

Problems and Prospects of Introducing Islamic Microfinance in Azerbaijan Republic

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1- Introduction

In 1991 Azerbaijan chose a way of building a democratic state based on market economy. Since that time it has passed through the difficult process known in political economy as post-Communist transition. In Azerbaijan this transition was accompanied with military aggression by Armenia, lost territories, almost million IDPs and refugees as well as huge mineral resources attracting foreign investors. This process has been also accompanied with the “Islamic Revival”, when larger sectors of

population started to identify themselves with Islam more than used to during the Soviet rule.

Azerbaijan being a secular post-Soviet state has been out of the process of emergence and development of Islamic financial institutions (including microfinance) as well as revival of the "waqf" institution. Potential of these institutions has not been realized and studied to be utilized, and conventional Western mechanisms are taking the lead.

Despite the huge oil revenues, there is still a problem of access on the part of population (especially, poor and rural) to credits. Lack of financing contributes significantly to the level of poverty and the gap between wealthy and poor strata. However, micro-financial schemes have been recently developing and their role in SME development and poverty reduction is on the rise. But interest-based microfinance and even informal usury result in exploitation of the poor, while credit unions lack enough financial resources for addressing existing challenges.

In this regard, we will approach the problem of microfinance in Azerbaijan from the perspective of Islamic microfinance. This paper analyzes the current state and problems of micro-finance and Islamic finance in Azerbaijan and defines possible ways for the solution of the existing problems. The stress is made on introducing the so called "Islamic community capitalism" with mobilization of Muslim communities, charity and foreign aid. In the end we come up with policy recommendations on introduction of Islamic microfinance in Azerbaijan Republic.

What is Microfinance?

Microfinance is considered a very effective development tool: for this reason, year 2005 has been declared by the General Secretary of the United Nations "International Year of Micro credit". The founder and head of Bangladeshi microfinance Grameen Bank Dr. Mohammed Yunus was granted Nobel Peace Prize for 2006 as an appreciation of his efforts

and contribution to reducing poverty. All these recent trends signalize about the growing interest and attention given to microfinance.

First, let us define what we understand by microfinance here. Microfinance may be defined as the provision of financial services and products to those who are deprived of conventional banking and financial services due to their low economic standing. These services can include micro credit, small scale venture capital, savings, and some forms of insurance (Chowdry 2006). Moreover, all these services are provided on a micro-scale allowing the poor to participate. The main starting point for microfinance making it different from conventional credit/finance systems lies in the concept of joint liability, meaning that a group of individuals form an association to apply for financing (ibid.).

Microfinance mechanism could be explained in brief as follows. Poor men and women get united into groups, which are responsible for each others credit repayments in case of default. The main requirement here is to have some small money sum as an obligatory saving.

The clients of microfinance are usually female heads of households, pensioners, displaced persons, retrenched workers, small farmers, and micro-entrepreneurs (Segrado 2005). These people usually do not lack finance in a broad sense: they can borrow money from friends, relatives or local money lenders, but of course they cannot access a wider and safer range of services. They need a formal financial institution to rely on, to ask not only for credit but also saving or insurance to provide rise in household incomes and reduce poverty (Hassan and Alamgir 2002). However, there is also a perspective which claims that despite its declaration of poverty reduction, microfinance rarely reaches poorest strata. Thus its beneficiaries are less poor families.

Microfinance is also a very flexible tool able to adapt in various environments, based on the local needs and economic and financial situation. For example, in Asia group micro credits proved to be effective,

while in Egypt or Brazil individual lending is preferred, in India microfinance institutions (MFIs) are successfully involved in savings collection to support themselves and become sustainable while in Egypt they are forbidden by law to collect savings (Segrado 2005).

In the same manner microfinance can easily be adapted to certain cultural environments, such as countries characterized by a Muslim majority that follow the Islamic law. Moreover, the similarities between microfinance and Islamic economic models make microfinance services closer than traditional banking.

2- On Islamic Microfinance

An Islamic economic model goes well beyond profitability goals and coincides with the renewed perception on corporate responsibility business recently at stake within the most advanced sectors of western business and civil societies. Far from the limits imposed by neo-classical thought, this new wave implies new sorts of responsibilities on behalf of the company falling under the rubric of corporate social responsibility (Ferro 2005).

As its ultimate goal is the maximization of social benefits as opposed to profit maximization, through the creation of healthier financial institutions that can provide effective financial services also as grass roots levels, some authors (Al Harran 1996) argue that Islamic finance, if inserted in a new paradigm, could be a viable alternative to the socio – economic crisis lived by the Western paradigm. As stated before, a relatively few studies and a few experiences on the field are concentrated on Islamic microfinance.

According to Islamic economic doctrine, poor people need more than simple deliberateness and awareness: they need material aid that will increase their incomes. Credit is a key element of given approach. It is

supposed to help poor people break away from the financial dependence and invest in self-employment and profit-making activities. (MacGregor 1994). However, research shows that a formal banking sector has achieved a little success in the access to poor people (especially, in rural areas) due to high operational costs (Hassan and Alamgir 2002). In the light of all the above-mentioned and taking into consideration the principles of Islamic economy, let us assume that foundation of micro-crediting institutions and credit unions in the spirit of Islam, can be regarded a most realistic Islamic approach.

Between the most complete researches on the topic, Dhumale and Sapcanin (1999) drafted a technical note in which they tried to analyze how to combine Islamic banking with microfinance. They took into consideration the three main instruments of Islamic finance (mudaraba, musharaka and murabaha) trying to use them as tools to design a successful microfinance program. In our opinion, with SMEs in poor countries two models: mudaraba and murabaha could be implemented since they do not have enough financial resources to contribute.

- ❖ Mudaraba model: the microfinance program and SMEs are partners, with the program investing money and SMEs investing in labor. SMEs are rewarded for their work and shares the profit while the program only shares the profit. This model poses some difficulties, having to do most of all with the fact that SMEs usually do not keep accurate accountability which makes it more difficult to establish the exact share of profit. Another difficulty is that these models are complicated to understand, manage and handle. This implies that those who are involved require specific training on the issues involved. Thus, for all above mentioned reasons and for an easier management of the profit sharing scheme, the mudaraba model might be more straightforward for businesses with a longer profit cycle.

- ❖ Murabaha model: the microfinance program buys goods and resells them to the SMEs for the cost of the goods plus a markup for administrative costs. The borrower often pays for the goods in equal installments, and the microfinance program owns the goods until the last installment is paid.

The best example of a murabaha microfinance model is Hodeidah Microfinance Program (HMFP) in Yemen. Hodeidah is a city in Yemen characterized by an active economy based on trading, fishing, food production, small industries, transportation and handicrafts. Although traditional banking products have been available in Yemen for many years (and are still the predominant type of finance), many people, especially the poor, have been reluctant to take credit, partly due to their religious beliefs (Sergado 2005). This is one of the main reasons why the HMFP was implemented in 1997.

The average loan size is about \$240 US dollars. There is a cycle of loans the clients go through but each level has a wide scope. The first loan can be up to \$300 US. The maximum loan for the final level is \$1500 US. HMFP uses a group-based methodology. Group members are not confined to the same loan amounts or the same activities, although loan amounts need to be within the range of the cycle set by HMFP. There is also a small percentage of individual loans (10 percent) (*ibid.*).

The procedure is as follows: upon receipt of the loan application, the credit officer investigates the group and does feasibility study for their activities. Then based on this study, the officer can estimate the precise loan amount. If the results are positive, the client should identify items (commodities/equipments) needed from the wholesaler and negotiate a price.

The credit officer then purchases items from given source and resells them immediately at that price to the client. HMFP has two elements of accounting/finance, which differ from most microfinance organizations.

Both have implications for content of financial statements. The first is capitalization of the service charge expected upon disbursement, which affects the balance sheet. The second is the absence of the "principle of interest" on outstanding loan balances affecting yield on the portfolio and thus income earned (ibid.).

Another manifestation of micro-crediting and rendering of financial services to the poor strata of society, occasionally non-interesting for the banking sector are mutualization of banking through credit unions that are close to Islam "in spirit". (Morris 1994, El-Gamal 2005)

Mutualization is best expressed through credit unions model. Credit unions are the micro-finance institution that is most likely to be organized by those who need the access to credit and banking services on the one hand, and can be run in accordance with both Islamic law and credit union operating principles, on the other hand (Morris 1994). However, Muslim societies do not have enough information about credit union's principles and values, and if they are very close to the requirements of Islamic law.

Islamic credit unions have made progress over the last decade (e.g. Pakistan, Trinidad and Tobago). It is worth mentioning that early Islamic banking experiments were inspired by European mutual forms of banking activity (El-Gamal 2005). In credit unions shareholders and depositors are one and the same, which resolves the fundamental corporate governance problem in Islamic banking.

There is a lot of evidence that mutual banking institutions have played a very important role in the development of the U.S. financial system during the 19th century, when they were as competitive as conventional banks (El-Gamal 2005). Moreover, they were structured as NGOs, providing their customers with the access to low credit rates. Lots of them were closely associated with faith-based organizations and churches that sought to avoid usury by providing credits "at affordable rates to

community members, and to avoid profiting from the extension of such credit.” (ibid., p. 12)

Thus mutual banking movement in Europe and North America was initiated by religious people who feared exploitation by banks. Credit unions address religious, secular and corporate governance concerns (Morris 1994, El-Gamal 2005). It makes this kind of MFIs the closest to achieve the noble goals of Islam to reduce poverty and create appropriate conditions for vulnerable small entrepreneurs.

3- Current state of micro-finance in Azerbaijan

Since the beginning of 1995, the government of Azerbaijan has been implementing a programme of economic reforms supported by the International Monetary Fund (IMF) and World Bank. The Government of Azerbaijan has made poverty reduction their priority in their quest for economic development, and micro-finance has been outlined as one of the most powerful instrument.

Micro-finance was introduced into Azerbaijan in the mid-1990s as a strategy for addressing the economic requirements of as many as 1 million IDPs and refugees who were uprooted during the Nagorno-Karabakh conflict with Armenia. Over the past 10 years, against the background of repeated failures to resolve the territorial dispute between Azerbaijan and Armenia, microfinance has become an increasingly popular means of addressing the chronic economic insecurity facing these displaced persons.

During the past 7-8 years the number of microfinance institutions (MFIs) in the country has steadily increased, making the microfinance sector one of the more active participants in the process of economic development. As of the end of June 2006, there were 16 non-bank

financial institutions established by international humanitarian organizations, registered and licensed by the National Bank of Azerbaijan. The microfinance outlook is changing rapidly and MFIs will have to review their development strategies to ensure their existence in the long run. For instance, Azerbaijan already has seen the merger of two MFIs, and more mergers are forecasted in the market. This trend may indicate that a rationalization of MFI capacity within the market has begun to occur. Although the median age of Azerbaijani MFIs is six years, on 30 June 2006 these institutions were serving over 86,000 clients and had outstanding loan portfolios of over US\$91million. However, microfinance services provided by MFIs have reached only a few percent of an estimated 670,000 rural households. MFIs provide a range of products and services, including loans, leasing, services and precious gemstone deposits. (Azerbaijan Benchmarking Report 2004, AMFA, Baku 2006)

Currently, there are 14 organizations delivering microfinance services: 10 are the members of Azerbaijan Micro-Finance Association (AMFA): CredAgro (ACDI/VOCA), ADRA, FINCA, NHE, Normicro (NRC), Finance for Development (OXFAM), International Organization for Migration, Save the Children, WV AzerCredit and Danish Refugee Council.

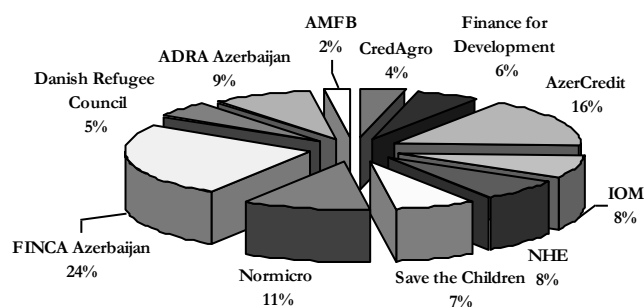
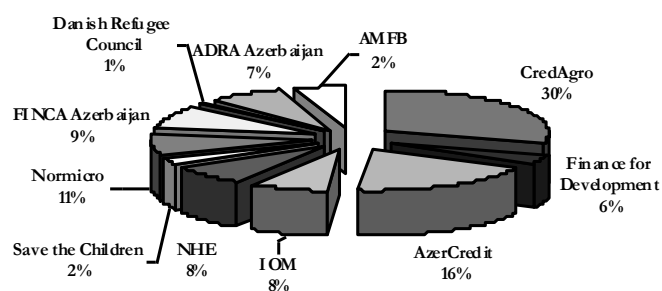
Besides AMFA members, microfinance services in Azerbaijan are provided by Shore Overseas Azerbaijan, Azerbaijan Microfinance Bank (AMFB), the Agricultural Development and Credit program created by the Government of Azerbaijan with the loan taken from the World Bank, and the Rural Investment Foundation (RIF) LTD, a non-banking credit institution financed by EU.

Altogether, MFIs in Azerbaijan cover about 40 regions out of 70. The number of active clients is nearly 25,000. So far, MFIs in Azerbaijan have contributed to poverty reduction in the regions by provision of

microfinance loans exceeding \$30 million to its vulnerable population. For some regions, such as those located close to Nagorno-Karabakh where the majority of Internally Displaced Persons (IDPs) are, or for Nakhchivan, which as an autonomous exclave isolated from the rest of the country, microfinance programs are crucial in satisfying the basic needs of the people.

The target population depends on the philosophy and vision of the particular organization. Some organizations, like ACDI/VOCA have focused on local populations while others, such as FINCA, Normicro LLC, Oxfam -"Finance for Development", Save the Children, and World Vision targeted refugees and Internally Displaced Persons and locals. Some, like ADRA and IOM functioning in Nakhchivan or NHE operating in the second largest city Ganja, work in one selected area. IOM, in addition, in following its institutional mandate, focuses on seasonal migrants and potential migrants.

Distributions of active loan clients and outstanding loan portfolio are demonstrated in Figure 1 below. From this figure we may see that microfinance is dominated by foreign NGOs.

Distribution of Active Loan Clients**Distribution of Outstanding Loan Portfolio**

(Chingiz Mammadov, AMFA Chairman, the interview to "Baku Today", 2003).

Table (1): Basic information about the leading MFIs in Azerbaijan.

ORGANIZATION	LOAN SIZE	TARGET POPULATION	LENDING METHOD	LOAN PERIOD
ACDI/VOCA	\$200-\$50,000	Rural	Individual	3-24 months
FINCA	\$50-\$10,000 (issued in AzM or USD, loan amount increased depending on # of cycles)	Solidarity credit groups loans: 2.5-3% Declining Rural loans 3.5% Declining Individual loans :2.5 % Declining	Solidarity Groups Loans and individual loans	4-18 months

ORGANIZATION	LOAN SIZE	TARGET POPULATION	LENDING METHOD	LOAN PERIOD
IOM	\$250 - \$1500 in rural areas; \$500 - \$6000 in urban areas (issued in USD)	Farming, animal husbandry, small trade, agriculture, small production, service - 1.7% monthly flat and 2.5% monthly declining	Group and individual	9 – 18 months
NHE	\$100-\$5,000	2.75 % (Ganja), 3% (Sheki) and 2,75% (Dalimammadli) declining	Individual & groups	3-24 months
Normicro LLC	\$200 - \$5,700	Agricultural, microenterprise, trade loans 3.0% declining	group and individual	4-18 months
Finance for Development	\$100 - \$3,000	4% declining of group loans, 3% declining for individual loans	Group and individual lending	2-18 months
Save the Children	Group Business loans \$140-320, Group livestock loans \$140-320\$, Group graduated loans \$400- 560\$, Individual loans \$300- \$2000	Group Business loans 3.5% flat, Group livestock loans 3,5% flat with 8 weeks grace period, Group graduated loans 4% declining; individual loans 4% declining	group and individual credit	Group Business loans 16-24 weeks, Group livestock loans 24-32 weeks; Group graduated loans 24-32 weeks, individual loans 16-48 weeks

Source: Azerbaijan Micro-finance Association (AMFA), September 30, 2006

The Micro Finance Bank of Azerbaijan (MFBA) is a large commercial bank that considers microfinance its primary market. According to the Azerbaijan Micro-finance Association (AMFA), in June 2005, the MFBA served 4,217 active loan clients, with an outstanding loan portfolio of over US\$11.4 million. The MFBA provides savings, business credit, and pawn credit services. However, its position in distribution of active loan clients and outstanding loan portfolio is not significant yet.

The legislation relevant to microfinance regulation includes: laws “On the National Bank of the Azerbaijan Republic”, “On Banks” and “On Credit Unions”. The law “On Non-Bank Credit Institutions” is being developed at the moment. However, the current law “On Banks” specifically excludes non-bank financial institutions and limits their activity to “cash credits”. Like Azerbaijan’s commercial banks, the microfinance institutions and credit unions are supervised by the National Bank after they apply for a non-bank financial institution license that allows them to grant credits. The registration of microfinance institutions as legal entities is administered by Azerbaijan’s Ministry of Justice.

According to the Asian Development Bank (ADB) report, though there are no minimum capital requirements for forming non-banking credit organizations, there are four features of legislation that are restrictive for microfinance institutions or credit unions (ADB 2006). First, NGOs are not allowed to register as credit organizations; they must register as a commercial entity in order to receive a license from the National Bank. The registration process can last from several months to a year. Recently, some newly formed organizations report that the process takes less than 2 months. Without a registration or license, NGOs cannot provide legal banking services. Second, microfinance organizations are subject to commercial taxation. Third, there is no specific legislation or regulation governing these institutions. Fourth, MFIs are prohibited from collecting any form of savings or from borrowing from other local sources according to their licensing regulations.

The major problem facing micro-finance in Azerbaijan is that there is no special law on micro-finance in the country. At this time, MFIs have only one viable option - to be registered as local limited liability companies (LLC). This means that they are considered purely commercial entities with no development or social agenda. Additionally, while MFIs used to pay about \$110 to get a license from the National Bank, they now

have to pay the commercial fee of approximately \$5400. AMFA's advocacy efforts have already resulted in better understanding of microfinance by the government agencies, and currently AMFA is negotiating with the government the possibility to lower the amount of registration fee for MFIs. Another challenge for micro-finance services in Azerbaijan is the non-friendly taxation environment.

Currently, MFIs are obligated to pay all taxes applicable to other for-profit structures and commercial enterprises including profit taxes that are based on outdated profit calculations (Chingiz Mammadov, AMFA Chairman, the interview to "Baku Today", 2003).

The work on the new legislation project about non-banking institutions has already been completed in September, 2006. It has already been approved by the National Bank of Azerbaijan and will be sent to the Parliament soon. There are some restrictions on the value of the credits that MFIs grant in Azerbaijan according to the current legislation. However the new legislation does not consider any restrictions on the value of the credits. The main principle of the new legislation is granting credits to SMEs.

MFIs provide a wide range of products and services, including savings, loans, foreign exchanges, precious stone deposits, and bank guarantees. AMFA could persuade the government to reduce the registration fee to approximately US\$100 and is currently working together with the government on taxation issues and regulation issues.

The reality of Azerbaijan is that banks have dominated lately the formal financial sector in Azerbaijan. Capital markets and insurance are in their infancy. Virtually all saving mobilization is undertaken by banks, which together with some non-financial institutions provide the majority of credit. This is clearly seen from Table 2:

Table (2): Azerbaijan formal providers of financial services (2004)

	Credit unions	Micro-financing¹	Agrar-credit	MFBA	Banks¹
Number	55	14	1	1	44
Service locations	80 ²	27	12	6	344
Borrowers	5.000 ²	45.489	n.a.	2.813	n.a.
Loans (manat billions)	18.8 ²	128.9	44.0	31.9	4915.4
Average loan size (manat millions)	3.8 ²	2.8	n.a.	11.3	n.a.
Deposits (manat billions)	0	0	0	0	5147.1

Source: ADB 2006A, p. 8

4- Creating Islamic Microfinance Model for Azerbaijan

Both microfinance and Islamic systems advocate entrepreneurship and risk taking through partnership finance. They are also forms of finance which represent unconventional solutions to financial needs, focusing on lacking cash, but promising business activities. And most importantly, both Islamic finance and microfinance theoretically start from egalitarian approaches as they are open to all customers with different and sometimes coinciding needs without setting any apparent restriction to different categories of clientele.

¹- Excludes MBFA.

²- Estimated from Azerbaijan Credit Unions Association and National Bank of Azerbaijan data. About 80 percent of licensed credit unions are members of the association.

According to Abbas Mirakhor, "[An] important function of Islamic finance that is seldom noted ... is the ability of Islamic finance to provide the vehicle for financial and economic empowerment ... to convert dead capital into income generating assets to financially and economically empower the poor..." (Chowdry 2006)

In this regard, the study held in Barda, Goranboy, Agdam, Mingchevir, Terter and Yevlax regions of Azerbaijan to analyze the local access to funding revealed that informal, usury loans with 10-15% interest per month are wide-spread among poor people and micro-entrepreneurs. The reasons for their popularity were that they did not require any kind of pledge, formal procedures and thus were very quick and easy. These loans were also found to create the conditions for the exploitation of borrowers (Report by "ARAN" NGO 2004).

The SME and poor strata of the population that has been excluded from financial services so far, needs to be seen as an opportunity, a profitable market niche by various financial institutions. However, there is a lot of work to be done in terms of raising public awareness among the stakeholders.

Islamic microfinance principles are difficult to implement on a profit and loss sharing basis, especially in rural settings. They require long-term involvement by the microfinance institutions (MFI) in the form of technical/business assistance which raises the cost of implementation.

So the reasons to prefer less risky murabaha over equity based financing methods are as follows:

- a well-defined contract with pre-defined amounts exists;
- lack of opportunities for abuse on the part of the client through inaccurate or falsified record-keeping;
- a fixed contract creates a less complicated process and a lower implementation cost to the institution.

Islamic MFIs may also be based on "awqaf". Since micro-financial services in Azerbaijan are very often rendered by foreign NGOs (including faith-based, like ADRA), the role of awqaf-based microfinance has certain potential and may use existing experience. It may be implemented by MFIs or through credit unions. In general, such models will assume an accumulation of resources that can be used for finance small and individual entrepreneurs created by poor people based on profit-loss sharing, or giving them interest-free consumer loans for improving their living conditions. This micro-financing principle is actively used in the Western countries in different forms and is called "community capitalism" (Stegman 2006).

Of course, existing legislation does not create any advantages for NGOs to be involved in microfinance as well as MFIs do not enjoy any preferable conditions. There are some signs of changing attitude but one should not rely upon them. So there is a need for adaptation and introduction of Islamic MFIs into existing framework with parallel advocacy and lobbying for more preferable condition and recognition of non-interest Islamic instruments.

In the meantime, it should not be viewed by the government and public as purely "foreign" Islamic Development Bank's or other institution's initiative. Local institutions, specialists, and especially religious communities should be mobilized and involved into this project. These institutions' primary goal should not be gaining quick profits. The institutions may function in two ways:

- 1- Islamic MFIs, giving group credits to poor households and businessmen, especially among IDPs.
- 2- Credit Unions created by local or religious communities established by awqaf and involving local businessmen.

Both could render the following services:

- ◆ Loans with indulgence (murabaha) – a credit union purchases necessary goods for a borrower and sells them to him with a certain extra charge under the condition of indulgence.
- ◆ Leasing (ijarah) – the credit union rents the equipment and transport resources it owns.
- ◆ Other operations that do not violate the legislation of Azerbaijan Republic
- ◆ In future, mudaraba model may also be used, but it does not seem real to implement and work efficiently at the moment due to the lack of awareness, trust and problems of high moral hazard.

The following problems to be addressed can be listed in the context of local development and poverty reduction in the Azerbaijan Republic:

- Lack of financial resources and access to banking services in the regions, especially IDPs;
- Non-working of the principles and values of the Islamic economic model in favor of the society in spite of growing interest to Islam in the country;
- Non-attraction of alternative sources of financial resources;
- Weak cooperation among the businesses;
- A low rate of social accountability of the business;
- Non-reliability of traditional methods for accumulation of donations and religious payments as a result of non-transparency;
- Crisis of ethics and lack of trust (a low level of social capital).

As we may see, these problems cover different aspects of social-economic life of the country. A complex solution of the problems is possible through the accomplishment of the tasks that would have effect on all of the above-mentioned problems.

Presumably, Islamic MFIs and credit unions will be able to address the above-mentioned problems through its successful application, other things being equal, in the following manner.

Prospects for introducing Islamic microfinance in Azerbaijan significantly rely on the support from the abroad and local stakeholders. The most probable potential proponents alongside with IDB and/or other Islamic international financial institution are Ministry of Economic Development, some decision-makers in the National Bank of Azerbaijan (NBA), AMFA and ACUA as well as some local religious communities and awqaf. The other proponents will have limited impact and will be less adequate. However, it does not mean that they must be neglected or not appreciated. The potential opponents are NBA, some local “official” clergy, representatives of the local authorities, interested in keeping the status-quo. It must be noticed that NBA is also a potential proponent. In the case of NBA everything depends on understanding, influence and lobbying of other proponents in order to adopt conforming political decisions.

There is a chance that Islamic finance at least in the form of Islamic MFIs will be in demand due to growing interest towards Islam in Azerbaijan. The country is passing through the process of “Islamic Revival” when numbers of people who identify themselves with Islam but did not identify with it before, has grown significantly (Aliyev 2007). Surveys that have been held throughout the last decade have demonstrated a trend towards re-Islamization of the Azerbaijani society. For example, the most recent surveys among the population and Azerbaijani business people revealed the fact that a majority of the respondents supported the idea of introducing Shariah laws either partly or fully (ibid.). In general, Islamic revival may have political implications as a result of the deterioration of existing socio-economic situation and disappointment with secular but corrupt and undemocratic regimes.

The latest survey by “PULS-R” sociological service also reveals interesting findings. The number of supporters of more involvement of Islamic values in the socio-political life of Azerbaijan has increased more

than 2 times from 6.2% in 2004 to 14.5% in 2005. There also has been a four-time rise in the number of respondents who wanted more cooperation with the Organization of Islamic Conference (from 2.3% to 10.5%), while sympathies towards NATO significantly decreased (12.4% in 2004 and 7% in 2005).

Increase in religiosity has not brought a significant qualitative growth of knowledge on this subject matter. Surveys show very little or non-systematized character knowledge about Islam among respondents. Very few people realize meaning and significance of basic concepts of the religion. It is still apprehended on superficial level. Moreover, religious perceptions are very mixed and contradictory.

However, Islam has started having more influence of the public consciousness of the population and there is a clear trend for this influence to increase in coming years. This, in turn, is going to result in serious economic-politic consequences.

As far as Islamic economy and finance are concerned the study made in 2005 showed that Azerbaijani business people's majority considered interest operation haraam (58%), while admitting they had to get involved in such operations. When asked about interest-free loans and other Islamic economic principles and practices 42% said they knew nothing about it, 41.5% claimed they knew something, and the remaining 16.5% claimed to know very little. Moreover, the majority of survey participants (almost 60%) claimed there was a need for the implementation of such principles and practices. Although they were less enthusiastic about the feasibility of their implementation with 40.5% claiming it was not real.

5- Conclusion

Thus we may conclude that Islamic microfinance has a lot of potential, but given the thoroughly developed and planned project by the coalition

of international Islamic development institutions and NGOs, Azerbaijani government, local NGOs, religious communities, created by them awqaf, existing MFIs and credit unions.

This project will need significant external funding by donor organizations on the first stages of its development and implementation, but in perspective Islamic MFIs and credit unions may turn into the self-sufficient institutions, once there is a strong awqaf institution in place.

While starting with murabaha and ijara, which are less risky and do not pose problems from the viewpoint of existing legislation and regulations, the project should include also advocacy and lobbying dimension for the appropriate changes in the legislation to make sure there are no problems in NGOs (awqaf) involvement and mudaraba operations.

As the initial stakeholders analysis results demonstrate, there are enough potential proponents on the part of the government officials and agencies, which are ready to collaborate with IDB on Islamic finance related issues. Recent steps of the Government of Azerbaijan have demonstrated its growing interest in collaboration with Islamic development and business institutions. One of the most important steps in this regard is a project on establishing Islamic Investments Fund in Azerbaijan. All these trends signalize about opened “window of opportunity” for introduction of Islamic finance in Azerbaijan. In this regard, Islamic microfinance introduction should be viewed as a part of more ambitious project of introducing and promoting Islamic finance as a whole and its inclusion into finance-credit system of Azerbaijan.

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