

VF AzerCredit–Azerbaijan

Comprehensive Social Rating	BB
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AzerCredit started as a micro-credit program of World Vision prior to being registered as an MFI in 2003. Since 2007, AzerCredit was transferred to Vision Fund International. VF AzerCredit is driven by its original mission to provide financial services that will create positive impact to its clients. This is being achieved by the institution through offering credit products broadly categorized into Agriculture loan, Micro and Small enterprise Loan and Household loan with emphasis of the operation in rural areas. Financed activity is mainly concentrated in agriculture sector, trade and services. Service delivery is facilitated through the 6 branches supported by a network of 12 sub-branches employing both individual and group methodology with the latter making up almost one-third of the 30,893 active clients.

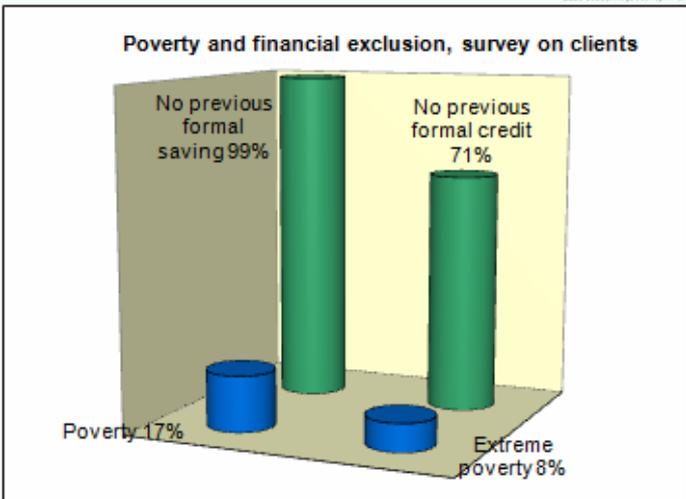
VF AzerCredit	Sep-09
Active clients	30,836
Gross outstanding portfolio, US\$	19,913,540
Branches*	6
Total staff	211

* not including the 12 sub-branches



Legal Form	Limited Liability Company
Year of inception	2003
Area of intervention	Urban & rural
Credit methodology	Solidarity group & individual
Financial service	Credit
Non-financial service	None

Social indicators	Sep-09
Female staff	33%
Staff turn-over ratio	9%
Real portfolio yield	42%
Financial awareness: Interest rate	62%
Financial awareness: Interest amount	11%
Financial awareness: Amount of fees	67%
Financial awareness: Percentage of fee	54%
Financial awareness: Range of products available	7%
Solidarity group methodology, clients	30%
Rural coverage, clients	72%
Urban coverage, clients	28%
Agriculture, clients	54%
Female clients	43%
Financed business in informal sector	68%
Households without improved water source	48%
Average balance per borrower / GNI pc	17%
Median loan disbursed (\$PPP)	1,190
Client drop-out ratio	6%
PAR30	0.4%



See annex 2 for more details.

AREA	Main results of the social rating	
<p><i>Social performance management system</i></p>	<p>Presence of a founder which ensures that the organization remains grounded on its social mission</p> <p>Appointing of key staff responsible for overall management of social performance all throughout the organization</p> <p>Recent introduction of a poverty scorecard which could serve as a targeting tool to ensure that clients served by the institution are those which fits the target</p> <p>Strong emphasis on customer service in overall service delivery to clients</p>	
	<p>Clarity of the mission statement formulation is improvable, with clearer definition of key terms</p> <p>Despite the effort in disseminating the mission, systematic channels is necessary in order to ensure staff buy-in of the social mission especially among new hirees</p> <p>Social goals not reflected in measurable objectives and targets in terms of overall strategy</p> <p>Incentive system and performance evaluation system does not incorporate social considerations</p> <p>Current information and tracking system does not allow the organization to fully track social goals in terms of target clients reached and gauge adequacy of service (no client satisfaction & exit surveys)</p> <p>Internal audit activities (checking compliance with the exclusion lists of activities and client protection): client knowledge of cost and conditions, complete contract, receipts given to clients, ethical practices with clients, etc. are not formalized</p>	
	<p><i>Social responsibility</i></p>	<p>Overall good labour climate and working environment with adequate channels for staff to give their feedbacks facilitated through regular meetings at the sub-branches/branches and head office</p> <p>Putting in place mechanisms for stronger client protection e.g. Suggestion boxes, grievance committee</p>
		<p>Limitations in the HR management systems in terms of formalization of procedures, staff development plan & training provision</p>
		<p>Salary differentiation (among branch managers according to the sub-branches) and incentive system differentiation (between LOs and Senior LOs) not adequate to reflect added responsibilities</p>
		<p>Preparations to new staff is deemed not adequate e.g. Mission dissemination, explanation of incentive system to new LOs</p>
		<p>Staff security concerns exists in the absence of insurance coverage given the risks associated with fieldwork activities</p>
		<p>Client exposure to foreign currency risk with the loan disbursements in USD</p>
		<p>No policy governing group mechanisms e.g. Group leadership rotation</p>
		<p>No formalised strategy in place regarding social responsibility towards the community and the environment</p>

<i>Outreach</i>	DESCRIPTION	Overall breadth of outreach is significantly above the national and regional benchmark serving 30,893 clients with gross portfolio outstanding worth US\$ 19.9 million	
		Intermediate breadth of geographic outreach, covering 5 out of 11 economic regions; depth of operational coverage is good, with operations in regions with higher poverty average than the national average supported by a good concentration of portfolio in these areas	
		Demographic profile: 57% of clients are men, 15% are internally displaced persons (IDPs), average household member is 4.7 slightly higher than national average with low dependency ratio equivalent to 1.28	
		43% of clients are women, 23% of them are household head, 26% having no control over the loan use while 57% have partial control and 16% exert full control over loan use	
		Overall educational level of recent clients is below national benchmark: 6% no completed primary education, 46% finished primary education, 23% finished secondary education and 25% finished tertiary education. Clients' primary and secondary school-aged children attending school is 91% and 93%, respectively	
		68% of client's business is informal, majority have had their businesses for more than 3 years while 6.5% have just had their business for less than one year	
		Use of AzerCredit loan is varied but mainly used for business (84%), while 12% using it to finance household expense and marginal proportion (4%) have used some portion either to finance family activity or housing improvement; main sector being finance is agriculture (54%), followed by trade (27%)	
		Monetary poverty of clients below the national benchmark: 17% of recent clients are below the national poverty line, 8% are extremely poor, 2% and 7% of them live on less than PPP\$1/day and PPP\$2/day	
		Vulnerability: 34% clients reportedly experienced insufficient income to cover food expenses while 25% experienced income shortage to cover medical expenses in the last 12 months; main coping strategy is to ask help from friends and relatives living in the country (69%), 9% borrowed from other individual	
		Asset property of recent clients is good: 85% own their dwelling, 13% are staying in temporary provided government dwellings/hostels for IDPs; majority (59%) own land other than their current dwelling place; possession of livestock is above the national average	
		Access to basic services is above the national benchmark except for improved water source (48% of recent clients having no access to improved water source); access to other services and household amenities (TV, personal computer, car, etc.) of recent clients is above national benchmark	
		Outreach to financially excluded is good: 71% have no access to formal credit prior to joining AzerCredit, 99% of clients have no savings account or debit/credit card & 94% declared having no additional credit	
		↑	Operation in certain area not served by other financial providers (presence in Horadiz)
			Catering to vulnerable groups (IDPs/refugee communities) and effort to increase outreach to women
Use of 'village consul' mechanism in remote areas, although currently very limited, presents good potential for increasing breadth of outreach (even depth if sufficient preparation is provided)			
↓			
<i>Quality of the services</i>	↑	Good customer service orientation as evidenced by high level of client satisfaction	
		Loan procedure and delivery mechanisms convenient to client	
		Adaptation of certain credit policies to remain competitive and make the products more attuned to clients' needs	
	↓	Product design for agriculture loans, esp. cattle breeding, not always meeting client's needs (loan term vis-a-vis turnover of their activity)	
		Client dropout not being monitored/tracked and reasons are not formally investigated	
		Monitoring of client satisfaction not yet formally and systematically done	
		Financial services is limited to credit offering, with improvable variety	

Some of the outreach results refer to recent clients (see annex 1). ↑ positive elements of analysis ↓ negative elements of analysis

Final opinion

AzerCredit benefits from the presence of WV in the Board which contributes that the organization remains grounded on its social mission. The management, notably the CEO and COO, have good grasp and appreciation of social performance management although the rather broad mission statement and the lack of clear set of verifiable target with which to gauge progress could contribute to a risk of mission drift.

Social strategy as of the rating visit is not yet defined but are crafted as general targets although the management is considering to integrate more social aspects in the strategy including introduction of more products, investing/donating certain portion of the profit to a charitable organization, etc.

The poverty scorecard developed by AzerCredit in order to track improvement in client's condition presents great potential to monitor progress towards its social goals. The limitation of the MIS though presents a constraint for its full utilization and integration of other relevant indicators which are otherwise tracked on loan application sheet. Furthermore, some branches which are not yet integrated to the MIS prevent the organization from benefitting from accurate and timely information on its overall performance.

Existing products are adequately designed to reach the target group although certain features and terms of the group loan (particularly Agriculture) might need more flexibility. The HR management system as of the time of the rating visit presents some gaps e.g. training plan but is currently in the process of being developed and institutionalized with recent hiring of an HR Manager, a function which used to be handled by the COO.

Overall labor climate is good, staff have adequate channels to give their feedback and participate in decision-making although the lack of human resource management resulted to some limitations in fostering professional growth opportunities e.g. training.

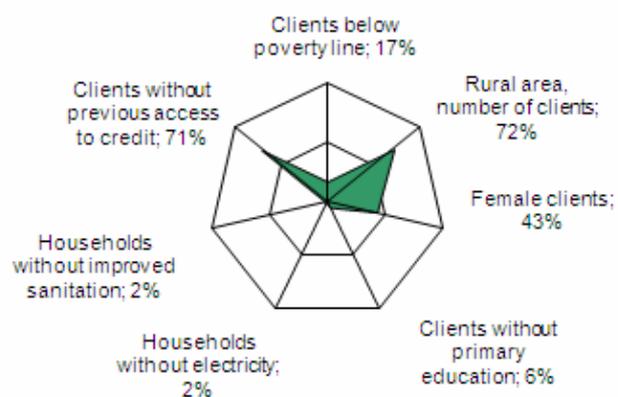
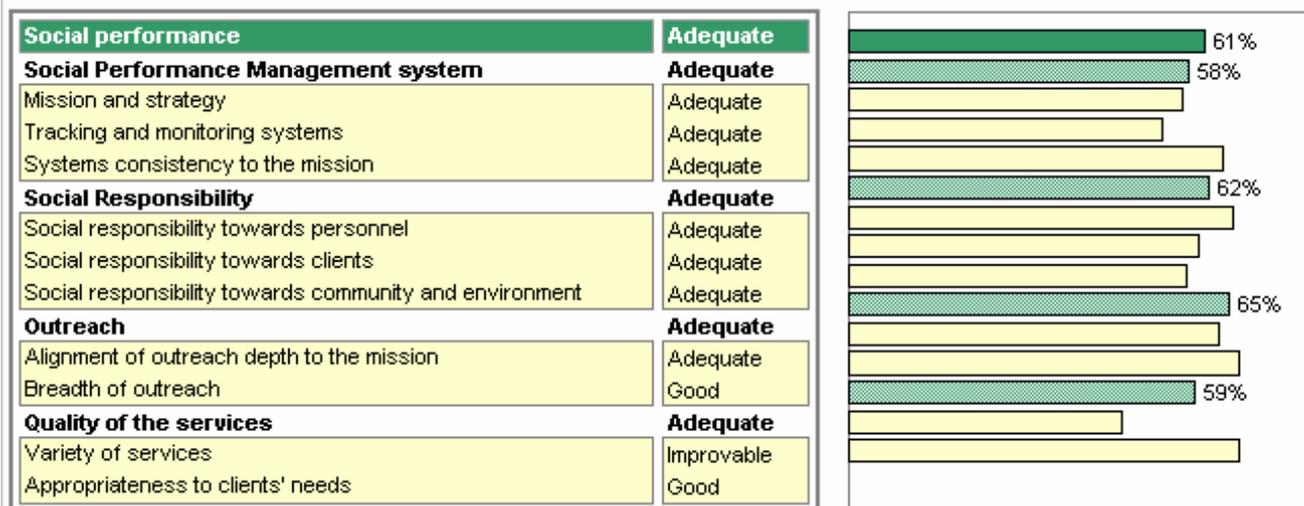
As far as consumer protection is concerned, there is a scope to increase transparency in terms of documentation provided to the clients, on the other hand mechanisms to check risk of client overindebtedness is deemed adequate and further strengthened by a strict assessment of repayment capacity.

AzerCredit's overall breadth of outreach is significant especially compared to regional benchmarks.

Depth of geographic outreach is also good, with good outreach to rural areas not covered by other financial services provider.

Depth of outreach is intermediate revealing a rather broad target with outreach to the very poor and vulnerable representing a narrow proportion although overall, majority seems to be financially excluded.

While product offering is currently limited to credit primarily for productive use, customers highly appreciate AzerCredit services and although some degree of flexibility might be necessary for group loan whose product terms does not seem to always meet the need of some clients.



Outreach	Depth	Breadth
MFI	Poverty index 17%	No. clients 30,836
Benchmark*	45%	2,156
	medium-low	very large

*Depth: national poverty index. Breadth: median no borrowers of MFIs in ECA (MIX 2008)

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1. Institutional presentation

Institutional profile

AzerCredit started in 1996 as a program of an international relief and development NGO, World Vision, catering to refugees and internally displaced persons (IDPs) in Azerbaijan prior to being registered as an MFI in 2003 and transforming to a limited liability company (LLC) in 2004. Ownership of AzerCredit has been transferred to Vision Fund

International in 2007. As a Limited Liability Company (LLC), AzerCredit is wholly owned by Vision Fund International and takes an active part in the Azerbaijan Microfinance Association (AMFA).

The organization exhibited robust growth over the periods of analysis with portfolio growing 87% and 102% during the years 2007 and 2008 respectively, before slowing down to 17% as of Sept 2009 registering a total outstanding portfolio worth US\$19.9 million. This has been accompanied by an equally significant growth in client outreach (44% as of Sept 2009) counting 30,893 as of the cut off period from just over 12,000 active clients in 2007.

Outreach has been facilitated through the organization's six branches supported by a rapidly expanding network of 12 sub-branches operating across the Northeast and Southwest parts of the country including the capital city. The organization works in both urban and rural although prioritizes to work in the rural setting where 72% of its clients are located. Individual and solidarity group lending methodology is employed in service delivery allowing the organization to cater to a broad spectrum of population group – those that have the business capacity to provide the collateral requirements and those who have their group members to rely on for guarantee. Individual clients account for 80% of the outstanding portfolio with group methodology accounting for the remaining 20% of the portfolio.

Current product offering is limited to seven credit products which can be broadly categorized into three categories: Agriculture loan, Micro and Small loan and Household loan differentiated between urban and rural. AzerCredit plans to introduce more credit products in the short and medium term such as Education loan and Housing loan and other financial services like money transfer and micro-insurance.

Financial performance

AzerCredit exhibited robust performance over the period of analysis, with ROE and ROA posting consistently increasing positive trends. Financial sustainability has been achieved since 2007 growing rapidly from just over 100% in 2007 to over 120% as of the cut-off period. Efficiency gains have been made as exhibited by a decreasing trend in operating expense ratio and increasing LO productivity, from 225 in Dec 2007 to 328 in Sept 2009 with anticipation of further increases as the village consul mechanism is introduced in other branches. Portfolio quality have been excellent all throughout showing the organization's effective control mechanism despite limitations with MIS and notwithstanding the rapid growth, both in terms of portfolio and clients, experienced over the periods 2007 and 2008 with growth mostly financed by external funds. Portfolio yield have been maintained between 39%-41%, at par with national benchmarks although high if compared with relevant international peer groups.

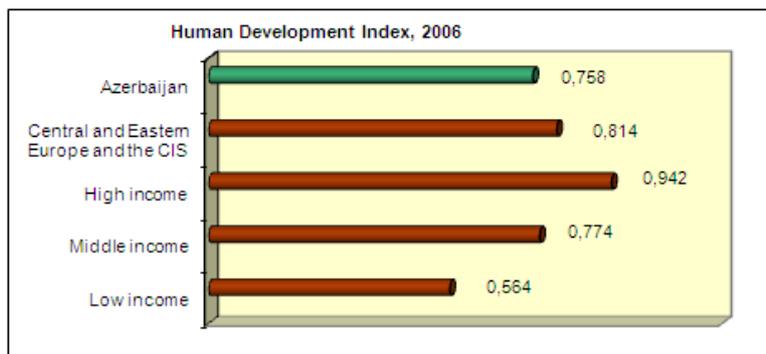
AzerCredit	Dec-07	Dec-08	Sep-09
Gross outstanding portfolioUS\$	8,010,035	17,050,350	19,913,540
Growth in outstanding portfolio	87%	102%	17%
Active borrowers	12,414	21,509	30,893
Growth in active borrowers	49%	73%	44%
Branches	6	6	6
Total staff	136	174	211

Financial performance	Dec-07	Dec-08	Sep-09
PAR 30	0.1%	0.1%	0.4%
Write-off ratio	0.0%	0.0%	0.0%
Restructured loans	0%	0%	0%
ROE	15%	28%	32%
ROA	4%	6%	6%
Oper. Self-sufficiency (OSS)	120%	125%	125%
Fin. Self-sufficiency (FSS)	101%	114%	121%
Staff productivity (borrow.)	91	122	151
LO productivity (borrow.)	225	269	328
Operating expense ratio	26%	25%	23%
Funding expense ratio	6%	8%	9%
Provision expense ratio	0.1%	0.4%	0.5%
Portfolio yield	39.3%	40.4%	41.2%
Risk coverage ratio	104%	627%	109%
Cost of funds ratio	8.4%	8.9%	9.6%
Debt/Equity ratio	3.4	5.5	5.2

2. Context

Socio-economic context

The independence of Azerbaijan which was gained as a result of the collapse of the Soviet Union in 1991 logically grew to an unstable political and economic situation in the country, worsened by the conflict with neighboring country Armenia. Nearly eight percent of Azerbaijan's total population of eight million has been left homeless as a result of the war with Armenia over Nagorno-Karabakh. Fighting between the two countries first erupted 15 years ago, yet hundreds of thousands of people still live in mud-brick shelters, railroad boxcars and abandoned buildings. Political instability and unsuccessful attempts to negotiate a peace treaty have exacerbated the plight of Azerbaijan's displaced citizens. Despite a cease-fire agreement signed in 1994, a formal peace treaty remains elusive. Notwithstanding the existing tensions between Armenia and Azerbaijan, the political situation is generally stable although the recent conflicts in Georgia along with the claims for independence by Ossetia have somehow increased the concerns of Azerbaijan government in reference with the risk of a secession of the Nagorno-Karabakh region.



The current President, Ilham Aliyev, has been confirmed for his second term during the last election held in October 2008 and is already well positioned to stay longer in power through a referendum approved in March 2009 which lifts the two-term limit on the Presidential seat and paves the way for a possible third term.

Human development	Azerbaijan	Central and Eastern Europe and the CIS
Population (millions)	8,7	441,3
Urban population (%)	51.8%	63.2%
GNI per capita (US\$)	3 830	7 418
HDI	0,758	0,814
life expectancy index	0,704	0,729
education index	0,881	0,932
GDP index	0,688	0,782

Sources: Human Development Report 2007/2008 and WB.

The **macro-economic** environment is positive and economic growth is fast, mainly due to the booming oil sector and the development of the hydrocarbons industry, which have attracted huge foreign direct investment lasting recent years. Current global economic slowdown presents some challenges for the economy, as the oil prices have plummeted since mid 2008. The real **GDP** growth slowed down from 23.4% in 2007 to 16% in 2009. IMF estimates that the real GDP growth will further decrease but will remain at a positive level of 7.5%. The **GDP per head** reached almost USD 8,000 and **GNI per capita** almost USD 4,000. **Inflation** is on a decreasing trend, as of September 2009

the year-on-year inflation have been set at the level of 1.7%.

Azerbaijan economy is polarized by two main sectors: the urban sector dominated by the oil industry, government agencies, and a few big businesses; and the rural sector dominated by small and medium agri-businesses. There is a wide disparity of wealth between these two sectors, with the urban sector clearly in command.

As a result of recent steady growth the ratio of Azeri population living below the **poverty line** decreased compared to 1995 (68.1%) and 2001 (49.6), and in 2003 reached 44.7%.¹ Estimates for 2008 register a much lower rate, putting the poverty level in the country at 13.2%.² Poverty is more entrenched among Internally Displaced Persons (IDPs) and

Population under poverty line	Urban	Rural	Azerbaijan
National poverty line	44.1%	45.3%	44.7%
National extreme poverty line	11.2%	7.9%	9.6%
\$2 a day (PPP)			33.4%
\$1 a day (PPP)			3.7%

Progress Report (UNDP), 2003

¹ State Program on Poverty Reduction and Economic Development (SPPRED) Progress Report, 2005

² MDG indicators of the Republic of Azerbaijan, 2008; also in 'The Role of Microfinance in Poverty Reduction in Azerbaijan', undated.

people living in Nakhchivan Autonomous Republic. In general, the poverty level is lower in urban areas than in rural areas with the lowest poverty level found in Baku,³ where the recent boom in the Azerbaijan economy related to the oil industry seems to have increased the standards of living in the country's capital city. However, rural areas and small towns suffer from unreliable supplies of energy and gas, inadequate infrastructure, and less access to basic health and education services. Access to land is important in protecting the rural population from poverty, but in many cases cannot be used for more than subsistence farming.⁴

The most recent Human Development Report (2008) ranked Azerbaijan 97th among 179 countries, showing a worsening level with respect to the 86th ranking received in 2007. The country's **HDI** has decreased in recent year, from 0.787 (2007) to 0.758 (2008). Azerbaijan has quite high education index, but still lower compared to the peer group, as well as life expectancy index and GDP index. In terms of gender-related development, Azerbaijan ranks 81st among the 179 countries on the **GDI**.

The **Gini index** is equal to 36.5 for the income distribution in 2003, reflecting high inequality in the distribution of wealth among the population.

MILLENNIUM DEVELOPMENT GOALS		Europe & Central Asia	Azerbaijan	2015 target Azerbaijan*
1: Eradicate extreme poverty and hunger	Poverty headcount ratio at \$1 a day (PPP)	4%	4%	**
	Malnutrition prevalence, weight for age (children <5)	n.a.	7%	**
	Undernourishment prevalence (% of population)	6%	12%	**
2: Achieve universal primary education	School enrollment, primary (% net)	93%	95%	94%
	% of Pupils starting Grade 1 who reach Grade 5	98%	97%	98%
	Literacy rate, youth total (% of people ages 15-24)	99%	99%	99%
3: Promote gender equality	Ratio of Girls to Boys in Primary, Secondary, and Tertiary Education	97%	100%	102%
	Proportion of Seats Held by Women in National Parliament (%)	14%	11%	15%
4: Reduce child mortality	Mortality rate, under 5 (per 1,000)	17	39	10
	Immunisation Against Measles, 1 year-old children (%)	97%	97%	97%
7: Ensure environmental sustainability	Improved water source (% of population with access)	94%	78%	97%
	Improved sanitation facilities (% of population with access)	89%	80%	95%

World Bank, UNDP. *Achieving MDG, 2004, UNDP Azerbaijan. Data refer to the most recent year available during 2000-2005.

** Halve between 1990 and 2015 the proportion of the target indicators

Unemployment in Azerbaijan is mainly concentrated in urban areas (14%) compared to rural (7%) areas. The nationally reported unemployment rate is 6.1% in 2009. However, official statistics considerably underestimate the true unemployment level. Results of recent labor market and household budget surveys suggest that, despite the impressive economic growth of the last 7 years, the actual unemployment rate in Azerbaijan remains well above 10%.⁵

Tough living conditions persist among **internally displaced persons (IDPs)** and those in **refugee communities**. Poverty and unemployment is endemic, access to education is limited and sanitation is problematic. According to the Report of the Norwegian Refugee Council on Internal Displacement in Azerbaijan, unemployment among the displaced population is extremely high, with only 20 percent of the displaced population employed and earning regular wages. State programs provide financial assistance to IDPs, but their average income remains lower than that of local citizens. Sixty-three percent (63%) of the displaced population, including refugees, lives below the poverty line.⁶

The government of Azerbaijan developed a long-term development strategy for the period 2006-2015, which sets out the policy priorities to be pursued in order to meet its poverty reduction and sustainable

³ Standing at 35.4% in 2003 against the national benchmark of 44.7%, although might be considerably lower recently

⁴ World Bank, 2005

⁵ Asian Development Bank (ADB) estimate, 2003

⁶ Mercy Corps, 2003

development targets for the year 2015, as well as the country's own set of **MDG** targets. This document is a joint declaration on the part of the Government of Azerbaijan, and the resident representatives of ADB, EBRD, IMF, UNDP and WB. Out of 8 MDGs, only one has been *achieved* - Goal 2 Universal primary education, *very likely to be achieved*, on track - Goal 1 Eradicate extreme poverty and Hunger, as for other goals it is *possible to achieve if some changes are made*.

Microfinance sector

The microfinance sector of Azerbaijan continued to grow in outreach and scale, with outstanding portfolio exceeding USD 380 Mln. as of January 2008 and reaching more than USD 500 Mln. as of June 2008. The number of active clients stood at 167,000 in June 2007 and grew to 290,000 by June 2008.⁷ The years 2007 and 2008 were the periods of rapid growth for Azerbaijan MFIs (some of the institutions had 200% growth) and increased access to credit while 2009 was characterized by slowing down in operations and worsening of the portfolio quality. There is still a big **unmet demand** in the country, especially in rural and remote areas, where banks do not operate.

The leading actor, with an outstanding portfolio worth USD 248 Mln., is Access Bank⁸ which has shown considerable growth during the last years followed by FINCA (the first in terms of number of clients reached having 83,789 active clients as of July 2009) with an outstanding portfolio of USD 66 Mln.) and the third is AgrarCredit.⁹ Some other smaller MFIs largely managed by international humanitarian organizations, some commercial banks like Bank of Baku, International Bank, Ata Bank and Bank Respublika are also offering microcredit services and creating competition in certain regions.

The **Azerbaijan MicroFinance Association** (AMFA) was established by ten international non-governmental organizations in 2001. As of July 2009, AMFA includes 31 members, among them microfinance institutions and downscaling commercial banks. AMFA is very active in lobbying the interests of the sector, providing trainings, working on joint projects with partners and MFIs, organizing regional conferences and investment fairs.

With the slow down in economy and increasing competition among MFIs the risk of **overindebtedness** is increasing especially in urban areas. There is a Credit Bureau, established only for banks, and does not include MFIs. The lack of **Credit Bureau** for MFIs does not allow them to check and track overindebtedness of their clients although as an alternative, they exchange informal black lists between each other.

There is no detailed regulation governing microfinance operations in Azerbaijan although a draft Microfinance Law has already been submitted by the Azerbaijan National Bank to the Parliament. The Law is still under discussion and the approval expected for 2009 has not come yet.

According to the current regulation, all MFIs have to be legally registered as limited liability companies (LLC) and are required to pay profit taxes beginning 2005. MFIs with social orientation were exempted by the decree from paying social taxes. However, the social fund beginning 2009 started to claim social taxes from commercial institutions. AzerCredit, like other MFIs, is now under court process and has to pay social taxes for the previous years (since its transformation into a commercial entity). The transformation into commercial entities carries controversial aspect for what concerns the donated equity originally injected to this institutions and their corresponding returns which should remain in Azerbaijan according to the civil law.

Microfinance Institutions are not allowed to collect savings, unless they transform into banks. Supervision is carried out by the National Bank through reports (financial statements and portfolio classification) which MFIs are asked to submit quarterly.

⁷ Benchmarking Trend Report 2008, AMFA & MIX

⁸ Former MicroFinance Bank of Azerbaijan

⁹ Source: AMFA matrix, July 2009

3. Social performance management system

Mission, social objectives and strategy

<p>MISSION STATEMENT:</p> <p><i>“to provide financial services which have a positive impact on the lives of the poor”</i></p>	<p>SOCIAL VALUES:</p> <p><i>Commitment to the poor</i></p> <p><i>Honesty</i></p> <p><i>Fairness</i></p> <p><i>Respect</i></p> <p><i>Responsibility</i></p> <p><i>Integrity</i></p>
<p>VISION STATEMENT:</p> <p><i>“to assist people in developing a positive and self-sustaining lifestyle and have a positive impact on lives and livelihoods of the poor”</i></p>	

AzerCredit's current mission statement is the outcome of the revision made in 2006 based on the organization's original mission statement when it was created in 1996 as a micro-credit program of World Vision meant to provide credit to low income people, entrepreneurs, displaced persons and refugees so that they can take full control of their lives and livelihoods. The mission formulation in 2006 did not benefit from a participatory approach involving a broad base of stakeholders as it mainly involved the top management. The original intent of the founder was retained but was shortened to make it concise. A Social Audit Exercise was conducted jointly by AMFA and MFC in July 2008 in order to assess the processes that AzerCredit have put in place in order to achieve its social goals and identify gaps.¹⁰ In its present form, the mission statement is rather broadly stated. Clarity of the formulation should benefit from a better specification of the key terms in the three social goals including that of the desired change. While there is an explicit identification of the 'poor', there is no formalized definition of what "poor" is. For its own use, AzerCredit has

Social Goals (SG)	Key words in mission statement
SG1: Reaching target clients	Poor
SG2: Meeting client needs	To provide financial services
SG3: Creating change	To have a positive impact on the lives of the poor

defined five categories of poor according to the results of the poverty scorecard¹¹ application as those that are 'vulnerable' poor (with scores from 0 to 5), 'subsistence' poor (with scores of 6-10), 'self-employed' poor (with scores from 11-16),

'entrepreneurial' poor (with scores from 17-22), and not poor (those with scores of 23 and higher). From the perspective of the top management and the BOT, AzerCredit's target group refers to the '**entrepreneurial poor**', defined by the management as those small and micro-entrepreneurs that are below the poverty line but are in a stable condition - not including the 'vulnerable' and 'subsistence' poor segment of the population group. The organization has not yet planned to use the scorecard as a targeting tool and has not defined corresponding benchmarks for targeting. With respect to geographic sphere, although not explicitly stated, the organization prioritizes to work in small towns and **rural areas** which also make business sense for the organization given the increasingly high competition in the urban areas.

The overarching change that the organization want to achieve is captured in SG3 which aims to have "a positive impact on the lives of the poor" consistent with the vision statement and seem to be understood well by the staff at all levels although reference to 'positive impact' is quite general and may need to be defined further. Although following the social performance audit exercise, communication and promoting awareness of the organization's mission statement was reinforced, **overall dissemination** of the mission **can be improved** among new staff, especially the new joiners' in the managerial rank. Clear standardization of key terminologies would enable a uniform understanding of the organization's mission from BOT and management down to the field staff which is currently not always evident. Furthermore, this will also help ensure staff buy-in of the social mission within the management and all throughout the organization.

¹⁰ The study identified a number of weaknesses in the mission formulation including the lack of a clear identification of the target group vis-a-vis that of WV's target groups e.g. poor, IDPs, refugees, vulnerable groups like children and women..

¹¹ The poverty measurement tool was developed in 2009 by an external consultant mainly for measuring the poverty level of AzerCredit clients, not with the intent to use it for targeting.

AzerCredit traces its roots in 1996 as a program of an international relief and development NGO, World Vision, catering to refugees and internally displaced persons (IDPs) in Azerbaijan prior to being registered as an MFI in 2003 under Vision Fund International. As a **Limited Liability Company** (LLC), AzerCredit is wholly owned by its founder, Vision Fund International. Given its institutional history, AzerCredit is governed by a 6-member Supervisory Council with the National Director of World Vision in Azerbaijan serving as the chairman of the Council. Council members have good **social and financial balance** which is further reinforced by WV presence which contributes to the adherence of AzerCredit to World Vision mission and vision and overall organizational commitment to the original mission.

Periodic reports submitted to the Board captures some social indicators such as %female clients, average loan size, children outreach¹² and employment generation¹³ although it is not clear how such information is affecting the Council's decision making aside from ensuring consistency with the agreed benchmark like maintaining that at least 40% of clients are female for instance. However, apart from the percentage of women, no targets have been set to ensure to manage progress towards these aspects.

AzerCredit's overall strategy is captured in its Business Plan for the period 2006-2010 although specified target (in terms of active clients and portfolio) have already been surpassed. The current plan has not yet integrated the social goals as measurable targets in the strategy and revised the systems in accordance to the set social targets. The Plan though contained limited reference to social objectives as follows:

- Reach over 20,000 active clients by end of 2010
- Establishment of more satellite offices and branches
- Expand range of products by introducing educational loans and consumer loans to owners of MSE and their employees by 2008
- Introduce other financial products & services such as money transfer services and insurance product by 2009

In terms of geographic expansion, the strategy includes covering expansion operations from an existing branch office by establishing a sub-branch first in the new geographic area. This allows the organization to reach more clients whilst minimizing risks and keeping operational cost low.

There exist some areas of improvement in terms of incorporating more social aspects in the strategy and reflecting them in measurable targets. The top management is thinking to propose a revision of the mission statement to make it more focused in terms of the spectrum of target clients and possibly offer other financial products and services. Furthermore, the Supervisory Council is also considering investing back certain proportion of profits to the communities/IDPs due to push from the government¹⁴ and the founder to become more mindful of the social aspects. Strategic planning for the new Business Plan covering the upcoming period is already underway during the rating visit which will possibly include more social goals as the organization becomes more conscious of its social mission which hopefully will be enriched by the participation of the Marketing Manager as the key staff responsible for institutionalizing social performance all throughout organization.

Tracking and monitoring system

Current information and tracking system does not allow the organization to fully track social goals in terms of clients reached, adequacy of service (client satisfaction/exit surveys) and changes in clients lives, although certain social indicators are being tracked e.g. children reached and jobs created/sustained. The current MIS system (eMerge) is not adequate to represent all operations as 3 sub-branches (covering about 5,000 clients) are not integrated in the system. Information system with respect to the three social goals is briefly described below.

SG1 The current MIS system captures **limited** socio-economic **information** of the client (gender, IDP, sector and industry of the business activity) alongside their loan cycle and the loan information (loan purpose, amount, maturity date, interest and principal payments) even if the system and information collected on paper presents an opportunity to capture richer information and other relevant indicators e.g. educational attainment, household income/expenses, assets, number of workers in the business, etc. The average loan size is being tracked and forms part of the regular reporting to the Council including information on outreach to women, children reached and jobs created and sustained however, these information does not seem to be managed as there no targets set in which to

¹² Number of children per family

¹³ Number of jobs created and sustained (overall and for women)

¹⁴ The pressure from government humanitarian agency arises due to the special 'tax exempt' status of AzerCredit.

gauge progress other than to check compliance to founder's requirements e.g. proportion of women clients. In the absence of a PPI for the country and reliable poverty measures, AzerCredit took measures to develop its own poverty scorecard in order to ascertain poverty outreach of the organization even if not intended to be used as a targeting tool, the scorecard presents a good potential if used as such in terms of ensuring that the people that the organizations serves are those belonging to the target group. In addition, this will greatly help in managing the organization's depth of outreach. The **poverty scorecard** introduced since May 2009 captures ten indicators¹⁵ accompanied by a segmentation of client according to the results of the score ranging from vulnerable poor, subsistence poor, self-employed poor, entrepreneurial poor and not poor.¹⁶ The scorecard is being institutionalized since October 2009 (following its pilot implementation in four branches in July 2009) with the intent to use it to determine the poverty outreach of AzerCredit clients and consequently track progress in their condition. This scorecard could be improved in terms of segmentation aligned with the national poverty line.

- SG2 Investigation of the adequacy of existing products to meet clients' needs, getting clients' feedback, and developing products that meets client's need fall within the purview of the **Marketing department** although client satisfaction survey and exit interviews are not conducted systematically. **Suggestion/Letter boxes** have been introduced (very recently) with the purpose of having a formal channel to gather clients' feedback and complaints. Retention rate¹⁷ is tracked monthly but the investigation of drop-out reasons remains an area of improvement. The organization plans to hire a Customer Service Officer (to closely coordinate with the Marketing Manager) that will have responsibility for monitoring client satisfaction and ensuring that the services meet clients' needs.
- SG3 **No impact studies** have been conducted so far to ascertain impact of AzerCredit's program on clients' lives. Impact indicators regularly monitored are children impacted, and job created/sustained although these are not systematically managed. Nonetheless, the introduction of the poverty scorecard with the intent to apply it to all the clients each cycle will allow the organization to track client progress and gauge improvement in client's condition.

The current information system tracks relevant social indicators although usefulness for management decision making is not maximized in the absence of target to benchmark results. The existence of poverty scorecard, if managed well and systematically applied, presents huge potential for tracking client outreach, depth of poverty and even monitoring and reporting on possible impact. It should be noted though that a new MIS will be installed in 2010 which hopefully will likely capture more social indicators.

Alignment of the systems to the mission

- Product design

The flexibility in terms of methodology, offering both **solidarity group** and **individual** lending, allows the organization to give opportunities to those who do not possess collateral with loan sizes starting from USD 100 whilst also catering to those with higher loan requirements who can provide solid collateral. This is deemed consistent with the organization's notion of the 'entrepreneurial poor', even if no standard definition exists. The provision of **Agriculture loan** even if considered riskier than other activities is also seen as positive contribution. Service delivery facilitated through the sub-branch structure operating under a branch is seen to reach more remote rural areas. The recent introduction of **Household loan** specifically designed to give rural clients a chance to purchase home assets e.g. refrigerator, coolers, farm equipment, etc. is aimed at improving the clients' livelihood.

- Internal control

AzerCredit adheres to the values and principles promoted by World Vision which are captured in the Code of Conduct for staff. The current internal control environment is characterized by strong level of coordination between the HQ and the field offices with the Regional manager providing crucial support. Although the internal audit function is not yet fully institutionalized at the time of the rating visit as the

¹⁵ The ten indicators are: 1) Outward Appearance (clothes), 2) Automobile (whether local or foreign made, year of model), 3) Refrigerator, 4) Air-conditioner, 5) Treatment ability in case of sickness of family member, 6) Number of children, 7) Persons received or receiving education, 8) Number of animals owned, 9) What is the house made of, 10) Percentage of income spent on food (including how many times meat is bought per month and purchases of expensive sweets).

¹⁶ A client garnering a score of 0-5 is considered 'vulnerable poor'; score of 6-10 corresponds to 'subsistence poor'; score of 11-16 corresponds to 'self-employed poor'; score of 17-22 corresponds to 'entrepreneurial poor'; and score of 23 above corresponds to 'not poor' or middle class and higher.

¹⁷ Calculated as: no. of repeat borrowers who received loans/(no. of borrowers with paid off loans during the period + no. of borrowers with written-off loans during the period)

Internal Auditor has just been recently hired.¹⁸ Thus, it is difficult to gauge the planned extent of audit activities to be undertaken concerning client protection in the absence of an audit policy which is currently in the process of development. At the time of the visit, monitoring of ethical staff behavior and certain checks on adherence to client protection is done informally by the Branch managers and Regional manager during their monitoring visits.

- Human resources

The **Marketing Manager** supported by a Marketing Assistant is the main person responsible for the overall management of **social performance** all throughout the organization. This has encouraged AzerCredit to start implementing actions towards institutionalizing SPM all throughout the organization although still at the initial stages. The function of disseminating AzerCredit's mission has been carried out by the Marketing Manager although the process might need to be systematized in the HR policy which is being developed along side with other crucial aspects e.g. training plan¹⁹ as it requires a continuous reinforcement in order to ensure staff buy-in and commitment to the social mission. Some other channels such as annual staff retreats enable to communicate organization's mission to the staff. **Hiring** of loan officers is facilitated through an interview with the COO participated by the Regional Manager where the organization's social values and mission are initially explained. There seems to be no regular and strong reinforcement of the organization's mission and limited channels to inculcate although physical messages of the mission statement has been recently hanged. Social indicators have not been incorporated into the staff **performance assessment** and in LO evaluation and **incentive scheme**, which is mainly dominated by financial aspects such as outreach, portfolio and PAR.

LIMITED RISK OF VOLUNTARY MISSION DRIFT

- *The presence of the founder and appointing of key staff responsible for overall management of social performance all throughout the organization will contribute to the continuity of AzerCredit's mission*

LIMITED RISK OF INVOLUNTARY MISSION DRIFT

- *The rather broadly stated mission statement not supported by a identification of target clients and the financial services dilutes the clarity of the mission and hinders its uniform dissemination all throughout the organization*
- *Audit Policies which is in the state of development might not fully capture checks on compliance to client protection principles*
- *HR elements crucial to ensuring consistency to the mission e.g. mechanisms for mission dissemination, incentive scheme and staff performance assessment that does not capture social criteria might not be systematically and formally considered in the HR policy which is currently in its development stage*

¹⁸ The internal department was not functioning from February 2009 until August 2009, when new internal auditor was hired.

¹⁹ The HR Manager has just been recently hired and the HR policies are still being defined and fine-tuned at the time of the rating visit.

4. Social responsibility

Being linked to World Vision and having Vision Fund International as its founder, AzerCredit seeks to operate consistent with the values and image promoted by WV and VF which underscores integrity and ethical standard in all dealings.

Social responsibility towards personnel

As of September 2009, AC is composed of 204 staff, with a **fair gender balance** as represented by 33% of female staff overall, while female staff in management and BoD representing only 14% and 29% respectively, which is proportionally **low**, although female staff in management has slightly increased compared to previous periods. The large growth of staff is coming from management and loan officers (registering 25% and 44% growth as of Dec 2008, respectively) in the period when the institution is rapidly growing in terms of portfolio and number of clients and the optimization of the organizational structure is needed in accordance to the size of operations. Preparation for job responsibility is being undertaken through a few days of orientation followed by one to weeks of adaptation process at the branch with support from the senior LOs during the first few weeks.

Staff	Dec-07	Dec-08	Sep-09
Total staff	136	174	211
Female staff	35%	35%	33%
Female staff in management	8%	13%	14%
Female members of the BoD			29%
Staff turn-over ratio	12%	15%	9%
Male	10%	16%	7%
Female	18%	13%	12%
Management	10%	22%	0%
Loan officers	5%	12%	6%
Administrative staff	17%	18%	13%
Support staff	22%	11%	15%

Staff turnover was at 15% in 2008 and 9% in the period of September 2008 – 2009 with the concentration in the support staff and administrative staff (15% and 13% respectively, as of September 2009). Microfinance institutions in general, often lose Staff to the Banks due to the attractive salary and incentive packages offered by the latter. This has been the case for some managers, senior LO and accountants who left AzerCredit in 2008 to work in the banks. The turn-over of loan officers is mainly concentrated in Baku branch, also primarily due to the same reasons mentioned above.

Regular meetings at the sub-branches, branches and HQ are the primary channels for the staff to communicate and discuss issues which in turn contributes to the overall **good labor climate**. The Annual Staff Retreat which integrates planning and teambuilding exercises also contributes to more openness amongst staff and provides opportunity to forge stronger camaraderie. However, in order to ensure that staff concerns are adequately met specially given the increasing growth of staff members, the COO and Administrative manager have delegated the HR functions to a dedicated HR manager since May 2009 who is in the process of streamlining the procedures and updating the policies.

As part of formalizing procedures, the current HR Manager plans to conduct a **staff satisfaction** survey in December 2009. The staff satisfaction analysis has been done mostly on an informal basis at the branch level and through individual meetings after yearly staff evaluation. There is generally a good level of staff satisfaction and working environment although dissatisfaction with the salary level exists. The Management is tracking the salary levels in the market and trying to keep the remuneration of AzerCredit staff in line with the average levels. Certain staff safety concerns exist in terms of transporting gold collateral to banks by Branch Managers and LOs working in remote areas near the border (Horadiz). While LO and staff productivity are increasing, work overload of LOs might become a concern in the future as some of them already have over 400 clients thus, calling for some limits in order to ensure the quality of the disbursement process.

The **remuneration** is in line with the market level but not with the top 5 banks. AzerCredit staff is not covered by insurance and it was only since 2009 that AzerCredit started to pay pension fund contributions for its employees. The latter was due to confusion in the legal interpretation where institutions working with refugees and IDPs (which are the population groups served by WV) are exempted from complying with pension funds payment.²⁰ The contracts for all staff (including top management) are signed for one year and

²⁰ The government exempts organizations that serve refugees and IDPs from paying the 22% pension fund contribution and since AzerCredit have been registered as an LLC (independent identity from World Vision), it has not been paying this social fund. Only since 2009 that AzerCredit started to comply with this social fund requirement.

can be terminated with sufficient notice although AzerCredit, prefer to decide whether to let go of an employee upon contract termination after the yearly evaluation.

Apart from the minimum salary required by labor legislation (e.g. social security, vacation leave), AzerCredit provides additional monetary compensation such as mid-term bonus (based on overall institutional performance) up to 50% of the salary plus an annual bonus up to 100% of the salary depending upon the positive results of operations.

Salary differentiation (among branch managers according to number of sub-branches) and incentive system differentiation (between LOs and Senior LOs) are perceived by some staff as not adequate to reflect added responsibilities. However, incentives schemes seem to be transparent and set criteria is reachable although attention should be paid to the explanation of the incentives schemes to new LOs. Currently the incentives schemes are under revision, and soon the criteria will be linked to set social targets as well.

Additional benefits are represented by funeral assistance and advance salary payments to LOs for purchasing vehicles²¹ which are being used for fieldwork activities.

Performance **evaluation** is conducted for new staff after the probationary period of 3 months and yearly for all the other staff. **HR management** systems in terms of career development planning and training provision present a **major gap** as some of the staff had not have trainings for more than 3 years although, according to the policy, AzerCredit can finance 80% of the cost for training proposed by the staff. This was more popular among the accountants who participate in certain courses on International Accounting Standards. There is also a possibility to co-finance 80% of the cost involve for pursuits of higher studies although the policy does not seem to be systematized. With the introduction of HR Manager since May 2009, AzerCredit will focus on meeting the training needs of the staff including the possibility of organizing internal trainings. Substitution plan is in place, the COO is a deputy CEO, and in case the COO is absent, the Southern Regional Manager is taking charge of the COO's responsibilities.

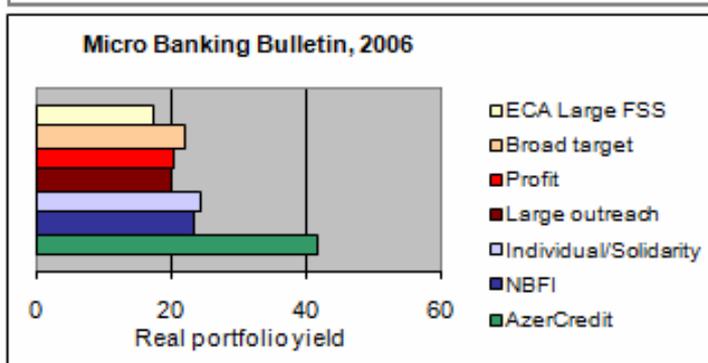
Social responsibility towards clients

In general, AzerCredit adheres to the ethical standards set forth by VF which essentially captures social responsibility elements including that of social responsibility towards the clients. This is reflected in the Code of Conduct for staff which requires staff to treat clients with respect, dignity and impartiality in all dealings and transactions. In general, the clients highly appreciate their good relationship with LOs. Also, whenever possible, LOs are hired locally from the region where the branches/sub-branch operates so that the LO is closer to the client and could better understand and meet their needs. AzerCredit is also planning to introduce a dedicated Customer Service Officer (most likely under the Marketing Department) in order to monitor client satisfaction and link the activities to their needs.

The provision of non-financial services is not directly being undertaken by AzerCredit but through partnership, primarily with World Vision Azerbaijan and AMFA. The FEAST project is implemented in several regions with WV providing training to refugees and IDP communities on how to start business while AzerCredit disbursing loans to the participants of the project. Another project (with AMFA) provided training to women who were later financed by AzerCredit. The organization has also taken measures to increase outreach to women e.g. encouraging women through offering lower interest rate to those who joined in March 2009 - during the international Women's month.

- AC's real and nominal **portfolio yield** for 2008 to September 2009 stand at almost the same level due to deflation in the country after shocks in consumer prices in 2007 and 2008 year. The nominal portfolio yield did not significantly increase (almost maintained) all throughout the past periods given that the company had decreased slightly the interest rates when it started to disburse loans in USD. AzerCredit has the highest real portfolio yield compared to

Cost of credit	Jan07-Dec07	Jan08-Dec08	Sep08-Sep09
Portfolio yield	39.3%	40.4%	41.2%
Inflation rate	20%	15%	0%
Real portfolio yield	16.4%	21.8%	41.8%
National lending rate	19.5%	19.1%	20.4%



²¹ AC is financing 60% of the cost, LOs can receive up to 10 months salary in advance.

other MFIs in the peer groups considered (e.g. ECA Large FSS – 17.4%, NBF1 – 23.4%) and in line with those offered by other local MFIs like Finca.. The high interest rates, which in some regions like Horadiz are charged flat²² coupled with 2% up-front fees, are reflecting the cost entailing a predominantly rural operation.

- Mechanisms to check client **overindebtedness** is deemed adequate and facilitated through background investigation. The lack of Credit Bureau for MFIs does not allow tracking the overindebtedness of the clients however as an alternative, informal black list exchange between MFIs can be used. Risk of overindebtedness is especially prevalent in urban areas. This is confirmed by the survey results which showed that overall, 7.3% of clients paid their debts with credit in the past, with all of them urban clients. In order to mitigate such risks, AC has a ceiling policy based on the cash flow analysis. The calculation of the repayment capacity is based on the premise that clients should be able to keep 50% of their income, net of expenses and deductions including the loan installment as well as the repayment of other debts. Overall assessment of repayment capacity is good, generally more stringent for loan applications requiring higher loan amount where a business plan is required.
- The foreign currency risk has been borne entirely by clients since April 2009 when all loan disbursements have been made solely in USD except in Horadiz branch. The decision to exempt Horadiz branch is due to the remoteness of the area with very limited facility chance to exchange USD to local currency. The organization is currently trying to find sources of funds in local currency in order to give back the clients the option to borrow in AZN although this might mean paying a higher interest rate.
- Consumer protection
 - **Transparency:** In general, the interest rate is calculated on a declining balance, except in Horadiz branch. The documentation provided to clients to back transactions is deemed adequate and consist of a detailed repayment schedule (loan amount, upfront fee, break down of installments by principal and interest) although printed in English which is not deemed consistent with communicating according to client's capacity although compensated for by the LOs explanation. Receipts are issued to back repayment transactions which indicate the amounts and date of repayment.
 - Recently, AzerCredit has put in place mechanisms for gathering clients' **feedback and complaints** through putting in place boxes for suggestions & complaints in all branches. At the time of rating visit though, none of the boxes had been opened yet. The Marketing Manager has the main responsibility to follow-up and facilitate communication of the suggestions/issues raised to the concerned person or department.
 - Other than the FEAST project, no other specific activity is being carried out by AzerCredit to promote increased financial understanding of clients. This is seen in the low financial awareness of clients, especially among women, with most of them barely able to remember the interest amount and hardly knowledgeable of the other products available in AzerCredit. This is further exacerbated by the fact that the repayment schedule given to clients is in English thus, not giving client a mental picture with which to remember the details of their loan transactions. Based on focus group discussions with different groups of clients, the financial awareness is relatively higher among urban clients than clients in rural areas.
 - Since the internal audit department was not functioning for some time and internal audit manuals are currently in the process of development, internal audit activities on loan disbursement process and client protection have not been done yet. In the meantime, the Senior LOs, Branch Managers and Regional Managers are in charge of checking compliance with the procedures, client satisfaction, etc. AzerCredit is publishing annual reports which include the audited financial statements, key figures, and short report of activities and main achievements. The organization also regularly submits itself to financial rating.

Financial awareness of clients	Total	Male	Female	Urban	Rural
Interest rate	61.9%	66.7%	52.5%	48.9%	74.2%
Interest amount	11.0%	15.8%	1.6%	3.4%	18.3%
Amount of fees	66.9%	70.8%	59.0%	53.4%	79.6%
Percentage of fee	53.6%	51.7%	57.4%	50.0%	57.0%
Range of products available	7.1%	8.8%	3.6%	5.1%	8.8%

Clients entered between Jul08-Jun09

²² The interest rate of all loans in Horadiz is charged Flat because the fund comes from the State Agency and this is part of the loan condition.

Social responsibility towards community and environment

AzerCredit has not yet adopted an effective formalised policy regarding social responsibility towards community and environment.

The organization has an exclusion list of activities which include alcohol and tobacco production, gambling business, currency exchange business, weapons production and selling, and other businesses, which are illegal under the law in Azerbaijan. AC has also adapted WV's child protection policy e.g. ensuring that the enterprises does not employ child labor, however adherence to this policy and to the exclusion list is not being monitored or reported.

It is also worth to notice that , some projects have been implemented in partnership with World Vision projects on FEAST and gender project with AMFA and ccurrently, the Council and the Management is in the process of negotiation with the government on the use of the grant part of AzerCredit's capital for charity purposes which will benefit the community.

In 2008, AMFA conducted research on general impact assessment of MFIs and on such basis awarded AzerCredit as the "Best community impact provider."

5. Outreach

Operational areas

AzerCredit's operation is focused in 5 of the 11 broad economic regions of the country with operations in Baku, the country's capital city. This translates to an **intermediate breadth of geographic outreach** for the organization covering 13 administrative regions (out of the total 59 regions in the country). Recent expansions have been to Aran in Goygol, Agjabedi, Saatli and Beylagan.

As most of the operational areas are concentrated in regions where poverty incidence is relatively higher than the national average, AzerCredit **depth of geographical outreach is good**. This is further substantiated by the higher poverty incidence in Absheron and Ganja-Gazakh regions where AzerCredit has been operating for over 10 years .

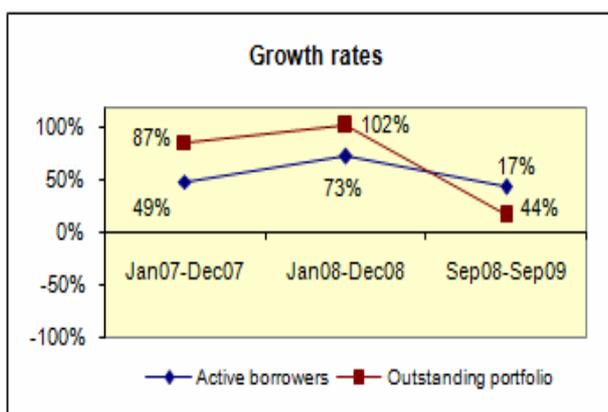
Regions of operation	Poverty	Intermediate poverty	Extreme poverty	AzerCredit ¹	
				Active clients	Outstanding portfolio
Baku	35%	9%	7%	4%	6%
Absheron	46%	15%	14%	8%	9%
Ganja-Gazakh	49%	14%	11%	39%	35%
Aran	n.a.	n.a.	n.a.	38%	38%
Yukhari Karabakh	44%	11%	9%	11%	12%
Zone					
Urban	44%	14%	11%	28%	32%
Rural	45%	10%	8%	72%	68%
Azerbaijan	44.7%	12.0%	9.6%	100%	100%

SPPRD Progress Report 2005. ¹Amount disbursed of loans active as of Sep-09. na: not available

Overall, AzerCredit's presence in rural areas is represented by 68% of its outstanding portfolio and represents 72% of the total number of clients. The organization has its own classification of rural/urban and broadly categorizes clients according to whether a branch as considered rural or urban based on the place/location of client's residence and type of business e.g. agriculture-oriented.²³ Of noteworthy is the organization's presence in Horadiz (Fizuli region)²⁴ not served by other financial providers and affected by territorial conflict with neighboring Armenian border where refugees and internally displaced persons (IDPs) are also present.

Clients reached²⁵

AC's outreach counts **30,836 active clients** as of September 2009 served through an outstanding portfolio of **USD 19.6 million**. Growth rates in terms of active clients and portfolio have been consistently on an upward trend, growing at a rate of 73% and 102% as of December 2008 respectively, although growth rates dipped down to 17% and 44% as of the cut off period due to volatility experienced during the last quarter of 2008 following the global financial and economic crises. Growth prospects for the next two years have been set at a conservative level, 35% in terms of active clients and 26% portfolio growth whilst maintaining the proportion of groups at its current proportion of 30% of clients.



AC shows **intermediate depth of outreach** based on survey revealing a rather broad target with outreach to the very poor and vulnerable representing a narrow proportion although overall, majority seem to be financially excluded as evidenced by the **financial inclusion results** revealing 71% of clients not having previous access to formal credit. In terms of access to basic services, other than access to improved water source which is below the national average, AzerCredit's recent clients seem to have good access to other services and are able enjoy more amenities than an average individual in Azerbaijan. The use of a

²³ According to this definition, all clients from Baku, Ganja and Mingachevir are considered urban while clients of Imishli, Horadiz and Goranboy are considered rural.

²⁴ An operational area inherited by AzerCredit from World Vision and is considered a conflict area between Armenian and Azerbaijan government

²⁵ The information is mainly based on a survey on recent clients integrating, when relevant, data from MIS. See annex 2 for more details.

Village Consul²⁶ mechanism in remote areas, although currently very limited, presents good potential for increasing further breadth of outreach (even depth if sufficient preparation is provided).

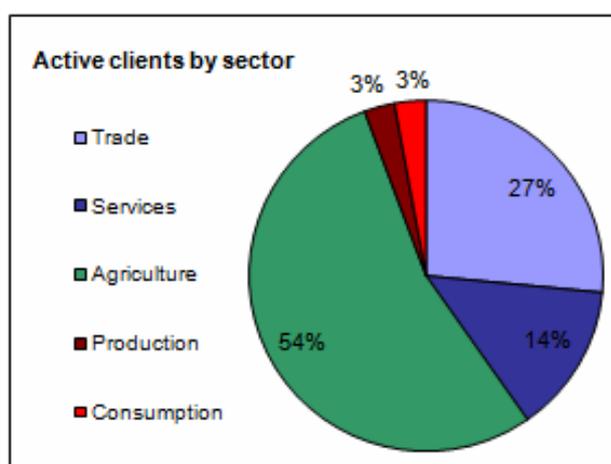
Social vulnerability and household profile

- Majority of AzerCredit's clients are men, at 62% of the total clients.
- The MIS captures **15% of IDPs** among the clients mostly coming from Horadiz, Mingachevir and Goranboy branches.²⁷
- The **average household member is 4.7** (slightly higher than the national average household size of 4.49) with 1.89 members contributing to household income while the number of members depending on the household income is 1.75. This results to a **low dependency ratio**²⁸ equivalent to 1.28. On average, the household depends on 2.5 regular income sources, with about 5% of them receiving remittances which are used to cover part of the household expenses.
- 43% of AzerCredit's clients are women, slightly above the microfinance sector benchmark in Azerbaijan and at par with the Caucasus benchmark of 44%.²⁹ **Twenty-three percent of female clients are head of the households** they belong to. About one in every four (**26%**) of them have **no control over the loan use**, 57% have partial control while 16% have full control over the loan use. It is interesting to note that World Vision, as the organization's founder, mandates that 40% of AzerCredit clients should be women which the organization is complying with.
- The overall **educational level** of AzerCredit clients is **high** with 94% have at least completed primary education (lower than the national data which register 99% completion rate for primary education level) broken down as follows: 46% finished primary education, 23% finished secondary education and 25% finished tertiary education. The proportion of AzerCredit clients with **primary and secondary school-aged children** attending school is 91% and 93%, respectively. Attendance to primary school is a bit low if compared with the national benchmark which stands at 96%. Attendance is higher among female children. In terms of rural/urban differentiation, higher attendance in primary level is observed among children of rural clients while higher attendance in secondary education is observed among children of urban clients.

GENDER OVERVIEW	
Female clients	43%
Female clients, portfolio	40%
Female clients head of household	23%
Female clients without control over the loan	26%
Female clients without completed primary education	5%
Dependency ratio, Female clients	1.3

Business activities and employment support

- As a matter of policy, AzerCredit finances only existing business activities except in exceptional cases. This is confirmed by the survey results which shows that about two-thirds (76%) of clients have been working in their business for over 3 years, 16% had their businesses between 1 to 3 years while 8% had it for less than 1 year (half of whom only had their business for less than 6 months).
- Two in every three of AzerCredit's financed activity is in the **informal sector** which means that only 32% of client's businesses are formally registered.
- Majority (84%) of AzerCredit loans have been used to finance clients' businesses, with the remaining being used to supplement household expenses (12%), family events (2%) and housing improvement (2%). Agriculture sector (e.g. cattle breeding, sheep raising, poultry and livestock husbandry and crop farming) is the main concentration of over half (54%) of AzerCredit clients, followed by trade (in food, clothing, consumer goods and wholesale) and services



²⁶ At the time of the rating visit, there is only one Village Consul based in Horadiz branch, but the organization plan to eventually apply this arrangement to aid in its expansion activities in remote rural areas.

²⁷ Not including the 3 sub-branches which are not integrated in the MIS

²⁸ The dependency ratio reflects the average number of persons a family member who is contributing full time to the household income has to support. For this study, the dependency ratio is defined as the number of members who depend on the family income relative to the number of members who contribute to the income of the family.

²⁹ MIX market. Azerbaijan Microfinance Analysis and Benchmarking Trends Report 2008.

(food, clothing, transport, etc.) with 27% and 14% of clients, respectively. The percentage of clients involved in production (3%) and consumption (3%) sectors are marginal. Given that majority of the activities are in the informal sector, with both Agriculture Small and Urban Small loans representing a very small part of the portfolio (6.9% as of Sept 2009), the contribution to job creation is rather limited: On average, **2.0 individuals work in the financed activity** (including the client). Majority (64%) of the clients is self-employed (7% of whom are having another **form of employment aside from managing their own businesses**) 24% are employees (15% of whom are on a permanent basis while 9% are on contractual/short-term basis) while 10% is not working (only 6% of whom is looking for a job) while remaining 2% have not specified their occupation.

Economic poverty

- **17%** of AzerCredit's recent clients are estimated to be **poor** (below the national poverty line).³⁰ Outreach to intermediate poor is at 11%. Even though not part of the target group, outreach to the very poor, though marginal, is at **8%**. In terms of internationally applied standards, a small percentage of the clients are falling below the PPP\$1/day and PPP\$2/day, at 2% and 7%, respectively. This confirms the observation that the organization's target of entrepreneurial poor are those that are belonging to the upper poor not necessarily below the poverty line.
- As is the case in many countries, the zone breakdown shows that **poverty incidence** among clients is essentially a **rural phenomenon**, with poverty incidence in rural area more than four times those of the urban area. As far as monetary poverty is concerned, AzerCredit's **poverty outreach** is **intermediate**, with poverty incidence of recent clients lower than the national benchmarks and PPP\$2/day and PPP\$1/day international benchmarks.

Monetary poverty	AzerCredit	Male	Female	Urban	Rural	Azerbaijan
National poverty line	17%	19%	13%	6%	27%	44.7%
National intermediate poverty line	11%	11%	10%	3%	27%	12%
National extreme poverty line	8%	8%	8%	2%	14%	9.6%
\$2 a day (PPP)	7%	7%	8%	2%	12%	33%
\$1 a day (PPP)	2%	2%	2%	0%	3%	3.7%

Households of recent clients. See annex 1 for more details. na: not available

- Health and food security: In terms of vulnerability, majority (**59%**) of the clients **experienced shortage of income** to cover **food** and **medical expenses** during the last 12 months. One-third (34%) reportedly experienced food insecurity while 25% reported that income was insufficient to cover medical expenses. In such instances, most of them asked help from friends/relatives living in the country (69%), 12% used their savings and 9% resorted to borrow from other individuals.

Asset property

- Eighty-five percent (85%) of the clients own their current dwelling while 13% are staying in government-provided dwellings/hostels for IDPs. Over half of the clients (59%) also own land other than their dwelling, lower than the national average which stands at 65.9%. As to the kind of dwelling, majority (88%) are staying in separate house which is high if compared to the national data of 49.1%. The median number of room is 3 accounted for by 31% of the clients, also higher than the national data which registers only 19% households staying in three-room accommodation.
- A significant percentage of clients (41%) have monetary savings (primarily at home) while 12% did not want to answer and 47% admitted having no monetary savings. Other than this cash asset, 39% of the clients also own an average of 6 heads of big livestock, 30% own an average of 49.7 heads of medium livestock and 57% own an average of 53.5 heads of small livestock (poultry). These average numbers is above that of the national average for all the three categories.

Access to basic services

- The share of AzerCredit clients having **no access to improved water source (48%)** turns out to be higher than the national data (27%) whilst those having no access to improved sanitation (2%) are much lower than the national (35%). The main sources of water for those who do not have access to improved source are: community tap (17%), well in own yard (10%), public well (6%), spring, river or lake (4%) and water cistern car (11%).

³⁰ based on the per capita income (AZN) of clients surveyed for the study.

Access to basic services	AzerCredit	Male	Female	Urban	Rural	Azerbaijan
Households without improved water source ¹	48%	59%	26%	18%	76%	27%
Households without improved sanitation ²	2%	2%	3%	2%	2%	35%
Households without electricity	2%	1%	3%	1%	2%	n.a.

¹ includes those that are not having water pipeline inside their dwelling

² includes those not having toilet in their dwelling

- AzerCredit clients turn out to have higher **access to other services and amenities** compared to an average person in Azerbaijan in terms of: family possession of a car (37% against 20% national benchmark), coloured TV (97% against 90% national benchmark), mobile phone (97% against 82% national benchmark), personal computer (14% against 3% national benchmark), and access to internet (8% against 2% national benchmark).

Access to financial services

- AzerCredit's access to the financially excluded showed good results, with **71%** recent clients having had **no access to any formal credit** prior to joining the organization (69% have no previous access to whatsoever form of credit). Nearly all of the recent clients have no current/savings account or credit/debit card, still with most of them (94%) having no additional credit. The small percentage that have additional loan (mainly Individual Urban Small Loan clients) borrowed primarily from formal institutions such as Respublika Bank, Access Bank, AzerdemiryolBank, Credo Agro, Finca and Bank of Baku.

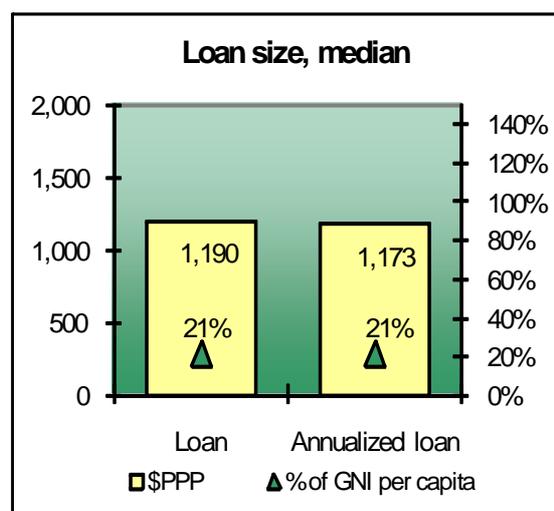
Access to financial services	AzerCredit	Male	Female	Urban	Rural
Clients without previous access to formal credit*	71%	67%	70%	67%	70%
Clients without additional credit	94%	95%	92%	92%	95%
Clients without current/savings account	99%	99%	100%	99%	100%
Clients without credit/debit card	99%	99%	98%	99%	99%
Previous access to credit					
None	69%	66%	69%	63%	70%
Moneylenders, providers, family, friends	2%	2%	2%	3%	0%
NGOs, cooperatives, credit and saving associations	15%	18%	8%	11%	18%
Banks and regulated financial institutions	14%	9%	18%	16%	8%

Households of recent clients. See annex 1 for more details. na: not available

*Includes: None, Moneylenders, providers, family, friends

Loan size analysis

- The intermediate depth of outreach is confirmed by the result of the loan size analysis of all active loans as of September 2009, with average loan outstanding equal to US\$1,225 which is worth 32% of GNI per capita. AzerCredit's loan size is slightly high if benchmarked alongside other MFIs in Azerbaijan with average loan outstanding of US\$720 worth 26% of the GNI per capita.³¹ The median loan size stands at US\$800 worth 21% of GNI per capita.
- In terms of Purchasing Power Parity (\$PPP), the median loan size rises to 1,190 with average loan size rising further to 1,822.
- Taking into account the average loan term of 13 months, the annualized values did not alter the %GNI per capita.
- During the period analyzed, trends in loan size have been gradually increasing rising from an average disbursed amount of US\$ 717 in 2006 to US\$ 981 as of Sept 2009. The organization is considering an increase in the average loan disbursed from its current level of US\$981 to US\$1,050 in the next two to three years.



³¹ MIX market. Azerbaijan Microfinance Analysis and Benchmarking Trends Report 2008.

6. Quality of the services

Variety

- AzerCredit's **financial services** is currently limited to **credit** as the regulation in Azerbaijan does not permit microfinance institutions to accept deposits. Product offers are primarily **Agricultural loan, Micro and Small Enterprise loan** and **household loan** which are represented by different conditions (Group/Individual, USD/AZN, Flat/Declining balance) summarized as follows:

Credit products							
US\$	Individual Urban Micro Loan	Individual Agriculture Micro Loan	Individual Urban Small Loan	Individual Agriculture Small Loan	Group Agriculture Loan	Group Urban Loan	Household Loan
<i>Methodology</i>	Individual	Individual	Individual	Individual	Group	Group	Individual
<i>Currency</i>	USD (AZN)	USD (AZN)	USD (AZN)	USD (AZN)	USD (AZN)	USD (AZN)	AZN
<i>Type of interest</i>	Declining (Flat)	Declining (Flat)	Declining balance	Declining balance	Declining (Flat)	Declining (Flat)	Declining balance
<i>Min. interest rate</i>	2.5% (2%)	2.5% (2%)	2.5% (2%)	2.5% (2%)	2.5% (2%)	2.5% (2%)	3.00%
<i>Max. interest rate</i>	3.5% (2%)	3.5% (2%)	2.75%	2.75%	3.5% (2%)	3.5% (2%)	3.50%
<i>Average interest rate</i>	3% (2%)	3% (2%)	2.6% (2.3%)	2.6% (2.3%)	3% (2%)	3% (2%)	3.25%
<i>Commissions</i>	2-2,5% up-front	2-2,5% up-front	2% up-front	2% up-front	2% up-front	2% up-front	5AZN(100-300 AZN);10AZN(> 300 AZN)
<i>Min. amount</i>	100	100	2,901	2,901	100	100	100
<i>Max. amount</i>	2,900	2,900	10,000	10,000	1,750	1,750	800
<i>Max amount (first loan)</i>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Average amount</i>	1,500	1,500	6,450	6,450	925	925	450
<i>Min. maturity (months)</i>	3	3	6	6	3	3	3
<i>Max. maturity (months)</i>	24	24	30	30	18	18	12
<i>Average maturity (months)</i>	11	12	24 (11)	24	12	11	11
<i>Interest payment frequency</i>	monthly	monthly	monthly	monthly	monthly	monthly	monthly
<i>Principal payment frequency</i>	monthly	monthly	monthly	monthly	monthly	monthly	monthly
<i>Grace period (months)</i>	n.a.	Up to 1/2 of term	n.a.	Up to 1/2 of term	Up to 1/2 of term	n.a.	n.a.
<i>Collateral</i>	Home assets, personal guarantee, gold	Home assets, personal guarantee, gold, livestock	Home assets, personal guarantee, gold, real estate, cosigners	Home assets, personal guarantee, gold, real estate, cosigners, livestock	Group solidarity, home assets, livestock, personal guarantee	Group solidarity, home assets, personal guarantee	Purchased item

* In brackets are features of loans in local currency (AZN)

- Diversification of products is improvable, mainly designed to serve the production needs of clients although the Household loan offered recently is designed to serve household needs not necessarily associated with client's business. Uptake for this loan product is currently limited counting 838 active clients as of Sept 2009 worth 2% of the total outstanding portfolio. The main product is the Individual Urban Micro Loan accounting for 42% of the outstanding portfolio serving 12,165 active clients (39% of total clients) followed by Individual Agriculture Micro Loan with 4,630 active clients representing 29% of

the outstanding portfolio. This brings the proportion of all Micro Loans (urban and agriculture) to 71% of the outstanding portfolio. Group loans (mainly Agriculture) accounts for 20% of the outstanding portfolio and represents 15% of total clients. Small Loans accounts for 7% of the outstanding portfolio, 5% of whom are urban clients and 2% are agriculture clients.

- AC employs both **group** and **individual lending methodologies** in its service delivery to clients with the latter being the dominant methodology employed by the institution, representing 80% of the outstanding portfolio as of September 2009 while the former accounts for 20% .
- AzerCredit is planning to introduce **educational loan** and work with Habitat for Humanity for the provision of **housing loans**. Due to undeveloped financial market, AC is planning to introduce **micro-insurance** in the medium term.

Adequacy

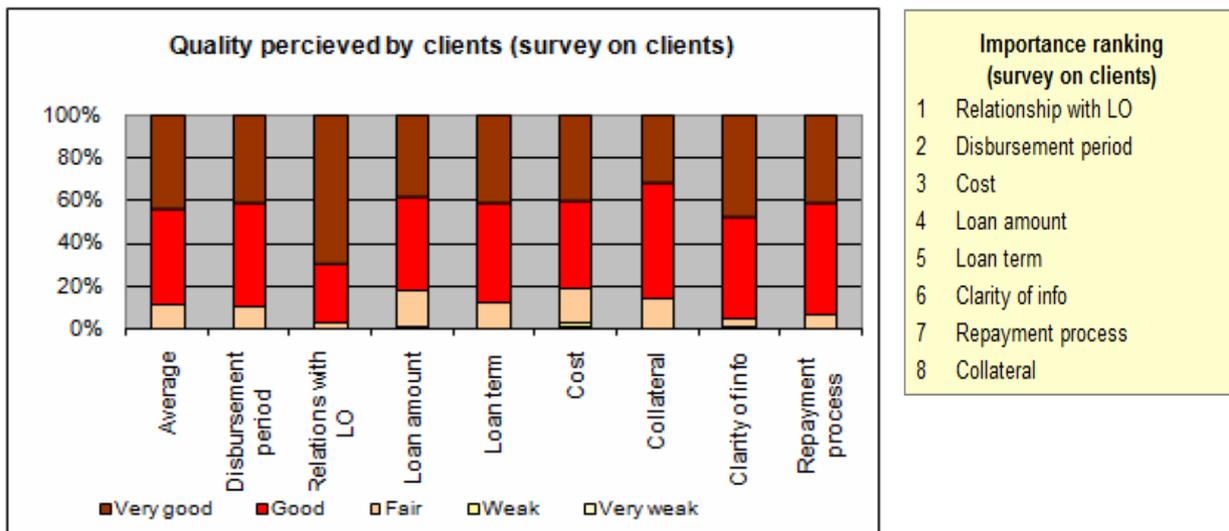
The design of the AzerCredit's product offering is generally **sufficient** to meet the needs of the target clientele characterized by flexible methodology depending on the client's needs and capacity to meet collateral requirements.

- AC's **service delivery** takes place at the branches and sub-branches located at the city or administrative centre in the region of operation. While this entail additional cost for clients especially those living in areas far from AzerCredit sub-branch/branch, clients do not see it as a burden as they also use the time during repayment to purchase household stocks/items. As for solidarity group arrangement, some group clients are not very satisfied being in a group as they themselves are responsible for group formation (searching of members) and election of the group leader, and AC is not involved in arrangement of the meetings of the group members and has no special requirements, e.g. rotation of the leadership in the group. While group lending reduces the risk of problems in repayment in as much as group members guarantee each other's loan, this sometimes poses a constraint during renewal as they have to comply with the minimum number of at least 4 people in a group so if a member does not want to apply for renewal, other members are pressured to find replacement in order to be able to proceed with the renewal.
- The loans are disbursed either through branches or local partner-banks and repayments are collected only through the branches, which is convenient not only to AzerCredit but also to the clients. In branches where the client base is big and there is only one partner bank, disbursement tends to become crowded. In general, the **loan disbursement process** including documentation requirements is perceived by clients to be adequate and disbursement usually takes 2 to 5 days, depending if the client is applying for new loan or a renewal.
- **Guarantee/Collateral** requirement is deemed adequate to reach the main target group whilst ensuring that risks are covered for. In general, Small and Micro loans are secured by gold although for the former, a real estate is additionally required. For higher loan amounts reaching the ceiling, the collateral should be at least 100% of the loan amount. Requirements and conditions especially for Small loans are rigorously being applied and not being relaxed even to repeat clients. For Household loan, the purchased item is taken as collateral while those that are not in the position to provide the gold collateral requirement counts on their group members to provide the social guarantee.
- **Loan terms** with minimum of 3 months for Micro Loans, 6 months for Small Loans and maximum of 18 months for Group Loans, 24 months for Micro Loans and 30 months for Small Loans in general correspond to the loan sizes offered by AzerCredit. The clients have opportunity to choose the loan term within the offered range. The grace period, which can be up to half of the loan term, is offered only for agricultural loans, which seem to be sufficient for planting and cattle breeding. With the grace period, it is easier for agriculture clients to make their repayments of interest and principal, which is on a monthly basis. The repayment frequency is perceived to be adequate by other clients as well, also considering the type of business the clients are involved in. Clients can also pre-pay with some penalties applied if done in the first 4 to 6 months ranging from 5 to 3% of the prepaid amount.
- Micro Loan clients which accounts for 54% of total clients are satisfied with the loan size while the Small loan clients admitted needing a higher loan size which then compels them to borrow from other financial institution alongside their AzerCredit loan. Some dissatisfaction with the loan size also exist among group agriculture clients, although as part of prudential measures implemented by AzerCredit following the crisis, the maximum loan size had been slightly decreased. The **cost of credit** is on the same level with the main competitors. The offered interest rates are in a range of 2% to 3.50% monthly plus 2% up-front commission. The applied interest rates are differentiated among the branches or operated areas according to peculiar situation, market positioning, including some taken temporary measurements (e.g. lower interest rates for women in order to attract more female clients). Interest rate can be charged flat (only the rate at 2% is applied) or on declining balance (from 2% to 3.50%). The loans in USD are charged at higher interest rate (from 2.50% to 3.50%), while in AZN – lower (from 2% to 2.75%), except household loan (from **3% to 3.50%**). Small Loan clients are enjoying lower interest rates, which can be

decreased with the loan cycle as well. AzerCredit is not differentiating the interest rates for agricultural loans and loans for other business sectors, while the borrowers of agricultural loan think that they would need more support (i.e. lower interest rate) than those involved in more stable business activities. On the other hand, agriculture is considered to be more risky sector, which is mitigated by AzerCredit's lending concentration on loans for livestock specifically cattle breeding, which is less risky than planting.

Since April 2009, AzerCredit is offering all loans in US dollars (except Household loan), which is due to currency risks and unavailability of hedging mechanisms in the banking system of Azerbaijan. This led to some client dissatisfaction (higher rates, currency exchanging costs) especially for Micro Loan borrowers whose businesses do not operate with US Dollar. AzerCredit is trying to get funding in local currency in order to take away the currency risk from its clients.

- Based on the results of the focus group discussions and clients survey, there is a high level of **customer service** satisfaction among clients: 55% of them ranked the overall quality of service as good, 40% ranked it as very good while the remaining clients ranked the overall quality as fair. The attitude of the LOs, individual approach to the clients and support during the lending process is creating a good atmosphere in the organization, which is well appreciated by the clients with 69% of them ranking their relationship with LOs as very good. About one-fourth (28%) of the clients ranked it as good while 4% ranked it as fair enough. Of all the eight qualities considered, the relationship with LO is the topmost important consideration for 62% of the clients. The cost of AzerCredit loan is a source of client dissatisfaction, ranked as poor quality and very poor quality by 4% of the clients. The loan size, gold collateral requirement and clarity of information provided to clients are also sources of dissatisfaction for some of the clients. The latter was further confirmed by the very low financial awareness results of the clients especially when it comes to the range of loan products available and the interest amount.



- Azercredit do not monitor the dropout ratio (which stands at 21.5% as of September 2009) although client retention is being tracked on a monthly basis (even if the formula used is not completely adequate), and stands at 80%. The reasons for exit clients are monitored through informal ways and vary according to the region (for instance, in Baku branch the main reason is due to the gold collateral requirement while in Ganja, main reasons are associated with migration).

Non-financial services

AC does not provide non-financial services aside from the ones offered in partnership with World Vision and AMFA.

Annex 1 - Statistics

Poverty lines³²

The following table presents the value, in local currency, of the national and international poverty lines used to assess the profile of clients.

Poverty lines

Consumption per capita per day, AZN	Base year	Value	Most recent	Value adjusted
National poverty line	2003	1.19	Oct-08 Sep-09	2.07
National intermediate poverty line	2003	0.86	Oct-08 Sep-09	1.50
National extreme poverty line	2003	0.83	Oct-08 Sep-09	1.44
\$2 a day (PPP)	2005	0.75	Oct-08 Sep-09	1.35
\$1 a day (PPP)	2005	0.38	Oct-08 Sep-09	0.68

1\$PPP and 2\$PPP refer to 1.25 and 2.5 at 2005 PPP respectively

The **national poverty line** is defined as the median level of per capita consumption expenditure based on the Household Budget Survey (HBS) cost of a minimum consumption basket which guarantees a daily intake of 2,200 kilocalories. The minimum consumption basket is comprised of three 'sub-baskets' of food, non-food and services with a share of 69.4%, 12.5% and 18.1% respectively in the minimum consumption basket. The State Statistical Committee (SSC) of Azerbaijan refers to this as the "absolute poverty line."

The **national intermediate poverty line** refers to 70% of the median consumption expenditure and within the SSC context is referred to as "relative poverty line."

The **national extreme poverty line** is the estimated value of the minimum food basket. The SST refers to this measurement to identify the "poorest of the poor" population group in the country.

Loan size

To increase the relevance of the most commonly used proxy of outreach depth, the loan size analysis includes the following adjustments:

- Dividing the loan size by the GDP per capita
- Expressing the loan size in \$PPP
- Normalizing the loan size to one year term
- Considering not only the average loan size, but also the median and other moments of the distribution (1st and 3rd quartile)

The analysis is based on the complete list of loans active as of September 2009 (disbursed amount).

Loan size	US\$		\$PPP		% of GNI per capita	
	Loan	Annualized loan	Loan	Annualized loan	Loan	Annualized loan
Average	1,225	1,168	1,822	1,738	32.0%	30.5%
Mode	500	493	744	733	13.1%	12.9%
Minimum	100	83	149	123	2.6%	2.2%
1st quartile	600	564	892	840	15.7%	14.7%
Median	800	789	1,190	1,173	20.9%	20.6%
3rd quartile	1,245	1,180	1,851	1,756	32.5%	30.8%
Maximum	3,733,665	3,989,669	5,553,617	5,934,408	97484.7%	104168.9%
Standard deviation	23,754	27,515				

Active loans as of September 2009, amounts disbursed.

³² Sources include the following: State Programme on Poverty Reduction and Economic Development (SPPRED) 2003-2005 Progress Report, 2005. Azerbaijan Republic: Poverty Reduction Strategy Paper, IMF Country Report 2003. Estimation of Poverty Statistics in Azerbaijan Republic, State Statistical Committee (SSC), undated.

Survey on clients

In order to provide a complete description of the poverty outreach, a survey on recent clients has been realized. Recent clients are defined as those clients with an active status at the date of the evaluation, who took their first loan with the MFI in the 12 months preceding the social rating (July 2008-June 2009).

The formula used to calculate the sample size, based on the binomial theorem, is the following:

$$(z^2) (r)(1-r) (f) / e^2$$

z: level of confidence

r: estimate of the key parameter

f: design effect

e: margin of error

Sample characteristics:

- Design: multiple steps cluster
- Size: 181 clients
- Branches included: Baku, Imishli, Horadiz, Mingachevir, Goranboy & Ganja.

Definitions applied:

- *Household*: one person or a group of persons with or without a family relationship, who live in the same housing unit, share meals and make joint provision of food and other essentials of living, for at least 6 months per year.
- *Head of the household*: person who mainly contributes to the income of the household and takes major decisions in the household.
- *Household members depending on the household budget*: members not having any income or not earning enough money to be independent from the household budget.

In addition to those included in the report, some other findings of the survey on clients are presented below.

BASIC SERVICES	Absolute frequency	Relative frequency
Water supply		
Running Water/pipeline inside the house	94	52%
Well in own yard	19	10%
Local community tap	30	17%
Public well	11	6%
Spring, river, or lake	7	4%
Water Cistern car	20	11%
Total	181	100%
Sewage system		
No Toilet	4	2%
with toilet	176	98%
Total	180	100%
Electricity		
no electricity	3	2%
with electricity	178	98%
Total	181	100%
FINANCIAL SERVICES		
Previous access to credit		
None	123	69%
friends, relatives	3	2%
MFIs, NGOs	27	15%
banks & other regulated institutions	24	13%
Additional source of credit		
None	167	94%
MFIs	7	4%
Banks & other regulated institution	4	2%

The lack of access to improved sources of water and to improved sanitation is considered in the following cases: Well in own yard, community tap, public well, spring, river, or lake & water cistern car. The lack of access to improved sanitation is considered in the following cases: No toilet inside house

Annex 2 – Social indicators

AzerCredit, Sep-09

SOCIAL RESPONSIBILITY

<i>Female staff*</i>	33%
<i>Staff turn-over ratio*</i>	8.8%
<i>Portfolio yield*</i>	41.2%
<i>Real portfolio yield*</i>	41.8%
<i>Financial awareness of clients: Interest rate</i>	62%
<i>Financial awareness of clients: Interest amount</i>	11%
<i>Financial awareness of clients: Amount of fees</i>	67%
<i>Financial awareness of clients: Percentage of fee</i>	54%
<i>Financial awareness of clients: Range of products available</i>	7%
<i>Clients with additional credit</i>	6%
<i>Clients who paid debts with credit (past)</i>	7%
<i>Implied number of jobs supported¹</i>	59,996.0

OUTREACH

<i>Active borrowers*</i>	30,893
<i>Growth in active borrowers*</i>	44%
<i>Growth in outstanding portfolio*</i>	17%
<i>Solidarity group methodology, clients*</i>	30.3%
<i>Urban coverage, clients*</i>	28.0%
<i>Rural coverage, clients*</i>	71.8%
<i>Agriculture, clients*</i>	54.1%
<i>Female clients*</i>	43.0%
<i>Female clients head of household</i>	23.0%
<i>Female clients without control over the loan</i>	26.2%
<i>Clients without completed primary education</i>	6.1%
<i>Household members in age 6-12 attending school</i>	91.4%
<i>Household members in age 13-17 attending school</i>	93.3%
<i>No. of household members</i>	470.0%
<i>No. of members contributing to household income</i>	189.0%
<i>No. of members depending on household income</i>	175.1%
<i>Dependency ratio</i>	1.3
<i>No. of constant sources of household income</i>	256.4%
<i>Financed business in informal sector</i>	0.68
<i>Employees in financed activity (avg, including client)</i>	2.0
<i>Clients below the national poverty line</i>	16.8%
<i>Clients below the national intermediate poverty line</i>	10.6%
<i>Clients below the national extreme poverty line</i>	8.4%
<i>Clients below the 2\$PPP/day international poverty line</i>	7.3%
<i>Clients below the 1\$PPP/day international poverty line</i>	1.7%
<i>Households owning dwelling</i>	85%
<i>Households owning land</i>	59%
<i>Households without improved water source</i>	48%
<i>Households without improved sanitation</i>	2%
<i>Households without electricity</i>	2%
<i>Clients without previous access to formal credit</i>	71%
<i>Clients without additional credit</i>	94%
<i>Clients without current/savings account</i>	99%
<i>Clients without credit/debit card</i>	99%
<i>Clients without health insurance</i>	94%
<i>Households without food security</i>	34%
<i>Average outstanding loan amount, US\$*</i>	645
<i>Average balance per borrower / GNI pc*</i>	16.8%
<i>Average disbursed loan amount, US\$*</i>	981
<i>Median loan disbursed (\$PPP)**</i>	1,190
<i>Median annualized loan disbursed (\$PPP)**</i>	1,173

QUALITY OF THE SERVICES

<i>Client drop-out ratio*</i>	6%
<i>PAR30 *</i>	0%
<i>Quality perceived by clients</i>	Very good

Sources: survey on recent clients; *MIS; **Database of active loans. See annex 1 for more details

¹Average no. employees in financed businesses * no. productive activities financed

Annex 3 – Definition of acronyms and indicators

Acronym / indicator		Definition / formula
Financial Performance	Operational self-sufficiency (OSS)	$(\text{Financial revenue} + \text{Other operating revenue}) / (\text{Financial expenses} + \text{Loan loss provision expenses} + \text{Operating expenses})$.
	Financial self-sufficiency (FSS)	$(\text{Adjusted financial revenue} + \text{Other operating revenue}) / (\text{Adjusted financial expenses} + \text{Adjusted loan loss provision expenses} + \text{Adjusted operating expenses})$
	Return on equity (ROE)	Net income before donations / Average equity
	Return on assets (ROA)	Net income before donations / Average assets
	Portfolio at Risk (PAR30)	Portfolio at Risk > 30/ Gross outstanding portfolio
	Write-off ratio	Write-off of loans / Average gross portfolio
	Risk coverage ratio (>30 days)	Accumulated reserve / Portfolio at risk >30 days
	Loan loss reserve ratio	Accumulated reserve / Gross portfolio
	Funding expense ratio	Interests and fee expenses on funding liability / Average gross portfolio
	Operating expenses ratio	Operating expenses / Average gross portfolio
	Loan officer productivity – Borrowers	Number of active borrowers / Number of loan officer
	Staff productivity – Borrowers	Number of active borrowers/ Number of staff
Debt/Equity ratio	Total liability / Equity	
Context	HDI	Human Development Index
	GDP	Gross Domestic Product
	GNI	Gross National Income
	GDI	Gender-related Development Index
	WB	World Bank
	FMI	International Monetary Fund
	UNDP	United Nations Development Program
	MDG	Millennium Development Goals
	\$PPP	International dollar, based on Purchasing Power Parity
Social Performance Management system	SG	Social Goal. Social goal 1 = reaching target client; Social goal 2= meeting clients' needs; Social goal 3 = creating change
	SMART	Specific, Measurable, Achievable, Realistic, Time-bound
Social responsibility	Staff turn-over rate	Staff who left during the period / Average staff at in the period
	Portfolio yield	Interest income from portfolio / Average net portfolio
	Real portfolio yield	$(\text{portfolio yield} - \text{inflation}) / (1 + \text{inflation})$
Outreach	Average outstanding loan	Outstanding portfolio / number of active loans
	Average disbursed loan	Amount issued in the period / Number of loans issued
	Average outstanding loan on per capita GNI	$(\text{Outstanding portfolio} / \text{number of active loans}) / \text{GNI per capita}$
	Median loan disbursed on GDP pc	50 th percentile of loans issued in the period / GDP per capita
	Annualized disbursed loan	Amount disbursed * (12 / months of loan term)
	Disbursed loan, \$PPP	Amount disbursed in local currency * \$PPP conversion factor
Quality of the services	Client drop –out rate	$(\text{number of active clients at the beginning of the period} + \text{number of new (first time) clients entering during the period} - \text{clients written-off during the period} - \text{number of active clients at the end of the period}) / (\text{number of active clients at the beginning of the period})$

Annex 4 – Social rating scale

Rating grade	Definition
S^SAAA	Excellent capacity to effectively translate its mission into practice and to promote social values. Very high likelihood to achieve social goals.
S^SAA	Very good capacity to effectively translate its mission into practice and to promote social values. Very high likelihood to achieve social goals.
S^SA	Good capacity to effectively translate its mission into practice and to promote social values. Very high likelihood to achieve social goals.
S^SBBB	Completely adequate capacity to effectively translate its mission into practice and to promote social values. High likelihood to achieve social goals.
S^SBB	Adequate capacity to effectively translate its mission into practice and to promote social values. High likelihood to achieve social goals.
S^SB	Fairly adequate capacity to effectively translate its mission into practice and to promote social values. Reasonable likelihood to achieve social goals.
S^SC	Moderate capacity to effectively translate its mission into practice and to promote social values. Reasonable likelihood to achieve social goals.
S^SD	Inadequate capacity to effectively translate its mission into practice and to promote social values. Low likelihood to achieve social goals.

The rating grade can be corrected with a + or – sign, which implies a slight positive or negative variation respect to the main grade.