



Technical Assistance Report

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Policy and Advisory Technical Assistance (PATA)
February 2014

Republic of Azerbaijan: Microfinance Sector Development (Cofinanced by the Financial Sector Development Partnership Fund)

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 5 February 2014)

Currency unit	–	Azerbaijan manat/s (AZN)
AZN1.00	=	\$1.28
\$1.00	=	AZN0.7838

ABBREVIATIONS

ADB	–	Asian Development Bank
AMFA	–	Azerbaijan Microfinance Association
CBA	–	Central Bank of Azerbaijan
FINCA	–	Foundation for International Community Assistance
GDP	–	gross domestic product
NBCI	–	nonbank credit institution
NGO	–	nongovernment organization
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Type	–	Policy and advisory technical assistance (PATA)
Targeting classification	–	General intervention
Sector (subsectors)	–	Finance (finance sector development, microfinance)
Themes (subthemes)	–	Economic growth (promoting economic efficiency and enabling business environment), private sector development (a conducive policy and institutional environment)
Location (impact)	–	Rural (high), urban (low), national (high)
Partnership	–	Financial Sector Development Partnership Fund

NOTE

In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. In 2012, during a fact-finding mission to prepare Azerbaijan's financial sector assessment, the Central Bank of Azerbaijan (CBA) asked the Asian Development Bank (ADB) for policy advice to develop the microfinance sector and support financial inclusion in Azerbaijan. The proposed technical assistance (TA) was included in the country operations business plan, 2014–2016.¹ Through a video conference in May 2013, the CBA confirmed its interest in the proposed scope of this TA. A fact-finding mission took place from 23 to 31 July 2013 where the CBA, the government's executing agency, agreed on the proposed impact, outcome, outputs, implementation arrangements, cost, financing arrangements, and terms of reference.² The design and monitoring framework is in Appendix 1.

II. ISSUES

2. Bolstered by strong hydrocarbon export revenues, the Government of Azerbaijan has been able to increase budget expenditure substantially since 2001, boosting economic growth. Annual gross domestic product (GDP) growth averaged close to 14% from 2001 to 2011, and allowed substantial poverty reduction.³ However, growth has not diversified regionally and across economic sectors, leading to large income disparities and higher poverty levels in rural areas and secondary cities. Economic activity is concentrated in Azerbaijan's capital, Baku; and in the Sumqayit region, which is the center of the oil and gas, chemicals and metallurgy, and food processing industries. The Baku area accounts for only 29% of the population. Azerbaijan's economy is dominated by large enterprises, with micro, small, and medium-sized enterprises contributing less than 10% to GDP. Spurring economic activity outside Baku and addressing development constraints facing micro, small, and medium-sized enterprises is essential to make growth more inclusive and to reduce poverty. It will also help support new sources of economic growth outside the traditional oil and gas sector. The government prioritizes development of the non-oil sector and economic diversification to achieve more balanced and sustainable economic development—including increasing access to financial services and a more balanced development of financial service providers, such as nonbank credit institutions (NBCIs).⁴

3. Inclusive financial systems in which all working age adults have effective access to credit, savings, payments and insurance from formal service providers, are crucial to broad-based growth.⁵ Access to finance is a key development constraint for micro, small, and medium-sized enterprises, especially in rural areas of Azerbaijan. Despite recent progress, Azerbaijan's bank-dominated financial sector is still small, with private credit equivalent to only 18% of GDP. This level is well behind other transition countries in the region and countries of similar GDP per capita. Banks mainly provide services in Baku and Sumqayit, which receive close to 90% of bank loans. Less than 15% of the adult population has a bank account, and only 2% save in a formal financial institution—a very low level of household savings.⁶

¹ ADB. 2014. *Country Operations Business Plan: Azerbaijan, 2014–2016*. Manila.

² The TA first appeared in the business opportunities section of ADB's website on 23 August 2013.

³ According to the State Statistical Committee, the percentage of the population living under the national poverty line declined from 49% in 2001 to just below 8% in 2011. However, significant concerns exist regarding the definition of that poverty line. The minimum wage and the cut-off point to receive social aid are below subsistence minimum levels. Vulnerability of people just above the poverty line is also an issue. Progress has relied heavily on employment-generating programs of the government and social protection measures.

⁴ Government of Azerbaijan. 2013. *Azerbaijan Strategy 2020*. Baku; Government of Azerbaijan. 2009. *State Program on Development of Regions, 2009–2013*. Baku; Government of Azerbaijan. 2008. *State Program on Poverty Reduction and Sustainable Development in the Republic of Azerbaijan, 2008–2015*. Baku.

⁵ Consultative Group to Assist the Poor. 2012. *Global Standard-Setting Bodies and Financial Inclusion for the Poor: Toward Proportionate Standards and Guidance*. Washington, DC.

⁶ World Bank. Findex. http://data.worldbank.org/data-catalog/financial_inclusion (accessed on June 2013). These figures on accounts in a formal financial institution and savings in a formal financial institution are well behind the

4. Microfinance is a powerful tool to deliver financial services for low-income people and microenterprises, especially in rural areas. The microfinance sector in Azerbaijan started developing in the mid-1990s, led by foreign nongovernment organizations (NGOs). Sector development was constrained by legal limits to the ownership structure, making it difficult to commercialize and tap international wholesale funding. As a result, the total number of microfinance organizations increased slowly from 14 in 2004 to 18 in 2007–2010. The policy and regulatory regime for microfinance organizations changed in 2010, through the enactment of a new law on NBCIs. The law allowed new legal forms, including transformation into for-profit companies, thus facilitating the entry of new equity investment. Regulatory responsibility for nonbank lenders was transferred to the CBA from the Cabinet of Minister's Department for Problems of Refugees. The CBA introduced prudential regulation for NBCIs that take collateral in the form of deposits. Resource mobilization by NBCIs through deposit taking, however, is not yet legal. The new framework seems to have sparked an increased interest in the sector, with nine additional NBCIs entering the market in 2011. Most of the new entrants are domestic investors, who regard microfinance as a profitable business.

5. At the end of 2012, Azerbaijan had 28 microfinance organizations and 104 credit unions, collectively called NBCIs. An increasing number of banks also provide microloans.⁷ The microcredit portfolio amounted to \$1.4 billion for banks and \$0.6 billion for NBCIs, with over 600,000 borrowers (one-third of them with banks and the remainder with NBCIs).⁸ However, their combined assets still represent less than 2% of GDP, which is small from an international perspective. Only nine out of 28 microfinance providers have over \$10 million in microfinance assets. Portfolios have been growing rapidly in recent years, but institutions still report a large un-serviced demand that they cannot meet, partly because of funding limitations.⁹ NBCIs obtain most of their funding from international investors and development agencies, mainly in foreign currency.¹⁰ The two largest providers of microfinance, Access Bank and the Foundation for International Community Assistance (FINCA), account for close to 40% of the microcredit clients. The 33 leading providers of microloans are members of the Azerbaijan Microfinance Association (AMFA), an NGO.¹¹ At the end of April 2013, AMFA members had an outstanding microfinance credit portfolio of \$0.9 billion equivalent and almost 490,000 active borrowers, up from 100,000 in 2006. Their average portfolio at risk was less than 2%.

6. NBCIs in Azerbaijan have a very limited product range (mainly short-term credit), constrained by regulations and low investment in product development. The average loan size of AMFA members is \$1,800. NBCI loans are usually smaller than that, while bank loans are larger. Individual loans dominate, but some institutions make intensive use of group lending. Female borrowers represent less than 30% of the clients. Loan interest rates are 20%–50% per annum. While small, NBCIs play a crucial role in facilitating access to financial services in rural areas, since banks and ATMs remain heavily concentrated around Baku. Some larger microfinance organizations, such as FINCA, are interested in becoming banks to offer their

averages for the region (45% for accounts and 7% for savings) or for upper-middle-income countries (57% for accounts and 24% for savings).

⁷ No definition of microfinance or of microloans exists in law or in regulations. A commonly shared definition refers to loan sizes from \$100 to \$20,000, and other product features (e.g., frequency of repayments).

⁸ Microfinance Information Exchange. Microfinance database. www.mixmarket.org (accessed July 2013).

⁹ AMFA estimates that more than 400,000 small and micro-enterprises have no access to financial services.

¹⁰ FINCA issued a AZN10 million bond in the local market in July 2013. Pasha Bank in June 2013 created an apex fund of AZN10 million to lend to NBCIs for onlending to micro, small, and medium enterprises, but many NBCIs see this as small in size and in noncompetitive terms (14%).

¹¹ AMFA was created in 2001 and registered as an NGO in 2004. It groups the 33 leading providers of microfinance in Azerbaijan and is responsible for industry data collection and dissemination, capacity building, industry self-regulation, and advocacy for sector development.

customers a broader range of services, but attempts have failed in the past. No tiered licensing framework exists.

7. With the recent stronger growth of microfinance portfolios, concerns about consumer protection have been rising. This is important as financial literacy is very low.¹² Cases of multiple borrowing and risks of over-indebtedness are becoming apparent in some regions.¹³ In 2013 NBCIs were granted full access to the public credit registry, which should help mitigate the risks. In early 2013, the CBA reduced the costs of accessing the registry to encourage more frequent use in the loan underwriting process. AMFA has initiated the development of industry consumer protection standards and has signed on to the SMART Client Protection principles, which it is disseminating to its members.¹⁴ An ongoing project, supported by the World Bank and funded through the Swiss State Secretariat for Economic Affairs, is looking at financial consumer protection and financial literacy issues. Recent CBA guidelines to enforce transparency of effective interest rates (applicable to all credit institutions) have been a first step toward improved consumer protection. Regulation in this area is still weak.

8. Sustainable finance growth and outreach to rural low-income households requires better strategy, policy, and market understanding. The government does not yet have a policy statement or national strategy for financial inclusion, or consensus about the needs—and types of acceptable delivery mechanisms—for different financial products and services for households, microenterprises, and smaller businesses. CBA has limited reliable and comparable data to understand the state of financial inclusion.

9. A strategic approach for financial inclusion is needed, which considers the introduction of new services such as microinsurance, remittances and payment services, and micro leasing through NBCIs. As deposit mobilization is limited for NBCIs, strategic partnerships between NBCIs and other forms of financial institutions should be explored. Some agreements to provide payments services are in place. These partnerships may be combined with branchless banking.¹⁵ As agents, NBCIs could provide a wider array of services, including deposit and payment services.

10. The issues to be addressed under the TA include (i) government understanding of the market and the need for a strategy for growth; and (ii) regulatory practices that will facilitate responsible market growth and better outreach, with more services.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

11. The impact of this TA will be improved access to a wider range of financial services by low-income individuals and microenterprises outside Baku.

12. The outcome will be an improved policy, regulatory, and supervisory framework for microfinance service provision.

¹² AMFA. 2009. *Results of the Financial Literacy Survey*. Baku.

¹³ J. Pytkowska and S. Spannuth. 2013. *The Risk of Over-indebtedness of Microcredit Clients in Azerbaijan: Results from a Comprehensive Field Study*. Frankfurt.

¹⁴ The SMART Client Protection Campaign. <http://www.smartcampaign.org>. The SMART client protection campaign is a global effort to help microfinance institutions deliver transparent, respectful, and prudent financial services to all clients.

¹⁵ Branchless banking—using technologies like mobile phones or smart card readers to carry out transactions, and using existing establishments to act as the principal customer interface—can allow significant cost reductions and improve convenience for customers.

B. Methodology and Key Activities

13. Output 1: Financial inclusion diagnostic report and related assessments completed. Under this output, a household survey; individual product assessment reports (credit and savings, microinsurance, payments); and a compilation diagnostic study will be completed. This study will examine (i) market demand for and use of financial services such as savings, micro-insurance, and payment services in rural areas and secondary cities (including a household survey); (ii) supply of financial services; and (iii) regulatory and supervisory framework and gaps. The consultants will propose a methodology for conducting the diagnosis and will assess (i) the current institutional structure, policies, and financial infrastructure affecting financial inclusion; (ii) the legal, regulatory, and supervisory framework; (iii) supply, use, and demand for financial products and services for low-income households (including a variety of products like credit, savings, payment services and remittances, microinsurance, and new delivery mechanisms like mobile and branchless banking), including any gender bias in terms of access and affordability; and (iv) consumer protection. This will involve close collaboration with relevant government agencies and extensive consultation with key stakeholders.

14. Output 2: Financial inclusion strategy and related implementation road map on regulatory and supervision reforms presented to CBA and other stakeholders, and implementation initiated. Under output 2, the consultants will assist the CBA in developing a financial inclusion strategy and a related implementation road map focusing on regulatory and supervision reforms and market improvements. The consultants will hold a series of government and stakeholder meetings and workshops to develop and discuss a draft strategy and action plan. Once consensus for the strategy is achieved, a national stakeholder workshop will be held to present the strategy to relevant financial institutions, development partners, NGOs, and other key stakeholders. At the workshop, participants will indicate the top three priorities for action plan implementation. The financial inclusion strategy and action plan will be submitted for consideration and approval by the CBA and the government. Two priority steps of the action plan related to microfinance regulation and supervision will be implemented.

15. Output 3: CBA staff capacity to regulate and supervise microfinance sector operations, institutions, development, and deepening of service provision improved. Output 3 will increase CBA capacity to regulate and supervise microfinance sector operations, institutions, and deepening of service provision. A training needs assessment will be followed by a series of capacity-building workshops to address needs. Possible areas of training may include risk-based supervision for NBCIs, international best practices on legal and regulatory options to allow the development of new products and services, and mobile banking and branchless banking. The TA could also support participation in regional knowledge events and peer-to-peer exchanges. The consultants will assist CBA staff in improving the standards for reporting and data collection and analysis methods.

16. Key assumptions include that (i) the government remains committed to continued microfinance reforms; (ii) the government and the CBA devote time and staff for the participatory discussions to develop, approve, and implement the strategy and road map; (iii) public regulators, financial institutions, and other private companies and key stakeholders interact regularly to discuss market development; and (iv) collaboration with development partners is strong to avoid duplication and create synergies.

C. Cost and Financing

17. The TA is estimated to cost \$750,000, of which \$300,000 equivalent will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-other sources) and \$300,000

equivalent will be financed on a grant basis by the Financial Sector Development Partnership Fund¹⁶ to be administered by ADB. The latter will be disbursed on a front loading basis. The government will provide counterpart support in the form of counterpart staff time, office space and workshop venues, and in-kind contributions. The cost estimates and financing plan are in Appendix 2.

D. Implementation Arrangements

18. The TA will be implemented over 2.5 years, from March 2014 to October 2016. The executing agency will be CBA. ADB will be the implementing agency, with the Public Management, Financial Sector and Trade Division of the Central and West Asia Department acting as the focal point and coordinator of consultants' inputs. The TA will require three international consultants (for 10.5 person-months) and two national consultants (for 11.0 person-months) to be recruited as individual consultants in accordance with ADB's *Guidelines on the Use of Consultants* (2013, as amended from time to time). Individual recruitment is justified by (i) the small number of consultants involved, which does not require collective responsibility; (ii) individual experience and qualifications being the main requirements; and (iii) simplicity of recruitment requirements to expedite the engagement process. The consultants will have expertise in microfinance, microinsurance, and payments services. AMFA will conduct the household survey under output 1.¹⁷ The consultants' terms of reference are in Appendix 3. Disbursements will be made in accordance with the *Technical Assistance Disbursement Handbook* (2010, as amended from time to time).

19. The TA activities will be monitored through regular consultations, including inception and regular review missions, and tripartite meetings with relevant stakeholders. Activities will also be monitored through periodic reporting from consultants, which will incorporate monitoring of outputs, activities, and indicators listed in the design and monitoring framework. Consultants' reports will be presented in workshops and seminars organized for the validation of findings. Reports will be made available on the ADB website and published if warranted. Knowledge products on the process and results will be developed.

IV. THE PRESIDENT'S DECISION

20. The President, acting under the authority delegated by the Board, has approved (i) ADB administering a portion of technical assistance not exceeding the equivalent of \$300,000 to be financed on a grant basis by the Financial Sector Development Partnership Fund, and (ii) ADB providing the balance not exceeding the equivalent of \$300,000 on a grant basis, to the Government of Azerbaijan for Microfinance Sector Development, and hereby reports this action to the Board.

¹⁶ Contributor: Government of Luxembourg.

¹⁷ The rationale for the proposed single-source selection of the AMFA is based on (i) AMFA's track record in conducting work of this nature in the microfinance sector and its far-reaching understanding of sector development issues and clients' needs (noting that this is a demand survey); (ii) the small size of the assignment (less than \$100,000); and (iii) AMFA's engagement with the CBA and other key stakeholders to support policy, regulatory, and operational reforms.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact Improved access to a wider range of finance services by low-income individuals and microenterprises outside Baku</p>	<p>Number of male and female financial service clients outside of Baku increases by 10% (male) and 15% (female) by the end of 2018 (2013 baseline: to be established during the household survey on the first year)</p>	<p>CBA annual reports</p> <p>AMFA monthly Microcredit Portfolio reports</p> <p>NBCI annual reports</p>	<p>Assumption The government implements critical steps from the road map for financial inclusion</p> <p>Risk Macroeconomic environment and external shocks affect market developments</p>
<p>Outcome Improved policy, regulatory, and supervisory framework for microfinance service provision</p>	<p>Financial inclusion strategy (gender-sensitive) endorsed by CBA and the government by February 2016</p> <p>Road map for regulatory and supervision reforms for enhancing financial inclusion approved by CBA by February 2016</p> <p>Two key regulatory improvements completed by September 2016</p>	<p>CBA annual reports</p> <p>Project records</p> <p>CBA circulars and legal records, including board decisions</p>	<p>Assumption The government remains committed to continuing its microfinance reforms</p>
<p>Outputs 1. Financial inclusion diagnostic report and related assessments completed</p>	<p>Household survey completed by October 2014</p> <p>Assessment on credit and saving products completed by December 2014</p> <p>Assessment on payment services completed by December 2014</p> <p>Assessment on microinsurance completed by December 2014</p>	<p>Consultant reports</p>	<p>Assumptions The government and CBA devote time and staff for the participatory discussions to develop, approve, and implement the strategy and road map</p> <p>Public regulators, financial institutions, and other private companies and key stakeholders interact regularly to discuss market development</p> <p>Strong collaboration with development partners to avoid duplication and create synergies</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>2. Financial inclusion strategy and related implementation road map on regulatory and supervision reforms presented to CBA and other stakeholders, and implementation initiated</p> <p>3. CBA staff capacity to regulate and supervise microfinance sector operations, institutions, development, and deepening of service provision improved</p>	<p>Diagnosis report (gender-sensitive) completed by February 2015</p> <p>Financial inclusion strategy (gender-sensitive) prepared by May 2015</p> <p>Road map for regulatory and supervisory reforms prepared by May 2015</p> <p>At least two workshops held presenting and discussing national strategy and road map between February and July 2015</p> <p>At least two priority steps of the road map implemented by September 2016</p> <p>100% of CBA supervisory staff assigned to microfinance trained by November 2015</p>	<p>Consultant reports</p> <p>Workshop minutes</p> <p>Minutes from CBA board meetings</p> <p>CBA supervisory manual</p> <p>CBA quarterly reports</p> <p>CBA post-training assessment reports prepared by consultants and ADB</p>	

Activities with Milestones	Inputs
<p>Output 1: Financial inclusion diagnostic report and related assessments completed</p> <p>1.1 Mobilize consultants (by May 2014)</p> <p>1.2 Define and agree with ADB on the diagnosis methodology and tools (by June 2014)</p> <p>1.3 Consultants submit inception report (by July–August 2014)</p> <p>1.4 Conduct household survey field work and draft a household survey report (May–October 2014)</p> <p>1.5 Review institutional structure, policies, regulations, and financial infrastructure affecting financial inclusion; prepare separate product assessments related to credit and savings, microinsurance, and remittances and payment services; identify needs and gaps against international good practices (by December 2014)</p> <p>1.6 Based on the above household survey report draft, prepare a diagnostic report on the state of financial inclusion and recommendations for further deepening (by January–February 2015)</p>	<p>ADB (TASF-other sources): \$300,000</p> <p>Financial Sector Development Partnership Fund: \$300,000</p> <p>Note: The government will provide counterpart support in the form of counterpart staff, office accommodation, workshop venues and other in-kind contributions.</p>

Activities with Milestones	Inputs
<p>1.7 Discuss report findings with key stakeholders and finalize report (by February 2015)</p> <p>Output 2: Financial inclusion strategy and related implementation road map on regulatory and supervision reforms presented to CBA and other stakeholders, and implementation initiated</p> <p>2.1. Convene and facilitate a series of government and multi-stakeholder workshops to develop a draft national strategy for financial inclusion, using the findings and recommendations from the diagnosis assessment (March–April 2015)</p> <p>2.2. Assist CBA in finalizing a national strategy for financial inclusion, including an action plan to be endorsed by the responsible authorities (by May 2015)</p> <p>2.3. Initiate implementation of two key priority steps of the action plan related to regulatory and supervisory reforms (June 2015–September 2016)</p> <p>Output 3: CBA staff capacity to regulate and supervise microfinance sector operations, institutions, development, and deepening of service provision improved</p> <p>3.1 Based on the strategy and the implementation plan, conduct a training needs assessment of CBA staff targeted for training (supervisory and legislation departments) and other affected regulatory agencies (June 2015)</p> <p>3.2 Assist CBA in improving reporting and data collection and analysis methods (February 2015–May 2015)</p> <p>3.3 Prepare training materials and deliver training (by August 2015)</p> <p>3.4 Conduct a post-training survey and prepare a training report (by November 2015)</p>	

ADB = Asian Development Bank, AMFA = Azerbaijan Microfinance Association, CBA = Central Bank of Azerbaijan, NBCI = nonbank credit institution, TASF = technical assistance special fund.

Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
A. Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	163.8
ii. National consultants	13.3
b. International and local travel	28.3
c. Reports and communications	8.0
2. Training, seminars, and conferences	20.0
3. Miscellaneous administration and support costs (Editing, translation, and printing of knowledge products)	5.0 15.0
4. Contingencies	46.6
Subtotal (A)	300.0
B. Financial Sector Development Partnership Fund^b	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	96.0
ii. National consultants	39.9
b. International and local travel	28.3
c. Reports and communications	1.0
2. Training, seminars, and conferences	7.0
3. Surveys	90.0
4. Miscellaneous administration and support costs	5.0
5. Contingencies	32.8
Subtotal (B)	300.0
Total	600.0

Note: The TA is estimated to cost \$750,000, of which contributions from the Asian Development Bank and the Financial Sector Development Partnership Fund are presented in the table above. The government will provide counterpart support in the form of counterpart staff, office accommodation, training venues and other in-kind contributions. The value of government contribution is estimated to account for 20% of the total TA cost.

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-other sources).

^b Contributor: Government of Luxembourg. Administered by the Asian Development Bank.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. International Consultants

1. Financial Inclusion Specialist and Team Leader (6.5 person-months, intermittent)

1. The specialist should have a postgraduate degree in law, finance, or business administration; at least 10 years of experience with microfinance and not less than 5 years working in microfinance regulation and supervision, with some experience in financial consumer protection issues. Experience in leading and organizing quantitative research studies and studies to define national policy is preferred. Experience in Central and West Asia is preferred.

2. The consultant will carry out the following tasks:

- (i) As team leader, guide and manage inputs and outputs of other consultants.
- (ii) Define a financial inclusion diagnosis methodology and tools to be used for the assignment, to be agreed upon by the Asian Development Bank (ADB) and the Central Bank of Azerbaijan (CBA).
- (iii) Supervise the local survey firm in charge of conducting a household survey to assess demand and use of financial services (gender-sensitive) focusing on rural areas and cities outside Baku, including:
 - (a) assisting in the preparation of final terms of reference for the survey, to be discussed and approved by ADB;
 - (b) supervise deliverables of the survey firm or nongovernment organization (NGO); and
 - (c) lead production of the final household survey report.¹
- (iv) Assess credit and saving products targeted at the lower-income population in rural areas and cities outside Baku; identify needs and usage patterns, including any gender bias in terms of access and affordability, constraints, and opportunities; and prepare a stand-alone assessment on credit and saving products.
- (v) Review institutional structure, policies and regulations, and financial infrastructure affecting financial inclusion (secondary data review, interviews with key informants, and review of official documents and data sources).
- (vi) Identify institutional needs, policy and regulatory gaps, and financial infrastructure constraints against international good practices for financial inclusion, and identify critical steps for improvement.
- (vii) Based on (iii), (iv), (v), and (vi) and the outputs of the microinsurance and payments specialist, prepare a diagnosis report on the state of financial inclusion and recommendations for further deepening (including institutional, policy, regulatory, and supporting infrastructure changes needed to broaden the range, accessibility, and quality of services provided, and the potential of new delivery mechanisms, like branchless banking).
- (viii) Convene and facilitate a series of internal government and multi-stakeholder workshops to develop a draft national strategy for financial inclusion.

¹ The household survey will also provide baseline data for the impact indicator—number of male and female financial service clients outside of Baku—examining clients of different financial services. The consultants will also explore with AMFA, as the main in-country collector of financial inclusion data, the possibility of tracking this indicator in the future through the data reported by its members.

- (ix) Work with CBA to finalize a national strategy for financial inclusion, including an action plan to be endorsed by the responsible authorities (at ministerial or presidential level).
- (x) Agree with CBA and ADB on two priority regulatory changes to be implemented; and assist CBA staff in drafting new regulations (e.g., responsible lending standards or others) and adapting supervisory manuals if needed.
- (xi) Assess training needs of CBA staff, develop training materials, conduct training, and compile an ex-post assessment of knowledge and skills acquired.
- (xii) Assist CBA in improving reporting and data collection and analysis methods.

3. The team leader will submit the following deliverables: (i) inception report; (ii) comprehensive financial inclusion diagnostic tool; (iii) household survey report; (iv) assessment of credit and saving products; (v) a financial inclusion diagnostic report that gives special consideration to issues of access according to gender and levels of poverty; (vi) a national strategy for financial inclusion and implementation plan; (vii) a series of training workshops for CBA staff, including a needs assessment report, training materials, and post-training evaluation report; (viii) a final report that includes recommendations for follow-up actions to implement key priority reforms included in the implementation plan; and (ix) a knowledge product describing the process, results, and lessons learned.

2. Microinsurance Specialist (2 person-months, intermittent)

4. The specialist will have a postgraduate degree in business administration, finance, insurance, or a related field, with at least 10 years of professional experience, including at least 5 years recognized professional experience in the development of microinsurance products and services. Experience in Central and West Asia is preferred.

5. The consultant will carry out the following tasks, in close coordination with the financial inclusion specialist and team leader:

- (i) Review secondary data on the supply and demand of microinsurance products and services for low-income households, and potential related financial literacy needs, including results from the ADB-funded household survey.
- (ii) Conduct interviews with key stakeholders.
- (iii) Review international good practices and identify critical factors for the success of the product, including mechanisms to boost uptake, and how these would apply to Azerbaijan.
- (iv) Assess the regulatory and supervisory framework, and identify capacity needs of government regulators and microinsurance providers in Azerbaijan.
- (v) Reflect findings in a report, including an action plan for addressing capacity needs, required resources, time line, and expected benefits and impact of the development of this product.
- (vi) Conduct consultations with relevant stakeholders.
- (vii) Finalize report and action plan to be used as an input in the microfinance strategy and as a stand-alone knowledge product.

6. The microinsurance specialist will submit the following deliverables: (i) an inception report, (ii) an assessment of the microinsurance market in Azerbaijan to be published as a separate knowledge product, and (iii) an action plan.

3. Payments Specialist (2 person-months, intermittent)

7. The expert will have at least a master's degree in economics, business administration, law, information technology, or a similar field. The expert will have at least 10 years of experience in the financial sector, with at least 5 years working with financial regulators and financial services providers in designing, supervising, and developing payment systems and payment services, in particular retail payment services. Experience in developing branchless banking solutions and experience in the region will be valued. Experience in Central and West Asia is preferred.

8. The consultant will carry out the following tasks, in close coordination with the financial inclusion specialist and team leader:

- (i) Conduct an assessment of existing payment services, looking at (a) products, service providers, and delivery channels used (with a focus on retail distribution channels), average transaction sizes, prices, time, convenience, security issues, etc.; (b) the regulatory framework, access to payment systems, and interoperability of payment platforms, including a review of the draft law on payment services; and (c) implications for financial inclusion.
- (ii) Review emerging international good practices on regulatory models for payment services (including branchless banking) and their potential impact on financial inclusion; identify key success factors and their applicability to Azerbaijan; include recommendations on the use of agents, anti-money-laundering and know-your-customer regimes, permission to issue electronically stored value, consumer protection, and interoperability and payment systems requirements.
- (iii) Identify all potential regulatory bodies and other key players such as those in e-commerce, telecommunications, payment systems, and consumer protection, and their interest and roles in the regulation of payment services.
- (iv) Based on (i), (ii) and (iii), provide recommendations on necessary policy and regulatory actions to support government's efforts in this area.
- (v) Conduct consultations with relevant stakeholders.
- (vi) Finalize report and action plan to be used as input in the financial inclusion strategy and as a stand-alone knowledge product.

9. The payments specialist will submit the following deliverables: (i) an inception report, (ii) an assessment of the payments services in Azerbaijan to be published as a separate knowledge product, and (iii) an action plan.

B. National Consultants

1. Financial Inclusion Specialist (8 person-months, intermittent)

10. The specialist will have a degree in business administration, economics, or a related discipline and at least 8 years of professional experience in microfinance. Knowledge of microfinance in Azerbaijan is required. Experience in working for international development organizations is preferred. The specialist must have an excellent command of English.

11. The consultant will carry out the following tasks, in close coordination with the financial inclusion specialist and team leader.

- (i) Assist the international consultants in all aspects of the terms of reference as required.
- (ii) Collect and analyze required data and information, and make these available in English in an organized, readable form.
- (iii) Assist in the preparation of guidelines, manuals, training materials, and delivery of workshops, including translation of documents and interpretation.
- (iv) Undertake other tasks necessary for implementation of the technical assistance (TA) as may be reasonably required by ADB's project officer.

2. Microfinance Regulation Specialist (3 person-months, intermittent)

12. The specialist will have a degree in business administration, economics, or a related discipline and at least 8 years of professional experience in microfinance, at least three of which focused on regulatory framework. Knowledge of microfinance in Azerbaijan is required. Experience in working for international development organizations is preferred. The specialist must have an excellent command of English.

13. The consultant will carry out the following tasks in close coordination with the financial inclusion specialist and team leader:

- (i) Assist the international consultants in all aspects of the terms of reference as required, in particular, related to the legal and regulatory framework for microfinance providers.
- (ii) Collect and analyze required data and information, and make these available in English in an organized, readable form.
- (iii) Assist in the drafting of laws, regulations, guidelines, training materials, and delivery of workshops, including translation of documents and interpretation.
- (iv) Undertake other tasks necessary for the implementation of the TA as may be reasonably required by ADB's project officer.

C. Survey

14. AMFA, an NGO, will be recruited to conduct a household survey that will examine what financial services are available (both formal and informal) and how they are used, including consumer preferences. The focus will be placed on the need of consumers outside of Baku and Sumqayit.

15. An access and use survey will be carried out on a random sample to map existing patterns of use against livelihood types, gender, age, and poverty level segmentation. The survey will look into the access and use of different types of financial services, including lending, savings, remittances and payment transfers, microinsurance, and micro-leasing. Key research questions to be answered include: (i) what financial products and services does the target group use; (ii) which providers do they use; (iii) would they use certain products or services that they do not have access to; (iv) what are the key barriers for access; and (v) what interventions, products, and services could be considered to improve access in target regions.

16. AMFA will carry out the following tasks in close coordination with the financial inclusion specialist and team leader:

- (i) Develop a research framework and sampling methodology.
- (ii) Design quantitative and qualitative research tools to be discussed and agreed on with ADB.
- (iii) Select and train enumerators.
- (iv) Pilot test the research tools and revise tools as required.
- (v) Collect field data.
- (vi) Conduct quality control of data collected and data entry.
- (vii) Analyze data.
- (viii) Prepare a draft and final report describing findings, analysis, and recommendations to serve as input for the financial inclusion specialist.