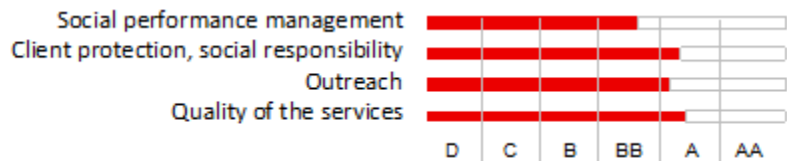


VF AzerCredit - Azerbaijan

SOCIAL RATING ^SBB+

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



Social Rating Committee: 23rd April 2014. **Previous Social Rating:** ^SBB+, April 2012,

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SOCIAL RATING RATIONALE

SOCIAL PERFORMANCE MANAGEMENT SYSTEM	The governance and top management of AzerCredit demonstrate a good level of awareness on social performance related risk (e.g. mission drift, reputational risk, transparency, etc.). The mission statement is complete but the key terms lack of formalization. The social strategy is fairly aligned to the mission, but insufficiently translated into formalized social objectives and indicators, which may hamper the capacity to measure the progress made and provide adequate guidance. The product strategy is well designed and properly aligned, while HR management could further improve the integration of social objectives in the incentive scheme and appraisal system.
CLIENT PROTECTION AND SOCIAL RESPONSIBILITY	AzerCredit has adequate staff remuneration with good working environment and career development as well as strong capacity to retain staff. Client protection principles are adequately formalized in different policies. The context of operation has a medium-high exposure to the risk of over-indebtedness but the policies in place are properly designed. Transparency is overall fair in terms of disclosure and prices are in line with the market. Information disclosure at branch level is improvable as well as privacy dissemination among personnel. Staff expected behaviour during collection practices need further formalization.
OUTREACH	The breath of outreach is good with the company still positioned among the leading MFIs and banks in the country. The depth of geographical outreach is as well good, thanks to the significant rural outreach where poverty incidence is higher. The poor target mentioned in the mission cannot be so far internally proved given the limitation of the scorecard. The average loan size is kept stable along the year and in line with the mission statement.
QUALITY OF THE SERVICES	The variety of financial services offered is quite limited due to regulatory constraints, while the variety of credit products is good and tailored to meet different client's needs. Flexibility of grace period could be further enhanced. Customer service is good, and drop-out ratio is regularly monitored and analysed.

Institutional data	dec-13
Active borrowers	67,134
Gross outstanding portfolio, US\$	69,127,508
Branches	39
Total staff	590

Legal form	Limited Liability Company
Year of inception	2003
Network	Vision Fund International
Area of intervention	Rural and Urban
Credit methodology	Individual and group
Financial services	Credit
Non financial services	n.a.
Geographical coverage	Rural and urban

Social indicators	dec-13
Individual methodology, clients	99.6%
Rural coverage, loans	77%
Female clients	35%
Average balance per borrower / GNI pc	17%
Average disbursed loan amount, US\$	1,475
Average loan disbursed (\$PPP)	1,891
Client drop-out ratio	28%
PAR30	0.48%
Clients at third loan cycle	15.13%
Clients at ≥ fourth loan cycle	22.99%
Female staff	27%
Staff turn-over ratio	6%
Average annual percentage rate (APR)	44%

See annex 2 and 4 for more details.

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Area	Factor	Assessment	Main results
Social Performance Management system	Social mission	Moderate	- Statement rather simple but complete. It lacks of uniform identification of the key terms, especially in terms of target and creating change.
	Social governance	Adequate	+ BoD members and top management are committed to the mission and share the same values. - Improvable social guidance provided by the BoD. Reporting lacks of full set of social performance indicators to monitor and ensure the pursuit of the mission.
	Social Strategy	Adequate	+ Good alignment of the product strategy to the mission. - Social objectives still lack of SMART formalization and full alignment to the mission.
	Social and financial balance	Adequate	+ Adequate sustainability of the growth also thanks to the prudential growth strategy. Transparent financial structure. High profitability could be further reinvested for redistribution of values to clients.
	Social monitoring and reporting	Adequate	- Fair monitoring of the client profile. Poverty scorecard not fully reliable neither to control the client profile nor to assess the change created. + Well developed and comprehensive system to monitor the client satisfaction (exit client survey, Post disbursement interview, hot line, customer grievance and feedback survey). - Improvable social reporting to support the decision making.
	HR alignment to the mission	Adequate	+ Staff recruitment, induction and training aligned with the mission. - Rooms for improvement in the alignment of the staff appraisal and incentive scheme with the social objectives.
	Client protection and social responsibility	Product design and delivery	Good
Prevention of over-indebtedness		Adequate	+ Good and properly disseminated repayment capacity assessment. Controls with the Credit Bureau not extended yet to all loans and rescheduling not formally available.
Transparency		Adequate	+ Overall fair transparency with clients provided written and complete documentation. Room for improvement in the disclosure mechanism at the branches.
Responsible pricing		Moderate	- High cost but in line with the microfinance sector and supported by good level of efficiency. Room for declining the share of loans issued in hard currency.
Fair and respectful treatment		Adequate	+ The Code of Ethics and the collection practices need more formalization in terms of staff expected behaviors.
Privacy of client data		Adequate	+ Code of Ethics and Credit Policy point out the importance of confidentiality. Privacy clause to be included in the contract.
Mechanisms for complaint resolution		Adequate	+ Fair formalization of the complaint system but more personnel and control on the complaint resolution loop is needed.
Social responsibility towards the staff		Good	+ Overall good working environment and strong capacity to retain staff. + The remuneration is transparent and overall in line with the microfinance sector. + Professional development available at all organizational level (training facilities and transparent career development plan).
Responsibility: community and environment		Good	+ Good social responsibility toward the community and environment.

Area	Factor	Assessment	Main results
Outreach			+ Adequate and improved breath of outreach.
	Breadth of outreach	Good	+ Growth of number of borrowers kept under control (+32% as of December 2013).
	Alignment to the mission of geographical outreach	Good	+ Good depth of outreach with most of borrowers (77.4%) located in rural areas where poverty incidence is greater.
	Alignment to the mission of clients vulnerability and financed activities	Adequate	+ Women reached (35% of borrowers) not reflected in the mission but above the target set by the BoD (30%). + Financed activities (as reported in the MIS) in line with the target of serving entrepreneurs with a preference towards rural outreach (agro sector 48% of borrowers). + Borrowers asset owned and dwelling conditions overall aligned to the mission.
	Alignment to the mission of client poverty and financial exclusion	Good	+ Focus on rural and remote areas demonstrate focus on financial excluded. + Credit size stable along the years and fully in line with the mission statement.
Quality of the services	Variety of financial services	Good	- Limited variety of products offers due to regulatory constraints. + Adequate variety of credit products to meet different clients' needs.
	Accessibility of credit services	Good	+ No barrier for the most vulnerable segment of the population and well designed delivery service.
	Flexibility of credit services	Adequate	+ Rigid grace period not fully shaped to the business cycle and only available for agriculture only.
	Customer service and client drop-out rate	Good	+ Good and constant development of the customer service. Drop out rate monthly analyzed and exit survey performed once a year.
	Quality of other financial services	Adequate	+ Compulsory insurance adequate to protect clients and offered at a fair price.

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 correspondence table between the Universal Standards of Social Performance Management (USSPM) and the Social Rating criteria is available in the Social Rating Methodology (annex 1).

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.

If you are interested in the full report, please do not hesitate to contact us at info@microfinanzarating.com and learn more about the availability of rating reports to purchase.