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Credit Unions in Azerbaijan

There are presently 45 credit unions in Azerbaijan competing for customers. Yet what's their working principle? But first, let's look at why there is so little we know about them.

Under the Law of the Republic of Azerbaijan "On Credit Unions" dated 2 May, 2000, credit union shall be understood as a non-bank credit organization set up through a voluntary merger of individuals and (or) legal entities that are subjects of small businesses with the purpose of satisfying the needs of its members in mutual crediting through accumulating reserves. Mutual lending is a short-term and long-term loan to meet the economic and social needs of its members through reserves amount allocated by the credit union. A credit union may acquire, hold or dispose of property and non-property rights on its own behalf, as well as institute or defend lawsuits and other legal proceedings.

Under the new (7 August 2019) amendment to this law, a credit union shall not receive deposits from legal entities and individuals.

A credit union enjoys the following rights: received credits, grants from banks, international and foreign financial-credit institutions; provide credits to its members in conformity with its constitution; and deposit free funds with banks, other credit unions, as well as use these funds to purchase state bonds.

A credit union shall be established by not less than 11 individuals and/or legal persons in conformity with applicable law. However, it shall obtain special authorization from Azerbaijan's Central Bank for banking activity.

A credit union is managed by the General Meeting of its members, the Supervisory Board, the Managing Board and the Credit Committee. The decision to provide loans is made by the Managing Board on the basis of the opinion of the Credit Committee.

Azerbaijan's two shock devaluations of the manat in 2015 burdened banks' operation and paralyzed the credit unions.

More than 15 banks have in particular bankrupted since 2016, thereby making the credit unions' situation precarious. Plus, a large share of loans has been non-performing following the devaluations.

In terms of lending, especially as there has been a decline in the loan portfolio compared to previous years, there is a need to improve the structure of loans.

It seems important, in this context, that it is necessary to expand and promote the activities of credit unions.

Therefore, the creation of credit unions is a positive step, but unlike banks, credit unions still fall short of expectations in Azerbaijan.

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