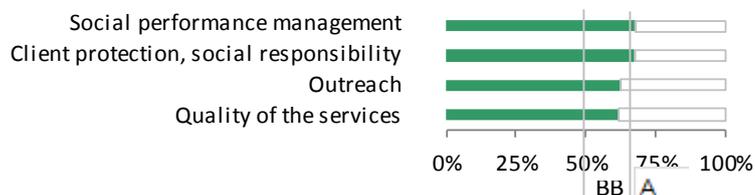


VF AzerCredit - Azerbaijan

SOCIAL RATING ^SBB+

Adequate social performance management and client protection systems.
Satisfactory alignment to the social mission.



Social Rating Committee: Apr-12. **Previous Social Rating:** BB, Oct-09 (scale comparability at [Products and Services – Social Rating](#))

SOCIAL RATING RATIONALE

SOCIAL PERFORMANCE MANAGEMENT SYSTEM AzerCredit governing body ensures a good balance between the social and financial performance. The inclusion of new shareholders, carefully selected, does not present any risk of mission drift. The strategy promotes the pursuit of social objectives but lacks a complete set of SMART objectives. The monitoring system is overall adequate but the information gathered is not yet fully translated into reliable indicators relevant to track the progress towards the mission. The HR management is overall aligned to the mission. AzerCredit overall responsible financial performance shows room for improvement in terms of reducing the costs and enhancing the quality of the service and service delivery.

CLIENT PROTECTION AND SOCIAL RESPONSIBILITY Azercredit working environment is good. The management open door approach and the transparent career path reinforce personnel adherence to the company. The risk of over-indebtedness is significant and partially curbed with a fair set of policy and procedures. Clients are also exposed to a foreign currency risk (lending in USD). Pricing is overall transparent, even if high in absolute terms and above the market. The grievance procedure is adequate. The overall social responsibility towards both the community and environment is good.

OUTREACH The breath of outreach is adequate. The depth of geographical outreach is good since most of clients and portfolio are located in area where the poverty incidence is greater. While the activities financed and the collateral requirements are in line with the target desired, room for improvement is likely to exist in the poverty outreach (based on the partial data available) alignment to the mission.

QUALITY OF THE SERVICES The variety of service offered is moderate, while the credit products variety is overall adequate. The credit products available are quite flexible and tailored to different clients need. The service delivery is prompt and the approval process efficient. Drop-out is investigated but results are not adequately shared with the field.

Institutional data		Dec-11	Social indicators		dic-11
Active borrowers		45,807	Solidarity group methodology, clients		12%
Gross outstanding portfolio, US\$		41,693,473	Rural coverage, clients		70%
Branches		8	Female clients		41%
Total staff		362	Average loan balance, US\$		883
Legal form	Limited Liability Company		Average balance per borrower / GNI pc		19%
Year of inception	2003		Average disbursed loan amount, US\$		1,330
Network	Vision Fund		Average loan disbursed (\$PPP)		1,784
Area of intervention	Rural and Urban		Client drop-out ratio		42%
Credit methodology	Individual and Group lending		PAR30		0.30%
Financial services	Credit		Clients at third loan cycle		14.33%
Non financial services	n.a.		Clients at ≥ fourth loan cycle		18.31%
Geographical coverage	Western and Southern regions		Female staff		34%
			Female staff in management		17%
			Staff turn-over ratio		5%
			Portfolio yield		42%
			APR, Individual Micro Loan*		15.85% - 54.78%

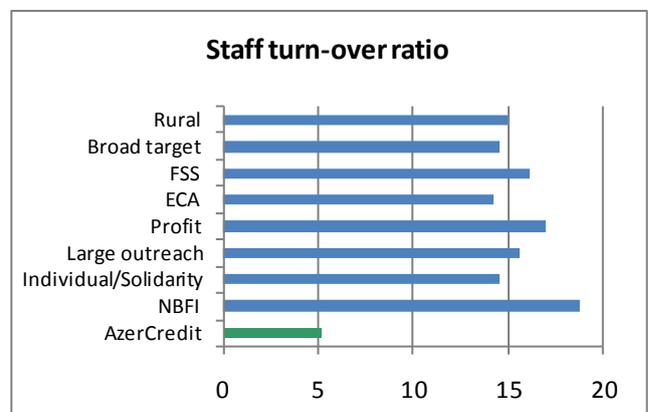
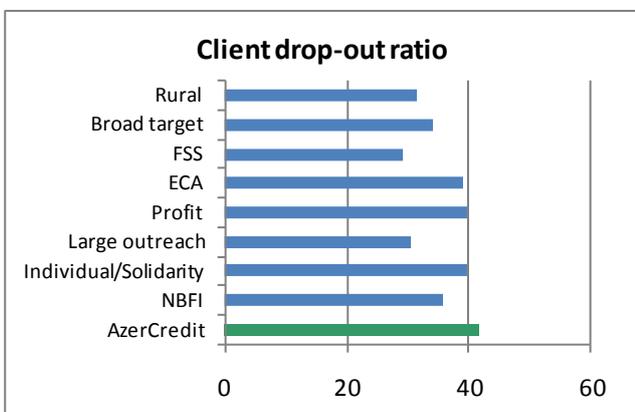
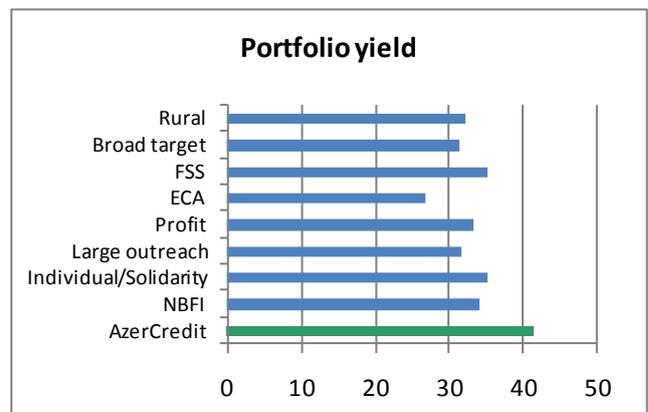
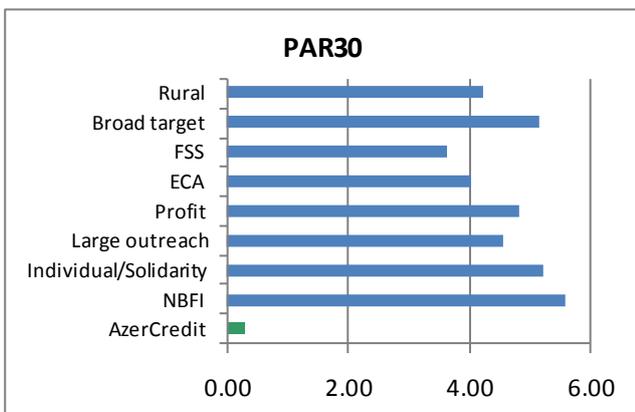
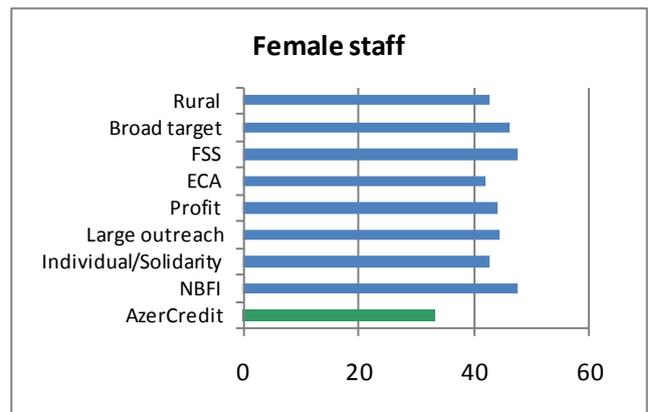
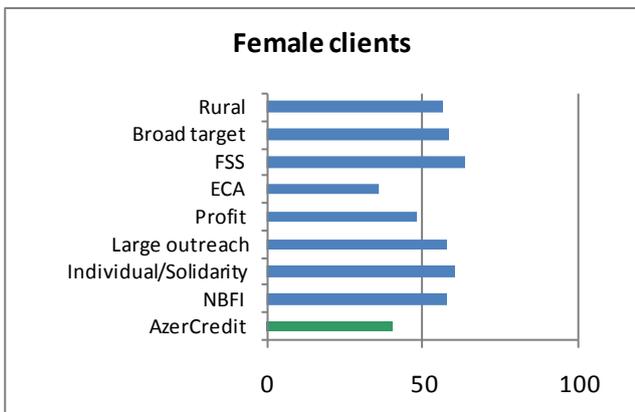
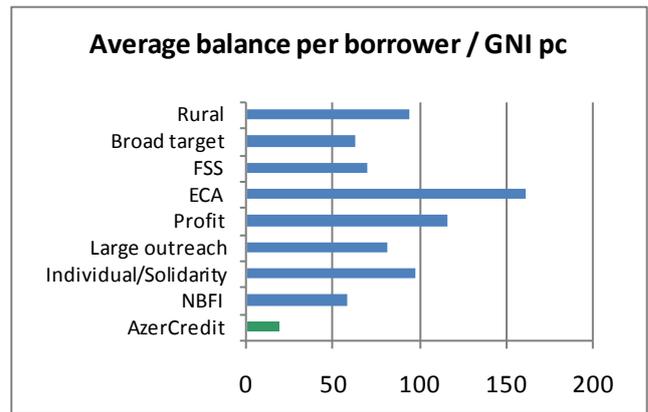
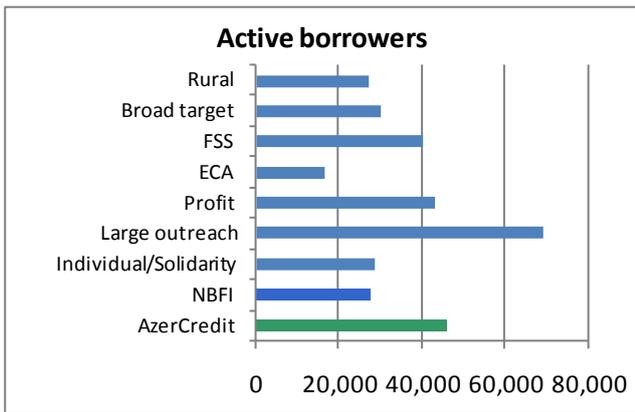
See annex 1, 2 and 4 for more details.

AREA		Main results
Social performance management system	↑	Mission statement is concise, clear and includes complete social goals.
		Good mission awareness and buy-in among staff.
		Inclusion of new shareholders in line with the company mission.
		Balanced strategy to achieve social and financial results. Operational target often revised through an effective bottom-up approach.
		Satisfactorily monitoring of the quality of the service provided.
	↓	Key terms not explicit (i.e. poor) neither in the mission statement not in the scorecard.
		Monitoring system and reporting to the BoD do not clearly identify the possible gaps between the mission and the actual results.
		The Business Plan lacks of a specific set of SMART social objectives and the three social goals not adequately supported with quantitative targets.
		Room for improvement in the responsible performance.
		The scorecard has few drawback and does not allow comparability. It is not fully exploited for decision making.
		The bonus system lacks of a full set of social indicators.
Client protection and social responsibility	↑	Overall good social responsibility towards staff: friendly working environment, benefits, fair assessment, transparent career, training opportunities, etc.
		Product design and delivery are appropriated with few activities carried out to enhance the quality of the service.
		Transparency: improvements made in disclosure and communication to clients.
		Compounded grievance procedure (i.e. boxes, hotline, crosschecks, etc.).
		Good SR towards the community (i.e. budget approved by the BoD, GALS tools, etc.)
	↓	Good SR towards the environment both in terms of procedures and activities carried out.
		Personnel not tested after training and lack of semi-annual verification of compliance with procedure for field staff.
		Over-indebtedness: Credit Bureau not extensively used, ceiling on ratios on clients repayment capacity not always respected. No in depth track and analysis of refinanced loan.
		Currency risk left with the clients with most of the portfolio lent in USD.
		Delinquency management not fully formalized yet.

Outreach	Description	Good depth of outreach with most clients located in areas where poverty incidence is above the national benchmark.
		Fair social vulnerability: clients on average 41 years old, mostly married (81%), 1.1 children per household. Most of clients are women (59%) and IDPs are 13%.
		Clients mainly involved in the agricultural sector (47%) followed by trade (21%). 11% of clients use the loan for consumption purposes.
		Depth of outreach is fair with 44% of clients located in the poor regions. Majority (70%) of borrowers are in rural areas.
	↑	Commitment towards provision of service to women clients.
		Overall acceptable alignment of the depth of outreach to the mission.
		Good breadth of outreach and above the national benchmark.
	↓	Intermediate depth of outreach considering the poverty orientation of the mission statement.
		Room for improvement in demonstrating the poverty outreach.
	Quality of the services	↑
Simple and fast application process. Efficient delegation of functions.		
Flexible guarantees required and effort to reduce the amount of gold collateral.		
Commitment and activities in place to ensure good service delivery.		
↓		Limited variety of products offered also due to the regulatory constraints.
		Grace period not fully shaped to follow the business cycle.
		Cost of the service slightly above competitors.
		Drop-out rate not effectively used in the field. Depth investigation on exiting clients not adequately shared with branches.

Some of the outreach results refer to recent clients (see annex 1).

Benchmark¹



¹ Source: MicroFinanza Rating Social Rating database, 87 Social Ratings, 5/11/11.

1. Context

1.1 Socio-economic context

Independent since 1991, Azerbaijan is politically stable despite the on going tensions with Armenia over the Nagorno-Karabakh region. The war had been ferocious² and at the end of 2010 the government reports still 592,860 IDPs³.

Although global oil prices is expected higher in 2011-15 than in 2009, slower real GDP growth in Azerbaijan owing to weaker oil production growth will weigh on budget revenue. The real GDP growth started declining in 2009 reaching its minimum in 2011 at 2.1%. In 2012 the real GDP growth is expected to partially recover. Indeed, the agricultural sector, primarily carried out by small-scale, privately run farms, grew by a robust 10.2% YoY in the first seven months of 2011. Inflation in 2011 remained stable at the average 7.9%⁴.

Despite below the regional average (ECA, HDI 0.751), Azerbaijan slightly increased the HDI from 0.699 (2010) to 0.700 (2011).

The country moved from the medium human development group (rank was 97th) to high human development, ranking 91st out of 187 countries.

Human development	Azerbaijan	ECA
Population (millions)	9.1	442.3
Urban population (%)	52%	70%
HDI	0.700	0.751
Life expectancy at birth (years)	70.700	71.300
Expected years of schooling (years)	11.800	13.600
GNI per capita (PPP 2008 \$)	8,666	12,004

Human Development Report 2011, The WB db

Azerbaijan ranks lower compared to neighbouring countries as Georgia (75th, HDI 0.733) and Armenia (86th, HDI 0.716). The life expectancy index and expected years of schooling are slightly lower compared to the peer group. GNI per capita had significantly increased from USD 3,830 (2008) to USD 8,666 (2011), because mainly lead by oil production. The positive economic growth of the recent years also allowed Azerbaijan to soundly reduce poverty. According to official data population under national poverty line sharply declined

Population under poverty line	Urban	Rural	Azerbaijan
National poverty line	14.8%	18.5%	15.8%
\$2 a day (PPP)			7.8%
\$1 a day (PPP)			1.0%

2008 LSMS, the WB db 2008

from 45% (in 2003) to 15.8% as of end 2008.

The highest poverty incidence remains severe and above the national average in Baku city and Aran

region (23% and 24% respectively). Poverty is also a rural phenomenon (19%⁵ of the population versus 15% in urban areas), where basic infrastructure lacks. The agriculture sector, considered the lowest paid sector of the economy, generates 40% of total employment. Inequality is a significant matter since the wealthiest 10% of the population controls 30% of the wealth⁶.

Negative changes in the family structure caused by out-migration of the male population in search of jobs, a rise in parental mortality due to losses sustained in the military conflict and a surge in patriarchal attitudes have intensified the risk of poverty for women. In rural areas almost 39% of households are managed by single women. These, together with larger households with more than three dependents, are generally the most disadvantaged. Poverty is predominant among refugees and IDPs. They have few employment opportunities and depend on humanitarian aid for survival⁷.

Azerbaijan has demonstrated the political will to work towards achieving the Millennium

² It is estimated 30,000 people had been killed and more than a million had been displaced before a cease-fire agreement reached in 1994

³ UNCHR report "2010 Global Trends". The figure includes about 230,000 children born to IDPs after they left their homes.

⁴ EIU, December 2011

⁵ As of 2008 51% of the population lives in rural areas. Integrated Rural Development Project, IFAD, 2010.

⁶ The poorest 10% only 3%, source: Integrated Rural Development Project, IFAD, 2010.

⁷ Rural Poverty Portal

Development Goals (MDGs). According to official data the country already reached MDG1, halving the extreme poverty and hunger, and MDG2, achieving universal primary education. For MDG 3, efforts have to be made to halt the trend towards gender inequality in enrolment in the higher classes of secondary school.

1.2 Microfinance sector

As of December 2011 44 banks managing USD 18.1bln total assets and USD 3.1bln equity constitute the financial sector of Azerbaijan. Among them 23 have foreign capital and for 7 banks the foreign capital makes up more than 50% of equity. The number of downscaling banks is increasing. Indeed AccessBank manages 30% of total microcredit portfolio followed by NBC Bank (6%), Texnika bank (5%), DemirBank (4%), Parabank (4%), Bank of Baku (3%), Turan Bank (3%), UniBank (3%), etc. The microfinance sector consists of 125 NBCOs, including 27 NBCOs, financed by foreign organizations, 97 credit unions and 1 other non-bank credit organization. As of December 2011 the Azerbaijan Microfinance Association (AMFA) represents 16 MFIs, 2 credit unions and 13 banks. The microfinance sector has grown by 25% in loan portfolio and by 20% in the number of clients in October 2010-September 2011 period, which is faster than the previous year growth rate (22% and 12.7% respectively). As of December 2011, the microcredit portfolio of AMFA members accounts for USD 655m with 389,207 clients (35% women borrowers). In terms of outstanding microcredit portfolio AzerCredit is ranked 3rd among AMFA members with the share of 6% of the total outstanding portfolio following Access Bank (28%) and Finca Azerbaijan (18%). In terms of number of active borrowers AzerCredit is the third biggest institution with 12% of the total borrowers after Finca Azerbaijan (31%) and Access Bank (21%). The biggest institutions (AccessBank, Finca Azerbaijan and AzerCredit) maintain a good portfolio quality with PAR 30 days below 1%. Other sector players still experience high PAR with a total PAR 30 at 3.1%.

Following the market distribution AzerCredit is mainly competing with big market players, i.e. Finca Azerbaijan and Access Bank, while in some areas also with smaller MFIs like Viator Microcredit, Finance for Development and Azeristar. The competition is increasing especially in urban areas where most of the banks and MFIs are concentrated. AzerCredit's focus on more remote rural areas ensures an adequate market niche.

Clients' over-indebtedness is still a matter of concern despite the introduction of the Central Credit Registry (CCR), where banks and NBCOs are requested to upload data. The system presents some drawbacks since some MFIs and CUs are still fine-tuning their MIS for transmission of information and the cost of the service is significantly high. Indeed each inquires costs AZN 2 (USD 2.6). Currently AMFA is carrying out a study on over-indebtedness, which involves 11 MFIs in several regions of the country.

The Law on NBCO (Nonbanking Credit Organizations) was approved by in January 2010. It was an important achievement that eliminated the legal void in the microfinance sector and formalized the de facto rules in place. The law did not lead to any significant changes in the way MFIs operate and are regulated. The NBCOs must be registered in the form of limited liability companies and must obtain the Central Bank license. They are still not allowed to take deposits, except for compulsory savings within loan methodology, but may provide some insurance products and leasing services. The regulatory norms set by the Central Bank are not strict and rather comfortable for MFIs. Provision requirements are main element of regulations. Central Bank requires quarterly financial and narrative reports and audited statements on annual basis. No specific norms of consumer protection or disclosure of the loans conditions have been implemented so far.

2. Social performance management system

2.1 Mission, governance and strategy

Mission clarity: adequate

Governance: good

Social Strategy: good

MISSION STATEMENT:

“To provide financial services which have a positive impact on the lives of the poor”

AzerCredit **mission statement** is concise but complete with the three social goals clearly stated. Reference is made to the poor but despite the internal scorecard⁸ a clear and formal definition is not available. The target clients are thus informally defined as entrepreneurs located in semi-urban and rural areas. Some managers also pointed out women as a target. The clients’ needs are broadly defined as financial services although AzerCredit currently offers credit only. Notwithstanding the quite stringent regulation, the company is constantly working and lobbying to promote the provision of services other than credit (i.e. insurance). Positive impact is in general perceived as the opportunity given to people to develop a sustainable life-style. The mission statement is well disseminated at all organizational level as well as adherence of corporate value.

Key terms are not adequately defined especially considering the effort the company made to develop an internal tool to assess clients’ poverty⁹.

Social Goals (SG)	Key words in mission statement
SG1: Reaching target clients	Poor
SG2: Meeting client needs	Financial services
SG3: Creating change	Positive impact on the lives

Vision Fund International (VFI) medium term strategy is to slowly facing out of AzerCredit to direct resources in those regions and institutions that need most. Thus AzerCredit has signed and is in the process to formalize the acquisition of two **new shareholders** that are well-recognised microfinance specialized investors¹⁰. No immediate risk of mission drift is foreseen since shareholders have been carefully selected and share similar values and goals as the current owner.

Additional equity investments are not expected in the near future. At the moment of the rating the board is a well-balanced team in terms of social and financial expertise but presence of local representative is still limited. Current members are committed towards the achievement of the social mission¹¹ and provide fair guidance for effective social performance decision-making. The balance between social and financial approach is good both at the BoD and management level. BoD composition will change to reflect the new ownership structure¹² but not major risk of mission drift are expected.

Reporting and social information provided to the BoD is limited considering the potential volume of data the institution is gathering. Indeed the monitoring system does not clearly identify the possible gaps between the mission and the actual results. Scorecard outcomes are not fully exploited and not sufficient analysis is carried out. The CEO report has only few social indicators (e.g. no. of women served, children impacted, job created). The monthly VFI reporting format does not include a complete set of social indicators and some of the information collected (i.e. job created, children impacted) are not fully reliable.

⁸ Since end of 2009.

⁹ Yet information available at country level is rather scarce thus hampering AzerCredit capacity to properly define its target market

¹⁰ The new shareholders together count for 48% of the shares (24% each).

¹¹ USD 65,000 has been allocated for charity activity and several campaigns are promoted for the community and environment support.

¹² The BoD will be constituted by 3 members of VFI, 2 independent, and the 2 investors representative.

Transformation into a bank is not expected in the near future also due to regulatory constraints.

The company **profitability and sustainability** has been very positive along the years with ROE and ROA standing respectively at 34.2% and 5.3% as of September 2011¹³. AzerCredit BoD does not have any specific policy to limit the interest rate or size the maximum profits despite the return on asset is significantly above the benchmark. Positive return distribution among clients is not adequate considering the high portfolio yield (41.6% as of Sep11). The company, also due to market pressures, is considering the opportunity to decline the interest rate. Furthermore is currently investing to strengthen the marketing department with the aim of improving the service delivery and the quality of the product provided. AzerCredit is responsible in terms of efficiency since strives to keep cost under control while delivering its service in rural and remotes areas. Branches are efficiently managed and considered as profit centres. The company is overall social responsible in term of compensation. The CEO remuneration is fair and in line with the level of responsibility she has to bear¹⁴. AzerCredit does not face any major salary gap. The remuneration system gives much importance to the personal achievements and targets reached. The CEO compensation is 10.4 times higher then the lower staff salary, but the figure is almost halved (5.6) when the maximum bonus amount is taken into consideration. The gap between the three top salaries/bottom is 6.79 while get down to 4.5 when the bonus is included.

Financial performance	Dec-09	Dec-10	Sep-11
PAR 30	0.4%	0.3%	0.3%
Write-off ratio	0.0%	0.2%	0.0%
Restructured loans	0.0%	0.0%	0.0%
ROE	26.8%	8.9%	34.2%
ROA	4.5%	1.4%	5.3%
Oper. Self-sufficiency (OSS)	130.1%	110.4%	116.7%
Fin. Self-sufficiency (FSS)	128.3%	108.4%	113.6%
Staff productivity (borrow.)	156	120	123
LO productivity (borrow.)	349	278	271
Operating expense ratio	24%	28%	24%
Funding expense ratio	9.3%	8.6%	8.1%
Provision expense ratio	0.0%	0.1%	0.2%
Portfolio yield	43.8%	41.5%	41.6%
Risk coverage ratio	89.7%	74.0%	75.9%
Cost of funds ratio	9.8%	9.6%	9.1%
Debt/Equity ratio	5.1	5.8	5.2

Source: MicroFinanza Rating, Financial Rating report Sep-11

AzerCredit strategy is good since overall balanced between financial sustainability and social goals. Indeed the company strategy is adequately grounded on three main strategic goals:

- Institutional development (i.e. HR system, IA, MIS and SPM improvement);
- Geographical expansion in new and existing regions;
- Product development, including non-financial services.

AzerCredit committed towards the improvement and the development of the current SPM is good and several activities are in the process to be implemented (i.e. revision of the poverty measurement tool, definition of SMART objective, responsible finance campaign with AMFA, etc.).

In the medium term AzerCredit goals is to deepen the outreach through the provision of

¹³ Profitability slow down registered in December 2010 is due to the additional expenses for the payment of the last three years social fund and the mandatory grant for NGO-funded MFI required by the regulator.

¹⁴ The CEO controls at the same time VF Credo Georgia.

quality and innovative services to small entrepreneurs and self-employed. The company aims at maintaining the portfolio concentrated into the agricultural sector (as of December 2011 is 44%) but at the same time, at satisfying household needs' though the provision of consumer loans. The IDPs are not specifically targeted but represent quite few active clients (13%)¹⁵. The current Business Plan lacks of a complete set of **SMART objectives** to guide the medium-long term strategy and the three social goals are not adequately supported with quantitative targets. Social objectives are not clearly translated into operational targets. Yet the operational plan is often revised and the targets are set though an effective bottom-up approach.

The product development is properly aligned to the mission (i.e. family loans has been pointed out by clients) and investigations over clients' need are appropriately carried out. AzerCredit will shortly explore the opportunity of offering Islamic complying products.

2.2 Tracking and monitoring system

Monitoring of the target client: adequate

Monitoring of the quality of the services: good

Monitoring of the change/impact: moderate

Reporting and use of social information for decision making: adequate

The **tracking and the monitoring system** is not adequate for the current volume of operations and the company needs. E-merge has several drawbacks and rigidities (e.g. no credit line, early repayments, etc.). The reporting is time consuming and thus hampers on AzerCredit quality and prompt information. The company is the process of purchasing at the new software at the group level. Two MIS had been shortlisted and the pilot should start by the year-end.

The information system to monitor the social performance is not exploited at its maximum extend. Personnel in the field perceive the scorecard as a marketing tool (i.e. tool for information gathering) rather than an instrument for decision-making. Quarterly reporting is prepared and shared with the BoD but done but information is not effectively used.

SG1: The system to monitor the client profile is fair. The application form gathers few data on the client (e.g. discriminates between IDPs and local, gender, type of business, years in the activity, employees, no. of children, etc.) but still with a significant focus on the business characteristics only. The scorecard, differentiated by area (i.e. rural and urban), is carried out for each application. The tool presents some gaps and need to be fine-tuned¹⁶.

SG2: The quality of the service is satisfactorily monitored with several activities carried out. FGDs are held once a year in each branch with the aim of assessing the quality of the service and to get suggestions for product development. Client satisfaction is properly investigated. After each loan disbursement, clients are given a form where asked questions over satisfaction, impact created¹⁷ by the loans product, financial awareness and grievance. The Customer Care Officer further randomly calls between 20-30 clients per month for each branch to cross check over the quality of the service provided. Exit survey is a quite comprehensive investigation in place since May 2011. Mystery shopping has never been carried out. Drop-out monitoring is inadequate since branches are given the information from the HO but do not actively use it for decision making.

SG3: An impact study has never been carried out but AzerCredit is planning to roll it out next year by comparing last few years scorecard results.

Internal audit of social performance data is moderate. The reliability of the information collected with the scorecard is not fully performed and consistency of information on job created and children impacted is not always verified.

¹⁵ AzerCredit MIS DB at December 2011.

¹⁶ The scorecard currently does allow comparability neither with national nor with international poverty measures. Furthermore some of the questions can be misleading (e.g. dependents are not taken into account, the education is recorded at household level, the number of household members are not considered, appearance of clients cloth is too subjective parameter, etc.).

¹⁷ Multiple answer questions where the client can tick which business improvement has received from the loan.

AzerCredit is a transparent organization willing to share information with a wide range of stakeholders. The company reports to the MixMarket on social performance and had been case study for MFC publication. In 2010 the company received the Platinum Award from the CGAP and the Susan and Michel Dell Foundation for Social Performance Reporting to MixMarket.

2.3 HR alignment to the mission

Alignment of the human resources to the mission: good

Mission dissemination: adequate

The **human resources management** is fairly aligned to the mission. AzerCredit is not expose to a significant risk of mission drift since several activities are carried out (i.e. staff retreats, celebrations, etc.) to reinforce personnel adherence to the company. A dedicated SPM manager is not yet appointed but most of the tasks are properly carried out by the Marketing Department.

The transparent hiring process and the internal promotion of middle and top managers ensures the alignment and transmission of values at all the company level.

The induction material spells out in a comprehensive manner the company code of ethic and strategy. The mission statement and the company principles are clearly highlighted and separately presented.

Mission dissemination is adequate and target clients are quite uniformly identified both by managers and filed staff. The definition and understanding of the poor, since not available, may vary.

The individual evaluation process is fair since partially assess the quality of the customer service provided¹⁸.

Overall the incentive scheme is fair although does not include yet any explicit social goals. A ceiling on the maximum incentive amount partially curbs the risk of over-indebtedness and the incentive to loans disbursed without gold collateral ensure less burdensome requirements for clients. Scorecard is not used to define the bonus scheme notwithstanding the tool may be useful to ensure that the target clientele is really served.

¹⁸ Personnel are evaluated on general performance factors. Among them the interpersonal skill, the work ethic and the relation with the clients are judged.

3. Client protection and Social responsibility

3.1 Social responsibility towards personnel

Labour climate: good

Staff compensation: good

Professional development: good

AzerCredit **gender balance** is overall adequate and supported by equal opportunities as stated in the Code of Ethic. Staff turn-over is moderate since 2009 and standing at 5.3% as of December 2011. Employees enjoy the company working environment, the management open door approach and the transparent career path.

Staff	Dec-08	Dec-09	Dec-10	Dec-11
Total staff	174	206	298	340
Female staff	35%	38%	29%	34%
Female staff in management	13%	13%	7%	17%
Female members of the BoD			17%	17%
Staff turn-over ratio¹	14.8%	5.8%	7.9%	5.3%
Male	16%	5%	6%	8%
Female	13%	7%	11%	0%
Management	22%	7%	7%	6%
Loan officers	12%	4%	7%	4%
Administrative staff	18%	10%	11%	7%
Support staff	11%	0%	0%	3%

¹Calculated with average number of staff.

The Code of Ethic and Business conduct is quite comprehensive¹⁹ since protects the staff from unethical behaviours from the MFI or colleagues. All staff signs the code and is given a copy. The labour climate is good. Personnel are generally motivated and actively involved in the design of the strategy since bottom up approach is enforced when setting the annual targets. The **fair and equal treatment of personnel** ensures retention and contributes to the sound working environment. A grievance procedure is available. The conflict resolution is partially captured in the code of ethics and in the HR manual. Staff satisfaction monitoring²⁰ is fairly assessed once a year during the annual appraisal process.

Human resource policy is quite comprehensive with few modules (i.e. compensation, HR philosophy, etc.) still under construction.

Contractual conditions are fair. All staff is granted only one-year contract comprised of medical insurance. The salary is revised once a year. Despite remuneration is slightly lower compared to competitors, compensation and benefit are enough to ensure personnel retention. AzerCredit indeed uses dedicated market research to investigate on salary²¹. The package of benefit is adequate and available at all organizational level²². In line with VFI policy, personnel cannot get staff loans.

The **bonus system** is quite complex and balances the slightly lower remuneration²³. The scheme is clear and properly understood by personnel at all organizational level. Additional monthly bonus is granted for best performing LOs. Gold is safety managed and do not represent a major risk for personnel involved in the transactions.

The recruitment process is transparent and well designed. Equal opportunities are given both to internal and external staff. Internal promotion is preferred for upper positions but test is compulsory performed for every candidate. Coaching is not rewarded.

¹⁹ It includes the conflict of interest policy, harassment and discrimination, child protection, professional conduct, etc.

²⁰ Staff can be also asked on career expectation.

²¹ American Chamber of Commerce in Azerbaijan, 2011 Annual National Employees Salary Survey, December 2011.

²² Car allowance is granted for LO (amortization of the own vehicle used and fuel expenses), scholarship for management positions (80% of the tuition cost), etc.

²³ The incentive can go up to 100% of the salary for ground staff. Clear monthly targets are given to the LOs, SR LOs, BMs (i.e. on PAR, clients reached, portfolio disburse, etc.). The targets are set according to the years of experience (30% after three months, 50% if 6 months, 100% after 12 months or more) and differentiated between urban and rural.

Annual objectives are set for each employees and fairly monitored during the bi-annual appraisal. Indeed the interim assessment review adequately supports the targets fine-tuning. The end-year assessment serves to grant all personnel the annual bonus.

Training needs identification is transparent and opportunities are fairly offered at all the organizational level. Personnel are not tested after training. Furthermore field staff knowledge of the procedure and company values is not yet adequately monitored since a comprehensive and periodical system of testing is not in place²⁴. AzerCredit recently set up three regional training centres (i.e. Baku, Ganja and Imishili) to ensure full and smooth transmission of knowledge to field personnel. The **succession plan** not yet completed. AzerCredit is currently identifying talents for each branch and is going to work on their skill development. The recent purchased of dedicated HR software will further reinforce the development of a comprehensive substitution plan.

3.2 Client protection

Appropriate product design and delivery: good

Prevention of over-indebtedness: moderate

Transparency: adequate

Responsible pricing: moderate

Fair and respectful treatment of clients: adequate

Privacy of client data: adequate

Mechanisms for complaint resolution: good

1. Appropriate product design and delivery

The product design had been well supported by in depth FGDs and market analysis²⁵. A formalized system to regularly carry out investigation of the appropriate product design is in the process to be developed. In general, the variety of the product offered is fair considering the market and regulatory constraints. The repayment schedule is quite flexible despite not fully tailored to the business and household cash flow. The loan size and guarantees requirements are adequate for the target market. Prepayments are free of charge. AzerCredit strives to get closed to clients thus support LOs in vehicle purchase with the aim of serving customers door to door.

2. Prevention of over-indebtedness

Azerbaijan microfinance sector is expose to a relevant **risk of over-indebtedness**, especially in urban areas where competition among large MFIs and downscaling banks is more significant. Risk of over-indebtedness is increasing also in rural areas where several formal and informal small players compete. The **CCR** is not fully effective since not all market actors (especially small MFIs and CUs) are reporting and the cost of getting information is still too high to allow extensive use of the facility²⁶. **Multiple borrowing** is quite commune and not all institutions perform adequate clients' assessment. On the other hand, the association of microfinance institutions (AMFA) is collaborating with the main market players, including AzerCredit, to issue (by March 2012) a basic booklet for the promotion of financial education among MFIs clients.

AzerCredit **assessment of clients' repayment capacity** is satisfactory. Ratios to guide the field staff analysis are in place but in few cases indicators are violated. Family expenses and amount to remain with the client in case of emergency is taken into account when the net income is defined. Instalments of other loans, also from competitors, are also considered in the assessment. The policies in place to prevent clients' over-indebtedness are fair. Clients can get maximum two parallel loans (i.e. one for business and another for consumption) and adequate analysis is performed. **Refinancing** granted only once and if 60% of the outstanding balance is already paid, is not separately tracked. The phenomenon involves roughly 10-15% of the portfolio but so far has not been adequately monitored. Staff incentive is adequate and do not expose the institution to the institution to the risk of overselling or over-indebting clients.

²⁴ On March 2012, AzerCredit carried out the first comprehensive test on staff compliance with approved policies. All field and back office staff at the branches had been evaluated.

²⁵ FGDs held in 2010 drove the creation of the Family Loan product.

²⁶ AzerCredit check on clients only is the loan is above AZN 3,000 (USD 3,800).

3. Transparency

Overall AzerCredit transparency of the service is adequate considering the improved clarity of the cost structure (i.e. repayment schedule had been translated into Azeri). The legal department is further revising the contract with the aim of shaping it in more clear and understandable language. Clients are orally explained by the LOs on the conditions and schedule features. The interest rates are all declining balance and overall **transparency index**²⁷ is adequate for all credits offered (see table below). Nevertheless products are market with monthly interest rate only. The effective interest rate is disclosed neither in the contract nor in the marketing material. The regulator does not set any requirement.

AzerCredit is actively collaborating with AMFA for clients' financial awareness promotion and actively reports to the MfTransparency²⁸. On Jan 2012 the company had been also awarded by local association for transparent pricing among local MFIs.

Credit products	Annual percentage rate (APR)	Transparency index		Active clients	Outstanding portfolio	Average loan balance, US\$
Individual Micro Loan	15.85% - 54.78%	75.7%	76.7%	74.1%	68.2%	1,675
Individual Small Loan	26% - 46.14%	92.3%	91.0%	4.0%	8.5%	3,905
Group Lending	26% - 46.14%	92.3%	91.0%	12.8%	8.9%	1,246
Family Loan	34.86% - 54.78%	94.7%	76.7%	8.2%	12.6%	1,015
Household Loan	38.63%-48.34%	93.2%	86.9%	0.9%	1.8%	1,755

See annexes 3 and 4 for more details.

The IA controls are fair since clients are asked over the clarity of explanation received when getting the loan and on the conditions applied. This last aspect is successfully used as fraud detection tool.

4. Responsible pricing

The cost charged to clients includes an annual percentage rate of 26%-46% for group and individual small loans and 16%-54% for micro loans. Consumption loans range from 35%-55% for family loan and 39%-49% for household loans.

All loans have an additional cost if the bank is used for the loan repayment and on money conversion when the loan is lent in USD. Indeed, clients are exposed to currency risk since 55-60% of the lending done is hard currency²⁹. According to the MIS information, clients are mostly managing loans in USD (70.5% of the active clients as of Dec11) and in particular individual micro loan is mainly issued in USD. Most vulnerable clients under solidarity group methodology can access AZN loans.

AzerCredit is exploring the opportunity of getting the licence for indexed loans.

The prices are differentiated by region but have not been changed in the last three years despite the significant performance the institution had. The recent decline of prices applied by competitors is likely to push also for AzerCredit cost reduction.

Cost of credit	Jan08-Dec08	Jan09-Dec09	Jan10-Dec10	Jan11-Sep11
Average loan balance	793	630	753	883
Portfolio yield	40.3%	43.8%	41.5%	41.6%
PAR 30	0.1%	0.4%	0.3%	0.3%
Rural coverage, portfolio	52.9%	67.0%	67.0%	67.4%
Rural coverage, clients	54.5%	67.0%	67.0%	70.5%
Operating expense ratio	24.7%	24.3%	27.9%	23.9%
ROE	27.1%	26.8%	8.9%	34.2%
ROA	5.4%	4.5%	1.4%	5.3%

Source of financial ratios: MicroFinanza Rating, Financial Rating report Sep-11

²⁷ Comparison between the stated interest rate and the annual percentage rate.

²⁸ Comparison with other MFIs in the country cannot be fully performed since data on MfTransparency are not updated.

²⁹ The lack of convenient hedging instruments has led several institutions in the country to lend in USD.

5. Fair and respectful treatment of clients

AzerCredit policies are overall adequate and designed to orientate the staff towards a fair and responsible treatment of the clients. The **code of ethics**, mainly focused on the expected behaviour towards the company, also includes some guidelines on the conflict of interest, fraud and customer care. Personnel are properly trained during the induction phase. The company is currently working on customer service standards to ensure that acceptable behaviours are clearly spelt out and reinforced at all organizational level.

The **delinquency management policy** in place is rather basic. A full set of guidelines to avoid non-acceptable collection practices is not available. Nevertheless informally AzerCredit always tries to approach the clients in a soft way and collection does not deprive them of the basic means.

Controls over personnel behaviour are rather comprehensive. Different staff (i.e. branch manager, regional manager, senior LOs, IA, etc.) visits clients quite often but the process is not fully formalized yet. LOs are also rotated every two years. The annual staff appraisal is adequate and includes a brief verification of personnel ethical behaviour and professional conduct while dealing both with clients and colleagues.

6. Privacy of client data

Protection of clients' data is fair. The current contract does not include any specific privacy clause but AzerCredit is revising it to also include a specific clause for Kiva borrowers. The Code of Ethics has a dedicated section on confidentiality of customer information.

7. Mechanisms for complaint resolution

Overall AzerCredit policy and procedure to handle clients' complaint is good with several tools in place. Formal channel allows quite prompt and effective communication flow. The policy clearly states different responsibility along the process. Complaint forms are in all branches, clients are given brief satisfaction questionnaire after every loan is disbursed and boxes are frequently checked. Clients can also contact directly the Customer Service Officer, if needed, through a dedicated number. The hotline is still quite rudimentary but the Marketing Department is working for smoother the process. Investigation over customer grievance also is also carried out by the IA department during the routing monitoring process. The in-depth complaint mechanism also allows adequate feedback gathering.

Social responsibility towards the community: good

Social responsibility towards the environment: good

Community

Overall policies to avoid harming the community are good. AzerCredit personnel have to sign a quite comprehensive code of conduct and World Vision child protection policy. Exclusion list are in place but internal audit verifications need to be strengthened.

The BoD approved in the 2012 budget USD 65,000 to be granted for charity and community oriented activities. Since 2009 AzerCredit is actively involved in the implementation of the GALS tools³⁰. In August 2011 self-helping groups were launched and more than 500 booklet distributed. A dedicated context called "Change your life" was also promoted with the aim of increasing the impact of the activity.

Environment

AzerCredit social responsibility towards the environment is good. A concise but user-friendly environment policy has been developed and the company is currently working on personnel environmental training. The policy includes a list of business with potential environment hazard that need specific assessment. The effectiveness of the system still needs to be proven but point out the company positive attitude. List of green office procedure is in place. In line with the International Year of the Forest declared by the

3.3 Social responsibility towards community and environment

³⁰ Gender Action Learning System. Exercises are designed for individual reflection on life goals or for work on organising of female self-help study groups and counselling services.

United Nations, AzerCredit lunched (November 2011) a drawing context for children. The context theme aimed at promoting attention toward forest conservation. Children were awarded with drawing material and the company calendar was edited with the best pictures.

4. Outreach

4.1 Area of operation

Geographical coverage: good

Alignment of the geographical outreach to the mission: good

AzerCredit **geographical coverage** is intermediate since the company covers 5 out of 10 economic regions of Azerbaijan. Compared to the previous rating, AzerCredit has not grown much in terms of geographical outreach but has significantly increased the regional penetration. The **depth of geographical outreach** is good since most of clients and portfolio are located in Aran and Baku City where the poverty incidence is greater (24% and 23% respectively) than the national average (16%). Operation are also significantly concentrated in rural areas (70% of the active clients and 67% of the outstanding portfolio) where poverty is much more severe (19% poverty incidence.)

Regions of operation	Poverty	AzerCredit ¹	
		Active loans	Outstanding portfolio
Baku City	23%	4%	5%
Absheron	4%	8%	7%
Aran	24%	40%	40%
Ganja-Qazakh	13%	32%	30%
Yukhari-Karabakh	7%	17%	18%
Zone			
Urban	15%	30%	33%
Rural	19%	70%	67%
Azerbaijan	16%	100%	100%

Source: LSMS 2008

4.2 Clients reached³¹

Breadth of outreach: adequate

Alignment of the depth of outreach to the mission: adequate

AzerCredit is among the leading MFIs in Azerbaijan and it is thus positioned 3rd both in terms of active clients and portfolio share.³² The **breath of outreach** is good and above the national benchmark where the microfinance sector serves on average 12,555 clients with a portfolio worth on average USD 20m³³.

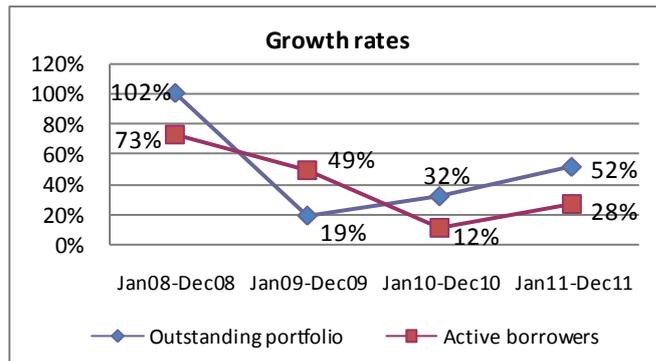
AzerCredit	Dec-08	Dec-09	Dec-10	Dec-11
Gross outstanding portfolio US\$	17,050,350	20,293,464	27,028,887	41,693,473
Growth in outstanding portfolio	102%	19%	32%	52%
Active borrowers	21,509	32,150	35,868	45,807
Growth in active borrowers	73%	49%	12%	28%
Branches	6	7	7	8

The company has constantly grown along the years. The 2011 registered important growth of the outstanding portfolio (+52%). Clients have increased at less rapid pace (+28%) but the average loan size has remained rather low.

³¹ Source of information: data from MIS.

³² The leading MFIs in terms of active clients and portfolio are Finca Azerbaijan and Access Bank.

³³ AMFA Matrix, December 2011, microfinance portfolio only.

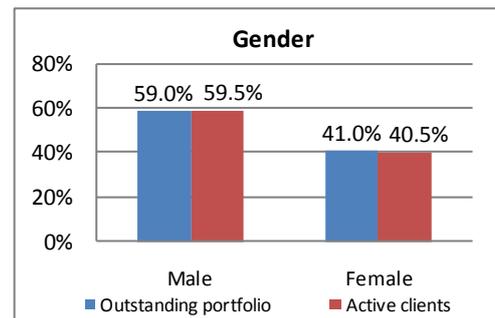


Overall AzerCredit **depth of outreach is acceptably** aligned to the mission since most of the clients financed are located in rural areas and engaged in agricultural activities. Even though not specifically targeted the company provides services also to IDPs that represent 13% of the active borrowers. Nevertheless the alignment with national and international benchmark cannot be fully demonstrated yet. The **depth of outreach** is thus intermediate with an average disbursed amount standing at USD 1,330 and USD 1,784 in PPP.

Social vulnerability and household profile

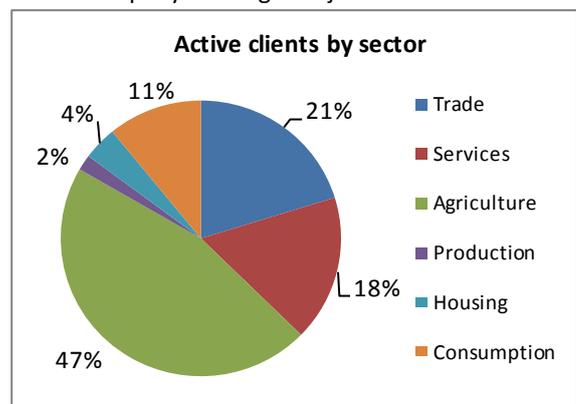
The current MIS does not gather enough information on the clients' profile. Data collected with the scorecard are not separately analysed to investigate on specific aspects of the clients' social vulnerability and household profile. Nevertheless AzerCredit clients are on average 41 years old, mostly married (81%). Children impacted account to 66,803 with an average of 1.1 children per household³⁴.

AzerCredit does not have a specific strategy for women inclusion but carries out some activities (e.g. special discounts, introduction of GALS tool, etc.) to enhance women participation. Indeed women are 40.5% of the active borrowers. The share has remained almost stable along the period moving from 42.5% as December 2008, to 39% as December 2010. The outreach is good since greater than the regional benchmark (36% ECA). IDPs are mainly men (9.48%).



Financed activities

The activities financed are in line with the company strategic objectives. Most of the clients are engaged in the agricultural sector (47% of the active borrowers and 44% of the outstanding portfolio), followed by trade (21% clients and 24% portfolio) and services (18% of clients and 16% of portfolio). Among agricultural clients, cattle breeding is the most common activity (30.5% of the borrowers). Loans for consumption purposed are quite significant representing 11% of the active borrowers and 13% of the outstanding portfolio. Start-up business is not financed. According to the monthly VFI report, during the 2011 AzerCredit created 456 full time equivalent jobs and 54,272 full time equivalent jobs had been sustained. Information on job created is not always crosschecked during the loan period.

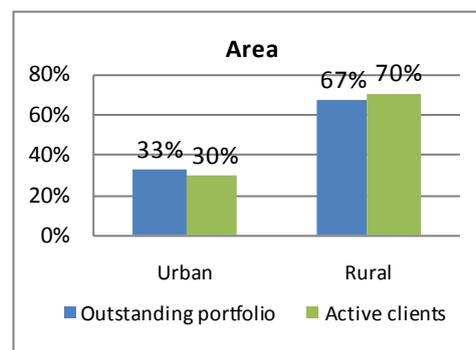


³⁴ VFI monthly report, December 2011.

Economic poverty

The **depth of outreach** is fair and in line with AzerCredit mission statement. Thus 44% of clients and 45% of the portfolio located in areas where the poverty is significantly above the national poverty line. Most of borrowers are also placed in rural areas where poverty incidence is slightly above the national benchmark. According to the last Social Rating (Oct2009) 17% of clients are below the national poverty line and 8% below the extreme national poverty line³⁵.

Despite the information gathered with the scorecard are not fully consistent, in the last quarter of 2011, 11% of the loans were disbursed of entrepreneurial poor, 53% to self-employed poor and 34% to subsistence poor. Only 1% to vulnerable poor and non-poor³⁶. The results are in line with the management intended target.



Dwelling and assets

Information on the living conditions of the households reached by AzerCredit is currently not available in the MIS. Details on the dwelling conditions, assets owned (i.e. vehicle, PC, air-con) are gathered through the scorecard but so far the information has not been compiled in any documents, thus not analysed. Clients are aligned to the mission in terms of collateral. Conditions are rather flexible and customers are allowed to combine a wide range of different items. Gold has still a significant role³⁷ since, as according to the MIS, 37.87% of clients use it as a primary collateral item, followed by 31.37% that use home assets and 28.78% that use animals. Only 1.88% pledge business equipment. Group solidarity is in general not very popular in the region but involves 12% of AzerCredit clients.

Access to financial services

AzerCredit has so far been specifically focused on rural and urban vulnerable. The average small size of the loan granted suggests that the institution is able to reach small-scale agricultural business and entrepreneurs. Severe policies on cross-indebtedness and focus on remote area further ensure that the company is likely to have a good and responsible level of financial inclusion.

Credit size

The **average amount loan disbursed** is in line with the rural outreach AzerCredit is aiming at serving, thus clients receive on average USD 1,330. The amount goes up to USD 1,784 when converted into PPP.

The **average loan balance** is rather low standing at USD 883. Small loans both for agricultural and urban clients have the greater outstanding balance (USD 1,887 and USD 2,018 respectively). Also loans for

Loan size	Dec-11
Average loan balance, US\$	883
Individual Urban Micro Loan	861
Individual Agriculture Micro Loan	814
Individual Urban Small Loan	2,018
Individual Agriculture Small Loan	1,887
Group Agricultural Loan	636
Group Urban Loan	609
Family Loan	1,015
Household Loan	1,755
Average balance per borrower / GNI pc	19%
Average disbursed loan amount, US\$	1,330
Average loan disbursed (\$PPP)	1,784
Annual growth in average loan balance, last three periods	3%

³⁵ Information are not fully comparable because data are out of date and poverty in Azerbaijan significantly declined. See chapter1.

³⁶ Indicators are qualitative and internally developed thus are not comparable with the official national and international poverty lines.

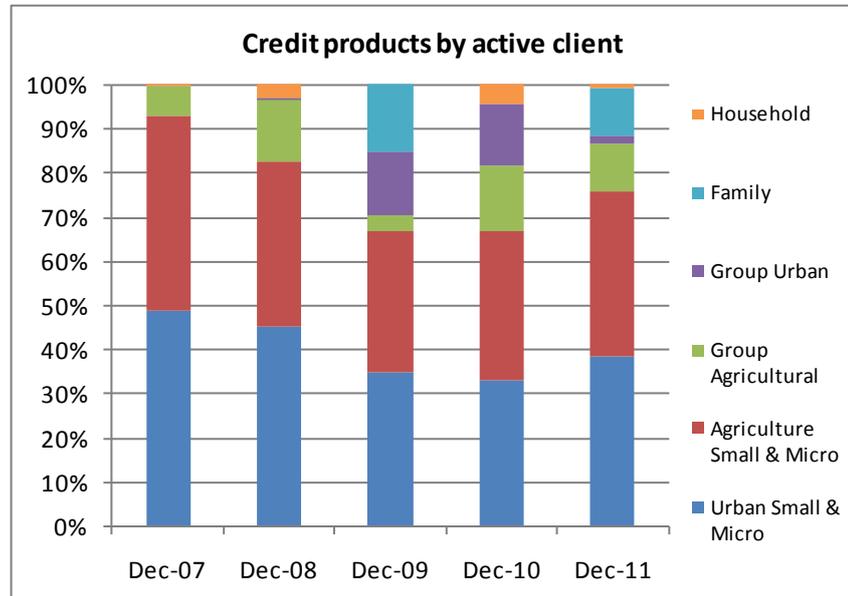
³⁷ Gold is relevant also for cultural reasons.

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consumer purposes have a quite significant outstanding balance.

Nevertheless the **average balance per borrower/GNIpc** is rather low standing at 19% and fully in line with the poverty orientation of the company.

Products composition did not change much in the last years but the clients have been simply reallocated to the new products made available. Agricultural Small and Micro loans have remained almost stable along the years while Urban and Small Micro loans have slightly declined as well as Group loans.



5. Quality of the services

5.1 Variety of the services

Overall variety of the financial services: moderate
Variety of credit services: adequate

The **variety of services** offered is rather limited due to regulatory constraints. AzerCredit is currently providing credit only but is actively working to enhance the product offer. The company recently (April 2012) received approval for the insurance agent licence. The licence will allow the introduction of compulsory life insurance³⁸.

The variety of credit products is good with quite well diversified loan conditions in terms of loan size, amount, repayment schedule and guarantees required.

Individual Urban and Individual Agricultural Loans are the core product offered by AzerCredit representing 37% and 35% of the active clients as of December 2011 (36% and 32% of the portfolio respectively).

The Household loan is the only product available in AZN only because designed as an agreement with local shops for consumption items purchase. The product share has remained rather low along the years because considered as additional facility offered to clients. The Family Loans has been specifically shaped upon customers request. Available since 2011, the loan product is for consumption purposes. Clients' business turnover and other family income are assessed before the loan is granted.

AzerCredit does not offer start-up facilities; clients must be in the business for at least 5 month in order to get a loan. Emergency loans are also not available. AzerCredit provides both individual (93% of the portfolio and 87.7% of clients) and group loans (7% of the portfolio and 12.3% of clients). Clients prefer individual lending products because issued up to AZN 2,000 (USD 2,542) with flexible guarantees requirement³⁹. Customers can get up to two parallel loans: one for business and the other for consumption purposes. Loans can be also refinanced if 60% of the outstanding loan is already paid. The lack of a specific tracking system for this particular loan feature represents a risk.

Currently no plans are in place to enhance the product offer but the frequent FDGs will allow AzerCredit to gather relevant information on clients' needs.

Clients can access to a free of charge SMS notification system that is highly appreciated. The company is working on a SMS pooling system to answer to clients' inquiry.

5.2 Adequacy of the services

Adequacy of credit services: good
Adequacy of other financial services: moderate
Non-financial services: not in place

Overall **credit services** are fair with quite flexible conditions in place to meet the various credit need of the target population. The cost of the service is currently higher compare to the company main competitors, but AzerCredit is working to reduce the interest rate.

The **service delivery** is good and AzerCredit is committed towards its improvement. LOs are given dedicated bonus to use their own car and get closer to clients. Cash operations are carried out through branches of local banks, despite quite inefficient, or through cash nodes at AzerCredit premises. The company is negotiating with local provider to establish pay-points to enhance the payment facilities.

The **time and procedure to get a loan** is adequate thanks also to the efficient delegation of approvals⁴⁰. On average loans are disbursed within 2-5 days. Credit committee are held at the branches on daily basis. The process is transparent and adequately monitored. Village counsels are still few despite potentially useful to deeper the outreach.

Overall **guarantees** requested are fair and allow access to the most vulnerable target

³⁸ Attached to the loan product, the insurance price will vary according to the age of the client, the term of the loan (from 0.7% to 1.25%).

³⁹ Client can pledge all movable assets and can be a combination of different items like home appliance, livestock and gold.

⁴⁰ Senior LO can disburse up to AZN 1,000 loan and give approval to the LO on the same amount. Branch Manager can approve loans up to AZN 5,000 and must visit the clients on above amounts. The Regional Manager approval is AZN 10,000 but he often chairs the committee to have a better control over field operations.

clients (i.e. solidarity group). Collateral requirements have improved and the amount of gold required has significantly declined. Indeed gold (since March 2011) can now cover maximum 30% of the loan amount. Clients can get up to AZN 2,000 by pledging movable assets only. Guarantor is usually needed for loans above AZN 3,000, but from the second cycle can be removed if the client has built a good credit history. The guarantor is fairly assessed since he should have a stable job-income and 70% of his monthly income should cover the loan instalment. Yet he is not checked with the credit bureau.

The **repayment schedule** is adequate. Prepayments are free of charge while for advance closure a penalty is applied⁴¹. **Grace period** is not fully shaped to follow the business or the agricultural cycle since can be taken for maximum 6 months either at the beginning or at the end of the loan period.

The **amount** offer is adequate to meet the target clients. Most of the loans issued by AzerCredit (89%) are below AZN 2,000 (USD 2,542), but the great majority (60%) is in hard currency.

Cost of the service is moderate since slightly above the market. The company does not disclose the effective interest rate in the loan agreement but transaction costs are clearly presented. Interest rate does not vary by client profile but is differentiated by branch and discounts are available for repeated and loyal clients. During specific celebrations (e.g. women's day) special discounts are applied to women clients.

Customer service is overall good with several activities in place to gather clients' feedback. Field controls are also adequate and ensure a significant capacity to oversee operations while ensuring high quality of service delivered.

Clients are adequately monitored within 30 days from the issuance of the loans and then at least twice a year. There is a specific monitoring system and effective control form the HO.

Drop-out rate is not adequately investigated especially at the field level. The ratio is calculated at the HO but not sufficiently shared with the branches. Consequently information is seldom used. Exit survey is very comprehensive and gives a clear picture of the reasons why clients are leaving AzerCredit but the information is not yet properly shared with the field. Decision-making is thus limited despite the drop-out rate is significant (42% as of December 2011) and not declining along the years⁴².

Client drop-out	Dec-08	Dec-09	Dec-10	Jan11-Dec11
Client drop-out ratio	28%	44%	48%	42%
PAR30	0.1%	0.4%	0.3%	0.3%
Loans in first cycle				45%
Loans in second cycle				22%
Loans in third cycle				14%
Loans in > third cycle				18%

Saving collection is not allowed by the regulation and AzerCredit does not carry out any activity to promote saving culture among clients. At the moment of the visit non-financial services are not in place but the company is working on an insurance product.

⁴¹ Three months interest rate is charged as penalty if the loan is closed before 50% of the amount is paid and 2 months if more than 50%. No extra charge if the loan is closed two months before the due date.

⁴² AzerCredit calculates its own retention rate using the following formula: $1 - ((\text{no. of clients end of period} / \text{no. of clients beginning of period} + \text{first cycle clients}))$. According to the company internal calculation the retention rates is 22.3%.

Annex 1 - Statistics

Poverty lines

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

The lower poverty line was determined by summing up the food component of the poverty line with the amount of non-food and services typically consumed by those whose total consumption equals the food poverty line.

The national extreme poverty line is defined as the sum of food and other non-food basic necessities. Individuals are classified as very poor if their consumption per adult equivalent is below the extreme poverty line. The lower poverty line, expressed in 2008 prices, was estimated at AZN 49.3 per capita per month.

The upper poverty line was determined by adding to the food component the amount spent on non-food and services by households whose food consumption equals the food component of the poverty line. Individuals are classified as (total) poor if their consumption per adult equivalent is lower than the total poverty. The upper line, expressed in 2008 prices, was estimated at AZN 57.75 per capita per month.

Poverty lines, AZM	Base year	Value	Most recent period		Value adjusted for inflation
National poverty line	2008	1.90	Jan-11	Dec-11	525.66
National extreme poverty line	2008	1.44	Jan-11	Dec-11	399.60
\$2 a day (PPP)	2005	0.87	Jan-11	Dec-11	1.47
\$1 a day (PPP)	2005	0.43	Jan-11	Dec-11	0.73

Annex 2 – Social Indicators

SOCIAL RESPONSIBILITY

Female staff*	34%
Female staff in management*	17%
Staff turn-over ratio* ¹	5.3%
Portfolio yield*	41.6%
Annual percentage rate (APR), Individual Micro Loan*	15.85% - 54.78%
Annual percentage rate (APR), Group Loan*	26% - 46.14%
Annual percentage rate (APR), Family Loan*	34.86% - 54.78%
Operating expense ratio	23.9%
ROE	34.2%
ROA	5.3%

OUTREACH

Active borrowers*	45,807
Growth in active borrowers*	28%
Growth in outstanding portfolio*	52%
Individual methodology, portfolio*	93%
Individual methodology, clients*	88%
Solidarity group methodology, portfolio*	7%
Solidarity group methodology, clients*	12%
Urban coverage, portfolio*	33%
Urban coverage, clients*	30%
Rural coverage, portfolio*	67%
Rural coverage, clients*	70%
Agriculture, portfolio*	44%
Agriculture, clients*	47%
Female clients, portfolio*	41%
Female clients*	41%
Average loan balance, US\$*	883
Average balance per borrower / GNI pc*	19%
Average disbursed loan amount, US\$* ²	1,330
Average loan disbursed (\$PPP)*	1,784

QUALITY OF THE SERVICES

Client drop-out ratio*	42%
PAR30 *	0.30%
Clients at third loan cycle*	14%
Clients at ≥ fourth loan cycle*	18%

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

¹Calculated with average number of staff. ²Calculated with average exchange rate

Annex 3 – Financial Products

Credit products	Individual Urban Micro Loan	Individual Agriculture Micro Loan	Individual Urban Small Loan	Individual Agriculture Small Loan	Group Agriculture Loan	Group Urban Loan	Household Loan	Family Loan
<i>Lending methodology</i>	Individual	Individual	Individual	Individual	Group	Group	Individual	Individual
<i>Currency</i>	USD/AZN	USD/AZN	USD/AZN	USD/AZN	USD/AZN	USD/AZN	AZN	USD/AZN
<i>Type of interest</i>	Declining balance	Declining balance	Declining balance	Declining balance	Declining balance	Declining balance	Declining balance	Declining balance
<i>Min. interest rate</i>	2.5% (USD); 2% (AZN)	2.5% (USD); 2% (AZN)	2.5% (USD); 2% (AZN)	2.5% (USD); 2% (AZN)	2.5% (USD); 2% (AZN)	2.5% (USD); 2% (AZN)	3.0%	3% (USD); 3% (AZN)
<i>Max. interest rate</i>	3.5% (USD); 2% (AZN)	3.5% (USD); 2% (AZN)	2.8% (USD); 2.8% (AZN)	2.8% (USD); 2.8% (AZN)	3.5% (USD); 2% (AZN)	3.5% (USD); 2% (AZN)	3.5%	3.5% (USD); 3.5% (AZN)
<i>Average interest rate</i>	3%, 2%	3.0%	2.6%	2.6%	3.0%	3.0%	3.3%	3.3%
<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	AZN 5-10	2% up front
<i>Min. amount US\$</i>	100	100	2901	2901	100	100	100	150
<i>Max. amount US\$</i>	2900	2900	10000	10000	1750	1750	800	5000
<i>Max amount (first loan) US\$</i>	2900	2900	10000	10000	1750	1750	800	5000
<i>Average amount US\$</i>	1650	1650	7095	7095	1018	1018	495	950
<i>Min. maturity (months)</i>	3	3	6	6	3	3	3	3
<i>Max. maturity (months)</i>	24	24	30	30	18	18	12	24
<i>Average maturity (months)</i>	11	12	24	24	12	11	11	11
<i>Interest payment frequency</i>	monthly	monthly	monthly	monthly	monthly	monthly	monthly	monthly
<i>Principal payment frequency</i>	monthly	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	n/a
<i>Collateral</i>	Home assets, personal guarantee, gold	Home assets, personal guarantee, gold, livestock	Home assets, personal guarantee, gold, real estate, co-signers	Home assets, personal guarantee, gold, real estate, co-signers, livestock	Group solidarity, home assets, livestock, personal guarantee	Group solidarity, home assets, personal guarantee	Purchased item	Home assets, personal guarantee, gold, real estate, livestock

MicroFinanza Rating

Annex 4 - Definition of Indicators

Client Protection and Social responsibility	Staff turn-over rate	Staff who left during the period / Average staff at in the period
	Annual Percentage Rate	includes interest rate, method of interest calculation, commissions, taxes, mandatory savings (see MicroFinance Transparency tool)
	Transparency index	Nominal interest rate / Annual Percentage Rate
Outreach	Dependency rate	No household members in age 14 or below and 65 or above/No household members in age 15-64
	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	(Outstanding portfolio / number of active loans) / GNI per capita
	Disbursed loan, \$PPP	Amount disbursed in local currency * \$PPP conversion factor
Quality of the services	Client drop –out rate	(number of active clients at the beginning of the period + number of new (first time) clients entering during the period – clients written-off during the period – number of active clients at the end of the period) / (number of active clients at the beginning of the period)

Annex 5 – Social Rating Scale

Grade	Definition
^S AA	Excellent social performance management and client protection systems. High likelihood of achieving the social mission.
^S A	Good social performance management and client protection systems. Social mission likely to be achieved.
^S BB	Adequate social performance management and client protection systems. Satisfactory alignment to the social mission.
^S B	Moderate social performance management and client protection systems. Partial alignment to the social mission
^S C	Weak social performance management and client protection systems. Medium risk of mission drift
^S D	Poor social performance management and client protection systems. Risk of mission drift.

The modifiers “+” and “-” which can be added to the rating grade denote small relative differences within each rating category.

For more information please review the **Social Rating Methodology** in the [Social Rating](#) section of our website www.microfinanzarating.com

The information used in the social rating has been partly provided by the evaluated institution and partly collected during the meetings with the head executives, the staff and the clients of the institution. The analysis is based on internal MIS data and other official sources. MicroFinanza Rating cannot guarantee the reliability and integrity of the information, as it does not conduct auditing exercises, and therefore does not bear responsibility for any mistake or omission coming from the use of such information. The social rating has to be considered as an external and independent opinion and it has not to be considered as a recommendation to realize investments in a specific institution.