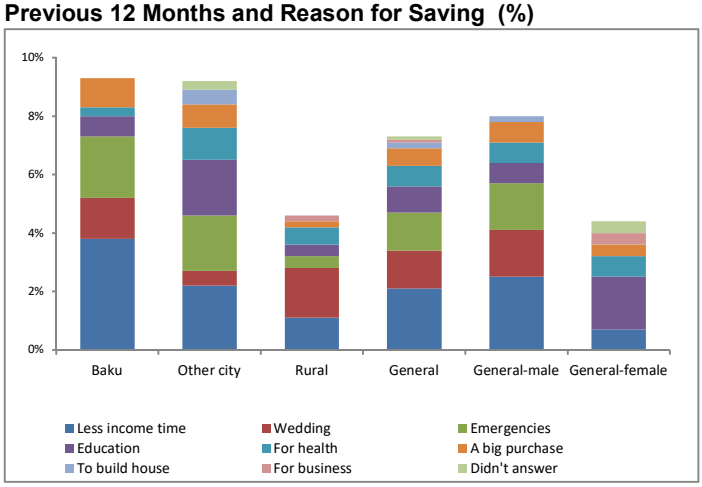
Figure 3.8 shows that 7% of respondents saved money at home over the previous 12 months. This figure was 9% in Baku and 4% in rural areas. The main reason for savings was to smooth consumption, that is, plan for a time in the future when income might decline. Men were nearly twice as likely as women to save money at home.

Figure 3.8: Respondnets Who Saved Money at Home in Previous 12 Months and Reason for Saving (%)



Source: ADB. Financial Inclusion Survey.

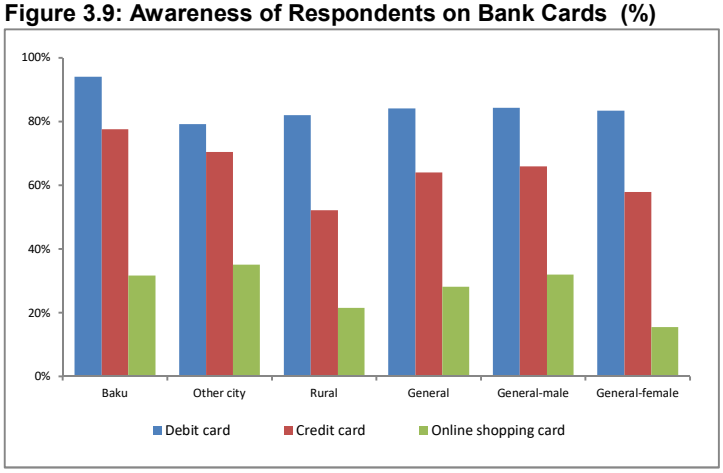
3.3 Bank cards

Figure 3.9 shows that 81% of respondents had heard of debit, 64% of credit, and 28% of online shopping cards. Awareness of bank cards was higher in the Baku than other residential areas.

As can be seen from Figure 3.10, 51.2% of respondents used debit cards, 11% credit, and 0.7% online shopping cards. Slightly more women than men used debit and credit cards. Use of cards was considerably lower in rural areas (4%) than in Baku and other urban areas. Most of debit and credit cards owners used those cards every month.

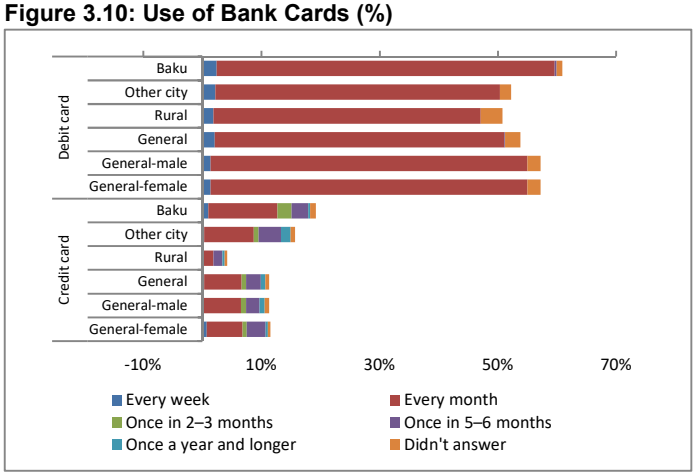
Over the previous 2 years, 42.7% of other household members used debit cards, 4.1% credit cards, and 0.2% online shopping cards.

Figure 3.9: Awareness of Respondents on Bank Cards (%)



Source: ADB. Financial Inclusion Survey.

Figure 3.10: Use of Bank Cards (%)



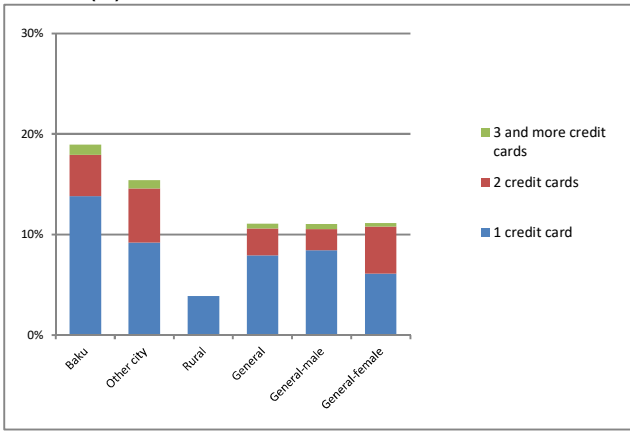
Note: As the share of people using online shopping cards was small, it was not included in the figure.

Source: ADB. Financial Inclusion Survey.

Figure 3.11 shows that over that previous 12 months, respondents who possessed credit cards mainly used one credit card (9%). More women than men possessed two or more credit cards.

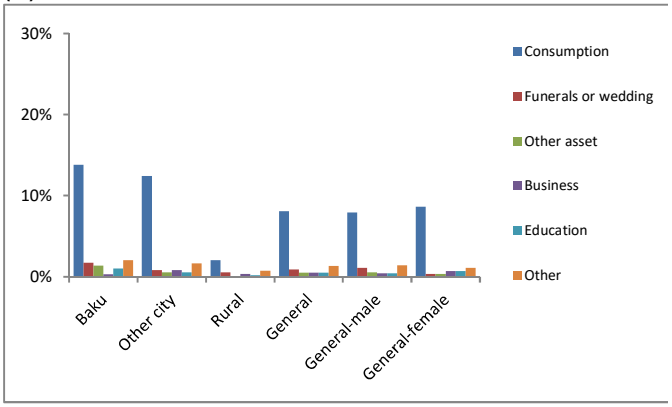
Debt borrowed through credit cards was mainly used for consumption (8%). Only 1% used credits cards for weddings and funerals (Figure 3.12); 9% withdrew cash from credit cards, and 3% used them for shopping.

Figure 3.11: Use of Credit Cards over the Previous 12 Months (%)



Source: ADB. Financial Inclusion Survey.

Figure 3.12: Reason to Use Credit Cards Over Previous 12 Months (%)

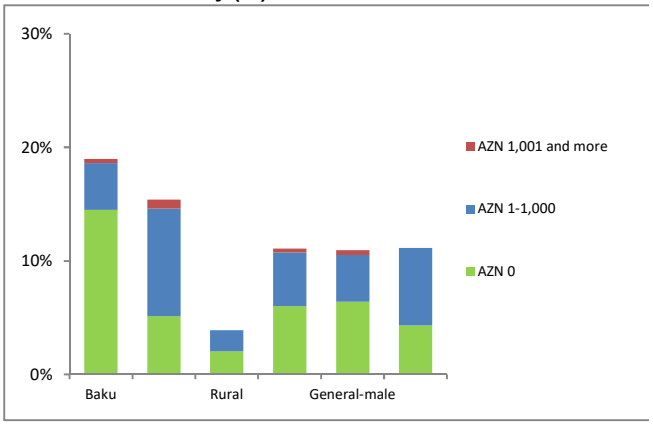


Source: ADB. Financial Inclusion Survey.

Although 11% of respondents had credit cards, only 5.1% of respondents borrowed money from the credit card over the previous month (Figure 3.13). This percentage was relatively higher in other urban areas (10.3%).

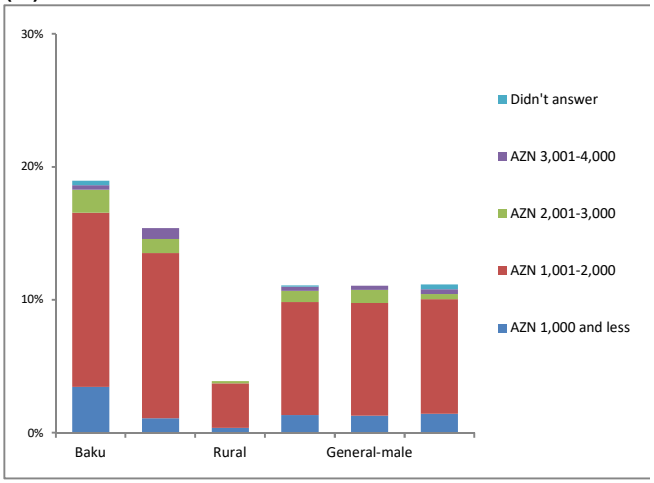
In the previous 30 days, more women than men borrowed money from the credit card. The amount borrowed was about AZN1,000, and the outstanding debts borrowed from credit cards ranged from AZN1,001–2,000. Thus, 9% of respondents had outstanding debt on credit cards.

Figure 3.13: Borrowing through Credit Cards over the 30 Days Previous to the survey (%)



Source: ADB. Financial Inclusion Survey.

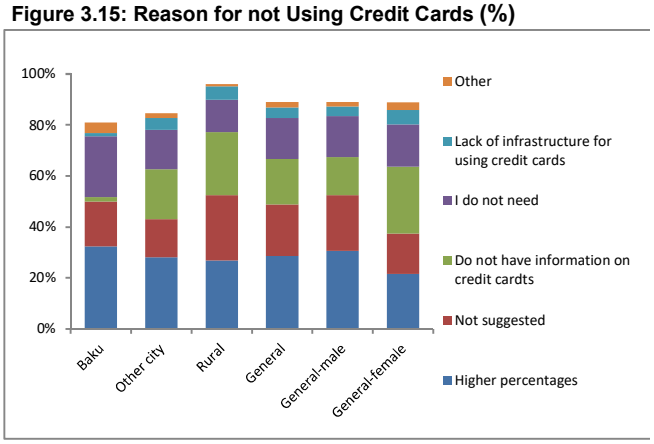
Figure 3.14 Outstanding debts of Respondents on Credit Cards (%)



Source: ADB. Financial Inclusion Survey.

Figure 3.15 shows that 89% of respondents used no credit card over the previous two months, the main reasons being high interest rates (29%), respondents were not offered cards (20%), and lack of information about cards (18%); 16% said they did not need to use credit cards.

Figure 3.15: Reason for not Using Credit Cards (%)



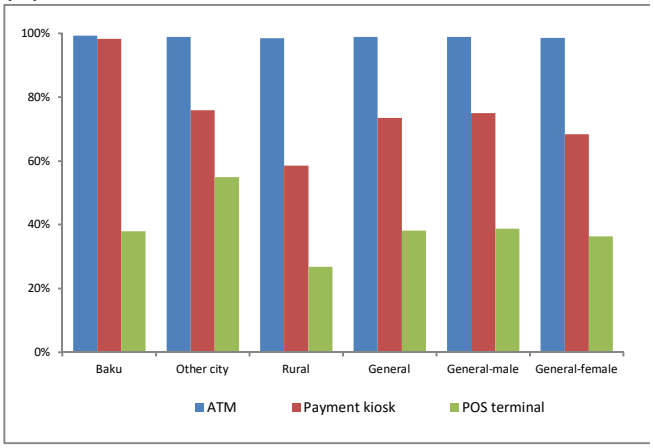
Source: ADB. Financial Inclusion Survey.

3.4 ATM, Payment Kiosks, Point-of-Sale (POS) Terminals

Among respondents, 99% were aware of ATM, 74% of payment kiosks, and 38% of POS terminals (Figure 3.16). More men than women knew about payment kiosks and POS terminals, while awareness of ATMs was 99% among both genders.

Figure 3.17, indicates that 63% of respondents used ATMs over the previous 2 years. Monthly users of ATMs were most common, because employees receive their salaries by direct deposit and withdraw using cards. More women (70%) than men (61%) used ATMs.

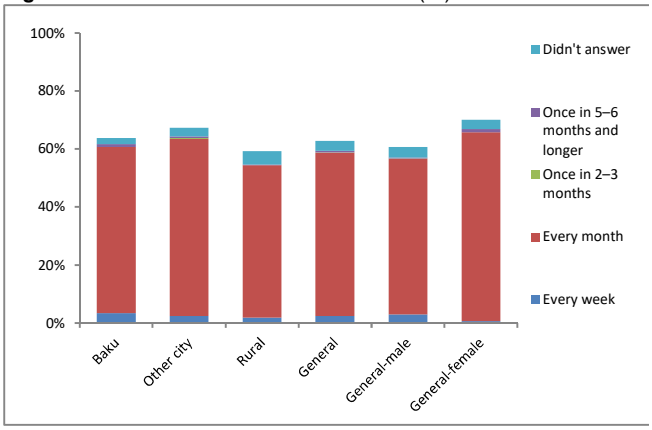
Figure 3.16: Awareness of ATMs and Other Payment Means (%)



Source: ADB. Financial Inclusion Survey.

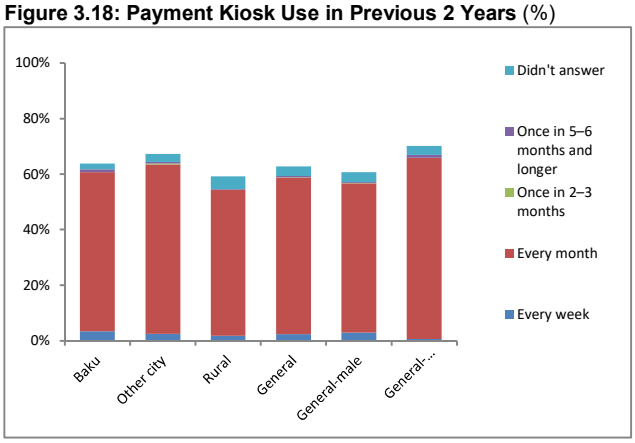
In payment kiosks, meanwhile, 41% of respondents used this service over the previous 2 years (Figure 3.18), yet with a huge 82% usage in Baku clearly higher than in other urban areas (52%) and rural areas (11%). This is because payment kiosk infrastructure is underdeveloped or even absent in these areas. More men than women used payment kiosks, and more people using payment kiosks resorted to that service each month. Four percent of respondents said that they had used POS terminals over the previous 2 years, with more women than men doing so. Over the previous 2 years, 52% of other household members used ATMs, 28% payment kiosks, and 2% POS terminals.

Figure 3.17: ATM Use in Previous 2 Years (%)



Source: ADB. Financial Inclusion Survey.

Figure 3.18: Payment Kiosk Use in Previous 2 Years (%)

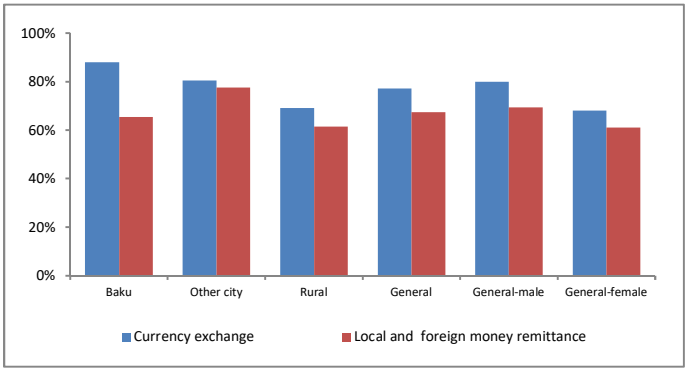


Source:Financial Inclusion Survey.

3.5 Currency Exchange and Remittances

As seen in Figure 3.19, 77% of respondents had heard about currency exchange and 67% about money transfer, with awareness of the latter higher in other urban areas (78%). This is explained by the high number of migrants from households in regions working in another place or students studying in Baku. More men than women were informed about both of financial services. Awareness of currency exchange was higher in Baku (88%) than in other residential areas.

Figure 3.19: Awareness of Currency Exchange and Money Transfer

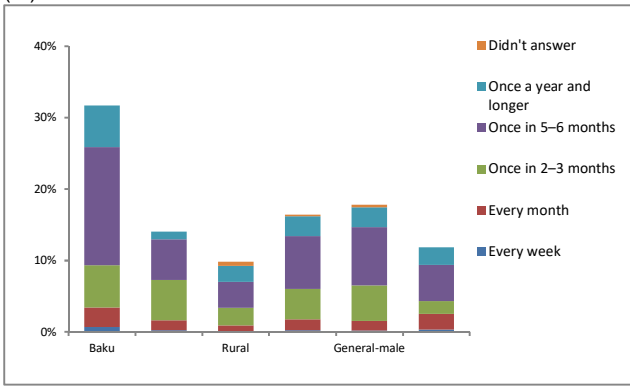


Source: ADB. Financial Inclusion Survey.

As Figure 3.20 shows, 16% of respondents used currency exchange over the previous 2 years, higher in Baku, and with more men than women using these services,
while 10% of respondents said that they exchanged currency not more than 5–6 times a year.

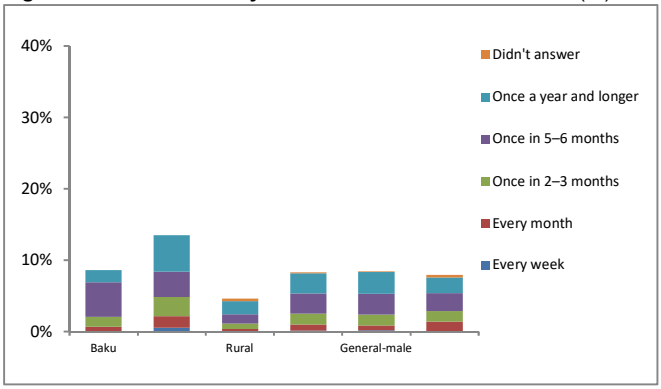
In local and foreign money transfer services, 8% of respondents used them over the previous 2 years (Figure 3.21). Use of money transfer services was higher in other urban areas, which is explained by the reasons listed above. Respondents do not use money transfer services more frequently. Thus, 7% of surveyed people used those services less than 2–3 times a year. Over the previous 2 years, 8% of other household members used currency exchange and 5% money transfer services.

Figure 3.20: Use of Currency Exchange over Previous 2 Years (%)



Source: ADB. Financial Inclusion Survey

Figure 3.21: Use of Money Transfer over Previous 2 Years (%)

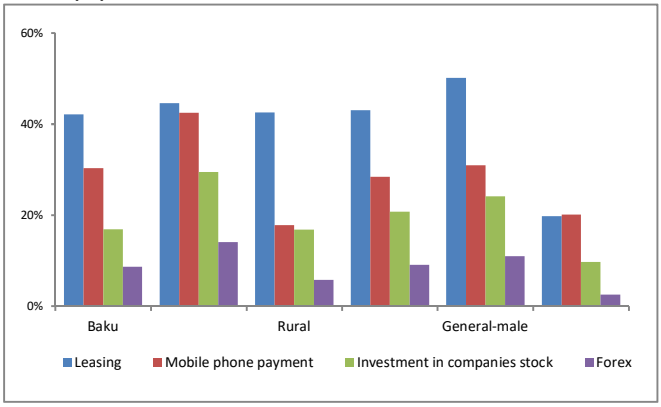


Source: ADB. Financial Inclusion Survey

3.6 Other financial services

The survey shows that 43% of respondents had heard of leasing, 28% heard of payments through mobile phones, 21% of equity investment, and 9% of foreign exchange trade (Figure 3.22). Awareness of these financial services and products was considerably higher among men than women. Over the previous 2 years, 0.3% of respondents used leasing services, 1.7% made payment through mobile phones, and 0.2% invested in equity.

Figure 3.22: Use of Other Financial Services over Previous 2 Years (%)



Source: ADB. Financial Inclusion Survey.

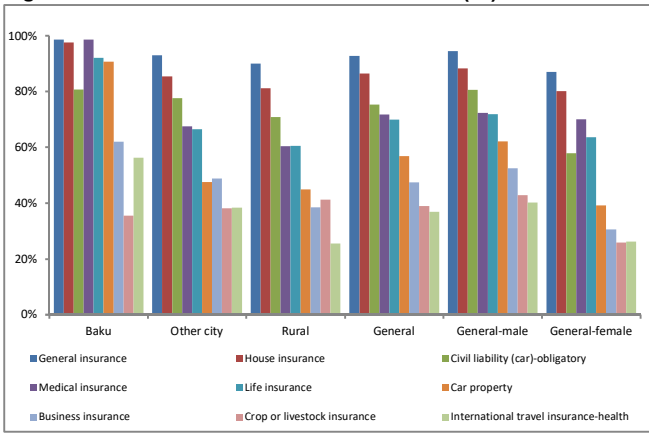
Users of foreign exchange were not recorded during the survey. Almost all of the other members of households did not use the services in question. Only 1.5% of other household members had made payments through mobile phone.

3.7 Insurance services

For insurance services generally, 93% of respondents had heard of them, although awareness of home insurance, compulsory car insurance, and medical insurance was higher. Respondents were less aware of international travel insurance and agriculture (plant and cattle) insurance, while more men than women knew about insurance services. Over the previous 2 years, 23% of respondents used insurance services (Figure 3.24). The share of male respondents who used insurance services was considerably higher than the share

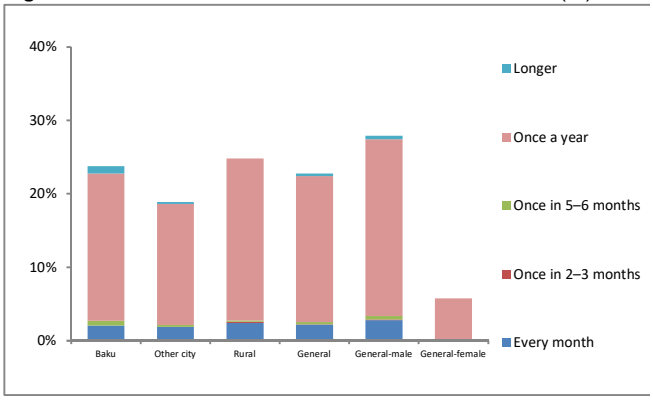
among females. Insurance premiums were mainly paid once a year.

Figure 3.23: Awareness of Insurance Services (%)



Source: ADB. Financial Inclusion Survey.

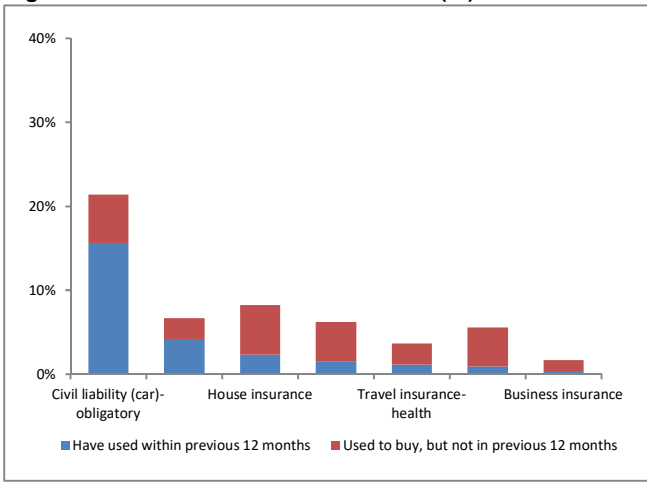
Figure 3.24: Use of Insurance over the Previous 2 Years (%)



Source: ADB. Financial Inclusion Survey.

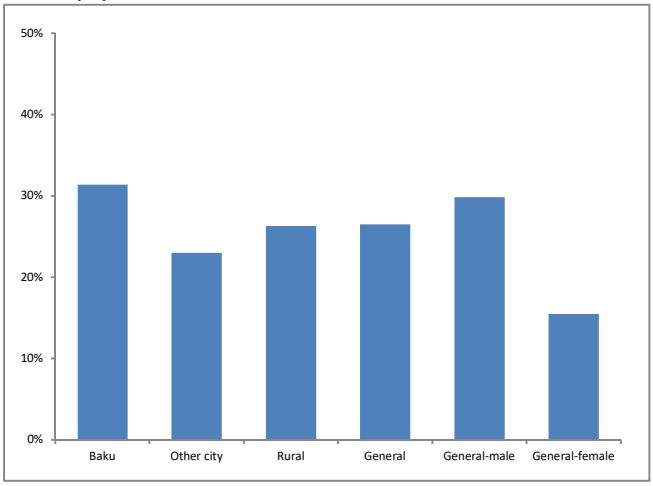
Figure 3.25 indicates that respondents mainly used compulsory car insurance (16%) and Casco (voluntary car insurance) insurance (4%) over the 12 months prior to the survey. The level of use from other insurance services was very low. Although house, medical, and life insurance were used more frequently in the past, use had diminished over the previous 12 months. Around 27% of respondents noted they were planning to use insurance services in the coming 2 years (Figure 3.26), higher in Baku (31%) and among men (26%). This anticipated higher use of insurance as household budgets were struggling to keep up in a sagging economy is noteworthy and may be part of a larger trend toward prudence.

Figure 3.25: Use of Insurance Services (%)



Source: ADB. Financial Inclusion Survey.

Figure 3.26: Insurance Services to Be Used in Coming 2 Years (%)



Source: ADB. Financial Inclusion Survey.

The high cost of insurance services, lack of confidence in insurers and insurance providers, low awareness of insurance services, and lack of information about the way services work were the main reasons for abstention from insurance services (Table 3.5).

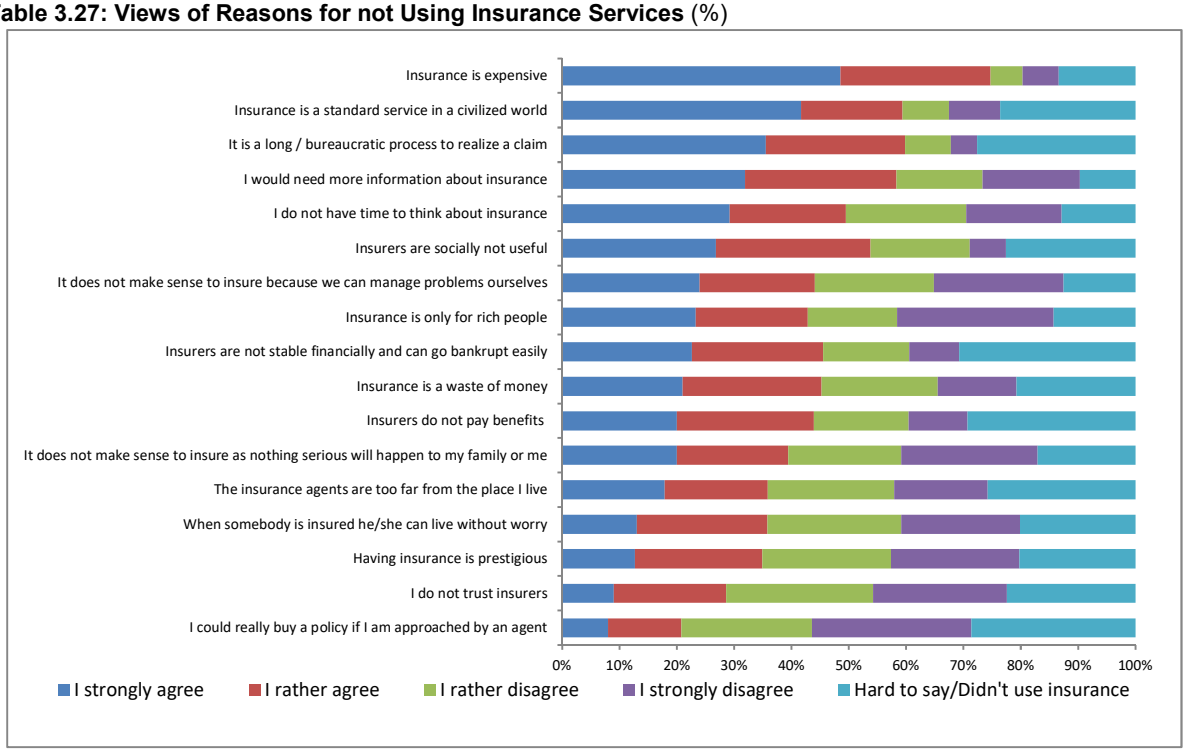
Table 3.5: Reasons for Abstention from Insurance Services (%)

	Life Insurance	Medical Insurance	House Insurance	Car Property	Civil Liability (Car)-Obligatory	Business Insurance	Crop or Livestock Insurance	International Travel Insurance-Health
Insurance is too expensive for me / price is too high / I have other priorities	25	19	31	13	11	9	9	7
No trust in insurer - heard that insurers do not pay (manipulate with conditions, etc.)	19	19	20	12	14	10	7	5
Do not have enough information / do not know how it works	18	13	18	7	7	7	5	5
No trust in insurance companies – they can go bankrupt or run away stealing my money	11	8	10	3	6	4	4	3
My household has not needed insurance because we can manage problems ourselves	8	7	7	5	2	2	2	2
Heard it is a long / bureaucratic process to realize claim	7	6	7	5	4	4	3	3
Current terms and conditions do not suit me	5	5	11	3	3	2	2	2
I do not have time to think about insurance	5	4	7	6	6	4	2	2
I think nothing serious will happen to my family or me	4	2	1	1	0	0	1	0
I am not sure the insurance will work because third parties (e.g. hospital) might refuse to accept it	4	5	3	3	2	2	1	2
Other	6	4	5	4	1	2	1	2
Hard to say / Didn't answer	4	7	5	10	19	13	11	13

Source: ADB. Financial Inclusion Survey.

The survey also revealed widespread respondent views about insurance. As can be seen from Figure 3.27, the majority of respondents (75%) thought of insurance services as expensive and that it was a service typically used in more developed markets (63%). Moreover, 60% of respondents agreed with the view that getting insurance is a long and bureaucratic process. Respondents were not of the view that insurance would eliminate their concerns (44%), and they did not have trust in insurers (49%). Analysis of Figure 3.27 suggests that low use of insurance services was mainly related to respondents' lack of information about insurance services, lack of confidence and trust of insurers, and concerns about the high price of insurance services, rather than to limited access to such services.

Table 3.27: Views of Reasons for not Using Insurance Services (%)

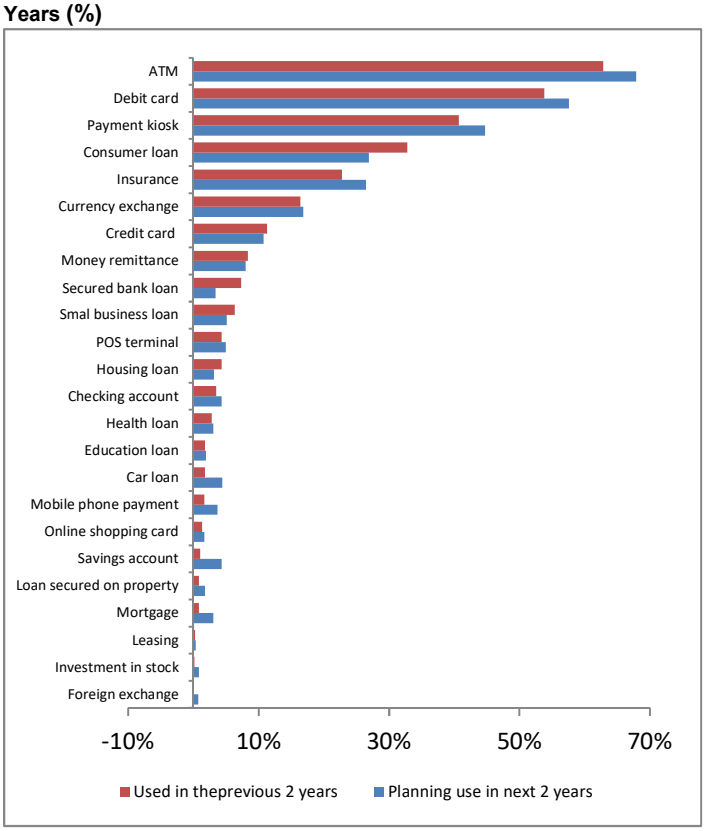


Source: ADB. Financial Inclusion Survey.

3.8 Planned Financial Services and Products

Financial services and products that respondents said they were going to use in the coming 2 years are provided in Figure 3.28. As can be seen, respondents were planning to use ATM (68%), debit cards (58%), payment kiosks (45%), consumer credit 27%, and insurance services (27%). According to the figure, there is no significant difference between the financial services and products that respondents used over the previous 2 years and those that they were planning to use in the coming 2 years. The number of people who were planning to take consumer loans, bank loans without collateral, home credit, and small business loans seemed to decrease compared existing usage levels. By contrast, the opposite tendency was true for use of car, mortgage, and health care loans, that is, more people were planning to use these. The use of checking and savings accounts is also expected to increase. Thus, reflecting a trend towards deleveraging of consumers' finances.

Figure 3.28: Use of Other Financial Services Over the Previous 2 Years (%)

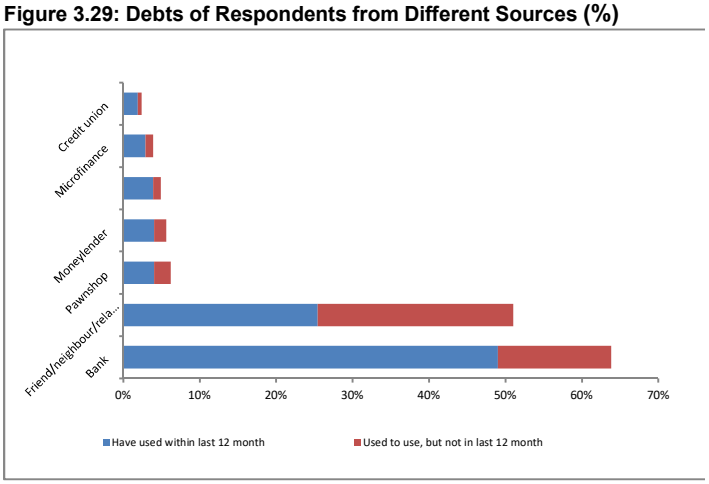


Source: ADB. Financial Inclusion Survey.

3.9 Financial debts

Figure 3.29 shows that respondents mainly borrowed from banks and took money from friends, neighbours, and relatives without interest to meet their needs over the previous 12 months. The amount of debts from other sources was low. People who borrowed money from pawnshops with interest constituted 4% of respondents.

Figure 3.29: Debts of Respondents from Different Sources (%)

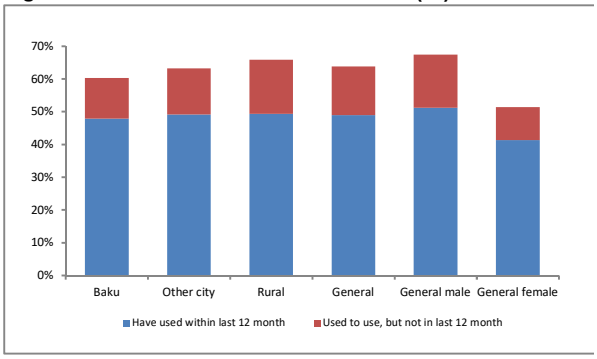


Source: ADB. Financial Inclusion Survey.

3.9.1 Bank credits

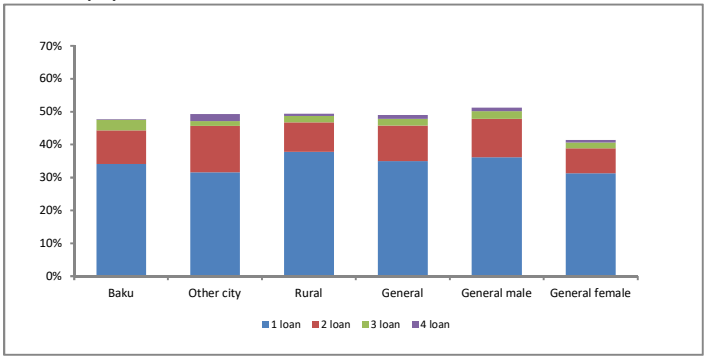
Around 15% of respondents had borrowed money from banks in the past, but not in the most recent 12 months (Figure 3.30). More respondents in rural areas (66%) borrowed money from banks. The share of male borrowers (65%) was higher than women (43%). According to Figure 3.31, around 35% of respondents had 1 loan, 11% had 2 loans, and 3% had 3 and more loans over the previous 12 months. The share of people who had more than 1 debt is higher (18%) in other urban areas.

Figure 3.30: Credits Borrowed from Bank (%)



Source: ADB. Financial Inclusion Survey.

Figure 3.31: Indebtedness among Respondents over the Previous 12 Months (%)



Source: ADB. Financial Inclusion Survey.

Loans mainly came from banks for consumption and health care (Table 3.6). More men than women took consumption loans. The share of people who borrowed for business was higher in rural areas, and those who borrowed for purchase and repair of homes was higher in Baku than in other residential areas.

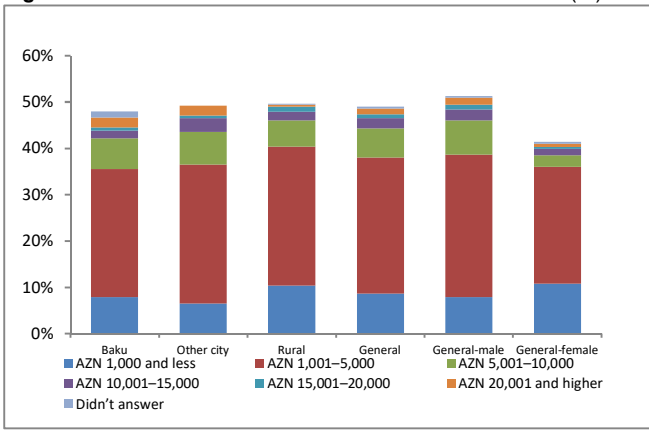
Table 3.6: Destination of Loans taken from Banks over the 12 Months Previous to the survey (%)

	Baku	Other city	Rural	General	General-Male	General-Female
consumption	24	25	18	22	23	18
health	8	10	10	10	10	10
business	1	5	7	5	6	2
to repair/to build a house	6	4	3	4	4	3
wedding	3	4	3	3	3	4
to purchase a home	2	4	3	3	3	3
to purchase other asset	6	2	2	3	3	3
to purchase a vehicle	3	3	2	3	3	1
education	3	2	2	2	2	2
for agriculture	0	1	3	2	2	1
other	1	4	4	3	3	3

Source: ADB. Financial Inclusion Survey.

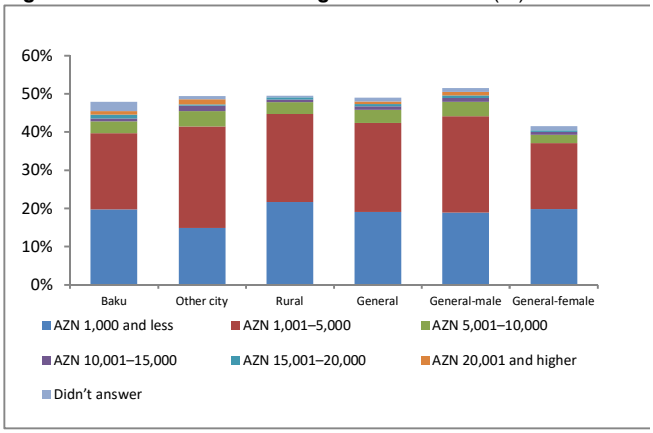
Figure 3.32 indicates that respondents mainly borrowed AZN1,001–5,000 from banks. More women than men took loans of low amounts. Thus, 8% of male respondents and 11% of female respondents borrowed up to AZN1,000 from banks. At the time of the survey, 19% of respondents had outstanding debts of up to AZN1,000 to banks, 23% had AZN1,001–5,000, 3% had AZN5,001–10,000, and 2% AZN10,001 or more (Figure 3.33). The share of people with more than AZN5,000 in debt was higher in other urban areas.

Figure 3.32: Debt Borrowed over the Previous 12 Months (%)



Source: ADB. Financial Inclusion Survey.

Figure 3.33: Current Outstanding Debts to Banks (%)



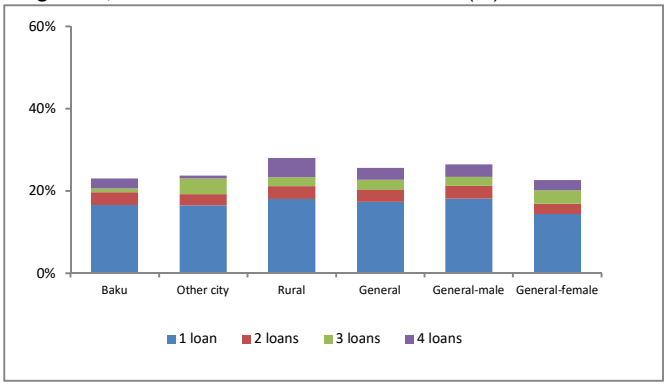
Source: ADB. Financial Inclusion Survey.

3.9.2 Debts without interest borrowed from friends, neighbors, relatives

Figure 3.34 indicates that 26% of respondents borrowed money without interest from their relatives over the previous 12 months. The share of people who borrowed from friends, neighbors, relatives was higher in rural areas. Over the previous 12 months, 17% of respondents had 1 loan, 3% had 2 loans, and 5% had 3 or more loans. Combined with bank borrowers, 22% of respondents had 2 or more loans.

Table 3.7 shows that money borrowed from friends and relatives was mainly spent on consumption and health care.

Figure 3.34: Debts without Interest Borrowed from Friends, Neighbors, Relatives over Previous 12 Months (%)



Source: ADB. Financial Inclusion Survey.

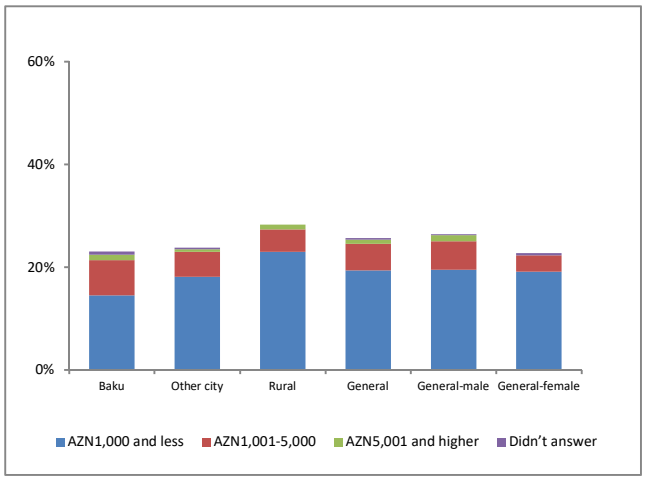
Table 3.7: Reason for Borrowing from Friends, Relatives over the Previous 12 Months (%)

	Baku	Other city	Rural	General	General-Male	General-Female
Consumption	13	16	19	16	17	16
Health	6	5	7	6	7	4
Education	2	1	1	1	1	1
Business		1	2	1	1	
Wedding	1	1	1	1	1	1
Emergency	1		1	1	1	1
To repair/to build a house	2			1	1	1
To purchase a home		1	1	1		1
To return a loan		1	1	1		1
Others	1	1	2	2	1	2

Source: ADB. Financial Inclusion Survey.

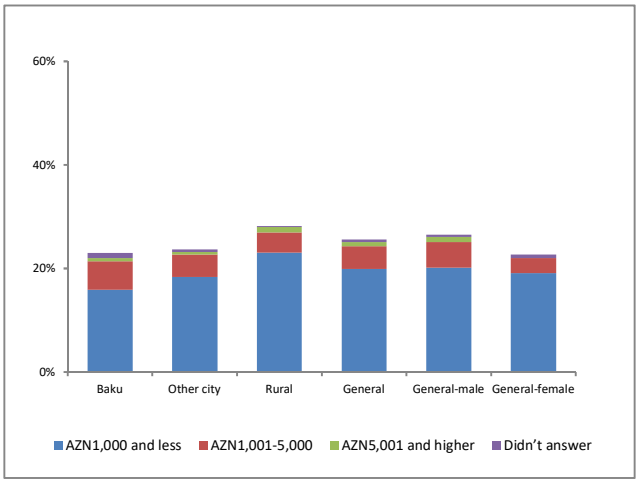
Figure 3.35 shows that respondents mainly borrowed up to AZN1,000 from their friends or relatives (19%). This figure was higher in rural areas. As of the date of survey, 20% of respondents had debts up to AZN1,000 to their friends and relatives, 4% had AZN1,001–5,000, 3% had AZN5,001–10,000, and 1% had AZN10,001 and more. As can be seen from Figures 3.35 and 3.36, the number of loans from friends and relatives and those of outstanding debts is almost the same. This means that respondents were not capable of returning debts that they had taken over the previous 12 months.

Figure 3.35: Amount of Debts Borrowed from Friends and Relatives over the Previous 12 months (%)



Source: ADB. Financial Inclusion Survey.

Figure 3.36: Amount of Current Outstanding Debts to Friends and Relatives (%)



Source: ADB. Financial Inclusion Survey.

3.9.3 Other loans

Table 3.8 indicates that in addition to borrowing from banks and friends and relatives (without interest) a very low proportion of respondents took money from other sources. Thus, 2.2% of people surveyed borrowed from pawnshops, 1.6% from money lenders, 1.0% from microfinance associations, 1.0% from friends and relatives (with interest), and 0.5% from credit unions. Female respondents and those living in other urban areas resorted to pawnshops and usurers more frequently over the previous 12 months. The majority of funds taken from other sources was up to AZN1,000 (Table 3.9). Usually AZN1,001–5,000 were borrowed from microfinance organizations.

Table 3.8: Other Debts of Respondents (%)

	Baku	Other city	Rural	General	General -	General -
Loan from a pawnshop	3.1	3.5	0.7	2.2	1.7	3.0
Loan from a moneylender	0.7	3.2	0.9	1.6	1.4	2.2
Loan from a microfinance	0.3	1.4	1.1	1.0	1.2	0.4
Loan from a friend/neighbor/relative, with interest	1.0	1.4	0.7	1.0	1.1	0.7
Loan from a credit union	0.0	0.5	0.7	0.5	0.5	0.4

Source:Financial Inclusion Survey.

Table 3.9: Amount of Debts Borrowed from other Sources (Ratio of final sum, %)

	Loan from a Microfinance	Loan from a Credit Union	Loan from a Friend/Neighbor/Relative, with Interest	Loan from a Moneylender	Loan from a Pawnshop
Amount borrowed in previous 12 months					
AZN 1,000 and less	0.3	0.3	0.7	1.3	1.9
AZN 1,001–5000	0.7	0.1	0.2	0.2	0.3
AZN 5,001–10000		0.1	0.1	0.1	
Didn't answer	0.1		0.1	0.1	
Current debts of respondents					
AZN 1,000 and less	0.7	0.3	0.7	1.3	2.0
AZN 1,001–5,000	0.3	0.2	0.3	0.2	0.2
AZN 5,001–10,000				0.1	
Didn't answer	0.1		0.1	0.1	

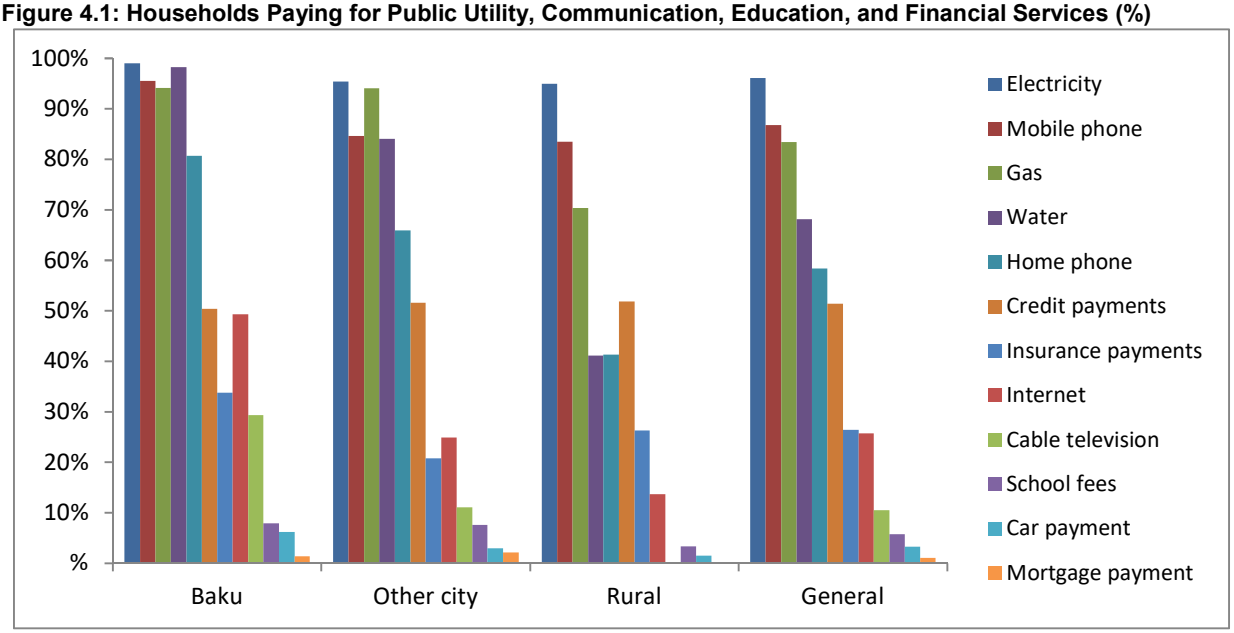
Source:Financial Inclusion Survey.

IV. PAYMENTS

4.1. General payments of households

As can be seen in Figure 4.1, the majority of households made payments for electricity (96%), mobile phones (87%), gas (83%), and water supply (68%). Households making those payments were most common in Baku more than in other residential areas. Households who made loan payments constituted 51%, and this indicator was almost the same in all residential areas (50%–52%). The number of households paying cable TV, tuition fees, and vehicles was lower.

Figure 4.1: Households Paying for Public Utility, Communication, Education, and Financial Services (%)



Source: ADB. Financial Inclusion Survey.

Households made the payments seen in Figure 4.1, as Table 4.1 shows, once a month, except for mobile phone payments—54% more than twice a month—and insurance and tuition fees once a year, at 98% and 51%, respectively. Payments for cable television were all made once a month.

Table 4.1: Frequency of Payment of Debts and Average Payment Amount (ratio to households with relevant payments, %)

	Electricity		Water		Gas		Home Phone		Cable Television		Internet		Mobile Phone		Credit Payments		Insurance Payments		
	%	Average payment (AZN)	%	Average payment (AZN)	%	Average payment (AZN)	%	Average payment (AZN)	%	Average payment (AZN)	%	Average payment (AZN)	%	Average payment (AZN)	%	Average payment (AZN)	%	Average payment (AZN)	a
2 times and more a month	0.3	8.0	0.7	5.7	1.5	22.4	0.1	2.8	0.0		0.3	15.0	0.1	5.2	6.3	162.4	0.0		2
Once a month	98.8	17.1	91.4	6.3	94.7	21.2	94.3	3.3	100.0	9.8	98.4	13.1	94.3	5.9	93.7	205.1	0.0		8
6 times and more a year	0.2	24.0	0.1	15.0	0.4	15.0	0.6	8.0	0.0		.0	.	0.6	25.7	0.0		0.0		
3–5 times a year	0.3	25.3	2.0	9.8	1.0	22.1	1.0	18.7	0.0		0.6	15.0	1.0	28.0	0.0		0.3	155.0	
1–2 times a year	0.4	21.6	5.7	21.2	2.4	43.3	4.0	23.6	0.0		0.6	59.0	4.0	116.7	0.0		98.4	69.8	
Total	100.0	17.1	100.0	7.2	100.0	21.7	100.0	4.3	100.0	9.8	100.0	13.4	100.0	6.3	100.0	202.4	100.0	70.1	1

Source: ADB. Financial Inclusion Survey.

In Figure 4.2, meanwhile, the data show that debts in households are mainly repaid by family heads, particularly for public utility expenditures in comparison with other payments (86%–90%), and in cash. (Figure 4.3). In general, 95%–100% of respondents making payments for credit, insurance, public utilities, and tuition fees preferred to repay their debts in cash. Only in mortgage loans do people making non-cash payments make a slight majority (20%).

Figure 4.2: People Who Usually Pay Debts in Households ***(ratio to households making relevant payment) (%)***

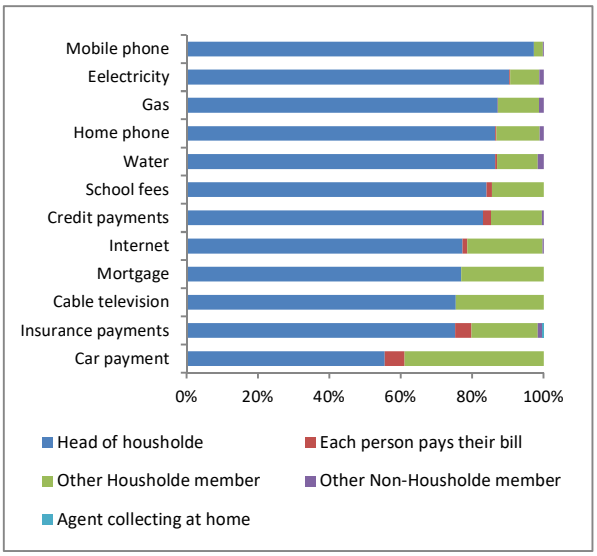
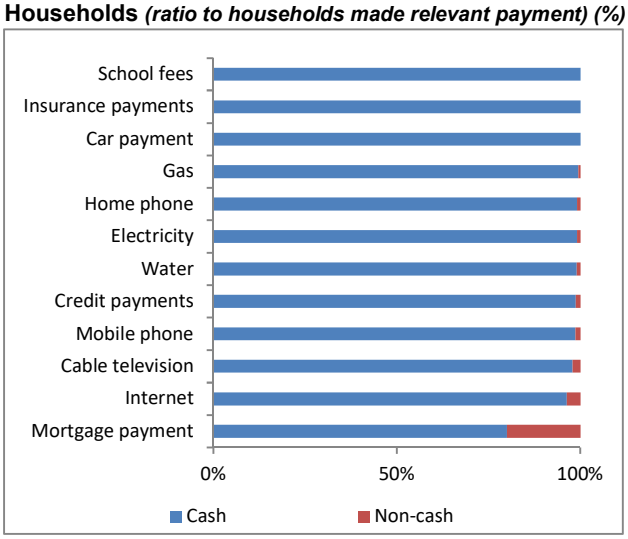


Figure 4.3: Form of Payment of Debts By Heads of Households ***(ratio to households made relevant payment) (%)***



Note:Information on mobile phone payments belongs only to head of household.

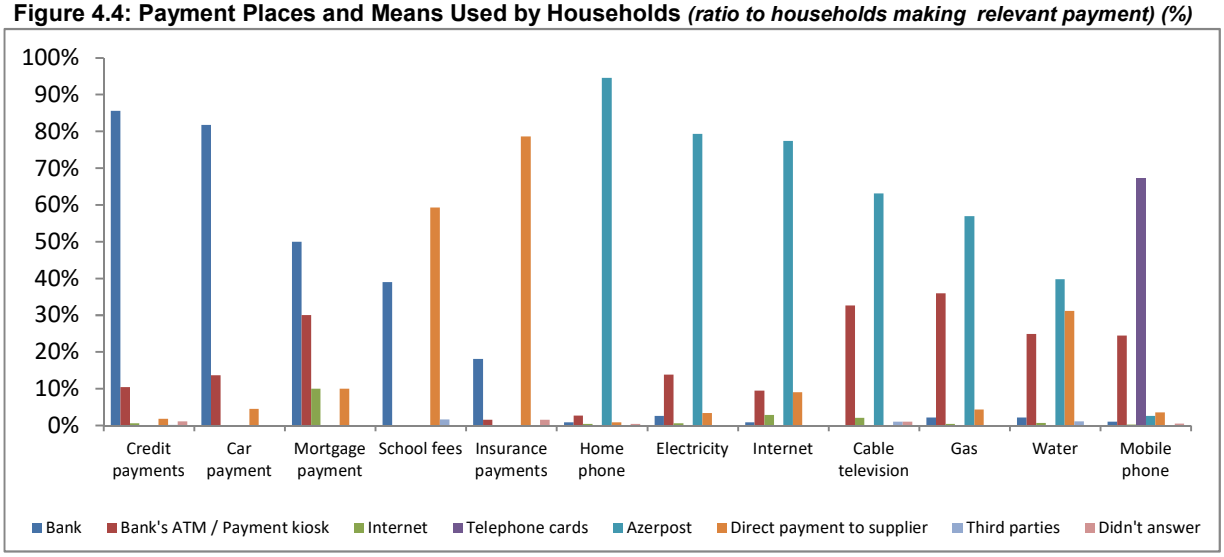
Note: Information on mobile phone payments belongs only to head of household.

Source: ADB. Financial Inclusion Survey.

Source: ADB. Financial Inclusion Survey.

Figure 4.4 suggests that credit payments are mainly made through banks (50%–86%), tuition fees (59%), and insurance services (79%) directly to providers, public utility payments through Azerpost (57%–95%). As debts on water used in households in regions are paid directly to the provider, the special share of that payment through Azerpost was lower.

Figure 4.4: Payment Places and Means Used by Households ***(ratio to households making relevant payment) (%)***



Source: ADB. Financial Inclusion Survey.

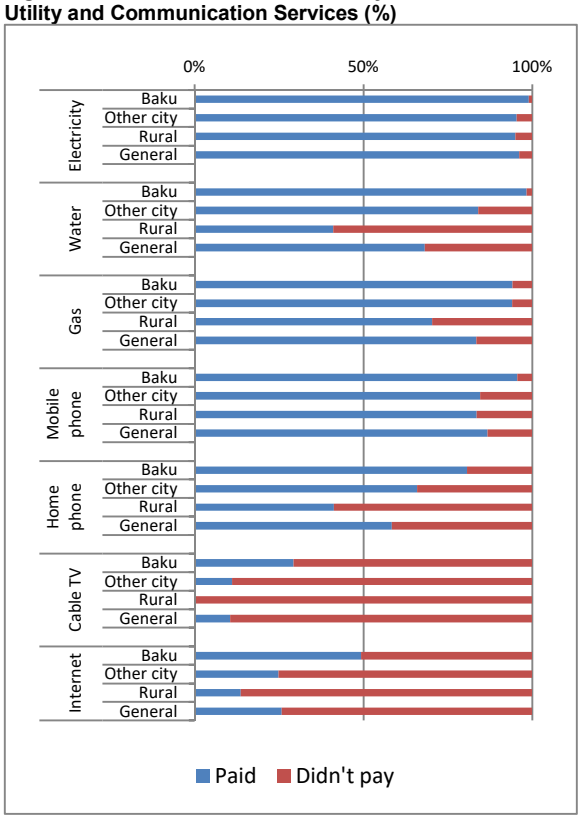
4.2. Payment on public utility and communication services

Figure 4.5 shows that the share of households who made payments for public utility and communication services was higher in Baku than residential areas. Although a significant difference was not observed in use of electricity and cell phones among residential areas, discrepancies were tangible in other services. The share of households who made payments for landline phones (41%) and internet (14%) services was rather lower in rural areas than in Baku and other urban areas; no household was recorded in relation to payments of cable television. It should be noted that cable television operates only in Baku and few regional centers.

More than 90% of households who paid for public utility and communication services, did so, mainly, once a month. Only people who made payment for mobile phone services more than twice a month were most common (54%).

Figure 4.6 indicates that households living in Baku paid more money per month for electricity, water, cell phone service, cable television, and internet than households in other urban and rural areas. In turn, the amount of relevant payments in other urban areas was higher than rural households. Monthly gas and landline phone payments in regional centers were higher than in other residential areas.

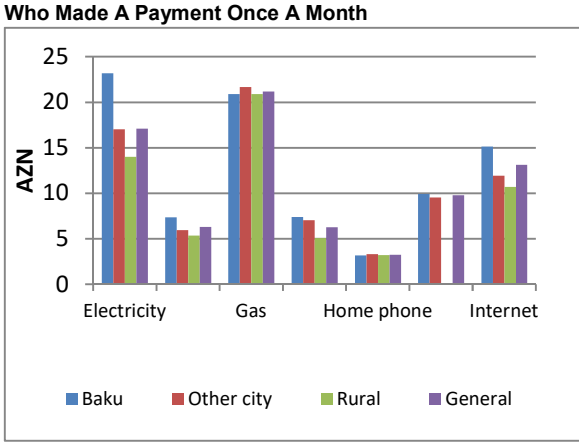
Figure 4.5: Households Who Made Payment for Public Utility and Communication Services (%)



Note: Information on moile phone payments belongs only to head of households

Source: ADB. Financial Inclusion Survey.

Figure 4.6: Average Monthly Payment in Households Who Made A Payment Once A Month



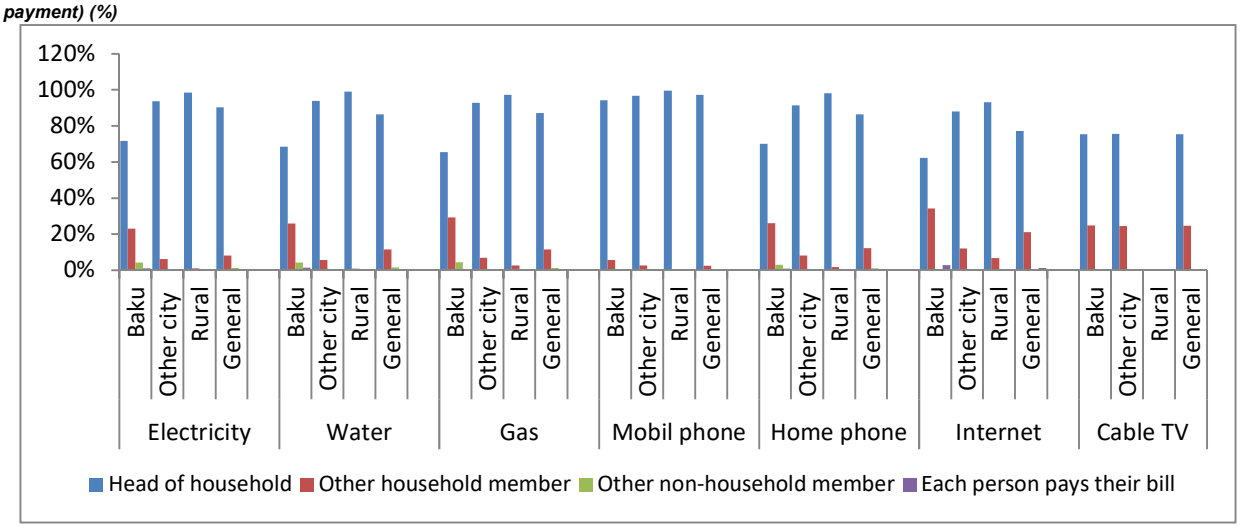
Source: ADB. Financial Inclusion Survey.

Figure 4.7 shows that household heads mainly made payments for public utility and communication services in households. This figure was relatively lower in Baku than other urban and rural areas, because of the improved system of payment and easy access of other members of households to that system there.

Households make a large majority (98%) of payments for public utility and communication

services in cash. Only 4% of households who use internet services prefer paying their debts in non-cash. All households who use public utility and communication services in rural areas prefer making their payments in cash.

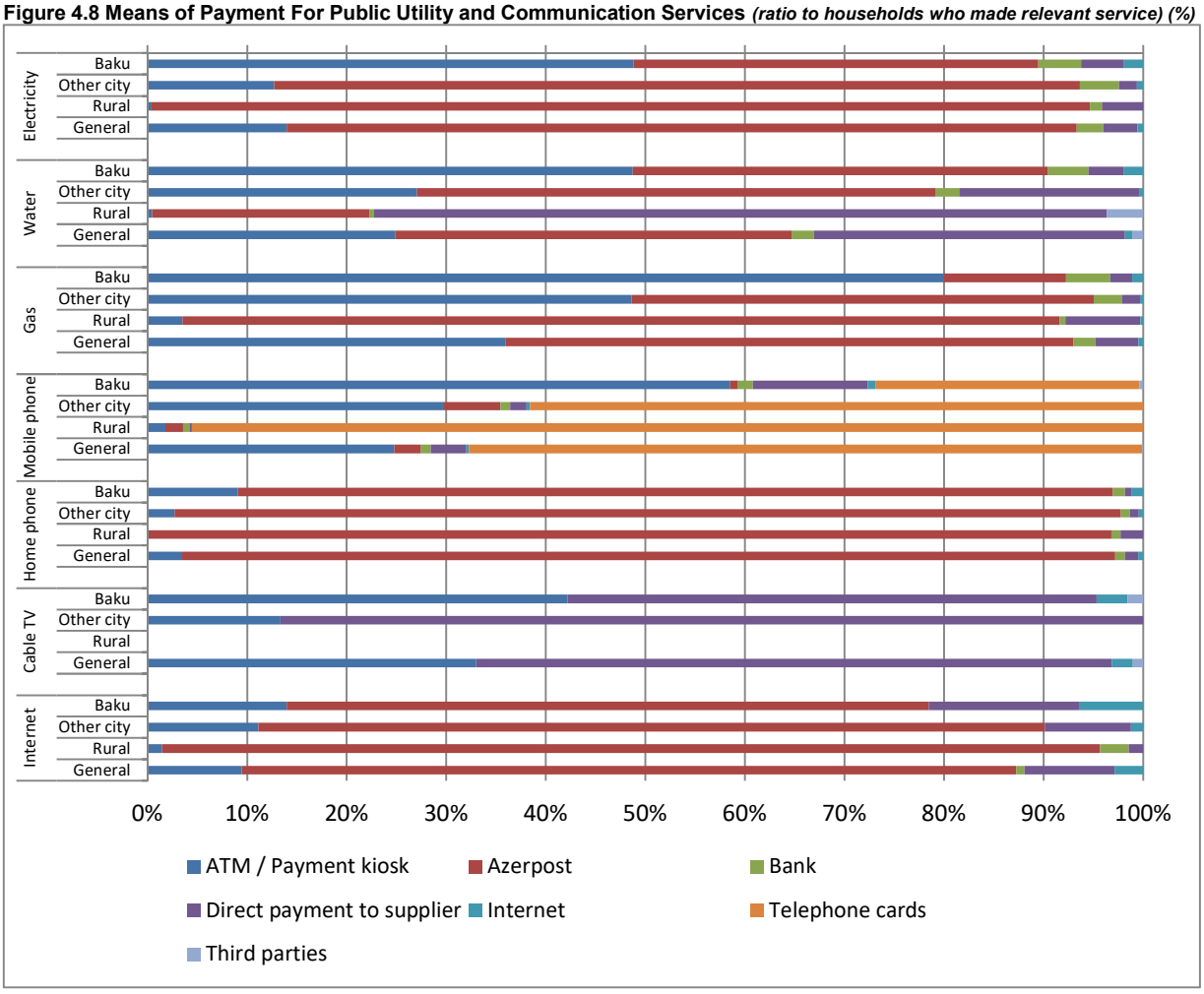
Figure 4.7: People Who Pay for Public Utility and Communication Services in Households ***ratio to households who made same payment) (%)***



Source: ADB. Financial Inclusion Survey.

Figure 4.8 suggests that households pay for public utility and communication service debts in different ways. In general, payments other than for cell phone and cable television are made through Azerpost. But households living in Baku use ATM and payment terminals more frequently to pay electricity, water and gas bills. Thus, 49% of households using relevant service in Baku pay for electricity and water bills through ATM and payment terminals. This figure is 80% for gas bills. households in other urban and rural area make payments mainly through Azerpost.

Figure 4.8 Means of Payment For Public Utility and Communication Services ***(ratio to households who made relevant service) (%)***



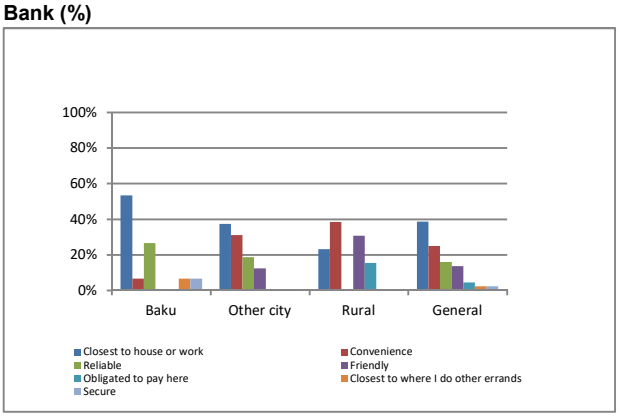
Source: ADB. Financial Inclusion Survey.

The main reason for payment of public utility and communication bills at the bank was its location near to the workplace or home.[5] Thus, in response to the question "why do you make payments at the bank" asked to respondents, 39% answered that they have this preference due to its closeness to the workplace or home. This figure was even higher in Baku. It should be noted that as the cases of payment for public utility and communication bills were lower in all residential areas (15 in Baku, 16 in other urban areas, and 13 in rural areas). Figure 4.9 may not fully present the real picture.[6]

The reason for payment of public utility and communication bills through bank ATMs and payment kiosks was their closeness to the workplace or home, as it was in the case of banks (54%). This figure was even higher in Baku. In general, as can be seen from Figures 4.9–4.15, closeness of the payment point to the workplace or home is the main factor influencing the preference of heads of households for payment of public utility and communication bills. It should be noted that as the number of payments through internet (13 cases) and the third party was lower (10 cases), related diagrams were not placed in the report.

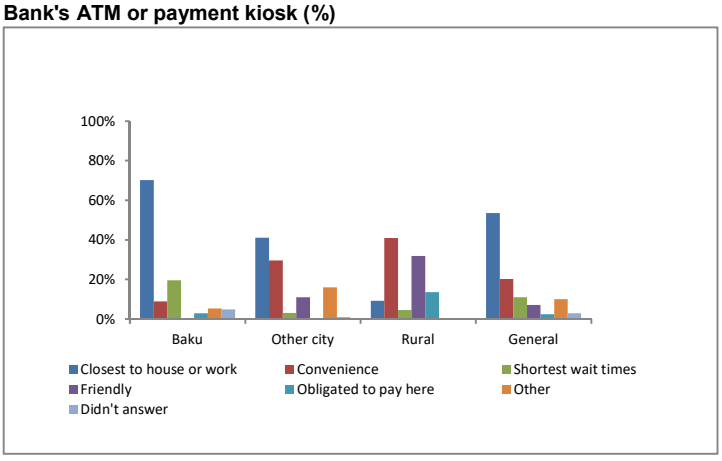
Figure 4.9 Main Factors İnfluencing the Selection of the Payment Points for Public Utility and Communication Bills *(ratio to the payment cases)*

Bank (%)



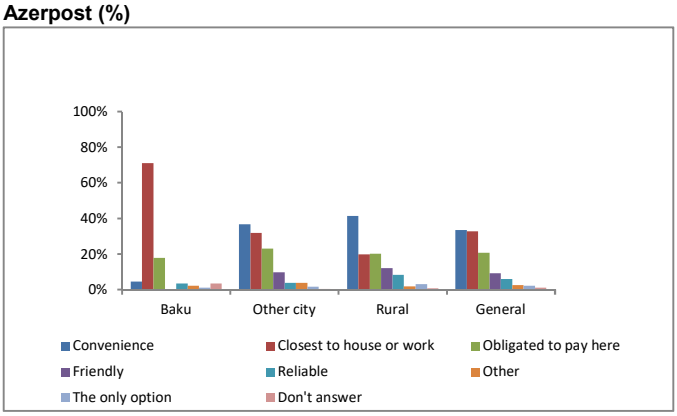
Source: ADB. Financial Inclusion Survey.

Bank's ATM or payment kiosk (%)



Source: ADB. Financial Inclusion Survey.

Azerpost (%)

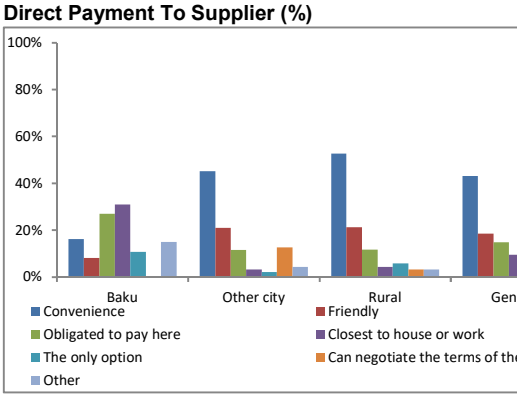


Source: ADB. Financial Inclusion Survey.

[5] The reason for selection of payment points was estimated as following: all public utility and communication bills paid at the same please (bank, ATM and etc.) irrespective of its location were summed up/grouped and share of the reason for selection was calculated. For example, while estimating the reason of preference for payment at bank, all public utility and communication bills paid at the bank was summed up and the reason for payment at the bank was subsequently calculated.

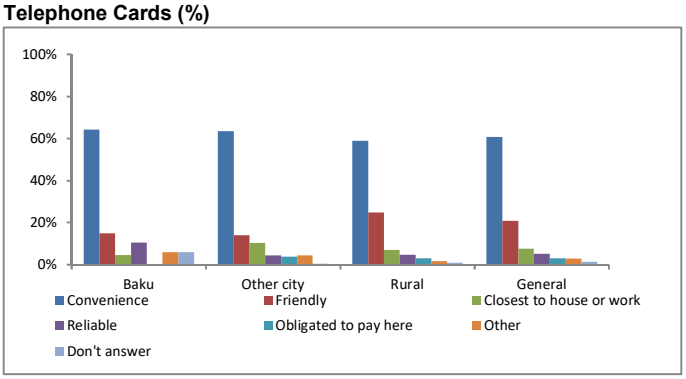
[6] At least 30 answers are required in methodological terms, answers/results may not be representative.

Direct Payment To Supplier (%)



Source: ADB. Financial Inclusion Survey.

Telephone Cards (%)



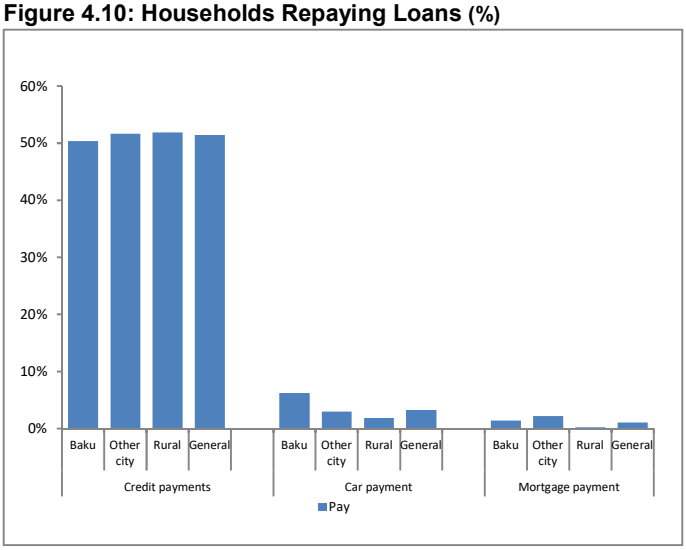
Source: ADB. Financial Inclusion Survey.

4.3. Loan repayments

Figure 4.10 shows that 50% of households repay loans. This indicator was literally the same in all residential areas; 3.3% of households repay car loans and 1.1% mortgage loans. The share of households that repay car loans (6.2%) is higher in Baku than other residential areas.

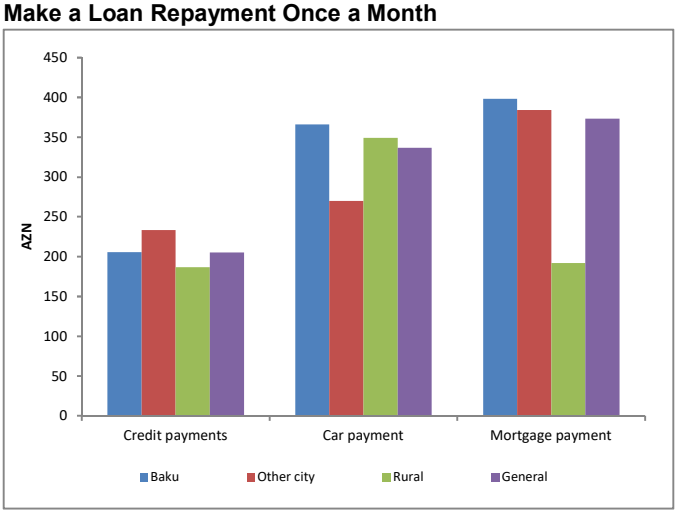
One hundred percent of households repaying mortgage loans, 90% of households repaying car loans, and 94% of households repaying other loans make their debt payments monthly. The number of respondents with mortgage loans is lower (a total of 13 households), figures related to the mortgage payment may not fully reflect the real situation. Figure 4.11 indicates that average monthly payment for the mortgage loans was AZN374, AZN 337 for car loans, and AZN205 for other loan payments (the survey revealed only one household who repays the mortgage loan in rural areas). Average monthly repayment of mortgage and car loans was higher in Baku, while average

Figure 4.10: Households Repaying Loans (%)



Source: ADB. Financial Inclusion Survey.

Figure 4.11: Average Monthly Repayment of Households Who Make a Loan Repayment Once a Month

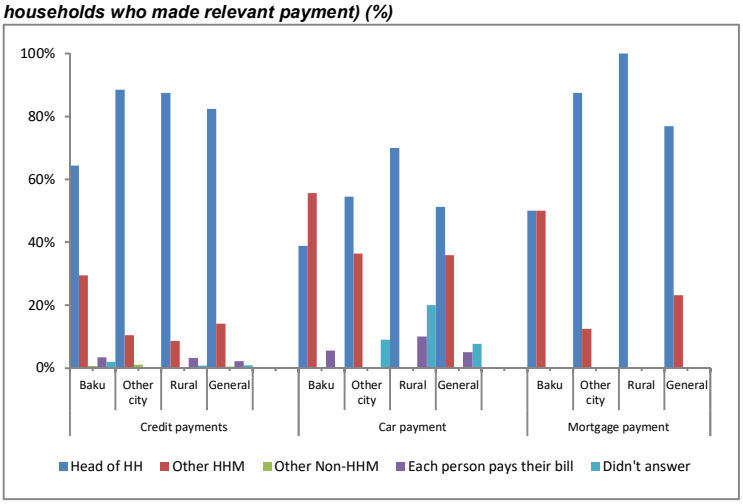


Source: ADB. Financial Inclusion Survey.

monthly repayment of other loans was higher in other residential areas.

Figure 4.12 indicates that repayment in households who use loans is mainly made by heads of a family. Although that tendency was the same on all types of loans, in Baku car loans were usually repaid by other members of households (56%). That those loans are used by other members of the family may explain this.

Diaqgam 4.12: People who Make Loan Repayments ***(ratio to households who made relevant payment) (%)***

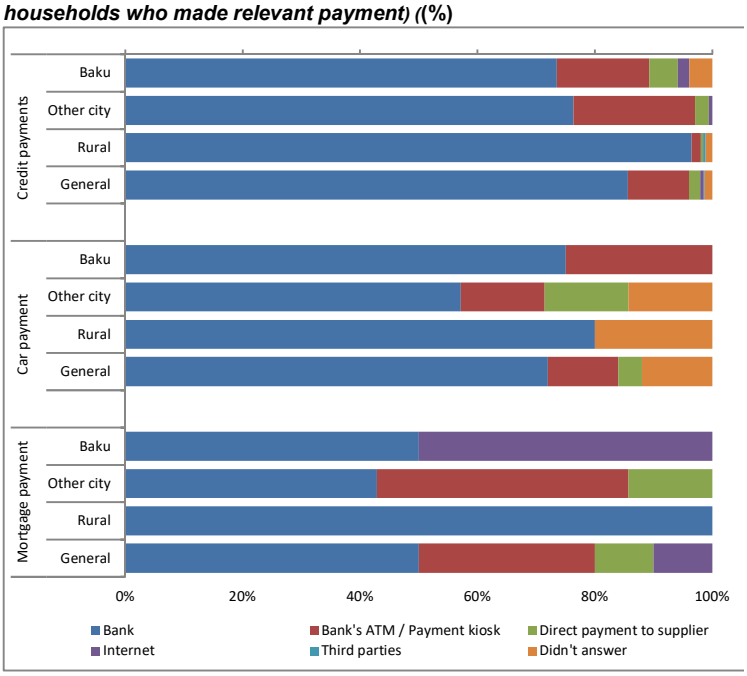


Source: ADB. Financial Inclusion Survey.

A large amount of loan repayments of households were made in cash; 88% of car loans (the remaining households didn't answer that question), 80% of the mortgage loans (the rest repay in non-cash transfers), and 98% of other loans were repaid in cash. All households in rural areas using loan services preferred cash repayment.

Figure 4.13 shows that households mainly repaid their debts at banks. Due to lack of non-cash

Figure 4.13 Places Where Credit Debts are Repaid ***(ratio to households who made relevant payment)*** **((%)**



Source: ADB. Financial Inclusion Survey.

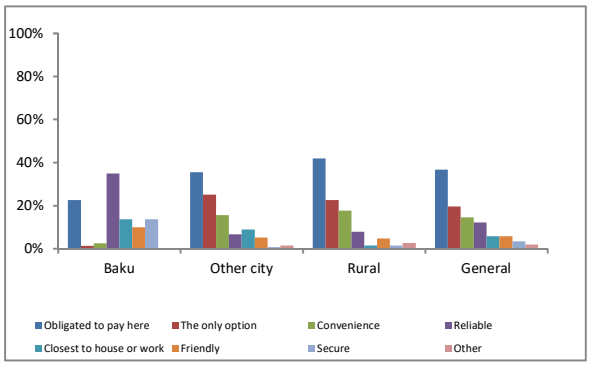
payment infrastructure in rural areas, households virtually repay all loans at banks. People who repay their debts at banks do so at the counter or through payment terminals, when those are available.

As the main reason for repayment of loans at banks, respondents indicated that it was compulsory and they had no other choice. Thus, in response to the question "why do you make payments at banks" asked to respondents, 37% said that payment should be made at banks and 20% told that there is only one choice for payment (Figure 4.14). But households living in Baku explained their preference to make payment at banks was reliability (35%).

The main reason for making loan repayments through ATM and payment kiosks is their closeness to the workplace or home (32%). This figure was even higher in Baku. In rural areas, only 4 cases were recorded where ATM and payment terminals were used. So, the indicator in the diagram may not be representative.

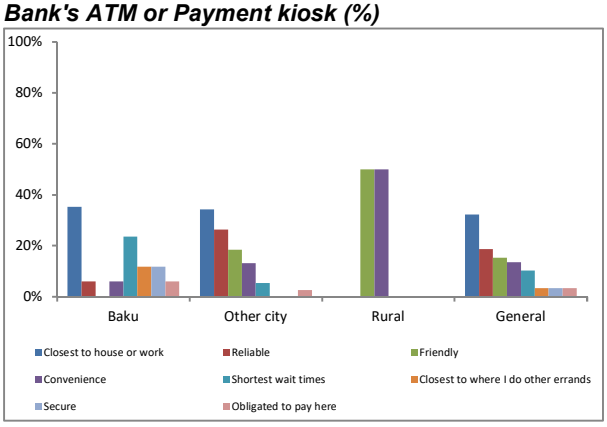
Figure 4.14 Main factors influencing the choice of places for payment of public utility and communication payments (in *ratio to the number of cases of payments) (%)*

Bank



Source: ADB. Financial Inclusion Survey.

Bank's ATM or Payment kiosk (%)



Source: ADB. Financial Inclusion Survey

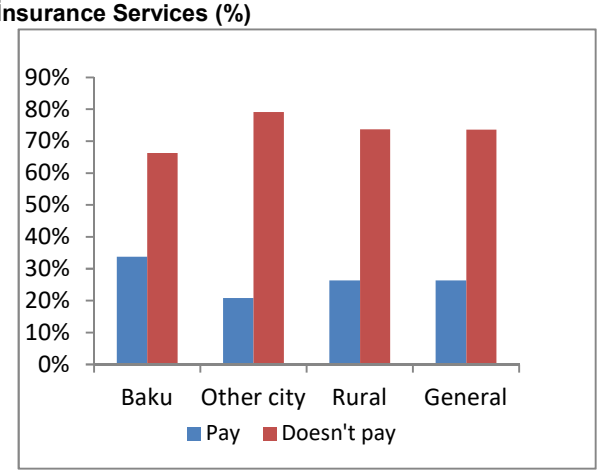
It should be noted that as the cases of direct payment to providers through internet were few (3 cases for internet, 12 cases of direct payment to provider) relevant diagrams were not included in the report.

4.4. Insurance payments

Figure 4.15 indicates that, in general, 26% of households use insurance services. That indicator was higher in Baku; 98% of households who use insurance services, did so 1–2 times a year.

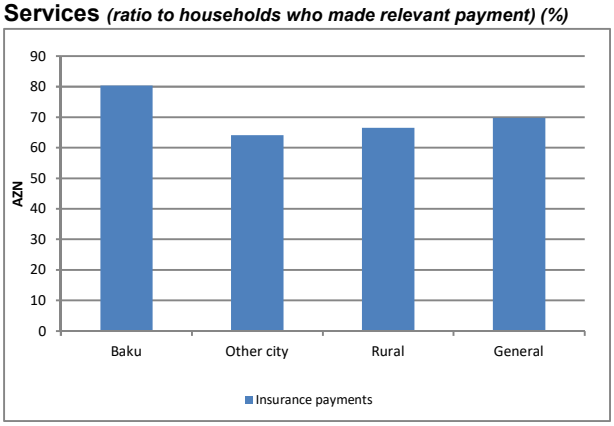
According to Figure 4.16, average monthly payment for insurance services was 70 AZN. That figure was higher in Baku than other residential areas - 80 AZN. It's noteworthy to mention that households were mainly paid for car insurance. You can find detailed information in the insurance section of the report.

Figure 4.15: Households Who Make Payment for İnsurance Services (%)



Source: ADB. Financial Inclusion Survey.

Figure 4.16: Amount of Average Monthly Payment Made by Household 1–2 Times a Year for Insurance Services ***(ratio to households who made relevant payment) (%)***

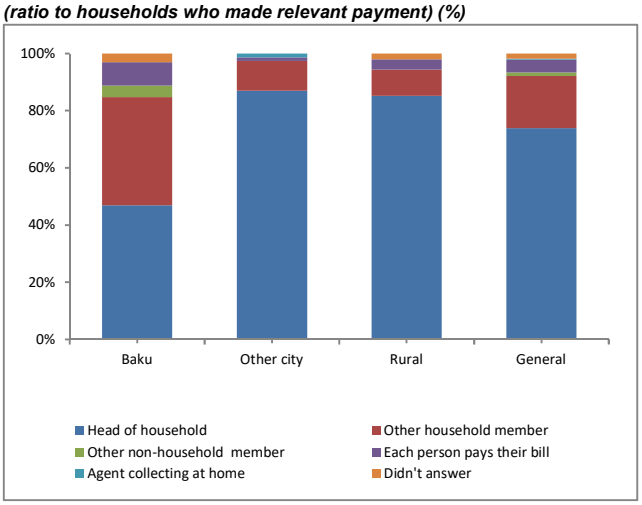


Source: ADB. Financial Inclusion Survey.

Figure 4.17 suggests that insurance payments in households are mainly made by family heads (74% of households who use the relevant services). This figure was higher in other urban and rural areas than in Baku. In Baku, the share of other members of households was relatively higher, at 38%.

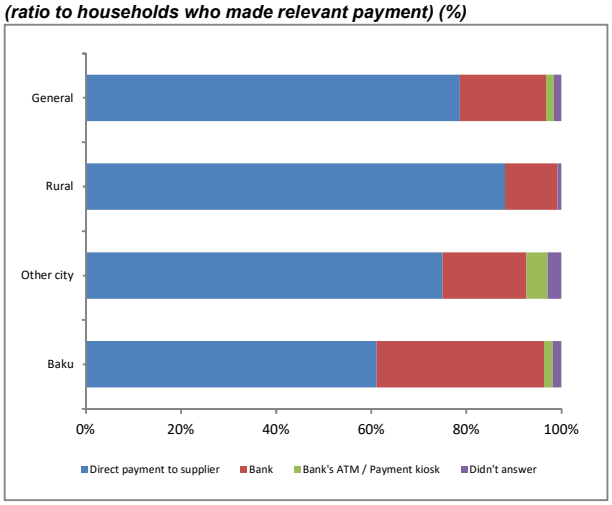
Figure 4.18 indicates that households mainly pays insurance fees to the insurer (79% of households who use relevant services). Both the share of insured households and those making payments to banks was higher (35%) in Baku than in other residential areas.

Figure 4.17: People Who Pays for Insurance Services
(ratio to households who made relevant payment) (%)



Source: ADB. Financial Inclusion Survey.

Figure 4.18 Places Where Insurance Fees Are Paid
(ratio to households who made relevant payment) (%)



Source: ADB. Financial Inclusion Survey.

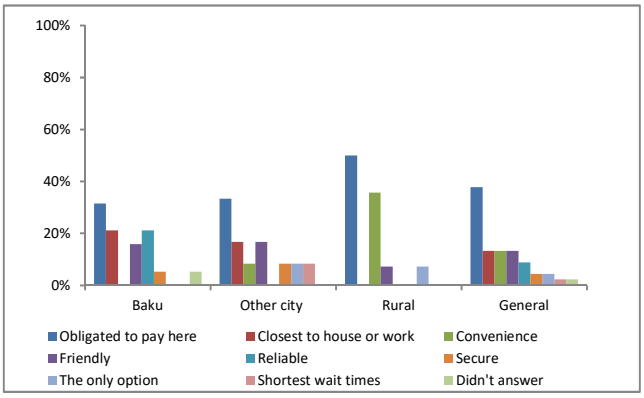
As the main reason for making insurance payments at the bank (38%), respondents indicated that payment should be made only here (figure 4.19). Households in Baku also highlighted the closeness of the bank to their workplace or home or reliability of payment at the bank, as factors influencing their relevant choice. In rural areas, the main reason for preferring the bank was the lack of other choice for payments (50%).

The main reason for payment of insurance fees directly to the insurer was the availability of only one option. Thus, 35% of households made insurance payments directly to the provider because of the absence of another way to do it.

As the number of households who made insurance payments through ATM and payment terminals was few (4 households), the relevant figure was not included in the report.

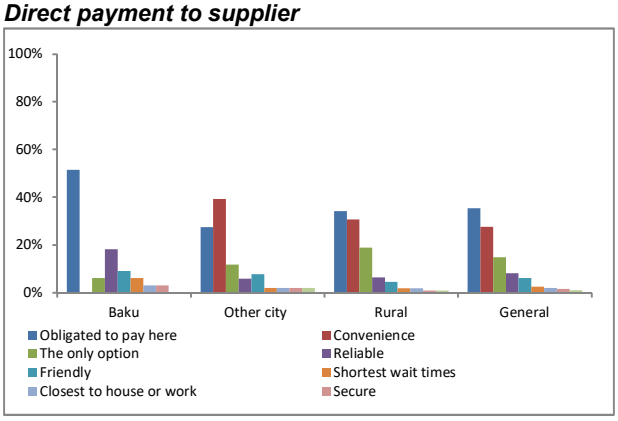
Figure 4.19 Main Factors İnfluencing Places Of İnsurance Payments *ratio to the number of cases of payment) (%)*

Bank



Source: ADB. Financial Inclusion Survey

Direct payment to supplier

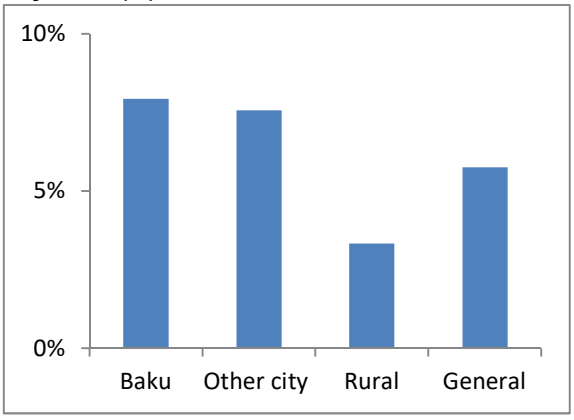


Source: ADB. Financial Inclusion Survey

4.5. Tuition fee payment

As can be seen from Figure 4.20, 6% of households paid some tuition fees. This includes annual tuition fees for higher and secondary-specialized education, as well as payment for tutors. Households in Baku paid more tuition fees (7.9%) than other residential areas, and the amount was higher (Table 4.2)

Figure 4.20: Households Who Make Tuition Payments (%)



Source: ADB. Financial Inclusion Survey.

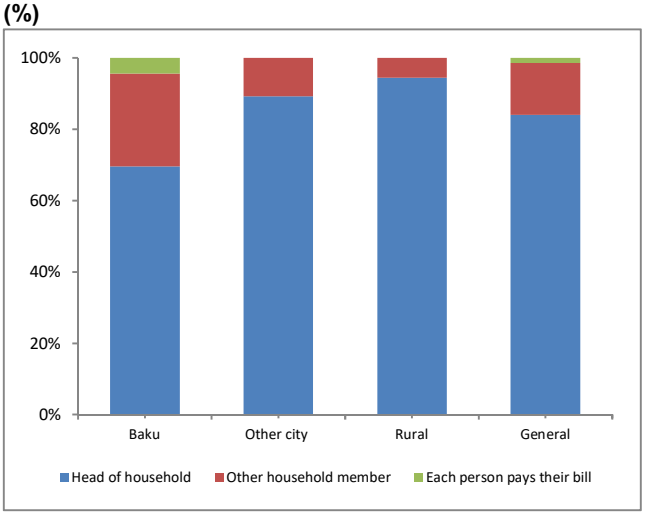
Table 4.2: Amount of Average Monthly Payment of Households Who Paid for Tuition 1–2 Times a Year *(ratio to households who made same payment)*

	Baku		Other city		Rural		General
	%	Average Payment (AZN)	%	Average Payment (AZN)	%	Average Payment (AZN)	%
2 times and more a month	0.0	0.0	29.0	24.0	44.0	21.0	23.0
Once a month	9.0	55.0	29.0	37.0	17.0	72.0	19.0
3–5 times a year	17.0	838.0	4.0	1,000.0	0.0	0.0	7.0
1–2 times a year	74.0	1,357.0	39.0	1,236.0	39.0	1,314	51.0
Total	**100.0**		**100.0**		**100.0**		**100.0**

Source: ADB. Financial Inclusion Survey.

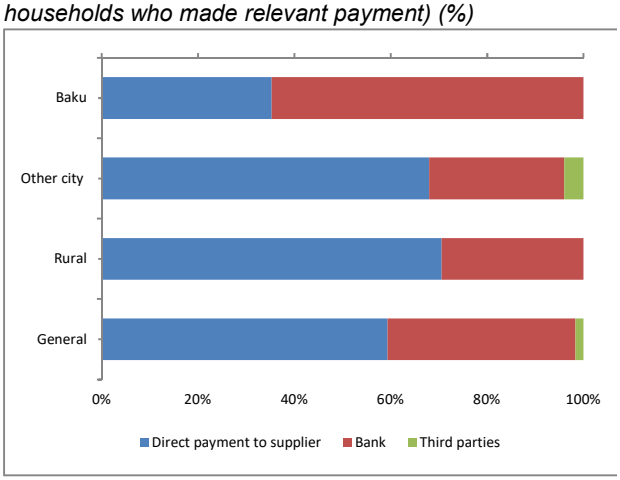
Figure 4.21 shows that tuition fees are mainly paid by the head of family (84% of households who used the same service). This figure was higher in Baku than other urban areas. All tuition fees were paid in cash and mainly directly to education providers. Thus, 60% of households who paid tuition fees made it directly to providers (Figure 4.22). This figure was higher in rural areas (71%). In Baku, households who used banks for payment of tuition fees were most common (65%).

Figure 4.21: People Who Make Tuition Fee Payments (%)



Source: ADB. Financial Inclusion Survey.

Figure 4.22 Where Tuition Fees Are Paid *(ratio to households who made relevant payment) (%)*

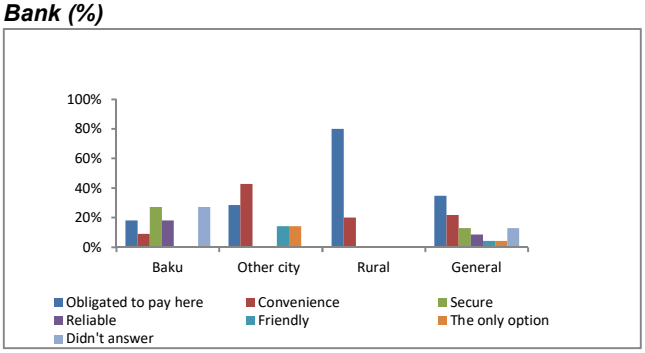


Source: ADB. Financial Inclusion Survey.

Figure 4.23 indicates that as the main reason for payment of tuition fees at bank that respondents mentioned was they could only pay there (35%). Lack of other options for payment was the main factor influencing the direct payment to the provider.

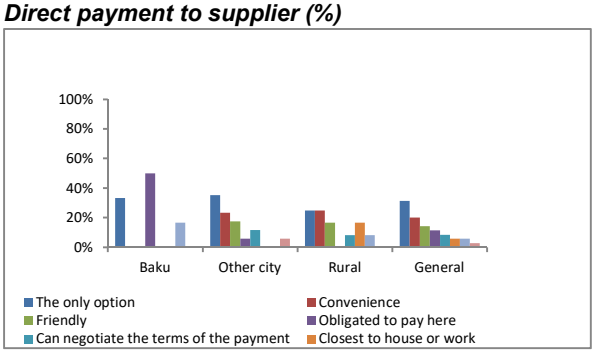
Figure 4.23 Main Factors Influencing the Choice of Places Where Tuition Fees Are Paid ***(ratio to the number of cases of payment)***

Bank (%)



Source: ADB. Financial Inclusion Survey.

Direct payment to supplier (%)

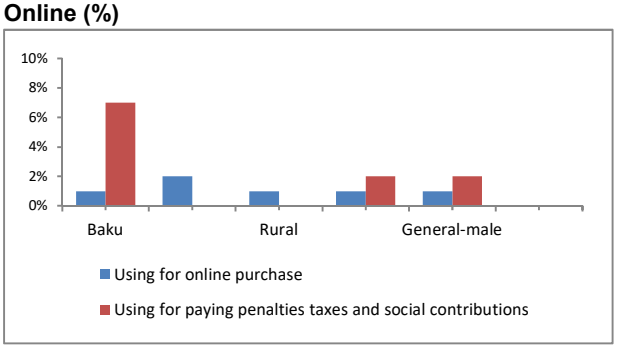


Source: ADB. Financial Inclusion Survey.

4.6. Online shopping

In addition to the abovementioned payments through internet, 2% of respondents paid taxes, social insurance contributions, and fines online, and 1% shopped online (Figure 4.24). Respondents who paid taxes, made social insurance contributions, and paid fines online were recorded only in Baku and all were men.

Figure 4.24: Payment of Taxes And Fines, Shopping Online (%)



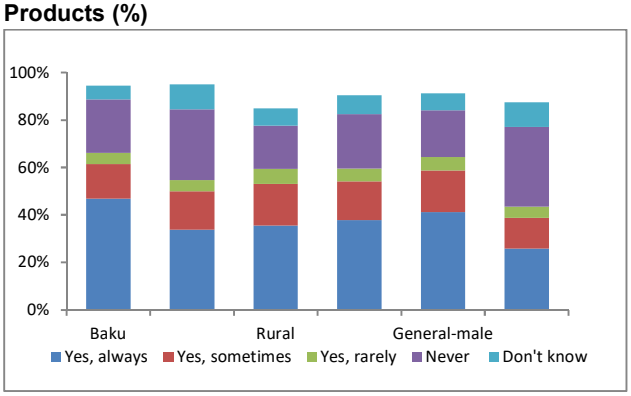
Source: ADB. Financial Inclusion Survey.

V. BEHAVIORS

5.1. Selection of Financial Services and Products

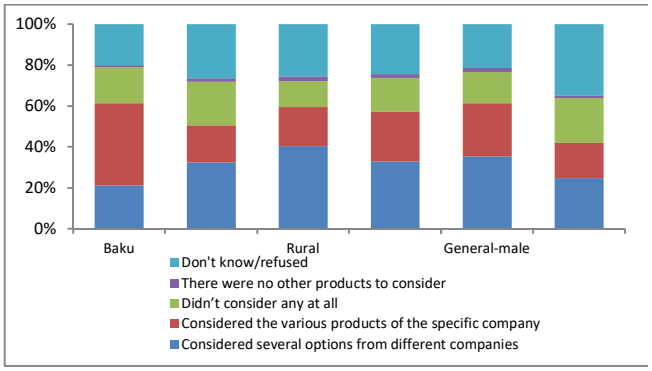
Among respondents, 90% used at least one financial service or product over the previous 2 years (Figure 5.1). Men (91%) used financial services and products more frequently than women (87%); 60% of respondents compared terms and conditions of different financial institutions before using services and products; 38% said they always do so, 16% sometimes do, and 5% rarely. More men (64%) than women (44%) did initial analysis and made a decision in choosing a financial service or product; 30% of respondents who used financial services made their decisions based on review of similar products of different companies and 22% different products of the same company (Figure 5.2).

Figure 5.1: People who Compared Terms and Conditions While Choosing Financial Services and Products (%)



Source: ADB. Financial Inclusion Survey.

Figure 5.2 How Financial Service and Products Are Chosen *(Ratio to respondents who use financial services) (%)*



Source: ADB. Financial Inclusion Survey.

Figure 5.3 indicates that respondents mainly seek the advice of friends and relatives (52%), followed by information from representatives of products and service providers (32%) while making a decision to buy a financial service and product. The advice of company representatives is considered more frequently in regions. Figure 5.4 shows that the advice of friends and relatives (30%) and information provided by a representative of a company (29%) are the main factors influencing the decision of respondents. Information obtained from branches influenced the decisions of 21% of respondents.

Figure 5.3: Information Taken into Account in Choice of Financial Service and Product ***(Ratio to respondents who use financial services)***

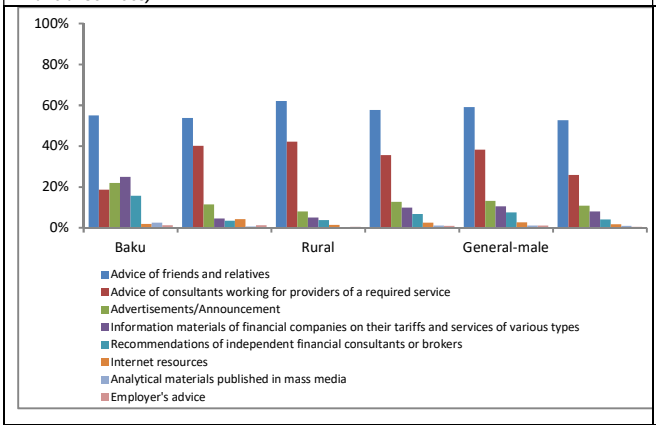
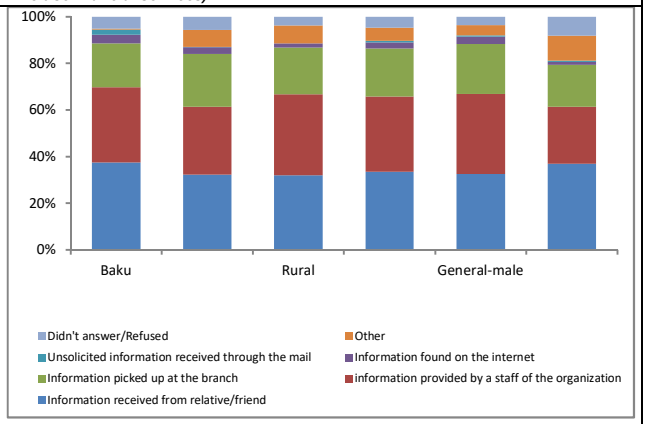


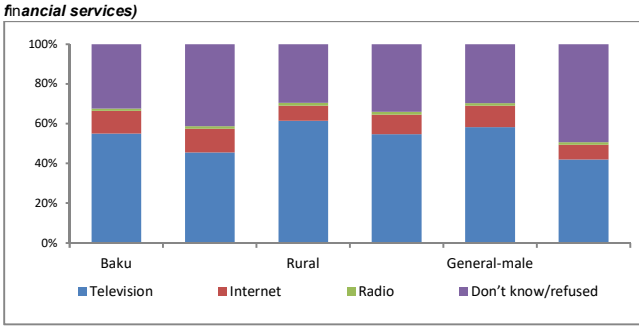
Figure 5.4: Sources of Information Influencing the Choice of Financial Service and Product ***(Ratio to respondents who use financial services)***



Source: ADB. Financial Inclusion Survey.	Source: ADB. Financial Inclusion Survey.

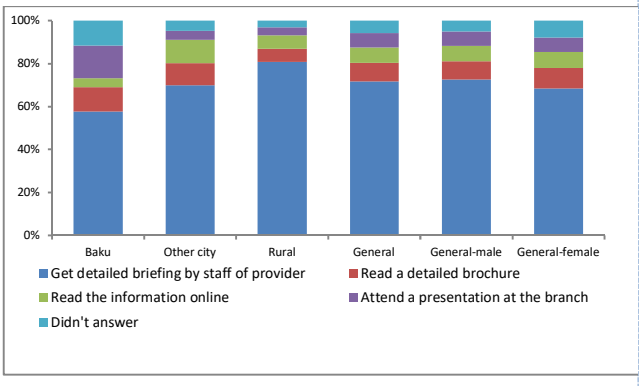
Information about financial service providers from television was important in respondents' choices. Of respondents who use services, 55% said television had an impact, while that ratio was 10% for internet (Figure 5.5). The weight of television and internet was higher in rural areas and the Baku city, respectively. The impact of television was higher among men; 74% of respondents who used financial services wished staff had given them detailed information on the service or product to aid their decision (Figure 5.6), and even more so in rural areas and among men.

Figure 5.5: Sources of Information Influencing the Selection of Financial Institutions ***(Ratio to respondents who use financial services)***



Source: ADB. Financial Inclusion Survey.

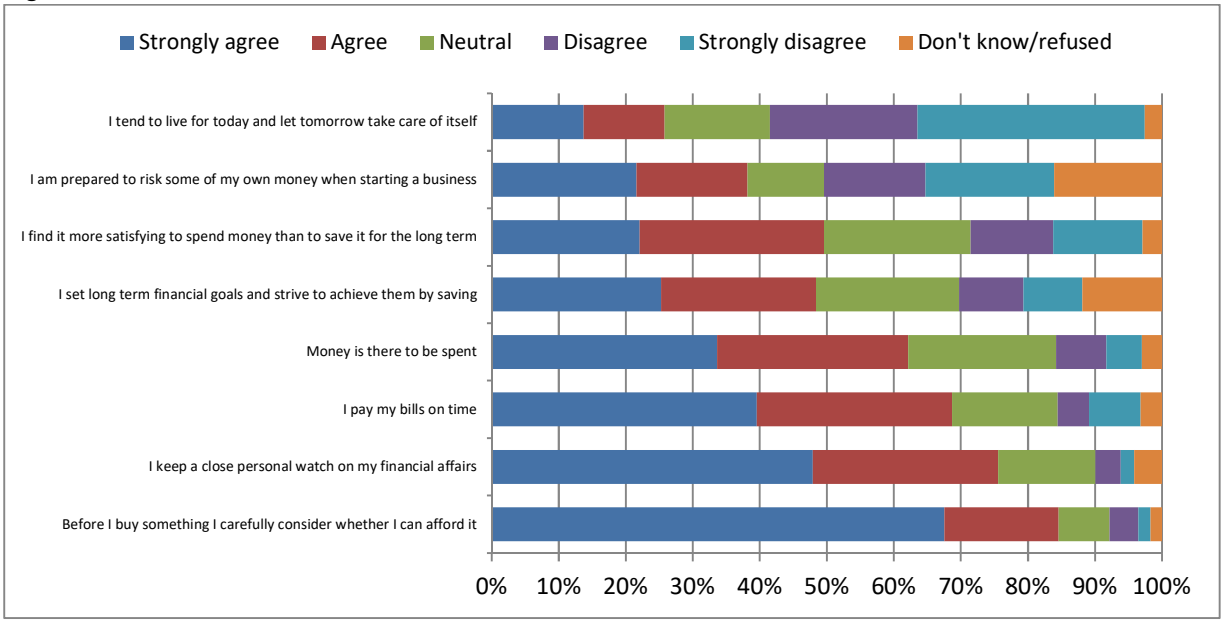
Figure 5.6 Getting information about financial services and products ***(Ratio to respondents who use financial services)***



Source: ADB. Financial Inclusion Survey.

The survey also studied behaviors related to financial discipline, consumption, and savings. Figure 5.7 shows that 78% of respondents strictly control financial issues and 85% thought about whether they could afford a purchase. Few respondents live only "for today" or expressed no care for tomorrow (26%); 48% set long-term financial goals and tried to achieve them through saving.

Figure 5.7: Consumer Behaviors

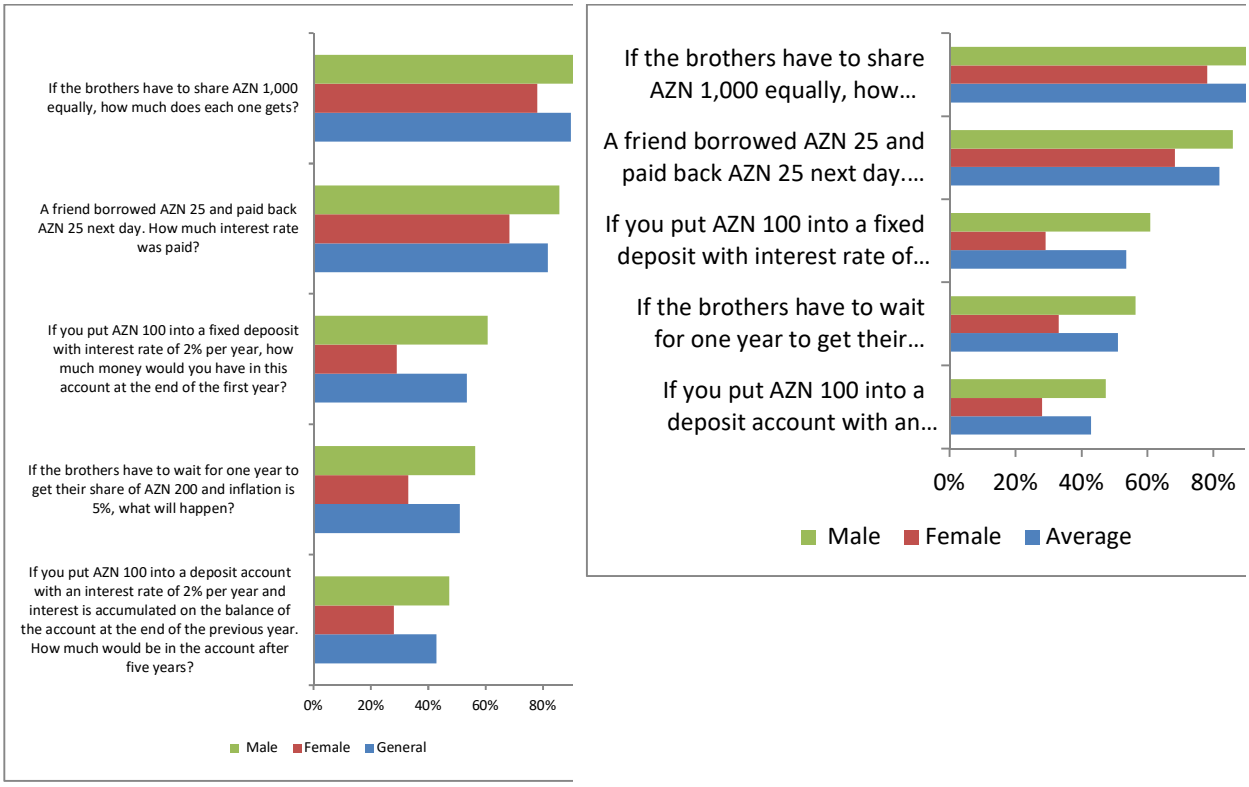


Source: ADB. Financial Inclusion Survey.

5.2. Financial literacy

This analysis suggests that although the majority of respondents gave correct answers to financial questions requiring simple numerical calculations (division, simple percentage calculation), the ratio of people with correct answers decreased as the difficulty of question increased (difficult percentage rate, comparison of income with inflation). Women showed consistently poorer results on all questions (Figure 5.8). The highest ratio of correct answers was recorded in Baku. As can be seen, about half of respondents were unable to carry out calculations faced in their everyday lives, such of interest on credit or deposits, comparison of income on savings with inflation rate, ratio of additionally paid funds to the principle, and so on.

Figure 5.8: People Correctly Answering Math Questions (%)

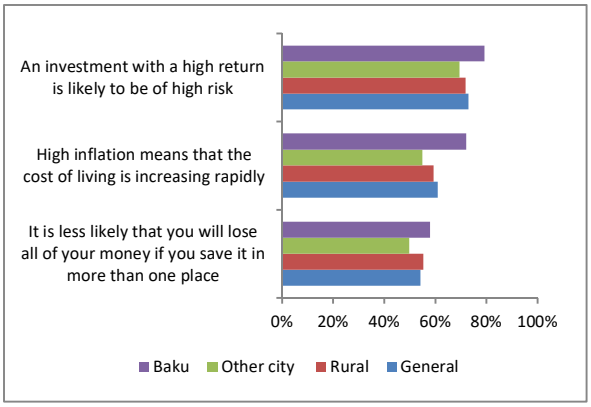


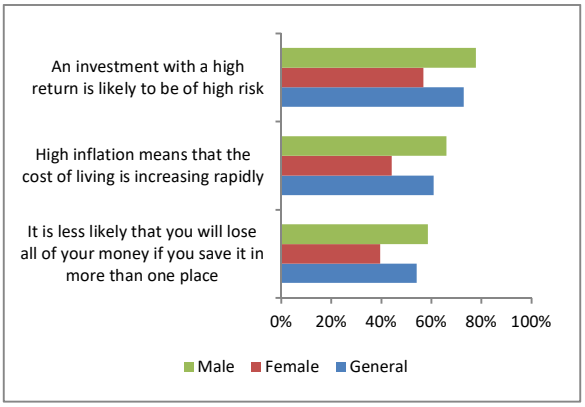
Source: ADB. Financial Inclusion Survey.

Various questions were asked of the respondents to define their basic knowledge in managing financial risks and theoretical financial issues, in addition to basic math skills. The knowledge of respondents was not as sufficient in theoretical financial issues and risks, as it was in mathematical financial issues. Figure 5.9 shows that 73% of respondents agreed with the statement that “an investment with a high return is likely to be of high risk”, 61% agreed that “high inflation means that the cost of living is increasing rapidly”, and 54% that “it is less likely that you will lose all of your money if you save it in more than one place”. Other respondents did not agree with these statements and had no idea about them. The percentage of male respondents who agreed with this was higher than female

respondents.

Figure 5.9: People Correctly Answering Theoretical and Math Questions (%)



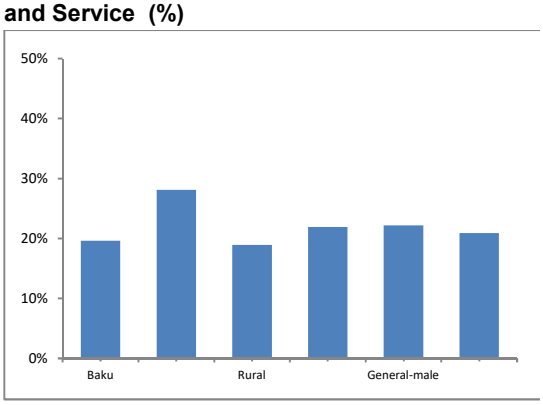


Source: ADB. Financial Inclusion Survey

5.3. Consumer rights

Figure 5.10 shows that 22% of respondents were dissatisfied because the financial service and products they used over the previous 2 years had not met their needs. The share of dissatisfied people who used products and services was higher in other urban areas (28%). As can be seen from Table 5.11, the services that respondents were most sorry about were consumption loans and insurance services: respectively 74% and 11% of respondents who were sorry about services. More men were sorry about insurance services and more women were sorry about consumption loans.

Figure 5.10: People Regretting Use of Product and Service (%)



Source: ADB. Financial Inclusion Survey.

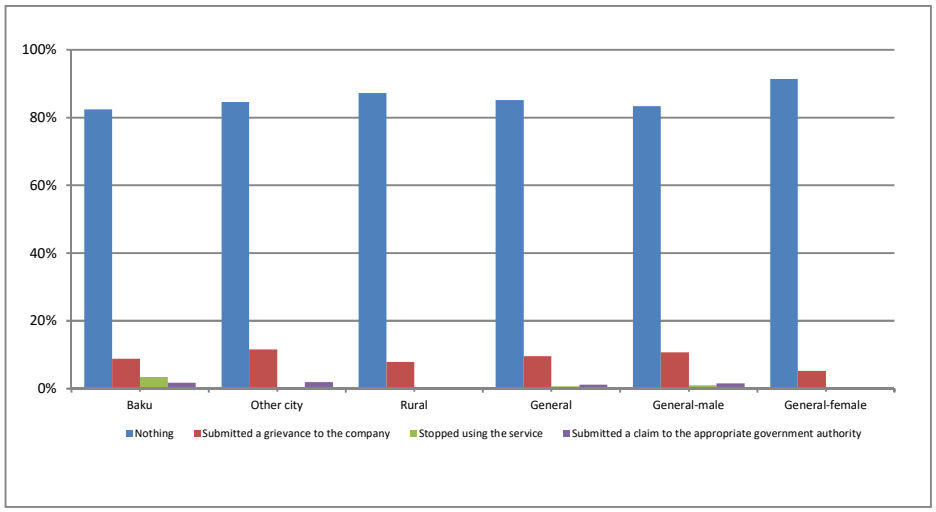
Table 5.11: Products and Services that Respondents Regreted *(Ratio to dissatisfied respondents, %)*

	Baku	Other city	Rural	General	General-Male	General-Female
A consumer loan	74	85	63	74	71	85
An insurance policy	0	5	25	11	15	0
Checking account	0	5	15	8	8	5
A bank credit card	11	6	1	5	5	5
Pawning goods	16	2	0	4	2	14
Bank deposit	9	1	1	3	2	3
A car loan	4	3		2	2	3
A mortgage loan	2	2	1	2	1	3
Loans from nonbanking financial institutions	0	3	1	2	2	2
Loans from usurers	2	3	0	2	2	0
A bank debit card	0	1	2	1	2	0

Source: ADB. Financial Inclusion Survey.

85% of respondents who were disappointed about a financial service took no measures against the problem, 10% complained to the service provider, and only 1.1% submitted a claim to the appropriate government authority (Figure 5.11). Measures taken by government authorities did not satisfy any applicants or authorities took no actions.

FİGURE 5.11: STEPS TAKEN BY RESPONDENTS İN PRODUCT AND SERVİCE THEY WERE DİSAPPOİNTED İN *(RATİO TO DİSSATİSFİED RESPONDENTS. IN %))*



Source: ADB. Financial Inclusion Survey.

VI. RECOMMENDATIONS

According to the results and findings of the survey the following recommendations are to be taken into account for improving financial inclusion, including literacy, access and use of financial services, and protection of consumers' rights:

	Activity	Description
1.	Implement effective monetary-credit policy and help the financial system recover	Ensuring stable floating exchange rate of the national currency, maintaining the inflation at the manageable rate, improving payment balance of the country, ensure reliable and clear deposit protection policy.
2.	Improve system for protection of consumers' rights	Improve the legislative framework, improving and simplifying documentations (contracts, and others) with clients, improve complaints review mechanism, establish a financial Ombudsman.
3.	Expand network of financial institutions and improve regional quality of financial services	The expansion of financial institutions networks and/or agent banking is very important for access to financial services. Improving quality and the menu of services Azerpost provides will support this objective. Decreasing the costs of financial services and increasing quality are important.
4.	Expand the geographical scale of payment systems	Increase the infrastructure of payment systems and financial services, particularly in regions and rural areas densely populated with low- income households, and further improve access of enterprises and households to financial services. Integration of Azerpost with the card infrastructure will speed up this process, as will the faster establishment of POS terminals at public places and the promotion of non-cash payments.
5.	Conduct awareness campaigns and targeted activities for increasing financial inclusion and improving financial literacy	Service providers, associations, nongovernment organizations, mass media, education institutions, municipalities, and financial consultants are to be involved in this process. Women, low-income households, the unemployed, disabled, youth, internally displaced people, and old people should be target groups. Special attention is to be given to the rural areas. Subjects for awareness: • Financial calculations and household budgeting • Benefits of bank deposits • Consumer rights • Use of payment cards and non-cash payments, remittances, currency exchange and bank transfers, insurance services, and others • Increase confidence in financial insurance institutions, and deposit insurance coverage.

6.	Conduct periodic monitoring of financial services	Design and deliver consumer-oriented policies and services. Also, strengthen control over confusing or deceptive advertising in the mass media about financial services.

APPENDIX 1: METHODOLOGICAL AND TECHNICAL ISSUES

Survey conducted among 1,200 heads of households during November and December of 2015. The following methodology and activities were used in the survey:

Activity	Description
Translation and adjustment of questionnaires to local conditions	The questionnaire submitted by the client was translated from English into Azerbaijani and adjusted to local conditions through pilot surveys. The final version of the questionnaire asked 90 questions mainly covering areas such as household income, budget, financial awareness, access to financial services and financial institutions, mathematics, financial literacy, violation of consumer's rights in the use of financial services, use of financial services, payment cards, and social-demographic conditions of respondents.
Determination of sampling framework and sampling scale	As a sampling framework, 1,200 respondents were defined in 8 economic regions (specific features of the Nakhchivan Autonomous Republic made it impossible to carry out a survey here) and Baku. The main reason for surveying 1,200 respondents was to ensure that the sampling number is representative for such surveys and of course to comply with financial resources of the project. Urban and rural ratio was set at 55% and 45% respectively, in accordance with the statistical indicator. For detailed information, please see Table A1.1.
Preparation of the survey plan and implementation of selections for the survey	The selection was carried out in 2 stages: (i) in the first stage, taking into account distribution of the population by Baku, other towns, and rural areas economic regions, initial sampling unit being street and village (each initial sampling unit includes 10 respondents); (ii) in the second stage, villages on streets and administrative regions within the selected towns were randomly chosen. For example, according to the outcomes of the first stage of sampling, 30 respondents were to be surveyed in Gabala region, of which 10 respondents were to be selected from rural and 20 from urban areas. Considering that the initial sampling unit amounts to 10 respondents, two streets from Gabala town or settlements and one street among villages should be randomly selected for the survey.
Creation of the technical framework required for entering and processing data at SPSS software and development of instruction for entering information	The database was established on the SPSS software for entering and analyzing the information. Moreover, instructions related to entering of information were prepared and submitted and explained to operators. Instructions used as the reference point explain technical issues related to entering of information.
Preparation of	Instructions for supervisors explain rules on admission of questionnaires from the

instructions for supervisors and interviewers	survey field specialist, coordination with interviewers, control over field activities, collection of questionnaires from interviewers, revision of questionnaires and submission of questionnaires to the survey field specialist. Instructions for interviewers detail the rules on taking of questionnaires from supervisors, implementation of surveys with respondents, filling in questionnaires, revision of questionnaires together with supervisors and submission of them to supervisors, as well as ethical behaviours, re-implementation of surveys, liquidation or return of spoiled questionnaires, continuation of the uncompleted surveys on the next day, people for application in case of unprecedented events.
Development of training material and implementation of training for supervisors and interviewers	A survey group, consisting of 4 professional supervisors and 16 interviewers, was selected and trained. Training for supervisors was arranged a day before and all rules were explained to them. Afterwards, a one-day training course was arranged for supervisors and interviews together. The training covered the following topics: (i) review of experience and practical application of surveys; (ii) discussion of aims and objectives of the survey; (iii) presentation of the survey methodology; (iv) implementation of interviews with respondents, explanation of interview techniques, and response to relevant questions; (v) explanation of instructions for supervisors and interviewers; (vi) implementation of pilot surveys within the group or test among participants (group includes: one participant in the capacity of a respondent, one participant in the capacity of an interviewer and one participant in the capacity of a supervisor ad vice-versa). Training was held in Baku on November 8–9. Pilot surveys were conducted on November 11.
Implementation of a pilot survey	At the end of the training, interviewers and supervisors conducted a pilot survey. Each interviewer and supervisor carried out 1–2 surveys among randomly selected households. About 40 households were surveyed in Baku and regions. The objective of the pre-testing was to study the following aspects: • Questions are clearly understood by respondents and interviewers; • Each question covers only one idea, not different issues; • Questions are literally applied to all respondents; • Probability of obtaining a completed answer to all questions and only few questions are abstained from or fall into another category; • No other efforts are required to answer to questions; and • Questions can be responded as much accurately as possible. Outcomes of the pilot survey allowed the creation of the database and adjustment to the text of the questionnaire.
Publication and distribution of questionnaires and other materials	After the pilot survey questionnaire and handbooks were published and distributed by the survey field specialist to supervisors and interviewers.
Implementation of field surveys and collection of information	The survey was conducted at households (household means people sharing a single budget and residing at one home) through face-to-face interviews from 19 November to 9 December 2015. The survey was made with the head of household.

	All responses given during the survey were recorded on a standard questionnaire. The survey was conducted in Azerbaijani. The average time per interview was 56 minutes. An interviewer surveyed each fourth house. In case of absence of the head of household, an interviewer returned to the household to conduct an interview with the head of the household, while agreeing it with another member of the household. In case of failure to survey 10 respondents in the selected street or village, an interview continued the survey in the other nearest street or village, upon notifying a supervisor about it. It should be noted that that kind of situation happened very rarely. Abstentions made up 18% and 16 questionnaires had confused responses (1.3% of the total respondents), which were cancelled and new surveys were conducted.
Quality revision of and control over interviews	Supervisors had to carry out the control over the quality of interviews. They reviewed the quality and completeness of a questionnaire. Furthermore, supervisors made control visits (5% of respondents per interviewer) to implement randomly determined interviews, met with respondents and prepared a relevant revision report. After the revision, supervisors submitted questionnaires to survey field managers. The survey field manager made a field visit and verified 5% of the interviews. *Involvement of an independent monitoring specialist:* The quality of interviews was also verified by an independent monitoring specialist. This specialist randomly selected 40% of the total respondents covering all of the regions (480 respondents), checked them through phone calls, and made a field trips if required. Thus, 50% of the conducted interviews were checked by supervisors, survey field specialists, and independent monitoring specialists through random sampling in place and phone calls. Examinations revealed 16 questionnaires with confused responses, which were cancelled and new surveys were conducted. All these measures contributed to the completion of examination reports for quality assurance.
Entering and clearing of data, and creation of a single database	Data were entered by operators using relevant software (SPSS). All questionnaires were coded during the entering of data. A database specialist carried out additional control and clearance works in order to clear information. After the main examination process, the Single Database was checked through the pre-analysis method. The Single Database was created on SPSS software based on questions of the questionnaire. The Single Database included responses of 1,200 respondents to the questionnaire.

Preparation of the Initial Report for initial analysis, comments and recommendations	Initial analysis was carried out based on the questions the questionnaire and answers were provided in number and percentage on calculated tables, if required. Initial analysis (separately by male and female) was carried out in Baku, other towns, and villages. Short interpretation of tables reflecting outcomes of the survey was provided on the head of each table.
Development of Final Report	A final report has been prepared considering comments and recommendations provided in the draft report.

In general, the survey covered Baku and 28 administrative regions, including 50 villages and settlements (Table 1). Urban population made up 54% (Baku, 24%) and rural population, 46% of survey participants. This reflects the demographic situation of the country.

Table A1.1: Distribution of Respondents by Residential Areas and Regions

Town/Region	Urban	Rural	Total
I **1** Baku	**290**	**0**	**290**
II. Absheron economic region	**80**	**0**	**80**
2 *Khizi*	*10*	*0*	*10*
3 *Absheron*	*30*	*0*	*30*
4 *Sumqayit*	*40*	*0*	*40*
III. Ganja – Gazakh economic region	**70**	**90**	**160**
5 *Ganja*	*60*	*0*	*60*
6 *Tovuz*	*0*	*10*	*10*
7 *Shamkir*	*10*	*20*	*30*
8 *Dashkasan*	*0*	*20*	*20*
9 *Goygol*	*0*	*20*	*20*
10 Goranboy	0	20	20
IV. Shaki-Zagatala economic region	**20**	**60**	**80**
11 *Gakh*	*0*	*20*	*20*
12 *Sheki*	*20*	*20*	*40*
13 *Gabala*	*0*	*20*	*20*
V. Lankaran economic region	**30**	**90**	**120**
14 *Lankaran*	*20*	*40*	*60*
15 *Lerik*	*0*	*10*	*10*
16 *Masalli*	*10*	*40*	*50*
VI. Guba-Khachmaz economic region	**20**	**50**	**70**
17 *Xachmaz*	*10*	*20*	*30*
18 *Guba*	*10*	*20*	*30*
19 *Siyazan*	*0*	*10*	*10*
VII. Aran economic region	**100**	**170**	**270**
20 *Barda*	*20*	*40*	*60*
21 *Bilasuvar*	*10*	*50*	*60*
22 *Yevlakh*	*20*	*40*	*60*
23 *Ujar*	*10*	*20*	*30*
24 *Sabirabad*	*10*	*20*	*30*
25 *Shirvan*	*30*	*0*	*30*

VIII. Upper Garabagh economic region	**40**	**50**	**90**
26 *Fuzuli*	*10*	*20*	*30*
27 *Aghdam*	*20*	*10*	*30*
28 *Tartar*	*10*	*20*	*30*
IX. Mountainous Shirvan economic region	**10**	**30**	**40**
29 *Aghsu*	*10*	*30*	*40*
TOTAL	**660**	**540**	**1200**
In %	55%	45%	100%

Source: ADB. Financial Inclusion Survey

APPENDIX 2: SUMMMARY OF FOCUS GROUP DISCUSSIONS

Focus groups were organized in 5 regions during February after second devaluation: Lankaran, Guba, Gabala, Ganja, and Mingachevir.

Location	Lankaran	Guba	Gabala	Ganja	Mingachevir	Total
No. of participants	***10***	***9***	***9***	***9***	***10***	***47***
Bank clients	*2*	*2*	*0*	*2*	*1*	*7*
NBCO clients	*7*	*7*	*9*	*7*	*9*	*39*
Credit union clients	*1*	*0*	*0*	*0*	*0*	*1*
No. of males	***8***	***9***	***9***	***7***	***0***	***33 (70,2%)***
No. of females	***2***	***0***	***0***	***2***	***10***	***14 (29.8%)***
Higher education	*5*	*4*	*2*	*5*	*2*	*18 (38,3%)*
Secondary	*5*	*5*	*7*	*4*	*8*	*29 (61.7%)*
Secondary specialized	*0*	*0*	*0*	*0*	*0*	*0 (0 %)*
Average household size	***5.3***	***4.0***	***5.1***	***4.3***	***4.6***	***4.7***
Trade	*1*	*2*	*0*	*2*	*2*	*7 (14.9%)*
Services	*4*	*1*	*1*	*2*	*0*	*8 (17.1%)*
Agriculture	*3*	*5*	*8*	*0*	*3*	*19 (40.4%)*
Other	*1*	*1*	*0*	*5*	*5*	*13 2 7. 7 %)*

A 2.1: Participant profile

Five focus group discussions were held in 5 regions of Azerbaijan (Lankaran, Guba, Gabala, Ganca and Mingachevir) with the clients of member banks and nonbank credit organizations (Demir Bank, AMB Credit Union, AFS Credit Union, FINCA, FinDev, MolBulak, VF AzerCredit). A total of 47 participants were interviewed, including 32 men and 15 women, mostly aged between their late 20s and mid-40s. Some were aged over 55 and one was over 70. Most of the participants had secondary education; 18 participants had higher education, and the remaining 29 had secondary education. The average family size was about 4 people. The majority of the participants were entrepreneurs in the agriculture and service sectors.

A 2.2: Business details

The majority of participants currently work with more than 2 institutions. Only 2 of the participants used a loan for the aforementioned purposes; one for home and one for buying a car. However, as the current loan disbursement process has been stopped, and considering that mortgage loans are almost inaccessible, participants did not know how many people are using the loans for this purpose. The rest of the participants did not take out loans for purchasing home or car.

The majority of loans were taken to extend their businesses. All business loan clients mentioned that they were unafraid of taking loans, as all of them knew that they had profit. They just thought about the responsibility they were undertaking.

The participants mentioned that they had started their businesses with their own savings. Later they took loans to extend their businesses. The participants were active in their businesses from 2–5 years. The majority of participants were clients of other financial institutions, and changed financial service provider because of long distance, hard conditions, and group loan condition as a guarantor to each other.

A 2.3: Use of financial services

All of the participants were clients of credit institutions. Participants use banks, NBCOs, credit unions, Azerpost, and financial services. If money is short, just 3 participants from Ganja responded that they would use a money lender. Others would use banks or sell something. Two of the participants mentioned that they took money from their relatives to pay off their bank loan, which was in US dollars after the devaluation of the manat. Others mentioned that they had not done so, but would like to have special products for this purpose.

Azerpost is used for money transactions abroad and for utility expenses. Participants in all regions would prefer to have Azerpost financial services, because Azerpost offices are in all villages in the country. Some of the participants used money transfers, but were not satisfied, and mentioned that they had been taken for extra unofficial fees from money transfers. In addition, the official commission fee is high and customers cannot take the transferred money in the original currency. For example, if they should receive ruble, Azerpost exchanges it to manat with its higher rates.

The participants' biggest loan from NBCOs was $6,000. The biggest loans taken from banks was in the range of AZN19,000–50,000. Collateral for loans from AZN500–3,000 was for home appliances, while for bigger loans, property and cars were taken as collateral. People prefer to take individual loans, because in groups they are obliged to be guarantor to each other, which causes big problems.

Savings: The participants had no deposit accounts and they were deeply disappointed with banks. Clients of banks in Ganja and Mingachevir were thinking that banks mistreated clients and said they could never trust their money to the banks. This was not because of lower interest rates or other terms, with which they were very familiar, but only reliability: they do not trust banks.

In Lankaran, Guba, and Gabala, participants mentioned that they did not have money to save. If they had money they would have extended and invested in their own businesses, keeping it at home or purchasing gold. There is little or no trust in bank savings and none indicated willingness to save with Azerpost. In fact, the participants took loans for medical treatments, education of children, marriage, house repair, buying needs, and meeting emergencies.

ATMs, kiosks, and point-of-sale (POS) terminals: All were aware of ATMs, kiosks and POS terminals. While kiosks were popular for payments of utilities (electricity, telephone, and water), they were rarely used to repay loans of some FIs. Point-of-sale terminals are not available everywhere and also when available in most times they said there was poor connection to the server, so it does not work well.

Mobile and internet Banking services are not used in the regions. Just participants from Ganja and Mingachevir, urban areas, used mobile and internet banking. The main reason for this is a lack of knowledge and skills and lack of availability of cards.

Debit cards: Just participants from Ganja and Mingachevir (both of them are urban areas) mentioned that they had debit cards. In other regions, they prefer using cash for business operations.

Other financial products: 3 participants in Mingachevir had medical insurance and 1 participant in Ganja insured his home as collateral because it is compulsory term of the bank contract. Other participants heard just about car insurance and life insurance which is obligatory while taking loan. In Guba region participants were pleased with Agro leasing that 40% had been subsidized by the government and it is very useful and helpful for entrepreneurs.

There is no trust in current insurance system. When accidents happen they cannot prove their case to receive compensation. One of the participants mentioned that he had insured his cattle. But when his cattle suffered widespread death because of an epidemic disease, he could not prove the case and get his money. Therefore, he has no trust in any insurance company. All clients would like to insure their businesses and have a reliable insurance system.

A 2.4: Quality of services

The participants understand only those terms which the loan officer declares, reads, or reinstates to them; they do not read it by themselves and even if they do, are unable to fully understand. Participants do not have enough time to read terms properly because they sign it upon receiving loan.

Clients of nonbank credit organizations were well informed and had the terms and conditions explained to them, unlike bank clients. Bank clients complained about the small font sizes of in contracts, as well as surprise costs upon receiving loans. Customer service and attitude of the staff were considered normal. A client of one bank in Guba mentioned that his wife was refused a loan for cattle breeding because of her gender.

A2.5: Financial literacy of clients

The questions that were asked from the clients were responded to quite easily by the female participants in Ganja and Mingachevir (considering that the group in Mingachevir was all women). In Lankaran, Gubam and Gabala regions, male participants also responded to the questions easily.

All clients complained that they suffered a lot after the devaluation. Most of them had loans in US dollars, and they suffered most. Two mentioned that they even did not know that they were taking a

loan in dollars, in that they received manat (in the contract it was stated dollar, but they received from cash desk converted funds into manat). Their income is no longer aligned with the monthly loan payments. In addition, due to the higher prices on everything, they found it difficult to manage their incomes.

Those participants engaged in agriculture said they did not raise prices for meat or plants. This means that income is the same, but expenditures high. One participant noted that he borrowed from his brother to repay his loan, which was in US dollars. Participants of some nonbank credit organizations mentioned that their loans had been frozen and interest rates in arrears not calculated. Some financial institutions, including banks, restructured loans for clients.

Collateral: some NBCI clients made particular reference to the fact that banks required collateral, but NBCIs and credit unions did not.

Client complaint mechanism: All but one client of NBCOs in Gabala knew where and how to make a complaint. One client in Gabala mentioned that he wanted to call the bank to require restructuring of his loan in US dollars, but could not reach them. No reminder calls prior to loan repayment day were made by loan officers. A few financial institutions sent reminder messages to clients' mobile phones.

Guarantors: some participants felt that banks should not require repeat customers with good track records to provide guarantors.

A2.6: Areas of improvement

- Lower interest rates
- Longer tenure for larger loans
- Penalties (participants claimed in late transmission of the pension or salary to their cards, automatically they cannot make repayment and it causes delay in repayment)
- Larger loans needed and provided by NBCIs and credit unions for larger businesses or businesses with greater investment
- Repeat customers with good track records should not be asked to provide guarantors
- Training for online and mobile banking
- Education on the benefits of ATMs, plastic cards
- Insurance products, trusted system
- Participants would like to see mortgage loans, housing, health, wedding, emergency loans available in the regions.
- Duration (time period of loans): all stated that they want longer-term loans; restructuring without interest rates applied or a grace period.

APPENDIX 3: STATISTICAL TESTS

A 3.1: Use of banks x distance (Chi square test)

As both variables were categorical, a Chi-square test would give us more reliable information about the correlation between them (Table A 3.1).

Table 3.1: Use of Bank Services * Distance to Banks (Cross tabulation)

			Q33 - About how many kilometers is this service from your home (bank)						Total
			<1 km	1–2.9 km	3–4.9 km	5–10 km	More than 10 km	Don't know	
Q29 Do you use their services (bank)	Yes	Count	237	147	104	105	206	34	833
		Expected Count	234.2	139.4	105.3	107.3	195.2	51.6	833.0
	No	Count	99	53	47	49	74	40	362
		Expected Count	101.8	60.6	45.7	46.7	84.8	22.4	362.0
Total		Count	336	200	151	154	280	74	1195
		Expected Count	336.0	200.0	151.0	154.0	280.0	74.0	1195.0

Chi-Square Tests			
	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	23.457[a]	5	.000
Likelihood Ratio	21.738	5	.001
Linear-by-Linear Association	20.765	1	.000
N of Valid Cases	1195		
a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 22.42.			

Source: ADB. Financial Inclusion Survey.

Distance to the bank and whether or not respondents use bank services were significantly correlated, with Chi-square = 23.457, $p < 0.001$.

A3.2: Use of banks x age and income (Binary logistics regression)

Can use of banks be correlated with the amount of income and the age of respondents? Binary logistics regression was used, because our outcome is binary (yes and no) and our predictor variables are continuous.
Total income was calculated by adding answers for the questions 8 (How much a month did household members receive income from the following activities?) (Table 6.2).

Table A 3.2: Classification Table[a,b]

	Observed		Predicted		
			Do you use their services (banks)		Percentage correct
			0.00	1.00	
Step 0	Do you use their services (banks)	0.00	833	0	100.0
		1.00	359	0	0.0
	Overall Percentage				69.9
a. Constant is included in the model.					
b. The cut value is .500					

Variables in the Equation							
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 0	Constant	-.842	.063	177.742	1	.000	.431

Variables not in the Equation					
			Score	df	Sig.
Step 0	Variables	How old	1.243	1	.265
		Total income	.925	1	.336
	Overall Statistics		2.165	2	.339

Source: ADB. Financial Inclusion Survey.

Both of our predictor variables are statistically insignificant for our model. We can conclude that, neither age nor total income of the household members' effect their use of bank services.

A3.4: Use of NBCO x distance (Chi square test)

As in banks, predictability of use of NBCOs was tested for distance to the NBCO to know if it affects use of NBCO services. As both variables were categorical, Chi-square test would give us more reliable information about the correlation between them (Table A3.3).

Table A 3.3:

Q29_b Do you use their services (NBCO) * Q33_b About how many kilometers is this service from your home (NBCO) Cross tabulation								
			Q33_b About how many kilometers is this service from your home (NBCO)					Total
			<1 km	1–2.9 km	3–4.9 km	5–10 km	More than 10 km	Don't know	
Q29_b Do you use eir services (NBCO)	Ye	Count	8	6	8	12	21	2	57
		Expected Count	6.2	3.6	5.0	5.5	8.8	27.9	57.0
	N	Count	40	22	31	31	47	214	385
		Expected Count	41.8	24.4	34.0	37.5	59.2	188.1	385.0
Total		Count	48	28	39	43	68	216	442
		Expected Count	48.0	28.0	39.0	43.0	68.0	216.0	442.0

Use of NBCO x distance (Chi square test)

Chi-Square Tests			
	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	60.199[a]	5	.000
Likelihood Ratio	70.185	5	.000
Linear-by-Linear Association	52.921	1	.000
N of Valid Cases	442		
a. 1 cells (8.3%) have expected count less than 5. The minimum expected count is 3.61.			

Source: ADB. Financial Inclusion Survey.

Distance to an NBCO and whether or not respondents used their services are significantly correlated, at Chi-square = 60.199, $p < 0.001$. Only 12.9% of respondents (442) used services.

A3.5: Use of Credit unions x distance (Chi square test)

There is not enough data to test this assumption. Only 3 of the respondents use credit unions.

A3.6: Use of Azerpost x distance (Chi square test)

The predictability of use of Azerpost services was tested for distance to the Azerpost to know if the distance affects the use of Azerpost services. As both variables were categorical Chi-square test would give us more reliable information about the correlation between them (Table A3.4).

Table A3.4: Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Q29_d Do you use their services (Azerpost) * Q33_d About how many kilometers is this service from your home (Azerpost)	1193	99.4%	7	0.6%	1200	100.0%

Q29_d Do you use their services (Azerpost) * Q33_d About how many kilometers is this service from your home (Azerpost) Cross tabulation

			Q33_d About how many kilometers is this service from your home (Azerpost)						Total
			<1 km	1–2.9 km	3–4.9 km	5–10 km	More than 10 km	Don't know	
Q29_d Do you use their services (Azerpost)	Yes	Count	724	153	55	48	39	23	1042
		Expected Count	725.8	151.1	50.7	42.8	37.6	34.1	1042.0
	No	Count	107	20	3	1	4	16	151
		Expected Count	105.2	21.9	7.3	6.2	5.4	4.9	151.0
Total		Count	831	173	58	49	43	39	1193
		Expected Count	831.0	173.0	58.0	49.0	43.0	39.0	1193.0

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	36.987[a]	5	.000
Likelihood Ratio	31.307	5	.000
Linear-by-Linear Association	27.811	1	.000
N of Valid Cases	1193		

a. 1 cells (8.3%) have expected count less than 5. The minimum expected count is 4.94.

Source: ADB. Financial Inclusion Survey.

There is a significant correlation between distance to the Azerpost's and whether or not respondents use their services, with Chi-square = 36.987, $p < 0.001$.

A3.7: Use of Leasing organizations x distance (Chi square test)

There is not enough data to test this assumption. Only 2 of the respondents use credit union services.

A3.8: Use of insurance companies x distance (Chi square test)

Predictability of use of insurance company services was also tested for distance to the Azerpost. As both variables were categorical, Chi-square test would give us more reliable information about the relation between them (Table A3.5).

Table A3.5: Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Q29_i Do you use their services (Insurance company) * Q33_i About how many kilometers is this service from your home (Insurance company)	1082	90.2%	118	9.8%	1200	100.0%

Q29_i Do you use their services (Insurance company) * Q33_i About how many kilometers is this service from your home (Insurance company) Cross tabulation

			Q33_i About how many kilometers is this service from your home (Insurance company)						Total
			<1 km	1–2.9 km	3–4.9 km	5–10 km	More than 10 km	Don't know	
Q29_i Do you use their services (Insurance company)	Yes	Count	28	50	42	43	69	19	251
		Expected Count	20.0	28.8	24.1	20.9	39.9	117.4	251.0
	No	Count	58	74	62	47	103	487	831
		Expected Count	66.0	95.2	79.9	69.1	132.1	388.6	831.0
Total		Count	86	124	104	90	172	506	1082
		Expected Count	86.0	124.0	104.0	90.0	172.0	506.0	1082.0

Chi-Square Tests			
	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	207.397[a]	5	.000
Likelihood Ratio	237.815	5	.000
Linear-by-Linear Association	200.551	1	.000
N of Valid Cases	1082		

a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 19.95.

Source: ADB. Financial Inclusion Survey.

There is a significant correlation between distance to the insurance company services and whether or not respondents use their services, with Chi-square = 207.397, $p < 0.001$.

A 3.9: Use of pawnshops x distance (Chi square test)

Predictability of use of pawnshop services was tested for distance to the pawnshop to know if the distance affects the use of pawnshop services. As both variables were categorical Chi-square test would give us more reliable information about the correlation between them (Table A3.6).

Table A3.6: Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Q29_j Do you use their services (pawnshops) * Q33_j About how many kilometers is this service from your home (pawnshops)	949	79.1%	251	20.9%	1200	100.0%

Q29_j Do you use their services (pawnshops) * Q33_j About how many kilometers is this service from your home (pawnshops) Cross tabulation

			Q33_j About how many kilometers is this service from your home (pawnshops)						Total
			<1 km	1–2.9 km	3–4.9 km	5–10 km	More than 10 km	Don't know	
Q29_j Do you use their services (pawnshops)	Yes	Count	6	15	4	2	4	0	31
		Expected Count	4.7	3.3	2.1	2.1	3.6	15.2	31.0
	No	Count	139	85	61	62	106	465	918
		Expected Count	140.3	96.7	62.9	61.9	106.4	449.8	918.0
Total		Count	145	100	65	64	110	465	949
		Expected Count	145.0	100.0	65.0	64.0	110.0	465.0	949.0

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	61.386[a]	5	.000
Likelihood Ratio	56.375	5	.000
Linear-by-Linear Association	31.175	1	.000
N of Valid Cases	949		

a. 5 cells (41.7%) have expected count less than 5. The minimum expected count is 2.09.

Source: ADB. Financial Inclusion Survey.

There is a significant correlation between distance to the pawnshops and whether or not respondents use their services, with Chi-square = 36.987, $p < 0.001$. But the test assumptions were violated in 5 cells (41.7%) have expected count less than 5, meaning that these test results cannot be counted on.

Table A.3.7: Chi-Square Test Results *(Distance and financial institutions)*

Financial institutions	Pearson chi-square value	P value (significance)	Cramer's V	Notes
Banks	23.457	.000	.140	
Nonbank credit Organization	60.199	.000	.369	
Credit unions				Not enough data
Azerpost	36.987	.000	.176	
Leasing organizations				Not enough data

Insurance companies	207.397	.000	.438	
Pawnshops	61.386	.000		Test assumptions violated with 41.7% of cells have expected count less than 5

Source: ADB. Financial Inclusion Survey.

Test results show that use of banks, NBCOs, Azerpost, and insurance companies closely correlate with distance to user.

Cramer's V values show how strong the correlation is between these two variables. Correlation of banks to distance is very weak and generally not acceptable; of Azerpost to distance is weak but minimally acceptable; and for NBCO and insurance companies, the association is considered very strong.

Independent t-test show that there is no significant correlation between income and use of financial institutions or their products.

Chi-square tests show no association between education and preference of financial institutions.

Binary logistics regression was used to determine correlation of income and age had with use of any of financial institutions. Total income was calculated by adding answers for the questions 8 (How much a month did household members receive income from the following activities?) One of the results is given above as an example. No significant correlation was identified among the given variables.

There is no significant correlation between gender of the survey respondents and their use of any financial institution.