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Enhancing Financial Capability and Inclusion in Azerbaijan

A Demand-side Assessment

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Abbreviations and Acronyms

AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ATM	Automated Teller Machine
CAPI	Computer-assisted Personal Interview
CBAR	Central Bank of The Republic of Azerbaijan
CCT	Conditional Cash Transfers
EA	Enumeration Area
EEC	Étude Économique Conseil
FCPD	Financial Consumer Protection Department
GSMA	GSM Association
IFAS	Inclusive Finance Advocacy Staff
KFS	Key Fact Statements
KYC	Know Your Customer
MFI	Microfinance Institutions
MFS	Mobile Financial Services
MTO	Money Transfer Operators
NFLS	National Financial Literacy Strategy
Other NBCI	Other Non-Bank Credit Institutions (e.g. Credit Unions)
PCA	Principal Component Analysis
PPS	Probability Proportional to Size
PSU	Probability Sampling Unit
WBG	The World Bank Group

Preface

Financial capability, as defined by the World Bank Group (WBG) and in this report, is the capacity to act in one's best financial interest, given socioeconomic and environmental conditions. It encompasses knowledge (literacy), attitudes, skills and behavior of consumers with respect to understanding, selecting, and using financial services that fit their needs (World Bank 2013d).

Financial capability has become a policy priority for policy makers seeking to promote beneficial financial inclusion and to ensure financial stability and functioning financial markets. Today people are required to take increasing responsibility for managing a variety of risks over the life cycle. People who make sound financial decisions and who effectively interact with financial services providers are more likely to achieve their financial goals, hedge against financial and economic risks, improve their household's welfare, and support economic growth. Boosting financial capability has therefore emerged as a policy objective that complements governments' financial inclusion and consumer protection agendas. To this end, policy makers are increasingly using surveys as diagnostic tools to identify financial capability areas that need improvement and vulnerable segments of the population which could be targeted with specific interventions.

The Consumer protection and financial capability agenda is increasingly important for Azerbaijan in the light of the latest market developments and the need to enhance financial stability and restore public trust. Consumer protection is becoming an important element of financial sector stabilization and development agenda in Azerbaijan. Reduction of oil prices and weaker macroeconomic fundamentals at the backdrop of negative external shocks have led to devaluation of the national currency and erosion of public trust in financial sector. Restoring financial stability, renewing public and investor confidence and mobilizing higher savings to finance growth are the top priorities of Azerbaijan policy makers. The authorities increasingly discuss the issues of consumer and depositor protection, responsible lending and finance access. The expansion of financial regulatory mandates in the area of consumer protection and enforcement has been long discussed by the Central Bank of Azerbaijan (CBAR) and the State Insurance Supervision Service (SISS) of the Ministry of Finance[2] and will likely continue under the auspices of the newly created Financial Market Supervisory Chamber. The authorities have already implemented selected initiatives to enhance consumer protection and complaints handling in recent years. For instance, CBAR has adopted and published Methodological Guidelines for Responsible Lending in Banks and Non-Bank Credit Institutions in consultation with the WBG and prepared draft guidelines on information disclosure. As far as financial capability is concerned, CBAR and other stakeholders carried out a number of financial capability initiatives and a National Financial Literacy Strategy (NFLS) has been developed and approved by CBAR in early 2016.

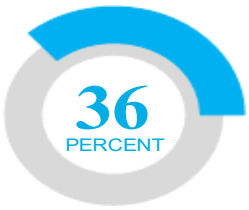
To support the authorities in Azerbaijan in their efforts to advance financial capability, the WBG has implemented a nationally representative financial capability survey of the adult population in Azerbaijan. This survey constitutes a key diagnostic tool that will inform the development of a detailed implementation action plan for the NFLS. Moreover, it will help the authorities to set quantifiable and concrete targets, and assess the effectiveness of future financial capability enhancing programs.

The key findings and recommendations presented in this report cover three main areas: 1. Financial Inclusion, 2. Financial Capability, and 3. Financial Consumer Protection. Chapter 1 explores the financial inclusion landscape in Azerbaijan. Chapter 2 gives an overview of levels of financial capability in Azerbaijan, in particular about their financial knowledge, attitudes and behaviors. The last chapter investigates if the products are effectively meeting their needs of financially included individuals .

[2] On February 3, 2016 the President of Azerbaijan created a new consolidated regulatory and supervisory agency for financial services (Financial Market Supervisory Chamber), which is taking over regulation and supervision of insurance and credit institutions.

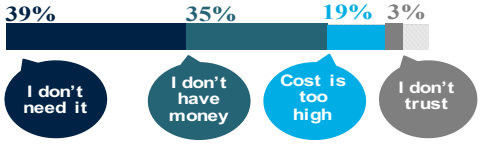
Key Findings

How Financially Included are the Azerbaijanis?

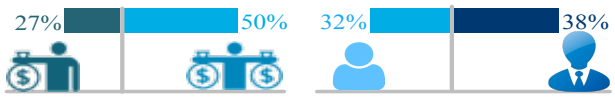


36 % of surveyed Azerbaijanis adults have a formal account in a financial institution.

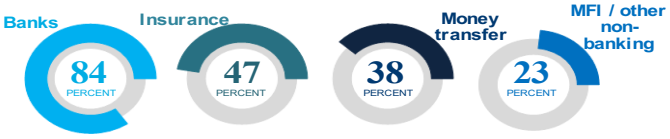
No perceived need, not enough money and high account fees were cited as the main reasons for not having a formal account.



50% of those in the top quartile of income distribution use a formal account compared to 27% in the bottom quartile. 38% of Azerbaijanis in the labor force use a formal account compared to 32% of those who are out of labor force.

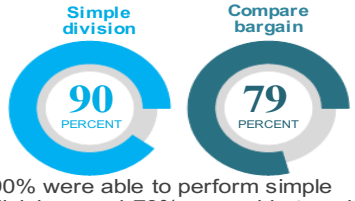


Azerbaijanis adults have mostly ever used products from banks (84%), insurance companies (47%), money transfer providers (38%), Micro Finance Institutions or other non-banking institutions (23%).



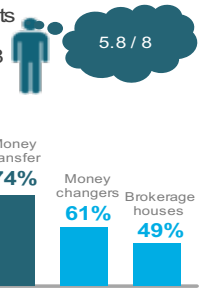
How Financially Capable are the Azerbaijanis?

On average, adults were able to answer 3.9 out of 7 financial literacy-related questions correctly.



90% were able to perform simple divisions and 79% were able to select the best bargain. Only 19% are familiar with the concept of risk diversification.

On average, adults are familiar with products from 5.8 providers.



Respondents are familiar with banks (98%), other non-financial institutions / MFI (97%) and money transfer institutions (74%). Only 49% are familiar with brokerage houses.

Respondents scored low in behaviors related to saving, not overspending and planning for old age expenses, but showed strengths in using information and advice and choosing financial products:

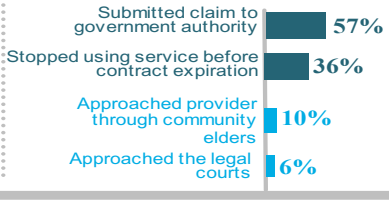
Using information and advice	(75)
Choosing financial products	(59)
Farsightedness	(54)
Achievement orientation	(43)
Controlled budgeting	(35)
Saving and not overspending	(25)
Planning for old age expenses	(21)

How Financially Protected are the Azerbaijanis?

Historical bank clients are more dissatisfied (15%) than current bank clients (11%). While current clients from other financial institutions are less satisfied (24%) than historical clients (15%).

12% of respondents experienced a conflict with a financial service provider in the past 3 years. Of them, only 19% took action to resolve it.

To redress a dispute, legal courts and social circles were barely sought out.



The main three causes for inertia are due to the perception that providers are too powerful (67%) the lack of trust in authorities (60%), and unfamiliarity of government agencies that can help (51%).

Summary of Key Recommendations

	Recommendations	Responsible	Term[3]
Financial inclusion	Consider policies that encourage provision of basic transaction accounts at no or low costs, and through cooperation with the national post operator	Financial regulator, AzerPost, market participants	MT
	Promote the development and provision of financial services geared towards specific needs of customers including through digital financial services (e.g. mobile financial services) and postal banking	Financial regulator, CBAR, AzerPost, market participants	MT
	Encourage development of MFIs and other non-bank credit institutions in order to enhance access and quality of appropriate credit instruments	Financial regulator, CBAR, market participants	LT
	Develop insurance services further, including life, property and liability insurance, and specific insurance for rural areas	Financial regulator, insurance associations, market participants	LT
Financial capability	Create a detailed implementation action plan to accompany the NFLS and show how outcomes will be achieved	CBAR, Independent consumers union, market participants	ST
	Develop a Monitoring and Evaluation Framework to measure progress in implementation of the NFLS	CBAR	ST
	Use a wide range of programs, including mass media channels, text messages, mobile phone applications, etc., to enhance financial knowledge and change attitudes and financial behaviors	Financial regulator, CBAR, Independent consumers union, market participants	MT
	Integrate financial capability content in school curriculum	Ministry of Education, financial regulator, CBAR	LT
Consumer protection	Establish a clear mandate of financial regulator in the area of financial consumer protection, enforcement and redress	Financial regulator, government, parliament	ST
	Introduce disclosure requirements for consumer credit and all other products offered to individual consumers	Financial regulator	ST
	Introduce minimum requirements to ensure adequate mechanisms are put in place to handle complaints fairly in-house.	Financial regulator	ST
	Expand content of the National Financial Education Website to include other financial services in addition to banking products and establish special sections with information on consumers' rights and complaint handling mechanisms	Financial regulator	MT
	Enforce full compliance of FIs with consumer protection requirements including information disclosure, fair advertising, complaints handling and redress, and promote sound business practices by using adequate market conduct supervisory tools including mystery shopping	Financial regulator	MT
	Decide on the establishment of an independent alternative dispute resolution mechanism such as a financial ombudsman	Financial regulator, Consumer Protection Agency, Independent consumers union	LT

[3] ST, short term, indicates action can be undertaken in 0-6 months. MT, medium term, indicates 6 months-1 year. LT, long term, indicates 1+ years

Executive Summary

Financial Inclusion

Around 36 percent of the surveyed adults in Azerbaijan report owning an account at a formal financial institution (a bank, an MFI or an e-money agent), a commonly used metric for international comparison. Compared to other upper-middle income economies, Azerbaijan is behind the average level in terms of financial inclusion, commercial bank branches and domestic credit provided by the financial sector. Global Findex and Financial Capability surveys show that Azerbaijan financial inclusion level rose from about 15 percent in 2011 to 29 percent in 2014 and 36 percent in 2015. When investments, private pensions, and insurance products are included as formal financial products, the Survey found that 47.2 percent of Azerbaijani adults use some formal financial product.

Across the main socioeconomic and demographic characteristics, income level was found to have the most significant impact on financial inclusion, followed by whether or not adults are in the labour force and size of household. There is a strong correlation between income level and financial inclusion. In fact, the gap in financial inclusion between the richest and the poorest quartiles is 22.9 percent, corresponding to nearly half of that of the richest quartile. Adults who are out of the labour force were found to be 6 percent less financially included than the average employed. Size of household is correlated to financial inclusion, however, there is only 3.1 percent average difference between smallest and largest size.

There is only a small difference in financial inclusion between genders overall but an in-depth analysis suggests that younger women as compared to younger men have lower financial inclusion levels at the backdrop of their lower economic participation. When the sample is broken down by age groups, we note, overall, that there is marked difference of inclusion in favour of younger male respondents in Azerbaijan (between 18 and 20 years old financial inclusion is 5.2 percent higher for men). Inclusion tends to become more or less gender neutral from age 21 to 55, and then it basically reverses in favour of female Azerbaijanis (56 and more financial inclusion is 5.7 percent higher for women). This pattern clearly suggests a degradation of the younger generation of women compared to their elders.

Banks accounts are the most commonly used financial product, about one third of the population reports having this product however almost everybody whether men or women, urban or rural, rich or poor, know about services offered by banks. The most notable difference is that there are about 17 percent more rich people having bank accounts than the poor (44 percent versus 27 percent). In general, 34 percent of the population currently has a formal bank account, 84 percent claim having used banks in the past and 98 percent know about services offered by banks. At the regional level, usage of bank accounts does vary moderately between regions; the spread between highest and lowest usage of bank account is 9 percent. There is a positive connection between the regional level of wealth as measured by income per capita and holding of bank accounts. However, there is a strong negative correlation between historical and current holding of bank accounts. In fact, regions with high usage of bank services in the past tend to have the lowest holding of bank accounts at present and vice versa. This may suggest that many users of bank services in the past were dissatisfied and decided to revert to other mechanisms.

About one person out of 10 uses money transfer operators (MTOs), predominantly from poor and large households in urban areas especially Baku. In general, 12 percent of the population currently have money transfer products and more than one third have used such products in the past. Furthermore, 3 out of 4 persons know about services offered by money transfer companies. Such services were found to be utilized by 3 percent more people in urban areas (especially Baku), by 3 percent more people from poor households and by 2 percent more people living in the largest

households. Such facts underpin the notion that poor people receive more financial support from family and friends by way of remittances.

Although almost everybody knows about micro-finance institutions (MFIs) and other non-bank credit institutions (NBCI) and 23 percent have used their services in the past, only 6 percent have a credit with such institutions – mainly rural rich people, suggesting there is a need for sector reform and development. 97 percent of the population knows about MFIs or other NBCIs, there are 2 percent more users in rural areas and 9 percent more rich people with a credit at MFIs or NBCIs. Holding of an MFI / non-bank credit is strongly correlated to people's income level as well as holding of bank account.

Approximately one half of the population has used an insurance product in the past but less than one out of ten persons and in particular only 3 percent of rural people currently has an insurance policy, suggesting a strong need for improvement. Furthermore, 30 percent of the population has no idea about services offered by insurance companies. Usage of insurance products tends to increase with household size; however, there is a notable difference between urban and rural areas. In fact, there are four times more urban than rural people who currently have an insurance policy. This is rather astonishing, especially for agriculture in rural areas where there are few buyers of harvest insurance allowing to smooth fluctuations in household income due to seasonality.

Most of the approximately 4 million financially excluded adults do not have enough money to use (35 percent) or think it is too expensive (19 percent) to hold such an account. Another significant group of people think that they do not need a formal account (39 percent). While these answers could suggest voluntary exclusion from the formal financial sector, it does not necessarily imply that these adults are not bankable. Instead, it may reflect a cost-benefit analysis on the part of these adults and demonstrates that many adults perceive banking services to be of little value, not in absolute terms, but for their current income level and the quality of banking products. This could be because of the nontrivial costs associated with owning a formal account, from explicit costs like minimum balance requirements and withdrawal charges to implicit costs such as transportation.

Recommendations[4]

With 54 percent of the unbanked Azerbaijanis declaring not having enough or finding it too expensive to hold a formal account, policies should be considered that encourage provision of basic transaction accounts at little or no cost, including national cooperation with the post operator. Such basic transaction accounts should offer functionalities that, at a minimum, make it possible to electronically send and receive money at little or no costs, and to store value safely. A recent survey which has been carried out by the Payment aspects of financial inclusion (PAFI) task force among its members on basic accounts indicated that almost all countries providing information stated that a form of basic account was offered in their jurisdiction. The survey also found that although a number of countries have already introduced or are considering introducing legislation giving citizens the right to a basic bank account, such initiative is at an early stage. In the majority of countries the provision of basic accounts is reported to be a market initiative. In most of the cases basic accounts were being offered via banks. In some cases, post offices were also involved in providing such basic accounts, suggesting that in the context of Azerbaijan, national cooperation with AzerPost in the provision of basic accounts could be explored. The same survey also indicated that imposing maximum balances on basic accounts may help to assuage potential Know-Your-Customer (KYC) and Anti-Money-Laundry (AML) concerns which can hinder availability and usage of basic accounts in some jurisdictions, while augmenting the shared use of infrastructures and access points could help reduce costs for providers of basic accounts. To mitigate the risk that uptake and usage of basic accounts may be very

[4] It should be noted that the recommendations provided in this report mainly arise from this demand-side survey and can therefore not be seen as being exhaustive.

low, international experience in countries such as India or the Philippines shows that the introduction of basic accounts needs to be complemented with public awareness campaigns to promote the benefits of such accounts.

Promote the development and provision of financial services geared towards specific needs of customers including digital financial services (e.g. mobile financial services) and postal banking. New business models such as mobile or agent banking can dramatically reduce the costs of delivering financial services, in particular in low-density and remote areas. Moreover, it can not only reduce explicit costs for those 19 percent of the financially excluded adults who reported not having an account because they are too expensive but also implicit costs such as the opportunity cost of time lost to traveling and waiting for those 35 percent of the adult population who indicated lack of sufficient income as a main barrier to use a formal account. It can also help to close the identified gender gap since, as shown by international evidence, women tend to be more adoptive to technology than their male counterparts, and mobile or agent banking allows women to avoid traveling to faraway branches and instead to start making deposits and withdrawals from a network of agents from the convenience of their homes. The success of mobile financial services (MFS) rests on the vast pool of agents (often small retailers) who connect remote based clients to urban centers, allowing them to make transactions. Mobile money can make sense in Azerbaijan where mobile penetration is almost universal. This concept encompasses a range of services, including payments (such as peer-to-peer and government-to-person transfers), finance (such as savings, credit and insurance products), and banking (such as account movements and balance inquiries). For mobile money to develop in an effective manner, regulations must encourage inclusiveness, while minimizing fraud and risk. The uncertainty associated with innovative industries operating in a nascent Azerbaijan environment means that regulations must be incremental and proportional. Successful regulation is marked by collaborative exchange between industry, government, and civil society. Regulation should allow agents outside of bank branches to handle financial transactions and develop risk-based anti-money-laundering and know-your-customer requirements. To facilitate more sophisticated service offerings, ongoing regulatory development will be necessary; for example, mobile/e-money accounts are regulated differently from regular deposits and are subject to a number of restrictions (e.g. no deposit insurance, prohibition of interest yields). In considering these new regulatory issues, protection against fraud, including regular monitoring by financial regulators, is vital.

Given the very low usage of MFIs and other NBCIs, there is a strong need to encourage the development of such institutions as an effective way to increase Azerbaijan's low credit penetration rate compared to its international peers. The combined microfinance loan portfolio is still only about 1 percent of GDP, despite considerable demand for microfinance services. Sector concentration is high, with the two largest providers of microfinance, accounting for 46 percent of the market. As such, the government of Azerbaijan should encourage the strengthening and development of MFIs in the provision of appropriate credit instruments tailor-made to customers' specific needs.

With a small number of people using insurance in Azerbaijan (10 percent), there is a strong need to develop insurance services further, including life, property and liability insurance, and specific insurance for rural areas. Total assets in the insurance sector account for less than 1 percent of GDP. Sector segmentation is high and competition limited, and most insurance companies focus on specific and basic products for medical, motor, life insurance and real estate. Although a number of reforms are being implemented (legal framework, development of reinsurance, minimum capital requirements and mandatory insurance) there is still much work to be done to encourage competition among insurance companies as well as product innovation and improvement with the view of enhancing service quality and cost. Given the importance of crops and livestock in the livelihood and employment of Azerbaijanis, there appears to be a need to offer insurance products (e.g. harvest insurance, index based weather insurance, index based livestock mortality insurance) that would allow agri-dependent households smoothing of fluctuations in rural household income due to seasonality and mitigating of external risks associated with conducting of business.

Financial Capability

Knowledge of basic financial concepts is a significant challenge in Azerbaijan which is mirrored by the fact that on average, Azerbaijan adults were able to answer 3.9 out of 7 financial capability-related questions correctly. Azerbaijani adults are most comfortable with performing simple financial calculations (90 percent), identifying better bargains (79 percent) and understand the concept of inflation (67 percent). However, they were found to be less familiar with risk diversification (19 percent) and lacked the numeracy skills needed to calculate simple and compound interest (46 percent). An international comparison of 21 countries confirms that Azerbaijanis' financial knowledge and awareness are within the norm in general. In fact, respondents in Azerbaijan ranked 9th for inflation, 10th for simple division and 19th for simple interest.

As far as the average number of financial products known is concerned, respondents were familiar with products provided by 5.8 out of 8 different types of providers. Survey participants were found to be well aware of financial products offered by the main financial institutions, except brokerage houses. Product awareness reached 98 percent for banks, 89 percent for other NBCIs, 74 percent for MFIs and MTOs, 68 percent for insurance companies, 64 percent for E-money agents, 61 percent for money changers but only 49 percent for brokerage houses, which is most likely due to the fact that the capital market in Azerbaijan is currently in a nascent stage. Respondents who are the most familiar with financial products offered by financial providers tend to have higher income and be more than 54 years old.

Azerbaijani adults showed relative strengths in using information and advice, in choosing financial products and, to a certain degree, they tend to be far-sighted and think about the future. Respondents scored highest in using information and advice for making an important financial decision (75)[5], choosing financial products (59) and farsightedness (54). On the other hand, such respondents scored lowest with respect to making provisions for old age expenses (21), saving and not overspending (25) and controlled budgeting (35).

A comparison to respondents in fourteen countries confirms that Azerbaijani adults are mastering the task of choosing financial products but struggle to translate their farsightedness into proper long-term action. Azerbaijan is ranked third out of 14 in choosing financial products but in view of the aforementioned difficulties respondents faced in understanding simple and compound interest, it may be questionable if people always end-up selecting those products which best meet their needs. Moreover, the international comparison reveals that although Azerbaijani adults are ranked sixth out of 14 in terms of their propensity to think about the future, they are at the end of the pack in the area of budgeting and in making provisions for old age expenses. Especially the latter finding is concerning given its implications for people's long-term well-being.

There is no clear evidence of correlation between socio-economic characteristics and financial behavior scores suggesting that many people struggle with sound financial decisions making. Whereas urban people achieved better scores than their rural peers in a number of financial capability areas, including their propensity to use information and advice, save and refrain from overspending, they were worse off in terms of their ability to control their budgets and achievement orientation. Furthermore, richest people fared better than the lowest income segments in controlling their budgets and demonstrate higher levels of achievement orientation. However, as compared to lowest income earners, people living on highest incomes lack propensity to think about the future and to using information and advice when taking a financial decision. There only seems to be one characteristic which is found to be strongly associated with lower scores in a number of areas

[5] To identify the main financial capability areas in Azerbaijan, a statistical procedure known as Principal Components Analysis (PCA) was applied. The PCA method gets a score for each financial capability areas. The scores range between 0 (lowest score) and 100 (highest score).

which is not having learned sound habits from a young age. Respondents who already saved as a child scored on average higher than their counterparts who did not save during their childhood.

Recommendations

Create a detailed implementation action plan to accompany the National Financial Literacy Strategy (NFLS) which was approved by CBAR in February 2016 and show how the outcomes will be achieved. An Action Plan is a table of actions, programs, and reforms, to be undertaken within the timeframe of implementation of the Strategy, as agreed upon by key public and private stakeholders. The Action Plan should address the key challenges identified through this survey and should outline (i) a concrete and self-explanatory description of the actions to be implemented; (ii) the entity (or entities) responsible for its execution (in the case of actions involving multiple stakeholders, a primary implementing entity is identified); (iii) the timeframe of implementation of said action; and (iv) the priority of execution of said action (high, medium, or low). All the actions and reforms should be presented according to the framework set in the "Strategy Objectives" section, and signed off by the public authorities and private sector actors involved in the implementation of the strategy.

A clear mechanism for results monitoring and impact assessment in implementation of the recommendations of the NFLS needs to be developed and implemented as soon as possible, along with the development of the NFLS implementation action plan. The goal of the M&E framework is to outline a robust M&E system for the NFLS that extends beyond a simple list of national-level impact indicators to include program-level intermediate indicators, a theory of change, coordination details, as well as an emphasis on evaluation and improvements in data collection. This framework may also build on international best practices[6] as well as analytical work to determine a range of ambitious yet achievable targets for each impact indicator.[7] The results of this survey should also be used to track progress against outcome indicators.

To scale up financial capability efforts and address areas for improvement identified through this survey, it will be necessary to harness the potential of mass media and edutainment programs in particular which are likely to be effective and help reach a large number of adults. Recent research has shown that innovation on delivery matters for inducing and sustaining behavioral change. Conveying financial messages through innovative ways such as using popular TV soap operas, films, videos or radio programs can be quite effective, not only in improving knowledge but also in altering behavior (Berg and Zia 2013, Di Maro et al 2014). So called edutainment programs are also presumed to be much more effective if messages are delivered in an engaging an entertaining manner through appealing stories that stick to memories, and if they are repeated and reinforced over time. An example how low levels of understanding of financial concepts could be addressed is a television program, *Gold for the Bold – Poles and Money*, which has been developed by the National Bank of Poland. This program gave viewers the opportunity, through questions which were designed to be fun and entertaining, to test their knowledge of financial matters. The questions were illustrated by film material from famous comedies or cabaret scenes. The program was shown on a popular television channel on Sunday evenings and attracted an audience of 8 million viewers.

In addition to TV and radio programs, periodic text messages and mobile applications could be another promising and cost-effective outreach channel. The survey results indicate that in Azerbaijan mobile phones are the most used type of media suggesting opportunities to use this channel to reach out to a large number of individuals and households. Studies in Bolivia, Peru, and the Philippines show that simple, timely text messages reminding people to save can boost savings rates in line with earlier established goals

[6] Including consideration of the AFI Core Set of Financial Capability Indicators, the G20's GPFI Set of Financial Capability Indicators, or Financial Capability Indicators suggest by the WB: http://responsiblefinance.worldbank.org/~/media/GIAWB/FL/Documents/Publications/Why-financial-capability-is-important.pdf

[7] This process may include projections for increases in levels of financial capability over the time span of the NFLS based on "best performer" countries in the region and among high-income economies (providing an upper-bound target value).

(Karlan et al. 2010). More recently, Rodriguez and Saavedra[8] found that financial education messages via SMS are not effective at increasing savings, while reminders are effective at doing so. In fact, account balances of youth who received monthly and semimonthly reminders during one year increased by 28 and 43 percent compared to those who didn't receive any reminder. Given the high degree of mobile phone usage in Azerbaijan, this reminder approach could induce the population to pay attention to the benefits and task of saving as well as making provisions for old age (lowest financial capabilities according to the survey). Mobile applications could be another promising outreach channel, especially to facilitate budget planning. A good example of a mobile app is the mobile budget app (Mobile Financial Assistant – maFin) which has been developed for young adults by the polish Financial Supervision Authority. This mobile app is designed to address another area of improvement identified through this survey. Specifically, it helps monitor and analyze personal spending and to facilitate budget planning and is available free of charge to users of mobile devices.

The provision of financial education from an early age should be encouraged as the survey results suggest that starting early can have value. If people form sound habits on how to manage their money from a young age, they are more likely to adhere to these throughout their lives. International evidence on the effectiveness of school-based financial education programs in changing student behavior is mixed. Nevertheless, there are lessons learned from other countries that have implemented such programs. For example, the rigorous evaluation of a large scale school-based financial education program in Brazil showed that such programs are particularly effective when financial education is provided in ways that students find relevant to their lives either currently or in the near future, and if it is interactive (Bruhn et al. 2014). High-quality material or textbooks are therefore required, and teachers need to be well-trained on the content and techniques. There are a number of websites containing links to teaching resources[9]. As existing curricula may already be saturated, it is advisable that the financial regulator and CBAR in partnership with The Ministry of Education integrate financial capability content into a variety of existing subjects including math, economics, or social studies rather than adding a new subject to the curriculum. In case resources to train teachers and to develop and provide teaching materials are limited, it may be best to focus, at least at the onset, on incorporating financial education in one or two subjects over three or four consecutive academic semesters.

Moreover, financial education for vulnerable populations can be effectively delivered through organizations and individuals that people trust and that they deal with in the normal course of their lives, including teachers, social workers, employers, professional associations, sports and other opinion leaders. Different organizations have an interest in helping people to become financially knowledgeable and capable, in particular vulnerable populations, remote rural dwellers, low income earners, and women. For instance, in the UK, the Financial Services Authority partnered with a range of organizations – including housing associations; organizations supporting one-parent families; organizations supporting prisoners and ex-offenders; organizations supporting cancer patients and their families; organizations supporting people on low incomes; and organizations supporting people with autism – which were supported (for example, through the funding of programs designed to develop and test resources and training-of-trainer programs) in the delivery of financial education to their clients. In Malaysia, to highlight another example, the Credit Counseling and Debt Management Agency (AKPK) is partnering with a broad range of community-based organizations and associations. Some of these initiatives make use of community leaders to help to disseminate financial education information and messages. For example, AKPK is working with Jabatan Kemajuan Islam Malaysia (JAKIM) to incorporate a personal financial education module into pre-marriage courses and to include personal financial education topics, and their relationship to Islamic teachings, in sermons before Friday prayers.

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[8] Rodríguez, Catherine, and Juan E. Saavedra. 2015. "Nudging Youth to Develop Savings Habits: Experimental Evidence Using SMS Messages." CESR-SCHAEFFER Working Paper Series Paper No: 2015-018

[9] These include the Australian Securities and Investments Commission (ASIC) MoneySmart Teaching website (which lists a range of educational materials, each of which has been vetted by a quality assurance process); the US Jump$tart Coalition Clearinghouse and the UK Personal Finance Education Group (PFEG) website. Some resources are available free of charge and others are available for purchase. The Citigroup Financial Education Curriculum contains interactive lessons, facilitator tips and printable lesson plans (which are available in several languages) for use from kindergarten level upwards.

Financial Consumer Protection

In general, users of financial services have expressed satisfaction with the services offered by financial service providers, although striking differences exist between different type of providers and regions. MFIs or other NBCIs fare less favorably that most other types of financial institutions, with insurance and MTOs earning the highest praise from consumers. At the regional level, there are notable differences in the dissatisfaction between regions with services provided by banks. The regions with the highest levels of satisfaction are the two wealthiest (Baku & Absheron and Daglig-Shirvan) and the one with the lowest level of satisfaction is the poorest region (Quba-Khachmaz). On the other hand, there are also striking differences in the dissatisfaction between regions with services offered by MFIs/other NBCIs. The region with the highest dissatisfaction is Lankaran and the one with the lowest dissatisfaction is Baku & Absheron where the financial sector is the most developed in the country.

Another important finding is that 12 percent of the surveyed respondents experienced financial service provider conflicts, the majority of whom did not try to resolve the conflicts they encountered. Less than twenty percent of those Azerbaijani adults who encountered a dispute took actions to try to resolve it. Interestingly, twice as many of those who did not experience a conflict (40 percent) stated that if they faced a conflict they would try to resolve it.

In terms of actions taken in the event of a dispute, internal complaints handling systems and legal courts were barely sought by those who experienced a conflict with their financial service provider. The most common actions taken to try to resolve disputes were to submit a claim to the appropriate government authority (57 percent) and stop using the services before the contract expired (36 percent). Only around one out of five reportedly submitted a grievance to the company which sold the product (19 percent), while around 7 percent approached the legal courts.

In general, the main causes for inertia are either related to perceived power imbalances between financial service providers and their clients or they relate to lack of trust in or lack of awareness of respective government authorities that can be approached in the event of a dispute. More than two thirds of those who did not take any actions to resolve a dispute reported as main reason for their inertia that they perceived financial institutions as being too powerful. Slightly less, 61 percent indicated that they think the government authorities do not work properly, followed by 52 percent who were not aware of any government agencies they can approach for help. Slightly more than one third of those who did not try to solve a conflict mentioned that they did not take any actions because they think the law does not adequately protect consumers. Only 3 percent who did not take any actions to resolve a dispute declared that they are too shy to redress the dispute.

Recommendations

As a first step, a clear mandate needs to be established at the financial regulator in the area of financial consumer protection, enforcement and redress. On February 3, 2016 the President of Azerbaijan created a new consolidated regulatory and supervisory agency for financial services (Financial Market Supervisory Chamber), which is taking over regulation and supervision of insurance and credit institutions. The Financial regulator's mandate for consumer protection and financial literacy needs to be clarified and expanded to ensure that the regulator has explicit rights to issue consumer protection requirements to financial institutions and apply sanctions in case of mal practices.

These findings emphasize the need to strengthen the existing financial consumer protection framework by introducing disclosure requirements for consumer credit and all other products offered to individual consumers to ensure consumer comprehension and satisfaction with products they are using. It is important that customers have sufficient information to allow themselves to select financial products that are most affordable and suitable. In line with international best practices, such as the WBG's

Good Practices for Financial Consumer Protection, the issuance of disclosure requirements for consumer credit and all other products offered to individual consumers such as savings, insurance or investment products may help to increase consumer satisfaction and comprehension of key pricing information and terms and conditions for each product.

In a similar vein, the survey findings emphasizes the need to introduce minimum requirements for complaints handling to ensure that adequate mechanisms in place to handle complaints fairly in-house. In line with the WBG's Good Practices for Financial Consumer Protection, legal or regulatory provisions should require financial institutions to provide customers with information on internal complaints handling procedures (including contact information and time limits). This information should not only be disclosed in their products' terms and conditions but also be visibly posted in branches and online. In addition, customers should be informed about formal redress systems or legal courts to increase low awareness levels of government agencies which can be approached for help in the event of a dispute with a financial service provider.

Expand content of the National Financial Education Website to include other financial services in addition to banking products as well as establish special sections with information on consumer rights and complaint handling mechanisms. Once adequate mechanisms are in place ensuring that providers handle complaints fairly in-house, it is recommended that the authorities develop and publish a sub-site on the National Financial education website which disseminates detailed information on the right to lodge complaints, the manner in which complaints may be filed, and the mechanisms for how complaints are handled (including contact information and time limits).

Enforce full compliance of financial institutions with consumer protection requirements including information disclosure, fair advertising, complaints handling and redress, and promote sound business practices by using adequate market conduct supervisory tools including mystery shopping Mystery shopping can be a useful tool in the overall market conduct supervisory toolbox to assess compliance of financial institutions with minimum standards for complaints handling or how well sales staff comply with disclosure regulations. It can also inform consumer protection policy and measure market conduct issues related to the quality of customer attention and suitability of financial advice, or disparate treatment of vulnerable consumers. However, to realize the benefits of this supervisory tool, mystery shopping needs to be well structured, the shoppers need to ask the same questions at each provider based on a simple and plausible scenario, and it needs to cover a reasonable sample of providers and products.

Over the long-term, it is suggested to decide on the establishment of an independent alternative dispute resolution mechanism such as a financial ombudsman. A financial ombudsman is a third party who deals independently with complaints from consumers about their individual dealings with financial services providers that have not been resolved by the providers, which has been implemented in many countries such as Australia, UK, and Germany. It is usually favored for its accessibility, transparency, and low cost as compared to courts. It also reduces the burden on courts. In addition, a financial ombudsman is well-positioned in analyzing trends in financial consumer complaints and proposing ways of encouraging improved business practice by financial institutions. The design of a financial ombudsman scheme can and should respect the cultural, legal, and economic circumstances in Azerbaijan – provided it follows certain fundamental principles. These principles, which have been summarized by the WB[10], include: independence; fairness; clarity of scope and powers; effectiveness and efficiency; accessibility; transparency; and accountability[11]. To identify the most effective institutional setup further analysis may be needed. The financial ombudsman scheme could be fully or partly paid for by the government (out of taxation) or it could be paid

[10] For more information and guidance see WBG, 2012: Resolving Disputes between Consumers and Financial Business: Fundamentals for a Financial Ombudsman - A Practical Guide Based on Experience in Western Europe. Online available at: http://siteresources.worldbank.org/EXTFINANCIALSECTOR/Resources/Financial_Ombudsmen_Vol1_Fundamentals.pdf

[11] See also International Network of Financial Services Ombudsman Schemes: Fundamental Principles. Online available at: http://www.networkfso.org/principles.html

for by charging the cost to the financial industry. Because of the many other pressures on public finances, it is more common for the cost of such a scheme to be borne by the industry from which the ombudsman work arises – though perhaps with some upfront contribution from public funds to help initially establish the ombudsman scheme.

Background on Azerbaijan Survey

The financial capability questionnaire used for this survey has been extensively tested in the context of middle- and low- income countries. The survey instrument used is based on a questionnaire developed with support by the Russia Financial Literacy and Education Trust Fund and is tailored to measure financial capability in low- and middle-income countries, although it can also be used in high-income countries. Extensive qualitative research techniques were used to develop this survey instrument, including about 70 focus groups and more than 200 cognitive interviews in eight countries to identify the concepts that are relevant in middle- and low- income settings, and to test and adapt the questions to ensure that they are well understood and meaningful across income and education levels. The instrument is currently used or planned to be used in 14 countries in Latin America, Africa, Middle East and East Asia and the Pacific.

The survey instrument used allows financial capability, financial inclusion, and consumer protection issues to be assessed and measured. Financial capability is measured by knowledge of financial concepts and products, and by attitudes, skills and behavior related to day-to-day money management, planning for the future, choosing financial products and staying informed. In order to jointly analyze financial capability and inclusion, the survey instrument captures information on usage of different kinds of financial products and providers. The financial consumer protection section gathers information on incidence of conflicts with financial services providers and levels of satisfaction with financial products offered by different financial institutions. The survey instrument has been further customized to the Azerbaijan context, through adding specific questions, for example relating to the devaluation of the Manat,

The Azerbaijan survey is representative of the financially active population and comprises a total sample of 4,260 adults[12]**.** To fulfill the requirement of a scientifically sound survey which allows inferences to the whole universe of financially active adults in Azerbaijan, probability sampling techniques were used to select a sample of 4,260 adults. As such, the most recent 2009 population census in the Republic of Azerbaijan was used as a sampling frame. The population was divided into 15 strata: 8 economic regions (Baku, Asheron, Ganja-Gazakh, Sheke-Zagatala, Lankaran, Guba-Khachmaz, Aran and Dadhlig Shirvan) and each region, except Baku, were further divided into urban and rural strata. When the census was conducted, the Statistical Committee of the Republic of Azerbaijan excluded 2 regions because of major security reasons. There is therefore no available data for these regions, which are also excluded from the frame of this survey and represent about 7 percent of the total population.

The sample of individual respondents within households was selected through a three stage cluster sampling. Enumeration areas (EA) were randomly selected as primary sampling units (PSUs) with probability proportional to size (PPS) (number of households) at the first stage, and consisted in selecting 284 primary sampling units to reach the sample target. In each selected PSU, 15 households were randomly drawn and targeted for surveying at the second stage. This choice of having 15 randomly drawn respondents instead of 20 per EA reduced the possible clustering effect even further. Finally, within each selected household, eligible adults either responsible for personal or household finances were randomly drawn by means of the Kish grid. Individual weights were calculated and used in the ensuing analysis to adjust for varying probabilities of selection (design weights).

Between February and September 2015, a Canadian survey firm implemented the survey using computer-assisted personal interview methods (CAPI). *Étude Économique Conseil (EEC Canada)*, a Montreal based consulting firm, was hired to conduct the Financial Capability Survey in Azerbaijan. To ensure highest data quality and avoid common errors associated with paper-and-pencil surveys, an electronic version of the questionnaire including internal consistency tests were programmed and the survey was administered using power PCs. Due to extensive efforts and different strategies used (e.g. training of enumerators on

[12] Population aged 18 and older

refusal conversion strategies, communication with respondents to inform them of the coming survey as well as explaining the surveys' objectives, up to 5 contact attempts at different moments during the period of the survey, etc.) the total non-response rate was around 26.2% percent of the total sampled households. This non-response index is very small in comparison to other non-responses observed in major surveys in Azerbaijan[13]. Survey weights were adjusted to consider this non-response rate.

The adult population for which the results of this survey are meant to be extrapolated has the following key characteristics: 44 percent of the population lives in urban areas, while the remaining 53 percent lives in rural environments (see Figure 35). Slightly less than half of the population is female (49 percent, see Figure 37). Ranking all individuals by their reported household income and dividing them into 4 groups, 26 percent of the population fall in the lowest income segment (up to 380 AZN per month), 25 percent in the second lowest quartile (between 381 AZN and 550 AZN), 24 percent in the second highest (between 551 AZN and 780 AZN), and 25 percent in the highest income quartile (more than 781 AZN, see Figure 42). Forty-seven percent of the population is younger than 35, 48 percent is between 35 and 55, and 5 percent of the population is older than 55 (see Figure 42). In terms of the education level attained, 7 percent of the population has some or completed tertiary education including university or other higher education, 90 percent has some or completed secondary schooling, 2 percent has some or completed primary schooling while around 1 percent of the population has no schooling at all (see Figure 40). Irregular and uncertain income flows characterize 48 percent of the population, while the remaining 52 percent is characterized as earning stable income, (see Figure 41). The average number of adults per household is 3, whereas an average sized household comprises 4 people. As shown see Figure 39 in Appendix, 35 percent of the respondents live in households with 1 to 3 members, 56 percent in households comprising 4 to 6 members, and 9 percent in households comprising 7 to 12 members. As Table 1 presents, there are minor differences between Azerbaijani population distribution and the surveyed population.

Table 1. Comparison between Census Key Characteristics and Financial Capability Survey Profile

Country	Census	Financial Capability Survey
Population distribution		
Less than 15 years old	23.1%	33.6%
Between 15 and 64 years old	70.8%	65.6%
More than 64 years old	6.1%	0.8%
Gender distribution		
Male	49.5%	51.5%
Female	50.5%	48.5%
Area distribution		
Rural	46.9%	45.7%
Urban	53.1%	54.3%

Source: The State Statistical Committee of the Republic of Azerbaijan, 2009 population census in the Republic of Azerbaijan. WBG Financial Capability Survey, Azerbaijan 2015.

[13] For comparison non response was 64.1% in the EBRD – World Bank "Life in Transition Survey II", DRAFT Technical Report, June 2011.

1 Financial Inclusion

1.1 Introduction

Increasing the access, usage and quality of financial products and services has become a priority in Azerbaijan. Over the past years, Azerbaijani authorities have made considerable efforts to develop strategies to ensure private sector participation and investment, reduce poverty and increase economic growth. In particular, they have been working in partnership with Worldwide Development Institutions such as the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD) and the World Bank Group[14] to increase financial inclusion levels. As part of these efforts: (i) in 2013, ADB granted a loan of US $50 million to AccessBank Azerbaijan (ABA) to support financial inclusion. The main purpose of the project "AZE: Access Bank Promoting Rural Financial Inclusion" is to increase lending to micro, small and medium enterprises (MSMEs) in the underserved regions outside Baku, including secondary towns and rural districts because MSMEs have not been well served by the traditional banking system[15]. (ii) Azerbaijan's population was targeted to promote financial inclusion through financial education. Under the EBRD support, a financial literacy training program was extended to 160,000 people in Azerbaijan, Armenia, the Kyrgyz Republic, Georgia, Moldova and Tajikistan between 2011 and 2013. This initiative targeted the recipients of remittances, which make up 45 per cent of GDP in the CIS countries. Nearly 27,500 new bank accounts were opened as a result of this program and the equivalent of more than US$ 25 million was brought into formal financial institutions[16]. (iii) Azerbaijan and other ADB's transition member countries[17] are currently included in a US$ $750,000 budget project focused at the qualified financial institutions (QFI) [18]. The ultimate goal is to improve good practice and leadership of selected QFIs. It will give an institutional diagnostic of issues to be addressed, an identification of solutions in a consultative process involving the QFI management, and a preparation of product- and topic-focused implementation plans including the development and testing of new products[19]. (iv) Azerbaijani authorities have embarked on several reform initiatives to improve the operational and legal environment of e-money[20], since 2013, and most recently Islamic finance. In fact, one of Azerbaijani government's objectives is to launch its first Islamic bank in the short term that would use a branchless model, aiming to reach a wide Muslim client base[21]. (v) The Azerbaijani authorities, with the support of the WBG, have conducted this financial capability survey which will provide a detailed baseline for the strategies in financial inclusion.

The information provided in this chapter will enable to fully understand the state of financial inclusion in Azerbaijan and provide valuable inputs for interpreting the findings on financial capability. Collecting survey data from individuals – that is, from the demand side - can provide valuable insight into the usage, value and limitations of existing financial services. Demand-side survey data also facilitates analysis of how patterns of financial inclusion may vary across different population segments, and the degree to which different financial behaviors – such as saving, borrowing, and making payments – overlap. The data and analysis presented below can be used to identify population segments, set national financial inclusion targets, and design reforms and projects to expand financial inclusion in Azerbaijan. Finally, the data can provide a baseline survey that can be used to measure progress of reforms and initiatives.

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[14] The World Bank's Technical Note on Access to Finance dated November 2015 strongly recommend to "Develop national financial inclusion strategy aimed at improving financial inclusion for households and enterprises through a coordinated, prioritized, and comprehensive framework for actions."

[15] ADB. "Aze: Access Bank Promoting Rural Financial Inclusion". http://www.adb.org/projects/47905-014/main#project-pds.

[16] EBRD. "Financial Inclusion". http://www.ebrd.com/what-we-do/financial-inclusion.html.

[17] Armenia, Georgia, Kazakhstan, Mongolia, Turkmenistan and Tajikistan.

[18] ABC.AZ business information portal. "The Asian Development Bank to promote financial inclusion of Azerbaijan and some other countries". http://abc.az/eng/news_12_02_2014_79363.html.

[19] ADB. "Projects in Azerbaijan". http://www.adb.org/projects/azerbaijan.

[20] Azernews. "E-money use in trade, services to be limited in Azerbaijan". http://www.azernews.az/business/59905.html.

[21] Reuters. "Azerbaijan looks to new Islamic bank as sector rules progress". http://www.reuters.com/article/azerbaijan-islamic-finance-idUSL8N15X65I.

1.2 Headline Measures of Financial Inclusion

According to this 2015 Financial Capability Survey, 36.4 percent of the surveyed adults in Azerbaijan report owning an account at a formal financial institution, a commonly used metric for international comparison. As compared to other upper-middle income economies, Azerbaijan is behind the average level in terms of financial inclusion[22], commercial bank branches' accessibility and domestic credit provided by the financial sector (see Table 2). Global Findex shows that Azerbaijan's financial inclusion level rose from about 15 percent in 2011 to 29 percent in 2014. The Financial Capability Survey found that such level rose to 36 percent in 2015; however, it should be noted that the Survey captures people aged 18 and above, whereas Findex includes adolescents (15-17 years old) who typically are less financially included. When investments, private pensions, and insurance products are included as formal financial products, the Survey finds that 47.2 percent of Azerbaijani adults use some formal financial product.

Table 2. Measures of Financial Inclusion and Development across Economies

	Financial account ownership (% of adults)	Commercial bank branches (per 100,000 adults)	Firms using banks to finance investment (% of firms)	Domestic credit provided by financial sector (% of GDP)	GDP per capita (constant 2005 US$)
Azerbaijan	36.4 (Fincap 2015) 29.1 (Findex 2014)	10.7	27.1	33.7	3,275.7
Bulgaria	62.9	60.3	23.5	62.4	5,031.2
Kazakhstan	53.9	3.3	16.3	36.6	5,580.8
Macedonia, FYR	71.8	24.3	20.9	54.6	3,979.1
Armenia	17.2	22.0	17.4	47.2	2,365.0
Georgia	39.7	27.0	22.0	45.3	2,254.0
Romania	60.8	30.5	28.0	38.0	6,256.5
Serbia	83.0	30.3	27.0	52.8	4,245.5
Turkey	56.6	19.7	44.2	88.0	8,864.7
All upper-middle income	**70**	**19.9**	**30.2**		**4,723.5**
Europe and Central Asia (developing only)	**51**	**22.3**	**24.3**	**69.1**	**4,578.1**

Source: Data on formal account ownership is drawn from 2015 Financial Capabilities Survey (Azerbaijan) and 2014 Global Findex (other economies); data on commercial bank branch penetration, data on firm finance (2013) is drawn from Enterprise Survey data (latest available year by country); data on domestic credit to GDP and GDP per capita are drawn from the World Development Indicators.

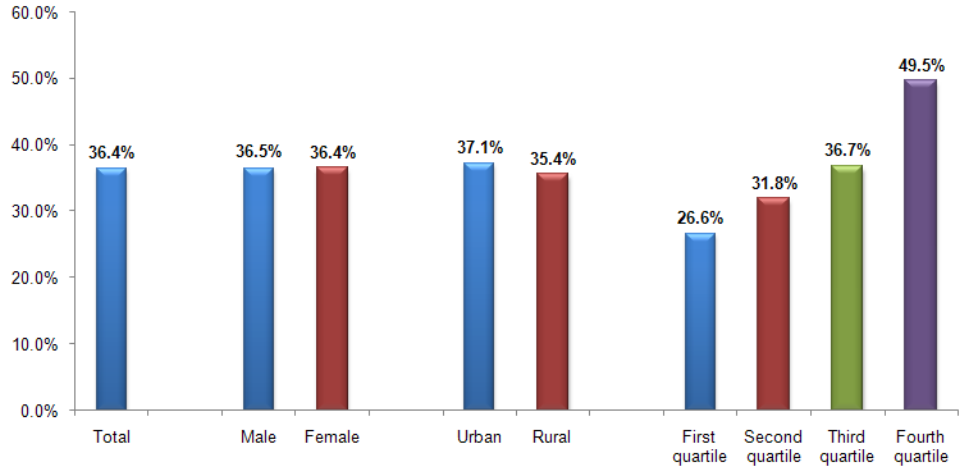
[22] Formal account ownership ("financially included") is defined in Azerbaijan financial capability study as the percentage of respondents who reported having an account (by themselves or together with someone else) at a bank or another type of financial institution (formal credit, mortgage, credit from microfinance organizations or from the decentralized financial system, debit or credit card, formal savings, current or savings accounts), or personally using a mobile money service in the past 12 months.

Across the main socioeconomic and demographic characteristics, income level was found to have the most significant impact on financial inclusion, followed by whether or not adults are in the labor force and size of household. As shown in Figure 1, regression analysis by social and demographic factors reveals (see Table 10) that there is a strong correlation between income level and financial inclusion. In fact, the gap in financial inclusion between the richest and the poorest quartiles is 22.9 percent, corresponding to nearly half of that of the richest quartile. Adults who are out of the labor force were found to be 6 percent less financially included than the average employed (see Figure 2). Size of household is correlated to financial inclusion, however, there is only 3.1 percent average difference between smallest and largest size, corresponding to about 8 percent of the former. Finally, the difference between urban (37.1 percent) and rural (35.4 percent) was found not to be statistically significant (4.5 percent of urban). Global Findex and Financial Capability Survey both show that the rural financial inclusion level is close to the average national level.

There is only a small difference in financial inclusion between genders overall but an in-depth analysis suggests that younger women as compared to younger men have lower financial inclusion levels at the backdrop of their lower economic participation. At first glance, Figure 1 shows almost no disparity overall in terms of financial inclusion between male and female. However, a number of interesting findings have allowed us to shed some light on this topic: (i) When the sample is broken down by age groups, we note, overall, that there is marked difference of financial inclusion in favor of younger male respondents in Azerbaijan (between ages of 18 and 20 financial inclusion is 5.2 percent higher for men). Financial inclusion tends to become more or less gender neutral from age 21 to 55, and then it basically reverses in favor of female Azerbaijanis (56 and more financial inclusion is 5.7 percent higher for women). This pattern clearly demonstrates differences between the younger generations of women as compared to their elders. (ii) According to the World Economic Forum's 2015 Global Gender Gap report[23] which measures gender equality in health, education, economy, and politics, Azerbaijan ranks 96th out of 145 countries below many other developing countries with similar income levels. More interestingly, Azerbaijan's Gender Gap index has materially deteriorated from 2007 to 2015. Particularly, in terms of economic participation and opportunity for women, Azerbaijan's ranking dropped significantly from 4th in 2008 to 54th in 2015. Such a trend points towards the widening gender gap for the younger generation which seems to find its roots in education choices at younger ages, with an impact on financial participation and inclusion in later years. (iii) Differences in account ownership between the younger and older generations of women may also be explained by the fact that Azerbaijani women aged 21 and older are more likely to be married and to own an account jointly with their spouses.

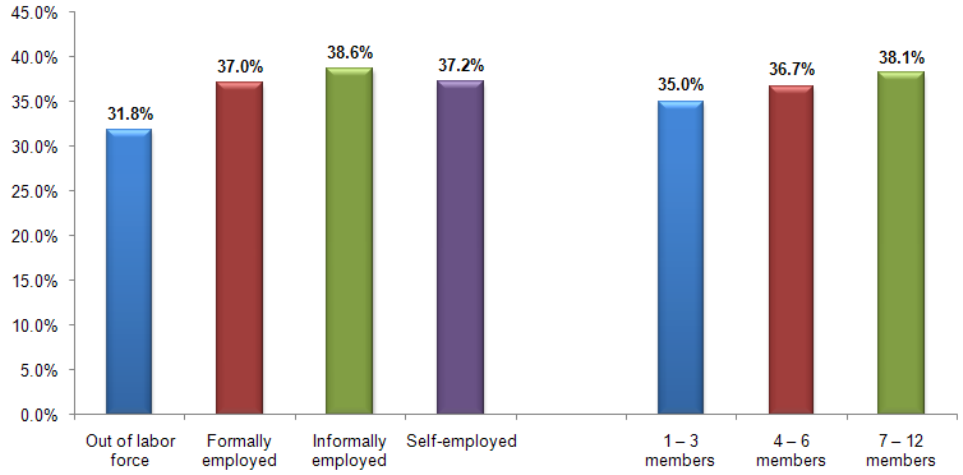
[23] http://reports.weforum.org/global-gender-gap-report-2015/economies/#economy=AZE

Figure 1. Formal Account Ownership by Gender, Urban/ Rural, and Income



Source: WBG Financial Capability Survey, Azerbaijan 2015.

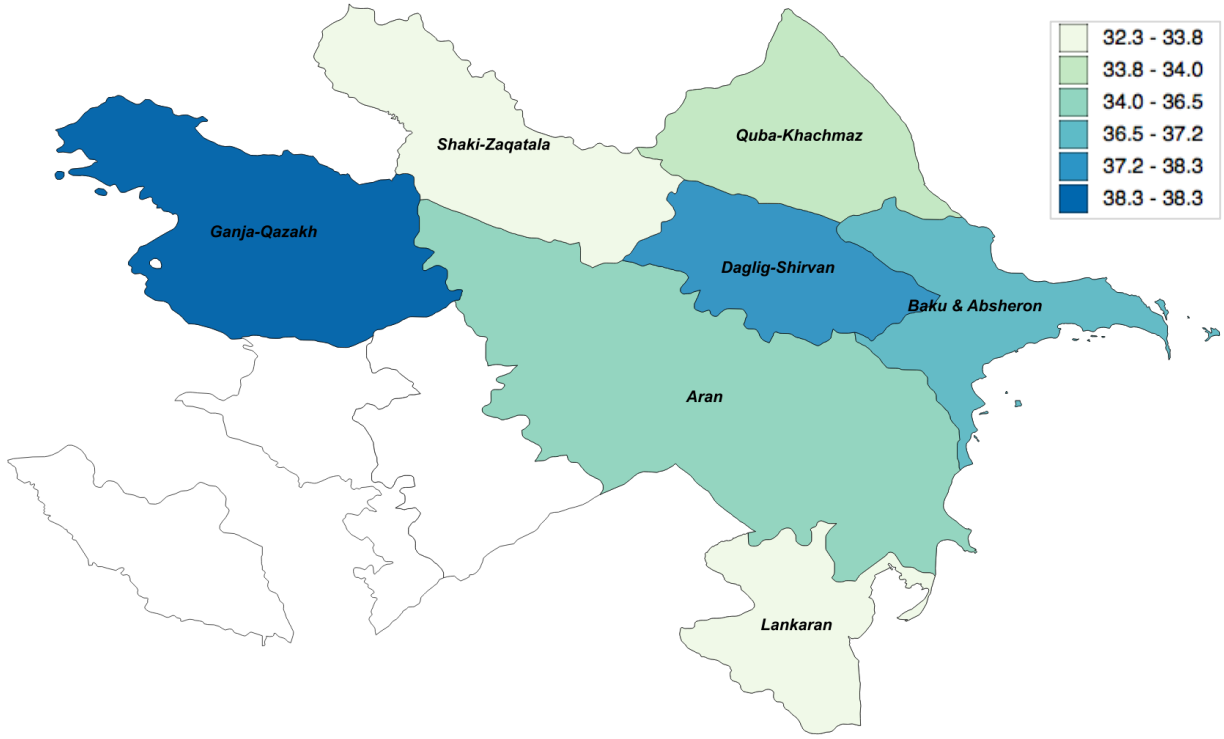
Figure 2. Formal Account Ownership by Employment and Household Size



Source: WBG Financial Capability Survey, Azerbaijan 2015.

Regional differences do exist in respect of financial inclusion, however, they remain small to moderate. As shown in Map 1**,** Ganja-Qazakh has the highest level at 38.3 percent, which is 5.2 percent above the national average. Shaki-Zaqatala has the lowest level at 32.3 percent, which is 11.3 percent below the national average. The next highest levels are in Daglig-Shirvan and Baku-Absheron where financial inclusion is 3.5 percent and 1.1 percent respectively above the national average.

Map 1. Financial Inclusion by Region (%)



Source: WBG Financial Capability Survey, Azerbaijan 2015[24].

1.3 Usage of Financial Products

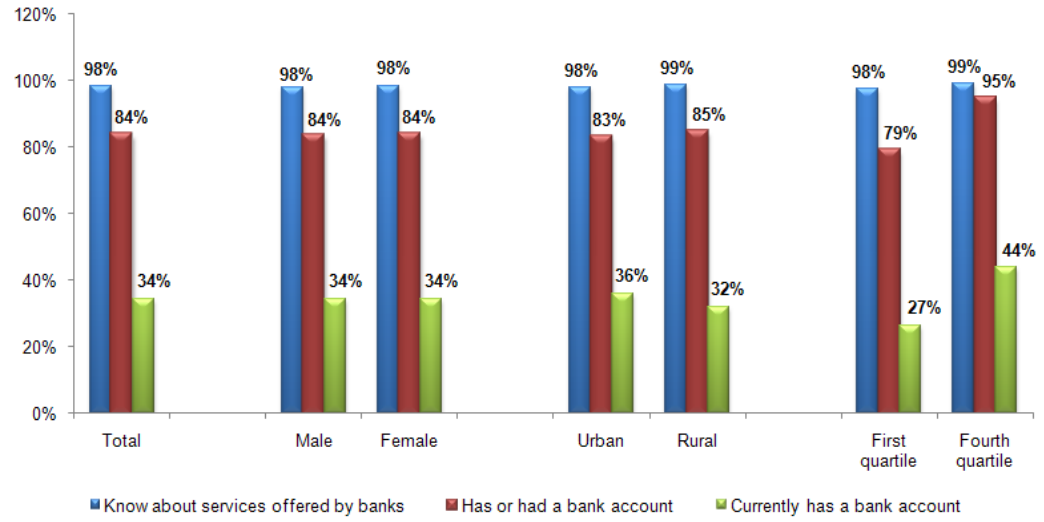
The next sections dig deeper into the types of institutions and specific products used by Azerbaijani adults, both within and outside the formal financial system. The analysis is organized by type of financial institution. Each section documents overall awareness of a given institution among respondents, explores patterns of historical usage, i.e. whether a respondent has ever used that institution, and the current usage.

1.3.1 Usage of Banks

About one third of the population has a bank account, however, almost everybody whether men or women, urban or rural, rich or poor, knows about services offered by banks. The only notable difference is that there are about 17 percent more rich people having bank accounts than the poor (see Table 11). As shown in Figure 3, 34 percent of the population currently has a formal bank account, 84 percent claim having used banks in the past and 98 percent knows about services offered by banks. All such figures are the same whether women or men, and almost the same between urban and rural, except that there are 4 percent more urban people having bank accounts than their rural counterparts.

[24] White regions were excluded from the Survey.

Figure 3. Knowledge and Usage of Banks by Individual Characteristics



Source: WBG Financial Capability Survey, Azerbaijan 2015.

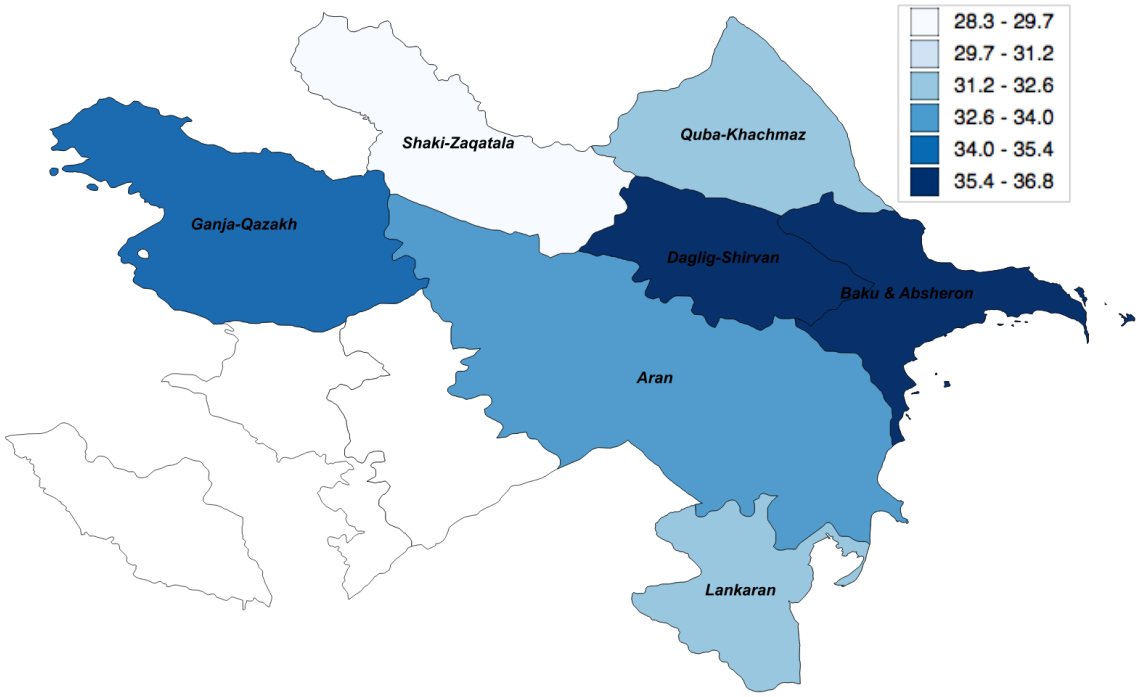
Usage of bank accounts does vary moderately between regions and correlation does exist between usage of bank accounts and regional wealth. As shown in Map 2, the spread between highest and lowest usage of bank account is 9 percent. As Table 3 presents, there is a connection between the level of wealth as measured by income per capita and holding of bank accounts.

Table 3. Level of Wealth vs. Holding of Bank Accounts

Region	Ranking income per capita	Ranking usage of bank accounts
Daglig-Shirvan	1	1
Baku & Absheron	2	1
Lankaran	3	5
Aran	4	4
Ganja-Qazakh	5	3
Shaki-Zaqatala	6	7
Quba-Khachmaz	7	5

Source: Distribution of the households by income per capita and region in 2014, Statistical Committee of Azerbaijan. WBG Financial Capability Survey, Azerbaijan 2015.

Map 2. Current Usage of Bank Account by Region (%)



Source: WBG Financial Capability Survey, Azerbaijan 2015[25].

There is a strong negative correlation between historical usage of banks and current holding of bank accounts. As shown in Table 4 and Map 3, regions with high usage of banks in the past tend to have the lowest holding of bank accounts at present and vice versa. This may suggest that a non-negligible proportion of users of banks in the past were dissatisfied and decided to revert to other mechanisms (refer to chapter 3 Financial Consumer Protection for more details).

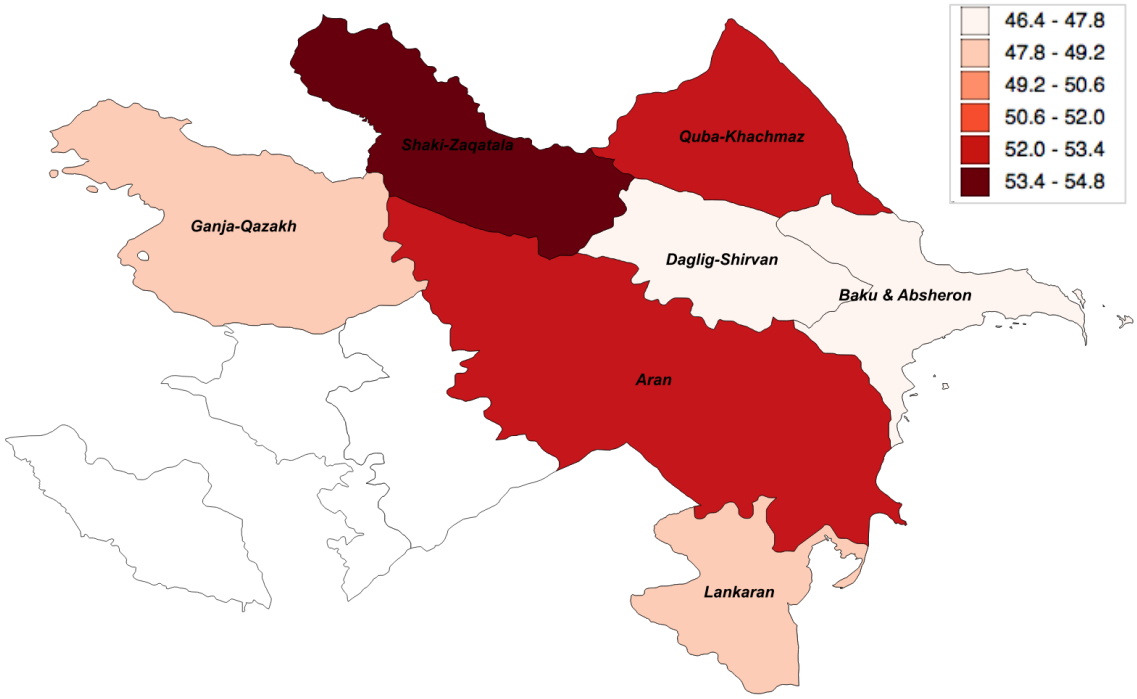
Table 4. Historical Usage of Banks vs. Holding of Bank Accounts

Region	Ranking historical usage of banks	Ranking holding of bank accounts
Baku & Absheron	6	1
Ganja-Qazakh	4	3
Aran	2	4
Quba-Khachmaz	2	5
Shaki-Zaqatala	1	7
Lankaran	4	5
Daglig-Shirvan	6	1

Source: Distribution of the households by income per capita and region in 2014, Statistical Committee of Azerbaijan. WBG Financial Capability Survey, Azerbaijan 2015.

[25] White regions were excluded from the Survey.

Map 3. Historical Usage of Bank Account by Region (%)



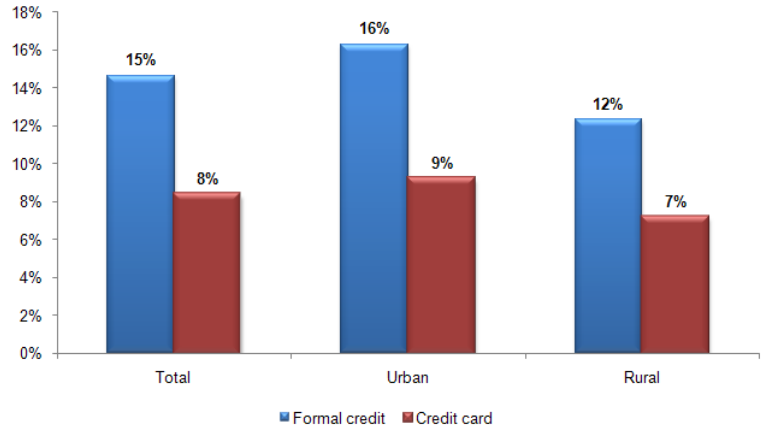
Source: WBG Financial Capability Survey, Azerbaijan 2015[26].

Bank credit is used by 15 percent of the population and increasing steadily and formal credit is the most utilized form, representing about twice as much as credit card. About four percent more people utilize bank credit in urban than in rural areas. About 3 percent more people have credit cards in Baku than in the rest of the country. As shown in Figure 4, formal credit stands at 15 percent followed by credit card (8 percent). As of September 1, 2015, the volume of credit allocated by banks was AZN 20,095.8 million and increased by 16.1 percent during the past 12 months (in comparison with previous year the increase was 19.7 percent)[27]. Formal credit represents 7 percent more than credit card. Urban population is the highest user of formal credit (16 percent) and credit card (9 percent) compared to their rural peers (12 percent and 7 percent respectively). Credit cards are used mostly by people living in Baku; in fact, 12 percent of Baku inhabitants hold credit cards versus 8 percent nationally. On the other hand, most bank account holders (about 22 percent) own a debit card, mostly utilized by rich people (32 percent) by more than 18 percent of poor people.

[26] White regions were excluded from the Survey.

[27] The Republic of Azerbaijan, Ministry of Economy. 2015. "Socio-economic development of the Republic of Azerbaijan". http://www.economy.gov.az/index.php?option=com_content&view=article&id=3237:sii2015&catid=121:eig2015&lang=en.

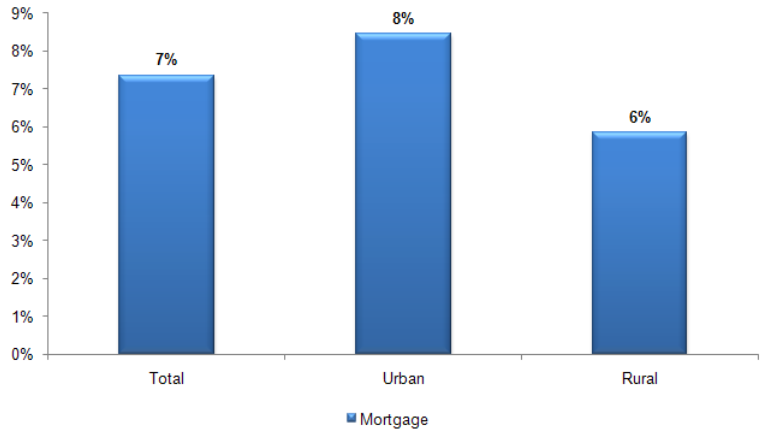
Figure 4. Overview of Types and Sources of Formal Borrowing



Source: WBG Financial Capability Survey, Azerbaijan 2015.

Long term finance, a credit method in expansion, is used by 7 percent of the population: in particular, urban dwellers and habitants of Baku. As shown in Figure 5,33 percent more people utilize mortgages in urban than in rural areas. This kind of financing is used mostly by people living in Baku; in fact, 11 percent of Baku residents have a mortgage compared to the national average of 7 percent. The system of mortgage credit in Azerbaijan was restructured at the end of 2005 with the establishment of Azerbaijan Mortgage Fund (AMF) under National Bank of Azerbaijan Republic[28]. Azerbaijani mortgage market has continuously expanded since its creation. At the end of 2015, 74 times more mortgage loans were granted in comparison to 2006 level.[29]

Figure 5. Overview of Mortgage



Source: WBG Financial Capability Survey, Azerbaijan 2015.

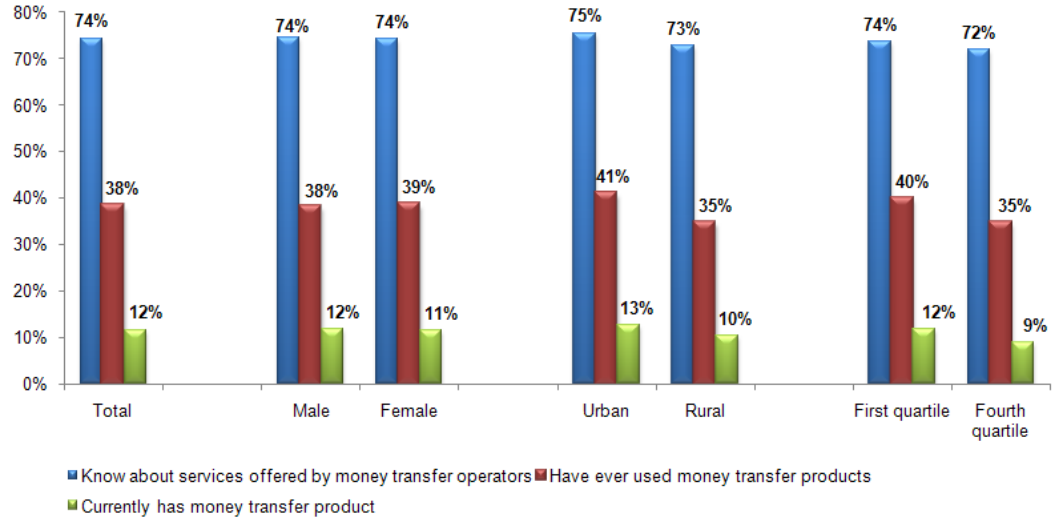
[28] AMF, "The decree of the president of Azerbaijan Republic about the creation of the system of mortgage credit in Azerbaijan Republic", http://www.amf.cbar.az/en/view/pages/27/ipoteka-haqqinda-qanun-ve-fermanlar.
[29] AMF, statistics, http://www.amf.cbar.az/en/view/statistic/1/aif-in-statistikasi.

1.3.2 Usage of Other Financial Institutions

1.3.2.1 Money Transfers Operators

About one person out of 10 uses MTOs, predominantly from poor and large households in urban areas especially Baku. As seen in Figure 6, 12 percent of the population currently has money transfer products and more than one third has used such products in the past. Furthermore, 3 out of 4 persons know about services offered by MTOs. Such services were found to be utilized by 30 percent more people in urban areas (especially Baku), by 33 percent more people from poor households and by about 20 percent more people living in the largest households. Such facts underpin the notion that poor people receive more financial support from family and friends. In fact, 37 percent of poor households declare receiving this kind of support as household income source, while only 15 percent of richest household affirm the same. MTO usage is linked to remittance trend in Azerbaijan. In particular, Azerbaijan is in *the top remittances sending countries* (25th position in worldwide classification and 8th position among middle income economies). Such remittances represent about 2.7 percent of GDP (2.0 US billions). [30]

Figure 6. Knowledge and Usage of Money Transfer Services by Individual Characteristics



Source: WBG Financial Capability Survey, Azerbaijan 2015.

Usage of money transfer services varies significantly between regions and correlation exists between usage of such services and regional wealth. As shown in Map 4, the spread between highest and lowest usage of money transfer services is more than 70 percent of the national average. As shown in Table 5, there is a relationship between the level of wealth and usage of such services. On the other hand, when this regional usage is compared to percentage of households who declared having received help from family or friends abroad (see Map 5), there is no correlation except for Daglig-Shirvan. This is not surprising as Azerbaijan is classified as a sender of remittances instead of a receiver.

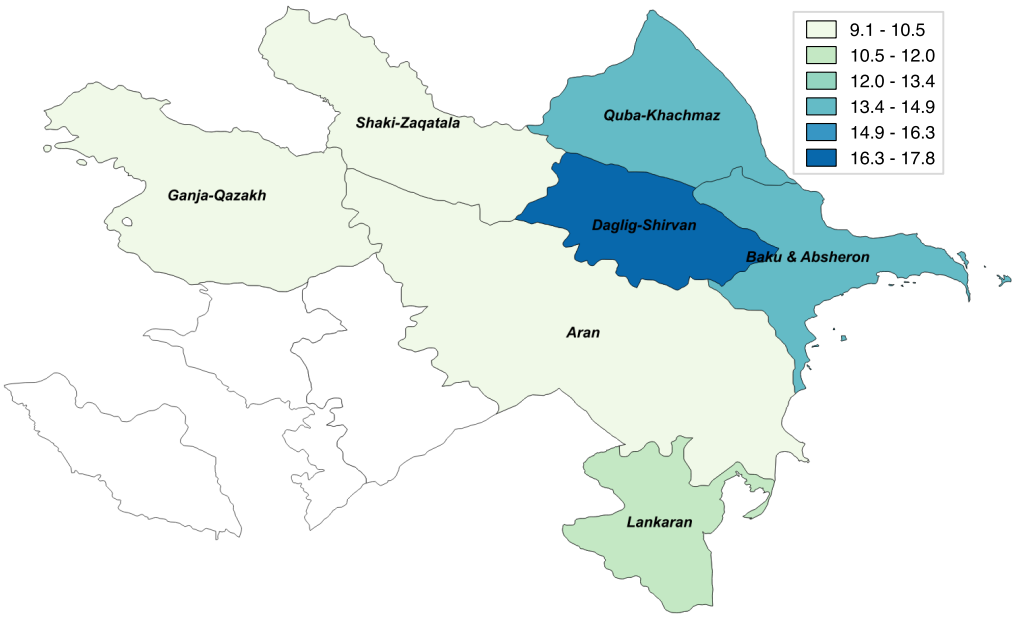
[30] Migration and Remittances Factbook 2016, World Bank Group, 2016.

Table 5. Level of Wealth vs. MTO Usage

Region	Ranking income per capita	Ranking usage of MTO
Daglig-Shirvan	1	1
Baku & Absheron	2	2
Lankaran	3	4
Aran	4	2
Ganja-Qazakh	5	5
Shaki-Zaqatala	6	6
Quba-Khachmaz	7	6

Source: Distribution of the households by income per capita and region in 2014, Statistical Committee of Azerbaijan. WBG Financial Capability Survey, Azerbaijan 2015.

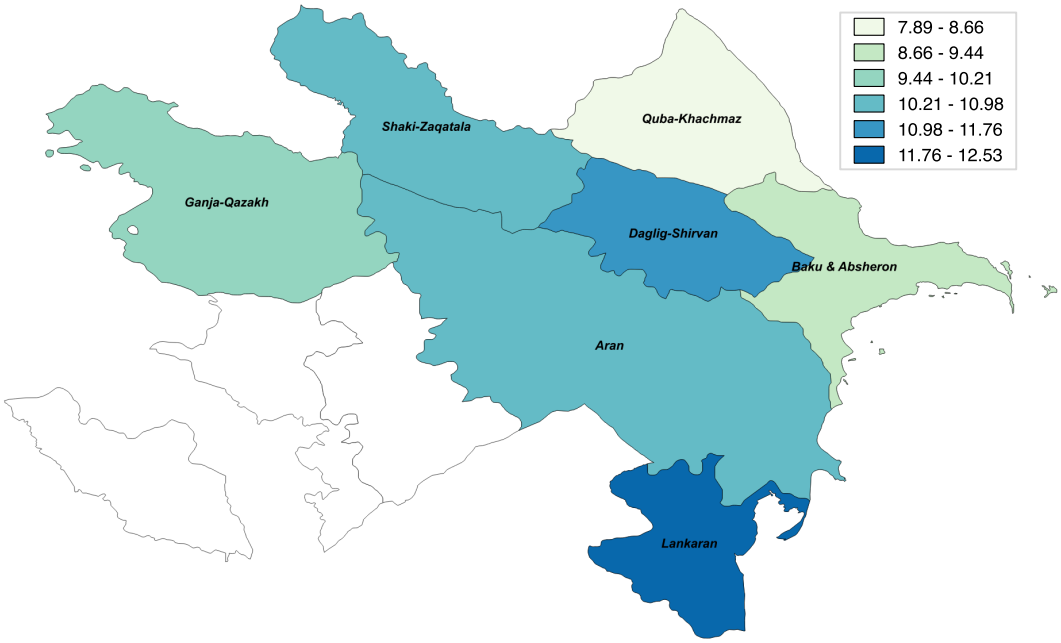
Map 4. Current Usage of MTO by Region (%)



Source: WBG Financial Capability Survey, Azerbaijan 2015.[31]

[31] White regions were excluded from the Survey.

Map 5. Households Receiving Helps from Family or Friend Living Abroad (%)



Source: WBG Financial Capability Survey, Azerbaijan 2015.[32]

1.3.2.2 Usage of E-money Agents

> **Electronic money (e-money)-based instruments:** In general terms, these instruments involve the payer maintaining a pre-funded transaction account with a PSP [Payment Service Provider], often a non-banking entity. Specific products include online money when the payment instruction is initiated via the internet, and mobile money when initiated via mobile phones and prepaid cards.

Usage of E-money products is almost inexistent although one out of five persons has used such products in the past, suggesting appropriate measures are needed to develop a sector in its embryonic stage. Although roughly 65 percent of the population knows about services offered by E-money agents and approximately one in five persons have used E-money products in the past, only 0.3 percent currently utilizes such service. There are no gender differences, however, no one uses this service in rural areas, and 40 percent more rich than poor people utilize it. These results are coherent with the 2014 Global Findex indicators where less than 0.1 percent of Azerbaijan adults reported having sent or received money through mobile phones. Recent research stresses the "importance of the execution of a new strategy and implementation of legal reforms on the payment service market for the purpose of expanding financial inclusion and providing payment services in untraditional ways by payment and electronic money institutions and their payment agents".[33]

[32] White regions were excluded from the Survey.

[33] Rustamov, H. Tamerlan, et al. "Non-Bank Payment Service Providers and Financial Inclusion: the Case of Azerbaijan." The Journal of Qafqaz University on Economics and Administration, 2015 Volume 3, Number 2 (UOT: 336.11)

E-money is a relatively new concept in Azerbaijan. The rules for issuing e-money were prepared through the passage of a relevant draft law, which reached its final stage at the end of 2013.[34] This bill will enable Azerbaijani banks and local branches of foreign banks to issue e-money. In addition, the draft law provides the legal and regulatory framework for opening new branches and representative offices of foreign payment organizations active in the country. All institutions working in the field of e-money need a license, the authorized capital needs to exceed the minimum threshold set by the Central Bank of Azerbaijan (CBA) and certain obligations must be met by service providers to ensure the safety of customer funds (e.g. unique identification code, cost of services and exchange rates). [35]

1.3.2.3 Microfinance Institutions and Other Non-Bank Credit Institutions

Although almost everybody knows about MFIs and other NBCIs and 23 percent of adults have used their services in the past, only 6 percent have a credit with such institutions – mainly rural rich people, suggesting there is a need for sector reform and development. In fact, one of the main policy recommendations mentioned by the World Bank[36] is "promoting sustainable funding facilities for financial service providers (particularly NBCIs) to increase funding to currently underserved segments". As shown in Figure 7, 97 percent of the population knows about MFIs or other NBCIs such as credit unions, there is no variation between male and female, but there are 2 percent more users in rural areas and 9 percent more rich people with a credit at MFIs or NBCI. As shown in Figure 8 and Table 11, holding of an MFI / non-bank credit is strongly correlated to people's income level as well as holding of bank account.

The microfinance sector association, AMFA, has made an important contribution to sector development in line with international good practices. Microfinance first started in Azerbaijan in the mid-1990s with the participation of international NGOs, and over time, the sector grew steadily. The number of NBCIs, including credit unions, was 157 as of end-2014, with 212 branches.[37] Even so, microfinance has not yet reached its potential. This fact has been strongly highlighted by the World Bank[38]: "The non-bank credit sector is underdeveloped and offers limited opportunities for Azerbaijani SMEs." The combined microfinance loan portfolio is still only about 1 percent of GDP, despite considerable demand for microfinance services. Sector concentration is high, with the two largest providers of microfinance, Accessbank and FINCA, together accounting for 46 percent of the market. The legal and regulatory environment for microfinance organizations is relatively new and may still require improvement, including in the key area of capacity building for supervision.[39]

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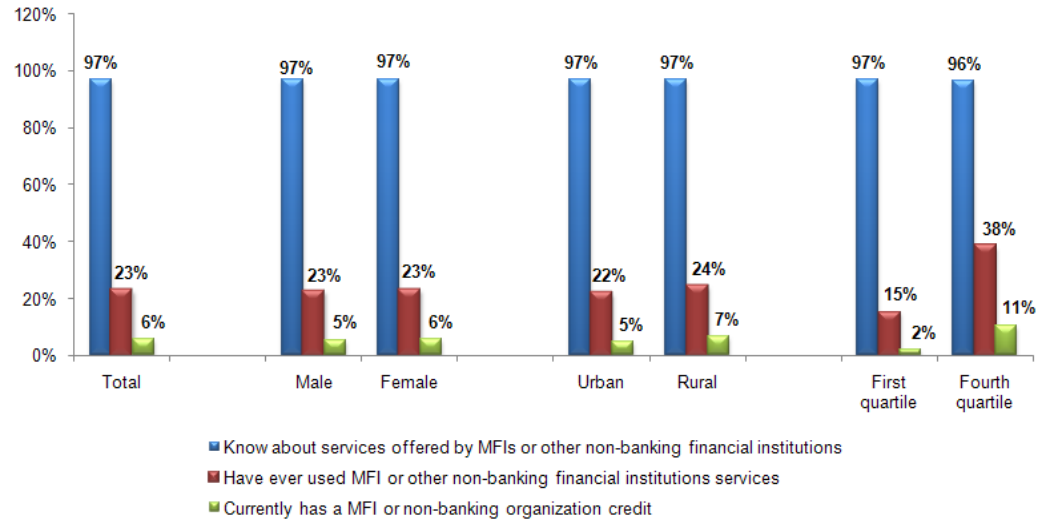
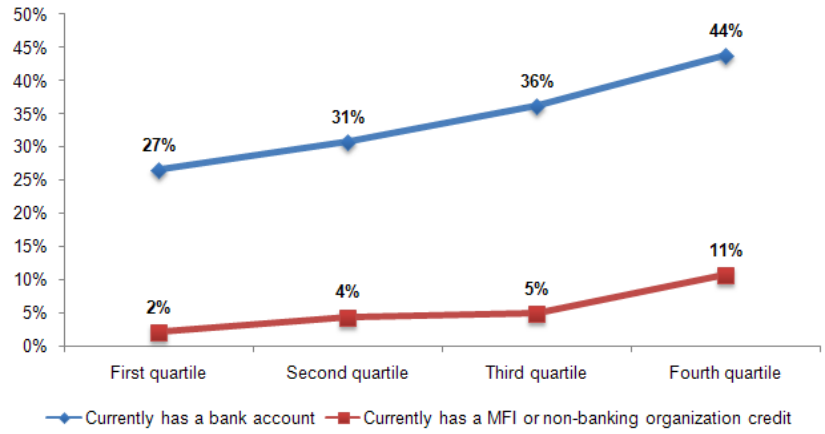
[34] Azernews. "E-money use in trade, services to be limited in Azerbaijan". http://www.azernews.az/business/59905.html.
[35] Trend News Agency. "Central Bank: Use of electronic money in Azerbaijan to be limited". http://en.trend.az/business/economy/2193867.html.
[36] The World Bank's "Technical Note on Access to Finance." November 2015.
[37] Central Bank of Azerbaijan, Annual Report 2014.
[38] The World Bank's Report No. 89360 "Azerbaijan Economic Diversification and Growth, Access to Finance: Measure to Ease a Binding Constraint. " September 2013.
[39] ADB Central and West Asia Working Paper Series No. 3. "Azerbaijan: Financial Sector Assessment". 2012.

Figure 7. Knowledge and Usage of MFIs or Other NBCIs by Individual Characteristics



Source: WBG Financial Capability Survey, Azerbaijan 2015.

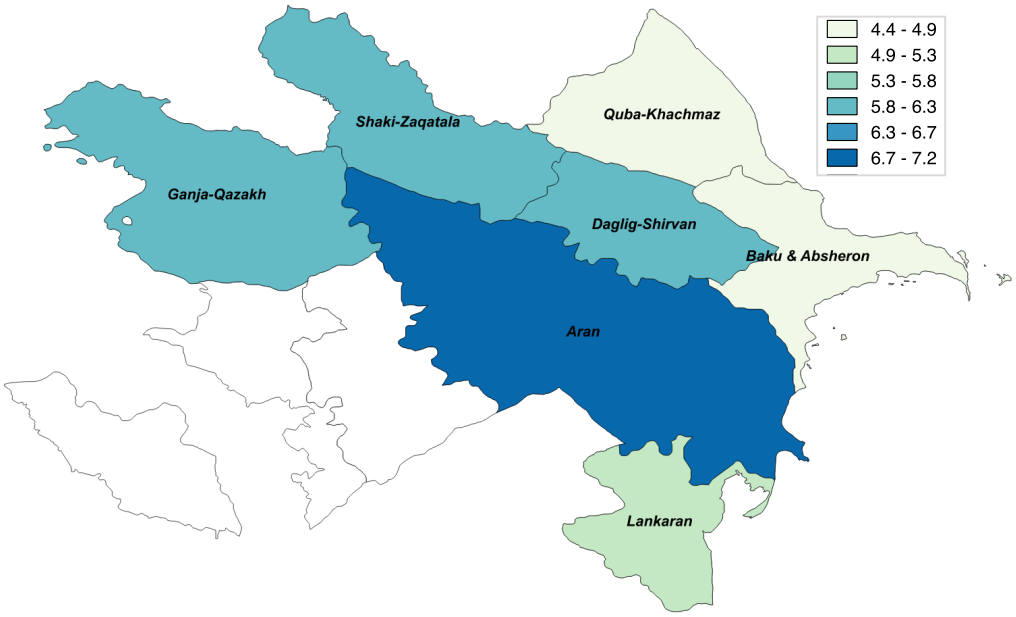
Figure 8. Use of Banks, MFIs and Other NBCIs by Income Quartile



Source: WBG Financial Capability Survey, Azerbaijan 2015.

Usage of MFI and NBCI services varies significantly between regions, however, no correlation exists between usage of such services and regional wealth. As shown in Map 6, the spread between highest and lowest usage of MFI services is more than 45 percent of the national average, with Aran being the highest user and Baku/Absheron and Quba-Khachmaz being the smallest ones.

Map 6. Current Usage of MFI or Other NBCI Credit by Region (%)



Source: WBG Financial Capability Survey, Azerbaijan 2015. [40]

1.3.2.4 Insurance Companies

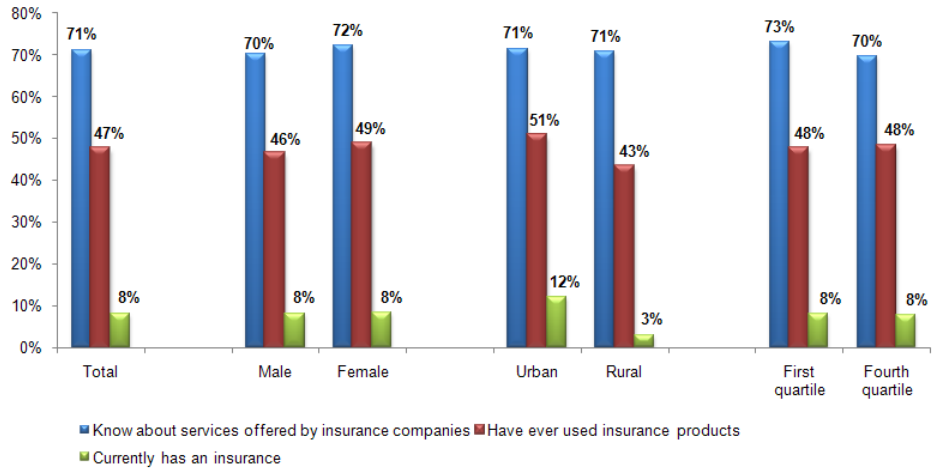
Approximately one half of the population has used an insurance product in the past but less than one out of ten persons and in particular only 3 percent of rural people currently has an insurance policy, suggesting a strong need for sector reform and development. Furthermore, as shown in Figure 9, 30 percent of the population has no idea about services offered by insurance companies. Nevertheless, there seems to be no connection between usage of insurance products and gender as well as income level. Usage of insurance products tends to increase with household size; however there is a notable difference between urban and rural areas (see regression analysis in Table 11). In fact, there are four times more urban than rural people who currently have an insurance policy. This is rather astonishing, especially for agriculture in rural areas where there are few buyers of harvest insurance that allows to smooth fluctuations in household income due to seasonality.

Insurance is still nascent in Azerbaijan and the sector remains small, although the government has started to support its development by strengthening the environment and introducing mandatory insurance. Unfortunately, between 1995 and 2003 the total number of insurance companies declined from 71 to 29. By 2012, the sector comprised of 29 insurance companies, 1 reinsurer, 7 brokers, about 200 agents, and the Association of Azerbaijani Insurers. Total assets accounted for less than 1 percent of GDP. The industry is moderately concentrated, with the 10 leading insurers accounting for 75 percent of premiums in 2012. Many insurance companies are linked with banks. However, most insurance companies focus on specific products, such as medical, motor, life insurance and real estate[41]. In summary, sector segmentation is high and competition limited, thereby having a negative impact on quality and product cost.

[40] White regions were excluded from the Survey.
[41] ADB Central and West Asia Working Paper Series No. 3. “Azerbaijan: Financial Sector Assessment”. 2012.

Various reforms under the Poverty Reduction Program 2008–2015 are being implemented[42]**.** Such reforms involve an improvement in the legal framework, encouraging the development of reinsurance, establishing insurance associations, improved control over insurance activities, and a single register on foreign reinsurers and insurance brokers. Actual reforms have moved along these lines with the enactment of a new insurance law and the establishment of associations. In addition, minimum capital requirements for insurance companies have been increased and various types of mandatory insurance established to create a mass market for insurance products.

Figure 9. Knowledge and Usage of Insurance Companies by Individual Characteristics



Source: WBG Financial Capability Survey, Azerbaijan 2015.

Usage of insurance varies significantly between regions and there is a correlation between usage of such services and regional wealth. As shown in Map 7, the spread between highest and lowest usage of insurance services is more than 10 percent. As Table 6 presents, it is notable to see that the largest users of insurance products are based in Baku/Absheron and Daglig-Shirvan, the two wealthiest regions in Azerbaijan.

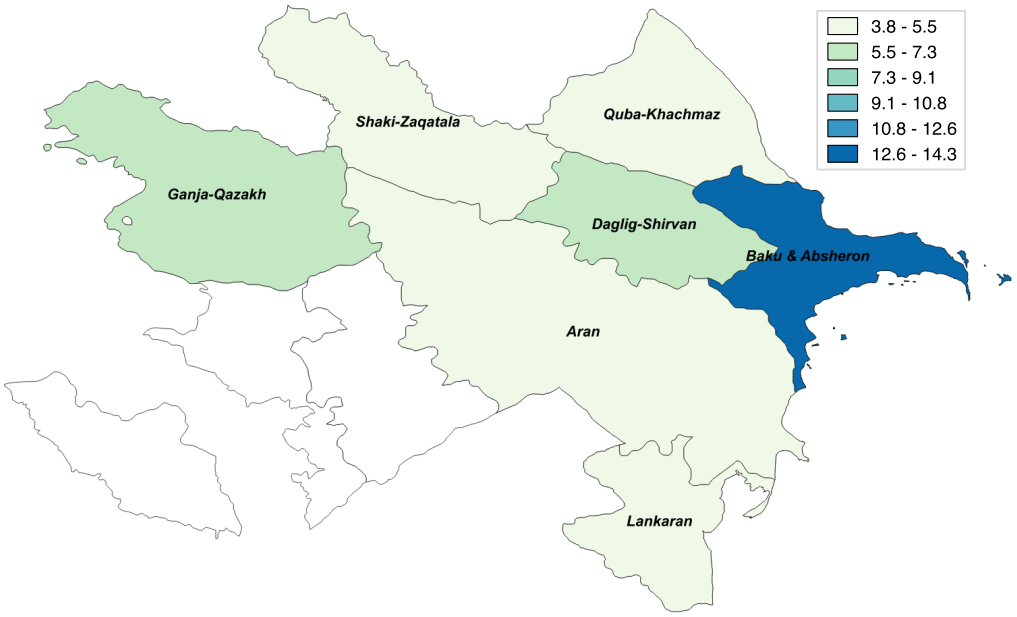
Table 6. Level of Wealth vs. Usage of Insurance

Region	Ranking income per capita	Ranking usage of insurance
Daglig-Shirvan	1	2
Baku & Absheron	2	1
Lankaran	3	4
Aran	4	4
Ganja-Qazakh	5	2
Shaki-Zaqatala	6	4
Quba-Khachmaz	7	4

Source: Distribution of the households by income per capita and region in 2014, Statistical Committee of Azerbaijan. WBG Financial Capability Survey, Azerbaijan 2015.

[42] President of the Republic of Azerbaijan. "State Program on Poverty Reduction and Sustainable Development Republic of Azerbaijan 2008-2015".

Map 7. Current Usage of Insurance by Region (%)



Source: WBG Financial Capability Survey, Azerbaijan 2015. [43]

1.3.2.5 Brokerage Houses

Although more than one out of 3 persons have used brokerage house products in the past, a very small fraction of people currently has investments, whether male or female, urban or rural, rich or poor, which may highlight the lack of trust or interest in such products. 49 percent of the population knows about the services offered by brokerage houses and 36 percent utilized investment products in the past. However, only a mere 0.3 percent of persons are currently holding an investment, maybe due to bad performance. Rich people seem to know more about such products (57 percent) by a factor of 1.24 and have utilization rate 12 percent higher than poor people (45 percent versus 33 percent of poor people). These results may also be associated to the fact that the brokerage industry is concentrated in Baku. In fact, there is only one authorized stock exchange in Azerbaijan, the Baku Stock Exchange (BSE). Furthermore, there are very few participants in the securities market: 12 brokerage companies, 13 dealers, 3 securities managers, 1 clearing house, 2 registrars and 2 depositories.[44] "First equity transactions at BSE were recorded in 2001. The corporate bonds market started in 2004. The number of joint stock companies registered in the stock market was 651". [45]

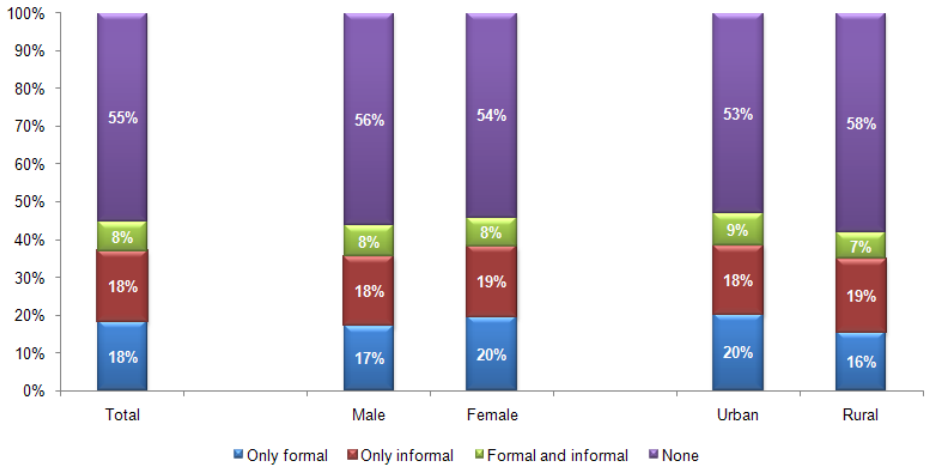
[43] White regions were excluded from the Survey.
[44] OECD, Global Forum on Transparency and Exchange of Information for Tax Purposes Peer Reviews: Azerbaijan 2015, "Phase 1: legal and Regulatory Framework", October 2015.
[45] Ibid.

1.3.3 Patterns of Formality and Informality in Savings and Credit

According to Global Findex database[46], studies indicate that access to savings products, including project savings (or "blocked") in which the person agrees not to withdraw funds until it has achieved a preset goal, can provide significant benefits that go well beyond the simple ability of an individual to save: it also contributes to the emancipation of women, to boost productive investment and consumption, drive up productivity and incomes, or to increase spending on preventive care. A current or deposit account can be a stepping stone to full financial inclusion by opening the way for a wider range of responsible financial services provided by more robust and diversified financial institutions. There is new evidence that access to financial services through formal accounts can enable individuals and companies to smooth consumption, manage risk and invest in education, health and new projects. According to a recent Aker's study, the use of a deposit account at a bank or other formally regulated financial institution varies widely across regions, economies, and individual characteristics. Worldwide, 50 percent of adults report having an individual or joint account at a formal financial institution, according to data from the Global Findex database (Demirgüç-Kunt and Klapper, 2012). Indeed, Global Findex data also highlights the important role that deposit accounts can play in the financial lives of adults in low-income countries when they do indeed have accounts, especially with regard to the receipt of formal payments, such as wages, government transfers, or remittances. In Azerbaijan, banks are already relatively successful in mobilizing domestic deposits, although more needs to be done. Bank deposits of population increased by 4.7% during September 2014-2015[47] and reached 7,320.3 million AZN.

Less than half of the population currently has savings split 50/50 between informal and formal methods. As demonstrated in Figure 10, 45 percent of people save money, broken down as follows: (i) 18 percent - only formal or having a deposit / checking account; (ii) 18 percent - only informal; and (iii) 8 percent both formal and informal. Propensity to save was found to be slightly higher in urban areas (25 percent more than rural) and women (18 percent more than men).

Figure 10. Formal and Informal Savings by Individual Characteristics



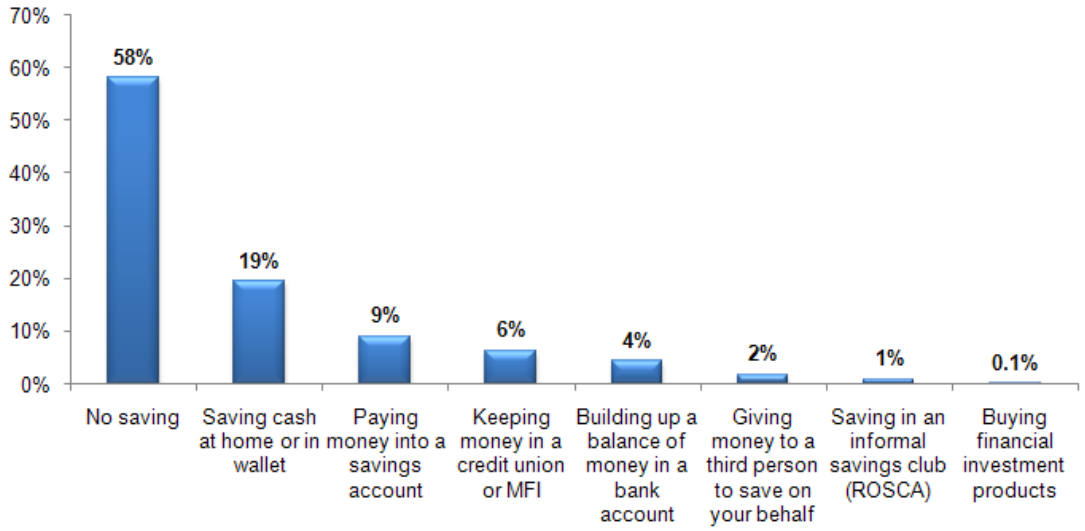
Source: WBG Financial Capability Survey, Azerbaijan 2015.

[46] WBG. "Financial Inclusion Overview". 2014. http://www.worldbank.org/en/topic/financialinclusion/overview.

[47] The Republic of Azerbaijan, Ministry of Economy. 2015. "Socio-economic development of the Republic of Azerbaijan". http://www.economy.gov.az/index.php?option=com_content&view=article&id=3237:sii2015&catid=121:eig2015&lang=en

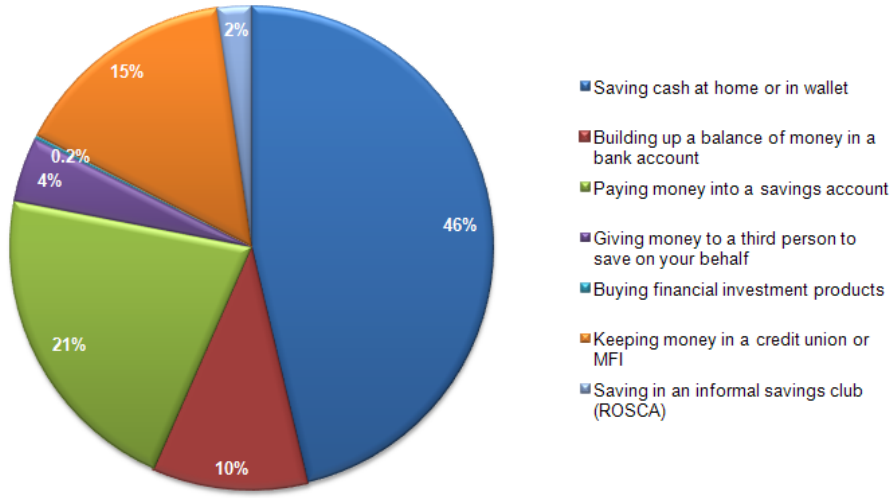
Almost 60 percent of people holding formal accounts in a financial institution did not save in the last 12 months and among those who saved, almost 50 percent kept money at home, and the others used mainly saving accounts or credit union/MFI services. As shown in Figure 11, 58 percent of people who used a formal account did not save money. Among those who saved (see Figure 12), 46 percent saved cash at home or in a wallet, 21 percent paid money into a savings account, 15 percent kept money in a credit union or MFI and 10 built up a balance in a bank account. In Baku, among banked people who saved, two third of them keep money at home and the remaining utilize their savings or current account; as such, no one was reported to keep money in credit unions or MFI. Propensity to save was found to be predominant among rich banked people. In particular, as Figure 13 presents, while 32 percent of rich banked Azerbaijanis saved in the last year through formal financial channels, only 2 percent of poor banked Azerbaijanis did the same.

Figure 11. Saving Mechanisms in The Last Year (% of Banked Azerbaijanis)



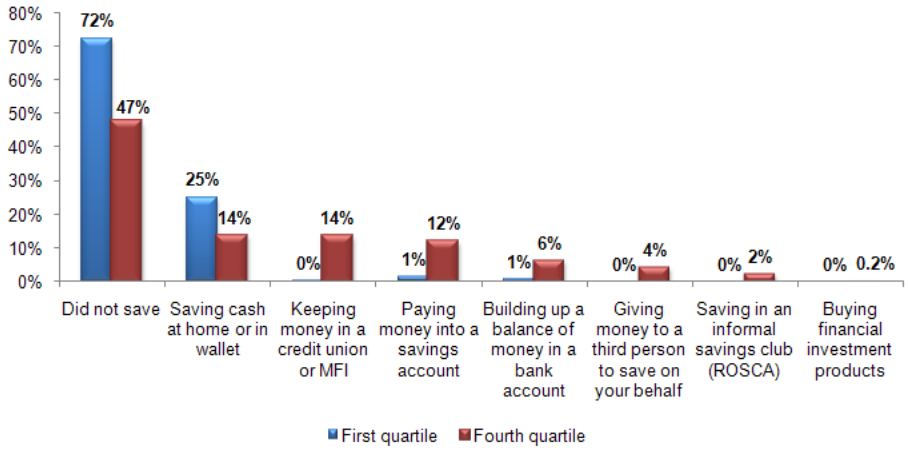
Source: WBG Financial Capability Survey, Azerbaijan 2015.

Figure 12. Saving Mechanisms in The Last Year (% of Banked Azerbaijanis Who Saved)



Source: WBG Financial Capability Survey, Azerbaijan 2015.

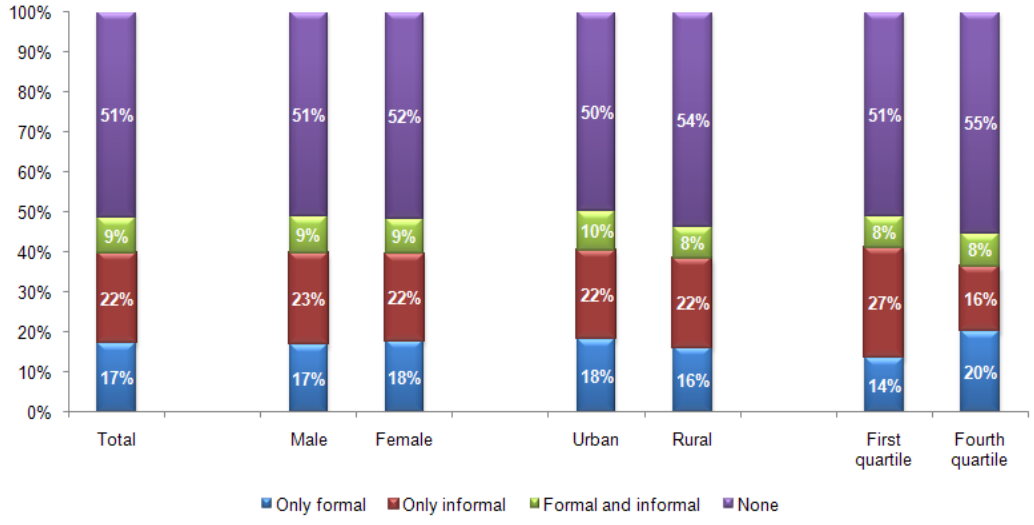
Figure 13. Saving Mechanisms in The Last Year by Income (% of Banked Azerbaijanis)



Source: WBG Financial Capability Survey, Azerbaijan 2015.

Approximately half of the population does not borrow money and among those who borrow money, informal credit is the preferred mechanism. Furthermore, there are 11 percent more poor people than rich having an informal credit and 6 percent more rich than poor having a formal credit. As witnessed in Figure 14, 51 percent of the population has no credit whatsoever. Informal credit is the most popular borrowing method with 15 percent more than formal credit. There is little difference between men and women in borrowing statistics overall. Nevertheless, variations worthwhile mentioning are in respect of socioeconomic and demographic factors. In fact, there are 27 percent of informal credits among the poor and 20 percent formal credits among the rich. These findings seem to confirm the argument that poor people are more likely to work as independent or informally in the private sector than their rich counterpart, and as such are less liable to obtain a bank credit.

Figure 14. Formal and Informal Credit by Individual Characteristics

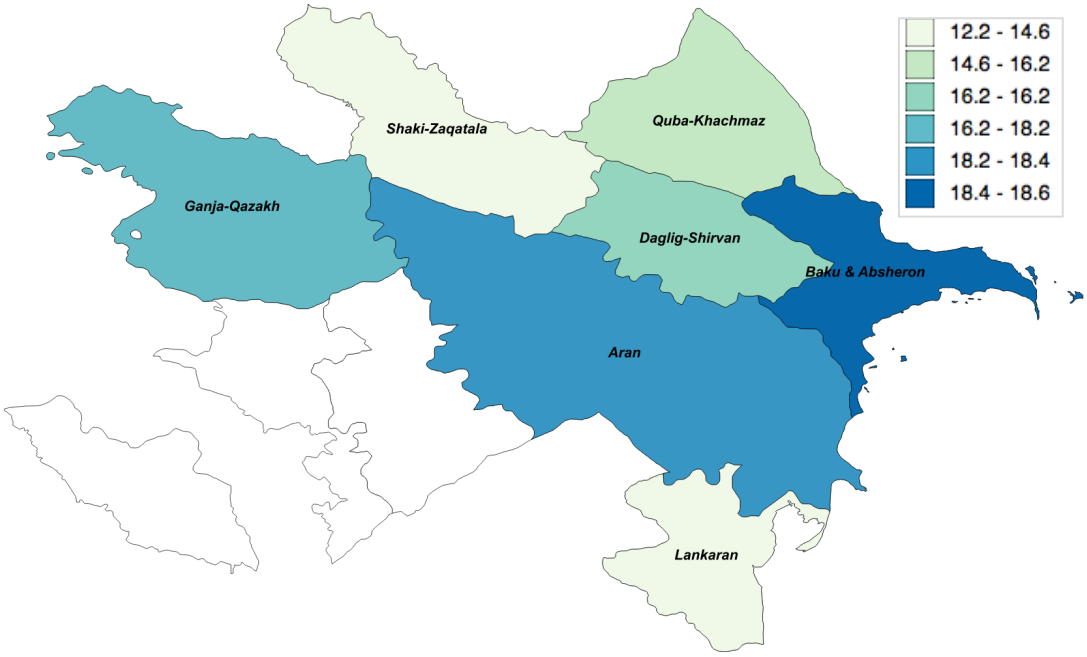


Note: "Formal only" includes adults that report currently using a mortgage product, formal loan from a bank/MFI/other NBCI or credit card, but do not borrow from money lenders or family/friends. "Informal only" includes adults that report borrowing from money lenders or family/friends but do not use a mortgage product, formal loan from a bank/MFI/other NBCI or credit card.

Source: WBG Financial Capability Survey, Azerbaijan 2015.

There is a credit pattern differentiation across regions in Azerbaijan, whereby Baku/Absheron displays the highest level of borrowing and Shaki-Zaqatala the lowest. As presented in Map 8 and Map 9, the maximum variation in formal and informal borrowing represents 38 percent and 42 percent of the national average respectively. For both formal and informal borrowing, Baku/Absheron has the highest ranking. The lowest ranking for formal borrowing is shared between Shaki-Zaqatala and Lankaran, and the lowest level of informal borrowing resides in Shaki-Zaqatala and Ganja-Qazakh. Save for the Baku region there seems to be a clear pattern whereby informal credit is higher in regions in which formal credit is lower, thus informal credit appears to be a substitute for formal sources of credit in credit-constrained regions.

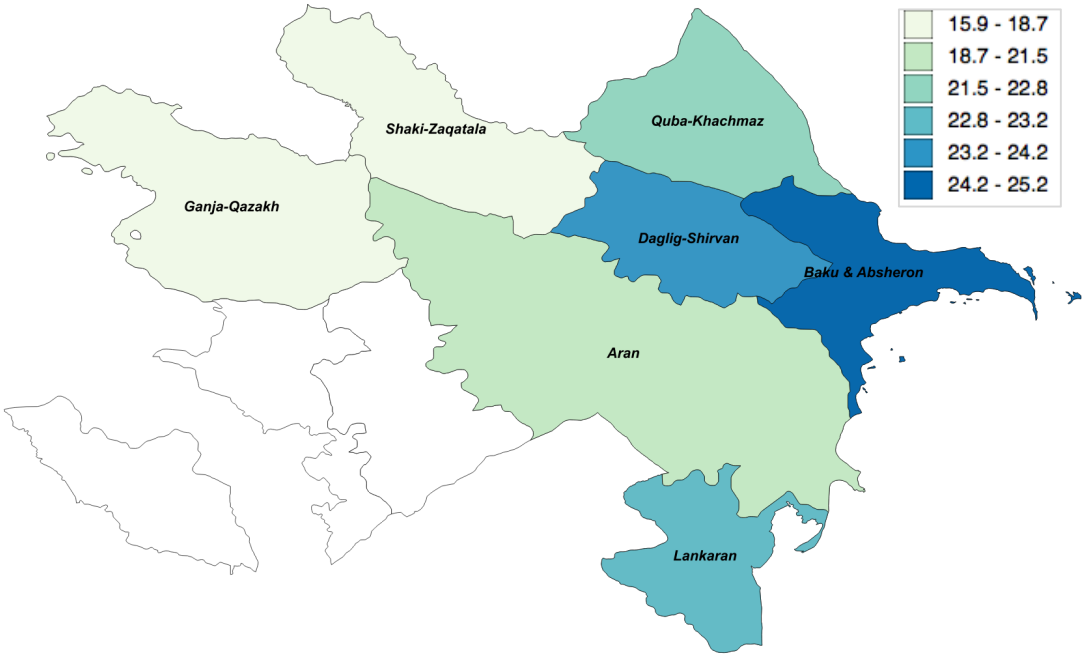
Map 8. Spatial Distribution of Formal Borrowing (% of Adults with Formal Credit)



Source: WBG Financial Capability Survey, Azerbaijan 2015. [48]

[48] White regions were excluded from the Survey.

Map 9. Spatial Distribution of Informal Borrowing (% of Adults with Formal Credit)



Source: WBG Financial Capability Survey, Azerbaijan 2015. [49]

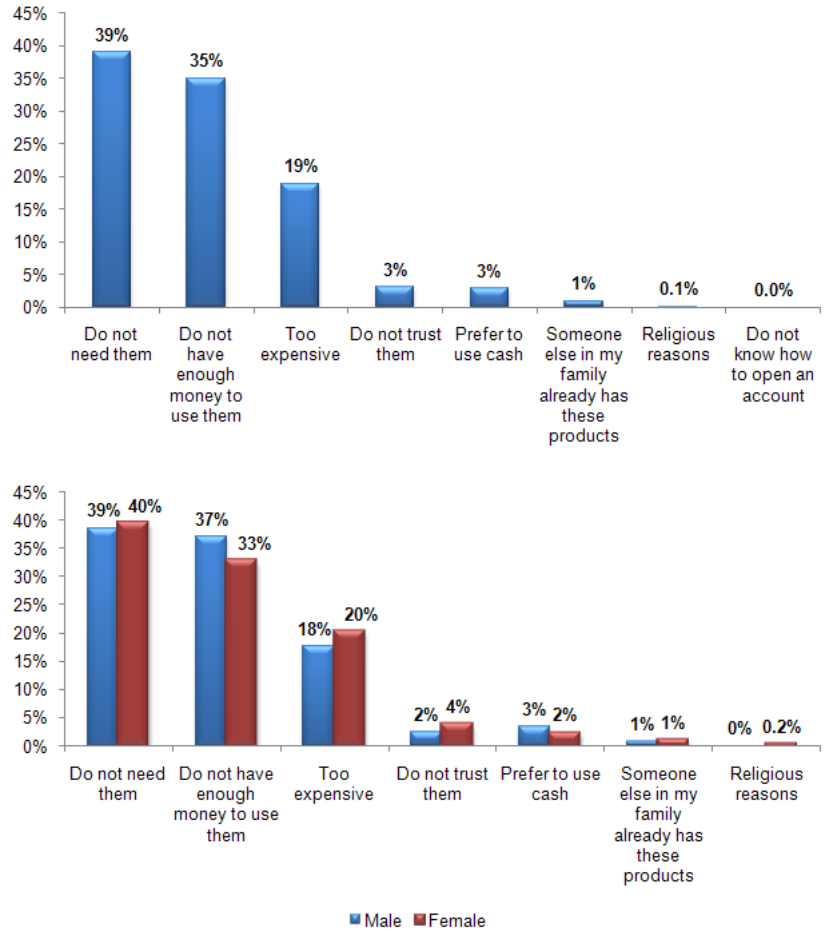
1.4 The Unbanked and Barriers to Owning a Formal Account

The approximately 4 million adults without an account at a formal financial institution in Azerbaijan are disproportionately poor and outside of the labor force.[50] Seventy-three percent of the lowest income quartile of Azerbaijanis report not currently having an account at a formal financial institution. The same applies for sixty-eight percent of adults who are outside of the labor force. Yet, as stated in the Global Financial Development Report 2014 (World Bank, 2013a), lack of usage of financial products does not necessarily mean lack of access. While some people may have access to financial services at affordable prices and may decide not to use them, others may lack access because of constraints such as excessively high costs, or unavailability of the services due to regulatory barriers or other factors. The Financial Capability Survey asked respondents who do not have a formal account to report why.

[49] White regions were excluded from the Survey.

[50] Due to the design of the survey, obstacles to financial access are assessed specifically with respect to account ownership and thus this may include adults who do in fact use other formal financial services such as insurance or pensions.

Figure 15. Reasons for Not Having a Formal Account (% of Unbanked Azerbaijanis Without an Account)



Source: WBG Financial Capability Survey, Azerbaijan 2015.

Most people not owning a formal account claim not to need it or do not have enough money to use it and a smaller group of people think it is too expensive to hold such an account. Such findings suggest that people may perceive low value in banking services especially when using small amounts. As exhibited in Figure 15, 39 percent of those adults believe there is no need for an account, 35 percent say they do not have sufficient funds and 19 percent think it is too expensive. While these answers could suggest voluntary exclusion from the formal financial sector, it does not necessarily imply that these adults are not bankable. Instead, it may demonstrate that many adults perceive banking services to be of little value, not in absolute terms, but for current levels of income and the quality of banking products. This could be because of the nontrivial costs associated with owning a formal account, from explicit costs like minimum balance requirements and withdrawal charges to implicit costs such as transportation costs, but it suggests that, for many adults, formal institutions do not offer sufficiently valuable services for day-to-day transactions or savings, particularly those involving small amounts. In terms of gender, Figure 15 shows that almost the same majority proportion of unbanked men and women don't need a formal account (39 percent versus 40 percent). However, while four percent more of unbanked men declare that they don't have enough money to use a formal account (37 percent versus 33 percent), two percent more of unbanked women consider that it is too expensive to maintain a formal account or they do not trust them.

The percentage of unbanked Azerbaijanis is likely to be related to the lack of competition in Azerbaijan's highly concentrated banking sector, which at times may not allow people to own accounts or borrow on favorable terms- especially outside the capital Baku. Most of Azerbaijan's 39 banks are small. More than half of banks account for only about 10 percent of sector assets. One exception is the remaining state-owned bank, International Bank of Azerbaijan (IBA), which still accounts for 34 percent of banking sector assets. High interest rate margins suggest that the efficiency of Azerbaijan's financial sector can be further increased. The Azerbaijani banking sector is characterized by market segmentation that results from special relations between banks and current or former government officials, and groups of private or state-owned enterprises; a difficult business climate marked, among other things, by weak rule of law, which increases risks for banks; and, to a certain extent, IBA's strong market position, which makes it difficult for other banks to realize economies of scale[51]. Banking is highly concentrated in the capital, Baku, as shown in section 1.3.1. Financial sector concentration in Baku, to some extent, reflects the concentration of Azerbaijan's economic activity on the Absheron peninsula, which includes the Baku and Sumqyavit region. Absheron is not only the center of the oil and gas industries, but also other heavy industries (chemical and metallurgy) and of the light and food industries. However, Absheron accounts for only 29 percent of Azerbaijan's total population. Even though, under a government program, the number of bank branches, bank accounts, ATMs, and point-of-sale terminals has continuously increased, many shops and restaurants still do not have these terminals or, if they do, avoid running card transactions to minimize cost.

The continuous decline of oil prices, and the ensuing free floating of the Manat, led to a series of bank closures, while Azerbaijan moved towards the full insurance of personal deposits in banks to reassure depositors. Against this backdrop, regulation on bank capitalization and securitization is being reinforced. Even with multilateral support, weaknesses remain that have to be addressed by improving bank governance as well as banking supervision. [52]

[51] ADB Central and West Asia Working Paper Series No. 3. "Azerbaijan: Financial Sector Assessment". 2012.

[52] Bloomberg, "Azeris Shut 4 Banks in Week After Imposing Capital Controls", http://www.bloomberg.com/news/articles/2016-01-26/azerbaijan-shuts-4-banks-in-week-after-imposing-capital-controls

2 Financial Capability

Financial Capability is the internal capacity to act in one's best financial interest, given socioeconomic environmental conditions. It therefore encompasses the knowledge, attitudes, skills, and behaviors of consumers with regard to managing their resources and understanding, selecting, and make use of financial services that fit their needs.

2.1 Knowledge of Financial Concepts

There is substantial evidence that lack of financial knowledge and skills contributed to the recent global financial crisis. It is a well-accepted hypothesis that limitations in consumers' ability to fully understand the financial products and risks they had taken on, contributed significantly to the worst financial crises since the great depression (Geradi et al. 2010; Klapper et al. 2012).

Financial knowledge and skills are even more important in an environment where financial products and services are becoming available to populations that have been formerly disconnected from the formal financial system. While these developments provide benefits, they also bear risks that may be unfamiliar to existing and new customers. To be able to benefit from these new opportunities without being exposed to undue risks, a certain level of financial knowledge and skills is required.

In line with global trends, policy makers in Azerbaijan recognize the importance of financial knowledge and skills (financial literacy) for peoples' ability to take informed financial decisions and to benefit from the financial services they use. Financial supervisors in 81 economies are currently involved in financial capability enhancing activities according to the WBG's 2013 Global Survey on Consumer Protection and Financial Literacy which interviewed regulators involved in financial consumer protection in 114 jurisdictions from all regions. Financial capability and education are an important priority for CBAR as it helps to empower people to become effective partners of these institutions as productive economic agents and improves people's lives. To this end, CBAR developed a national financial literacy strategy (NFLS) and a financial education website. Since 2010, CBAR has incorporated and launched, under its mission plan, the *Financial Literacy Project* with four main objectives: "(a) make customers economically and financially more educated and skillful, (b) educate parents through children, (c) make changes to financial behavior of people, (d) inspire corporate social responsibility, and (e) mitigate risks".[53] This chapter focuses on gaps in financial knowledge that need policy attention as well as vulnerable groups that display limited knowledge and understanding of financial concepts and need to be targeted with tailored programs.

To assess respondent's financial knowledge and their basic numeracy skills, 7 questions were added to the 2015 Azerbaijan Financial Capability Survey, covering basic computation and financial concepts such as interest rates, inflation, compound interest, risk diversification, and the main purpose of insurance products. These questions have been asked because they capture financial concepts and skills which are widely considered as being crucial for informed savings and borrowing decisions as well as for being able to manage risks more effectively and/or take advantage of investment opportunities. A financial literacy index is obtained based on the number of correct responses provided by each survey participant to the seven financial literacy questions. This index ranges from 0 to 7, whereby 0 indicates respondents who incorrectly answer all of these questions, while a score of 7 indicates survey participants with a good understanding of fundamental financial concepts and the ability to perform simple mathematical calculations. Box 1 details questions from the financial literacy quiz.

[53] CBAR, "Financial literacy project", http://en.cbar.az/lpages/finance-edu/about-the-project/

Box 1. Financial Literacy Quiz

Question 1 Imagine that five brothers are given a gift of 1,000 AZN. If the brothers have to divide the money equally, how much does each one get?

Question 2 Now, imagine that the five brothers have to wait for one year to get their part of the 1,000 AZN and inflation stays at 10%. In one year's time will they be able to buy:

- More with their share of money than they could today
- The same amount
- Less than they could buy today
- It depends on the types of things that they want to buy (do not read out this option)

Question 3 Suppose you put 1,000 AZN into a savings account with a guaranteed interest rate of 2% per year. You don't make any further payments into this account and you don't withdraw any money. How much would be in the account at the end of the first year, once the interest payment is made?

Question 4 How much would be in the account at the end of five years? Would it be:

- More than 110 AZN
- Exactly 110 AZN
- Less than 110 AZN
- It is impossible to tell from the information given

Question 5 Let's assume that you saw a TV-set of the same model on sales in two different shops. The initial retail price of it was 1,000 AZN. One shop offered a discount of 150 AZN, while the other one offered a 10% discount. Which one is a better bargain, a discount of 150 AZN or 10%?

- A discount of 150 AZN
- They are the same
- A 10% discount

Question 6 Which of the following statements best describes the primary purpose of insurance products?

- To accumulate savings
- To protect against risks
- To make payments or send money
- Other

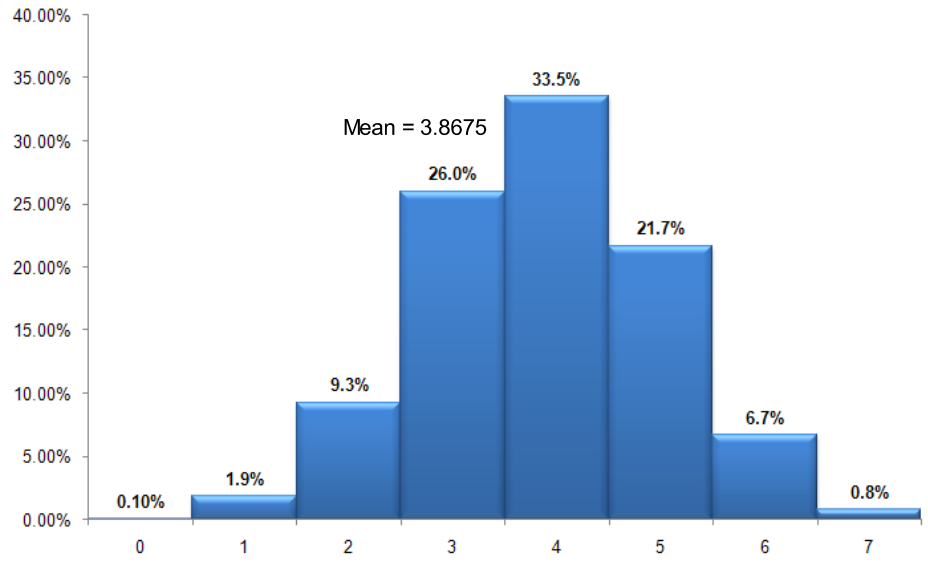
Question 7 Suppose you have money to invest. Is it safer to buy stocks of just one company or to buy stocks of many companies?

- Buy stocks of one company
- Buy stocks of many companies

Source: WBG Financial Capability Survey, Azerbaijan 2015

The survey results suggest that on average respondents were able to correctly answer 3.9 out of 7 questions on financial literacy. Figure 16 reveals that the majority of Azerbaijanis adults (60 percent) were able to provide between 3 and 4 correct answers. 22 percent of the sample was able to answer 5 questions correctly. Giving correct responses to 6 or more questions seemed to be a difficult task which was only achieved by 7 percent, while only 0.80 percent was able to provide correct responses to all 7 financial literacy questions. Around 11 percent of adults were able to only give 1 or 2 correct answers.

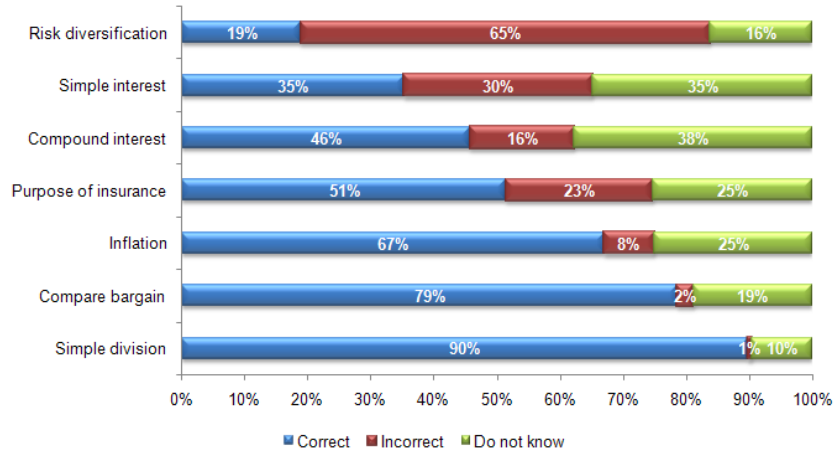
Figure 16. Financial Literacy Score Distribution



Source: WBG Financial Capability Survey, Azerbaijan 2015.

A deeper exploration into the type of basic financial concepts knowledge reveals that Azerbaijanis adults are most comfortable with performing simple financial calculations, identifying better bargains and understanding the concept of inflation. However, they were found to be less familiar with risk diversification and lacked the numeracy skills needed to calculate simple and compound interest. As Figure 17 shows almost all respondents were able to perform simple divisions (90 percent). Most people seemed to be comfortable in solving simple numeracy tasks (90 percent), identifying better bargains (79 percent) and understanding the concept of inflation (67 percent). 51 percent of Azerbaijani adults were familiar with the purpose of insurance. However, most respondents struggled to understand basic financial concepts and to solve slightly more difficult numeracy tasks (35 percent and 46 percent of the sample demonstrated understanding of simple interests and compound interest respectively). Furthermore, only 19 percent understood the concept of risk diversification (i.e. holding stocks from different companies can usually be associated with less risky returns than holding stocks from a single entity). This underpins the Survey's findings concerning very low usage of brokerage houses by Azerbaijanis as discussed previously in section 1.3.2.5.

Figure 17. Financial Literacy Quiz Overview



Source: WBG Financial Capability Survey, Azerbaijan 2015.

An international comparison of 21 countries confirms that Azerbaijanis' financial knowledge and awareness are within the norm in general, except for interest rate calculation. Table 7 shows for 22 countries the proportion of adults with good grasp of basic financial concepts. As can be seen, respondents in Azerbaijan ranked 9th for inflation, 10th for simple division and 19th for simple interest computation.

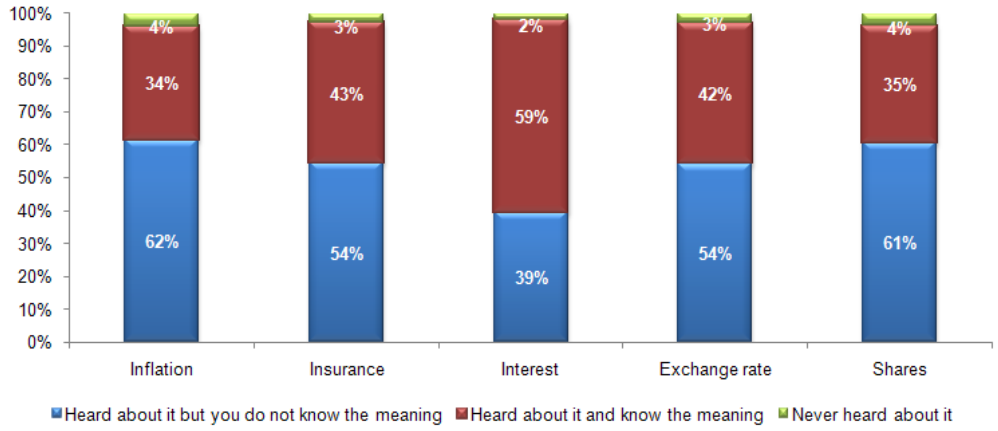
Table 7.Cross-country Comparison of Different Financial Literacy Scores

Country	Year	Inflation	Simple Interest	Compound Interest	Simple Division
Albania	2011	61	40	10	89
Armenia	2010	83	53	18	86
Azerbaijan	**2015**	**67**	**35**	**46**	**90**
Colombia	2012	69	19	26	86
Czech Rep.	2010	80	60	32	93
Estonia	2010	86	64	31	93
Germany	2010	61	64	47	84
Hungary	2010	78	61	46	96
Ireland	2010	58	76	29	93
Lebanon	2012	69	66	23	88
Malaysia	2010	62	54	30	93
Mexico	2012	55	30	31	80
Mongolia	2012	39	69	58	97
Morocco	2012	43	50	31	90
Mozambique	2013	28	78	28	93
Philippines	2014	49	51	29	77
Peru	2010	63	40	14	90
Poland	2010	77	60	27	91
Senegal	2015	47	45	28	92
South Africa	2010	49	44	21	79
Turkey	2012	46	28	18	84
Uruguay	2012	82	50	N/A	86

Source: WBG Financial Capability Survey, Azerbaijan 2015.

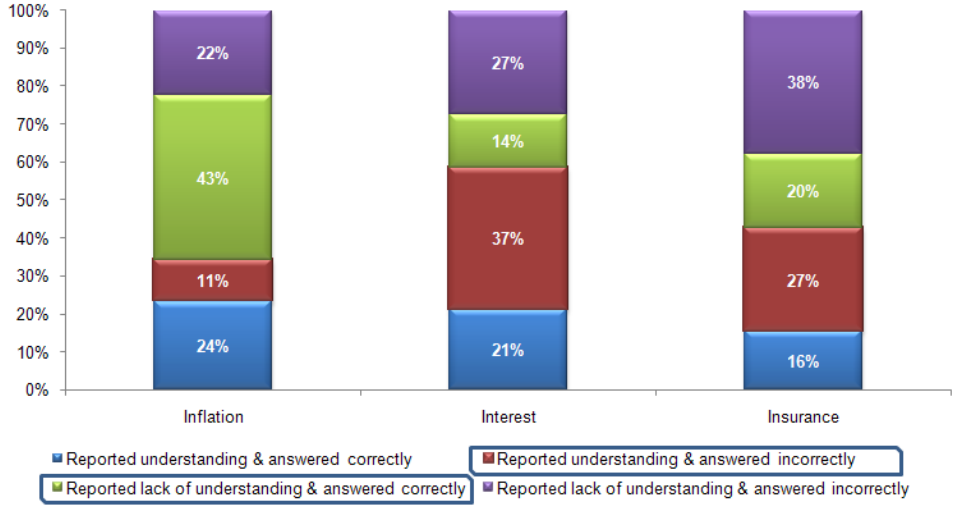
There is a strong mismatch between self-assessment of financial literacy and quiz proficiency on all 4 major concepts and therefore an awareness campaign would likely be useful. In order to compare the objective findings of the financial literacy quiz into the context of subjective education needs, respondents were also asked to self-assess their awareness and understanding of financial terms and concepts such as interest rates, insurance products, shares, exchange rates and inflation. As outlined in Figure 18, although 34 percent of respondents declared having heard of or knowing what inflation meant, 67 percent correctly answered the financial quiz question pertaining to this topic. As demonstrated in Figure 19, on the topic of inflation, 43 percent of respondents reported a lack of understanding but answered correctly and 11 percent reported understanding but answered incorrectly. Similar results were found for interest rates (14 and 20 percent respectively) and insurance (37 and 27 percent respectively). A more worrisome result was found whereby 37 percent of respondents reported understanding of interest rates but answered incorrectly, which is a major obstacle for getting and managing a formal credit.

Figure 18. Awareness on Financial Concepts and Products



Source: WBG Financial Capability Survey, Azerbaijan 2015.

Figure 19. Comparison of Reported Understanding and Financial Literacy Quiz Results

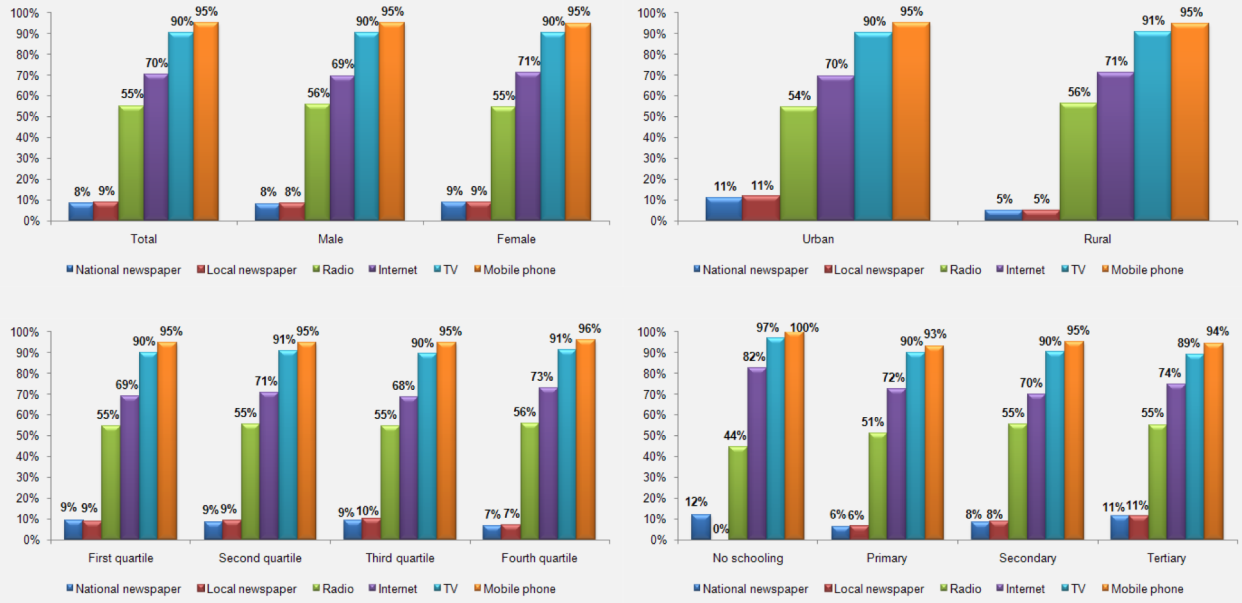


Source: WBG Financial Capability Survey, Azerbaijan 2015.

Box 2. Media Consumption Overview

95 percent of adults in Azerbaijan use a mobile phone on a regular basis and the second most used media source is TV (90 percent) followed by internet (70 percent). As shown in Figure 20, the usage of mobile phones is nearly universal, even among those at the bottom of the pyramid. TV and internet usage is not significantly affected by gender, urban/rural split, education level nor income levels (4 percent gap between lowest and highest income earners for internet only), suggesting that a lack of proper coverage would be the main impediment for people who want to access.

Figure 20. Media consumption by social and demographic groups



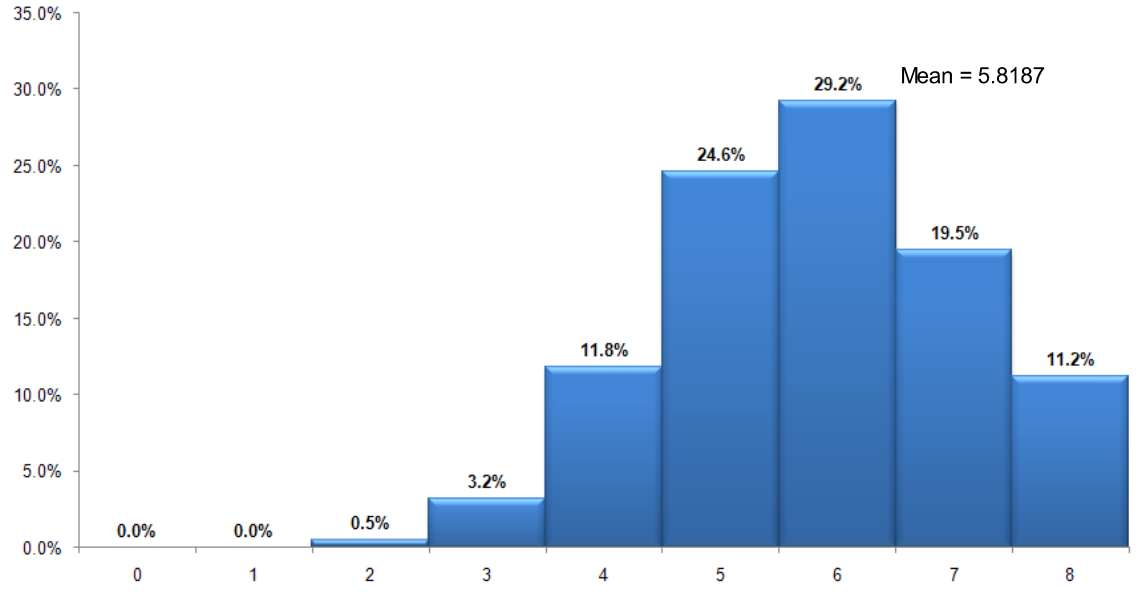
Source: WB Financial Capability Survey, Azerbaijan 2015.
Media consumption index refers to the number of media sources regularly used by respondents

2.2 Knowledge of Financial Products

In order to assess survey participants' awareness levels of financial products the financial capability survey captured peoples' familiarity with financial products offered by different types of formal and informal providers. In particular, survey participants were asked if they were familiar with products offered by banks, MFIs, other NBCIs, insurance companies, money changers, MTOs, brokerage houses, and E-money agents. A financial products awareness index was designed based on the number of financial products known to survey participants. This index ranges from 0 to 8, whereby 0 indicates respondents who are not familiar with any of the products offered in the marketplace. Respondents with a score of 8 on the other hand stated familiarity with products offered by the nine types of providers that the survey asked about.

Respondents were found to be familiar with products provided by 5.8 different types of providers. As can be seen in Figure 21, nearly two thirds of the sample indicated to be familiar with 4-6 products, while 30 percent was familiar with financial products provided by 7-8 different providers. All were aware of at least 1 product.

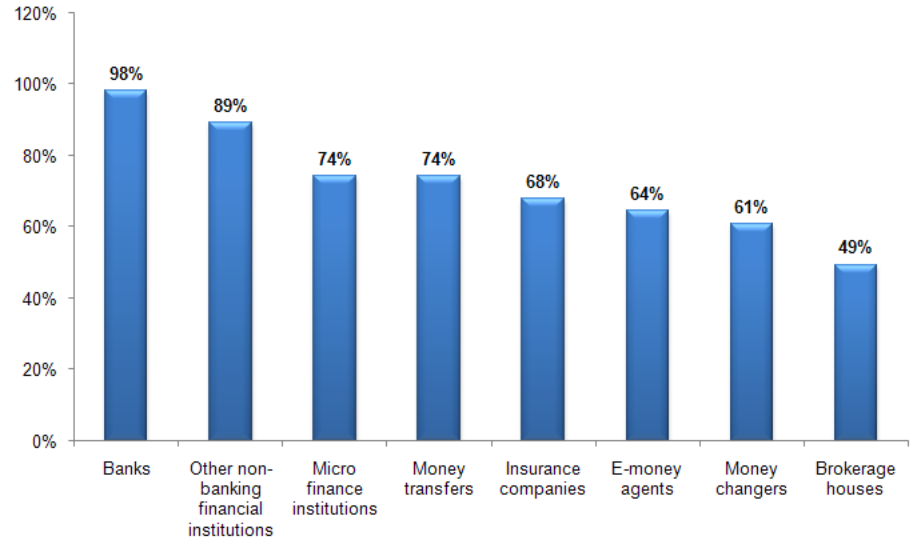
Figure 21. Distribution of Financial Product Awareness Scores



Source: WBG Financial Capability Survey, Azerbaijan 2015.

Survey participants were found to be well aware of financial products offered by banks, MFIs and other NBCIs, as well as MTOs. In descending order (see Figure 22), product awareness reached 98 percent for banks, 89 percent for other NBCIs, 74 percent for MFIs and MTOs, 68 percent for insurance companies, 64 percent for E-money agents, 61 percent for money changers but only 49 percent for brokerage houses, which is most likely due to the fact that the capital market in Azerbaijan is currently in a nascent stage.

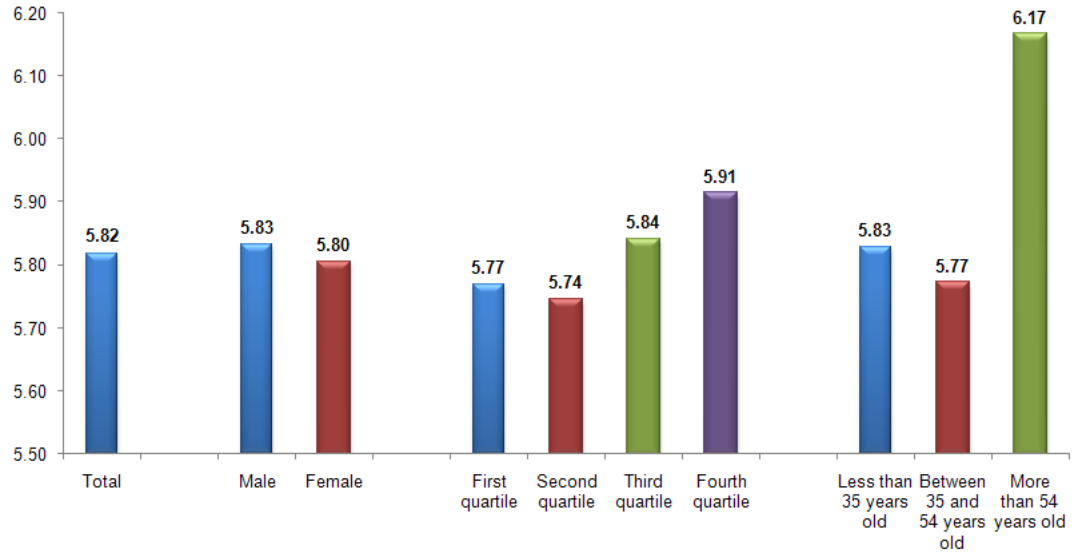
Figure 22. Overview of Financial Product Awareness by Financial Institutions



Source: WBG Financial Capability Survey, Azerbaijan 2015.

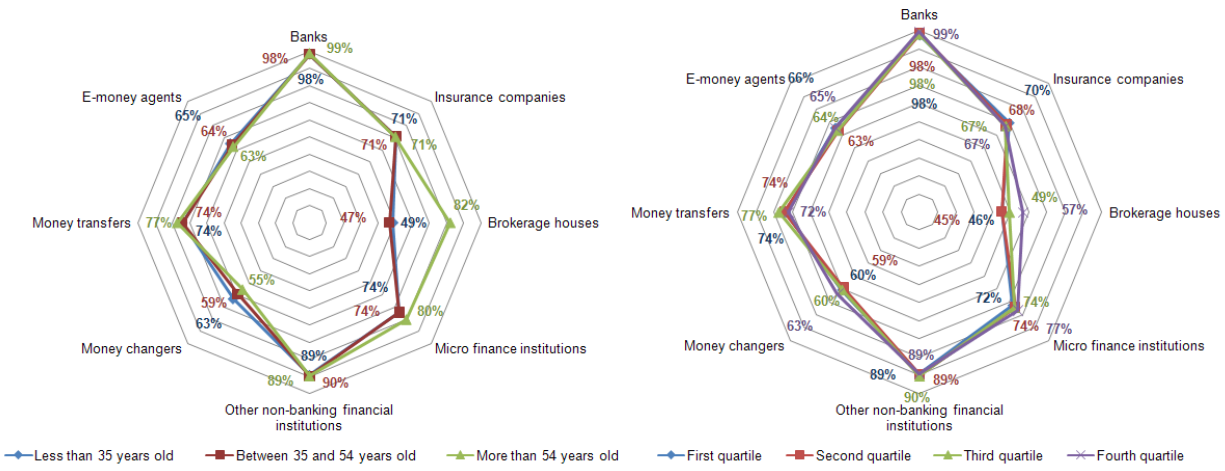
Respondents who are the most familiar with financial products offered by financial providers tend to have higher income and be more than 54 years old. As Figure 23 and Figure 24 show and regression analysis suggests that even after controlling for other socioeconomic and demographic factors (see Table 16), level of income and age were found to be correlated to awareness of products from a variety of financial services providers.

Figure 23. Average Financial Product Awareness Score by Gender, Income Level and Age



Source: WBG Financial Capability Survey, Azerbaijan 2015.

Figure 24. Fraction of Azerbaijanis Who Know About Financial Products of Different Providers by Age and Income Level



Source: WBG Financial Capability Survey, Azerbaijan 2015.

2.3 Financial Behavior and Attitudes

Even if people possess knowledge of basic financial concepts and products they may struggle to translate all this into action. To identify the role that attitudes play in shaping individuals' financial decisions and to see if and how attitudes translate into financial behavior, the survey contains questions on different components of financial capability that include attitudes, motivations and behaviors. This chapter gives an overview of strengths and areas for improvements respondents show regarding relevant financial behaviors and attitudes.

In the Azerbaijan data set, 7 main components of financial capability can be identified, some of which refer to behaviors, and others to attitudes or motivations. The Financial Capability and Inclusion Survey in Azerbaijan recorded different financial attitudes, motivations and behaviors through diverse qualitative questions with various measurement levels (nominal and ordinal). To identify the main components of financial capability in Azerbaijan, a statistical procedure was applied to simultaneously quantify categorical variables while reducing the dimensionality of the data. This procedure known as Principal Components Analysis (PCA) reduces the original set of variables to a smaller uncorrelated set of variables (principal components) which aim to account for as much of the variance in the data as possible. The PCA method[54] gets a single indicator (or score) for each component. The scores range between 0 (lowest score) and 100 (highest score). Table 8 presents the relevant attitudes that define each component.

Table 8. Main Identified Financial Components from PCA Analysis

Component or dimension	Topic
1	Controlled budgeting
	Whether or not makes a money plan and frequency
	Whether or not makes a money plan and precision of plan
	Whether or not makes a plan and how frequently sticks to the plan
2	Saving and not overspending
	Whether or not has money left over and frequency
	Whether or not has money left over and how the money is used
	Try to save
	Try to save money regularly
	Try to have provisions for emergencies
3	Farsightedness
	Whether or not agrees with motivation statement, Focus on short term
	Whether or not agrees with motivation statement, Live for the present
	Whether or not agrees with motivation statement, Future will take care of itself
	Whether or not agrees with motivation statement, Do things without thinking through
	Whether or not agrees with motivation statement, I am impulsive
	Whether or not agrees with motivation statement, Say things before thinking through
	Whether or not/how often buys unnecessary items
	Whether or not/how often buys unaffordable items
	Whether or not runs short of money and why

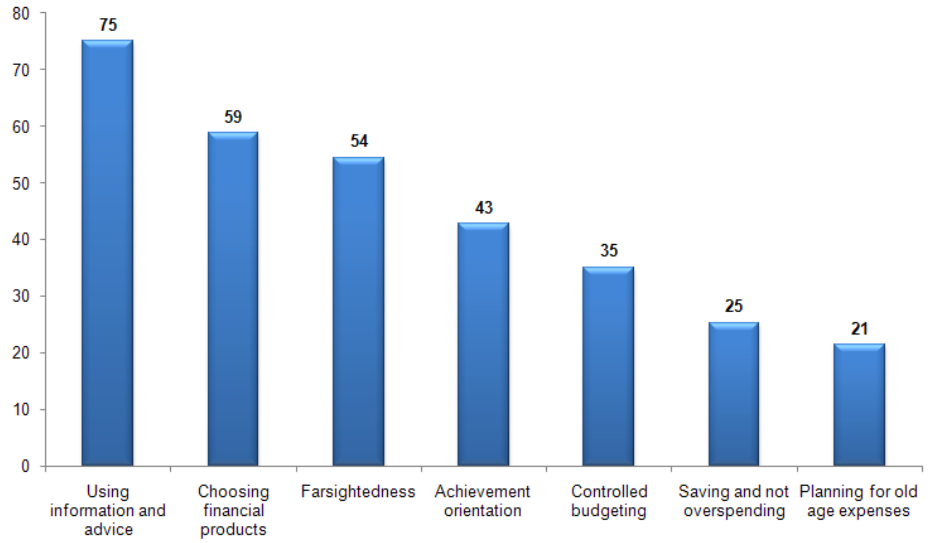
[54] The PCA analysis performed in Azerbaijan has focused on eleven main components that account for 70 percent of the total variance. Other dimensions were ignored because of their lower contribution to total variance. Principal components having eigenvalues greater than 1 were also prioritized.

Component or dimension	Topic
4	Planning for old age expenses
	Whether or not has a strategy for covering old age expenses that provides/will provide full coverage Whether or not has any strategies in place for covering old age expenses or is worried about it
5	Achievement orientation
	Whether or not knows amount spent and precision Whether or not agrees that statement describes him/her - discipline Whether or not agrees that statement describes him/her – learning from others mistakes Whether or not agrees with motivation statement, always look for opportunities to improve situation
6	Using information and advice
	Whether or not agrees with statement on getting information and advice Whether or not borrows money to repay debts and frequency
7	Choosing financial products
	Consider many alternatives before you decided which product to get Search until you found the best product for your needs Check the detailed terms and conditions of the product

Source: WBG Financial Capability Survey, Azerbaijan 2015.

Survey participants showed relative strengths in using information and advice, choosing financial products and to a certain degree farsightedness, but areas of weakness were identified in planning for old age, saving/not overspending and controlled budgeting. As depicted in Figure 25, respondents scored highest for using information and advice (75 percent), choosing financial products (59 percent) and farsightedness (54 percent). On the other hand, such respondents scored lowest in planning for old age (21 percent), saving and not overspending (25 percent) and controlled budgeting (35 percent). Although they seem to have forward oriented attitudes and think about the future, this does not seem to translate into concrete actions in terms of putting money aside and making provisions for old age expenses.

Figure 25. Average Financial Capability Scores



Source: WBG Financial Capability Survey, Azerbaijan 2015.

A comparison to survey participants in 14 countries confirms that Azerbaijani adults tend to perform well in terms of farsightedness and choosing financial products, but they are among the most challenged in monitoring expenses and planning for old age. As shown in Table 9, Azerbaijan is ranked third out of 14 in choosing financial products and sixth in farsightedness. However, it is last in controlled budgeting and before last in planning for old age.

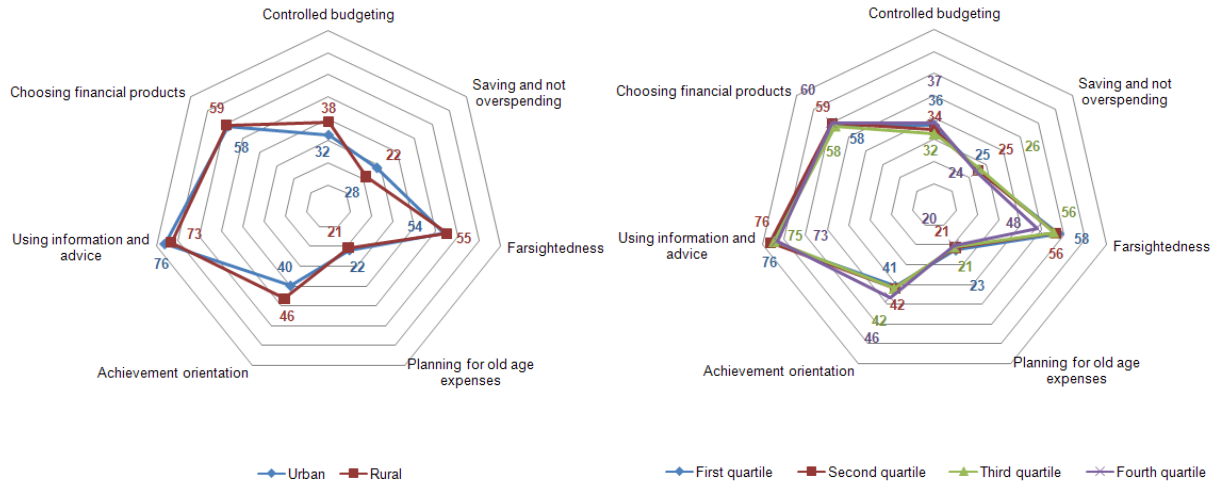
Table 9. Cross-country Comparison of Different Financial Capability Scores

Country	Controlled budgeting	Farsightedness	Planning for old age expenses	Choosing financial products
Armenia	74	28	100	59
Azerbaijan	**35**	**54**	**21**	**59**
Colombia	80	37	67	57
Lebanon	40	55	71	63
Mexico	52	35	65	59
Mongolia	65	60	N/A	49
Mozambique	74	40	40	34
Morocco	38	78	6	89
Nigeria	78	N/A	N/A	N/A
Philippines	44	64	29	51
Senegal	66	53	70	20
Tajikistan	81	84	N/A	N/A
Turkey	60	50	72	52
Uruguay	71	35	60	N/A

Source: WBG Financial Capability Survey, Azerbaijan 2015.

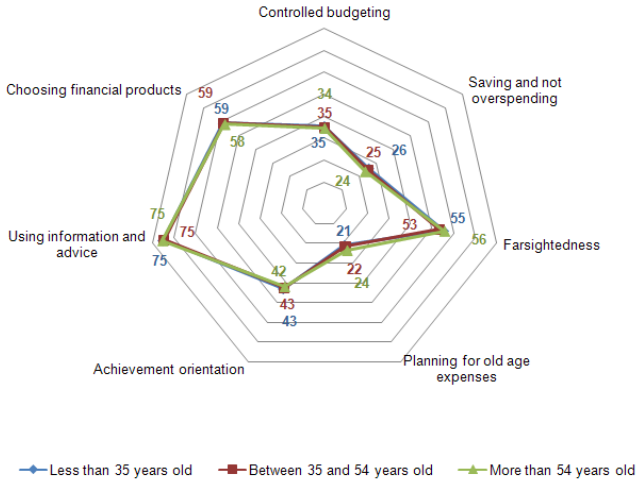
There is no clear evidence of correlation between socio-economic characteristics and financial behavior scores suggesting that many people struggle with sound financial decision making. As demonstrated in Figure 26, whereas urban people achieved better scores than their rural peers in a number of financial capability areas, including their propensity to use information and advice, save and refrain from overspending, they were worse off in terms of their ability to control their budgets and their achievement orientation. Furthermore, richest people fared better than the lowest income segments in controlling their budgets and demonstrate higher levels of achievement orientation. However, as compared to lowest income earners, people living on highest incomes lack behind in respect of their propensity to think about the future and using information and advice when taking a financial decision. As shown in Figure 27, older people (more than 54 years old) tend to do slightly better than their younger peers when planning for old age; however the latter have a small edge in the saving department.

Figure 26. Average Financial Capability Scores by Area and Income Level



Source: WBG Financial Capability Survey, Azerbaijan 2015.

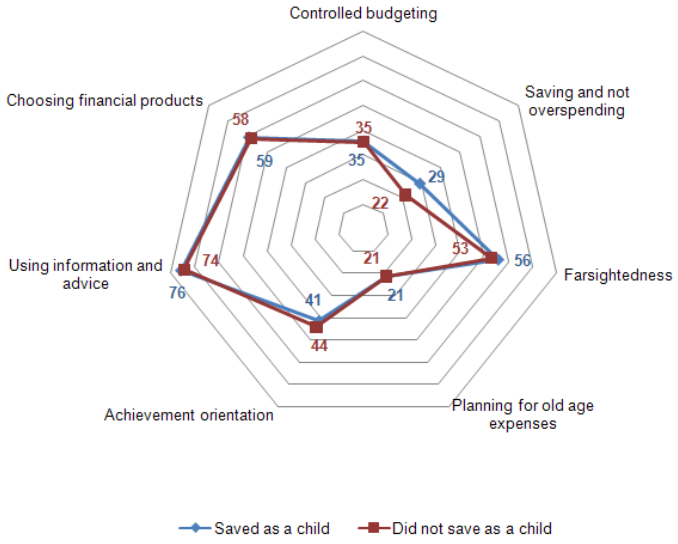
Figure 27. Average Financial Capability Scores by Age



Source: WBG Financial Capability Survey, Azerbaijan 2015.

Starting to save at an early age has value. As shown in Figure 28, respondents who already saved as a child score on average higher than their counterpart group who did not save during their childhood with respect to saving dimensions in financial behaviors. The gap between these subcategories of respondents is 18 percentage points. Regression analysis confirms this observed difference.

Figure 28. Average Financial Capability Scores by Child Saving Behavior



Source: WBG Financial Capability Survey, Azerbaijan 2015.

Grades for saving and not overspending varied between regions. As shown in Map 10, the maximum variance in scores is 24 percent of the national average for saving and not overspending. Baku & Absheron had the highest score whereas Lankaran and Ganja-Qazakh had the lowest grades.

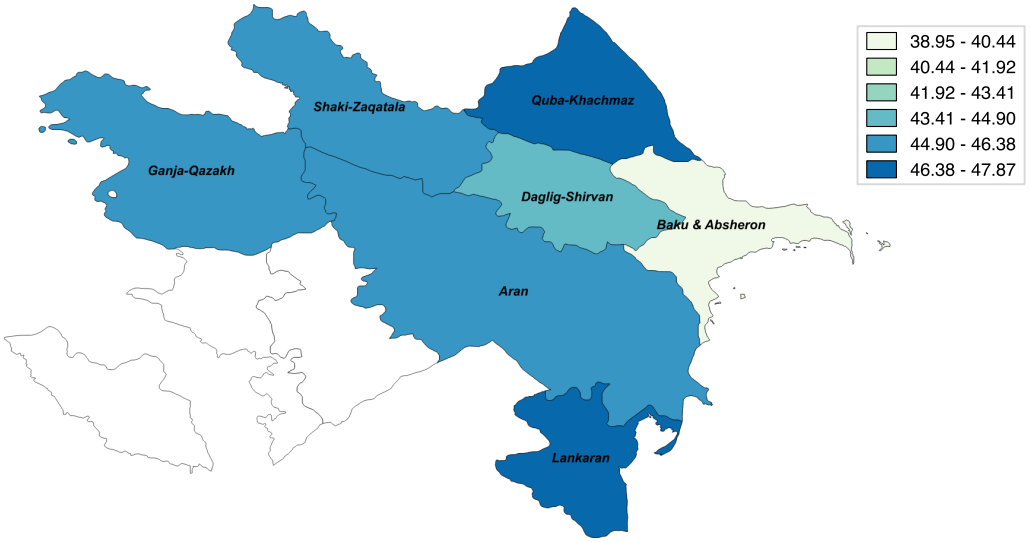
Map 10. Average Financial Capability Scores: Saving and Not Overspending by Region

Source: WBG Financial Capability Survey, Azerbaijan 2015. [55]

[55] White regions were excluded from the Survey.

Scores on achievement orientation varied moderately between regions. As shown in Map 11, the maximum variance in scores is 21 percent of the national average for achievement orientation. Baku & Absheron had the lowest score while Quba-Kachmaz had the highest grade.

Map 11. Average Financial Capability Scores: Achievement Orientation by Region



Source: WBG Financial Capability Survey, Azerbaijan 2015. [56]

[56] White regions were excluded from the Survey.

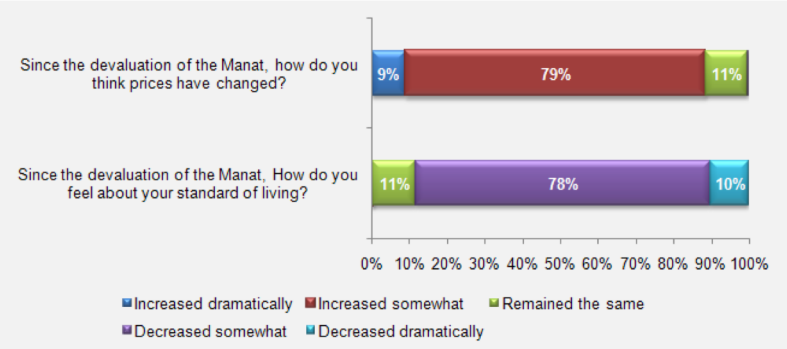
Box 3. Manat Devaluation Perception

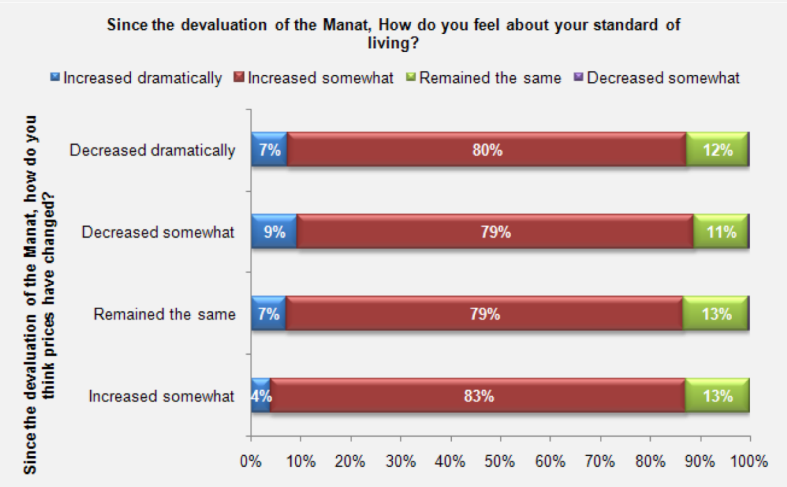
Falling oil prices coupled with reduction of oil production and deteriorating economic situation in Russia led to lower economic growth in Azerbaijan and a 30 percent devaluation of the Manat in February 2015[r1]**.** During the last decade, the Azerbaijan economy experienced rapid growth, peaking at 35 percent in 2006, thanks to the increasing export of oil products on favorable terms. However, oil production started to peak between 2011 and 2013 and the continuing fall in oil prices and economic difficulties in Russia led to a slowdown in oil production and economic growth in 2014, which caused the Azerbaijani Manat to be devalued by 30 percent in February 2015.

Based on the Survey, almost 80 percent of Azerbaijanis experienced a slight lowering of their standard of living since the devaluation of the Manat. As shown in Figure 29**,** the remaining 20 percent is split about 50/50 between Azerbaijanis who believe that their standard of living has not changed and those who think that their quality of life was severely diminished.

Furthermore, 80 percent of Azerbaijanis stated that price levels have slightly increased since the devaluation. As depicted in Figure 29**,** the remaining 20 percent is split about 50/50 between Azerbaijanis who believe that prices remained stable and those who declare that prices increased significantly. However, the Ministry of Economy of Azerbaijan[r2] witnessed an increase in the purchasing power of the population. In fact, during the period January-September 2015, average population income increased by 4.5 percent which is 0.8 percent higher than inflation.

Figure 29. Perception about the Devaluation of the Manat





Source: WB Financial Capability Survey, Azerbaijan 2015.

[r1] http://www.diplomatie.gouv.fr/fr/dossiers-pays/azerbaidjan/presentation-de-l-azerbaidjan/

[r2] http://www.economy.gov.az/index.php?option=com_content&view=article&id=3237:sii2015&catid=121:eig2015&lang=en.

3 Financial Consumer Protection

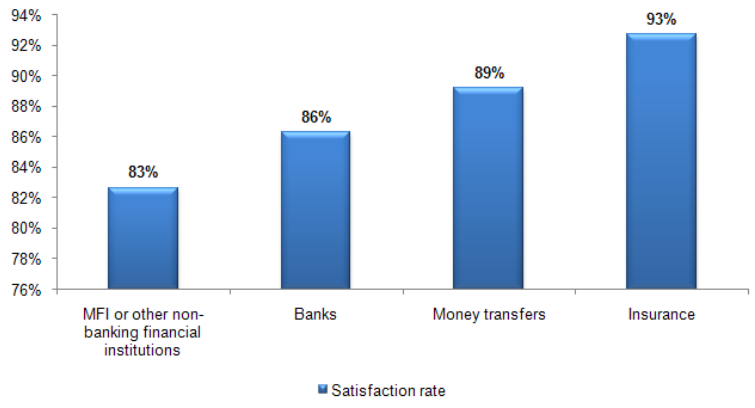
In addition to peoples' ability to take sound financial decisions, the latest global financial crisis has highlighted the importance of financial consumer protection to protect consumers from abusive sale practices and to level the playing field between providers and consumers of financial services. Financial consumer protection is about ensuring a fair interaction between providers and consumers of financial services. An effective financial consumer protection regime is essential in counterbalancing the inherent disadvantage of financial services consumers' vis-à-vis the power, information, and resources of their providers. Without basic protective measures, consumers may find it difficult or costly to obtain sufficient information or adequately understand the financial products they use.

Financial consumer protection is necessary to ensure stable financial markets in Azerbaijan while ensuring that expanded access benefits consumers and the overall economy. As outlined in section 1.1, given the low level of financial inclusion in Azerbaijan a number of initiatives are planned or already underway to increase financial sector outreach to formally excluded populations. Increased access to finance can result in substantial positive effects, both on the macro as well as individual level. However, it can be harmful if inexperienced consumers are not protected against fraud or unfair business practices. Effective financial consumer protection frameworks are also critical for instilling trust in the formal financial system. A high incidence of conflicts with financial services providers or low levels of satisfaction with financial products used could undermine the trust in the formal financial system. Despite making existing consumers worse off, it can also discourage potential new consumers to enter the market.

This chapter assesses the effectiveness of the current financial consumer protection regime from a demand-side perspective, with a focus on consumers' satisfaction with financial products and services and consumer redress and dispute resolution. In order to measure whether products are effectively meeting the needs of financially included Azerbaijani adults, the financial capability survey sought to capture the overall satisfaction of consumers with the nine most common types of providers and their products and services. To examine the effectiveness of existing consumer redress mechanisms, this survey also asked users of financial services to share their experiences with current internal and external redress mechanisms, and identified segments of the population that are more likely to have encountered a conflict with a financial service provider in the past three years.

In general, users of financial services have expressed satisfaction with the services offered by financial services providers. MFIs or other NBCIs fare less favorably that most other types of financial institutions, with insurance and MTOs earning the highest praise from consumers (see Figure 30).

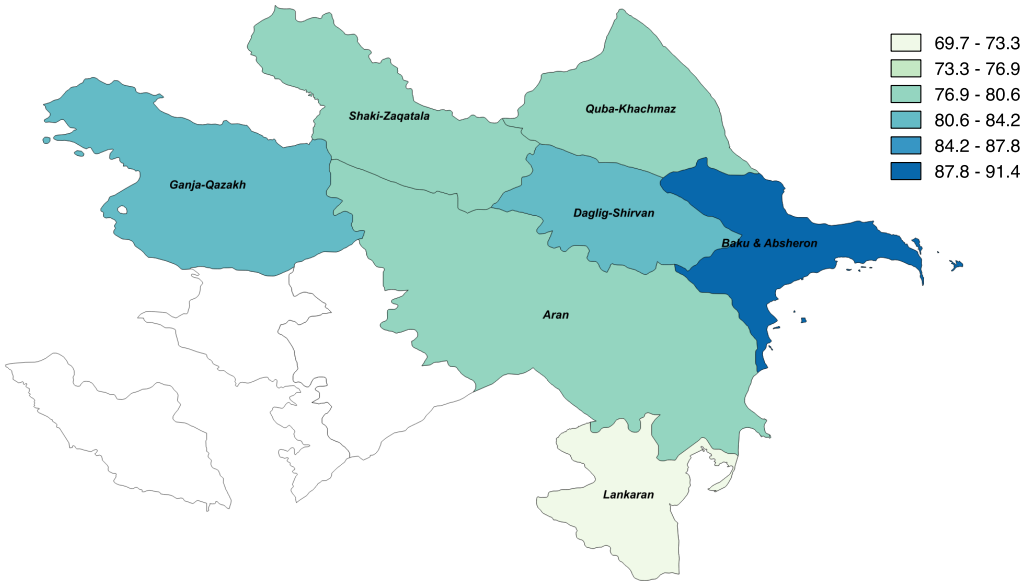
Figure 30. Clients' Satisfaction with Services Provided by Common Types of Financial Institutions



Source: WBG Financial Capability Survey, Azerbaijan 2015.

There are striking differences in the satisfaction levels between regions with services offered by MFIs and other NBCIs. Based on data shown in Map 12, the maximum variance in satisfaction levels represents 127 percent of the national average. The region with the lowest satisfaction is Lankaran and the one with the highest satisfaction is Baku & Absheron where the financial sector is the most developed in the country.

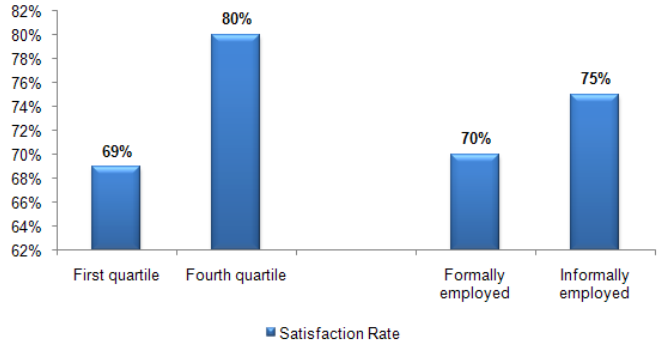
Map 12. Regional Clients' Dissatisfaction with Services Provided by MFIs or Other NBCIs (%)



Source: WBG Financial Capability Survey, Azerbaijan 2015.

Among those who ever used banks, low income segments and formally employed are less satisfied with their products than their counterpart groups. As shown in Figure 31, while 80 percent of the highest income earners who ever used bank products reported to be satisfied with them, only 69 percent of the lowest income group indicated to be satisfied with the bank products they used. Whereas 75 percent of informally employed adults indicated that they are satisfied with the products offered by banks, the corresponding number for formally employed Azerbaijani is 70 percent.

Figure 31. Clients' Satisfaction with Bank Services

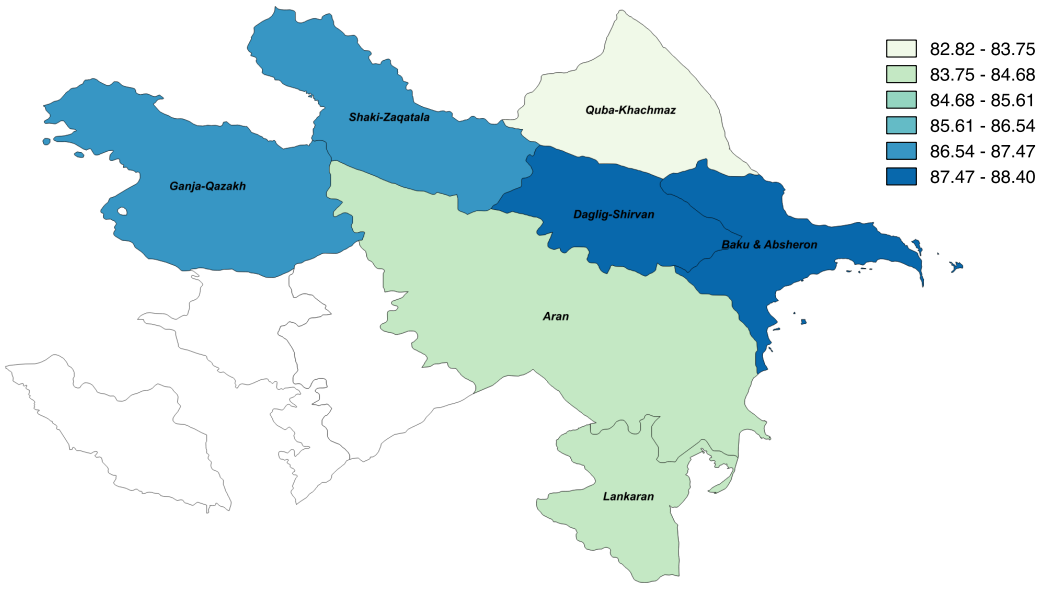


Source: WBG Financial Capability Survey, Azerbaijan 2015.

Notable differences can also be observed in satisfaction levels between regions with services provided by banks. Based on data given in Map 13, the maximum spread in satisfaction levels represents 40 percent of the national average. The regions with the highest levels of satisfaction are the two wealthiest

(Baku & Absheron and Daglig-Shirvan) and the one with the lowest level of satisfaction is the poorest region (Quba-Khachmaz).

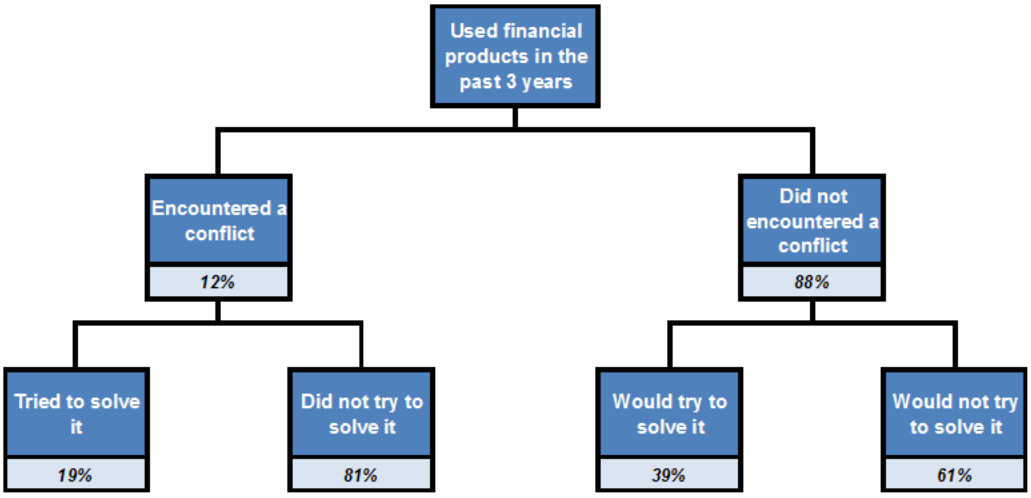
Map 13. Regional Clients' Satisfaction with Services Provided by Banks (%)



Source: WBG Financial Capability Survey, Azerbaijan 2015.

Another important finding is that 12 percent of the surveyed respondents experienced financial service provider conflicts, the majority of whom did not try to resolve the conflicts they encountered. As shown in Figure 32, slightly more than one out of ten Azerbaijani adults stated that they experienced a conflict with a financial service provider in the past three years. This incidence rate of reported financial service provider conflicts is a medium index used to compare to other countries for which a comparable indicator is available. For instance, this rate is 25 percent in Morocco, 17 percent in Philippines, 15 percent in Mozambique, 12 percent in Senegal, 5 percent in Mongolia, and only 1 percent in Tajikistan. On the other hand, as shown in figure 30, less than twenty percent of those Azerbaijani adults who encountered a dispute took actions to try to resolve it. Interestingly, twice as many of those who did not experience a conflict (40 percent) stated that if they faced a conflict they would try to resolve it.

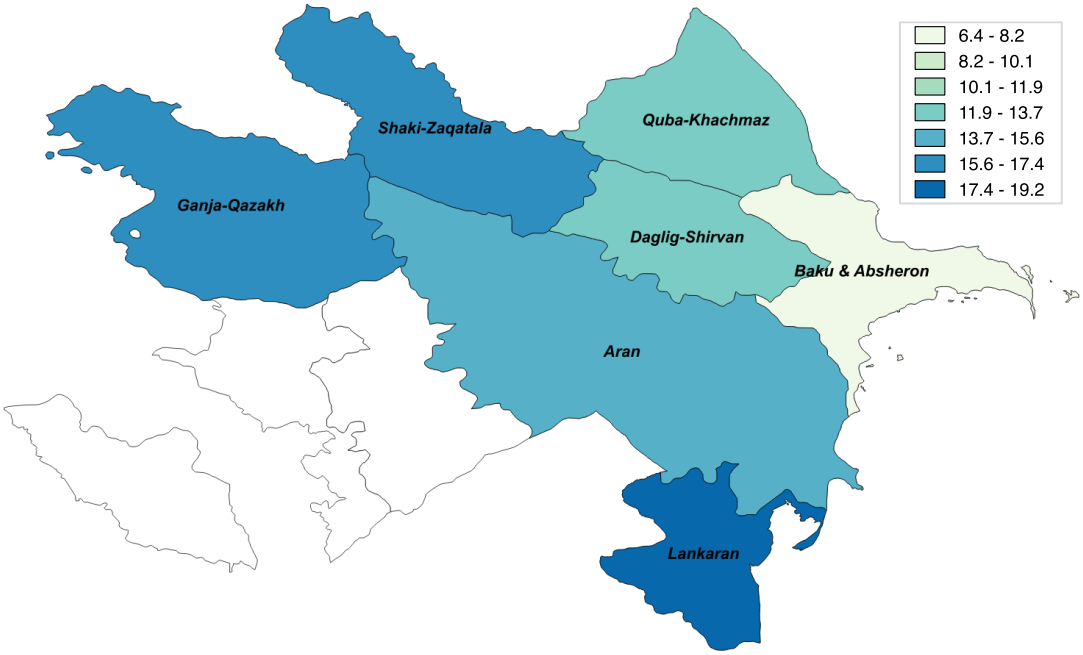
Figure 32. Approaches to deal with financial services provider conflicts



Source: WBG Financial Capability Survey, Azerbaijan 2015.

There are significant differences between regions in conflicts arising with financial services providers. Baku & Absheron has the lowest level of disputes, most likely due to a more developed financial sector in that region. As can be seen in Map 14, the maximum variance between levels of disputes with financial services providers on a regional basis represents about 106% of the national average. This underscores the huge gap that exists between the main financial center (Baku) and the other regions of Azerbaijan. Also at the geographical level, the survey findings suggest that 10 percent of urban dwellers faced a conflict with a financial provider in the past three years as compared to 15 percent of rural residents.

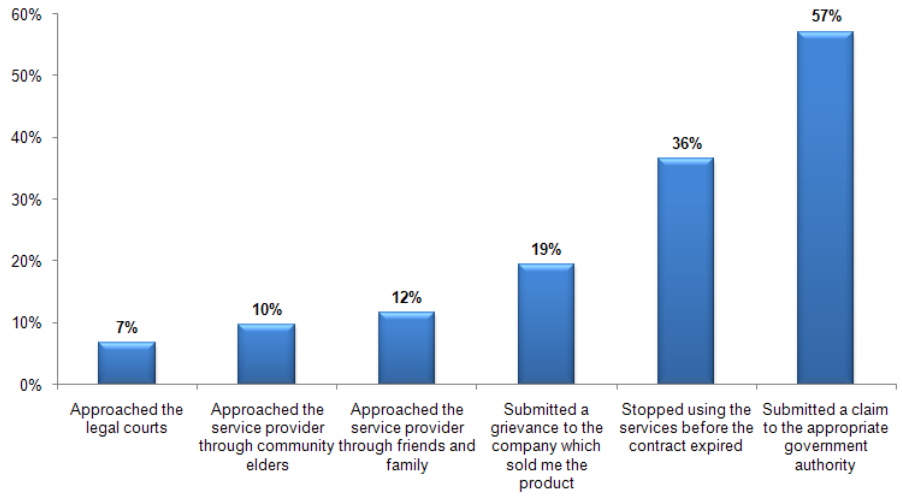
Map 14. Regional Overview of Disputes with Financial Providers (%)



Source: WBG Financial Capability Survey, Azerbaijan 2015.

In terms of actions taken in the event of a dispute, internal complaints handling systems and legal courts were barely sought by those who experienced a conflict with their financial service provider. Figure 33 highlights the approaches followed in trying to resolve the conflict. As can be seen, the most common actions taken to try to resolve disputes were to submit a claim to the appropriate government authority (57 percent) and to stop using the services before the contract expired (36 percent). Only around one out of five reportedly submitted a grievance to the company that sold the product (19 percent), while 7 percent approached legal courts. The latter finding can most likely be explained by perceived high costs and lengthy time of proceedings.

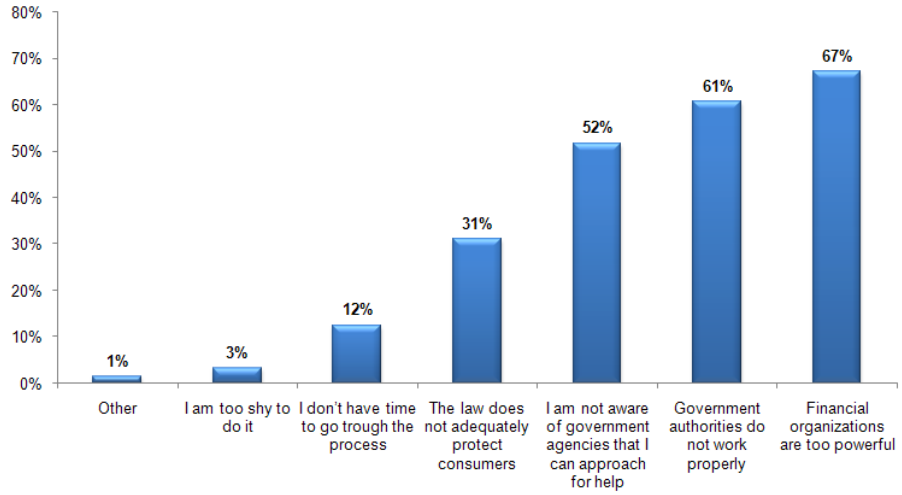
Figure 33. Action Taken to Redress Conflicts with Financial Service Providers



Source: WBG Financial Capability Survey, Azerbaijan 2015.

The main causes for inertia are either related to perceived power imbalances between financial services providers and their clients or they relate to lack of trust in or lack of awareness of respective government authorities which can be approached in the event of a dispute. As Figure 34 presents, more than two thirds of those who did not take any actions to resolve a dispute reported as main reason for their inertia that they perceived financial institutions as being too powerful. Slightly less, 61 percent indicated that they think the government authorities do not work properly, followed by 52 percent who were not aware of any government agencies they can approach for help. Slightly more than one third of those who did not try to solve a conflict mentioned that they did not take any actions because they think the law does not adequately protect consumers. Only 3 percent who did not take any actions to resolve a dispute declared that they are too shy to redress the dispute.

Figure 34. Reasons for Not Solving the Conflicts with Financial Service Providers



Source: WBG Financial Capability Survey, Azerbaijan 2015.

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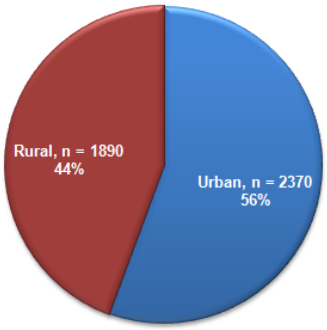
Appendix

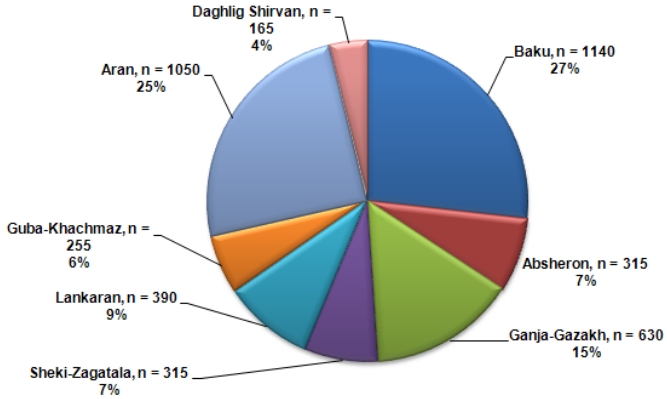
A. Background on Azerbaijan Financial Survey

Figure 35. Estimated Population Break-Down by Urban/Rural



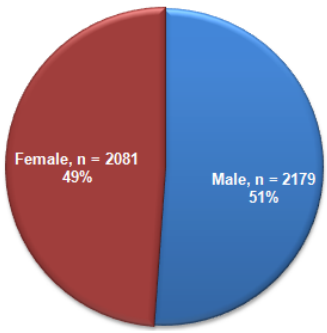
Source: WBG Financial Capability Survey, Azerbaijan 2015.

Figure 36. Estimated Population Break-Down by Region



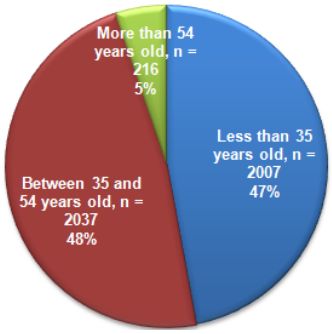
Source: WBG Financial Capability Survey, Azerbaijan 2015.

Figure 37. Estimated Population Break-Down by Gender



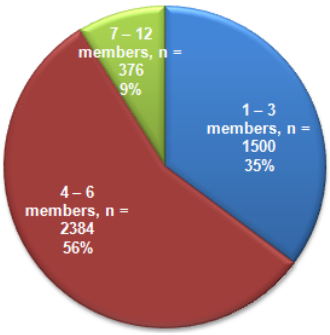
Source: WBG Financial Capability Survey, Azerbaijan 2015.

Figure 38. Estimated Population Break-Down by Age Groups



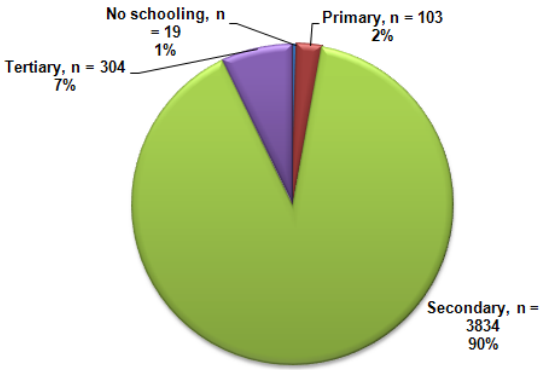
Source: WBG Financial Capability Survey, Azerbaijan 2015.

Figure 39. Estimated Population Break-Down by Household Size



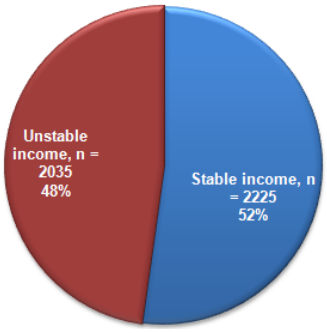
Source: WBG Financial Capability Survey, Azerbaijan 2015.

Figure 40. Estimated Population Break-Down by Education Groups



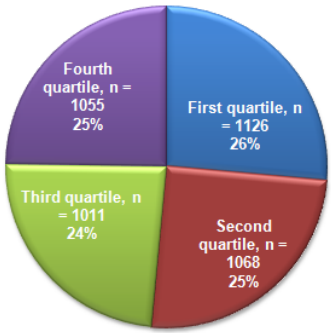
Source: WBG Financial Capability Survey, Azerbaijan 2015.

Figure 41. Estimated Population Break-Down by Stable/Unstable Income Groups



Source: WBG Financial Capability Survey, Azerbaijan 2015.

Figure 42. Estimated Population Break-Down by Different Income Groups



Source: WBG Financial Capability Survey, Azerbaijan 2015.

B. Regression Tables

Chapter 1. Financial Inclusion

Table 10. Financial Inclusion by Social and Demographic Factors

Variables in the Equation	***Financial Inclusion Coefficient***	
Age	0.0000	
	(0.0021)	
Male	-0.0412	
	(0.0476)	
No schooling as the baseline		
Primary	0.6141	
	(0.3928)	
Secondary	0.4430	
	(0.3623)	
Tertiary	0.3197	
	(0.3809)	
Read/write in Azerbaijani	-0.9429	*
	(0.566)	
HH Head	0.0531	
	(0.0545)	
First quartile as the baseline		
Second quartile	0.1550	**
	(0.0668)	
Third quartile	0.2840	***
	(0.0641)	
Fourth quartile	0.6605	***
	(0.0681)	
Out of labor force and retired as the baseline		
Unemployed	-0.5953	
	(0.3637)	
Formally employed	-0.5594	
	(0.3671)	
Informally employed	-0.5765	
	(0.3671)	
Self-employed	-0.6197	*
	(0.3658)	
Urban village	-0.0010	
	(0.1865)	
0 - 1 Media as the baseline		
2 Media	0.1693	
	(0.1865)	
3 Media	0.1278	
	(0.0133)	
4 Media	0.0861	
	(0.1855)	
5 – 6 Media	0.1318	
	(0.1949)	

Variables in the Equation	*Financial Inclusion Coefficient*	
HH size	0.0258	*
	(0.0133)	
Stable income	-0.0721	
	(0.0648)	
Save as a child	0.0296	
	(0.0442)	
Baku as the baseline		
Absheron	-0.1999	**
	(0.0854)	
Ganja-Gazakh	-0.1453	*
	(0.0783)	
Sheki-Zagatala	-0.3280	***
	(0.1016)	
Lankaran	-0.2538	**
	(0.1081)	
Guba-Khachmaz	-0.2657	**
	(0.1197)	
Aran	-0.1580	**
	(0.073)	
Daghlig Shirvan	-0.0472	
	(0.0996)	
Constant	0.3767	
	(0.8116)	

*Estimates of probit model. Standard error in parentheses *** p<0.01, ** p<0.05, * p<0.1*

Table 11. Probability of having ever used bank, insurance, MFI or non-other banking institutions products by social and demographic factors

Variables in the Equation	*Bank Product Usage Coefficient*	*Insurance Product Usage Coefficient*	*MFI or Other Non-bank Product Usage Coefficient*	
Age	0.0024	0.0005	-0.0046	**
	(0.0021)	(0.0021)	(0.0021)	
Male	-0.0290	0.0201	-0.0169	
	(0.0558)	(0.0487)	(0.0498)	
No schooling as the baseline				
Primary and intermediate	-0.5318	-0.0095	-0.0103	
	(0.4259)	(0.3471)	(0.4006)	
Secondary and vocational	-0.4428	-0.0593	-0.1136	
	(0.3947)	(0.3282)	(0.3852)	
Tertiary	-0.3903	-0.1661	0.0487	
	(0.4073)	(0.342)	(0.3933)	
Read/write in Azerbaijani	-0.5122	0.9056	0.1274	
	(0.5198)	(0.5675)	(0.489)	
HH Head	-0.0286	-0.0639	-0.0592	
	(0.0513)	(0.0506)	(0.0583)	

Variables in the Equation	Bank Product Usage Coefficient		Insurance Product Usage Coefficient		MFI or Other Non-bank Product Usage Coefficient	
First quartile as the baseline						
Second quartile	0.0160		0.0200		0.0713	
	(0.0692)		(0.0576)		(0.0742)	
Third quartile	0.1245	*	-0.0744		0.1403	**
	(0.0681)		(0.0588)		(0.0697)	
Fourth quartile	0.8511	***	0.1189	*	0.6650	***
	(0.0928)		(0.0637)		(0.0718)	
Out of labor force and retired as the baseline						
Unemployed	0.4617		0.1601		-0.0547	
	(0.4714)		(0.3925)		(0.4091)	
Formally employed	0.3940		0.1949		0.0886	
	(0.4708)		(0.3938)		(0.3952)	
Informally employed	0.4044		0.1053		-0.1474	
	(0.4708)		(0.3938)		(0.3952)	
Self-employed	0.2753		0.1027		-0.1227	
	(0.4695)		(0.388)		(0.4019)	
Urban village	-0.1029	*	0.1341	**	0.0611	
	(0.2059)		(0.1801)		(0.1824)	
0 - 1 Media as the baseline						
2 Media	-0.0253		0.0964		-0.1142	
	(0.2059)		(0.1801)		(0.1824)	
3 Media	-0.0848		0.1960		-0.0146	
	(0.0159)		(0.0136)		(0.0141)	
4 Media	-0.1414		0.1606		-0.1440	
	(0.1997)		(0.1747)		(0.18)	
5 – 6 Media	-0.0261		0.1460		-0.1453	
	(0.2183)		(0.1979)		(0.2162)	
HH size	0.0254		0.0193		-0.0273	*
	(0.0159)		(0.0136)		(0.0141)	
Stable income	-0.1356	*	-0.0389		-0.2230	***
	(0.0788)		(0.0636)		(0.0749)	
Save as a child	0.0011		-0.0123		-0.0950	**
	(0.0498)		(0.0424)		(0.0464)	
Baku as the baseline						
Absheron	0.0360		-0.0998		0.2578	**
	(0.1051)		(0.08)		(0.12)	
Ganja-Gazakh	-0.1535	*	-0.0691		0.1460	
	(0.0874)		(0.0814)		(0.094)	
Sheki-Zagatala	-0.1964	*	-0.0434		0.3834	***
	(0.1116)		(0.1016)		(0.1319)	
Lankaran	-0.2679	**	-0.0549		0.2336	*
	(0.1114)		(0.0948)		(0.1255)	
Guba-Khachmaz	-0.0687		-0.1366		0.0504	
	(0.0974)		(0.1111)		(0.105)	
Aran	0.0146		-0.0582		0.2612	***
	(0.0744)		(0.0679)		(0.0915)	
Daghlig Shirvan	-0.0207		-0.0135		0.2246	
	(0.1121)		(0.1273)		(0.1812)	

Variables in the Equation	Bank Product Usage Coefficient		Insurance Product Usage Coefficient		MFI or Other Non-bank Product Usage Coefficient
Constant	1.4729	*	-1.5837	**	-0.6275
	(0.8132)		(0.7892)		(0.7644)

*Estimates of probit model. Standard error in parentheses *** p<0.01, ** p<0.05, * p<0.1*

Table 12. Probability of Having Ever Used Bank Products by Village Factors

Variables in the Equation	Bank Product Usage Coefficient	
Inner city as the baseline		
Urban	0.0326	
	(0.068)	
Peri-urban	0.0152	
	(0.1184)	
Rural (village)	0.1882	**
	(0.0771)	
Rural, non-village	0.2344	**
	(0.1168)	
Distance in km to primary school	-0.0277	
	(0.0312)	
Distance in km to secondary school	-0.0552	*
	(0.0301)	
Distance in km to clinic or hospital	-0.0502	
	(0.0321)	
Distance in km to bank	0.0667	**
	(0.0317)	
Distance in km to MFI	0.0090	
	(0.0305)	
Most of the homes do not have electricity inside property as the baseline		
Most of the homes have electricity inside property	-0.2533	*
	(0.135)	
Most of the homes do not have piped water inside property		
Most of the homes have piped water inside property	0.2678	**
	(0.1252)	
Water supply is a problem to some extent as the baseline		
Water supply is not a problem	-0.3355	**
	(0.0794)	
Unemployment is a problem as the baseline		
Unemployment is a problem to some extent	-0.0695	
	(0.0794)	

	Bank Product Usage	
Variables in the Equation	***Coefficient***	
Unemployment is not a problem	-0.0071	
	(0.1538)	
Life in location has better than 5 years ago as the baseline		
Life in location has not changed from 5 years ago	-0.0645	
	(0.0572)	
Life in location is worse than 5 years ago	0.0276	
	(0.1015)	
Normal dress below standards as the baseline		
Normal dress standards in location	-0.0873	
	(0.074)	
Normal dress above standards in location	-0.0206	
	(0.0843)	
Location is wealthy (perceived) as the baseline		
Location is middle wealthy (perceived)	-0.0288	
	(0.0849)	
Location is poor (perceived)	0.0395	
	(0.19)	
Constant	1.4347	***
	(0.2563)	

*Estimates of probit model. Standard error in parentheses *** p<0.01, ** p<0.05, * p<0.1*

Table 13. Probability of Currently Having a Bank Account by Social and Demographic Factors

Variables in the Equation	***Bank account Coefficient***	
Age	0.0006	
	(0.0021)	
Male	-0.0395	
	(0.0486)	
No schooling as the baseline		
Primary	0.6303	
	(0.4275)	
Secondary	0.5361	
	(0.4031)	
Tertiary	0.4045	
	(0.4192)	
Read/write in Azerbaijani	-1.0172	*
	(0.5597)	
HH Head	0.0563	
	(0.0555)	
First quartile as the baseline		
Second quartile	0.1298	*
	(0.067)	
Third quartile	0.2703	***

Variables in the Equation	***Bank account Coefficient***	
	(0.0644)	
Fourth quartile	0.5298	***
	(0.0676)	
Out of labor force and retired as the baseline		
Unemployed	-0.4673	
	(0.3658)	
Formally employed	-0.4454	
	(0.3677)	
Informally employed	-0.4396	
	(0.3677)	
Self-employed	-0.4801	
	(0.3646)	
Urban village	0.0377	
	(0.1894)	
0 - 1 Media as the baseline		
2 Media	0.2200	
	(0.1894)	
3 Media	0.1583	
	(0.0136)	
4 Media	0.1373	
	(0.1866)	
5 – 6 Media	0.1802	
	(0.1976)	
HH size	0.0278	**
	(0.0136)	
Stable income	-0.0535	
	(0.0654)	
Save as a child	0.0589	
	(0.0446)	
Baku as the baseline		
Absheron	-0.2050	**
	(0.0906)	
Ganja-Gazakh	-0.1808	**
	(0.0773)	
Sheki-Zagatala	-0.3726	***
	(0.1064)	
Lankaran	-0.2533	**
	(0.1124)	
Guba-Khachmaz	-0.2552	**
	(0.1247)	
Aran	-0.1897	**
	(0.0741)	
Daghlig Shirvan	-0.0510	
	(0.1058)	
Constant	0.1190	
	(0.8221)	

*Estimates of probit model. Standard error in parentheses *** p<0.01, ** p<0.05, * p<0.1*

Table 14. Probability of Having Ever Used Money Transfer Products by Social and Demographic Factors

Variables in the Equation	***Money transfer product usage Coefficient***	
Age	0.0002	
	(0.0019)	
Male	0.0207	
	(0.051)	
No schooling as the baseline		
Primary	-0.1031	
	(0.3529)	
Secondary	-0.4138	
	(0.3196)	
Tertiary	-0.2844	
	(0.3272)	
Read/write in Azerbaijani	-0.6433	
	(0.5216)	
HH Head	-0.0500	
	(0.0542)	
First quartile as the baseline		
Second quartile	-0.0092	
	(0.0632)	
Third quartile	0.0293	
	(0.0614)	
Fourth quartile	-0.0373	
	(0.0645)	
Out of labor force and retired as the baseline		
Unemployed	-0.2395	
	(0.3615)	
Formally employed	-0.3225	
	(0.3573)	
Informally employed	-0.2147	
	(0.3573)	
Self-employed	-0.2591	
	(0.3556)	
Urban village	-0.0087	
	(0.1783)	
0 - 1 Media as the baseline		
2 Media	0.2290	
	(0.1783)	
3 Media	0.0622	
	(0.0144)	
4 Media	0.0453	
	(0.1743)	
5 – 6 Media	0.0223	
	(0.2076)	
HH size	0.0308	**
	(0.0144)	

Variables in the Equation	***Money transfer product usage Coefficient***	
Stable income	0.0316	
	(0.0676)	
Save as a child	0.0764	*
	(0.0427)	
Baku as the baseline		
Absheron	-0.2770	***
	(0.0797)	
Ganja-Gazakh	-0.4265	***
	(0.0824)	
Sheki-Zagatala	-0.3491	***
	(0.0903)	
Lankaran	-0.2807	**
	(0.1145)	
Guba-Khachmaz	-0.3625	***
	(0.0853)	
Aran	-0.3612	***
	(0.0697)	
Daghlig Shirvan	-0.1738	
	(0.1552)	
Constant	0.9871	
	(0.7459)	

*Estimates of probit model. Standard error in parentheses *** p<0.01, ** p<0.05, * p<0.1*

Table 15. Financial Literacy Score by Social and Demographic Factors

	Financial Literacy Score Level *Low [0]* *Lower-middle [1 – 3]* *Middle [4]* *Upper-middle [5]* *High [6 – 7]*	
Variables in the Equation	***Coefficient***	
Age	0.0016	
	(0.0016)	
Male	0.0101	
	(0.0446)	
No schooling as the baseline		
Primary and intermediate	0.1470	
	(0.312)	
Secondary and vocational	0.1166	
	(0.2926)	
Tertiary	0.0680	
	(0.2964)	
Read/write in Azerbaijani	0.4025	
	(0.3576)	
HH Head	-0.0038	
	(0.044)	
First quartile as the baseline		
Second quartile	-0.0358	
	(0.05)	
Third quartile	0.0466	
	(0.0523)	
Fourth quartile	0.0002	
	(0.0503)	
Out of labor force as the baseline		
Unemployed	0.0330	
	(0.2818)	
Formally employed	0.0396	
	(0.281)	
Informally employed	0.0667	
	(0.281)	
Self-employed	0.0344	
	(0.2794)	
Urban village	0.3594	***
	(0.1269)	
0 - 1 Media as the baseline		
2 Media	-0.1372	
	(0.1269)	
3 Media	-0.1816	
	(0.0114)	

	Financial Literacy Score Level	
	Low [0]	
	Lower-middle [1 – 3]	
	Middle [4]	
	Upper-middle [5]	
	High [6 – 7]	
Variables in the Equation	***Coefficient***	
4 Media	-0.1501	
	(0.1244)	
5 – 6 Media	-0.1419	
	(0.1437)	
HH size	-0.0084	
	(0.0114)	
Stable income	-0.0065	
	(0.0536)	
Save as a child	0.0264	
	(0.0408)	
Baku as the baseline		
Absheron	-0.0423	
	(0.0802)	
Ganja-Gazakh	-0.1407	**
	(0.0588)	
Sheki-Zagatala	-0.1777	**
	(0.0878)	
Lankaran	-0.1747	**
	(0.086)	
Guba-Khachmaz	-0.0291	
	(0.0911)	
Aran	-0.1230	**
	(0.0613)	
Daghlig Shirvan	0.0052	
	(0.1065)	
/cut1	-2.8078	***
	(0.5764)	
/cut2	0.2339	
	(0.5502)	
/cut3	1.1275	**
	(0.5479)	
/cut4	2.0446	***
	(0.5478)	

Table 16. Financial Knowledge Score by Social and Demographic Factors

	Financial Product Awareness Score Level	
	Lower-middle [1 – 3]	
	Middle [4]	
	Upper-middle [5 - 6]	
	High [7 – 8]	
Variables in the Equation		
Age	0.0029	*
	(0.0017)	
Male	0.0143	
	(0.0456)	
No schooling as the baseline		
Primary	0.2450	
	(0.3282)	
Secondary	0.0953	
	(0.2978)	
Tertiary	0.0897	
	(0.3045)	
Read/write in Azerbaijani	-0.4046	
	(0.5369)	
HH Head	-0.0349	
	(0.0458)	
First quartile as the baseline		
Second quartile	0.0174	
	(0.0569)	
Third quartile	0.0908	*
	(0.0535)	
Fourth quartile	0.1068	*
	(0.0559)	
Out of labor force as the baseline		
Unemployed	-0.2231	
	(0.2923)	
Formally employed	-0.3273	
	(0.2916)	
Informally employed	-0.2904	
	(0.2916)	
Self-employed	-0.3501	
	(0.2896)	
Urban village	0.0815	
	(0.1386)	
0 - 1 Media as the baseline		
2 Media	0.3140	**
	(0.1386)	
3 Media	0.2613	*
	(0.0128)	
4 Media	0.2307	*
	(0.1353)	
5 – 6 Media	0.1626	

	Financial Product Awareness Score Level	
	Lower-middle [1 – 3]	
	Middle [4]	
	Upper-middle [5 - 6]	
	High [7 – 8]	
Variables in the Equation		
	(0.1515)	
HH size	-0.0289	**
	(0.0128)	
Stable income	-0.0115	
	(0.0554)	
Save as a child	-0.0473	
	(0.0392)	
Baku as the baseline		
Absheron	0.0912	
	(0.0754)	
Ganja-Gazakh	0.1918	***
	(0.0708)	
Sheki-Zagatala	0.0230	
	(0.0943)	
Lankaran	0.0764	
	(0.0789)	
Guba-Khachmaz	0.1549	
	(0.0942)	
Aran	0.1180	*
	(0.0682)	
Daghlig Shirvan	0.1957	**
	(0.084)	
/cut1	-2.0278	***
	(0.7038)	
/cut2	-1.2544	*
	(0.7063)	
/cut3	0.2751	
	(0.7073)	

Table 17. Financial Literacy Score by Village Factors

	Financial Literacy Score Level *Low [0]* *Lower-middle [1 – 3]* *Middle [4]* *Upper-middle [5]* *High [6 – 7]*	
Variables in the Equation	***Coefficient***	
Inner city as the baseline		
Urban	-0.0942	*
	(0.053)	
Peri-urban	-0.2085	**
	(0.0864)	
Rural (village)	-0.5811	***
	(0.0687)	
Rural, non-village	-0.5558	***
	(0.0927)	
Distance in km to primary school	0.0463	*
	(0.027)	
Distance in km to secondary school	0.0194	
	(0.0246)	
Distance in km to clinic or hospital	-0.0405	
	(0.0261)	
Distance in km to bank	0.0381	
	(0.0268)	
Distance in km to MFI	-0.0026	
	(0.025)	
Most of the homes do not have electricity inside property as the baseline		
Most of the homes have electricity inside property	-0.0042	
	(0.1259)	
Most of the homes do not have piped water inside property		
Most of the homes have piped water inside property	0.0836	
	(0.1212)	
Water supply is a problem to some extent as the baseline		
Water supply is not a problem	0.1074	
	(0.0649)	
Unemployment is a problem as the baseline		
Unemployment is a problem to some extent	0.0882	
	(0.0649)	
Unemployment is not a problem	0.1605	

	Financial Literacy Score Level	
	Low [0]	
	Lower-middle [1 – 3]	
	Middle [4]	
	Upper-middle [5]	
	High [6 – 7]	
Variables in the Equation	***Coefficient***	
	(0.1034)	
Life in location has better than 5 years ago as the baseline		
Life in location has not changed from 5 years ago	-0.0293	
	(0.0452)	
Life in location is worse than 5 years ago	-0.0871	
	(0.0799)	
Normal dress below standards as the baseline		
Normal dress standards in location	-0.0315	
	(0.0583)	
Normal dress above standards in location	0.0267	
	(0.0726)	
Location is wealthy (perceived) as the baseline		
Location is middle wealthy (perceived)	-0.0505	
	(0.069)	
Location is poor (perceived)	-0.2442	*
	(0.1334)	
/cut1	-3.3983	***
	(0.3169)	
/cut2	-0.3566	
	(0.2272)	
/cut3	0.5378	**
	(0.2257)	
/cut4	1.4548	***
	(0.2256)	

Table 18. Financial Knowledge Score by Village Factors

	Financial Product Awareness Score Level *Lower-middle [1 – 3]* *Middle [4]* *Upper-middle [5 - 6]* *High [7 – 8]*	
Variables in the Equation	***Coefficient***	
Inner city as the baseline		
Urban	0.0801	
	(0.0606)	
Peri-urban	0.0975	
	(0.0801)	
Rural (village)	0.0742	
	(0.0623)	
Rural, non-village	0.2926	***
	(0.0806)	
Distance in km to primary school	-0.0217	
	(0.0242)	
Distance in km to secondary school	0.0145	
	(0.0233)	
Distance in km to clinic or hospital	0.0253	
	(0.0259)	
Distance in km to bank	-0.0334	
	(0.0239)	
Distance in km to MFI	-0.0349	
	(0.0217)	
Most of the homes do not have electricity inside property as the baseline		
Most of the homes have electricity inside property	-0.1477	
	(0.1874)	
Most of the homes do not have piped water inside property		
Most of the homes have piped water inside property	0.1930	*
	(0.1072)	
Water supply is a problem to some extent as the baseline		
Water supply is not a problem	-0.0664	
	(0.0613)	
Unemployment is a problem as the baseline		
Unemployment is a problem to some extent	-0.0276	
	(0.0613)	
Unemployment is not a problem	-0.1421	
	(0.0982)	

	Financial Product Awareness Score Level	
	Lower-middle [1 – 3]	
	Middle [4]	
	Upper-middle [5 - 6]	
	High [7 – 8]	
Variables in the Equation	***Coefficient***	
Life in location has better than 5 years ago as the baseline		
Life in location has not changed from 5 years ago	0.0722	
	(0.0469)	
Life in location is worse than 5 years ago	0.1834	**
	(0.0854)	
Normal dress below standards as the baseline		
Normal dress standards in location	0.0025	
	(0.0643)	
Normal dress above standards in location	0.0491	
	(0.085)	
Location is wealthy (perceived) as the baseline		
Location is middle wealthy (perceived)	-0.0883	
	(0.0661)	
Location is poor (perceived)	-0.0329	
	(0.1333)	
/cut1	-1.8331	***
	(0.25)	
/cut2	-1.0613	***
	(0.2531)	
/cut3	0.4711	*
	(0.2505)	

Table 19. Financial Capabilities by Social and Demographic Factors (I)

	Controlled budgeting		***Saving and not overspending***		***Farsightedness***		***Planning for old age expenses***	
Variables in the Equation	***Coefficient***		***Coefficient***		***Coefficient***		***Coefficient***	
Financial Literacy Score	-0.0709		0.2371		0.0396		-0.1729	
	(0.3929)		(0.3715)		(0.3859)		(0.2725)	
Financial Product Awareness	-0.1572		0.6199	*	-0.9281	***	1.2382	***
	(0.3834)		(0.3599)		(0.3336)		(0.2057)	
Age	-0.0081		-0.0277		-0.0594		-0.0053	
	(0.0438)		(0.0382)		(0.0369)		(0.0258)	
Male	0.0266		-0.4327		0.8793		0.3724	
	(1.0831)		(0.9517)		(1.0671)		(0.6578)	
No schooling as the baseline								
Primary	2.0027		3.5334		-2.1080		-0.1118	
	(6.8854)		(7.3709)		(5.2663)		(3.8395)	
Secondary	4.9927		1.6585		-1.5206		-0.4177	
	(6.3299)		(6.7821)		(4.5953)		(3.3555)	
Tertiary	4.6978		-0.5510		-2.2945		0.7506	
	(6.4502)		(7.0102)		(4.9138)		(3.6071)	
Read/write in Azerbaijani	8.5820		15.7236	***	-2.8576		4.5999	*
	(9.1056)		(4.813)		(11.8168)		(2.6454)	
HH Head	-0.6687		1.4298		-2.3997	**	0.7132	
	(1.1122)		(1.0748)		(1.0813)		(0.7002)	
First quartile as the baseline								
Second quartile	-2.1479	*	-0.9894		-1.7047		-0.8681	
	(1.249)		(1.248)		(1.2615)		(0.7976)	
Third quartile	-4.0611	***	0.0018		-1.5609		-0.8194	
	(1.3416)		(1.3435)		(1.3225)		(0.8588)	
Fourth quartile	-1.4419		0.0019		-10.7493	***	-2.0963	***
	(1.3382)		(1.3063)		(1.406)		(0.7803)	
Out of labor force as the baseline								
Unemployed	-14.0099		-6.1154		13.5438		3.6834	*
	(8.6624)		(6.491)		(8.851)		(2.0509)	
Formally employed	-10.6474		-5.6787		13.9483		2.9511	
	(8.7557)		(6.4089)		(8.9145)		(1.9596)	
Informally employed	-13.0218		-5.1487		13.2733		3.9350	**
	(8.7557)		(6.4089)		(8.9145)		(1.9596)	
Self-employed	-11.8713		-5.5346		15.1580	*	4.3580	**

	Controlled budgeting		***Saving and not overspending***		***Farsightedness***		***Planning for old age expenses***	
Variables in the Equation	***Coefficient***		***Coefficient***		***Coefficient***		***Coefficient***	
	(8.6707)		(6.4735)		(8.8375)		(1.9288)	
Urban village	-2.0350		4.8009	***	-5.4872	***	-0.2418	
	(3.4653)		(3.2671)		(4.4705)		(1.7426)	
0 - 1 Media as the baseline								
2 Media	-1.7989		0.5011		10.2947	**	2.6907	
	(3.4653)		(3.2671)		(4.4705)		(1.7426)	
3 Media	-2.1920		0.6500		9.8997	**	1.7581	
	(0.2879)		(0.2467)		(0.2687)		(0.1794)	
4 Media	-1.6768		0.8635		11.7773	***	2.5848	
	(3.4101)		(3.2753)		(4.4652)		(1.6418)	
5 – 6 Media	-2.4984		-2.4570		12.9537	***	5.4550	**
	(3.697)		(3.4358)		(4.8883)		(2.1309)	
HH size	0.4354		0.5138	**	0.7247	***	0.1800	
	(0.2879)		(0.2467)		(0.2687)		(0.1794)	
Stable income	-1.1447		-0.7706		1.2210		1.3270	
	(1.5231)		(1.3665)		(1.4779)		(0.8619)	
Save as a child	1.2664		6.9506	***	1.8929	**	0.5836	
	(0.9256)		(0.9215)		(0.9281)		(0.531)	
Baku as the baseline								
Absheron	8.1250	***	-1.8186		-5.9655	***	-0.1051	
	(1.7692)		(1.7009)		(1.9267)		(1.2078)	
Ganja-Gazakh	9.0236	***	-4.4414	***	-6.8722	***	-2.0019	*
	(1.5478)		(1.3997)		(1.7177)		(1.0262)	
Sheki-Zagatala	8.7568	***	-1.7616		-6.7668	***	-2.6451	*
	(3.122)		(2.0758)		(2.4898)		(1.3917)	
Lankaran	9.8671	***	-3.8615	**	-9.1044	***	-2.3956	*
	(2.6211)		(1.8084)		(2.2254)		(1.4008)	
Guba-Khachmaz	6.7283	***	-3.6669	*	-4.3056		-2.9660	**
	(2.5004)		(2.0959)		(3.2116)		(1.3184)	
Aran	6.7696	***	-2.8005	**	-4.3199	**	-1.2988	
	(1.6618)		(1.4079)		(1.6856)		(1.0517)	
Daghlig Shirvan	8.2793	***	-2.8579		-2.7088		-0.5161	
	(2.4699)		(2.9227)		(2.9182)		(1.6645)	
Constant	32.6214	**	3.9144		48.5706	***	4.7173	
	(14.6006)		(11.2595)		(16.9399)		(5.4772)	

Estimates of the regression model.
*Standard error in parentheses *** p<0.01, ** p<0.05, * p<0.1*

Table 20. Financial Capabilities by Social and Demographic Factors (II)

	Achievement orientation		***Using information and advice***		***Choosing financial products***	
Variables in the Equation	***Coefficient***		***Coefficient***		***Coefficient***	
Financial Literacy Score	-0.0709		0.1473		-0.1603	
	(0.3929)		(0.238)		(0.4587)	
Financial Product Awareness	-0.1572		-0.6130	***	0.0310	
	(0.3834)		(0.2041)		(0.4288)	
Age	-0.0081		-0.0015		0.0128	
	(0.0438)		(0.023)		(0.0474)	
Male	0.0266		-0.3272		3.0923	***
	(1.0831)		(0.5749)		(1.1712)	
No schooling as the baseline						
Primary	2.0027		-2.3399		-7.7592	
	(6.8854)		(4.0957)		(6.5393)	
Secondary	4.9927		-2.1705		-9.0076	
	(6.3299)		(3.688)		(5.7549)	
Tertiary	4.6978		-1.9623		-10.5190	*
	(6.4502)		(3.8659)		(6.0664)	
Read/write in Azerbaijani	8.5820		-11.2382		9.5856	
	(9.1056)		(6.8365)		(11.6655)	
HH Head	-0.6687		1.0196	*	-1.1138	
	(1.1122)		(0.6148)		(1.2261)	
First quartile as the baseline						
Second quartile	-2.1479	*	0.8081		2.1472	
	(1.249)		(0.6892)		(1.4186)	
Third quartile	-4.0611	***	-1.0139		0.2822	
	(1.3416)		(0.7438)		(1.5468)	
Fourth quartile	-1.4419		-1.5890	**	2.3844	
	(1.3382)		(0.7667)		(1.5485)	
Out of labor force as the baseline						
Unemployed	-14.0099		-6.6545	*	0.8639	
	(8.6624)		(4.0094)		(9.3526)	
Formally employed	-10.6474		-5.7194		-1.6181	
	(8.7557)		(3.9558)		(9.1394)	
Informally employed	-13.0218		-7.3361	*	-0.4058	
	(8.7557)		(3.9558)		(9.1394)	
Self-employed	-11.8713		-5.8003		-0.4789	
	(8.6707)		(4.008)		(9.1225)	
Urban village	-2.0350		1.7484	**	-0.8872	

	Achievement orientation		***Using information and advice***		***Choosing financial products***	
Variables in the Equation	***Coefficient***		***Coefficient***		***Coefficient***	
	(3.4653)		(1.6999)		(3.3781)	
0 - 1 Media as the baseline						
2 Media	-1.7989		-2.3419		-10.8417	***
	(3.4653)		(1.6999)		(3.3781)	
3 Media	-2.1920		-2.6220		-9.6908	***
	(0.2879)		(0.1769)		(0.3174)	
4 Media	-1.6768		-3.4233	**	-8.7652	***
	(3.4101)		(1.6323)		(3.2228)	
5 – 6 Media	-2.4984		-4.3500	**	-8.5166	**
	(3.697)		(1.9276)		(3.8519)	
HH size	0.4354		0.3602	**	-0.2412	
	(0.2879)		(0.1769)		(0.3174)	
Stable income	-1.1447		-0.3720		0.0657	
	(1.5231)		(0.8236)		(1.7211)	
Save as a child	1.2664		0.6302		0.8944	
	(0.9256)		(0.5093)		(1.0562)	
Baku as the baseline						
Absheron	8.1250	***	-2.6305	*	-2.8137	
	(1.7692)		(1.4348)		(1.9955)	
Ganja-Gazakh	9.0236	***	-3.0865	***	-0.9401	
	(1.5478)		(0.9629)		(1.8182)	
Sheki-Zagatala	8.7568	***	-3.9410	***	0.3984	
	(3.122)		(1.3244)		(2.6803)	
Lankaran	9.8671	***	-2.3845	*	-1.7011	
	(2.6211)		(1.3951)		(2.5501)	
Guba-Khachmaz	6.7283	***	-0.6574		-2.5540	
	(2.5004)		(1.3275)		(2.9804)	
Aran	6.7696	***	-2.4770	**	-1.3193	
	(1.6618)		(0.9722)		(1.6999)	
Daghlig Shirvan	8.2793	***	-3.4166	**	-1.7580	
	(2.4699)		(1.3696)		(2.2879)	
Constant	32.6214	**	100.1359	***	67.6497	***
	(14.6006)		(9.0062)		(16.3818)	

Estimates of the regression model.
*Standard error in parentheses *** p<0.01, ** p<0.05, * p<0.1*

Table 21. Probability of Financial Inclusion by Financial Literacy Score, Financial Product Awareness, Social and Demographic Factors

	Financial inclusion	
Variables in the Equation	***Coefficient***	
Financial Literacy Score	0.0088	
	(0.0187)	
Financial Product Awareness	0.0358	**
	(0.0166)	
Age	-0.0001	
	(0.0021)	
Male	-0.0433	
	(0.0478)	
No schooling as the baseline		
Primary	0.5963	
	(0.3992)	
Secondary	0.4300	
	(0.3691)	
Tertiary	0.3085	
	(0.3876)	
Read/write in Azerbaijani	-0.9407	*
	(0.5559)	
HH Head	0.0554	
	(0.0545)	
First quartile as the baseline		
Second quartile	0.1556	**
	(0.0665)	
Third quartile	0.2805	***
	(0.0639)	
Fourth quartile	0.6560	***
	(0.0684)	
Out of labor force as the baseline		
Unemployed	-0.5890	
	(0.3677)	
Formally employed	-0.5489	
	(0.371)	
Informally employed	-0.5669	
	(0.371)	
Self-employed	-0.6072	
	(0.3693)	
Urban village	-0.0074	
	(0.1868)	
0 - 1 Media as the baseline		
2 Media	0.1604	
	(0.1868)	
3 Media	0.1218	
	(0.0132)	
4 Media	0.0803	
	(0.1857)	
5 – 6 Media	0.1288	
	(0.1951)	
HH size	0.0276	**

	Financial inclusion	
Variables in the Equation	***Coefficient***	
	(0.0132)	
Stable income	-0.0708	
	(0.065)	
Save as a child	0.0309	
	(0.0441)	
Baku as the baseline		
Absheron	-0.2044	**
	(0.0854)	
Ganja-Gazakh	-0.1514	*
	(0.0788)	
Sheki-Zagatala	-0.3314	***
	(0.1024)	
Lankaran	-0.2552	**
	(0.1083)	
Guba-Khachmaz	-0.2727	**
	(0.1202)	
Aran	-0.1626	**
	(0.0736)	
Daghlig Shirvan	-0.0541	
	(0.0997)	
Constant	0.1445	
	(0.8168)	

Estimates of probit model.
*Standard error in parentheses *** p<0.01, ** p<0.05, * p<0.1*

Table 22. Probability of using bank products on financial capabilities scores

	Bank Product Usage	
Variables in the Equation	***Coefficient***	
Financial Product Awareness	0.1773	***
	(0.0225)	
Financial Literacy Score	0.0044	
	(0.0235)	
Controlled budgeting	-0.0005	
	(0.001)	
Saving and not overspending	-0.0018	*
	(0.0011)	
Farsightedness	-0.0027	**
	(0.0011)	
Planning for old age expenses	0.0064	***

	Bank Product Usage
Variables in the Equation	***Coefficient***
	(0.0016)
Achievement orientation	0.0014
	(0.001)
Using information and advice	-0.0021
	(0.0019)
Choosing financial products	-0.0014
	(0.001)
Age	-0.0024
	(0.0026)
Male	0.0034
	(0.0629)
No schooling as the baseline	
Primary	-0.2554
	(0.4342)
Secondary	-0.2566
	(0.3932)
Tertiary	-0.3157
	(0.4094)
HH Head	0.1013
	(0.0625)
Constant	0.7068
	(0.4733)

Estimates of probit model.
*Standard error in parentheses *** p<0.01, ** p<0.05, * p<0.1*

Table 23. Probability of using financial instruments on financial capabilities scores

	Insurance Product Usage		***MFI / other non-bank institution Product Usage***		***Money transfer Product Usage***	
Variables in the Equation	***Coefficient***		***Coefficient***		***Coefficient***	
Financial Product Awareness	0.1659	***	0.1881	***	0.1784	***
	(0.0179)		(0.0214)		(0.0178)	
Financial Literacy Score	0.0122		-0.0167		0.0115	
	(0.0195)		(0.021)		(0.0218)	
Controlled budgeting	-0.0009		0.0004		-0.0019	**
	(0.0008)		(0.0009)		(0.0008)	
Saving and not overspending	0.0014	*	-0.0016		0.0001	
	(0.0008)		(0.001)		(0.0009)	
Farsightedness	-0.0016	**	-0.0047	***	0.0013	
	(0.0008)		(0.0008)		(0.0008)	
Planning for old age expenses	-0.0015		-0.0045	***	0.0017	
	(0.0015)		(0.0017)		(0.0013)	
Achievement orientation	0.0007		0.0015	*	-0.0016	**
	(0.0008)		(0.0008)		(0.0008)	
Using information and advice	-0.0009		-0.0021		0.0020	
	(0.0014)		(0.0016)		(0.0015)	
Choosing financial products	-0.0011		-0.0001		0.0001	
	(0.0008)		(0.0008)		(0.0008)	
Age	0.0019		-0.0051	**	0.0016	
	(0.0024)		(0.0024)		(0.0022)	
Male	0.0000		-0.0160		0.0209	
	(0.0527)		(0.0502)		(0.055)	
No schooling as the baseline						
Primary	-0.1962		0.1906		-0.0402	
	(0.332)		(0.4466)		(0.3687)	
Secondary	-0.1664		0.0395		-0.3479	
	(0.3117)		(0.4389)		(0.3376)	
Tertiary	-0.2858		0.0549		-0.0864	
	(0.322)		(0.4431)		(0.3465)	
Read/write in Azerbaijani	-0.0142		-0.0156		-0.0336	
	(0.0567)		(0.0568)		(0.0556)	

	Insurance Product Usage	*MFI / other non-bank institution Product Usage*	*Money transfer Product Usage*
Variables in the Equation	***Coefficient***	***Coefficient***	***Coefficient***
HH Head	-0.0142	-0.0156	-0.0336
	(0.0567)	(0.0568)	(0.0556)
Constant	-1.9312 ***	-1.1564	-0.5367
	(0.6923)	(0.7396)	(0.6483)

Estimates of probit model.
*Standard error in parentheses *** p<0.01, ** p<0.05, * p<0.1*

Table 24. Probability of encountering a financial conflict by social and demographic factors

	Financial disputes	
Variables in the Equation	***Coefficient***	
Age	-0.0011	
	(0.0026)	
Male	0.1064	*
	(0.0614)	
No schooling as the baseline		
Primary	-0.1685	
	(0.5084)	
Secondary	-0.0425	
	(0.4869)	
Tertiary	-0.3389	
	(0.5175)	
Read/write in Azerbaijani	0.0183	
	(0.6204)	
HH Head	-0.1411	**
	(0.0638)	
First quartile as the baseline		
Second quartile	0.0007	
	(0.0865)	
Third quartile	0.1429	
	(0.0876)	
Fourth quartile	0.4087	***
	(0.0834)	
Out of labor force as the baseline		
Unemployed	0.0681	
	(0.4457)	
Formally employed	-0.0247	
	(0.4355)	
Informally employed	-0.0645	
	(0.4355)	
Self-employed	0.0026	
	(0.4286)	
Urban village	0.0523	
	(0.2404)	
0 - 1 Media as the baseline		
2 Media	-0.0849	
	(0.2404)	
3 Media	-0.0168	
	(0.0181)	
4 Media	-0.0298	
	(0.2334)	
5 – 6 Media	0.0618	
	(0.2536)	
HH size	-0.0009	
	(0.0181)	

	Financial disputes	
Variables in the Equation	***Coefficient***	
Stable income	-0.0384	
	(0.0884)	
Save as a child	0.0404	
	(0.053)	
Baku as the baseline		
Absheron	0.9584	***
	(0.1319)	
Ganja-Gazakh	0.8469	***
	(0.1087)	
Sheki-Zagatala	0.8403	***
	(0.1383)	
Lankaran	0.9926	***
	(0.1414)	
Guba-Khachmaz	0.7137	***
	(0.1505)	
Aran	0.8495	***
	(0.1006)	
Daghlig Shirvan	0.7690	***
	(0.1985)	
Constant	-1.9517	**
	(0.9479)	

Estimates of probit model.
*Standard error in parentheses *** p<0.01, ** p<0.05, * p<0.1*

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