

Azerbaijan

Dominant domestic banks worry about the quality of the court system

Azerbaijan is mostly served by domestically-owned banks, with only a few foreign branches clustered in Baku, Gence and Nakhchivan. Not surprisingly, and in sharp contrast to much of the rest of the EBRD region, foreign banks are not seen as serious competitors for either small and medium-sized enterprise (SME) or large enterprise lending. The large state bank in Azerbaijan, however, is perceived as an increasingly strong competitor for corporate lending.

Azerbaijani banks see insufficient credit demand and a lack of creditworthy customers as significant constraints when lending to SMEs (Chart 2). Banks in the country also often mention the inability of loan officers to adequately assess credit risk as a constraint to their lending. Compared to the rest of the CIS region, Azerbaijani banks nevertheless appear to have streamlined lending procedures, with less than two hierarchical approval layers involved in SME loan applications on average (Chart 3). In comparison, the number of layers involved in making decisions on corporate loans are on par with the regional average.

Less than half of all Azerbaijani banks that participated in the BEPS II survey “agree” or “strongly agree” with the description of their court system as fair and impartial, while less than a third describe it as able to enforce its decisions. Only 12 percent agreed that the system is quick and efficient. However, the portion of Azerbaijani banks reporting that banks “frequently”, “almost always” or “always” have to pay some irregular payments or gifts to court officials dropped from 68 percent to 51 percent, the largest drop in the region (Chart 4).

In comparison to the rest of the region, banks in Azerbaijan have a relatively favorable view of their banking regulator. Only 5 percent of Azerbaijani banks “agree” or “strongly agree” that direct instructions from the regulator over and beyond published laws and regulations presents their bank with a significant burden. Additionally, only 18 percent of Azerbaijani banks, the lowest percentage in the region, report that uncertainty over future laws and regulations disposes their bank to restricting credit.

Chart 1 Bank localities by ownership

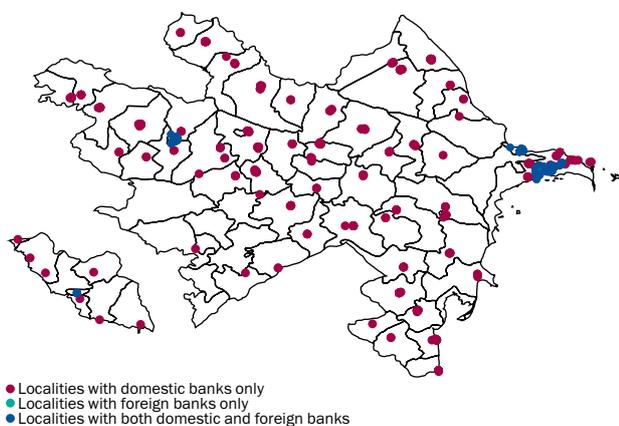
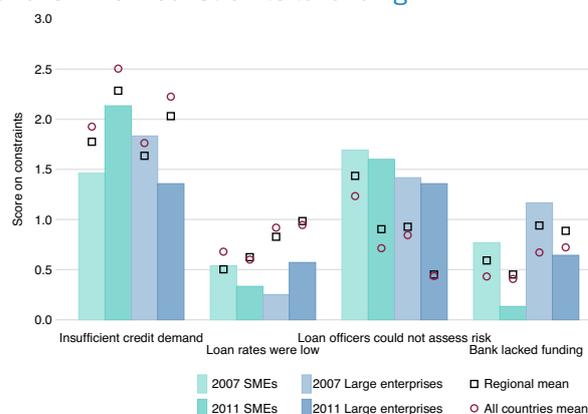


Chart 2 Main constraints to lending*



*The constraint score runs from 0 to 3 with 0 signifying no constraint and 3 signifying the main constraint.

Chart 3 Average hierarchical layers of approval

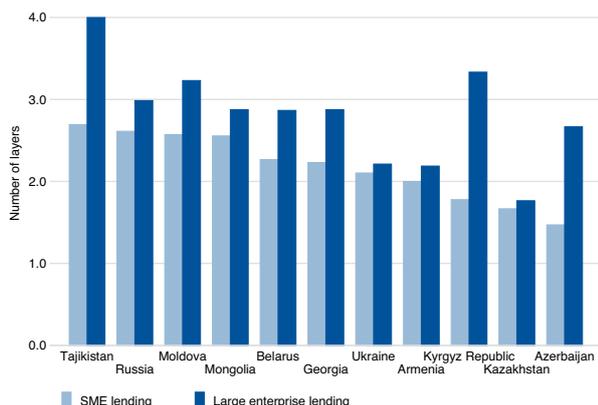


Chart 4 Change in frequency of irregular payments/gifts to court officials 2007-11

