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What are the constraints to the development of a fully-fledged microfinance market in Azerbaijan

by

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Abstract

I will try to highlight what microfinance is, its importance, what level of development in Azerbaijan, the negative and positive effects, the barriers to microfinance and the ideas for overcoming them in this thesis. Microfinance has been recognized as a helping hand to the poor people, from development of agricultural economy since the end of the 1970s. Empirical research provides credible evidence for significant contribution to social development different economies. However, we see significant changes in performance levels different economies. Their great influence on economic development is taken into account and the sustainability of microfinance to reduce poverty enterprises. Investigate the role of information limitation on the optimal contract proposed by the MFIs.

In addition to other results, it is expedient to demonstrate good projects of MFIs bad projects may put additional restrictions on eliminating lending to the informal sector repayment of increasing borrowers. Finally, I briefly discuss microfinance issues.

CONTENT

INTRODUCTION

1.1. Research Purpose and Objectives

What is microfinance? First, loans are divided into two main groups for personal consumption and business purposes. These key groups, in turn, are classified in several subgroups for the purpose, duration and amount of the loan. For example, auto loans, mortgages, cash loans, credit and payment cards belong to the subgroups of personal consumer loans. Business loans, in turn, are below such subgroups. Micro loans - they are selected by small amounts as they appear on their behalf. Microfinance is a subgroup for financial services that don't use frequent services to customers or even support services for individuals and businesses. Micro-credit, small loans to poor customers; check your savings and accounts; micro-economy; and payment systems.

Microfinance services have been developed to improve accessibility and self-sufficiency for poor and socially marginalized clients. Microfinance had a limited impact at the outset - granting microcredits to poor entrepreneurs and small businesses without access to credit. The two principle components for giving money related administrations to such customers include:

(1) Individual business people and connections for private companies based banking; and

(2) bunch based models where a few business people meet up to interest credits and different administrations as a gathering.

Over time, the microfinance object has emerged as a wider movement, such as saving money, insurance, payment for everyone, especially poor and socially marginalized people and families, not just a loan, but also a world of affordable, high quality financial products and services remittances. Microfinance supporters often claim that poverty will help the poor, including the participants of the Microcredit Summit Campaign. Microfinance is a way for many to promote economic development, employment and development with the support of micro-entrepreneurs and small businesses; for others, to manage poorer financiers more efficiently and to use economic opportunities while managing risks. Critics often point to some of the challenges of microcredit that generate debt commitment. It is impossible to have a generalized view of the impacts that microfinance can generate on a wide range of microfinance contexts and a wide range of microfinance services. He has tried to assess many research impacts. This loan offered to entrepreneurs and individuals engaged in entrepreneurial activity can also be offered to different businessmen who work with tax identification numbers. In consumer loans, as a document confirming applicants' income, extracts from a workplace electronic certificate or salary card account is required, and a microcredit is required to deduct revenue from the tax identification number to confirm revenue. Specifically, micro lending procedures were lower than consumer loans. To evaluate the applicant's business activity, you need to look at the separate Tax ID number. Because such loans are classified as risky loans, in most cases mortgages or damages are provided. Microfinance is also known as microcredit. Designed for beginners smaller. The main source of financial assistance by entrepreneurs. Microfinance is a small amount of money for a high interest rate and start-up business.

1.2. Research Structure

Research structure based on importance of microfinance, role of microfinance institutions, analyze of Azerbaijan’s statistics. I try to research step by step. Also I try to use reliable sources. My diploma paper’s research structure consist of outline of research, literature review, primary data collection and summary. Also I want to mention that, microfinance Institution (MFI) does not have a standardized description. An MFI generally provides smaller amounts of loans than low-income individuals. Loans can be for revenue generation or consumption. Easy to distinguish money easily. "Microfinance has emerged as an effective and powerful tool to reduce poverty amongst vulnerable and economically active, but financially insecure and vulnerable people in different countries." Broad and low-income families and their micro-enterprises cover extensive financial services, including loans, deposits, payment services and insurance. Reliable evidence suggests the role of MFIs in improving the lives of communities deprived of diverse backgrounds. The South Asian countries, especially India and Bangladesh, actively pursue the policy of establishing an official network of microfinance institutions when it comes to the potential role of microfinance in reducing poverty. These organizations are sponsored by NGOs, the National Bank and the government. Microfinance is used as a tool to attack poverty in the world.

2. Microfinance in Azerbaijan

2.1. The Purpose of Microfinance

The economy of Azerbaijan continued to grow rapidly in 2007 and the GDP growth was 23.4 percent. Public expenditure on economic growth and social services resulted in higher per capita income, job creation and poverty reduction. This growth was mainly provided by the expanding oil and gas sector, which accounts for 58.6 percent of the economy. The non-oil sector, on average, increased by an average of 11 percent compared to the previous year, which is a major increase in public spending, including growth in pensions and salaries. Nevertheless, the rise in global fuel and commodity prices is due to high levels of domestic demand and increased public spending. From 8.3 percent in 2006 to 16.7 percent in 2007. Inflation has risen in terms of AZN against the US dollar. As a result, debt demand from international sources continued to grow. In 2006-2007, banks increased their external debt by 138 percent. These developments in the microfinance sector have led to a decline in international debt - in 2007, 95.5 percent of MFIs are an important factor in arriving from external sources. The total profit tax of credit organizations is about 22%. In 2007, the CBA took the lead in adopting a new law on non-bank credit organizations. This bill excludes credit unions regulated by a separate law. Some key stakeholders, including representatives of non-bank credit organizations, were invited to the working group before the draft law was submitted to the Parliament. Similar to the Law on

Banks, under this law, it does not intend to settle and regulate microfinance activities on a regular basis. If Parliament adopts the law, non-bank credit organizations will meet the following requirements: High Capital Requirements: Law stipulates that the minimum capital requirement of non-bank credit institutions on pledged deposits is AZN 250,000 (US $ 302,500) at least 25,000 AZN ($ 30,250) to avoid pledges. At present the capital requirement is 6,050 AZN ($ 5,000). Microfinance has become one of the most effective tools for the development of small businesses in Azerbaijan over the past two decades.

The volume of microloans in the country exceeded $ 20 billion. High profitability, organizational agility, and non-bank credit organizations (NBCIs) covering more than half a million clients have enabled many banks to operate more efficiently. At the same time, the global energy crisis and the economic downturn in Azerbaijan, which led to the devaluation of AZN, broke the microfinance market for two years and reduced the volume of loans by ten times. Obviously, the credit sector of Azerbaijan suffered the most from the economic losses in the last two and a half years. The realities of the post-oil era traditionally led to a decline in production and trade in a number of industries (primarily construction and real estate, automotive and consumer markets), which have major trends for banks. The devaluation of the national currency has aggravated the situation that has led to a large-scale crisis for consumer loans and negatively affects all sectors of the national financial sector. Decrease in assets structure, narrowing of operations and reduction of profit led to the closure of nearly one-third of the banks operating in the country.

The situation in the banking sector has stabilized, thanks to the efforts of the Central Bank and the Control Chamber of the Financial Markets. Unfortunately, a completely different situation has emerged in the microcredit market, where non-bank credit institutions dominated all these years. In contrast to banks, NBCIs have been out of the sanitation programs of the financial market in the last two years. Less help from banks was needed because devaluation of the currency and the decline in credit activity in the regions hit the ICTs double by force. In principle, the microfinance industry in Azerbaijan is governed by the Law on Banks of the Republic of Azerbaijan. Both banks and non-bank credit institutions are allowed to continue their microfinance activities. The National Bank of Azerbaijan (NBA) was not active in regulating the sector, and as a result, microfinance is not a highly regulated industry in Azerbaijan.

However, some commercial banks also provide microcredits and their activities are seriously regulated by the NBA. The current regulatory regime does not apply prudential standards such as capital and liquidity requirements to non-bank credit organizations. Lack of prudential regulation obstructs non-bank credit organizations to accept deposits. According to the above-mentioned rules, there is no special tax regime for microfinance activity, both banks and non-bank the total profit tax of credit organizations is about 22%.

In 2007, the CBA took the lead in adopting a new law on non-bank credit organizations. This bill excludes credit unions regulated by a separate law. Some key stakeholders, including representatives of non-bank credit organizations, were invited to the working group before the draft law was submitted to the Parliament. Similar to the Law on Banks, under this law, it does not intend to settle and regulate microfinance activities on a regular basis. If Parliament adopts the law, non-bank credit organizations will meet the following requirements: High Capital Requirements: Article 7.2 of the draft law stipulates that the minimum capital requirement of non-bank credit institutions on pledged deposits is AZN 250,000 (US $ 302,500) at least 25,000 AZN ($ 30,250) to avoid pledges. At present the capital requirement is 6,050 AZN ($ 5,000).

More involvement and control of the NBA in microfinance operations. The law may be a microfinance friend for the following features: An opportunity to act as a non-bank credit organization entitled to a mortgage deposit. Formal entry into the Centralized Credit Registry. There is no limit on interest rates or loan sizes. It's an opportunity for non-profit organizations. Microfinance operates as a basis for obtaining a license. A non-bank credit organization that does not accept collateral deposits is subject to prudential standards. The lack of comprehensive regulation leads to some uncertainty in the operating environment. Hopefully, a new law will contribute to the development of microfinance in Azerbaijan, thereby creating more opportunities and transparency.

2.2. Importance of Microfinance

Basically, citizens use their funds or some of their businesses to expand. It hesitated when new microfinance emerged in Azerbaijan. Most of the applicants were less profitable citizens and banks considered these loans highly risky. Banks mostly prefer customers in Baku and surrounding areas. However, demand for regions and remote areas was great. It was very difficult for citizens living in the regions. Thus, the way and additional expenses to come to Baku to appeal to the credit turned the citizens into the interior complex. Microfinance organizations have identified the necessary segment of development. The main target segment of these organizations is large banks that have difficulty accessing home, difficult financial situation, or who want to build a home or small business, or have difficulty increasing their jobs, and citizens have remained unanswered. This has had a positive impact on the overall economic situation in the country. The profitability of this sector has increased in a short time and led to increase the bank interest rate. The main reason for banks' interest was high interest rates. Non-bank credit organizations also compete Banks and non-bank credit institutions are competitive.

2.3. Current role of Microfinance

There are some banks and credit Institutions in Azerbaijan: Accessbank, Finca Azerbaijan BOKT, Vision Fund Azerbaijan BOKT, Unibank, Viator BOKT, Bank of Baku. From microcredit market research, we learn that these loans are not as extensive as consumer loans. But the number of our banks offering this product is small. The biggest factor affecting the volume of micro loans is mortgages. Thus, if the mortgage is only a loan of a physical person, the loan is usually about 5-10 thousand. Real estate or gold collateral can be reached up to 30,000 AZN. You can find out more about microcredit conditions in the table below.

BANK	MAXIMUM AMOUNT	DURATION	INTEREST RATE	COMISSION
Accessbank	10000 AZN	Up to 24 months	28%	1%-2%
Amrahbank	20000 AZN	Up to 18 months	27%-28%	1.5%
Bank Respublika	10000 AZN	Up to 24 months	27%-28%	1%-1.5%
Bank of Baku	20000 AZN	Up to 24 months	25%-30%	1%
Express Bank	15000 AZN	Up to 18-24 months	26%-27%	2%
Unibank	15000 AZN	Up to 24 months	27%-31%	2%
Rabite Bank	5000 AZN	Up to 24 months	24%	1%

In general, microfinance is the formation of the market structure of the economy, elimination of social tension, improvement of the living standards of the population, employment and entrepreneurship development, anti-monopoly prevention, creation of competitive environment, provision of markets with goods and services. It plays an indispensable role in the implementation of such important economic processes. People build their businesses with the necessary funds and increase their profits and bring their living to a better level. As new businesses grow, the unemployment rate is diminishing, and the number of employed people increases day by day. One of the main goals of microfinance is to combat poverty.

More precisely, it is considered to be the most effective strategy for addressing global poverty. For instance, World Bank, Asian Development Bank, US Agency for International Development and others. Organizations actively support. There are some ideas about the positive and negative effects of microfinance. The main arguments about the positive effects of microfinance are that microfinance entrepreneurship, including small and medium-sized businesses, contributes to the development of the economy. This, in turn, positively affects the employment, the income, assets and material well-being of vulnerable populations, thus reducing material and moral poverty. At the same time, microfinance has a positive impact on the employment of women as well as the growth of business skills, self-esteem, business income and community level of vulnerable groups. Nowadays, women's power is a matter of debate. In some countries, sexual discrimination leads to the violation of women's rights. In this regard, women's associations in many countries are becoming increasingly popular, as they are known as societies protecting women's rights.

Microfinance is also a chance to stimulate women. Many women will be able to create their own business or improve their well-being and open a new page in their lives. Unemployment has become a global problem. Creating new businesses affects the employment of the unemployed. Arguments about the negative impacts of microfinance are largely due to the increased poverty of clients due to high interest rates of micro-loans, increased child labor and psychological tension in society. In a number of countries around the world, microfinance shows its positive impact on poverty reduction. Examples include Bangladesh, Kenya, Peru and others countries can be shown.

Access to credit is an important factor in the development and development of economies in the world. This is more important in developing countries where loans are largely secured, and identifies the majority of farmers' credit opportunities for entrepreneurs to adopt procurement and improved technologies; Adding value among native processors; Traditional and several formal sources are key sources of joint investment funds and are essential to achieving the goals of any agricultural policy. Credit packages are designed to facilitate the purchase and use of new technologies in agricultural production, processing, and marketing. Loans are either cash or cash, officially or unofficial. Basic technology inputs such as fertilizer, seed / seedlings, irrigation equipment, mechanical services and inputs, plant or animal husbandry products, including fishing, poultry, tree products, and commodity value enhancement include farmers' contributions. The latter includes processing; packaging, storage and export. The acquisition and utilization of credit facilities is expected to increase beneficiaries' production and revenues and to achieve the Millennium Development Goals (MDGs).

The current microfinance packages developed by the MFIs have mechanisms to provide greater coverage for suppliers and users as well as to increase the flow of investment funds to the agro-sector. Commercial banks, community banks, non-governmental organizations, both domestic and international, self-help groups, credit unions, claim that they are involved in securing a microcredit in Nigeria. When cheap foundations funds are no longer available. This requires an investigation of their performance. Efficiency and profitability among MFIs are largely due to users with minimal recovery risks and partial operational restrictions on MFIs' ability to access and manage cost-effective funds and their utilization.

2.4. Microfinance Association of Azerbaijan

Microfinance Association of Azerbaijan was created for interest in microfinance. Microfinance has been submitted to Azerbaijan in the mid-1990s as a strategy for repatriation of 1,000,000 IDPs and refugees during the Nagorno-Karabakh conflict with Armenia. International non-governmental organizations operating in 1996 started microfinance activities in order to increase economic opportunities for local and war-ravaged people in the country. They have begun to discuss the problems they face in providing credit services and exchange experiences in order to achieve a sustainable upgrade. In October 2001, members of the intergovernmental working group, a group of directors, donor and credit program managers organized the First Annual Microfinance Conference in Azerbaijan to raise the quality and effectiveness of microfinance activities in the country, as well as informing the broad public about the role of microfinance in the country's economy. As a result, 10 International Non-Governmental Organizations have decided to set up the Association to improve the activities and status of the working group representing the interests of the microfinance sector in Azerbaijan. Twelve participants, including ACDI / VOCA, ADRA, FINCA Azerbaijan, Norwegian Humanitarian Organization, Norwegian Refugee Council, Mercy Corps, Oxfam, International Migration Agency, Child Protection Agency and the World View on December 19, 2001 participated in the conference. The organization has signed a Memorandum of Understanding on establishing the Azerbaijan Microfinance Association and, along with drafting its initial charter, defines its mission, purpose and mission, scope of activity, management structure and formally officially established the Azerbaijan Microfinance Association. One of them - Mercy Corps Azerbaijan - did not directly provide microfinance services to its customers, but it has become one of the most active members of the AMFA since it is a grant funds manager for the $ 6 million, 45 million US dollars Humanitarian Aid Program. One of the components of this program was the provision of microfinance services through other NGIs. The growing presence of international investors in microfinance is a reflection of the growing role of microfinance and the overall acceptance of poverty reduction as a powerful tool for increasing self-reliance among the poor. Microfinance programs for Nakhchivan Autonomous Region, isolated from some regions or countries close to Nagorno-Karabakh, which is close to the IDPs, were crucial to meeting the common needs of people. Microfinance programs initiated by international NGOs encouraged Microfinance Institutions. For the last 7-8 years, microfinance organizations have turned the microfinance sector into the most active participants in the economic development process. Microfinance projects implemented by Non-Governmental Organizations have resulted in the creation of Microfinance Institutions as the "best practice". Over the past 10 years, the number of Microfinance Institutions in the country has increased and has turned the microfinance sector into one of the key players in the economic development process.

2.5. Myths about microcredits

There are some myths about microcredits. First of all, microcredit is the tool for combating need. Unfortunately, this is not the case. Microcredit is a small amount of loans that sometimes does not exceed $ 100, which is given to poor people to create their own small businesses. This idea gained great popularity in the development of the economy, and politicians, business leaders and celebrities propagated it. More than 100,000 people in 100 countries have already used this type of small debt. In 2006, the Grameen Bank, the founder of microcredit, Mohammad Yunus, was awarded the Nobel Prize. Microloans have become increasingly a key tool for poverty alleviation and women's freedoms. Where did this belief come from? Microcredits promising freedom and self-

reliance were the most diverse politicians. Creditors - banks talk about convincing stories about the success of simple people living in the third world countries. The authoritative sources point to the fact that microcredits are mainly based on women's convictions, and they convince them that they will be deprived of their poverty. However, new data, which casts doubt on these studies, shows that micro-credits have a very positive impact on key poverty indicators, such as households or school expenses for children.
The point is that the research method of the CWS has changed: now they are based on more random experiments. Their essence is very simple. If you see that people with less need have used more than microcredit in the past, then you can't say which of them would be the cause: the borrowed debt will help them or their relatively high living conditions will be easier.

Let's assume that you decide on who you are going to cast lots in the village, and you will be able to tell exactly how the debts taken after the fate of each group will affect the future destiny of the people. Recent studies in India, Mongolia, Morocco and the Philippines have shown that direct earning of money stimulates the creation of small businesses such as chicken breeding or sewing.

However, during the first half of the research by the researchers, these people were not released from poverty. More precisely, the impact of microcredits on living standards is almost zero. The new findings contradict myths about microcredit, but generally do not contradict healthy thinking. If you read this article from the magazine (especially the internet), you are most likely to belong to the global middle class, covering billions of people who receive normal wages and are not suffering financially. What is happening in your family history will give you such a chance? It's tough to get your father's two hundred dollars to get a goat. At the time, it was now a regular way of paying for the best of the best steps that a person can take to get rid of poverty, that is, the way to the professions that emerged at the beginning of the industrialization era.

The other actual opinion ”Microfinance does not need anything”. This is not the case. It would be wrong to say that the noise around microcredits is nothing and that the whole area is a waste of money. Twenty years ago, journalist Helen Todd spent one year to observe the lives of more than 62 women in two villages in Bangladesh, using the services of the Bank Grameen. 40 of them have taken microcredits and all of them have said they will spend the money on the job: buy rice to buy cows or to rice to sell more expensive than roast. However, only a few did. Many spent their money buying or buying land, repaying the previous loans, raising money for the family and downing their daughters. There is nothing to worry about. People who live for $ 2 a day, of course, would not. They spend three days a day, one dollar a day, and sometimes nothing else. Generally speaking, there may be farmers who are able to overcome all of their income during the season. However, it is necessary to feed the children every day, and the head of the family may be ill at the most inconvenient moment. They have to look for financial instruments in order to accumulate money in good time and to borrow in bad times in order to adapt their unexpected income to daily life. The mother of the infected child can rely on the child to take money from his girlfriend, to bring money to her brother living in the city and, even if she is fortunate, to use the child's health. For this reason, microcredits have turned into a ring of financial system and are not limited to the issuance of loans, but all of this type of services.

The other myth is “Microcredit is free of women”. Not clear. The new history of microcredits began in the early 1970s, when gender equality was globalized and women were the basis for borrowers. Credit operators assured them that the debt they give would give women more freedom. Women who came home with money said that they had more reason to argue with her husband on questions about farm management (for example, buying, consuming, or investing beer). Moreover, in traditional cultures such as Bangladesh, where women were home, they were free to carry on their work, so people went out and educated. At the same time, the main drawback of microcredit is the pressure on people around it. Public pressure sensitivity was the main reason why these loans were given to women. In many cases, women are less likely to argue with men and are more exact in implementing payments. Anthropologists' researches do not allow for unambiguous views on how microcredits are affecting women's freedoms. For example, Sayed Hashemi, Sidney Shuler, and En Rilee, who studied the social outcomes of microcredit in Bangladesh in the 1990s, have come to the conclusion that the borrowers of the Grameen Bank have some freedom. But there are also some other non-optimistic cases. Anthropologist Lamia Karim describes several cases where women who can’t afford their debts in Bangladesh lose their property and even in their desperate state. Their property was sold to their husbands for debt repayment. Grameen's group loans, the most popular form of loans, have no impact on women's freedoms. The main reason for this is the pressure of borrowers in the group. The absence of individual microcredits and lack of necessity to meet borrowers every week has fewer shortcomings, not just group microcredits. If the employees of the bank can’t give the group a decision on lending, they are forced to take more time, commitments and borrower credit history. As a result, the institute's revenues are diminishing, and they begin to ignore those who most need it.

Some origins say that “Microcredits are protected from the irrationality of the ordinary financial system”. Of course not. Microcredit attracts an impression of fashion in the public, so much money in this area is so good. In fact, it is more likely to damage the market than the usual loans. There are two main problems in this area. The first is the lack of credit offices that control poor people's debt levels (the banks are forced to act in a frenzy). Second, it is convinced that microcredit is a means to get rid of poverty, which has led to the saturation of the market's charitable and nonprofit organizations. In many countries, unpaid micro-loans have increased over the past year by 30-35%, which is faster than expected by lenders. The protest wave of borrowers supported by President Daniel Ortega in

Nicaragua plundered a large Banex bank. Over the past five years, patience has been exhausted in some parts of Bosnia and Herzegovina, Morocco and Pakistan. It is profitable for a borrower who has borrowed in a short term, but does not pay for it: if someone lost a bank, then someone won. But as a result, the system will be destroyed and nobody will have access to finance. In Andrzej Pradesh, India, in 2010, the government simply closed the whole area, otherwise they would already be destroyed. There, microfinance developed so strongly that in some villages loans were called by the days of the week when the borrowers gathered. Some women went to the meeting every day.

In general, microfinance is not a drug for poverty, but they have their own advantages. Their strength in the fight against poverty and gender inequality, but the dynamic creation of institutions that offer useful services to millions of clients. Can you imagine your life without financial support? Financial services are needed as air-water. Microfinance (poor people in the business and non-profit entities providing services to the mass) are not only satisfied microfinance, micro savings, micro-insurance and micro-transactions is also covered.

2.6. Importance of Microfinance Institutions

The lack of funds for crediting and capacity building could be restricted by a number of surveys in this sector, as most Microfinance Institutions, especially those unregulated, are facing increased funding due to lack of donor resources and traditional security to pay off their trade loans. Many organizations have not yet achieved financial sustainability. Most of them officially have insufficient capital to support and expand administrative and software, depending on donor funds. Client allocation is a serious challenge to Microfinance Institutions, since it actually affects the objectives of poverty reduction rather than their profitability and sustainability. "Dropout is a cost for Microfinance Institutions in terms of human and work, and is unfounded for the organization, and no Microfinance Institutions is to join any member, just to say goodbye, and choose them to have a well-motivated client with the final decision on poverty eradication and training time, energy, and money. When a person leaves, it is a hurt for the program because it reduces the total number of members and borrowers, while also decreasing the non-legitimate and operational costs for the Microfinance Institutions, Dropouts creates non-regular groups, Dropouts also contributes to the reduction of the level of morale within the framework of the Microfinance Institutions, which can cause serious damage to the image of others and sends a false message to the community, does not suffer from restrictions, but at the same time hampers its progress and its long-term plans are broken ".

One of the obstacles facing microfinance was the lack of system. I mean the systematic non-registrations of the loans made it difficult to control it. It was difficult for customers to control their credit history. Microfinance Institutions also do not require the borrower not to use the loan amount for the proposed and agreed projects. To minimize defaults, Microfinance Institutions should propose that: spend less borrowing costs from borrowers, minimize the amount of assets before borrowing, and regular lender accounts and regular monitoring by individuals. The results of this research suggest that credit risk management practices increase the Microfinance Institutions profitability, increase profits, diversify Microfinance Institutions to improve shareholders' equity and improve their savings, and improve the investment climate in Microfinance Institutions and improve human capital the solvency of systems does not allow the improvement of Microfinance Institutions indicators. The research then showed positive correlation between credit risk management practices and financial performance of Microfinance Institutions.

Milton Friedman once said, "The poor are weak because they are lazy, not because they have no access to capital." To date, most of the population remains outside the formal banking system. Microfinance Institutions are equipped to access only "non-bank" or "non-bank" mass and accessible for financial services.

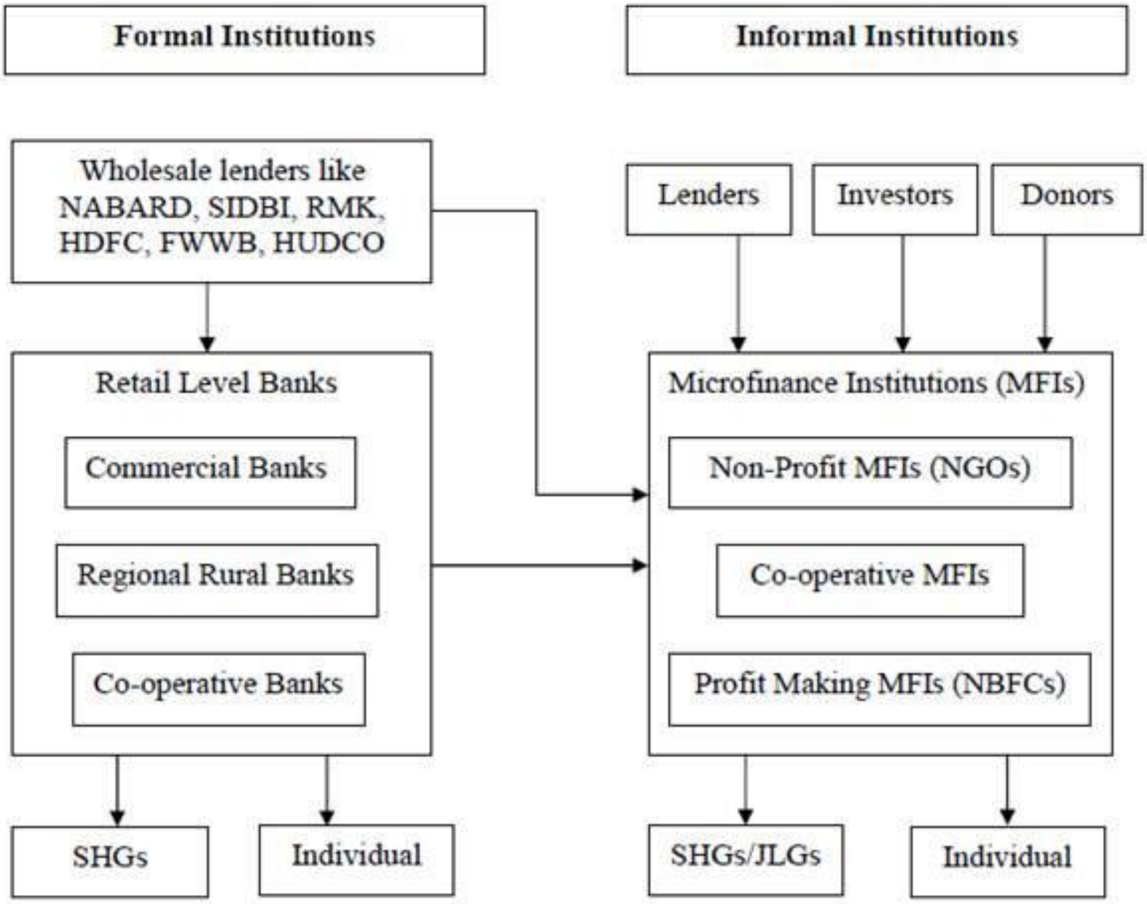

Figure 1. Institutional Arrangement for Microfinance Disbursement

Source: *https://www.nelito.com/blog/challenges-faced-microfinance-institutions.html*

Microfinance Institutions that serve retail customers need to face a fairly certain number of problems that can't be solved by solutions to commercial banks. These difficulties are:

Coverage costs - reaching out to the world's non-bank population means serving smaller loan amounts and servicing the remote and sparsely populated areas of the planet. It can be safely neutralized without the automation of the process and the high rate of mobile delivery.

No scalability - Smaller microfinance systems are frequently struggling to protect and maintain performance in these markets. This prevents the growth of these organizations.

SHG Quality (Self Help Groups) - With the rapid growth of SHG-Bank Linkage, the quality of Microfinance Institutions is under stress. This is for a variety of reasons:
-Involvement of government agencies in the promotion of groups
-Some members of the Microfinance Institutions identify the reducing skills in managing their groups.
-Change group dynamics.

Geographical Factors - Approximately 60% of the Microfinance Institutions recognize that geographical factors make it difficult to communicate with customers in many regions where they have trouble creating and expanding the organization.

Different Business Models - Supporting many extensive features and lending activities is difficult and requires substantial expense and effort. High operating cost - High operating cost is a major problem for a Microfinance Institutions. The transaction volume is very small, whereas the fixed price of these transactions is very high.

KYC and Security Challenges - Clients who serve microfinance guidelines are usually those who have no or very limited personality or financial security, which makes it extremely difficult for organizations to offer any bank service.

Limited budgets - It is not possible for most Microfinance Institutions that limit the ability to obtain world-class banking solutions that can help to prepare provisions for large-scale investments, fulfill their requirements, and support development goals. Undoubtedly, Microfinance Institutions have shown an impressive increase and have led to financial integration, but many things need to be achieved.

As it is known, the source of microfinance can be found at the end of the last deceased. Although its origin In Bangladesh, microfinance has grown rapidly in Latin America, where it has grown great poverty reduction and the most vulnerable groups within the context of funding. Specifically, the first important activity in the field of microfinance is linked to Nobel The award-winning Mohamed Yunus and the creation of the Grameen Bank in 1976. Grameen Bank since then has helped more than 11 million people worldwide in collaboration with other organizations. In the first 30 years, Grameen Bank issued $ 5400 million, with a rate of 98.3% supporting 5.9 95% are women. In the 1970s, most state agencies and their development NGOs considered that they did not have security or credit, and did not have credit records and that they were lending to individuals there was a very high risk of living in poverty. This self-fulfillment was almost unbearable without enough and without subsidies. However, practice shows that the default rate of microcredit. The activity is surprisingly small. Until 1995, there were both Grameen Bank and Microfinance Institutions subsidies and other foreign aid, but proved that projects can be sustainable, achieving significant social impacts. Therefore, the growth and maturation of microfinance activities is a fact that many organizations have decided to think of poor people as being trapped in poverty. Lack of work and savings, but not because of access to traditional financial institutions. Since the 1970s, only when Grameen Bank has carried out such activities, by the end of 2014, 2,300 According to Mix Market6, organizations dealing with microfinance activities have been established around the world. The progress in institutionalization of microfinance activities is very positive will affect these organizations by influencing their solvency and sustainability of microfinance organizations expands the range of financial instruments they offer to low-income families.

Therefore Institutionalization of microfinance activity allows Microfinance Institutions to regulate their proposals. The real needs of customers with a financial risk of exception. Future prospects for the future are also promising primarily in Microfinance, and in developing countries a valuable and recognizable instrument for fighting poverty, as well as financial and social exclusions. In short, the rise of microfinance as a national choice has taken place for a variety of reasons unemployment, increased informal lifestyles, and productivity is impossible creating jobs in the sector. To overcome these problems, through the state impulse The Emergency Social Fund and the projects that could create jobs were inadequate. In addition, the critical situation of private banks due to the post-crisis fear and the closure of the public started banking activity in 1991.

The private banking sector was very cautious, despite great opportunities there was a market. Hence, NGOs were the only individuals able to make the situation worse opportunity. It is important to discuss the process of financial mediation regulation and control. That's it Development and supervision of the regulatory framework of the microfinance system is implemented by ASFI (Financial Control System System). Targeting to have an arrangement framework the following:

- Promoting and maintaining the system's efficiency,
- Try to minimize the Bank's fraud loss of system,
- Reduction of systematic transmission problems,
- A competitive and flexible system;
- Providing transparency of the financial system in detail information about the current status of each system.

The regulatory system has a positive aspect of Azerbaijan's microfinance industry. It has developed for 25 years provide financial support to businesses to develop their business in the best possible way.

Despite the mighty power around microfinance in the last two decades is still far from the industry reach the whole elderly population. Less than 10% I mean 600 million families believed to be worth $ 2 million will be able to access microfinance services in one day high level unpaid demand. According to the latest report McKinsey and Co, the current Microfinance Institutions' current global loan portfolio is about $ 17 billion will increase from $ 250 billion to $ 300 billion in the next decade or two. It may seem like this balance between supply and demand mainly due to immaturity of the market. Articles the potential of microfinance potential has been recognized just recently and the Microfinance Institutions industry has not yet developed systematic growth model. Microfinance Institutions annual growth rates are estimated at 15% offers up to 30% in one place $ 2.5 billion and $ 5.0 billion for portfolio capital each year in the near future from $ 300 million to $ 400 million additional capital required to support such loans. But we would see a steep rise in this demand exponential rates in recent years have continued to expand larger Microfinance Institutions. In short, microfinance will be needed in the coming years, there are many funding options there are four options to attract the funds that Microfinance Institutions need for future growth:

Donors: Donors have been the main hope for funding from the early days of industry grant and soft $ 500 million a year and $ 1 billion loans for micro-loans in each of the last few years. However, the growth of the Microfinance Institutions has recently begun to expand its potential such donors; and contributions to the sector continue to be critical, and should be completed more private sector participation. In this situation, the role of donors should be conveyed each level capital is more "small" capital-but also in terms of holding can deal with positions invests in capital structure and less mature MMO. Deposits: Most savings on public savvy savings this is not the only way to increase the effectiveness of your productivity rich but cheap compared to costs foreign debt. But the regulation, Microfinance Institutions should be banks or finance to participate in savings incorporated enterprises for non-profit companies.

Local lenders and investors: Entry into local funding does not allow Microfinance Institutions to pass savings deposits. This adjusted MMI has been easy for you as an opportunity to integrate "downscale" commercial banks. Among the variables advantages of local financing are the protection offered by

Microfinance Institutions foreign exchange risk and its promotion accept the trade approach to Microfinance Institutions and thus become it is actually durable (unless it's totally self-sufficient).International Investors and Banks: A 2005 Survey CGAP estimates that less than a quarter of the total Microfinance Institutions in recent years, the funds from foreign organizations really looking for the price of the private equity market.

Many of them the capital is not a socially-motivated source, religious organizations, NGOs and wealthy individuals philanthropists but if the microeconomics sector provides it serves a large number of potential micro-entrepreneurs if they are currently in French, they will need it find out more of the commercial capital supply. Over the last few years for many years, said that the microfinance industry belongs to the private sector microeconomics is a profitable commercial business. CGAP request it has identified more than 225 commercial banks in 2003 other official financial institutions involved in the sector. Introduction these new players really are microeconomic, wipe out many Microfinance Institutions from dependence on donors.

However, when discussing later, the scale of the microfinance more than money; requires change regulation, transparency enhancement of financial information, enhancement of management capabilities, among others. Nevertheless, funding is one of the basics growth and capital markets ability to integrate microfinance into a public network capital markets.

It is important to emphasize that poverty is a common third-world problem. 2,800 million people than $ 2 a day is below the poverty line in the world. But this is not a homogenous problem. The main purpose of microfinance is to reduce poverty through financial transfers. It includes a radical way risk management methodology, unlike conventional or commercial banking. Consulting and financial education is part of its tools. In many cases, microfinance does not only include activities serious financial intermediation, as well as very important social mediation developing countries. They have developed group warranty mechanisms to help keep them down late maturity level. This is a new way to create mutual trust to reach among group members more control over the risk of non-repayment by the lender. At present, the microfinance industry is in the process of evolution to develop a set of extensive financial products offered to its platform customers. These are additional services such as micro-payments, remittances, savings, financial education and so on, they help to reduce the financial burden and poverty in countries where this is a credit model more convenient.

Credit technology has evolved primarily in Latin America. According to annual published reports economist, this is the leading microfinance provider in Bolivia and Peru helps the system develop. Both countries have the majority of them population in rural and suburban areas where Microfinance Institutions may emerge successfully. Strong sides of the two countries in the rest of the region and other countries Asia, Africa or Western Europe, where microfinance is of greater importance in the economy a wide range of organizations, which are developing over time, are accompanied by a wide range of products and is supported by a regulatory body that approves the payment and sacrifice of these entities.

In a relatively short time, microfinance has become a major intermediary in international development. However, many potential entrepreneurs still have little or no access to funding opportunities. Innovation and government policies play a role in this imbalance.

The humanitarian crisis in Africa's Horndale for several months reflected the socio-economic and ecological disparities existing around the world. At the same time, the financial crisis we have seen since 2008, the Arab Spring and the recent Greek crisis remind us that these inequities do not only affect the poor. Their impact is felt by middle classes in both poor and emerging economies. One reason or consequence of these crises, the weakness of millions of micro-entrepreneurship and the growing threat of middle-income employment are two major challenges facing socially sustainable development and economic growth.

On the global level, about 3 billion people are displaced from the traditional financial system. As a general rule, these people often have their own jobs in a dangerous and informal sector. This means they have very limited opportunities in the market, social protection and education.

Since the end of the 1970s, microfinance has played a role in helping the poorest people out of the banking system, promoting income-generating activities such as microcredit, savings and micro-insurance, and providing non-financial services such as training. and awareness work. Revenue growth and stabilization of revenue flows through improved business development (cash flow, shareholder investment, housing improvements, housing improvements, health and education costs, and better preparedness for unexpected external shocks). Particularly, microfinance has made it possible for many women to become entrepreneurs and increase their role in the family community that has been dismissed for a long time.

About 190 million people currently finance microfinance. However, 500 million micro entrepreneurs are still excluded. Microfinance does not limit itself to providing financial services to access them, but should be expanded to address sustainable development issues. Currently, several microfinance organizations (Microfinance Institutions) develop a unified approach in co-operation with other actors. In many cases, the priority for other MMOs is still to consolidate their growth and to increase their field of action. This is the mission of Planet Finance, an organization promoting international solidarity and specialized microfinance in 1998. Microfinancing should find new resources to address issues such as training and capacity building, management, new products, social performance management, management information systems, legal change in Microfinance Institutions. Microfinance is also a priority for Microfinance Plus programs, which include developmental components such as education, health and environment. These projects, which are part of a comprehensive approach, can have a greater impact on success rates by increasing the value added at the local level by increasing the negotiating capacity of mediators by ensuring that micro entrepreneurs work on environmental protection policies.

Extending the coverage of Microfinance Institutions is based on technological innovations that will reduce the operational costs of Microfinance Institutions in rural areas, where microfinance is not sufficiently developed to meet potential entrepreneurs' needs. Mobile banking in Kenya, the Philippines and Senegal can be accessed by a large number of high-end customers. Currently, about 4 billion people have mobile phones, the potential for growth in mobile banking is huge.

But mobile banking is subject to a specific regulatory framework, so the effect of the effect is undeniable. These challenges call for new types of activities by the microfinance sector, governments and international organizations to promote synergy between the 20 to 30% annual growth in the sector and the synergy between public and private development actors.

The politics should not be neglected: the government plays an important role in ensuring healthy growth in the sector and preventing slippage. In many cases, the preparation for the G20 sessions limits the access to finance for small and medium-sized enterprises and, in spite of millions of jobs, excludes microfinance. The G20 Microfinance Conference, organized by the Bank of France in July 2011, has been a positive development in this direction.

2.7. The role of governments

The role of governments and international organizations, above all, is to create a prudential regulatory framework that will contribute to the development of the sector. Peru is often referred to as an example in this respect. Governments should explore new, simplified and adapted legal frameworks for micro-enterprises that do not intend to remain permanently in the informal sector. Finally, governments can also support the sector through banking incentive mechanisms, just like Brazil, where Brazilian President Lula da Silva has enabled millions of Brazilian bank accounts. Indeed, the role of banks, in particular the role of postal banks, should not be assessed as a result of microfinance. Here also PlaNet France plays a role.

Today, microfinance is known as an effective tool to combat poverty. The sector still has not enough resources to ensure its professionalism and regulation. You will face many difficulties to ensure that you live and increase your impact. Its main problem will always find new sources to ensure that businesses, as well as micro entrepreneurs and wage workers remain sustainable. Because people do not have income, inequality will increase and the rebellion will continue. The politics should not be neglected: the government plays an important role in ensuring healthy growth in the sector and preventing slippage. In many cases, the preparation for the G20 sessions limits the access to finance for small and medium-sized enterprises and, in spite of millions of jobs, excludes microfinance. The G20 Microfinance Conference, organized by the Bank of France in July 2011, has been a positive development in this direction.

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Historically, international financial aid for microfinance has come from donor organizations, including state development agencies and private foundations. With the commercialization of the sector, the need for access to capital markets has led to the importance of Microfinance Institutions (MFI) professionalism, which has led to the development of Microfinance Investment Instruments (MV).

These independent investment funds, which are open to many investors for the transfer of private equity to MMCs through debt or equity, have been created and specialized in microfinance. Two decades after the establishment of the first media in the industry, it is still looking for private investors, investing in emerging and boundary markets for their experience in the whole chain of value chains. As of the end of 2016, there were 127 HIV-infected people, total assets of which amounted to $ 13.5 billion under the leadership of the World Bank. Despite the historic and important role of development financial institutions in the growth of HIV, these vehicles are currently funded by private institutional investors, including pension funds, banks and funds (52%). Retail investors and high net worth 28% of total funding and 20% of total capital are from state investors.

Stable-earned MIs hedged in the dollar have shown a positive performance over the past decade without showing a negative year or a negative quarter. In 2006-2016, their net income was 3.3% on average and USD-hedged MIVs represent 75% of the total M&E.

In 2007-2008, the highest net profit value (NAP) in 2007-2008 (6.5% and 6.2%) was 2% on the average for the next three years (2009-2011). The pressure on the loan principle is mainly due to a decrease in the level of the money market and the need for the MFI's low interest rates. In addition, increasing liquidity in local markets led to increased competition among the IDUs2. In 2012, when several emerging market currencies were depreciated against the dollar, which caused the increase in hedging expenses to finance the local currency, a short peak (3.5%) was observed before returning back to 2013 (2.5%)3. In some emerging markets, the political and economic crisis is estimated at 2.5% in the following years. Despite the reduction of the premiums, the portfolio quality of the micro-credit portfolio remained unchanged at the level of 2% of the microfinance portfolio of the micro-credit portfolio and decreased by 0.5% during the reporting period, taking into account the loan disbursement. According to the labor-intensive nature of HIV-related work models, the overall cost ratio of the HIV has not diminished dramatically, but naturally, the average of 2.3% remained constant for different investment strategies. In terms of public spending, the MED funding funded 400,000 active borrowers at the end of 2016, a significant increase over the year.

In general, the IDPs have demonstrated sustained growth and long-term success with the financial crisis of 2007-2008 and a number of difficult times for international capital markets, particularly in Nicaragua and India, in various microfinance crises. The MDGs have proven to be a stable and solid channel for private investors who want to come closer to financial integration from investment perspectives, providing financial income across many emerging and border markets in a context of a major social component in the context of future population growth. In addition, the MVs can lead the United Nations to the Agenda for Sustainable Development until 2030. These are funded by existing sustainable development gap of $ 2.5 trillion a year and most of them will be directed to emerging and cross-border markets through financing schemes. Thus, the MRE remains a catalyst for sustainable development of the Private Sector of the Private Sector, and there is growing evidence that directly affects the outcomes of such financial sources as health (SDG3), education (SDG4) and gender equality (SDG5), especially small and medium-sized enterprises simplified and more inequalities (SDG 8), while affecting wider SDGs.

Just three years ago, billions of people in the world were trapped. Faced with low income and facing exploitative credit sharks, they said they could not save for the future or buy the capital needed for a livelihood. This changed with the pioneering work of Mohammad Yunus in Bangladesh and the establishment of the Grameen Bank in 1983, and microfinance was born.

2.8. Microfinance mechanics

Microfinance mechanics is simple. People living in poverty often have a small number of material assets that they can use as collateral for a loan. In contrast, microfinance organizations (MFIs) depend on the social capital of borrowers to ensure the repayment of debts. For example, group loans can be given for borrowers to group and borrow in order. If a member of the group fails, the entire group is damaged. This reduces the risk of the borrower by creating an incentive for group members to follow each other and to select carefully the other members of the group.

The first MFIs have been developed with the promise of sustainable poverty reduction; to have high repayment rates, to extend their loans to a growing group of customers and to provide solid returns. However, as it gained market share, a darker side of microfinance emerged focusing on three closely related problems:

First, the main focus of microfinance on poverty reduction led to a market-oriented system based on microfinance as a viable business model. This can lead to positive results and the allocation of the poorest and most efficient loans in the world. However, it may also encourage exploitation practices. In some cases, MFIs have not adequately explained interest fees before using force to force debtors to pay. In the worst case, the MFI has deliberately offered more than one loan to the borrower's borrowers and, in connection with the producers, gave loans for unnecessary consumer goods. This concludes that some of the micro-financing is "a poster child who exploits the vulnerable."

Second, the number of both profit and non-profit MFIs has increased significantly, which in some cases makes the market saturated. In an effective article, Ghosh argues that excessive competition in over-saturated markets compels MFIs to lend to more risky borrowers. Similarly, a Deutsche Bank report recommends that MFIs lower their standards to gain market share and provide loans that go beyond the capacity of their customers. Saturated markets also create an opportunity for customers to take more than one loan, a model closely linked to over-borrowing. These are big problems for the microfinance industry; if unsecured borrowers cannot repay their loans, they are MFIs that cause losses. Unsurprisingly, many of the countries with the highest growth rates in the industry and most of the saturated microfinance markets experienced the biggest deterioration in portfolio quality.

Thirdly, regulation has mostly failed to keep pace with the growth in the microfinance sector. Growth and competition should be beneficial to borrowers and countries, as market pressures force MFIs to be more efficient, improve better control mechanisms and ultimately lead to low interest rates. However, the poor regulation of MFIs in saturated markets severely limits the ability of the customer to manage its risk. Lack of a centralized credit bureau or regulator means that borrowers can only apply for more than one loan by applying to different MFIs; However, in good faith, the MFI has no way of assessing the level of the client's indebtedness. Weak regulation also does not protect consumers: it allows risky and exploitative lending practices and allows for compelling payment strategies.

In the Andhra Pradesh example of the Indian state, a dramatic representation of the relevance of these problems and the subsequent personal tragedy and wider economic problems are presented. At the end of the day, Andhra Pradesh hosted one of the world's most competitive and fastest growing microfinance sectors. MFIs that are largely unrestricted and regulated by commercial approach.

Microfinance seeks to expand smaller loans, savings, and other key financial services for people without access to capital. This is a key strategy for helping people living in poverty to be financially independent, and this helps their families to survive in times of economic hardships. While nearly half of the world is less than $ 2 a day, microfinance is a vital solution. The six benefits of microfinance:

1. Access to the banks will not only lend to non-members or generally small businesses and generally will not participate in small amounts of microfinance loans. Microfinance is based on philosophy that even a small amount of credit can end the cycle of poverty.
2. Better loan repayment rates Microfinance tends to target borrowers of women. Thus, these loans help women strengthen and they often become more profitable investments for lenders.
3. Expansion of Education Microfinance families are less likely to drop their children out of school for economic reasons.
4. Improved health and well-being Microfinance can lead to better access to clean water and better sanitation while providing better access to health care.
5. Sustainability of $ 100 small employer equity loan can be sufficient to carry on small entrepreneurial activity in a developing country, which can help the charitable men and their families to cope with poverty. Explain that Salamatu is starting a business selling rice in Sierra Leone.
6. Creating jobs Microfinance can help create new jobs that will have a beneficial effect on the local economy.

As a tool of economic growth, many studies are not conducted regarding the actual effectiveness of microfinance. Some claim that it will pay more attention to microfinance, which will encourage less spending on other aid, such as public health, welfare and education.
Some of them have doubts that microfinance really deals with poverty, because

they offer practitioners. Others describe microcredit as privatization of public security programs. There are also some microfinance institutions paying excessive interest rates.

Wall Street Journal has raised questions raised against Grameen Bank. The rate of payment was due to collection methods and suspicious computing practices.

Research by microcredit programs shows that women often act as a collection agent for their children and their children, as women spend their money and women face credit risk. Some borrowers are not capitalized, but depend on loans for household spending.

A major discussion on microfinance should focus on improved welfare and financial sustainability. Two different approaches are usually called "poverty credit" or "perverted approach" and "institutional approach" or "financial system approach". A temporary approach can, for example, provide customers with education and health care for a financial service provider. This is due to the fact that it is possible to meet the great demand only by paying close attention to financial sustainability. MFIs are, for example, the Grameen Bank and Women's World Bank. Examples of designers are ACCION International and BRI Unit Desa. Power the biggest power is to provide financial services to poor people and provide financial stability with the scale impact economy. In India, the National Bank for Agricultural and Rural Development (NABARD) finances more than 500 banks, which will be directed to their own aid groups (SHGs). SHG members consist of twenty or fewer members, most of whom are poor caste and women from the tribe. Currently about 1.4 million SHGs, about 20 million women, borrow from the SHG banks and this is India's largest SHG-Bank Linkage microfinance program. With the help of Opportunity International, Catholic Relief Services, CARE, APMAS and Oxfam, similar programs are being developed in Africa and Southeast Asia. It also contributes to the development of the economy by giving people the opportunity to build sustainable income sources. The next increase in lump sum income will lead to economic growth and development.

2.9. Risk Management in Microfinance Institutions

Microfinance becomes a fast home name due to its acceptance as a means to reach those who are not served by traditional big banks. To live in any country, microfinance institutions are largely dependent on political and economic considerations such a nation's environment. However, the biggest problem for microfinance organizations is the best way to manage it in terms of its financial intermediation, at a global level increasing competition, sophistication and comparing credit and risk resources especially in the developing world, the complexity of economic and social environments. After watching different microfinance concepts and risk management, this document focuses on these inherent risks how to deal with microfinance and how regulators and operators have been proposed can balance the difficulty or inevitable collapse when hitting the balance between the industry profitability and exposure to unhealthy risks. Business risk is everything. However, the risk varies from one industry to another and this is largely due to the nature and services provided by the organization. Banking are exposed to more risk than any other business character in the business world money market instruments trading.

Some Microfinance Institutions (MFIs) are not available to receive a deposit but operate through grants and donor funds. However, most of them (MFIs) exist savings organization as a usual bank. So, as a result of acceptance saving and lending, MFI is therefore exposed to risks inherent in the line work to avoid the difficulties in the financial sector when dealing with the Convention banks in some countries in the past, risk management in the MFI should now be taken into account. Therefore, the overall need for review microfinance is being investigated before the risk issue.

The following factors have created a different risk compared to other conditions for MFI banks.
i. MFI services and products are targeted at low or low income recipient society.
ii. Most MFI clients have access to physical assets (home, land, cars, factories, etc. machines) and financial assets (stocks, bonds, stocks and lenders certificates) pledge as collateral for loans and advances.
iii. There is no supportive regulatory and supervisory policy framework in the section some government that causes physical and economic difficulties for MFI.
iv. Where the normative framework exists, the features of the MF work are often in place is not taken into account. MFI and other banks are regulated in that country within the same policy.
v. The ownership structure of MFI is dominated by donors in many countries private investors as entrepreneurs. (MFI has a special property in Nigeria).

Credit risk, Operational risk, Interest rate risk and liquidity risk affect those financial institutions. But this post liquidity risk, credit risk, foreign currency risk, and risk of return of property and MFI that directly affects operational risk and is discussed below.

Liquidity risk

This is a risk associated with a large and routinely unplanned elevated withdrawal depositors who are always few in number. Some MFIs are required to make the necessary legal fees from banks and governments at different levels. Government change or such a MFI Changes in government policy have substantially reduced MFI funds liquidity risk. For example, in Nigeria, the CBN encourages every state government is dedicated to the amount of less than 10% of their annual budget for lending activities for microfinance banks residents. Liquidity risk will also be generated through the donor fund, which will return donors stop or stop forever. In this case, the MFI financial base will be in danger.

Credit risk

Olfield and Santomew (1997) argue that credit risk is not being met by a debtor. This may be due to failure or reluctance by a prepayment method. This could affect the lenders who signed the contract and other lenders is the shareholder of the creditor and the debtor. This is a default risk on credit uncertainty about whether a maturity or temporary customer's financial obligations are not met right time This risk is declared on the MFI as a result of insufficient collateral for lending the borrower is not able to repay due to a financial liability and / or full refusal of the payment. Credit risk is not limited to unpaid loans and advances, but it extends credit Applications that are low by the MFI may prevent their growth and causes decrease, profit and profitability.

Risk of return of property

Obviously, MFIs can't profit as traditional banks. Where are the owners? MFI wishes to earn a great deal of revenue in the short term businesses that are privately owned; this can lead to unhealthy practice MFIs can be issued to appropriate returnees for use and management. In fact, this risk exists at the start of the MFI, except that entrepreneurs do not see their investment as a modest part of the poor in the short term dividends may be declared. Nevertheless, this is not what the average investor wants investment will be sufficient , or otherwise funded invest in another business line with less risk and better return.

Operational risk

Adewunmi (2005) has identified the risk as insufficient or unsuccessful internal processes, people and systems, or external events. However, operational risk is mainly employed by the organization.

In many countries, banks earn more than many areas of the economy. If the MFI employee sees them as a banker and determines their opinion, that is a problem operational defects. This will lead to a campaign for a better well-being package and may be faced with trade unionism because of the MFI's activity difficult to pay.

Foreign currency risk

Many MFIs, especially in developing countries, are sources for international funds the organization / donor in foreign currency, but these funds are lent in local currency. Undoubtedly lending in local currency, returning to the agency / donors will always be foreign Currency. As a result of contradictions in foreign exchange policy in many developing countries Time will come it is not possible for the MFI to benefit from the fund. Payment is required source of destruction. Risk Management should be managed by the MFI in order to avoid insecurity, difficulties and financial and human losses assets and, if necessary, to ensure that the Fund lends itself to the end-user. According to Olfield and Santomew (1997), the risk is important part of the financial sector, and some of these risks will pay the most out of it transparent and passive structures.

In short, asset risk management takes the most place financial companies. Risk management is an integral part of the monitoring and evaluation of liquid and liquid assets and the debts of the MFI's depositors to ensure the sustainability of the industry. That should be it was understood from the start that risk management could not be managed in any MFI has set a goal in this direction. Therefore, the first thing to do is to write something purpose and owners and managers need to manage risk daily as previously emerged and known.

In addition, the management should incorporate risk management policies and procedures covering all aspects of microfinance business, including they (MFIs) come in the near future. Policy should be taken to manage such risks industry, or position, but is not necessarily effective until it affects the business negative.

Management should be prepared to periodically review the RM policies and procedures especially when there is a change in regulation, economic policy and other indicators affects their work at local and international levels. The need for investment strategy and guidelines is that it will not be highlighted all investment opportunities offered to MFI should be funded as a result of volatility that can be effective in industry or trade. Includes especially those with a low risk profile should choose this job. However, it depends on the MFI deposit base, each source of the fund and the fund. The proposed worker will determine his / her employer. There may be risk the IAI leadership is not ready and should be willing correctly pay and motivate the ability to work. Motivation should not be restricted not only a financial reward, but also an open-minded worker it works well in reducing business risk without paying the business ethics. From economic point of view, risk should be a priority manage them (risk). All forms of risk should be managed, but their effects MFI risks are significantly different, as these risks are analyzed and reported on an appropriate scale.

2.10. Importance of the Microfinance Institutions in economy

Such as microfinance, deposits, loans, payment services, money transfers and insurance for poor and low-income families and their micro-enterprises. Microfinance services are provided from three types: official organizations, such as rural banks and cooperatives; semi-formal organizations such as non-governmental organizations; and non-formal sources such as lenders and businessmen. Corporate microfinance is defined to cover microfinance services provided by both formal and semi-sponsored agencies. Microfinance institutions are known as organizations dealing with microfinance services. Poor and low-income families in the region and their micro-enterprises are different groups. Demand for microfinance services also reflects this diversity. The collective requirement of these groups for financial services is great and their service types vary between households and micro-enterprises, and over time. This is a great demand and the heterogeneity of services between households and micro-enterprises, and over time, has enabled commercial finance intermediation.

Demand for microcredit both from households and micro enterprises is also great. The poor households in the region require microcredit to fund their consumption of consumer goods, to curb consumption (for example, school fees and books) for housing improvements and migration purposes, and to finance some lump sum food consumption costs. Other required welding is non-farm micro-producers covering a wide range of activities such as food preparation and processing, weaving, pottery, carpet and basket production, furniture production and small trade.

Demand for other financial services between poor and low-income households and their micro-enterprises can also be significant. A good share of desert households borrows, saves more, but all tries to insure against the jealousy of life, and therefore the need for insurance services among the poor is great. In Bangladesh, a private insurance company, for example, has started providing micro-insurance services on a commercial basis to temporary-income families, whose customer base has expanded rapidly. By the end of 1999, there were over 800,000 customers in the company. This experience shows that the supply of these services is in demand because the demand for such services is hidden when there are no products in the market. The market structure in microfinance varies dramatically between countries in the region due to financial development, economic development, policy environment, and other factors. However, the nature of the supply, especially the various types of suppliers, can be considered useful. Microfinance services are mainly provided by informal sources. Their collective coverage is great both in width and depth in many countries. They provide mostly short-term loans and receive higher interest rates than semi-formal and official sources. The conditions under which services are generally provided by the relatively larger contracting power used by unofficial suppliers do not allow customers to fully utilize their economic capabilities. Non-official sources operate in high-level locations. Therefore, contributions to financial intermediation and improvement of resource allocation are also limited. For example, informal sources do not allow for more accumulation of savings than smaller groups of people who are well-acquainted and do not transfer money from large distances. The most informal insurance mechanisms are usually poor, especially against recurring shocks and often provide insufficient protection to poor households.

MFIs and other financial institutions (FMOs), which has been providing microfinance services, have expanded from more than a few customers in the 1970s to more than 10 million by the end of the 1990s. The development of microfinance in the region has enabled a changeable process to be fully subsidized. The main cause of concern in improving the economic situation of developing countries is poverty. The microfinance organization is an organization providing financial services to low-income population. Almost all of them provide loans to their members, and many offer insurance, deposit and other services.

Large-scale organizations are considered to be microfinance institutions. They are the ones who offer loans and other financial services to the poor. The microfinance institution is a financial institution specializing in banking services for low-income groups or individuals. The microfinance organization typically provides account services to small-scale accounts that are not accepted by traditional banks and offers operational services for smaller amounts of transaction fees that are typically provided by general financial institutions. Microfinance is increasingly considered as one of the most effective ways to reduce poverty. Microfinance plays an important role in eliminating gap between formal financial institutions and peasant poor. Microfinance Institutions (MFIs) come from financial institutions to banks and other key financial institutions and provide financial and support services to the poor. Microfinance institutions are the major international organizations directing microcredit loans directly to the peasants, micro entrepreneurs, poor women and poor families in each country. The external MFI resembles a small bank with the same problems and capital needs as it is against any expanding small enterprise, but it is also responsible for economically marginalized populations. Many MFIs are credited and well-documented with the evidence of success, the majority of which are self sufficient.

Various types of organizations offer microfinance: credit unions, commercial banks, non-governmental organizations (non-governmental organizations), cooperatives and government banks. The emergence of "non-profitable" MFIs is growing. In India, this "non-profit" MFI is called Non-Bank Financial Institutions (NBFC). NGOs operate mainly in remote rural areas, providing financial services to persons without access to banking services. Regulated, variable organizations differ from non-profit organizations that are adapted to sufficient standards of performance and capital and are normally controlled by a financial institution, which is the central bank of the country where it is registered. A transformed MFI attracts equity investors. Capital investors want to maintain or increase the value of the investment and choose the Management Board that has a vision for a new venture. Among regulated MFIs, regulated entities have different classifications, the most serious banks - rural banks and savings banks - non-bank financial institutions. Different countries have different names for this adjusted MFI. The microfinance always try to reimburse poor people needs. Continuous efforts to automate operations are a continuous increase in efficiency. Automated systems also helped to accelerate the growth of the microfinance sector. The purpose of MFIs: Improving the quality of life of the poor by providing access to finance and support services;
To become a suitable financial institution for the development of sustainable communities;
Mobilize resources for financial and support services that allow poor, particularly women, to earn material income from their poverty;
Learning and evaluating information that helps people move faster than poverty;
Creating self-help opportunities for those with disabilities;
Raising poor people in rural areas with simple skills and using existing resources to help them earn employment and income in rural areas.

3. Data Description.

In this data I have collected the data from the different sources. I used Statistics Committee of Azerbaijan also data of commercial banks. My data consist of the eight variables and fourteen observations and size of observation is 448 Kb. All of my variables are numerical variables and here in the below I provide the descriptive information about the data.

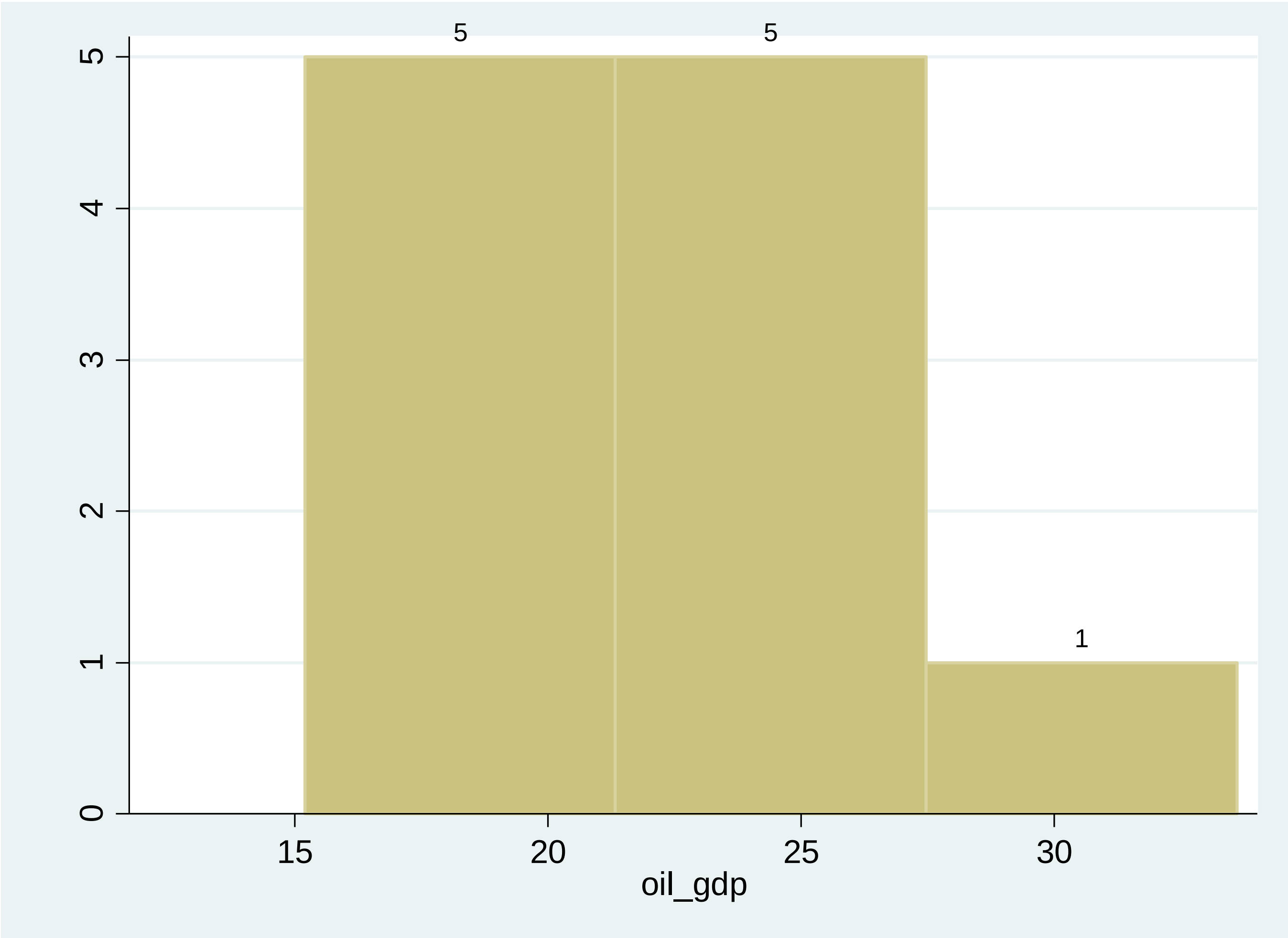

Figure 2. Oil GDP of Azerbaijan for 2008-2018 time period.

First, I provided histogram for Oil GDP of Azerbaijan for 2008-2018 time period. We can see that oil GDP was higher at the beginning, then after some period of the time we can see that it start to decrease and we can see it is left skewed distribution. There is no strong departure from the normality.

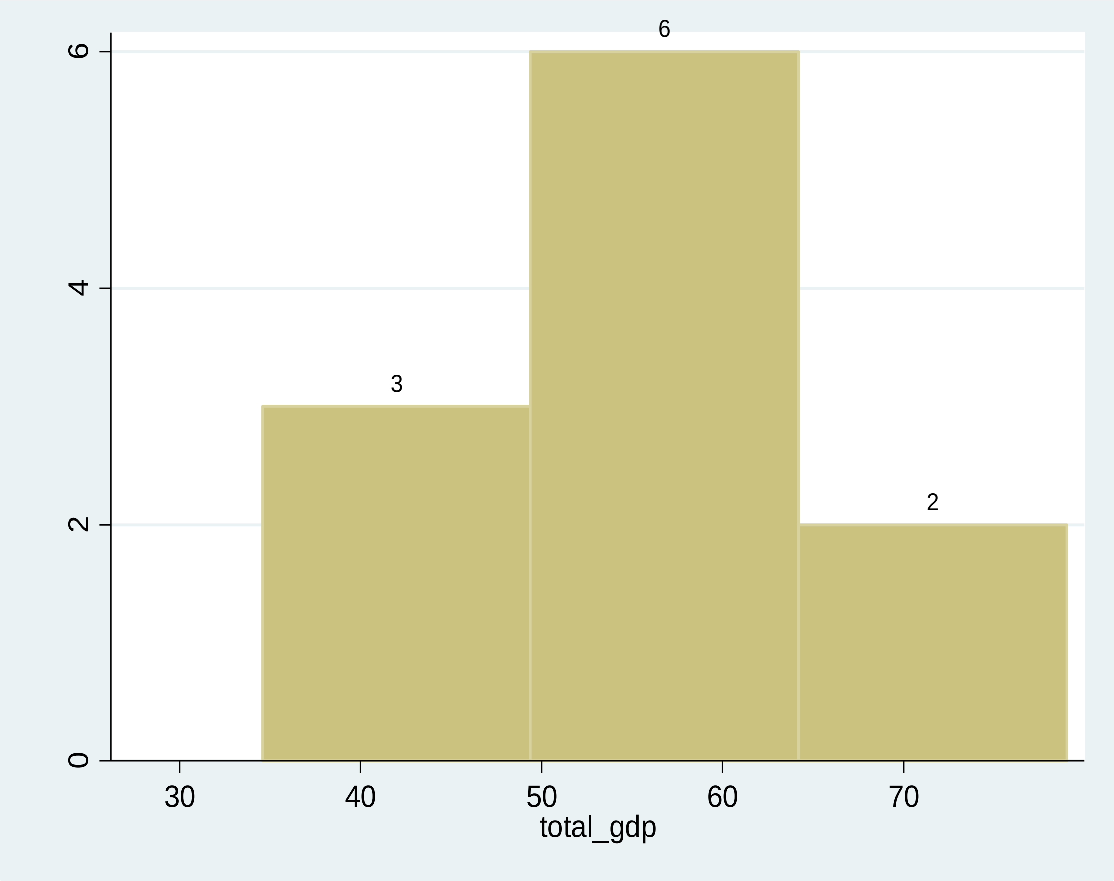

Figure 3. Histogram of Total GDP

Then second one is Histogram of Total GDP variable. You can see that Total GDP variable is symmetrical distributed and almost close to symmetrical distribution. Then in the Table 1. Here percentage of corporate loans over time is tabulated.

	time	Corpor~n
1.	2008	15.8
2.	2009	13.9
3.	2010	12
4.	2011	14.4
5.	2012	13.8
6.	2013	11.8
7.	2014	10.9
8.	2015	9.8
9.	2016	8.6
10.	2017	8.9
11.	2018	8.9

Table 1. The percentage of corporate loans over time.

And I have provided the amount or level of corporate loans for the period to starting 2008 until 2018. We can say 2008 is really higher then we observed decrease and again 2011-2012 start to increase. After 2011 we observed that 2015 it started to decrease until 2018. Probably decrease of 2018 related to recession of country economy. In order to increase the attractiveness of loans government probably obliged companies, banks to decrease corporate loans. And also interest for corporate loans or credits decrease by the companies because economy is very volatile economy was in the recession. That’s why interest decrease and it put negative pressure on level of interest rate.

Variable	Obs	Mean	Std. Dev.	Min	Max
oil_gdp	11	22.62273	5.486452	15.2	33.6
usdazn	11	1.056182	.4030064	.784	1.722
non_oil	11	31.97455	9.221832	18.9	45.4
total_gdp	11	54.62191	13.05209	34.58	79.016
Corporate_~n	11	11.70909	2.509763	8.6	15.8
Bank_loans	11	149146.8	54577.17	72115	239699

Table 2. Summary statistics of main variables in the dataset.

The second table is summary statistics of main variables in the dataset. I have provided summary statistics of six variables in the dataset. First one is oil GDP. We have eleven observation and average oil GDP is 22.62273 million dollar. Standard deviation is 5.48, it means that average deviation from center of the data is 5.48. Minimum oil GDP observed as 15.2 in 2008-2018, maximum oil GDP observed as 33.6. The same USD/AZN, we have 11 observation and average USD/AZN is 1.056182, also standard deviation as shown table is 0.40. And I want to emphasize that minimum and maximum USD/AZN observed 0.784-1.722. The next variable is Non-oil GDP. Again we have eleven observation. Average non-oil GDP is 31.97. In this variable standard deviation is 9.22. Minimum of non-oil GDP is 18.9 and maximum of non-oil GDP is 45.4. Our observation on Total GDP is eleven. Average Total GDP is 54.62 and standard deviation is 13.05. Minimum Total GDP is 34.58 and maximum Total GDP 79.01. Corporate loan is our interesting variable in dataset. Minimum corporate loan is 8.6 and maximum is 15.8. And average corporate loan is 11.70. Standard deviation is 2.50. I want to mentioned bank loans. The result is respectively high. Average bank loan is

149146.8, standard deviation is quiet high as 54577.17. Minimum bank loan as table is 72115 and maximum bank loan is 239699. It is just a general information about summary statistics of main variables in dataset.

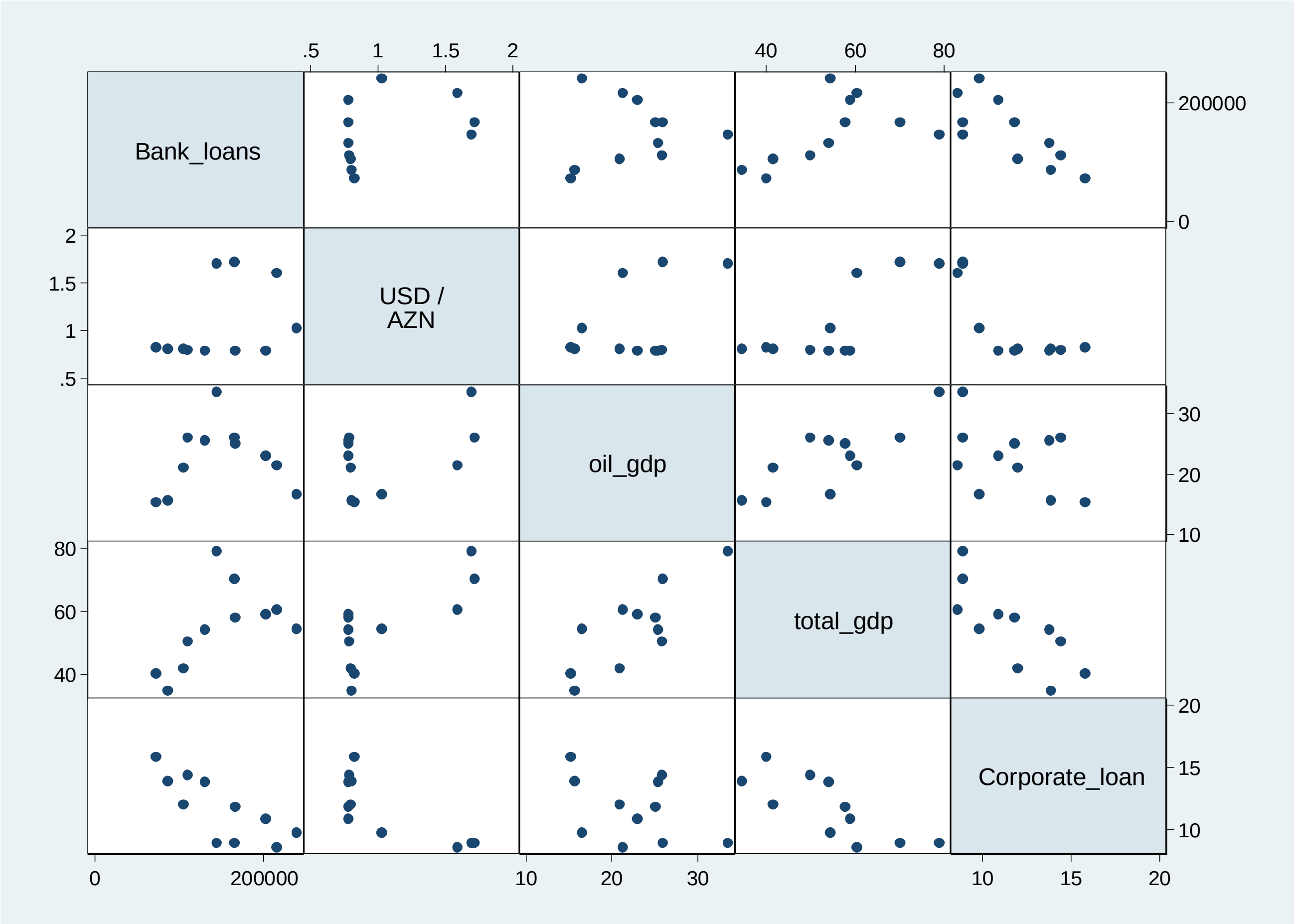

Figure 4. Scatter Plot for the main variables on the dataset.

The next one is Scatter Plot. Scatter Plot used in order to identify relationship between two variables. In this plot I want to try find out the relationship between bank loan and different independent variables. I think that may have impact on the bank loans. The first one is USD/AZN. So Scatter Plot between bank loan and USD/AZN is described in the Figure 4. And we can't say that positive relationship because there is no general trend. Scatter Plot does not show any obvious dependency between these two variables. There is no obvious relationship. The other one is oil GDP and bank loan. We can say it is negative trend. Oil GDP increases and bank loan start to decrease. It is expected result because we say that being dependent on the oil GDP and being dependent on revenue of one sector create dash disease problem in the country. Of course it does not allow the development of all other sectors. Then the next graph is in Scatter Plot between bank loan and total GDP. There is positive association as we expect. The GDP getting increase demand for bank loan increases as well. The next one is corporate loans. We can say that negative association between bank loans and corporate loans. When the corporate loans are getting increase the amount of bank loan getting decreases. It is expected result because as corporate loans increases it makes credit really expensive. That’s why the people interest on the bank loans will be decrease significantly.

3.1. Estimation results.

So first of all we have to run regression between bank loans,corporate loan,ratil loan, total GDP,non-oil GDP,oil GDP.We are trying to find out how these variables independent variables such as USD/AZN exchange rate,oil GDP,non-oil GDP,retail loand and corporate loan affects the bank loans.We have to run regression.Bank loan is our dependent variable, USD/AZN , oil GDP ,total GDP,retail loan and corporate loan is our independent variable. So we are trying find out that what are the main determinants affects bank loans in our country.

```
. reg Bank_loans usdazn oil_gdp total_gdp retail_loan Corporate_loan

      Source |       SS       df       MS              Number of obs =      11
-------------+------------------------------           F(  5,     5) =   11.05
       Model |  2.7315e+10     5  5.4629e+09           Prob > F      =  0.0098
    Residual |  2.4722e+09     5   494433087           R-squared     =  0.9170
-------------+------------------------------           Adj R-squared =  0.8340
       Total |  2.9787e+10    10  2.9787e+09           Root MSE      =   22236

------------------------------------------------------------------------------
  Bank_loans |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
      usdazn |  -87603.32   36239.43    -2.42   0.060    -180759.7    5553.091
     oil_gdp |  -10756.49   3929.871    -2.74   0.041    -20858.55    -654.435
   total_gdp |   6421.697   2318.702     2.77   0.039     461.2838    12382.11
 retail_loan |    2765.23   2478.116     1.12   0.315    -3604.971    9135.431
Corporate_loan | -9969.731  9572.817    -1.04   0.345    -34577.44    14637.98
       _cons |   204510.7   203937.7     1.00   0.362    -319727.8    728749.2
------------------------------------------------------------------------------
```

Bank loans which is independent variable equal 204510.7 AZN, then minus 87603.32 AZN multiple USD/AZN, minus 10756.49 AZN oil GDP, 6421.697 AZN total GDP, 2765.23 AZN multiple retail loan and minus 9969.731 AZN multiple corporate loan. It called estimated equation of the bank loan. It shows that how each of these independent variable affect our dependent variable. We can see that USD/AZN, oil GDP and corporate loan they have negative impact. But total GDP and Retail loan have positive impact. It means that USD/AZN exchange rate increases by one more percent, so it means that bank loan decrease 87603.32 AZN. We can say that it is actually the thing we had observed 2015 in Azerbaijan when the AZN is start to depreciated against USD the banks decrease the amount of credit to the private sector significantly. Because they were negatively affected and most of private sector were not able to pay the loans on time. That’s why it was really risky for the bank to give credit. Then they decrease the amount of the credit to the private sector. We observed sharp decline on the amount of bank loans during that period specially. Then oil GDP we know that being dependent on oil is really dangerous for the economy and most of the time it has negative effects on the development of the private sector. Because of being dependent on one sector is really harmful for the economy. If the oil GDP of the country getting increased it means if the government getting highly dependent on the oil revenues the bank loss to the private sector getting decreased. So as we observed in this coefficient 10756.49 AZN. Total GDP has positive effect. But total GDP is the sum of the non-oil and oil GDP, retail loan surprising result actually because if the retail loan getting increases interest rate charges on the retail loans if it is getting increase bank loans increase as well. It is surprise result. Corporate loans as we expected if the percentage on the amount for the corporates is getting increases, bank loans is getting decrease, because of demand for the credit for the bank decreases. It is just an explanation each of these independent variables. Now question is that, how we can judge significance? So having positive or negative coefficient does not mean that we have significant affect yet. So in order to assess the significance of USD/AZN we have to look at P value of the each coefficient. So USD/AZN P value is 0.06. It means that USD/AZN has a negative impact on the bank loans and this negative impact is significant at 10% significance level. So it means it has strong affect but only 10% significance level. Then, oil GDP has also significant negative impact because P value is 0.041 which is less than $\alpha 0.05$ or 5% significance level. Total GDP is also significant. Because P value is 0.039, it is less than $\alpha 0.05$ or 5%. But retail loan P value is 0.315. It is too much. And P value is greater α so it means that retail loan is not significant and does not have any significant impact. So corporate loan also does not have significant impact because P value is 0.345 is greater than α. So it is way of judge significance. For instance, when we check significance of USD/AZN, we say that null hypothesis H_0:$\beta 1 = 0$, H_1:$\beta 1 \neq 0$. As P value less than α we reject all null hypothesis. If we reject null hypotheses it means that the USD/AZN has significant impact on bank loan. We can do the same things to other variables, it is about individual significance. But we can do the same thing for joint significance. We will check individual significances each independent variable. So we have to look at P value of joint significance. It is 0.0098.It means that they are jointly significance and important for the determinations of bank loans variables. Also R-squared is 0.9170. It is close to 1 and it is good indicator. It means that 91.7 percent of the total deviation of the dependent variable. It explains our independent variables.

As we expected the development of the oil sector being dependent oil sector has a negative impact on the bank loans and also development of private sector. We can see that bank loans credit given to private sector decreases as USD/AZN is getting decreases as the oil GDP is getting increases. Idea that if the country get revenue from oil sector it means that government only focus on oil sector that’s why bank loans that is given to the private sector is lower. So economic activity of other sector is lower.

Limitations is that, we only cover the time period after 2008 until 2018. So maybe more observation might be different result. The limitations of research investigation, just we include 10 periods. The reason that I want to emphasize the effect of decreasing price of oil in 2016 and we see that USD/AZN has significance impact on bank loans. It has negative impact. Development of oil also negative impact.

4. Conclusion and Implications

According to statistics above, the Azerbaijan economy depends on oil therefore diversification of the economy is essential. Since our economy depends on oil, we can't put credit other sectors. We should improve non-oil sector as well.

To sum up, MFIs in Azerbaijan are becoming more efficient and more attractive despite difficulties such as high inflation, lack of specific microfinance laws in Azerbaijan and lack of funding for local banks. These organizations and their employees will be able to operate in areas where banks do not want to work and that improve the transparency and openness of the microfinance sector.

In 2008, the Azerbaijani MFI will continue to utilize the country's double digit economic growth. As the oil and gas revenues continue to rise at a high level, the state spending will continue to rise, and will further strengthen inflationary pressures. Rising inflation will continue to adversely affect the financial performance of MFIs, and organizations need to address these issues in their operations and financing options.

If microfinance institutions do not start using new financial technologies and tools, they will not be able to reduce costs. Thus, their loans will not be attractive to business and family. Expensive credits are over. Today, we need to offer attractive loans for customers. In short, there is a means of survival for the financial sector. It is important to keep firm and follow market trends.

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