

Digital remittances in post-pandemic Azerbaijan: supply- and demand-side analysis



ASSESSMENT REPORT

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“DIGITAL REMITTANCES IN POST-PANDEMIC AZERBAIJAN: SUPPLY- AND DEMAND-SIDE ANALYSIS”

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December 2022



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LIST OF ACRONYMS AND ABBREVIATIONS

ABB	International Bank of Azerbaijan
AML	Anti-money laundering
BPM6	Sixth edition of the IMF's Balance of payments and international investment position manual
BTC	Baku-Tbilisi-Ceyhan
CBAR	Central Bank of Azerbaijan Republic
CDD	Customer due diligence
CFT	Combating the financing of terrorism
CIS	Commonwealth of Independent States
DR	Digital remittances
EBRD	European Bank for Reconstruction and Development
EECCA	Eastern Europe, Caucasus and Central Asia
FATF	Financial action task force
FGD	Focus group discussions
FIMSA	Financial markets supervision authority
FINDEX	Financial inclusion database
FIU	Financial Intelligence Unit
GDP	Gross domestic product
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
IOM	International Organization of Migration
KYC	Know-Your-Customer
MTO	Money transfer operator
OECD	Organisation for Economic Co-operation and Development
RR	Remittance recipients
RS	Remittance senders
RSP	Remittance service provider
SDG	Sustainable Development Goals
SMS	State Migration Service
SWIFT	Society for Worldwide Interbank Financial Telecommunications
TRASECA	Transport corridor Europe-Caucasus-Asia
UN	United Nations
USD	United States dollar
VAT	Value added tax

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CHAPTER 1.

CONTEXT OF AND MOTIVATION FOR THE STUDY

More than one million Azerbaijanis live outside the Republic of Azerbaijan, many of them working and providing financial support to their families in Azerbaijan by sending remittances from abroad. The socio-economic benefits of remittances sent to and from Azerbaijan are largely determined by the existing remittance service infrastructure and financial behavior patterns of both remittance senders and remittance recipients. In light of this, digitalization of payment services, including remittance-related services, can contribute to greater financial inclusion and higher financial literacy, and ultimately encourage savings- and investment-oriented financial behaviour patterns.

The COVID-19 pandemic has spurred the spread of digital remittances throughout the world. This is both due to demand from users who could not access physical points of remittance pick-up or remittance sending, and due to the supply of payment cards by governments for social transfers and banks' efforts to reach out to new clients without the need to visit a bank in person. Digitalization of remittances was cited by the World Bank as one of the factors which contributed to the quick recovery of remittances during the 2020 COVID-19 pandemic, alongside adaptation of foreign workers to local labour market needs, and the financial support provided by some host countries to non-residents (World Bank, 2021).

The increased demand for digital remittance services also reflects a global trend for the spread of digital financial services in general: according to the latest FINDEX report, based on a survey of the adult population in 123 countries, conducted in 2020, 40 per cent of adults in developing economies (excluding China) who made a digital merchant payment using a card, phone, or the internet, and one-third of adults in developing economies who paid a utility bill directly from an account did so for the first time after the start of the COVID-19 pandemic.¹

Azerbaijan appears to have followed the global trend of digitalization of financial services. In 2021, the volume of cashless payments increased significantly, while the use of other cashless technologies and e-commerce has also expanded. As of 1 January 2022, there were 11.5 million payment cards in circulation, of which 65 per cent supported contactless payments. The number of payment cards had increased by 20 per cent year-on-year, and in the same period the number of contactless cards doubled; 88 per cent (10.1 million units) of issued payment cards are now debit cards, while 12 per cent (1.4 million) are credit cards.² The Digital Payments Strategy of the Central Bank of the Republic of Azerbaijan (CBAR) for 2021-2023 has set the key performance indicator for cashless turnover in card transactions at 40 per cent in 2023; nearly double the 23 per cent figure in 2020.

Remittance senders and remittance recipients are particularly interested in access to and use of digital financial services, as they are required to conduct transactions on a regular basis. However, recent evidence on the financial behaviour of this category of users is currently lacking. The latest specialized survey on remittance recipients in Azerbaijan dates from 2007³, and the most recent studies on financial inclusion were carried out in 2015⁴ and 2017.⁵ Thus, the effect of the pandemic on the remittance behaviour of Azerbaijani senders and recipients is as yet impossible to quantify.

Importantly in this regard, the Republic of Azerbaijan has committed itself to the Sustainable Development Goals (SDGs) 2030, and remittances can contribute to achieving these in a variety of ways:

- At household level: by recognizing the positive socioeconomic impact of remittances on families and communities (SDGs 1-6).

¹ *Global Findex Database 2021. Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19.*

² *Payment systems review for January-December 2021. Central Bank of the Republic of Azerbaijan. February 2022.*

³ *Azerbaijan National Public Opinion Survey on Remittances. EBRD, 2007.*

⁴ *World Bank (2016). Enhancing financial capability in the Republic of Azerbaijan.*

⁵ *Global Findex Database 2017. <https://microdata.worldbank.org/index.php/catalog/3253>*

- At community level: by supporting policies and specific actions to promote synergies between remittances and financial inclusion, encourage market competition and regulatory reform, and mitigate any negative impact resulting from climate change (SDGs 7, 8, 10, 12 and 13).

- At national level: by ensuring that the revitalized Global Partnership for Sustainable Development – as outlined in SDG 17 – and the Global Compact on Migration promote collaboration across all sectors involved in remittances.

Therefore, the objectives of the present study include:

- 1) To fill in the current knowledge gaps on the financial behaviour of remittance senders and remittance recipients in Azerbaijan.
- 2) To explore remittance resilience in the post-pandemic period, focusing on the factors supporting and constraining this resilience.
- 3) To support financial sector development in Azerbaijan in the framework of the implementation of the Digital Payments Strategy 2021-2023 and other relevant strategic initiatives of the government by adding evidence on those parts of the adult population involved in remittance transactions.

The report opens with a description of the analytical approach and methods of data collection used. It then proceeds to a literature review, illustrating the peculiarities of Azerbaijan as a remittance receiving and remittance sending country, with a focus on trends following the pandemic year of 2020. In particular, it provides an overview of the existing knowledge on remittance flows, remittance senders and remittance recipients in the Republic of Azerbaijan. These introductory chapters are followed by an analysis of the supply and demand side of the remittance market in Azerbaijan, based on the findings of expert interviews, surveys and focus groups held in Azerbaijan in June-July 2022.

CHAPTER 2.

METHODOLOGY

2.1. Analytical framework and methods of data collection

This research employs a supply-demand side approach, in order to assess the existing remittance infrastructure and prevailing remittance-related financial behaviour patterns among Azerbaijani remittance senders, foreigners working in Azerbaijan, and remittance recipients in Azerbaijan.

In the framework of this research, we assume that financial inclusion is a necessary condition for digital remittance uptake by senders and recipients, while a bank payment card is a necessary instrument providing access to digital remittance services. On the supply side, digitalization of remittance services by money transfer operators (MTOs) and remittance agents is the primary condition for digital remittance uptake, while remittance services integrated into mobile apps/mobile banking apps constitute the necessary instruments (Table 1).

Table 1: Factors in uptake of digital remittances by migrant workers and their families

	Demand-side	Supply-side
Condition	Financial inclusion of remittance senders and remittance recipients	Digitalization of remittance services by MTOs and remittance sending / receiving agents
Instrument	A bank payment card	Mobile app, mobile banking

The supply-side part of the assessment includes an analysis of the legislative framework, infrastructure, and the types of services available to migrants and recipient families in the Republic of Azerbaijan. In particular, the research is focused on the factors enabling the availability, accessibility and affordability of digital remittance services in the country. Supply side analysis relies on two methods of data collection – desk research and key informant interviews. Desk research was used for collecting information about migration legislation and financial sector regulations concerning transborder remittances by Azerbaijani nationals⁶ and non-nationals in Azerbaijan, and factors constraining the uptake of digital remittance services. Expert interviews were used for collecting information from stakeholders on their perceptions of the uptake of digital remittance services by Azerbaijani nationals and foreigners in Azerbaijan.

The demand-side part of the assessment is based on an analysis of the profile and prevailing financial behaviour patterns related to remittances among Azerbaijani migrants, foreigners in the Republic of Azerbaijan, and Azerbaijani nationals receiving remittances in their home country, as well as corresponding barriers to the wider uptake of digital remittance patterns, such as the current level of financial inclusion. The data collection methods employed in the demand-side analysis included online survey of Azerbaijani senders abroad, a self-administered offline survey of remittance senders and remittance recipients in Azerbaijan, and two focus group discussions with remittance recipients in Baku and Lankaran.

The online survey of Azerbaijani citizen remittance senders from abroad was designed on the basis of the Harmonized Module on Migration and Remittances developed for EECCA countries and updated in 2021 for the post-pandemic context, and on the survey tools applied in the latest IOM research on digital remittances between the Russian Federation and Central Asian countries, which included an additional block of questions on financial literacy and financial inclusion. The following thematic blocks of questions were included in our online survey questionnaire: 1) Migration; 2) Employment and financial wellbeing; 3) Financial inclusion and

⁶ Throughout the report, nationals should be interpreted as citizens; that is, people with Azerbaijani citizenship.

remittance patterns; 4) Socio-demographic status. The survey was placed on the online platform survio.com in two languages – Azerbaijani and English.

The survey was launched on 16 June 2022, the International Day of Family Remittances, and closed on 18 July 2022. A link to the questionnaire was disseminated via email among diaspora organizations of Azerbaijanis abroad, using the database Diaspora Map⁷ compiled under the project of the State Committee on Work with the Diaspora. There were a series of follow-up calls subsequent to the email dissemination to make sure that the message had reached the addressees and to explain the purposes of the survey. Some calls were not returned, while some email addresses had to be corrected and the message was sent again. In addition to the email letters to diaspora organizations, the link to the survey was disseminated via Facebook, Telegram, Twitter and LinkedIn using snowball sampling method, VKontakte social network using targeted sampling covering the subscribers to two major Russian MTOs – CONTACT and Zolotaya Korona, and also in several Telegram channels. After cleaning the data, the total number of completed questionnaires was 216, of which 136 were completed in Azerbaijani, and 80 in English; 13 out of 25 countries in the online sample survey included respondents in both languages.

Difficulties of sampling when conducting the online survey inevitably affected the representativeness of the survey. We acknowledge this deficiency, and by opting for an online survey method we aimed to receive as many responses as possible. As a result, the sample of respondents – remittance senders from abroad – is representative in terms of the key countries of remittance origin, but not in terms of the Azerbaijani migrant population in these countries. Therefore, the online survey findings should be treated with caution, bearing in mind the fact that it represents only a section of Azerbaijani remittance senders abroad, that is primarily more highly educated and younger people, and does not allow for comparison between different countries of destination.

The offline self-administered survey of remittance senders and recipients in Azerbaijan was based on identical questionnaires (Annex 4) distributed in bank branches and Azerpost divisions in 12 economic regions in Azerbaijan. The completed questionnaires were then scanned by staff of Azerpost and banks and emailed to the research team. The data received by these means were then entered into an Excel database and coded for further analysis. After cleaning the data, we had 871 questionnaires for analysis, of which 302 were from remittance senders (RS) and 569 from remittance recipients (RR). Our survey covered those who came to receive or send money in cash. We used this approach because it enabled us to collect a large number of responses from respondents who satisfied our selection criteria in the shortest time period. However, this method was not able to capture foreign citizen remittance senders, despite an English version of the questionnaires having been made available.

All methods of data collection were selected taking into account the suggestions of stakeholders expressed at the introductory Working Group meeting on 17 May 2022, the availability of resources, and the timeframe of the project.

2.2. Key concepts

Digital remittances (DR) are remittances sent “via a payment instrument in an online or self-assisted manner, and received into a transaction account”, including a bank account, a microfinance institution account or a mobile money account.⁸ In the framework of this research, we always refer to international remittances. Remittance transaction can also be digital only on the sending end, that is when a sender does not send in cash but selects a cash method for receiving the money. The opposite pattern is also feasible: a sender can use cash to top up a recipient’s bank card. These two patterns are therefore only partially digital remittances. Finally, when money is sent from card to card, this constitutes a fully digital remittance transaction. The choice of the particular remittance pattern depends on the various degrees of accessibility of financial services to residents and non-residents. Therefore, for the purposes of this research we consider two basic

⁷ <http://diasporamap.com/en/>

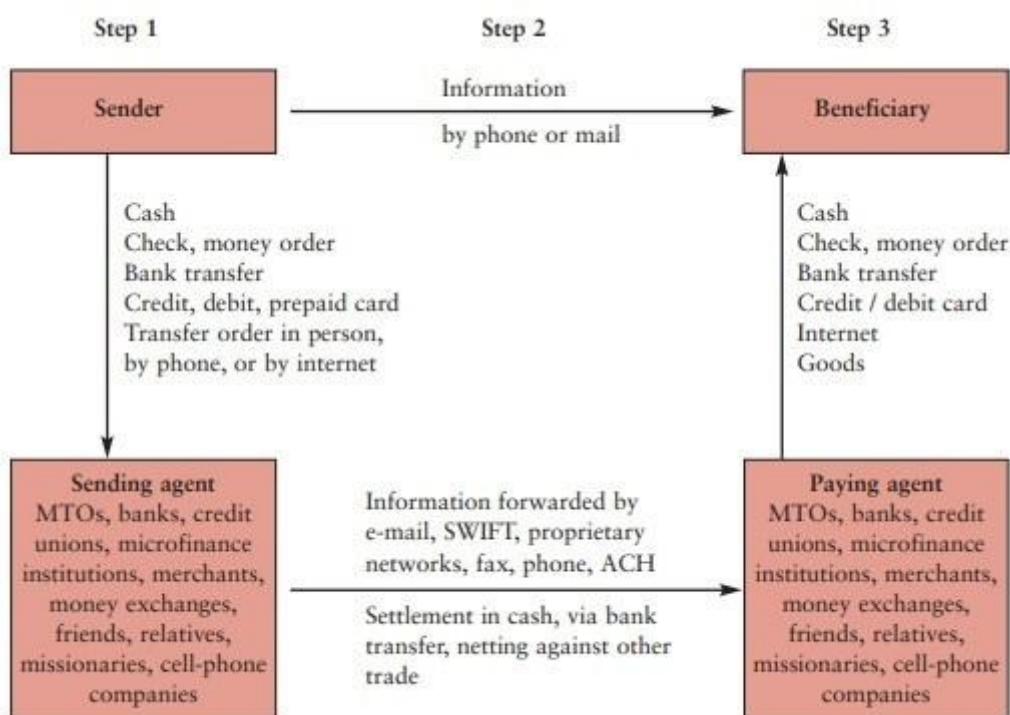
⁸ *Remittance prices worldwide quarterly*. World Bank. 2020.

types of DR patterns: partially digital and fully digital. In practice, this translates into three patterns of digital remittances:

1. Sending in cash – receiving digitally
2. Sending digitally – receiving digitally
3. Sending digitally – receiving in cash

Remittance service providers (RSPs) are remittance market participants, which are entities, operating as a business, which provide a remittance service at a price to end users, either directly or through agents. This broad category of RSPs is divided into three groups of financial institutions: (a) banks, (b) nonbank financial institutions, such as postal services, and (c) money transfer businesses, such as MTOs. RSPs can also act through remittance sending and receiving agents, which can also serve as the venue for the transaction (Figure 1).

Figure 1: Remittance transaction structure



Source: Global economic prospects 2006. Economic implications of remittances and migration. World Bank.

Note: A typical remittance transaction takes place in three steps: (1) initiation of remittances by a migrant sender using a sending agent, (2) exchange of information and settlement of funds, and (3) delivery of remittances to the beneficiary. In step 1, the migrant sender pays the principal amount of the remittance to the sending agent using cash, check, money order, credit card, debit card, or a debit instruction sent by e-mail, phone, or internet. In step 2, the sending agent—which may be an MTO, bank, or other financial institution, such as money changer, or merchant (gas station, grocery store)—then instructs its agent in the recipient’s country to deliver the remittance. In step 3, the paying agent makes the payment to the beneficiary. In most cases, there is no real time fund transfer; instead, the balance owed by the sending agent to the paying agent is settled periodically according to a mutually agreed schedule. Settlement usually occurs through commercial banks acting through their national clearing and settlement system. A portion of informal remittances is settled through trade in goods.

CHAPTER 3.

INTERNATIONAL REMITTANCES IN AZERBAIJAN AFTER 2020: WHAT MAKES AZERBAIJAN A DIFFERENT ‘REMITTANCE’ STORY

This chapter provides an overview of Azerbaijan as a remittance sending and remittance receiving country based on the available statistical data and the findings of extant studies. It also outlines the development of digital payments in Azerbaijan with the aim of providing background for the analysis of digital remittance infrastructure and remittance patterns presented in Chapter 4 and Chapter 5.

3.1 Azerbaijan as a remittance receiving country

According to the International Monetary Fund (IMF) terminology, international remittances are associated with money transfers between households and individuals as a part of income earned abroad. In other words, these transfers are linked mostly to labour and economic migration. Central banks report data on remittances using the data on transactions conducted via fast payment systems and post offices, as these are considered the key remittance services providers (RSPs).

The sixth edition of the IMF’s Balance of Payments and International Investment Position Manual determines the methodology for measuring remittances based on balance of payments data. A special indicator of ‘personal remittances’ was developed for this purpose⁹: “Personal remittances are defined as current and capital transfers in cash or in kind between resident households and non-resident households, plus compensation of employees, less taxes and social contributions paid by non-resident workers in the economy of employment, less transport and travel expenditures related to working abroad (paragraph 12.27). In short, this item includes all household-to-household transfers and the net earnings of non-resident workers”.¹⁰

International remittances constituted 2.8 per cent of Azerbaijan’s gross domestic product (GDP) in 2021, according to World Bank estimates. This figure indicates that Azerbaijan’s economy is not as dependent on remittances as the Central Asian republics, such as Tajikistan (34.5 per cent of GDP in 2021) or Kyrgyzstan (32.8 per cent of GDP in 2021).¹¹ Nevertheless, the majority of remittance flows to Azerbaijan comes from the Russian Federation (57 per cent in 2021), and in this respect it is similar to some Central Asian countries, such as Tajikistan (58 per cent in 2021), and Uzbekistan (56 per cent in 2021). Based on the remittance statistics of the CBAR, in 2021-2022 key remittance source countries were the Russian Federation, Türkiye and the United States. That means that, whatever affects the Russian labour market and non-residents’ income sources, will have consequences for the total volume of remittances to Azerbaijan, just as it will for the Central Asian republics. Based on this logic, in spring 2022, the World Bank projected a sharp decline in the amount of incoming remittances in the Europe and Central Asia region. For Azerbaijan, the expected decrease was estimated at 21 per cent (Table 2).

Table 2. World Bank estimates for remittance inflows from Russia to selected countries in 2022

Country	Remittance inflows, 2021, (USD, mn)	% of GDP, 2021	% of exports and services, 2021	Share of remittances from Russia, 2021	Originally projected growth rate, 2022	Revised projection of growth rate for 2022
Armenia	1,610	11.6%	42.7%	59%	11%	-19%
Azerbaijan	1,527	2.8%	10.1%	57%	3%	-21%

⁹ *Balance of payments and international investment position manual. Sixth edition (BPM6). Washington, D.C.: International Monetary Fund, 2009.*

¹⁰ *Analysis of Household Surveys on Migration and Remittances in the Countries of Eastern Europe, Caucasus, and Central Asia. UNECE Working Paper Series on Statistics. Prepared for UNECE by Anna Prokhorova (2018).*

¹¹ *A War in a Pandemic. Implications of the Ukraine crisis and COVID-19 on global governance of migration and remittance flows. Migration and Development Brief 36. Knomad. May 2022.*

Belarus	1,137	1.7%	3.0%	43%	15%	-9%
Georgia	2,644	14.1%	43.4%	16%	2%	-5%
Kazakhstan	310	0.2%	0.6%	55%	7%	-19%
Kyrgyz Republic	2,798	32.8%	114.9%	82%	3%	-32%
Moldova	2,085	15.2%	63.9%	14%	6%	-1%
Tajikistan	2,922	34.5%	204.8%	58%	2%	-22%
Ukraine	18,150	9.2%	28.9%	4%	2%	22%
Uzbekistan	9,198	13.3%	62.9%	56%	3%	-21%

Source: Migration and Development Brief 36.

Although such projections may appear quite plausible, it should be noted that these calculations take into account only visible transactions, or remittances transferred through formal channels, such as money transfer operators (MTOs), post offices, and other remittance service providers (RSPs) reporting to the central banks in sending and receiving countries. But what was the actual strategy of the remittance service users? Did they switch from digital to formal cash-based remittances or to informal *hawala*¹² systems, or adopt alternative digital methods that remain invisible to existing remittance data collection systems?

Furthermore, these projections of the World Bank are based on data collected in previous years, meaning that the purpose of transactions is assumed to be transfer of funds between households. In practice, several countries close to the Russian Federation – including Azerbaijan, Georgia¹³ and Kazakhstan¹⁴ – reported an abnormal surge in the amount of incoming remittance in spring 2022. In Azerbaijan, the inflow of remittances sent from abroad and received through AzerPost branches grew threefold: from 50 million manat in May 2021 to 150 million manat in May 2022.¹⁵ In July 2022, in its monthly economic update on Azerbaijan, the World Bank also mentioned that “remittances continued to surge in May, rising by 3.6 times (year-on-year) largely due to inflows from Russia”.¹⁶ The data on remittance for the first six months of 2022, published by the CBAR, confirm a significant increase of remittance inflows to the Republic of Azerbaijan, mainly attributable to money transfers from the Russian Federation (Annex 1).

Importantly, remittance data does not fully correspond to the reported countries of residence of Azerbaijanis abroad based on the UN DESA migrant stocks 2019, as the most popular regional destinations for Azerbaijanis include the Russian Federation, Ukraine, Armenia and Kazakhstan.¹⁷ These United Nations estimates are based on official statistics on the foreign-born or the foreign population. Given the historical background of migration processes in the region related to the collapse of the Soviet Union, the above-mentioned countries have a high number of nationals born in the territory of Azerbaijan. Therefore, this data covers a large number of people born in Azerbaijan and does not imply any specific purpose of recent migration. In other words, these countries are home to nearly one million people *born* in Azerbaijan. However, statistics on Azerbaijani migrants based on country of citizenship aligns with the remittance data more specifically. According to national statistics collected in the various destination countries, there were around 618,000 Azerbaijani migrants in the Russian Federation (2018),¹⁸ 48,500 in Türkiye (2019),¹⁹ 8,000 in the United States of America

¹² *Hawala* or ‘gypsy mail’ is an informal way of sending money between countries based on transferring money to a dealer in the country of origin who then communicates with another dealer in the destination country in order to deliver the corresponding amount of money to the recipient.

¹³ <https://internationalwealth.info/news-of-the-offshore/perevod%D1%8B-yz-rossyy-v-gruzyju-ustanovyly-novj-rekord/>

¹⁴ Через Казахстан проходят аномальные объемы денежных средств. <https://www.nur.kz/nurfin/economy/1972033-cherez-kazahstan-prohodyat-anomalnye-obemy-denezhnyh-sredstv/>

¹⁵ Interview with AzerPost on June 14, 2022, in Baku.

¹⁶ Azerbaijan Monthly economic update. World Bank, July 2022. <https://thedocs.worldbank.org/en/doc/e902586dbe7f8e6edc8a1c115c2d5710-0080012022/original/AZE-MEU-July-2022.pdf>

¹⁷ United Nations, Department of Economic and Social Affairs, Population Division (2019). International Migrant Stock 2019 https://www.un.org/en/development/desa/population/migration/data/estimates2/data/UN_MigrantStockTotal_2019.xlsx

¹⁸ Federal State Statistics Service (2018): Results of the Pilot Population Census <https://eng.rosstat.gov.ru/folder/76215>.

¹⁹ Turkish Statistical Institute, The Results of Address Based Population Registration System, 2021 <https://data.tuik.gov.tr/Bulten/Index?p=The-Results-of-Address-Based-Population-Registration-System-2021-45500>

(permanent residence, 2011-2020),²⁰ and 13,000 in Germany (2021).²¹ The data on permanent emigration by destination countries published by the State Statistical Committee of the Republic of Azerbaijan²² indicates that the Russian Federation and Kazakhstan account for 73-86 per cent of total departures by Azerbaijani citizens in the period 2010-2020.

The most recent survey of remittance recipients in Azerbaijan was conducted in 2007 by the European Bank of Reconstruction and Development. The survey covered 7 of Azerbaijan's 11 economic regions, including both urban and rural areas. The results showed that the major country of remittance origin was the Russian Federation (79 per cent), while other destinations accounted for a maximum of 4 per cent each – for example, Türkiye, Iran and Israel together made up 4 per cent, three Eastern European countries - Ukraine, Belarus, Estonia – also added up to 4 per cent, while four Central Asian countries – Kazakhstan, Kyrgyzstan, Turkmenistan and Uzbekistan, as well as Georgia – accounted for 3 per cent together. Remittance recipients were mostly concentrated in Baku (34 per cent) and Lankaran (33 per cent) economic regions. No difference was identified between urban and rural areas in terms of the prevalence of remittance recipients, and the share of women was almost the same as that of men in the total number of respondents receiving money from relatives living abroad. Both men and women tended to receive money in a bank branch, and they spent most of it (80 per cent) on everyday needs. Only 23 per cent of remittance recipients had a bank account (32 per cent among men and 15 per cent among women), while the overall attitude to the banks was reported as positive (72 per cent).²³

In 2015, the IOM Azerbaijan household survey of return migrants in Azerbaijan showed that 43 per cent of migrants sent remittances to Azerbaijan via bank transfer, 18 per cent sent money through their relatives, 22 per cent by means of bus drivers, and 17 per cent sent remittances via money transfer organizations (mainly Western Union).²⁴

Representative sample household budget surveys in Azerbaijan conducted on a regular basis by the State Statistical Committee show that women are more dependent on remittances as a source of income than men and that remittances make up 8.5 per cent of total income for the youngest age group (18-29 years) and 6 per cent of total income for the oldest (60+ years) age group of remittance recipients (Table 3).

Table 3. Income structure by gender and age of household head, manat, per capita per month (2020)

	Household head gender		Household head age				
	Men	Women	18-29	30-39	40-49	50-59	60 +
Total income	288.9	301.8	303.6	266.9	269.3	300.9	303.1
Money received from abroad	4.6%	11.0%	8.5%	4.8%	5.8%	5.7%	6.0%

Source: State Statistical Committee of the Republic of Azerbaijan, 2020

3.2. Azerbaijan as a remittance sending country

It is assumed that the bulk of remittances originate from migrant workers: people who had left their native country to work abroad. Azerbaijan was gradually becoming an attractive destination for migrants after 2001 due to the country's economic growth and participation in major regional projects (BTC, TRASECA, Southern Gas Corridor and so on).²⁵ The official statistical data on migration to Azerbaijan is based on permanent migration inflows; that is, it shows the number of those with permission to enter the country for indefinite

²⁰ United States. Department of Homeland Security. 2020 Yearbook of Immigration Statistics. https://www.dhs.gov/sites/default/files/2022-07/2022_0308_plcy_yearbook_immigration_statistics_fy2020_v2.pdf

²¹ Eurostat, All valid permits by reason, length of validity and citizenship on 31 December of each year https://ec.europa.eu/eurostat/databrowser/view/MIGR_RESVALID_custom_3566692/default/table?lang=en

²² Demographic indicators of Azerbaijan. Statistical yearbook. Baku, 2021.

²³ Azerbaijan National Public Opinion Survey on Remittances. EBRD. July 2007.

²⁴ Migration and Remittances in Azerbaijan: Theoretical and Empirical Assessment. IOM. Baku, Azerbaijan. 2015.

²⁵ Allahveranov A., Aliyeva R. and Turkhan Sadigov. Social Impact of Emigration and Rural-Urban Migration in Central and Eastern Europe. Final Country Report. Azerbaijan. April, 2012.

stay. Between 2015 and 2020, State Migration Service (SMS) statistics show that Georgia, the Russian Federation and Republic of Türkiye are the three top origin countries for migrants permanently residing in Azerbaijan.

Permanent migration data does not allow for identification of specifically labour migrants by country of origin. However, the most important origin and destination countries of labour migration to and from Azerbaijan can be identified through the list of partnership agreements in the area of labour migration. In the past 20 years, Azerbaijan has concluded a number of bilateral agreements with other countries relating to the social protection of migrant workers. Agreements are primarily signed with the countries of destination for Azerbaijani citizens and the countries of origin for migrants into Azerbaijan. In 2004, Azerbaijan signed an agreement with Ukraine on the employment and social security of Ukrainian citizens working temporarily in Azerbaijan, and of Azerbaijani citizens temporarily working in Ukraine. The agreement regulates the recognition of professional experience, social security, pension rights, and health insurance. Azerbaijan signed similar bilateral agreements on cooperation on labour migration with Moldova, Kazakhstan, Kyrgyzstan and Belarus. In addition, there are two agreements between Azerbaijan and Türkiye: one on general migration matters and the other on social protection.²⁶ In addition, in April 2022, a pension agreement was signed between the Russian Federation and Republic of Azerbaijan.²⁷

Again, remittance statistics do not fully correspond with the list of countries from which migrant workers originate. The CBAR reported in 2021 that the top destination countries for remittances from Azerbaijan included the Republic of Türkiye (27.4 per cent), the Russian Federation (17.7 per cent), Georgia (11.9 per cent), the United States (7.7 per cent), Ukraine (7 per cent), and the United Kingdom (6.9 per cent). The recent statistics of the CBAR on remittances for Q1 2022 show that the overall 15.8 per cent increase in outflows compared to Q1 2021 is mainly attributable to transfers directed to the USA, UK, Netherlands, and Lithuania, while the share of the Russian Federation in the structure of remittance outflow dropped from 21.3 per cent in Q1 2021 to 13.6 per cent in Q1 2022 (Annex 1).

Although, it is difficult if not impossible to identify who are the remittance senders by country of citizenship, it is assumed that a sender's citizenship coincides with the country of their remittance destination.

In sum, official data on remittances produced by the CBAR is informative in terms of overall trends and the magnitude of transfers. On the other hand, these datasets have certain limitations. Balance of payments statistics only show figures and obscure other aspects of remittances linked to the profile of remittances senders and recipients. For example, it does not allow for distinguishing remittance service users by citizenship, country of birth, migratory status, gender, age, purpose of the transaction, etc. Therefore, foreign workers' remittances as such can only be identified through specialized surveys. However, such research is rare. The only survey of foreign workers in Azerbaijan was conducted by IOM in 2007.

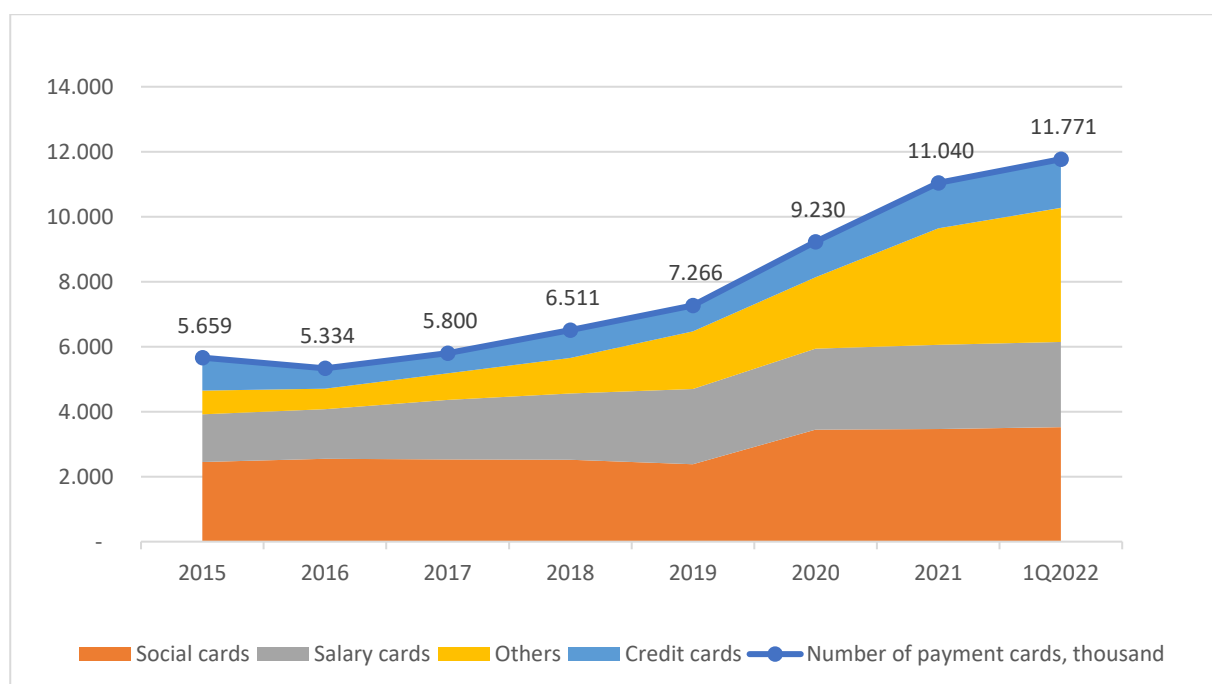
3.3. Financial inclusion and digital payments in Azerbaijan

One of the key factors in the digitalization of remittances is the financial inclusion of remittance senders and remittance recipients. Digitization of remittances is a relatively recent phenomenon: according to IFAD, in 2015 cash-to-cash was still the most used method for migrants in Europe, as in the rest of the world, to send money home. Traditionally, financial inclusion is measured by ownership of a bank card and/or a bank account among the adult population. In 2017, a FINDEX assessment found that 29 per cent of the adult population in Azerbaijan had bank accounts, and no significant gender gap was observed in this regard. Since that time, Azerbaijan has taken steps to improve financial inclusion. The number of payment cards in circulation has increased, albeit with social cards and salary cards still constituting about half of all payment cards in circulation (Figure 2).

²⁶ ICMPPD (2016). *Assessment report. Review of legal and labour migration mechanisms in the Republic of Azerbaijan*. p.13.

²⁷ Алиев утвердил соглашение с РФ о сотрудничестве в сфере пенсионного обеспечения. *Sputniknews. Azerbaijan*. 30.07.2022. <https://az.sputniknews.ru/20220730/aliev-utverdil-soqlashenie-s-rf-o-sotrudnichestve-v-sfere-pensionnogo-obespecheniya-444539110.html>

Figure 2. Dynamics of payment cards in circulation, by type of card, thousands

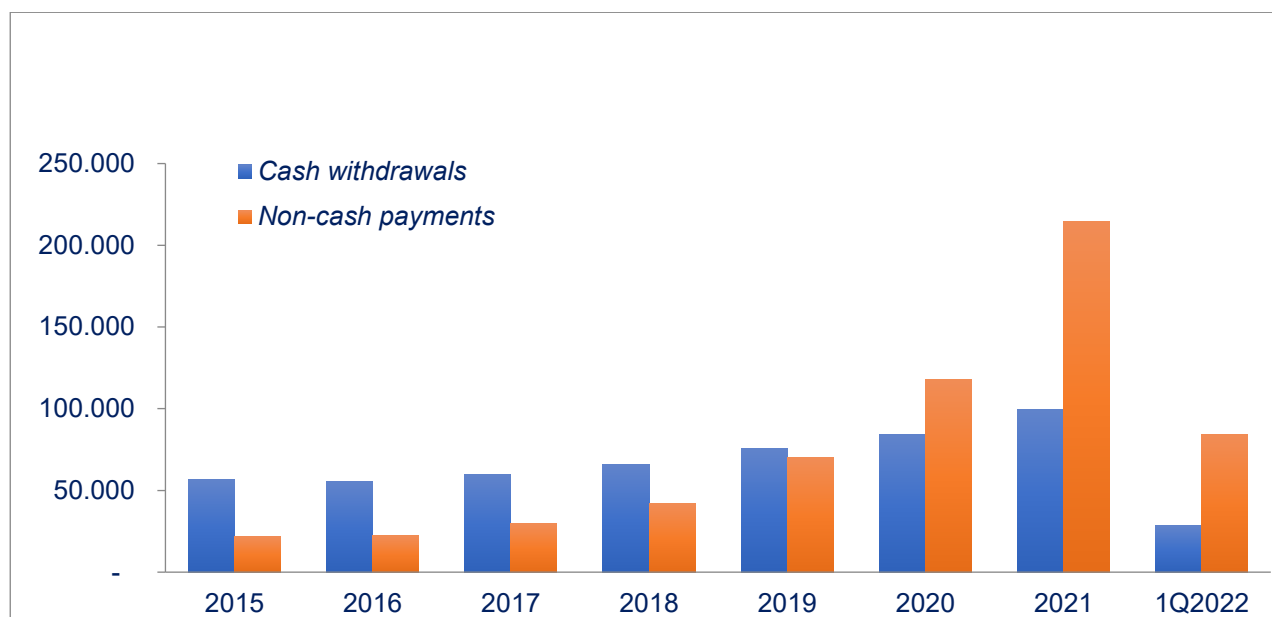


Source: Central Bank of Azerbaijan

In 2020, in order to stimulate non-cash payments and the provision of receipts by sellers, Azerbaijan launched a mechanism for a partial refund of value added tax (VAT) to consumers who were citizens of Azerbaijan. The amount of the refund was set at 10 per cent for purchases paid in cash and 15 per cent for cashless payments. The refund can be requested either through a special website or mobile bank app of authorized banks. Within 30 days after the request is placed, the money appears in a virtual wallet, which is available in the online user cabinet of the website, and/or in a bank's app. The returned amount can be used to pay for utilities, mobile telephone services, internet, television or insurance payments, or can be transferred to bank cards.²⁸ An additional measure aimed at increasing the share of cashless payments was the introduction of financial sanctions for non-installation of POS-terminals in business establishments or refusal to accept cashless payments. To be systematic in the development of cashless payments and increase access for the general population and businesses to financial services in all parts of the country, the CBAR developed the Digital Payments Strategy for 2021-2023 years. The trend in recent years shows a sharp increase in the use of non-cash transactions, despite steady growth in cash withdrawals (Figure 3).

²⁸ Azerbaijan launches new mechanism for refunding part of VAT to consumers. Azernews. Published on May 5, 2020. <https://www.azernews.az/business/164804.html>

Figure 3: Trends in use of cash and non-cash operations with payment cards



Source: Central Bank of Azerbaijan

Nevertheless, Azerbaijan appears to remain a fairly cash-based economy, due to the dominant position of cash in the generation of income. Although the ‘bleaching’ policy of the last two years has removed 240,000 jobs from the informal sector, only a small proportion of the employed workforce (34.4 per cent) works on a contract basis. High non-bank cash flow indicates the presence of substantial unregistered private sector income.²⁹

The low financial literacy of the population is considered to be another barrier to higher financial inclusion. In 2018, an OECD study on financial literacy in seven CIS countries showed that in Azerbaijan, financial knowledge was more of a problem for women than men, and lower among younger and older populations than among those aged 40–49. IT illiteracy, migrant status and rural living are associated with lower financial knowledge than that of the adult average in Azerbaijan.³⁰ In 2020, the OECD again surveyed adult population in the CIS countries and found that the highest financial literacy score was achieved by Belarus (61.4 per cent), and the lowest by Azerbaijan (45.9 per cent).³¹

The Digital Payments Strategy for 2021-2023 envisages taking measures to increase the financial literacy of the population, including incentivization campaigns with international card organizations to promote digital payments, the production and broadcasting of educational videos on the part of banks to encourage customers to actively use digital payments and e-banking services, and webinars for various target groups. While digital transborder remittances are not explicitly identified in the Strategy, the action plan leaves room for ensuring that remittance services users in Azerbaijan are properly informed about the advantages, peculiarities and methods of digital remittances.

Summary of the chapter

- The available data on migration and remittance to and from Azerbaijan confirms the country’s status as a remittance-sending and remittance-receiving economy. Despite being a member of the Russia-centred migration region, Azerbaijan is far less dependent on remittances than Central Asian republics, such as Tajikistan and Kyrgyzstan. At the same time, having a large diaspora in the Russian Federation, remittance inflows from this country are likely to reflect any turbulence in the Russian economy and financial sector. Other significant remittance origin countries include Türkiye, Georgia

²⁹ Digital Payment Strategy of the Central Bank of the Republic of Azerbaijan for 2021-2023. P.8.

³⁰ OECD (2018), Levels of financial literacy in Eurasia. <https://www.oecd.org/education/financial-education-cis.html>

³¹ OECD (2021), Levels of Financial Literacy in the Commonwealth of Independent States in 2021.

and the USA. Azerbaijan's remittance outflows are directed mostly to the same countries. However, the CBAR's data does not enable identification of the extent to which the substantial volume of outgoing remittance can be specifically attributed to labour migrants.

- Remittance recipients in Azerbaijan are the most visible category of remittance service users, because they are regularly covered by national sample household surveys and can be identified by their reporting of money received from abroad as a distinct income source. At the same time, in the context of the financial inclusion of the adult population, no data is available on this particular group. The only existing evidence, dating back to 2007, indicates that people used to receive remittances in banks, although that does not necessarily make them a bank's clients, because the most frequently used method of remittance is via MTOs, which does not require opening a bank account.
- In the past decade, there has been no update on the financial inclusion and behaviour of remittance service users in Azerbaijan. Meanwhile, remittance market and financial regulations have developed and brought new methods of making money transfers, including by digital means.
- In 2021, the CBAR launched the Digital Payments Strategy, aimed at enhancing the financial inclusion of the population and expanding the use of digital payment services.

CHAPTER 4.

OVERVIEW OF THE CURRENT REMITTANCE SYSTEM AND DIGITAL REMITTANCE SERVICES IN THE REPUBLIC OF AZERBAIJAN

The supply-side part of the assessment presented in this chapter includes analysis of the legislative framework, infrastructure, and the types of services available to migrants and recipient families in the Republic of Azerbaijan.

Our analysis of the legislative framework in Azerbaijan regulating international transactions identifies a link between migration legislation and access to services provided by the formal financial sector for non-residents in Azerbaijan. This overview also looks into the most recent amendments to monitoring and the restrictions applied to international money transactions initiated by individuals in 2022.

4.1. Legislative aspects of transborder remittances in Azerbaijan

In the past six years, the financial sector in Azerbaijan has been subject to significant reforms. At the time of writing, CBAR was working on a new draft law concerning various aspects of financial market functioning, including payment system operations. In 2019, the Financial Markets Supervision Authority (FIMSA) was dissolved. For the three preceding years FIMSA was in charge of the licensing, regulation and supervision of the securities market, investment funds, insurance, credit organizations (banks, non-bank credit organizations and the postal operator) and payment systems operations. In other words, it performed all the regulatory and supervisory functions of the CBAR.³² After these functions were returned to CBAR in 2019, the financial regulator initiated pertinent amendments to a number of laws, including those 'On the Central Bank of the Republic of Azerbaijan', 'On banks', 'On credit organizations that are not banks', 'On insurance activities', 'On the securities market' and 'On currency control' among others.³³ We will have occasion to refer to the legislative documents and regulations in force as of 12 July 2022 in the text below.

Remittance market regulations for RSPs and agents

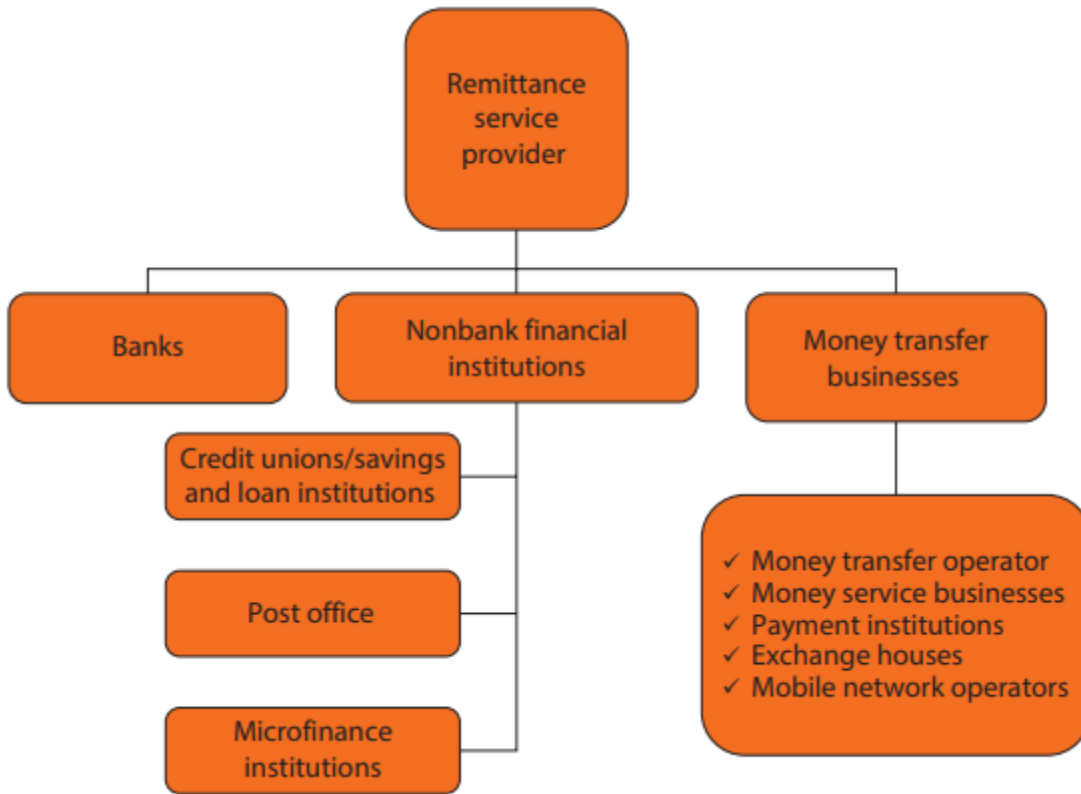
In typical RSP agency relationships, the principal RSP is the person or entity who gives authority to another, called an agent, to provide remittance services on their behalf. In many countries, principal RSPs, which are responsible to the national regulator and supervisor, must be either licensed or registered, as stipulated in the Financial Action Task Force (FATF) recommendations. If principal RSPs are already licensed entities such as banks, they need not be licensed separately for remittance services. The types of entities allowed to operate as the principal RSP vary between countries.³⁴ A general remittance provider business model is shown in Figure 4.

³² <https://aratanet.com/news/financial-market-supervision-authority-was-liquidated>

³³ В Азербайджане упразднена Палата по надзору за финансовыми рынками. Sputnik Azerbaijan. Published on November 28, 2019. <https://az.sputniknews.ru/20191128/azerbaydzhan-uprazdnena-palata-po-nadzoru-za-finansovymi-rynkami-422458440.html>

³⁴ Todoroki, E. (2014), *Making remittances work: balancing financial integrity and inclusion*. World Bank. p. 16.

Figure 4: Remittance provider business model



Source: Todoroki, E. (2014). Making remittances work: balancing financial integrity and inclusion. World Bank. p.14

A variety of models of principal RSPs can be found around the world, depending on which agencies act as the principal RSPs. Azerbaijan appears to have adopted a ‘bank-and-post-office-only’ model, under which, in addition to banks, post offices are also allowed to provide remittance services³⁵.

As is the case with many post offices, Azerpost LLC is a member of the Universal Postal Union, which has created the International Financial System (IFS), a tool that enables postal operators worldwide to provide money transfer services as a principal RSP. In addition, post offices also act as agents of MTOs to provide money transfer services. In regulatory terms, in 2009, Azerpost corporatized and became a limited liability company (LLC), while in 2010, as a result of new postal legislation, it was licensed as a non-bank financial institution subject to CBAR’s oversight.³⁶

MTOs in Azerbaijan are not licensed separately. Instead, if an MTO wishes to begin operating in the country, it must partner with a local bank.

Money transfer regulations for residents and non-residents

Money transfers in Azerbaijan are carried out in accordance with the requirements of the ‘Regulations on currency operations of residents of the Republic of Azerbaijan in foreign currency and non-residents in national and foreign currencies’ (2016), which are under the authority of the CBAR.³⁷

These regulations do not distinguish between residents and non-residents when applying the rules for transborder money transactions. On the recipient side, the banks ‘receive and pay any funds on any money transfers received in favour of resident and non-resident individuals without opening bank accounts without

³⁵ Todoroki, E. (2014). Making remittances work: balancing financial integrity and inclusion. World Bank. P.18.

³⁶ World Bank (2015). Azerbaijan: Leveraging Postal Network for Financial and Social Inclusion.

³⁷ Approved by the Central Bank of the Republic of Azerbaijan. Resolution № 45/1. 28 November 2016.

any limits'; the money can be paid either in cash or transferred to an individual's bank account.³⁸ On the sender's side, the regulations limit the amount which can be sent from Azerbaijan without opening a bank account, but these limits are the same for residents and non-residents: US\$1,000 per operation day and US\$10,000 within a calendar month. For larger transactions, a person is required to open a current account in a local bank.³⁹

Having a bank account is one of the key indicators of financial inclusion. It also provides for the possibility of digital remittances, since "digital remittances are remittances sent "via a payment instrument in an online or self-assisted manner, and received into a transaction account", including a bank account, a microfinance institution account or a mobile money account".⁴⁰ Banks in Azerbaijan have reported that foreigners constitute a negligible share of their clients, and it thus makes sense to explore regulations relating to the accessibility of financial services to foreign citizens in Azerbaijan.

When applying to a bank with the aim of opening a bank account, a foreigner is required to show an identification document, for example, a valid national passport, and a document confirming legal stay in Azerbaijan according to the Regulation on 'Opening, maintaining and closing bank accounts', adopted on 4 February 2022. Significant changes have been made to the procedure for opening a bank account at a distance (remotely) as per Article 5 of this regulation.⁴¹ The opening of a bank account for a new customer remotely, including the execution of account opening documents, is now carried out with the use of enhanced electronic signature and video calls for resident legal entities and individual entrepreneurs, as well as for non-resident individuals. In practice, banks may ask the entities concerned to show residence permits as confirmation of the legality of their stay.

Two types of residence permit exist in Azerbaijan. A permanent residence permit provides for access to the full range of banking services. However, to be eligible for a permanent residence permit, a foreigner must have been resident in Azerbaijan for two years with a temporary residence permit. A temporary residence permit is granted for periods ranging from 3 months up to 3 years on the grounds listed in Article 45 of the Migration Code of the Republic of Azerbaijan. These grounds include, among others, having close relatives in Azerbaijan, making investments in the economy of Azerbaijan to the amount of 500,000 manat,⁴² and opening a deposit account in a bank in Azerbaijan to the amount of 100,000 manat.⁴³ However, migrants who have obtained temporary residence permits on the grounds listed in Article 45.1.7-1 – 45.1.11 do not necessarily have the right to permanent residence in the country. Thus, for a foreign worker, access to formal financial services in Azerbaijan is conditional upon possession of a work permit⁴⁴ and, consequently, a residence permit.

Work permits in Azerbaijan are limited by quotas set on an annual basis. The quota for work permits in 2022 was 8,740, and in 2021, 6, 740.⁴⁵ The quotas can be adjusted on an ad-hoc basis at the request of state bodies – for example, in 2021 the labour migration quota was increased by an additional 1,000 units.⁴⁶ Ultimately, the size of employment contracts concluded with migrants under quota and those with exemptions from the quota can be interpreted as a maximum number of foreign workers with access to formal financial services in Azerbaijan, first and foremost the right to open a bank account. At the same time, these individuals may also be entitled to salary payment cards from 1 January 2017, in accordance with amendments to the Law of

³⁸ Regulations on currency operations of residents of the Republic of Azerbaijan in foreign currency and non-residents in national and foreign currencies, Chapter 3.

³⁹ *Ibid.*

⁴⁰ Remittance prices worldwide quarterly [online]. Washington, D.C: World Bank. 2020.

⁴¹ As per the changes, the opening of a bank account to a new customer remotely, including the execution of account opening documents, is carried out in the following order: (i) with enhanced electronic signature and video call for resident legal entities and individual entrepreneurs, as well as NON-resident individuals. <https://e-ganun.az/framework/49456>

⁴² In this case, the temporary residence permit can be issued for a period of up to three years, instead of one year.

⁴³ Migration Code of the Republic of Azerbaijan.

⁴⁴ There are some categories of foreigners for whom a work permit is not necessary, for example, entrepreneurs, diplomats, permanent residents, etc. Full list is provided in the Migration Code of Azerbaijan Republic, Article 64.

⁴⁵ Quota information on the types of economic activities of foreigners engaged in paid labor activity in the country during the current year – State Migration Service <https://migration.gov.az/en/quota> accessed November 16.2022.

⁴⁶ 10.02.2022: Migration Management in Azerbaijan: Addressing New Challenges report <https://www.aserbaidzhan.ahk.de/en/membership/ahk-networking-events/ahk-impuls>

the Republic of Azerbaijan on non-cash settlements of 16 December 2016, “salaries (including those paid by the employer, other payments stipulated by the legislation) pensions, scholarships, financial aid, benefits (including one-time benefits), compensation and reparations paid by legal entities (except those operating in the field in the retail trade, catering and services) the volume of transactions of which in any consecutive 12-month period is up to 200,000 manats.”

Foreign exchange control

The remittance market is closely connected to foreign currency exchange regulations. Implementation of international money transfers is treated as a currency transaction, in accordance with the Law on Currency Control.⁴⁷ Remittance senders and remittance recipients, as a rule, prefer foreign currency to national currency. Recipients, when receiving a transfer in USD, tend to keep them in order to exchange them for the national currency when needed. MTOs profit mainly from the difference in currency exchange rate (by means of a currency-conversion fee for delivery of local currency to the beneficiary in another country⁴⁸) when the transfer is not sent and received in the same currency.

The Law on Currency Control regards foreign currency exchange activities in Azerbaijan (namely, engaging in the business of buying or selling foreign currencies) as an additional licensed activity in which only local banks, branches of foreign banks, certain licensed post offices, and entities holding foreign currency exchange licenses are permitted to engage in. In 2016, the CBAR imposed a ban on foreign currency exchange operations anywhere except bank branches, airports and hotels.⁴⁹ However, one year later, in 2017, the financial regulator granted the right to carry out foreign currency exchange operations to individuals and legal entities on payment of a 500-manat fee for their licence.⁵⁰ Moreover, both residents and non-residents were permitted to establish foreign currency exchange businesses. Since 2008, Azerpost LLC has also been authorized to provide cash and non-cash exchange services.

Financial monitoring and Know-Your-Customer (KYC) rules

Anti-money laundering (AML) legislation is another important component of the legislative framework governing international remittances. Remittance services outside the banking sector were either not regulated at all or only lightly regulated prior to the introduction of the FATF Special Recommendations in 2001. International standards and principles that govern remittances were developed for the following reasons: (a) as a response to the 11 September 2001, terrorist attacks on the United States; (b) due to concerns about unregulated money remitters such as *hawalas*; (c) the expansion of international MTOs in many countries, and (d) the emergence of new large and small remittance companies as migration grew. This was the first time that remittance service providers were made subject to government oversight, and were required to be either registered with or licensed by a competent authority under AML/CFT⁵¹ requirements.⁵² Implementation of FATF recommendations may be challenging from the perspective of financial inclusion of residents and non-residents, and, moreover, poorly-designed AML/CFT requirements may impose too great a burden on remittance service providers and thus have a negative effect on remittance flows and customers.

Azerbaijan belongs to the group of countries implementing FATF recommendations and undergoing regular monitoring procedures in compliance with these recommendations.

The Law of the Republic of Azerbaijan on the Prevention of the Legalization of Criminally Obtained Funds or Other Property and the Financing of Terrorism contains provisions which relate directly to international money transfers by individuals. In particular, the Law specifies which transactions with funds or other

⁴⁷ <https://cis-legislation.com/document.fwx?rgn=2872>

⁴⁸ *Global economic prospects 2006. Economic implications of remittances and migration. World Bank.* https://documents1.worldbank.org/curated/fr/507301468142196936/841401968_200510319014045/additional/Global-economic-prospects-2006-economic-implications-of-remittances-and-migration.pdf

⁴⁹ *В Азербайджане запретили продавать валюту в обменных пунктах. РБК. Published on 14 January 2016.* <https://www.rbc.ru/finances/14/01/2016/569754cb9a79479a26b27cdf>

⁵⁰ *The law on State Duty, Art. 22.0.34-1, https://e-qanun.az/framework/2860*

⁵¹ *CFT stands for Combating the Financing of Terrorism.*

⁵² *World Bank (2014), p. 45.*

property are subject to monitoring (Article 7), identifies non-residents as a higher-risk category of customers subject to enhanced customer due diligence measures (Article 9.13), and gives instruction regarding the establishment of appropriate risk management systems to determine whether a potential customer, an existing customer or the beneficial owner is a politically exposed national of a foreign country (Article 9-1). Taking into consideration these provisions, banks, in their day-to-day practice, apply a system of ‘red flags’, that is, indicators used to determine suspicious transactions. Upon identifying a suspicious transaction, the bank reports it to the Financial Monitoring Service via a local Financial Intelligence Unit (FIU). If the transaction has not yet been completed, the FIU, within 2 working days, may prolong the suspension time of the transaction by up to 72 hours. Investigation of suspicious transactions by the FIU is not limited by time. Usually, armed conflicts lead to an increase in the volume of suspicious transactions which come under investigation, as, for example, in the case of the Syrian war of 2014 or conflict in Ukraine in 2022. As a result, international money transactions can be delayed, and the process of opening a bank account by non-residents may be extended as a result of enhanced customer due diligence (CDD) measures.

For example, banks can suspend a money transfer if it is directed to and/or initiated by a citizen of a country which is on the “list of countries (territories) that are suspected in either legalization of criminally obtained funds or other property, financing of terrorism, support of the dangerous trends of transnational organized crime, armed separatism, extremism and mercenary, participation in illegal drug dealership and other psychotropic substances production or circulation thereof, or the countries (territories) that do not require disclosing identification information when conducting financial transactions”.⁵³ This list is also known as the list of non-cooperative countries (Annex 3).

When a transaction is performed digitally, it creates an additional burden for remittance service staff in terms of AML procedures and CDD. Therefore, digitalization of remittances may serve as a factor that encourages banks to convert remittance recipients into their clients. To address this issue, the CBAR has developed a pilot e-KYC (electronic Know-Your-Customer) project as part of the implementation of the Digital Payments Strategy for 2021-2023: the e-KYC system is scheduled for launch in 2023.⁵⁴

4.2. Digital remittance infrastructure

To assess the existing digital remittance market in the Republic of Azerbaijan, we apply a ‘three As’ analytical framework: that is, we assess the digital remittance infrastructure by studying three digital remittance patterns across three dimensions – availability, accessibility and affordability. This framework was developed and applied in the recent IOM project on digital remittances in the Russian Federation and Central Asia⁵⁵ (2021). Availability of digital remittance services is understood as the availability of options for either sending or receiving cashless remittance, by means of a mobile application/mobile banking using an electronic payment instrument (that is a bank payment card). The accessibility dimension relates to the requirements and conditions for Azerbaijani residents and non-residents in Azerbaijan who wish to start using cashless remittance services. In particular, this dimension is focused on the requirements associated with KYC rules, applied by RSPs to remittance senders and recipients, and by banks when making decisions on whether to open bank accounts or issue bank cards for applicants. In addition, the dimension of accessibility considers to the physical proximity of RSPs. Finally, the dimension of affordability aims to assess the cost of digital remittance services, including transaction fees and other costs associated with bank services, such as the cost of issuing a bank card and bank service fees.

The objectives of this section are: 1) to assess the affordability and diversity of digital remittance services in Azerbaijan; and 2) to identify the major barriers to expansion of the digital remittance infrastructure for RSPs.

⁵³ Article 7.3. of the Law of the Republic of Azerbaijan on the Prevention of the Legalization of Criminally Obtained Funds or Other Property and the Financing of Terrorism.

⁵⁴ Central Bank of Azerbaijan to launch E-KYC system in 2023/ Trend. Published on April 4, 2022. <https://en.trend.az/business/3577422.html>

⁵⁵ Mitigating the socio-economic consequences of the COVID-19 pandemic on migrants and communities in the Russian Federation and Central Asia. The Role of Digital Remittances. IOM, 2021.

Azerbaijan is primarily a remittance-receiving country, and therefore the key role in the remittance market in the country belongs to the MTOs providing remittance sending services from the Russian Federation – the CONTACT and Golden Crown (Zolotaya Korona) payment systems. Other payment systems make up a smaller share of the market and cover the remaining migration destinations: UPT payment system for Türkiye, and Western Union for numerous international destinations excluding the Russian Federation and Belarus.⁵⁶ In total, as of 1 May 2022, 9 international and 11 local money transfer systems in Azerbaijan offered transaction services in manats, euros, USD and roubles (Annex 2).

Banks and Azerpost are the only remittance sending and remittance receiving agents, offering cash and digital remittance services. Banks and Azerpost act as agents of money transfer systems and integrate remittance services into the mobile banking applications. Bank Respublika was the first bank in Azerbaijan to integrate Western Union service into their app, and the sixth to do so in the CIS as a whole. Currently, all major banks in Azerbaijan provide for the possibility of sending money digitally through mobile banking. On the recipient's side, the same applications allow for topping up bank cards with remittances received from abroad.

Banks, in general, view remittance services as a low profit product, and are therefore interested in digitizing them, because this procedure will turn cash-based remittance recipients into new clients, that is into card holders. Digitalization of remittance services, for a bank, means integrating a payment system into a mobile banking app. In technical terms, it is a complicated and time-consuming process lasting up to three months. As a partnership agreement clause, a payment system can set a target share for the digital component of transactions conducted within a certain time period which it is the partnering bank's responsibility to ensure. To change a client's behaviour patterns is a challenging task, and an additional challenge is to motivate the individual concerned to keep any remittances received on a card instead of withdrawing it as cash immediately after receipt. These difficulties could be among the reasons why banks work with only a limited number of payment systems – some, for example, work with Zolotaya Korona, or Contact, while others may use UPT or Western Union. As an alternative, some local payment systems are launched offering transborder remittances in the most popular directions.

A recent example of such local payment systems for international remittances is GRANAT, developed on the basis of the ABB internal payment system *ABB Express* and launched in 2021 by IBA-MOSCOW⁵⁷ for money transfers between the Russian Federation and Azerbaijan. The service facilitates the transfer of funds between individuals in Russian roubles, manats, USD and euros. The GRANAT mobile application can as of yet only be used in conjunction with the card issued by IBA-MOSCOW for digital remittance:⁵⁸ use of this card does not entail a service fee, and the cost of remittance is therefore zero.⁵⁹ The normal fee for a transfer by means of the GRANAT system is 0.9 per cent of the amount, or zero if the currency of the transfer received differs from the currency of the transfer sent.⁶⁰ As of 7 July 2022, Google Play indicates that there have been over 10,000 downloads of the GRANAT application.

The methods of digital remittance listed above all are fully digital remittance patterns, from card to card, through MTOs as RSPs. Alternatively, however, international payment systems, such as VISA and Mastercard, offer their cardholders person-to-person transfers.

Besides money transfer systems, an alternative method of cash-based money transfers is offered by Azerpost LLC. Based on bilateral agreements with postal services abroad, Azerpost provides remittance services for nine countries: Türkiye, the Russian Federation, Belarus, Ukraine, Kazakhstan, Lithuania, Uzbekistan, Georgia and the Republic of Moldova. The transfer takes up to two days.⁶¹

⁵⁶ Starting 2022.

⁵⁷ IBA-Moscow is an overseas bank of ABB

⁵⁸ <https://www.ibam.ru/clients/granat/>

⁵⁹ <https://cards.ibam.ru/>

⁶⁰ <https://abb-bank.az/ru/xeberler/rusiyadan-pul-kocurmek-indi-daha-rahat-oldu>

⁶¹ <https://www.azerpost.az/en/paqe/hesablashma-ve-kassa-emeliyyatlari-naqdsiz>

Accessibility of digital remittance services

Banks and Azerpost LLC are the only remittance sending and receiving agencies in Azerbaijan. Azerpost LLC has a wider geographic coverage compared to banks – 1,176 offices of Azerpost compared to 500 bank branches – which makes it the most accessible remittance agent in the country in terms of physical location. Geographic coverage makes a considerable difference to the accessibility of cash-based remittances, both for recipients and senders, but is less significant for digital remittances.

The accessibility of digital remittances is measured not in kilometres, but in terms of financial inclusion. All major money transfer systems working in Azerbaijan, including CONTACT, Zolotaya Korona, Western Union, and UPT, have been offering money transfer services without the need to open a bank account. However, digital remittances are accessible only under condition of having an electronic payment instrument, that is a bank card. Therefore, cooperation with banks and integration into mobile banking apps becomes more important for MTOs, which aim to expand the share of digital clients, because the accessibility of their digital services mainly relies on a high level of financial inclusion of the adult resident and non-resident population in sending and receiving countries, and on banks' efforts to convert cash-based remittance recipients into bank clients: that is, on individuals having a bank account and a bank card.

For Azerbaijani citizens, opening a bank account and obtaining a bank card may be constrained by the limited accessibility of financial infrastructure in some regions. However, some banks provide the option of issuing a bank card remotely by filling out a short questionnaire via their website or via mobile applications. In these instances, card issuance may take up to three days and may also involve a fee. Delivery of a card can be arranged upon request, but only in large cities, such as Baku. As an alternative, virtual bank cards are also available. A foreigner, however, may face difficulties with using a remote card issuance service, since it is designed primarily for Azerbaijani citizens and the procedure includes entering ID information in a format which is specific for Azerbaijan, and does not recognize other types of documents.

In addition to banks, financial services and remittance services in Azerbaijan are also provided by Azerpost LLC, a state-run enterprise. Originally, Azerpost was a non-financial institution, but the CBAR subsequently issued licences to Azerpost LLC branches and offices to provide certain banking and financial services. The current strategic priority of Azerpost LLC is to expand the number of financial services it offers, and/or to widen its partnership with other financial institutions. As of June 2022, Azerpost LLC operates salary card projects for other organizations under the supervision of the Ministry of Digital Development and Transport of the Republic of Azerbaijan, issues Mastercard salary cards, and additionally, makes cross sales by collecting loan payments to certain commercial banks, for example, Bank Respublika and Access Bank. At the same time, Azerpost LLC is keen to see the Law on Post amended, since it is interested in getting licences to attract term deposits and provide microloans of up to US\$500 to salary card holders.

Salary cards are a type of bank debit card which are widely used in Azerbaijan, both by residents and non-residents, because salaries paid by employers are on the list of settlements than can only be processed in a cashless mode,⁶² as of 1 January 2017, in accordance with amendments to the Law of the Republic of Azerbaijan on non-cash settlements of December 16, 2016. Foreigners account for 1-2 per cent of banks' clients and thereby fall into the category of salary card holders, most of them citizens of the Russian Federation and Türkiye. In other words, foreign workers from the Russian Federation and Türkiye are among those most exposed to digital remittance services, being at a bare minimum equipped with a necessary instrument – a bank payment card, which provides access to mobile banking apps and MTOs. It should be noted, however, that it is not a particular country of origin, but legally recognized employment that enables for this kind of financial inclusion on the part of foreign workers.

A social card is another popular type of debit card among the adult resident population of Azerbaijan. According to the CBAR, in Q1 2022, salary cards and social cards made up around 52 per cent of all debit cards in the country: that is over half of all cards in circulation are for mandatory payments (Table 4).

⁶² 'Salaries (including those paid by the employer, other payments stipulated by the legislation) pensions, scholarships, financial aid, benefits (including one-time benefits), compensation and reparations paid by legal entities (except those operating in the field in the retail trade, catering and services) the volume of transactions of which in any consecutive 12-month (months) period is up to two hundred thousand manats'.

Table 4. Bank card ownership in Azerbaijan, by type of card, as of March 2022

Type of card	Salary card	Social card	Other debit cards	Credit cards
Total number	2 623	3 523	4 125	1 500
Share	30%	22.3%	35%	12.7%

Source: Central Bank of Azerbaijan

Social cards, in contrast to other types of debit cards, have limited functionality. These cards are used for government transfers, such as pensions and other social benefits to Azerbaijani citizens. These cards are issued by commercial banks upon the request of the State Social Insurance Fund. They are used only for receiving government transfers and as a payment instrument. At the same time, they cannot be used for receiving remittances from abroad. Therefore, the degree of financial inclusion of the adult population achieved through social cards cannot be considered as particularly extensive.

Affordability

The affordability of remittances and of digital remittances depends on a number of factors equate to associated costs of remittance service for both senders and recipients. Typically, the price of a remittance transaction includes a fee charged by the sending agent (paid by the sender when initiating the remittance transaction) and a currency conversion fee for delivery of local currency to the beneficiary in another country. In addition, remittance agents (especially banks) may earn an indirect fee in the form of interest (or ‘float’) by investing funds before delivering them to the beneficiary. The float can be significant in countries where overnight interest rates are high.⁶³

For Azerbaijan, the cost of cash-based outgoing remittances for most popular destinations – such as CIS countries and Türkiye – ranges between 0.9 per cent and 3 per cent of the amount. In most cases, the sender is requested to show only an ID document.

For cash-based remittances, both senders and recipients from rural areas may have to spend considerable time and travel considerable distances to collect or send remittances. These costs are not usually included in the price. The switch to digital remittances helps to avoid these expenses.

For digital remittances, both senders and recipients face other types of expenses, such as the requirement to pay a fee for conducting transactions via bank accounts. This fee varies between banks and Azerpost LLC depending on the volume of the transaction. In addition, it generally takes several days to deliver the bank card, meaning that remittance users have to travel to a bank or Azerpost office at least twice: first to request and then to collect the card.

Compared to a cash remittance service user, a digital remittance user (as a card holder), may encounter additional costs, not limited to the fee for issuing a bank card. For example, the list of fees associated with a payment card may also include internet banking service fees, mobile bank service fees, fees for card replacement before expiration, fines for lost cards, fees to unlock the card, SMS notification fees, as well as fees for card-to-card transfers.

Summary

- Azerbaijan’s remittance market model envisages that banks and post offices (Azerpost) function as the only remittances services providers (RSPs). MTOs are not licensed under the current legislation, although new regulations on payment systems are being developed by the CBAR.
- Banks, in general, consider remittance services as a low profit product, and therefore consider it worth their while to digitize remittances. Additionally, this procedure will bring in cash-based remittance recipients as new clients for a bank, that is as card holders. MTOs, on the other hand,

⁶³ Reducing remittance fee. Chapter in: *Global Economic Prospects 2006: Economic Implications of remittances and migration*. World Bank. 2006. https://documents1.worldbank.org/curated/fr/507301468142196936/841401968_200510319014045/additional/Global-economic-prospects-2006-economic-implications-of-remittances-and-migration.pdf

formulate target indicators for digital transfers as a condition for their payment system integration into a mobile banking app.

- Azerpost provides for the most accessible remittance pick-up network in the country due to its wide geographic coverage. It has taken steps to digitize its products, while the expansion of financial services requires the amending of current legislation regulating the postal service.
- A currency exchange service is the main product that banks and Azerpost sell to remittance recipients. According to the legislation, currency exchange business can be undertaken by other legal entities as well as individuals, including non-residents, upon obtaining a license.
- The accessibility of digital remittance for residents can be affected by the functionality of their bank card. For example, social cards, issued in large quantities by the government for facilitating transfers of social benefits, cannot be used for receiving remittances from abroad. Social cards and salary cards nevertheless make up the bulk of all bank debit cards in circulation in Azerbaijan.
- Non-residents' financial inclusion and, consequently, access to digital remittance services, is largely dependent on their employment and migration status. Regular foreign workers are covered by their employers, whose responsibilities include obtaining a work permit within the established government quota and arranging a bank card for foreign workers, because the law imposes limitations on cash salary payments.
- Meanwhile, even regular foreign workers come under special surveillance when conducting transfers if the transaction appears suspicious to the bank. In periods of geopolitical instability, financial monitoring in relation to transactions in certain directions intensifies, in accordance with the recommendations of the FATF.

CHAPTER 5.

PRACTICING DIGITAL REMITTANCES: KEY DEMAND-SIDE FINDINGS

The demand-side analysis of the remittance market focuses on three categories of remittance service users: remittance senders in Azerbaijan, remittance recipients in Azerbaijan, and Azerbaijani nationals sending money to Azerbaijan from abroad. The general objective of this part of the research is to establish remittance services users' profiles, that is to reveal the individuals behind the figures on remittance inflows and outflows from Azerbaijan, study their remittance-related financial behaviour, and uncover barriers to the wider uptake of digital remittance patterns, including the current level of financial inclusion.

5.1. Remittance recipients and remittance senders in Azerbaijan

Profile of remittance senders and recipients in Azerbaijan

An offline self-administered survey conducted in bank branches and Azerpost branches in various regions of Azerbaijan enabled us to collect data on both remittance senders (n=302) and remittance recipients (n=569). Both samples had more male respondents, and senders appeared to be older than recipients (Table 5).

Table 5. Offline survey sample of remittance senders and recipients in Azerbaijan

	Male, %	Female, %	18-24 Years, %	25-34 years, %	35-49 years, %	50-64 years, %	65 and older, %
Remittance senders	64.6	35.4	5.0	21.2	38.4	29.1	5.6
Remittances recipients	55.0	44.8	12.1	32.3	33.7	18.8	3.2

The Russian Federation and Türkiye together account for 90 per cent of incoming remittances (of which the Russian Federation alone accounts for 83.5 per cent) and 78.8 per cent of outgoing remittances, of which the Russian Federation accounts for 49.7 per cent and Türkiye for 29.1 per cent. The geography of outgoing cash remittances is therefore somewhat more diverse than that of incoming remittances. From Azerbaijan, cash remittances are also directed to Georgia, Ukraine, Uzbekistan, Germany, Kazakhstan, France, and the United Kingdom.

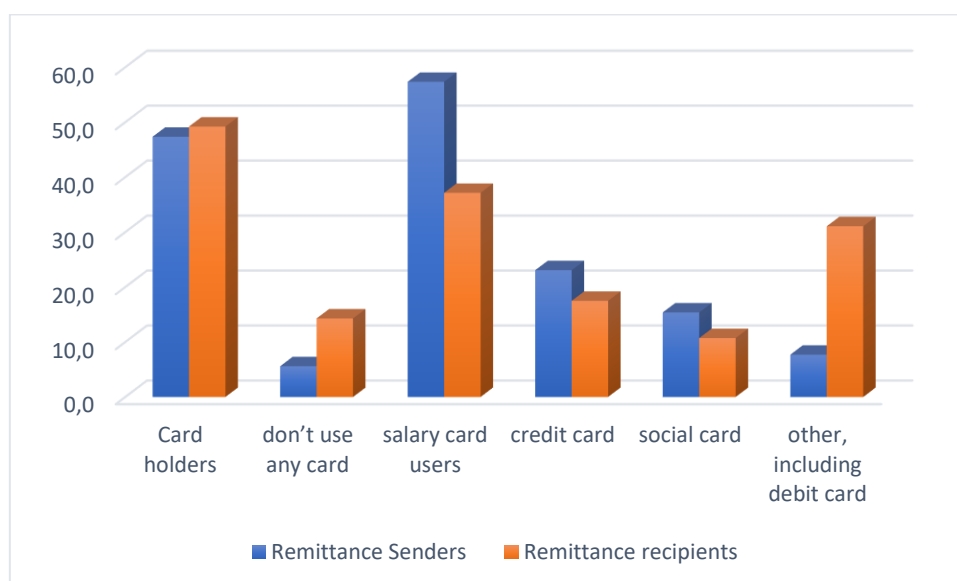
Importantly, in both target groups – RS and RR - Azerbaijani nationals represent 87 per cent of the total respondents. Thus, the outflow of remittances originates not from foreign workers but mostly from Azerbaijani nationals who have maintained connections with their relatives in Russia. In other words, the definition of remittances per se – as money transfers of migrant workers – can be applied to only a small share of outgoing cash remittance flows from Azerbaijan (13 per cent in our survey). The rest could be qualified as Azerbaijani diaspora remittances, in other words, not money sent by foreign workers from Azerbaijan, but financial support provided by Azerbaijani citizens to their relatives abroad.

Financial inclusion of remittance service users in Azerbaijan

To explore why both RR and RS use cash-based remittance services, we looked into several factors. The first of these is the availability of a bank card and the rate of bank card usage. At the same time, in the group of remittance senders we distinguish between nationals and non-nationals. We found that the share of bank card holders was equal in both target groups, that is nearly half of RS and RR responded that they have a bank card – 47.4 per cent and 49.2 per cent, respectively.

However, having a bank card does not tell us how it is used. We therefore asked further questions about the cards that are used by respondents. We found that the share of those who do not use any type of card is higher among remittance recipients. But salary cards appeared to be the most frequently used type of card by both recipients (57.3 per cent) and senders (37.1 per cent).

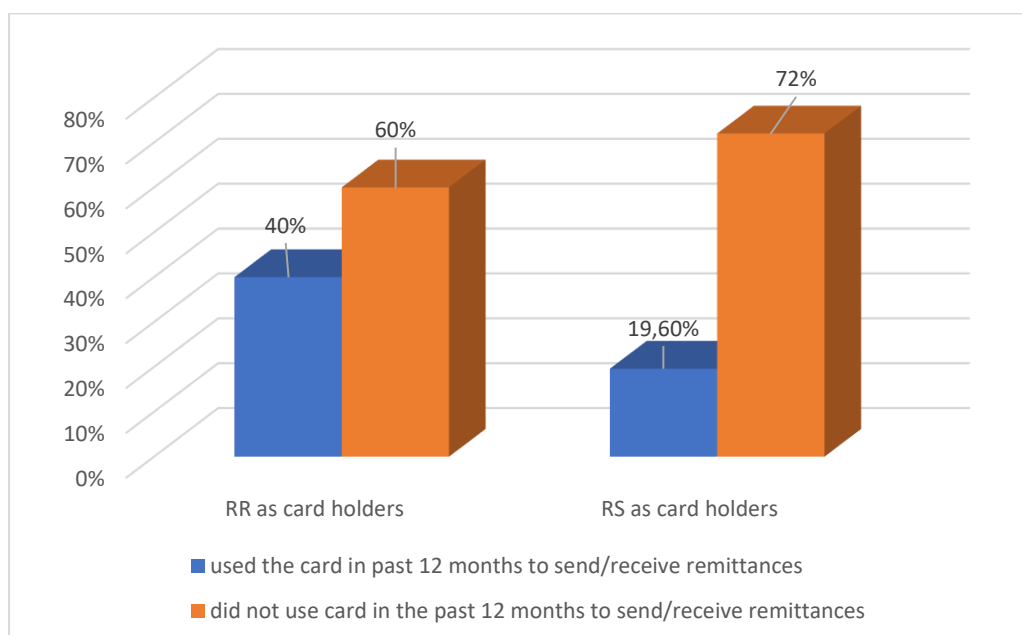
Figure 5: Bank card ownership and usage among cash-based RR and RS in Azerbaijan, %



The use of salary card also indicates that a respondent is employed, and thus has additional official sources of income besides remittances.

To find out whether card ownership affects digital remittance experience, we asked card holders if they had used their cards in the past 12 months to send or receive remittances from abroad. We learned that card ownership and digital remittance experience differs among remittance Azerbaijani national senders and recipients. While 40 per cent of remittance recipients with cards responded that they used their cards to receive remittance in the past 12 months, only 19.6 per cent of RS card holders had used their cards for sending money abroad.

Figure 6: Card ownership and digital remittance among Azerbaijani nationals



Thus, in addition to having a bank card, there may be other factors constraining the uptake of digital remittances by Azerbaijani nationals, and these factors could be of particular significance for remittance senders. At the same time, our findings suggest that there are no purely cash-based remittance users among card holders, regardless of their nationality.

Switching to digital methods for sending remittances from Azerbaijan

The second factor that we explored is the availability, accessibility and affordability of the alternative digital remittance service for senders in Azerbaijan.

Most of the senders in our sample (69 per cent) used Zolotaya Korona to send cash abroad. The online version of Zolotaya Korona – Koronapay does not allow for sending money online from Azerbaijan. Therefore, switching to digital remittance for this category of remittance senders would imply switching to another RSP/MTO. Western Union – another popular MTO among senders (21.5 per cent) – has recently stopped making transfers to the Russian Federation. As a result, the only remaining digital alternative is a card-to-card transfer, which is available to all VISA and Mastercard holders. However, VISA and Mastercard have also suspended their operations in Russia. As a result, the cards issued by Azerbaijani banks cannot work in the territory of the Russian Federation, and Russian-issued cards cannot work abroad.⁶⁴

However, these are facts which people may not always be aware of and/or may have a prejudice against. Therefore, we addressed this issue by asking respondents two questions: 1) *Which cashless methods of transborder remittances are you aware of?* 2) *How would you describe cashless remittances compared to cash-based remittances?* In both questions, a respondent could select one or more of the listed responses.

On the whole, remittance senders in Azerbaijan do not appear to be particularly well informed about the existing alternative digital remittance options: 39 per cent of RS and 26 per cent of RR responded that they were unaware of any of the listed digital remittance methods. The remainder of both RS and RR most frequently selected the option: 'Online remittance via a mobile application of a bank', while the least frequently chosen digital method was: 'From card to card'.

As for attitudes to digital remittances, both RS and RR consider digital methods to be faster, easier and more secure. The cost involved, however, turned to be their most problematic characteristic: equal numbers of RS women marked digital remittance as 'more expensive' and 'cheaper', while women RR were more confident that it is cheaper.

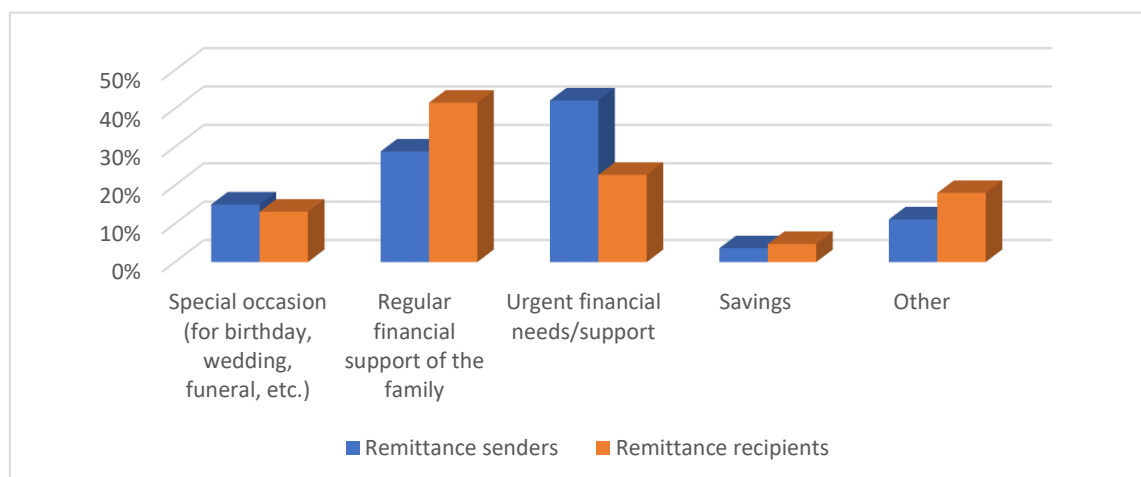
Motivation and allocation of remittances

Understanding the motives of remittance senders and recipients could provide some ideas on how to develop a particular approach for individuals in these categories when convincing them to switch to digital methods.

We asked our respondents what would be the appropriate description of the allocation for the money sent/received. We were interested, first, in checking the regularity of money transfers, that is, whether the money was sent as a form of regular financial support for family members or whether remittance was a rare transaction motivated by some urgent financial need or specific occasion, such as a birthday or wedding. Secondly, we wanted to see whether the remittances were meant to contribute to savings, rather than for immediate family needs. The survey showed that, while remittance recipients in our sample more frequently relied on remittances as a form of regular financial support (41.5 per cent of all responses), remittance senders explain their usual motives as 'urgent financial help' (42 per cent of all responses)

⁶⁴ Cards of Azerbaijani banks will not work in Russia. Fed.az. 09 March 2022. <https://fed.az/az/maliyye/azerbaycan-banklarinin-kartlari-rusiyada-islemeyecek-126882>

Figure 7: Remittance allocation/motivation among senders and recipients in Azerbaijan, %



About a quarter of all remittance recipients appeared to be heavily dependent on the money sent to them from abroad. About 26 per cent of remittance recipients estimate that remittances make up 80-100 per cent of their family total income; women do not seem to rely more on remittances than men. Only 6.3 per cent of recipients planned to save the full amount received, and 66 per cent were not planning to save even a portion of it.

Summary of the offline survey findings

- Our offline surveys of remittance service users in Azerbaijan revealed that Azerbaijani nationals constitute a majority of both senders and recipients of cash remittances (87 per cent). Foreigners make up only a very small proportion of remittance senders abroad; therefore, remittance outflows from Azerbaijan mainly consist of Azerbaijani diaspora remittances rather than the remittances of foreign workers. A key motivation for sending money abroad is ‘to meet urgent financial needs’.
- The findings of our offline survey are only applicable to cash-based remittance service users. However, our results show a financial inclusion level close to 50 per cent for both senders and recipients. Although these figures refer primarily to Azerbaijani nationals, we also find foreigners among respondents (7.7 per cent).
- A salary card is the most widely used payment card among both recipients and senders. It indicates that an additional regular income source is available to at least half of our respondents.
- All respondent card holders in our surveys use mixed methods of remittance service. But for senders – even with cards – digital methods seem to be more problematic than for recipients.
- An alternative digital method of remittance sending from Azerbaijan is from card to card, but this appears to be more costly than sending cash through MTO.

5.2. Azerbaijani remittance recipients in Baku and Lankaran

Remittance recipients in Baku

Five participants of distinct age categories and with different countries of destination shared their experiences with the IOM research team on 15 June 2022. Recipients in Baku represented the population receiving money from Europe, the USA, and Russia. All the family members in this group are educated, high-skilled employees in their countries of destination. Three of the five recipients are people with higher education, and one is applying to university. Four out of five participants use digital transfers to receive the given amount. All the participants used bank cards for a range of payments, including for shopping, utilities, credits, and so on.

The group all have different bank cards and receive remittances directly on their cards. Only one participant, aged 28, whose brother is in Germany, uses the Western Union transfer system because his brother (a

remittance sender) prefers this method of sending. All the FGD participants are bank card users, and they prefer card-to-card or Zolotaya Korona to card transfers, they consider these the most convenient methods. Even the participant using Western Union mentioned that he would prefer a card-to-card method to using Western Union.

It is worth noting that a majority of the recipients (3 out of 5) mentioned that it is the sender who decides how to send money. For example, a lady, whose daughter sends money from Germany, mentioned that her daughter set up a bank card and mobile bank application for her mother. A young lady whose father transfers money on a regular basis mentioned that her father used to send money in cash, but later taught her and her mother to use mobile banking to transfer money from Zolotaya Korona to a bank card.

One of the five recipients said that her family depends completely on remittances from the Russian Federation (for all daily expenses). Another household partially depends on remittances sent from Austria (for part of its daily expenses and for paying debts accrued by the remittance sender). Three other participants stated that their households do not depend on remittances. They receive money only on special occasions or for some specific need.

Table 6. Focus group discussion participants in Baku

Gender	Age	Education	Country of destination	Relationship
Female	19	High school	Russia	Father
Male	28	Higher education	Germany	Brother
Male	40	Higher education	USA	Friend
Female	51	Higher education	Austria	Son
Female	57	High school	Germany	Daughter

Remittance recipients in Lankaran

Lankaran was selected as a location for the FGDs, as it is one of the most remittance-dependent regions of Azerbaijan, according to State Statistical Committee data.

FGDs were held separately for female and male RR. Nine male and eight female participants joined the FGDs in Lankaran. Participants were aged 22-68 years; all had family members (husband, brother, son, uncle, cousin) in the Russian Federation, working either in sales or in construction. They usually use the Zolotaya Korona transfer system.

Digital remittance uptake appeared to be more characteristic for male RRs: younger recipients more often use digital methods and are better informed about them. Interestingly, those who receive money in cash, are not necessarily the final beneficiaries of the remittances. Some recipients stated that they receive money sent by their relatives (brothers, cousins or brothers-in-law), receive the cash, and then give that money to the senders' families in Azerbaijan.

Female participants appeared to be the only cash-remittance service users. Four out of five women reported heavy dependence on remittance as an income source. They received money from male family members who had been working in the Russian Federation for more than a decade and sent money back home regularly. Their daughters also provide financial supports for them, but only on special occasions. Sending money is generally perceived as the responsibility of male relatives.

Respondents in both gender groups shared their concerns in relation to the accessibility of foreign currency remittances. As a result of currency conversion, money sent in roubles is paid out in manats. Respondents complained that banks and Azerpost offices have a very limited supply of foreign currency. People prefer to receive remittances in foreign currency and then exchange it for manats selecting the most beneficial

exchange rate, which is not necessarily at the bank where the remittance is received. Queueing for a long time to receive money is the most frequent complaints from female recipients.

Alternative digital methods did not appear attractive for women. Although two out of five women in the FGD had bank cards, they did not use them (one was a credit card, the other, an expired social card). To obtain a new debit card seems a waste of money – paying 15 manat is too expensive for them:

“Even if I had a card, I would use an ATM to take cash instead. I had to go to a wedding and I needed cash as a present. We always bring cash as a wedding present. They write down how much you bring.”

“We do not need any card as we would not use it anyway. I do not need a card to pay for anything, as the men in our family are doing that. They buy and bring everything that we need”.

Conclusions on the focus group discussions

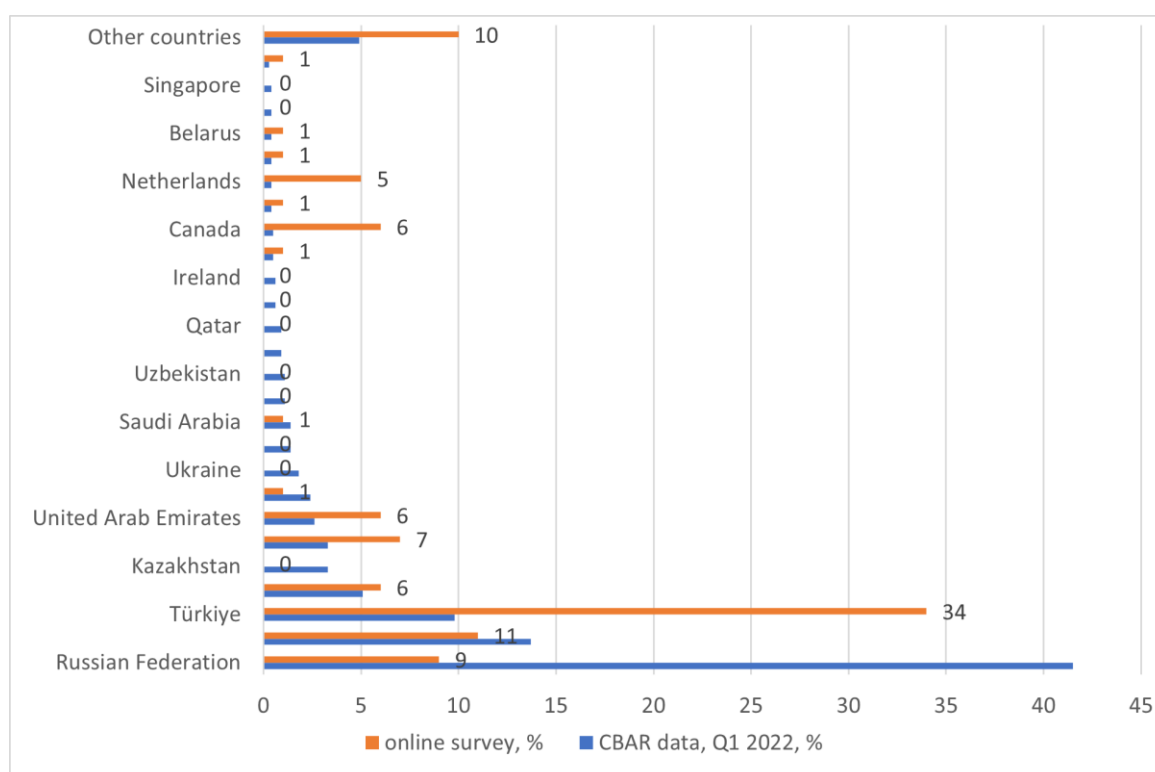
- RRs in Baku apparently have a higher level of financial inclusion than in Lankaran, especially among women. This could be linked to the higher educational attainment of the focus group participants, the availability of digital payment infrastructure, and the different levels of financial independence of the women concerned.
- The need for cash is in some cases connected with traditional patterns of social behaviour.
- The remittance recipient is not necessarily the final beneficiary of remittances: sometimes money is received on behalf of other relatives who cannot collect the money themselves.
- Sending remittances tends to be perceived as a man’s duty and responsibility, so that daughters abroad send money to their parents not as a regular means of financial support but rather on special occasions.
- Young males are more enthusiastic about the digitalization of remittance services.
- Some banks may stipulate fixed amounts as a minimum balance: when this is perceived as too much it acts as a barrier to the financial inclusion of unemployed adults.

5.3. Azerbaijani remittance senders abroad

Profile of Azerbaijani remittance senders abroad

The online sample of Azerbaijanis abroad (n=216) proved to be mostly respondents from Türkiye (34 per cent), while the Russian Federation constituted only 9 per cent, even less than the USA (11 per cent). Compared to the country composition of remittance inflows to Azerbaijan, based on 1Q 2022 CBAR statistics, our online sample is not representative of two major remittance origin countries – the Russian Federation and Türkiye (Figure 8). On the other hand, the online sample appears to be rather diverse, with other key remittance origin countries represented – both Western European and South-East Asian.

Figure 8: Representativeness of online survey by countries of remittance origin



It appeared to be difficult to reach out to specifically Azerbaijani citizens abroad, while many ethnic Azerbaijanis were ready to take part in the survey.

Migration, employment and income

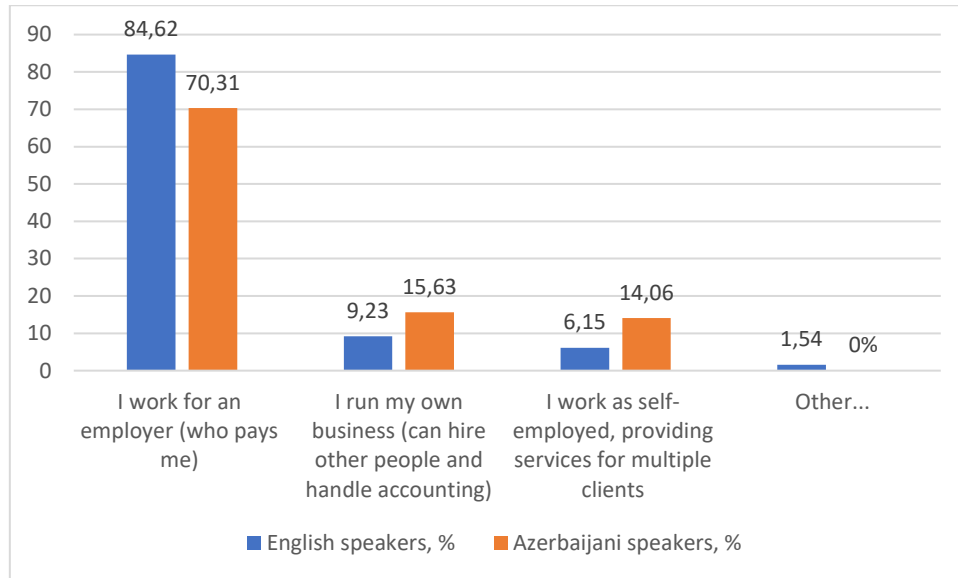
The data analysis in the section ‘Migration, employment and income’ distinguishes between ‘Azerbaijani speakers’, referring to responses collected in the Azerbaijani language, and ‘English speakers’ – referring to the responses collected in English. We suppose that English language proficiency may correlate with other characteristics of the respondents related to their employment, income levels, and so on.

In both language groups male respondents outnumber females by a considerable margin, and they are more long-term migrants: 43 per cent of respondents in the Azerbaijani language group and 59 per cent of respondents in the English language group indicated that they have been staying abroad for three years or more. Azerbaijani speakers were mostly made up of people who went abroad to study (55 per cent), while English speakers mostly left Azerbaijan to work abroad (47 per cent); at the same time, most respondents had higher education – 95 per cent in the case of English speakers and 70 per cent in the case of Azerbaijani speakers. Also, among Azerbaijani speakers the share of those who migrated for family reasons was higher compared than do the English speakers (12 per cent and 5 per cent, respectively).

English speakers from Azerbaijan seem to be better integrated into the labour market abroad: 84 per cent of them asserted that they had jobs, while only 50 per cent of Azerbaijani speakers gave the same answer. Moreover, the share of those not working who were not looking for a job was also higher among Azerbaijani speakers (18 per cent, compared to 2.6 per cent among English speakers).

Regarding types of employment, the difference between the two groups is quite noticeable. In contrast to English speakers, Azerbaijani speakers appear more independent in terms of their earnings (‘I am self-employed’ or ‘I run my own business’), which could, however, also imply informality of employment (Figure 9).

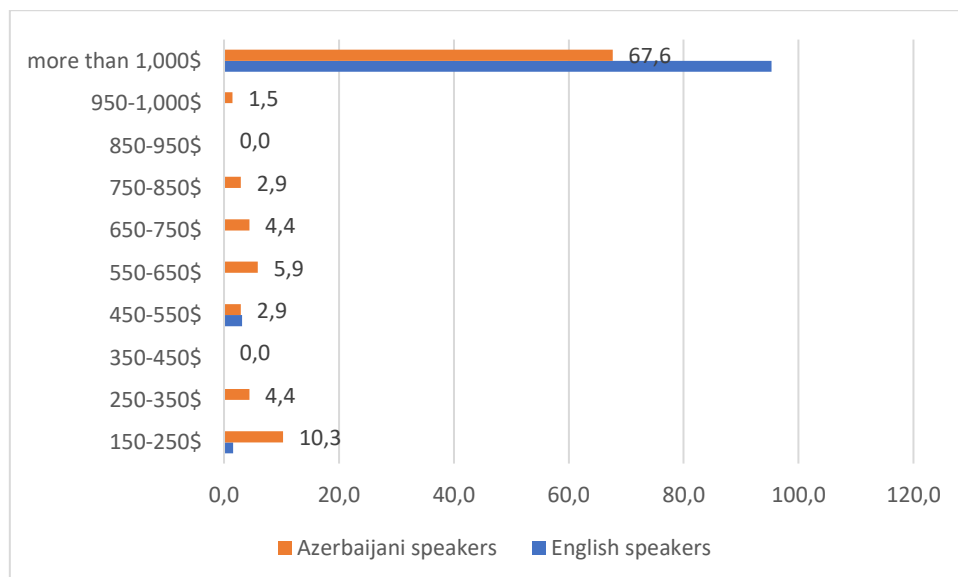
Figure 9: Azerbaijani nationals abroad by type of employment, %



Given the higher educational attainment of most of our respondents, it seems likely that they are mostly engaged in highly skilled jobs. It should be noted that work in the health sector was more likely to be indicated by Azerbaijani speakers. Among the other occupational areas most often cited by both groups were IT, finance, law and legal consulting, education, and academic research. As for low-skilled occupational areas, the one that was most frequently cited was ‘wholesale trade and retail’ (by 12 per cent of English speakers and 7 per cent of Azerbaijani speakers).

The level of income of Azerbaijani nationals abroad corresponds, in general, to their level of education and type of occupation. While most respondents appear to earn more than US\$1,000 per month, a higher proportion of Azerbaijani speakers are the lowest income group (US\$150-250) (Figure 10).

Figure 10: Azerbaijani nationals abroad by average monthly income, %



Financial inclusion

Two questions in our online questionnaire were asked to measure the degree of financial inclusion on the part of Azerbaijani remittance senders: those concerning bank card ownership in Azerbaijan and in the country of stay. These are key indicators which can guide further analysis.

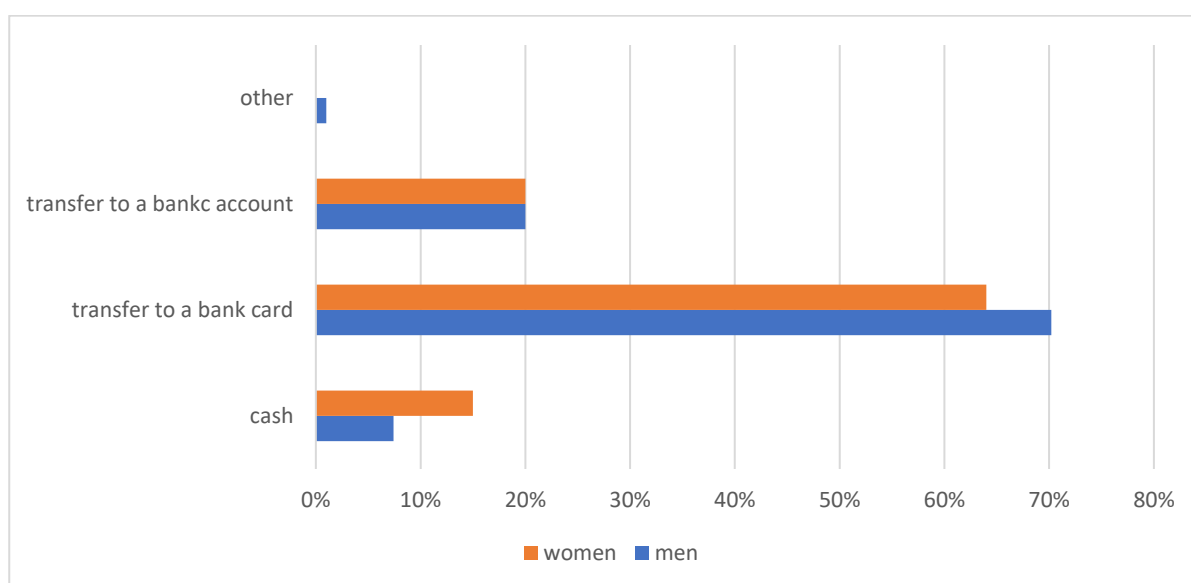
Considering the high-income level and the high educational attainment of most online respondents, it would seem plausible to assume that these Azerbaijani nationals are well-integrated abroad in terms of access and use of financial services. Our analysis showed that 55 per cent have a bank card issued in Azerbaijan (46 per cent of which are credit cards and 33 per cent debit cards) and almost all respondents (93 per cent) have a bank card issued abroad. Importantly, while we can observe a gender gap in relation to bank cards issued in Azerbaijan, no gender divide is observable for levels of financial inclusion abroad (Table 7).

Table 7. Financial inclusion of Azerbaijani nationals by sex, % card holders

	Men	Women
have a bank card in Azerbaijan	60%	45%
have a bank card abroad	94%	90%

To further investigate the financial integration of Azerbaijani nationals abroad, we asked a question ('How do you get paid') with the option of selecting all methods of payment used (as a multiple-choice question). While the most frequently chosen option was 'transfer to a bank card/salary card' (71 per cent of all responses), and the second most popular was 'transfer to a business bank account' (28 per cent of all responses), 10.4 per cent of all collected answers referred to 'cash' methods of payment. Interestingly, this option was not chosen only by respondents with the lowest income. As regards the possibility of a gender gap in methods of payment, we can see that women more often indicated cash methods and less often 'transfer to a bank card/salary card'.

Figure 11: Azerbaijani nationals abroad by method of getting paid, %



Remittance patterns

Remittances sent by our respondents to Azerbaijan are mostly directed to Baku (80.2 per cent), which is also the primary origin region of the respondents. Two further economic regions with significant numbers of respondents are Absheron – Khizi (7 per cent) and Ganja – Dashkasan (4 per cent). Four other economic regions were also mentioned by our respondents, which together account for 1.6 per cent of the total responses on remittance destination, while other regions combined account for less than 1 per cent.

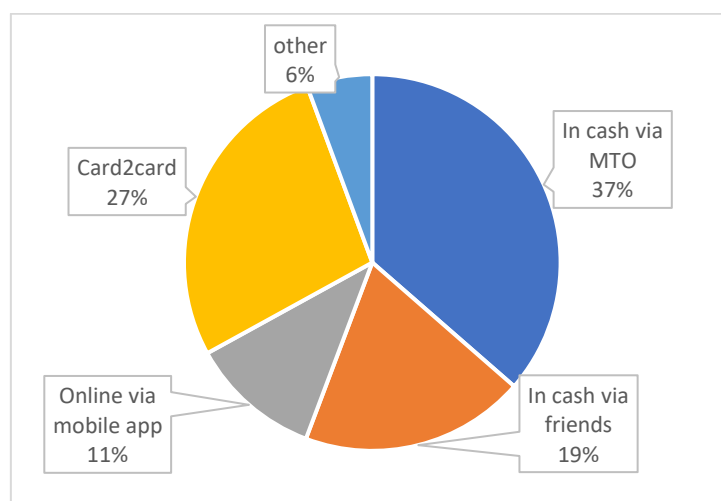
Table 8. Top remittance destination economic regions in Azerbaijan, %

	%
Baku (Baku city)	80.2
Absheron – Khizi (Sumgayit city, Absheron, and Khizi districts)	7.1
Ganja – Dashkasan (Ganja and Naftalan cities, Dashkasan, Goranboy, Goygol, and Samukh districts)	4.0
Sheki-Zagatala (Balakan, Gakh, Gabala, Oguz, Sheki and Zagatala districts)	1.6
Lankaran-Astara (Astara, Jalilabad, Lerik, Lankaran, Masalli and Yardimli districts)	1.6
Mil-Mughan (Beylagan, Imishli, Saatli and Sabirabad districts)	1.6

Notwithstanding the high rate of financial inclusion displayed by our online respondents, and their high level of education and, presumably, high degree of integration in the destination countries, cash-based remittances remain the preferred option for them. Together, two cash methods chosen made up 56 per cent of all responses. Quite significant is the share of informal channels: that is cash via friends, relatives or other intermediaries (19 per cent).

On the other hand, slightly more than a quarter (27 per cent) of Azerbaijani remittance senders indicated card-to-card as their usual method of remittance sending. This result should be treated with caution, given that most remittances are directed to Baku, the region with the highest penetration of financial infrastructure and a particularly high level of financial inclusion among the adult population. However, it should be noted, that this method was indicated most often by those of our online respondents who were staying in Western Europe, the USA, and Canada.

Figure 12. Azerbaijani nationals abroad, by method of sending remittances, %



It is worth noting that 53 per cent of respondents who usually send in cash would prefer to switch to digital methods – online via mobile app or card-to-card. Additionally, ‘other’ methods were indicated by respondents, including sending through websites like Koronapay and Paysend, as well as sharing a Revolut card with a family member.

Financial wellbeing and remittance behaviour

In the period March-June 2022, a total of 36.4 per cent of Azerbaijani nationals abroad changed their remittance sending patterns: the majority of these (28.4 per cent of respondents) appeared to reflect a deterioration in senders’ financial wellbeing which made them send smaller amounts or less frequently than

usual, or both. For example, 12 per cent sent less than usual. Commenting on the reasons for the change, the respondents mentioned the consequences of the COVID-19 pandemic, decrease of earnings, and higher inflation in the country of stay. On the other hand, 7.1 per cent of respondents reported sending larger amounts than usual in the period in question.

In our online sample of Azerbaijani nationals abroad, over-representation of highly skilled individuals may also account for the fact that only 43 per cent of respondents said they send money home as a means of regular financial support for relatives. The second most frequently indicated purpose of remittances is for special occasions (27.8 per cent), such as weddings, birthdays, or funerals. Urgent financial support – or remittances on request – account for 19 per cent of all responses given to the question on the purposes of remittances. Savings as a purpose makes up only 3.6 per cent of the responses.

Figure 13. In March – June 2022, did you, or your family members living with you here, abroad, send money to friends or relatives in Azerbaijan?" (%)

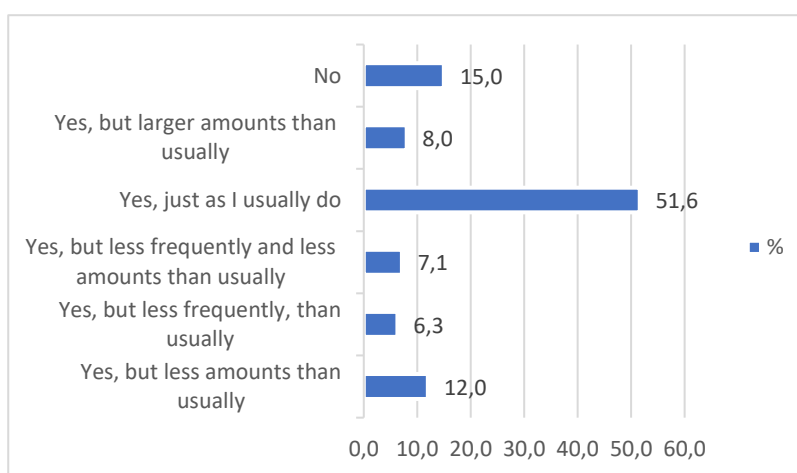
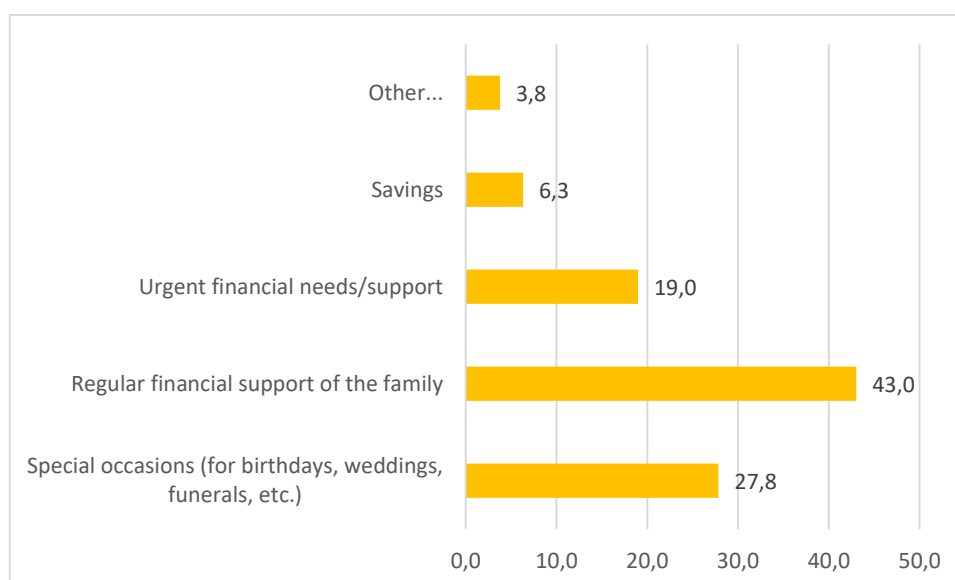


Figure 14. What is your main purpose in sending money to Azerbaijan? (%)



Summary of the online survey findings

- Our online survey of Azerbaijani nationals abroad collected a diverse sample of responses from all key countries sending remittance to Azerbaijan. Young, educated, male respondents were over-represented in the sample, which is often the case in online surveys. The rather low representation of Russia-based Azerbaijani migrants could be linked to the inefficiency of the selected dissemination channels in the Russian context, or to other factors, including levels of education.
- These remittance senders are mostly employed; the majority work for an employer and are paid through transfers to their bank salary cards. The most frequently cited areas of work include IT, finance, and legal consulting.
- The gender gap in financial inclusion among Azerbaijani nationals disappears abroad: 90 per cent of women and 94 per cent of men have bank cards issued abroad. However, women are more often paid in cash than men.
- The majority of these remittance senders send money to Baku, but only 43 per cent of them do so to provide regular financial support for their family members – an equal share of respondents send money on request or on special occasions. Digital remittance methods are used by 38 per cent of respondents, while over 56 per cent still use cash-based methods, including 19 per cent sending through informal channels.

CHAPTER 6:

BRINGING TOGETHER THE SUPPLY AND DEMAND SIDES OF THE RESEARCH

The two previous chapters of this report present the results of our investigations into the supply and demand sides of the remittance market in Azerbaijan. In Chapter 1 we assessed the affordability and diversity of digital remittance services in Azerbaijan and explored the major barriers for expanding the digital remittance infrastructure for RSPs. In Chapter 2 we studied the profiles and remittance-related financial behaviour of three categories of remittance services users: remittance senders in Azerbaijan, remittance recipients in Azerbaijan, and Azerbaijani nationals sending money to Azerbaijan from abroad. We present the key findings of the two parts of the research below.

1. Remittance senders from Azerbaijan are mostly represented by Azerbaijani nationals who send money in response to urgent financial needs of their relatives abroad, mainly in Russia. Therefore, cash outflows from Azerbaijan, at any rate, cannot necessarily be linked to so called foreign workers' remittances.
2. The low proportion of foreigners among remittance senders, as captured in our survey, can be explained in various ways: for example, it might imply that foreigners use other methods of remittance, including digital remittance, or, on the other hand, that some part of outgoing remittances proceeds via informal channels. The survey method we used does not allow for capturing those who use informal remittance channels or work in the informal sector.
3. Financial inclusion of remittance recipients and senders in Azerbaijan is most likely to be linked to their employment status since salary cards appear to be the most prevalent type of card used by our offline survey respondents.
4. Digital remittance uptake by senders in Azerbaijan is constrained by their low awareness of the availability of digital options, rather than by absence of bank cards.
5. For remittance recipients, uptake of digital remittances is less constrained by structural factors. For card holders, the option of receiving money directly to their bank cards is both available and affordable.
6. Azerbaijani nationals abroad display a higher level of financial inclusion and much less of a gender gap than in their home country. However, this finding may be due to the specific characteristics of the online survey respondents, who tend to be younger and better educated.
7. High levels of financial inclusion notwithstanding, cash-based remittances remain the most popular method adopted by Azerbaijani senders abroad. This finding might be linked to low awareness of digital remittance services since remittance senders abroad often indicate an interest in switching from cash-based to digital remittances.
8. Card-to-card methods appear to be the most accessible method for Azerbaijani nationals abroad but requires that the recipient also has a bank card. The receiving side, however, often finds it expensive to obtain a bank card. In such cases, alternative methods of remittance are used, namely, the senders provides the recipients with access to one of their bank cards. However, this type of remittance is difficult to quantify and has not been assessed in detail so far.

CONCLUSIONS

The objectives of the present study included: 1) to fill in existing knowledge gaps on the financial behaviour of remittance senders and remittance recipients in Azerbaijan; 2) to explore remittance resilience in the post-pandemic period, focusing on the factors supporting and constraining this resilience; 3) to support financial sector development in Azerbaijan in the framework of the implementation of the Digital Payments Strategy 2021-2023 and other relevant strategic initiatives of the government by adding evidence on the categories within the adult population that are most deeply involved in remittance transactions.

1. Based on the data produced by the CBAR, Azerbaijan is a net remittance receiving country. The amount of official remittance inflows is 1.5 times as much as the outflow: US\$239.971 million compared to US\$151.548 million as of Q1 2022. Key remittance origin countries for Azerbaijan are the Russian Federation (42 per cent), the USA (14 per cent) and Türkiye (10 per cent) as of Q1 2022. These figures refer to cross-border remittances transferred via MTOs and paid out by banks and Azerpost in Azerbaijan.
2. Banks and Azerpost function as the only remittance service providers in Azerbaijan. MTOs delivering remittances in the territory of Azerbaijan are not required to obtain a license under the current legislation. Key remittance origin destinations are covered by Russia-based payment systems CONTACT and Zolotaya Korona, as well as by Western Union and Türkiye's UPT.
3. Cash-based remittance services – without the need to open a bank account - are in high demand among both remittance recipients and remittance senders in Azerbaijan due to their accessibility and affordability. However, digitalization of remittance services became a necessity for banks in May-June 2022, when, reportedly, the inflow of remittances from the Russian Federation increased significantly and remittance payment agents – banks and Azerpost – could barely satisfy the demand for cash remittances. This situation demonstrated the limited capacity of the existing network of remittance payment agents.
4. Uptake of digital remittance services in Azerbaijan by banks is exceeding the uptake of these services by users, especially remittance recipients. While all major banks in Azerbaijan delivering remittances from abroad have been integrating payment systems into their mobile banking apps, the majority of international remittance service users are not yet bank clients.
5. Clearly, the low level of financial inclusion of the adult population in Azerbaijan constrains the uptake of digital remittances. The major share of debit cards in circulation in the country are salary cards and social cards – two types of cards meant for obligatory payments. Additionally, social cards can be used only for payments and for incoming government transfers.

RECOMMENDATIONS

How to increase digital remittance uptake:

Among Azerbaijani nationals – remittance senders and recipients

1. Azerbaijani nationals are the primary population group of remittance service users – senders and recipients. Given that Russia is the primary remittance origin and remittance destination for them, it is highly recommended to foster efforts to increase the uptake of digital remittances in this direction.
2. More effort should be made by RSPs to raise awareness among remittance senders in Azerbaijan about digital remittance options. Importantly, these efforts should first target bank card holders. Major Russian MTOs should, in a timely fashion, inform their clients about emerging digital options for sending remittances from Azerbaijan, especially in the light of the changing situation in the financial sector of the Russian Federation.
3. Raising awareness among remittance senders about card-to-card methods of remittance sending locally can contribute to wider usage of this method within the country. In this regard, banks should consider targeting RS in the framework of their financial literacy initiatives, for example as part of Global Money Week, World Saving Day and the International Day of Family Remittances
4. When converting cash remittance recipients into their clients, banks should also consider the interests of this category of population, in particular their habit to cash out immediately, and stimulate digital payments by offering competitive services, for example discounts on conversion fees for cashless transactions, or cashback on cashless transactions for a wider variety of products and services and accruing interest on the account balance, or other similar incentives.
5. Awareness raising campaigns regarding digital remittances should focus on explaining not only the methods of transfer but also clarification of the costs of the transfer. Remittance service users – both in Azerbaijan and abroad - should be considered as a specific target group for awareness raising campaigns in the framework of the implementation of the Digital Payments Strategy 2021-2023.
6. Given that the cost of financial services is an important factor for remittance service users, banks should consider developing or customizing their card products with the needs of remittance senders and recipients in mind. For example, a plastic ‘remittance’ card⁶⁵ which can be used as a payment instrument and as a tool for sending remittances with a more advantageous fee for remittance senders or with the option of cashback being offered for previously cash-based remittance service users. One such example is a GRANAT card issued in the Russian Federation specifically for remittance senders from the Russian Federation to Azerbaijan.
7. Further efforts relating to financial inclusion of the adult population in Azerbaijan should be focused not on increasing the number of cards in circulation, but rather on enhancing the functionality of payment cards by involving all stakeholders in facilitating cashless transactions and substituting expired social cards with new debit cards at low or zero cost.
8. Utilizing social cards for social security benefits payments could also be used to stimulate the financial inclusion of women who are often social card holders, particularly those on lower incomes. Such efforts should focus on enhancing the positive experience of women as card holders – for example, by offering them complementary services (informational support, financial education, discount incentives, and so on) in order to indicate that their bank card could be used for more than simply cashing out social transfers.

⁶⁵ For example, see <https://www.ibam.ru/clients/granat>

9. The specific needs of women (such as household-related spending, and family budgeting) should be considered when designing digital financial literacy campaigns.
10. Data-driven policy designs are required to help address women financial inclusion. For that, gender-disaggregated data on card holders and remittance recipients could be collected by banks and CBAR to identify the specific age groups and geographic areas with the lowest levels of financial inclusion among women, and to adjust financial inclusion initiatives accordingly.
11. To develop and apply a simplified CDD procedure in relation to regular remittance senders and recipients so as to keep remittance flowing.

Among foreigners - RS in Azerbaijan

1. Although the share of foreigners-remittance senders from Azerbaijan does not appear to be significant in our offline survey, this does not necessarily mean that foreign workers are not interested in more accessible and affordable remittance services. Foreigners who are salary card holders should be aware of such opportunities for sending money abroad. Meanwhile, further research should aim at exploring informal remittance channels.
2. Better coordination between the CBAR and SMS as regards the financial literacy and financial inclusion of non-residents is highly recommended. Awareness-raising campaigns should target not only the local population but also those who have come to work in Azerbaijan or have resettled for family reasons (or other reasons).
3. Legislation relating to the integration of migrants could be strengthened by developing a framework for the financial inclusion of foreign nationals. For example, relevant information about formal remittance sending channels could be added to the information portal www.migrationto.az. SMS could work closer with the employers of foreign workers to disseminate this information and supply informational booklets for foreigners concerning formal channels and digital methods of cross-border remittance services.
4. It is highly recommended that most applications and website information provided by banks in Azerbaijan should be in three languages, taking into account the needs of customers. In addition, commercial banks should consider providing additional language support or applying innovative tools for providing financial services to foreigners with limited language skills. Otherwise, language barriers and technical backwardness in digital banking services will continue to prevent foreign clients – primarily, salary card holders – from making use of the available digital financial products, including remittance transfers.

Among RS abroad

1. The financial literacy of Azerbaijanis abroad should be considered as a priority area for the State Committee on Work with Diaspora. Awareness raising webinars could be organized to share relevant information about available remittance methods, including digital remittances, considering the particular countries of stay of Azerbaijanis abroad.
2. Both online and offline information dissemination channels should be used to reach out to various groups of Azerbaijani remittance senders from abroad and in a variety of languages (Azerbaijani and English), to ensure the widest outreach to the Azerbaijani diaspora. Consulates and other relevant bodies working with Azerbaijani citizens abroad could be involved in financial literacy campaigns.

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ANNEXES

ANNEX 1. MONEY TRANSFERS OF INDIVIDUALS TO THE REPUBLIC OF AZERBAIJAN IN 2021-2022

Country name	2021, 6 Months		2022, 6 Months	
	Thousand	Proportion	Thousand	Proportion
	US\$	%	US\$	%
TOTAL	491 404	100.0	1 604 288	100.0
Russian Federation	260 971	53.1	1 283 045	80.0
United States	29 095	5.9	77 103	4.8
Turkey	48 130	9.8	55 462	3.5
Germany	10 203	2.1	29 076	1.8
Kazakhstan	15 656	3.2	17 042	1.1
United Kingdom	17 152	3.5	15 615	1.0
United Arab Emirates	12 644	2.6	14 238	0.9
Georgia	9 610	2.0	13 467	0.8
Uzbekistan	4 772	1.0	7 518	0.5
Saudi Arabia	5 428	1.1	7 267	0.5
Israel	5 256	1.1	6 710	0.4
Switzerland	4 820	1.0	6 337	0.4
Ukraine	12 015	2.4	5 769	0.4
Cyprus	2 350	0.5	4 182	0.3
Qatar	2 576	0.5	4 000	0.2
Ireland	1 807	0.4	3 777	0.2
Belarus	1 978	0.4	3 423	0.2
Kyrgyzstan	1 514	0.3	3 102	0.2
Lithuania	1 376	0.3	2 651	0.2
Canada	3 541	0.7	2 597	0.2
Singapore	1 067	0.2	2 576	0.2
Tajikistan	796	0.2	2 403	0.1
Austria	1 807	0.4	2 339	0.1
France	1 991	0.4	2 247	0.1
Netherlands	1 353	0.3	2 160	0.1
Poland	930	0.2	1 862	0.1
Other countries	32 568	6.6	28 318	1.8

Source: Central Bank of Azerbaijan

ANNEX 2.

LIST OF MTOS PROVIDING INTERNAL AND INTERNATIONAL REMITTANCE SERVICES IN AZERBAIJAN

	MTO	Operator
<i>Internal transfers</i>		
1	Access Transfer	"Access Bank" CJSC
2	AFB Transfer	"AFB Bank" OJSC
3	Barat	"Nakhchivan Bank" OJSC
4	Barat	"Rabita Bank" OJSC
5	COLVİR	"Azerpost" LLC
6	Express Transfer	"Express Bank" OJSC
7	Manat Express	"International Bank of Azerbaijan" OJSC
8	Monex	"Mugan Bank" OJSC
9	Uni Transfer	"Unibank CB" OJSC
10	Vektor	"Bank Respublika" OJSC
11	Xəzri	"Kapital Bank" OJSC
<i>International transfers</i>		
12	Contact	"КИБИ Банк" АО
13	GranatPay	Moscow office of the "International Bank of Azerbaijan" OJSC
14	Online Paraçəkme Sistemi	T.C.Ziraat Bankası A.Ş.
15	Privat Money	АО КБ "ПриватБанк"
16	STEFİ/ IFC	"Azerpost" LLC
17	UPT	"Aktif Bank"
18	Western Union	"Western Union" Company
19	ZFG	T.C.Ziraat Bankası A.Ş.
20	Zolotaya korona	"Золотая Корона", РНКО

Source: Central Bank of Azerbaijan

ANNEX 3.

LIST OF NON-COOPERATIVE COUNTRIES

The list of countries (territories) that are suspected of either legalization of criminally obtained funds or other property, financing of terrorism, support of transnational organized crime, armed separatism, extremism and mercenary activity, participation in dealership, production or circulation of illegal drugs and other psychotropic substances, or those countries (territories) that do not require disclosing identification information when conducting financial transactions:

1. Republic of Armenia
2. Co-operative Republic of Guyana
3. Republic of Côte d'Ivoire
4. Lao People's Democratic Republic
5. Belize
6. Republic of Liberia
7. Islamic Republic of Afghanistan
8. Republic of the Union of Myanmar
9. Federal Republic of Somalia
10. Republic of Iraq
11. Republic of Sudan
12. Democratic Republic of the Congo
13. Kingdom of Thailand
14. Democratic People's Republic of Korea
15. Socialist Republic of Vietnam

ANNEX 4.

QUESTIONNAIRE FOR THE SELF-ADMINISTERED OFFLINE SURVEY OF REMITTANCE SENDERS AND REMITTANCE RECIPIENTS IN AZERBAIJAN

<p>1. What is your gender?</p>	<ul style="list-style-type: none"> <input type="radio"/> male <input type="radio"/> female
<p>2. How old are you?</p>	<ul style="list-style-type: none"> <input type="radio"/> 18-24 years <input type="radio"/> 25-34 years <input type="radio"/> 35-49 years <input type="radio"/> 50-64 years <input type="radio"/> 65 years and older
<p>3. Which transaction have you recently performed?</p>	<ul style="list-style-type: none"> <input type="radio"/> Sending money abroad <input type="radio"/> Receiving money from abroad
<p>4. Which payment system did you use for this transaction?</p>	<ul style="list-style-type: none"> <input type="radio"/> Zolotaya Korona <input type="radio"/> Contact <input type="radio"/> Western Union <input type="radio"/> UPT <input type="radio"/> Other (<i>please, indicate</i>).....
<p>5. What is the country of your citizenship?</p>	<ul style="list-style-type: none"> <input type="radio"/> Azerbaijan <input type="radio"/> Russian Federation <input type="radio"/> Türkiye <input type="radio"/> Georgia <input type="radio"/> Other (<i>please, indicate</i>)
<p>6. Which country have you recently sent money to/received money from?</p>	<ul style="list-style-type: none"> <input type="radio"/> Russian Federation <input type="radio"/> Türkiye <input type="radio"/> Georgia <input type="radio"/> Other (<i>please, indicate</i>)
<p>7. In which currency have you received/sent money abroad?</p>	<ul style="list-style-type: none"> <input type="radio"/> US dollar <input type="radio"/> Euro <input type="radio"/> Ruble <input type="radio"/> Manat
<p>8. What amount have you sent/received (in the currency indicated above)?</p>	<p>Please, indicate the amount</p>
<p>9. Which share of the total income of your family does the indicated amount of money make?</p>	<ul style="list-style-type: none"> <input type="radio"/> 80%-100% of total income <input type="radio"/> 50%-80% of total income <input type="radio"/> Less than 50% of total income
<p>10. Do you intend that the money sent/received be saved?</p>	<ul style="list-style-type: none"> <input type="radio"/> Yes, partially <input type="radio"/> Yes, the full amount <input type="radio"/> No

<p>11. What would be the appropriate description of the allocation for the money sent/received?</p> <p><i>You may select several options</i></p>	<ul style="list-style-type: none"> <input type="radio"/> Special occasion (for birthday, wedding, funeral, etc.) <input type="radio"/> Regular financial support for the family <input type="radio"/> Urgent financial needs/support <input type="radio"/> Savings <input type="radio"/> Other (please, indicate)
<p>12. Do you have a bank account in Azerbaijan?</p>	<ul style="list-style-type: none"> <input type="radio"/> Yes (please, indicate the bank) <input type="radio"/> No
<p>13. Do you have a bank card issued in Azerbaijan?</p>	<ul style="list-style-type: none"> <input type="radio"/> Yes (please, indicate the bank) <input type="radio"/> No
<p>14. Which bank/payment card do you use in Azerbaijan?</p> <p><i>You may select several options</i></p>	<ul style="list-style-type: none"> <input type="radio"/> Social card (for social benefits, e.g. pension) <input type="radio"/> Credit card <input type="radio"/> Salary card <input type="radio"/> None <input type="radio"/> Other (please, indicate)
<p>15. In the past 12 months, did you receive/send money abroad using your bank card, namely, sending cashless remittance?</p>	<ul style="list-style-type: none"> <input type="radio"/> Yes <input type="radio"/> No
<p>16. Which cashless methods of transborder remittances do you know of?</p> <p><i>You may select several options</i></p>	<ul style="list-style-type: none"> <input type="radio"/> Online remittance via a mobile application of a bank <input type="radio"/> Online remittance via a mobile application of a money transfer operator (e.g., Western Union, TransferWise) <input type="radio"/> From card to card <input type="radio"/> None of the above <input type="radio"/> Other (please, indicate)
<p>17. How would you describe the cashless remittance compared to the cash-based remittance?</p> <p><i>You may select several options</i></p>	<ul style="list-style-type: none"> <input type="radio"/> More expensive <input type="radio"/> Cheaper <input type="radio"/> Faster <input type="radio"/> Slower <input type="radio"/> More complicated <input type="radio"/> Easier <input type="radio"/> Insecure <input type="radio"/> More safe

ANNEX 5.

QUESTIONNAIRE FOR ONLINE SURVEY OF AZERBAIJANI CITIZENS WORKING AND LIVING ABROAD

How old are you?	<ol style="list-style-type: none"> 1. 14-18 years /END OF SURVEY/ 2. 18-24 years 3. 25-34 years 4. 35-49 years 5. 50-64 years 6. 65 years and older
What is your gender?	<ol style="list-style-type: none"> 1. Male 2. Female
Do you hold Azerbaijani citizenship?	<ol style="list-style-type: none"> 1. Yes 2. No /END OF SURVEY/
1. MIGRATION	
1.1) In which country are you currently staying?	<i>/PLEASE SELECT ONE ANSWER ONLY/</i> <ol style="list-style-type: none"> 1. Russian Federation 2. Azerbaijan /END OF SURVEY/ 3. Turkey 4. Kazakhstan 5. Great Britain 6. United Arab Emirates 7. Other (<i>please indicate</i>)
1.2) How long have you been staying in this country?	<i>/ PLEASE SELECT ONE ANSWER ONLY/</i> <ol style="list-style-type: none"> 1. Less than 3 months 2. 3-11 months 3. 1-3 years 4. More than 3 years 5. I was born here /END OF SURVEY/
1.3) What is your purpose in coming to this country?	<i>/ PLEASE SELECT ONE ANSWER ONLY/</i> <ol style="list-style-type: none"> 1. To work 2. To study 3. Family reunification (join my family) 4. Compatriots' repatriation programme 5. Other (<i>please explain</i>)
2. EMPLOYMENT AND FINANCIAL WELLBEING	
2.1) Are you currently employed?	<i>/ PLEASE SELECT ONE ANSWER ONLY/</i> <ol style="list-style-type: none"> 1. YES → Q. 2.2. 2. NO, but I'm looking for a job → Q. 2.3. 3. NO, and not looking for a job → Q. 2.7.
2.2) What is your type of employment?	<i>/MORE THAN ONE ANSWER CAN BE SELECTED/</i> <ol style="list-style-type: none"> 1. I work for an employer (who pays me) →Q.2.4. 2. I run my own business (can hire other people and handle accounting) →Q.2.4. 3. I work as self-employed, providing services for multiple clients →Q.2.4.

	4. Other (<i>please specify</i>) →Q.2.4.
2.3) Are you planning to work for an employer, as self-employed, or to start a business?	/PLEASE SELECT ONE ANSWER ONLY/ 1. I am planning to work for an employer → Q. 2.7. 2. I am planning to start a business → Q. 2.7. 3. I am planning to work as self-employed, providing services for multiple clients → Q. 2.7. 4. Other (<i>please indicate</i>) → Q. 2.7.
2.4) In what sector are you currently working?	1. Construction 2. Hospitality (hotel) and restaurants, cafes 3. Wholesale and retail trade 4. Repair of motor vehicles and motorcycles 5. Domestic work (in private households) 6. Transport, storage 7. Manufacturing 8. Communal services, cleaning 9. Healthcare and other social services 10. Other (<i>please explain</i>)
2.5) What is your average monthly income?	1. US\$150-250 2. US\$250-350 3. US\$350-450 4. US\$450-550 5. US\$550-650 6. US\$650-750 7. US\$750-850 8. US\$850-950 9. US\$950-1,000 10. More than US\$1,000 11. Other (<i>please indicate amount and currency</i>)
2.6) How are you paid?	/ MORE THAN ONE ANSWER CAN BE SELECTED/ 1. In cash 2. Transfer to a bank card/salary card 3. Transfer to a business bank account 4. Other (<i>please explain</i>)
2.7) What is your financial situation at the present time?	1. Can buy everything I need and make savings 2. Can buy everything I need, but cannot make savings 3. Only have money for essentials (food, clothes and so on) 4. There's not enough money even for essentials (food, clothes and so on)
2.8) Has your financial situation changed due to the COVID-19 pandemic?	/PLEASE SELECT ONE ANSWER ONLY/ 1. Yes, it has gotten worse 2. Yes, it has gotten a lot worse 3. Yes, it has gotten better 4. No, it has not changed

3. REMITTANCES AND FINANCIAL INCLUSION	
3.1) In the past 12 months (June 2021-June 2022), did you or your family members living with you here, abroad, send money to friends or relatives in Azerbaijan?	<ol style="list-style-type: none"> 1. Yes 2. No /END OF SURVEY/
3.2) In the period March-June 2022 (past 6 months), did you or your family members living with you here, abroad, send money to friends or relatives in Azerbaijan?	<p><i>/PLEASE SELECT ONE ANSWER ONLY/</i></p> <ol style="list-style-type: none"> 1. No 2. Yes, but less than usually 3. Yes, but less frequently, than usually 4. Yes, but less frequently and less amounts than usually <ol style="list-style-type: none"> 1. Yes, just as I usually do → Q. 3.4. 2. Yes, but larger amounts than usual
3.3) What is the reason for this change?	<i>Please explain</i>
3.4) Where (which economic region) in Azerbaijan do you usually send money to? <p style="text-align: center;"><i>Select economic region(s)</i></p>	<ol style="list-style-type: none"> 1. Baku (Baku city) 2. Absheron – Khizi (Sumgayit city, Absheron and Khizi districts) 3. Ganja – Dashkasan (Ganja and Naftalan cities, Dashkasan, Goranboy, Goygol and Samukh districts) 4. Sheki-Zagatala (Balakan, Gakh, Gabala, Oguz, Sheki and Zagatala districts) 5. Lankaran-Astara (Astara, Jalilabad, Lerik, Lankaran, Masalli and Yardimli districts) 6. Guba -Khachmaz (Khachmaz, Guba, Gusar, Siyazan and Shabran districts) 7. Markazi Aran (Mingachevir city, Agdash, Goychay, Kurdamir, Ujar, Yevlakh and Zardab districts) 8. Karabakh (Khankendi city, Agjabadi, Aghdam, Barda, Fuzuli, Khojaly, Khojavend, Shusha and Tartar districts) 9. Shargi Zangazur (Jabrayil, Kalbajar, Gubadli, Lachin and Zangilan districts) 10. Daghlig Shirvan (Agsu, Ismayilli, Gobustan and Shamakhi districts) 11. Nakhchivan (Nakhchivan city, Babek, Julfa, Kangarli, Ordubad, Sadarak, Shahbuz and Sharur districts) 12. Gazakh – Tovuz (Agstafa, Gadabay, Gazakh, Shamkir and Tovuz districts) 13. Mil-Mughan (Beylagan, Imishli, Saatli and Sabirabad districts) 14. Shirvan - Salyan (Shirvan city, Bilasuvar, Hajigabul, Neftchala and Salyan districts)
3.5) How often do you usually send money to Azerbaijan?	<ol style="list-style-type: none"> 1. Monthly (at least once a month) 2. 4-6 times a year 3. 2-3 times a year 4. Once a year

3.6) What amount do you usually send, on average?	<ol style="list-style-type: none"> 1. US\$50-100 2. US\$100-150 3. US\$150-200 4. US\$200-250 5. US\$250-300 6. US\$350-400 7. US\$400-450 8. US\$450-500 9. US\$500-600 10. US\$600-700 11. US\$700-800 12. US\$800-900 13. US\$900-1,000 14. More than US\$1,000 15. Other (<i>please specify amount and currency</i>)
3.7) What is your main purpose in sending money to Azerbaijan?	<p><i>/MORE THAN ONE ANSWER CAN BE SELECTED/</i></p> <ol style="list-style-type: none"> 1. Special occasion (for birthday, wedding, funeral, etc.) 2. Regular financial support of family 3. Urgent financial needs/support 4. Savings 5. Other (<i>please explain</i>)
3.8) How do you prefer to send money to Azerbaijan?	<ol style="list-style-type: none"> 1. In cash, via bank office/ post office / store / MTO office using a payment system, such as Zolotaya Korona, Western Union, etc. 2. In cash, via friends, relatives, or other intermediaries 3. Online, via a mobile app of a bank or MTO with money received in cash in Azerbaijan 4. From my bank card to a bank card of the recipient in Azerbaijan 5. Other (<i>please, specify</i>)
3.9) How do you usually send money to Azerbaijan?	<ol style="list-style-type: none"> 1. In cash, via bank office / post office / store / MTO office using a payment system, such as Zolotaya Korona, Western Union, etc. 2. In cash, via friends, relatives, or other intermediaries 3. Online, via a mobile app of a bank or MTO with money received in cash in Azerbaijan 4. From my bank card to a bank card of the recipient in Azerbaijan 5. Other (<i>please specify</i>)
3.10) Do you have a bank account?	<p><i>/TWO ANSWERS CAN BE SELECTED /</i></p> <ol style="list-style-type: none"> 1. Yes, here in the country abroad 2. Yes, in Azerbaijan 3. Yes, in Azerbaijan, and here, abroad 4. I have no bank account anywhere
3.11) Do you have a bank card issued in Azerbaijan?	<ol style="list-style-type: none"> 1. Yes (<i>please specify the bank</i>) 2. No → Q. 3.14
3.12) Which type of bank card(s) is it?	<p><i>/SEVERAL ANSWERS CAN BE SELECTED/</i></p> <ol style="list-style-type: none"> 1. Social card (for social benefits, e.g. pension)

	<ol style="list-style-type: none"> 2. Credit card 3. Salary card 4. None 5. Other (<i>please explain</i>)
3.13) Do you have a bank card issued here, in the country you stay in abroad?	<ol style="list-style-type: none"> 1. Yes → Q. 3.15 2. No
3.14) Why you do not have a bank card?	<ol style="list-style-type: none"> 1. I don't think I need it →Q. 4.1. 2. It is costly to issue a bank card and pay service fees →Q. 4.1. 3. I don't have enough money to need to keep it on a bank card →Q. 4.1. 4. I don't have documents requested by a bank →Q. 4.1. 5. Other reason (<i>please explain</i>) →Q. 4.1.
3.15) In the past 12 months have you used your bank card to transfer money to Azerbaijan to your relatives or friends, via web or mobile app?	<ol style="list-style-type: none"> 1. Yes 2. No, because I do not know how to do it 3. No, because I prefer to send money in cash 4. No, because of another reason (<i>please explain</i>)
4. SOCIO-DEMOGRAPHIC STATUS	
4. 4.1) What is your marital status?	<ol style="list-style-type: none"> 1. Married/civil union 2. Engaged 3. Divorced/separated 4. Single 5. Widowed/widower
4.2) Are any of your family members living with you here, abroad?	<ol style="list-style-type: none"> 1. No → Q. 4.5 2. Yes
4.3) Please specify these family members:	<p><i>/MORE THAN ONE ANSWER CAN BE SELECTED/</i></p> <ol style="list-style-type: none"> 1. Spouse (husband/wife) 2. Parents 3. Children under 16 years 4. Children over 16 years, not working 5. Brothers / sisters 6. Other relatives (<i>please specify</i>)
4.4) In total, how many members of your family – adults and children – currently live with you here, abroad, including yourself?	<p><i>/INSERT THE NUMBER/</i></p> <p>.....</p>
4.5) Who is the main financial provider in your family?	<ol style="list-style-type: none"> 1. Me 2. Another family member (<i>please specify</i>) 3. Me together with another family member living with me 4. Me and another family member living in Azerbaijan 5. Other (<i>please explain</i>)
4.6) Who makes the financial decisions in your family?	<ol style="list-style-type: none"> 1. Me, myself 2. Another family member living with me here abroad 3. Me jointly with other family member living in Azerbaijan

	<p>4. The family members living in Azerbaijan</p> <p>5. Other (<i>please specify</i>)</p>
2.1) What is your level of education?	<p><i>/PLEASE SELECT ONE ANSWER ONLY/</i></p> <p>1. Higher (graduated from institute, university)</p> <p>2. Unfinished higher (entered institute/university but did not complete it)</p> <p>3. Specialized secondary (completed college)</p> <p>4. Secondary (completed school)</p> <p>5. Incomplete secondary and lower (did not complete school)</p>
2.2) Where were you born in Azerbaijan?	<p>1. Baku (Baku city)</p> <p>2. Absheron – Khizi (Sumgayit city, Absheron and Khizi districts)</p> <p>3. Ganja – Dashkasan (Ganja and Naftalan cities, Dashkasan, Goranboy, Goygol and Samukh districts)</p> <p>4. Sheki-Zagatala (Balakan, Gakh, Gabala, Oguz, Sheki and Zagatala districts)</p> <p>5. Lankaran-Astara (Astara, Jalilabad, Lerik, Lankaran, Masalli and Yardimli districts)</p> <p>6. Guba -Khachmaz (Khachmaz, Guba, Gusar, Siyazan and Shabran districts)</p> <p>7. Markazi Aran (Mingachevir city, Agdash, Goychay, Kurdamir, Ujar, Yevlakh and Zardab districts)</p> <p>8. Karabakh (Khankendi city, Agjabadi, Aghdam, Barda, Fuzuli, Khojaly, Khojavend, Shusha and Tartar districts)</p> <p>9. Shargi Zangazur (Jabrayil, Kalbajar, Gubadli, Lachin and Zangilan districts)</p> <p>10. Daghlig Shirvan (Agsu, Ismayilli, Gobustan and Shamakhi districts)</p> <p>11. Nakhchivan (Nakhchivan city, Babek, Julfa, Kangarli, Ordubad, Sadarak, Shahbuz and Sharur districts)</p> <p>12. Gazakh – Tovuz (Agstafa, Gadabay, Gazakh, Shamkir and Tovuz districts)</p> <p>13. Mil-Mughan (Beylagan, Imishli, Saatli and Sabirabad districts)</p> <p>14. Shirvan - Salyan (Shirvan city, Bilasuvar, Hajigabul, Neftchala and Salyan districts)</p>

Select economic region(s)

ANNEX 6.

QUESTIONS FOR FOCUS GROUP DISCUSSIONS WITH REMITTANCE RECEIVERS IN AZERBAIJAN

1. SOCIO-DEMOGRAPHIC PROFILE OF REMITTANCE RECIPIENTS (15 MIN)

Please introduce yourself briefly:

- Your name, age, education
- Who is the family member(s) working abroad in your family (How long abroad? Why did they leave? Where? What is that person's occupation?) How often do they come back to Azerbaijan?

2. COMMUNICATION WITH FAMILY MEMBERS ABROAD (15 MIN)

Please tell us a bit about how you keep in touch:

- How frequently you get calls – mobile, video calls (Whatsapp, etc.), social media?
- How you prefer to get in touch (see above channels of communication)? Why this way?
- Are you prepared to discuss any financial issues/decisions related to work/expenses/financial strategy? Could you give an example?

3. REMITTANCE PRACTICE (40 MIN)

Please tell us a bit about the way you manage finances in your family:

- Do you plan expenses beforehand? Do you know how much you need to spend in the coming month?
- Do you link your expenses to the dates of income (e.g. the date of remittance from abroad)?
- Do you make any regular payments after receiving remittances from abroad? Do you make savings after receiving remittances?
- Would you be able to cope financially without this support? If so, for how long?
- What helps you keep track of your family's budget?

Please tell us about your usual means of receiving remittances:

- How frequently do you receive financial support from abroad? Is it always like this? Has the frequency or amount changed in the past 4 months? Did you change the MTO? Or pick-up point?
- Do you receive in cash? Always in cash? If so, in which currency? Where? How much time does it take you to get to the pick-up point? Is it convenient for you? Why? Would you like to arrange it differently? If so, how?

Please tell us about your experience of using bank services:

- Do you have a bank account / bank card? For how long? Which bank(s)?
- Which financial products do you use currently or have used in the past (savings account, credit)? How do you find it – Convenient? Easy to start? Reliable? What influenced your decision to try it?
- Did you have the experience of applying for a service to a bank and being denied? For what reason? If so, did you apply again?

Please tell us your opinions and experience concerning digital financial services:

- Do you use mobile apps provided by a bank? MTO (e.g. Zolotaya Korona)? How do you find it? Useful? If not, why not?
- Do you make payments online? Which payments? How often? How do you find it? Have you experienced any difficulties?
- Have you ever received remittances on your bank card?
- If yes, do you find it more convenient than cash-based remittances? Why? Would you like to switch to / prefer cash-based remittances?
- Or if not, why have you never received remittances on your card? Would you like to try? What does your family member abroad think about sending digitally? Do you discuss how it is most convenient for you to receive remittances?

4. DISCUSSION (15 MIN)

Please share with us your opinion about the following:

- Digital financial services, including digital remittances are often considered to be safer, fast, easy and convenient. Do you agree? Why? Why not?
- The COVID-19 pandemic forced many people to become more strategic in their financial behaviour, and to learn how to save money. Would you agree? Does this apply to you?

ANNEX 7.

LIST OF INTERVIEWED INSTITUTIONS

1. State Migration Service	Date: 14/06/2022	Time: 11:15 - 12:45
2. Central Bank	Date: 14/06/2022	Time: 14:15 - 15:45
3. Azerpost	Date: 14/06/2022	Time: 16:00 - 17:30
4. International Bank of Azerbaijan (ABB)	Date: 16/06/2022	Time: 10:50 - 12:20
5. Kapital Bank	Date: 16/06/2022	Time: 14:15 - 15:45
6. Bank Respublika	Date: 16/06/2022	Time: 16:00 -17:30
7. Rabitabank	Date: 17/06/2022	Time: 09:05 -10:35
8. Financial Monitoring Service	Date: 17/06/2022	Time: 10:50 - 12:20
9. State Committee on Work with Diaspora	Date: 17/06/2022	Time: 15:00 - 16:30
10. Lankaran City Executive Authority	Date: 18/06/2022	Time: 11:20 - 12:20
11. Azerbaijan Banks Association (<i>online</i>)	Date: 25/06/2022	Time: 15:00 - 16:30



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