Azerbaijan: Microfinance Bank of Azerbaijan / AccessBank AZE
FC Fiduciary Holding I and II

Ex-post Evaluation Report

OECD sector	24030/Financial intermediaries of the formal sector	
BMZ project ID	2003 65 502, 2004 65 385	
Project executing agency	AccessBank	
Consultant	LFS	
Year of ex-post evaluation report	**2009**	
	Project appraisal (planned)	**Ex-post Evaluation (actual)**
Start of implementation	Q 2 2002	Q 3 2004
Period of implementation	60 months	54 months
Investment costs	EUR 2.65 million EUR 1.7 million (training)	EUR 2.65 million EUR 1.7 million (training)
Counterpart contribution	-/-	-/-
Finance, of which FC funds	EUR 2.65 million EUR 1.7 million (training)	EUR 2.65 million EUR 1.7 million (training)
Other institutions/donors involved	-/-	-/-
Performance rating	1	
• Relevance	2	
• Effectiveness	1	
• Efficiency	1	
• Overarching developmental impacts	1	
• Sustainability	2	

Brief Description, Overall Objective and Project Objectives with Indicators

The project aimed at the foundation and development of a fully-fledged bank specialising in granting micro and small business loans. For this purpose, in 2002, AccessBank was established as a closed public limited company under Azerbaijani law and licensed as an universal bank. The shareholders, each with 20 %, are KfW (15.97 % held in trust for the German Federal Government and 4.03 % on own account), the European Bank for Reconstruction and Development (EBRD), the International Finance Corporation (IFC) and the Black Sea Trade & Development Bank (BSTDB) as well as the Access Microfinance Holding AG (16.53 %) and the consultant LFS (3.47 %). The training measures in the amount of EUR 1.7 million aimed at personnel development, in particular with a view to setting up and developing new branch offices and introducing new products.
The overall objective of the project was to contribute to the economic development of Azerbaijan and to the broadening and deepening of its financial sector. In 2004, it was extended to include a contribution to creating and securing jobs and income for the target group of micro and small enterprises (MSEs). The indicators selected for the

achievement of the overall objective were a) an increase in loans to the private sector (structural effects) and b) a satisfactory return on equity of the MSEs financed (real economic effects). The project objective was the sustainable provision of banking services, particularly target-group oriented credit programmes for private MSEs, in Azerbaijan. For verifying the achievement of the project objectives, a large number of indicators were chosen:

a) The loan portfolio amounts to at least US$ 11 million by the end of 2005.
b) The number of credit clients amounts to at least 6,000 by the end of 2005.
c) The ratio of non-performing loans (portfolio at risk > 30 days) does not exceed 5 %.
d) The bank reaches breakeven at the end of 2004 and has a medium-term return on equity of at least 6 % per annum.
e) The bank can finance management out of bank earnings as of the fourth year of operation.
f) The deposit portfolio amounts to at least US$ 750,000 by 2006.
g) Loan officer productivity is equal to at least 10 loans per month on average.
h) The average processing time for a microloan does not exceed 5 working days from application to approval.
i) Collateralization is not excessive.
j) At least 90 % of business loans do not exceed US$ 10,000.

Project Design/Major Deviations from Original Planning and Main Causes

AccessBank was established in 2002 as a closed public limited company under Azerbaijani law and was licensed as an universal bank. In Phase I of the project, KfW contributed US$ 1,710,000 (approx. EUR 1.4 million) to the bank’s equity capital using trust funds of the German Federal Government. Initially, this equity participation made up 24.96 % of share capital. Due to delays in signing the relevant intergovernmental agreement, the KfW shares could not be acquired until August 2004. Until this time, they were held in trust by BSTDB, EBRD and IFC. In Phase II of the project, US$ 609,428 (about EUR 459,000) were used for the refinancing of the participation as part of the first capital increase. The remaining funds of approx. EUR 782,000 were fully disbursed in the capital increase in the second quarter of 2008. In addition, KfW also used own funds for this purpose.
Through a human resources development programme, the training measures supported the bank in extending the network of branch offices, enlarging the pool of loan officers and prospective junior executives and in introducing new products.

Key Results of Impact Analysis and Performance Rating

a) Relevance: The inadequate access for MSEs to the formal banking sector remains a key constraint on development and growth in Azerbaijan. For this reason, the postulated results chain still holds: Supporting the private sector and particularly MSEs through better financial services can result in increased investments and hence higher income and employment. Besides of the poor access to finance for MSEs and despite of the comparatively large number of banks, the Azerbaijani financial sector as a whole is still underdeveloped as well, as becomes evident, for example, in the small ratio of lending to GDP (17.8 % in 2008). The foundation of a new financial institute concentrating on supporting MSEs thus remains highly relevant. To this day, AccessBank is the only universal bank in Azerbaijan specialising in MSE finance. The anticipated impact of a broadening and deepening of the financial sector by introducing new products remains valid as well. In particular, the fact that AccessBank targets specifically MSEs, thus reaching a previously unserved clientele, and that it offers new financial products on the market has to be viewed positively. The objective of the project conformed with the development-policy goals and guidelines of BMZ, the aims of the other shareholders of AccessBank and the strategies of the Azerbaijani Government. The cooperation between the various donors within AccessBank is a

good example for the coordinated approach of donors in the financial sector of Azerbaijan. Altogether, the relevance is assessed as good (Subrating 2).
b) Effectiveness: For the most part, the indicators for the project objectives were achieved and often considerably exceeded. At US$ 17.3 million, the size of the business loan portfolio at the end of 2005, for example, far surpassed the target of US$ 11 million. The target of 6,000 loan customers by the end of 2005 was not attained until June 2006, but has since increased on average by 112 % year-on-year. At 0.78 %, the ratio of non-performing loans is far less than the 5 % targeted. The bank is profitable since the end of 2004 and has achieved a very good return on equity of 44.4 % in 2008. Amounting to US$ 3.7 million at the end of 2006, the size of the deposit portfolio well exceeded the target of US$ 750,000. The average productivity of loan officers is also very good with 21 loans per month, well above the anticipated 10 per month. The average processing time for a loan from application to approval is with one day also very good. Loan collateralization also appears to be adequate. Since 94.9 % of all business loans are below US$ 10,000, the target of 90 % has also been surpassed.
By the means of a human resources development programme, the training measures supported the bank in extending the network of branch offices, enlarging the pool of loan officers and prospective junior executives and in introducing new products. Originally, 5 other branch offices were planned in addition to the head office in Baku. This number has now increased to altogether 22 with a broad presence in rural areas as well. The introduction of new products has also proved to be fully successful. Besides of deposits and payment services, special loans for the agricultural sector were also introduced. Due to these reasons, the personnel support measures can be assumed to have facilitated project objective achievement as well. Overall, the effectiveness of the project is assessed as very good (Subrating 1).
c) Efficiency: The bank operates efficiently. A loan officer disburses on average 21.1 new loans per month and manages an average 208 loans or a portfolio of US$ 749,241. Between 2006 and 2008, the average number and amount of administered loans increased each year by 46 % and 58 %, respectively. The quality of the portfolio is outstanding. In April 2009, the portfolio at risk (> 30 days) for business loans amounted to 0.78 %. The analysis of the balance sheet and the profit and loss account based on the auditor's report discloses the following figures for 2008:

- Total operating expenses constitute 57.3 % of total operating income and 64.6 % of net interest income.
- The return on equity is 44.35 %.
- The capital adequacy ratio is 24.5 % and the tier 1 (core) ratio is 18.8 % against 12 % and 6 % as minimum requirement of the National Bank of Azerbaijan.
- The net interest margin is 19.57 %.

With respect to allocative efficiency, loans are granted on market terms. Furthermore, more than 90 % of the loans issued can be classified as microloans with an average loan amount in this segment of US$ 1,912. The considerable growth in the loan portfolio also indicates a high demand for AccessBank products.
Considering the effects achieved by the training measures and relating those to the financial input, they can be assessed as efficient. All in all, project efficiency is assessed as very good (Subrating 1).
(d) Overarching developmental impacts: The indicators for the achievement of the overall objective have been met. However, the indicator for increased lending to the private sector, was not quantified with exact figures so that a comparison with the targets at project appraisal is not possible. Concerning the attainment of the indicator of a satisfactory return on equity of the MSEs financed, the information that would be needed for the calculation is unavailable. An impact assessment carried out by the Azerbaijan Microfinance Association (AMFA), however, reveals that about 80 % of all borrowers repay their loans with income from business activity. Furthermore, the fact that the large majority of loans is repaid also indicates that this indicator has been fulfilled.
In its lending activity, AccessBank concentrates on the target group of MSEs and serves it with microloans up to a limit of US$ 10,000. As almost 95 % of all business

loans are allocated to this customer segment, it can be assumed that the target group has indeed been reached. Furthermore, the rapid expansion of the bank into rural areas is also one of the reasons why previously unreached client groups, and particularly MSEs, are now reached. The loan portfolio is concentrated in the trade sector with 60 % of the outstanding portfolio and the geographical focus is on Baku with 62 % (40 % and 46 % with respect to the number of loans). Compared with services and particularly agriculture, however, the trade sector is declining in importance. This development is at least partly attributable to the expansion of the bank into rural areas.

The impact study conducted by AMFA is an excellent example for a locally conducted analysis of the effect of microcredit on low-income households. The study showed that repeat clients of AccessBank have, among others, higher business and per capita income compared to new clients. However, the study lacks a comparison with a control group which has no access to finance so that a causal relation can not be inferred from the study. However, comparing the results for AccessBank clients with clients from other financial institutions shows that the development of AccessBank clients was stronger despite similar interest rates. This may be the case due to better targeted products or a well-established client-bank-relationship.

The structural effects on the financial sector in Azerbaijan can also be assessed positively. The foundation of the bank in 2002 led to the entry of a new and financially strong actor into the banking sector and thus higher competition. The substantial market stake of AccessBank is an indicator for the importance of the bank for the Azerbaijani banking sector. Not to be neglected is the contribution of the intensive human resources development programmes which ultimately have a beneficial effect on the banking sector as a whole.

AccessBank often plays a pioneering role when introducing new financial products. Its latest product, the ‘Agroloan’, developed during the last training measure, is the first to aim directly at the agricultural sector and has received AMFA’s “Best new product” award in 2008. AccessBank was the first bank in Azerbaijan to receive a refinancing loan from an international private investor in local currency and the first Azerbaijani enterprise to issue a bond on the international capital market which underlines its importance for the development of the Azerbaijani capital and financial market. The overarching development impacts are thus assessed to be very good (Subrating 1).

e) Sustainability: The good financial indicators suggest that AccessBank will be able to meet the high demand for its products in the future. Due to the difficult investment climate and the present economic downturn, access to long-term refinancing funds, particularly in local currency, remain a challenge. However, the bank is on the right track as it has taken out various refinancing loans both on the private capital market and from the shareholders and exhibits a growing deposit portfolio. In 2008, AccessBank received the credit rating BB+ from Fitch, the best rating for a private bank in Azerbaijan. Important and very positive developments are the two refinancing loans taken out by AccessBank in local currency and its first bond issue. The pioneering role of the bank in this respect underlines its positive development. However, there remains a risk of political influence on the bank, which has so far been limited by the international ownership structure. Overall, the sustainability of the project is assessed as good (Subrating 2).

After weighing the individual evaluation criteria above, overall project performance is assessed as very good (Subrating 1). Of decisive importance for this rating are the outstanding results with respect to effectiveness and efficiency and the pioneering role AccessBank plays in the Azerbaijani banking and financial sector in several respects.

Notes on the methods used to evaluate project success (project rating)

Projects are evaluated on a six-point scale, the criteria being relevance, effectiveness (outcome), “overarching developmental impact” and efficiency. The ratings are also used to arrive at a final assessment of a project’s overall developmental efficacy. The scale is as follows:

1 Very good rating that clearly exceeds expectations
2 Good rating fully in line with expectations and without any significant shortcomings
3 Satisfactory rating – project falls short of expectations but the positive results dominate
4 Unsatisfactory rating – significantly below expectations, with negative results dominating despite discernible positive results
5 Clearly inadequate rating – despite some positive partial results the negative results clearly dominate
6 The project has no positive results or the situation has actually deteriorated

A rating of 1 to 3 is a positive assessment and indicates a successful project while a rating of 4 to 6 is a negative assessment and indicates a project which has no sufficiently positive results.

Sustainability is evaluated according to the following four-point scale:

Sustainability level 1 (very good sustainability)

The developmental efficacy of the project (positive to date) is very likely to continue undiminished or even increase.

Sustainability level 2 (good sustainability)

The developmental efficacy of the project (positive to date) is very likely to decline only minimally but remain positive overall. (This is what can normally be expected.)

Sustainability level 3 (satisfactory sustainability)

The developmental efficacy of the project (positive to date) is very likely to decline significantly but remain positive overall. This rating is also assigned if the sustainability of a project is considered inadequate up to the time of the ex post evaluation but is very likely to evolve positively so that the project will ultimately achieve positive developmental efficacy.

Sustainability level 4 (inadequate sustainability)

The developmental efficacy of the project is inadequate up to the time of the ex post evaluation and an improvement is very unlikely. This rating is also assigned if the sustainability that has been positively evaluated to date is very likely to deteriorate severely and no longer meet the level 3 criteria.

The overall rating on the six-point scale is compiled from a weighting of all five individual criteria as appropriate to the project in question. A rating of 1 to 3 indicates a “successful” project while a rating of 4 to 6 indicates an “unsuccessful” project. In using (with a project-specific weighting) the five key factors to form an overall rating, it should be noted that a project can generally only be considered developmentally “successful” if the achievement of the project objective (“effectiveness”), the impact on the overall objective (“overarching developmental impact”) and the sustainability are considered at least “satisfactory” (rating 3).