

## FinDev Azerbaijan: Retaining key staff through a “pay for performance” culture<sup>1</sup>



### BACKGROUND

Finance for Development LLC (FinDev) was established in 1997 (in Azerbaijan) as the Savings and Credit Program of Oxfam GB (an international relief and development organization) in order to create economic opportunities for poor people, helping them make a sustainable living through developing their own small businesses. In 2002, FinDev was registered as a Limited Liability Company and started operating as a non-banking microfinance organization.

FinDev’s mission is to provide financial services on a sustainable basis to impoverished men and women. The primary objective of the organization is to deliver loans to those without access to formal financial resources in order to improve their living conditions. As of June 2013, FinDev serves more than 10,730 clients (including 26% women and 59% rural borrowers) through four branches, with its head office in Baku, the capital.

FinDev currently offers a range of financial products, including group and individual loans, household loans, family loans (for land purchase, education, house repair/construction, medical care, car buying/repair, etc.), urgent cash loans and professional loans.

FinDev has been informally managing its social performance from the outset through learning about client needs, targeting their clients, hiring employees with social values and launching employee performance appraisal. While not enshrined in any formal policy, FinDev’s commitment to its mission was the MFI’s operations and management by committed board members, who were trained on social performance management (SPM) and through a formal board committee that monitors social performance.

In 2006, FinDev was the first microfinance institution in Azerbaijan to conduct an institutional social audit, and in 2009 started reporting its social performance data to the MIX Market. In 2009, FinDev received a MIX Market Social Performance Reporting award. It also participated in the Microfinance Transparent Pricing initiative in 2010, receives technical assistance from CGAP on building institutional systems, and partners with the SMART Campaign on client protection.

FinDev received its first social rating from MicroFinanza in 2006, scoring a “BBB-”. This came at a time of uncertainty around the national microfinance market, largely due to a lack of specific laws for MFIs related to governance and management structure, as well as a lack of clarity around social protection fund fees (paid by employers to the State Social Protection Fund, covering maternity leave, pensions, etc.) That notwithstanding, the report noted “a very good human resources function” in FinDev. “Even if a written career path policy does not exist, vacancies are filled according to the candidates’ skills and perspective growth, giving preference to current employees. Overall staff satisfaction is good...,” stated the report.

**Table 1: Key performance indicators**

Area/year	2009	2010	2011	2012
Clients (K)	6.6	7.4	8.9	10.6
Loan portfolio (\$K)	6,209	6,942	9,578	13,194
PAR% (<30 days)	0.69%	0.90%	0.55%	0.50%
Client exit	30%	36%	36%	41%
Staff (total)	55	82	93	95
Staff turnover	20%	6%	15%	8%

### Box 1: The Social Performance Fund

The Social Performance (SP) Fund for Networks<sup>2</sup> is designed to mainstream the new Universal Standards for Social Performance Management (USSPM). The SP Fund works with 10 networks that run 18-month projects to document learning and experience around innovative solutions to implementing the essential practices of the USSPM. They also support their members to reach full or partial compliance with one or more dimensions of the standards. Supported by the Ford Foundation, the Fund is managed by the Microfinance Centre (MFC), a microfinance resource center and network serving the Europe and Central Asia region and beyond.

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<sup>2</sup> More information can be found at [www.mfc.org.pl/en/content/social-performance-fund](http://www.mfc.org.pl/en/content/social-performance-fund)

Nevertheless, management recognized that the standing incentive scheme was designed for loan officers alone, and was based on three parameters (outstanding portfolio, number of active clients and portfolio-at-risk). At the time, 100% of loan officers achieved the entire bonus available within the scheme, thus senior management began to rethink the bonus system.

This case study has been written with a specific audience in mind: microfinance providers who seek to improve their practice in relation to specific standards of the Universal Standards for Social Performance Management (USSPM), in particular those related to “Treat Your Staff Responsibly” dimension. This case study provides a practical overview of the process of developing and implementing FinDev’s staff performance appraisal system and salary compensation scheme (including that of senior management). The case also provides recommendations on improving these mechanisms to bring them more closely in line with the Universal Standards for Social Performance Management, as well as some general lessons for practitioners.

### SOLUTION DETAILS

Since its founding as a socially-responsible institution by Oxfam GB, FinDev has put responsibility towards clients and staff at the center of its operations. This practice relates to many of the essential practices of the USSPM. See **Annex 1** for details.

#### Human resources system development

Explains Jalal Aliyev (Board Chairman): “At the beginning although we used Oxfam’s HR policy and appraisal methodology, for a long time we did not have an HR Manager. Developing our HR function was a regular but incremental process. We believe that constant improvement will increase the effectiveness of our HR strategy, appraisal and compensation policy.”

At that time of its incorporation in 202, FinDev retained its founder’s policies and procedures including personnel policy, staff appraisal system.

In 2008, FinDev underwent a Comprehensive Social Rating by Microfinanza, and was awarded a rating grade of “BBB+”, indicating a high ability to implement its mission through achieving financial stability and social objectives. At this time, as the institution was growing

***“Staff are our main asset; they bring value and profit to our organization through working with our target clients in the field. Hence, our Board shapes operations to meet clients’ and employees’ needs and expectations.”***  
***-Jalal Aliyev, Board Chairman***

and staff numbers were increasing, FinDev began an institutional re-organization towards creating more autonomous departments and developing its own policies and guidelines to better manage functional departments and staff. The 2008 rating report underlined that “the management structure has been consolidated with new positions appointed and a gradual delegation process of key functions from the CEO to the middle management, the institution continues to accurately formalize all the policies and procedures.”

As part of this formalization process, FinDev developed its own Personnel Policy and Procedures Manual, which replaced OXFAM’s policy that was used since incorporation as limited liability company.<sup>4</sup> Since that time, FinDev’s HR management approach has evolved, with changes to policies and procedures being rapidly assimilated due to significant focus on the development of the HR function. In particular, job descriptions clearly outline staff roles, effectively underpinning the performance appraisal system and facilitating career path development and internal promotions.

The incentive scheme itself has also evolved in recent years: Starting in 2011, FinDev introduced incentives around key parameters (number of new clients, PAR<30, outstanding portfolio and number of active clients) for loan officers. However, non-lending staff don’t receive performance-linked bonuses, rather an annual bonus based on staff evaluation.

Moreover, FinDev’s staff evaluation mechanism allows the institution to explore staff training needs and prepare a training plan (of internal and external trainings). The HR budget includes funds to ensure an adequate number of trainings for staff development.

In early 2012, FinDev hired an HR Manager, which was an important first step towards systematizing HR management processes. Previously there was only an administrative assistant who performed basic functions such as record keeping, vacancy announcements,

interview scheduling. The new manager started by reviewing and developing written policies and procedures. Other key aims included increasing staff loyalty, maintaining low staff turnover and projecting FinDev’s image as a good employer.

### Researching good practice

As a first step, the new manager conducted research on good practice in order to identify gaps in FinDev’s current HR policies and procedures, and to recommend improvements.

This research focused on peer MFIs at the same level of institutional maturity within the country. Based on this, FinDev has found itself in a good position in terms of salary rates as revealed by the AMFA Compensation Survey<sup>5</sup> (as opposed to two years ago, when management noticed that FinDev was below domestic market rates). Social audits (conducted by MicroFinanza) also helped FinDev identify gaps in their HR management system, and define future development needs.

As a next step, the HR Manager and Board Chairman facilitated discussions with the Board and Supervisory Board to present research findings and recommendations. With the approval of senior management, these discussions were extended throughout the organization, to branch managers and all staff.

### Upgrading the HR system

By reviewing its internal HR system, FinDev identified the need to:

- Ensure that HR policy and procedures are fully institutionalized into operations
- Individualize performance appraisal frequency for each position

- Explore a 360-degree performance evaluation method to incorporate input from others (beyond the line manager, including peers and subordinates) regarding the employee being appraised.

The whole improvement process took approximately five months and resulted in a new HR strategy and performance evaluation process to meet staff’s expectation that appraisal results are fair. The development of the new policy ensures organization-wide consistency around reviewing and evaluating how an employee performs in relation to their duties and responsibilities.

### Implementing the performance appraisal system

The upgraded staff evaluation manual provides clear guidelines for how and when employee performance should be conducted, and based on what criteria (see **Box 2**). In particular, Section 7 of the Personnel Manual related to the Performance Management System contains guidance on the policy, procedures, interim and full appraisal rules and instructions.

This comprehensive performance management system consists of:

- Performance objectives planning (at the start of the appraisal year)
- Interim performance review (midway through the year)
- Full performance appraisal (at the close of the year).

In a first phase, individual goals and objectives are set for the performance period (annual for all staff, and after the probationary period for new staff). Goals should be SMART (specific, measurable, achievable, relevant, and time-bound) and achieved in accordance with a written action plan agreed with a manager. While there is no

### Box 2: Performance evaluation criteria

Evaluation of all level employees’ performance is based on a number of criteria, including:

- work quality (completeness, accuracy and organization)
- work load (efficiency of time and resources used)
- knowledge of work (knowledge and skills need to perform)
- initiative (self-improvement, ability to accept changes in job responsibilities)
- reliability (demonstration of additional effort when required, systematic approach to work)
- customer relations (on-time, polite and professional service)
- team work (effectiveness of collaboration with peers)
- communication skills
- decision-making skills (ability to solve daily problems, decision quality)
- leadership

limit in the number of objectives, five to eight objectives are considered to be optimal. After being agreed and signed off on by the employee and the line manager, one copy of the document is forwarded to HR, while a second is kept as a reference throughout the performance period.

As regular performance-related communication between line managers and employees is critical, the six-month interim performance review serves as a good opportunity to ensure that both parties are kept abreast of progress towards the employee’s goals and expectations. This informal discussion also enables a manager to provide timely feedback and make modifications to respond to challenges that occur for first six months of the employee’s annual performance. This discussion also feeds into the end-of-year full appraisal.

At the close of the performance management cycle, the manager meets with the employee to conduct the annual performance evaluation. Two weeks before the appraisal process begins, an HR officer will notify the employee about the date and process of the appraisal, and will forward the evaluation form to the manager. The annual performance appraisal reviews each employee’s performance objectives, considering both achievements and areas of underperformance.

FinDev’s Personnel Manual requires that the performance assessment process be fact-based and unbiased, minimising risk of results being influenced by personal opinion and attitude. FinDev’s Staff Evaluation Manual also contains Rules on Performance Evaluation, clearly defining the purpose of the performance evaluation, evaluation criteria, and roles of the employee and manager therein. The manual describes the evaluation process that supports staff to improve their work performance, and results in well-documented decisions regarding staff (salary increase, promotion, passing to probation period or firing).

As part of this, the manager is required to use the employee’s job description as the basis of the performance evaluation. In addition, both parties have the right to make notes inside the evaluation form regarding all points of the performance assessment, including how fair the process is.

In terms of implementing FinDev’s staff performance evaluation and salary compensation guidelines, the following key tools are used:

**Performance objectives planning form:** completed by each employee at the start of each year. The employee completes and signs this form together with her/his line manager. The form requires employee to state any necessary training or resources to properly perform defined objectives.

**Performance appraisal form:** completed separately by the line manager and employee, based on quality of work, amount of work, job-specific knowledge, initiative, reliability, customer relations, teamwork, attendance, communication, task management, safety rules, decision making, managing employees, problem-solving, and leadership.

**Self-appraisal form:** completed by the employee and the line manager to help each employee track their own development path.

**Salary review request form:** completed by branch managers on behalf of loan officers. When the latter achieves a certain number of clients and portfolio management skills, the branch manager presents this form to the operations and HR managers for review. Based on this, a short-term performance review of the loan officer is completed and compensation increase is provided as appropriate.

**Activity plan** is completed by both parties at the beginning of the year, and states activities in line with performance objectives, which will be assessed in the performance appraisal.

**Needs assessment form:** completed by each employee to identify areas and means of improvement (whether this is through internal training or external support). The form also allows employees to track what training was received throughout the year, and from whom.

Together, these tools ensure that employees have a clear understanding of the work expected from them, support managers to give effective feedback around performance relative to expectations. Based on overall performance ratings, employees can expect a salary increase, bonus or career promotion, as appropriate.

The performance appraisal form is completed separately by both employee and line manager before they sit together to discuss and assess results of employee’s performance for period under consideration. For new employees, an evaluation is conducted at the end of the three-month probation period. For current employees, the performance evaluation is annual, and conducted based on results of the previous fiscal year. Line

managers are expected to complete each year’s appraisal by early February. Where managers don’t conduct appraisals in a timely fashion, HR notifies the Chairman of the Board, who follows up with the manager in question (although this level of intervention was needed no more than 2-3 times over the last two rounds of annual appraisal).

In the past, the review process was completely top-down, meaning that it drew only on the manager’s evaluation of the employee. Now employees self-assess their own performance relative to their objectives and job responsibilities, and can assess the work of their managers as well.

Beyond this, employees also fill in a development needs assessment form, in order to indicate their training needs around improving their performance.

Employee performance is rated on a five-point scale (see **Box 3**). The final score is calculated based on dividing the total score by the total weights.

### Linking compensation with the appraisal process

According to the Supervisory Council’s decision, any new employee’s net salary shall not consist of less than the average monthly salary level declared by the State Statistics Committee of the Republic of Azerbaijan.

Salary levels are defined based on:

- Job position, responsibilities and work load
- Experience, education and skills
- Equality and fairness regarding other responsibilities
- Salary scale levels defined and accepted by the MFI

Remuneration (net total salary) structures are structured to facilitate the implementation of organisational performance: if the average score across all performance criteria is four or higher, employee is awarded with a salary increase. If the average score falls between three and four, no salary increase is given, whereas for scores below than three, a development plan is prepared for the employee. Poor performance can also lead to dismissal or a salary decrease if the average score is less than two (and showing no improvement) for two consecutive years.

Salary increases are reviewed annually and awarded based on: the annual inflation index, current economic and market conditions, performance evaluation results,

### Box 3: Performance scale

- 5: OUTSTANDING: General performance is significantly higher than expected
- 4: MORE THAN ADEQUATE: General performance is higher than expected
- 3: ADEQUATE: General performance meets requirements
- 2: NEEDS IMPROVEMENT: There is need for improvement on general performance
- 1: UNSATISFACTORY: General performance is consistently unsatisfactory on one or several job aspects.

and the availability of funding (which relates to the MFI’s ability to increase productivity).

Performance-related field staff incentives are based on the following factors:

- Ability to attract new clients from target market
- Outreach to remote/rural communities
- Outreach to women
- Quality of interaction with clients based on client feedback mechanisms
- Quality of social data collected
- Client retention/drop-out rate
- Portfolio quality

Productivity targets and the incentive system value portfolio quality at least as highly as other factors, such as disbursement or customer growth. Only portfolio staff (branch managers, loan officers and operational officers) gets bonuses, as the small size of the institution does not permit the provision of bonuses to non-portfolio staff. Growth is rewarded only if portfolio quality is high (<2 % of the employee’s portfolio).

According to Personnel Manual, if an employee disagrees with the performance evaluation score given by the line manager, he/she has the right to appeal to senior management and receive feedback within one month. If employee is still not satisfied, the COO intervenes to investigate the case.

### IMPROVING THE HR/APPRaisal SYSTEM

FinDev conducts annual and ad-hoc surveys to collect employee feedback on management and the work environment, as well as feedback from employees on why they choose to leave the organization. For instance, work environment surveys addresses training and career development, corporate communication and job satisfaction. Feedback is analyzed and reviewed for decision-making, resulting for example in a recent change to the bonus system and frequency of loan officer appraisals.

A number of potential areas of improvement exist for FinDev’s performance appraisal system:

- FinDev should involve staff in improving the system by creating a joint employee-management working group to provide on-going feedback on what works (and doesn’t work) in the current appraisal system.
- FinDev is developing an employee non-discrimination policy to mirror its current practice; by including (but not limited to) a gender non-discrimination clause (around salary level definition) would formalize their commitment to gender equality and provide the basis for routine monitoring of salary level equality.
- FinDev should integrate concrete social performance indicators to the evaluation form and define social performance objectives for employees.

### LESSONS LEARNED

#### Benefits

FinDev sees that the main benefits of its performance appraisal system are high employee loyalty, lower staff exit, and an ability to deliver high quality services to clients by having more committed and appreciated employees by:

- Analyzing reasons for success and failures in accomplishing performance objectives
- Tracking each employee’s annual performance and career development
- Identifying training needs or resources to reach annual objectives, and allocating resources to reach annual objectives
- Improving horizontal and vertical communication throughout the organization.

#### Lessons for other practitioners

**Start with what you have:** Rather than adopting an entirely new system from another institution, MFIs should consider other existing systems, and elaborate a solution (with staff involvement) that is tailor-made to address the gaps of their own institution.

**Apply local lens to international good practice:** FinDev analyzed other international organizations’ best practice which inspired them on how to improve their own practice in relation to staff appraisal and incentives. Now FinDev plans to invite an international consultant to assess the effectiveness of all their HR policies and procedures.

**Listening to staff and making sure that staff perceive the performance appraisal system to be fair:** FinDev actively listens to its staff, seeing them not just as “working assets” but also a good source of feedback. If an institution wants to build loyal staff and ensure fairness (especially around staff appraisal), it’s important to listen to your staff.

#### Further information:

##### Download key documents and tools:

FinDev’s staff appraisal tools: [www.dropbox.com/sh/39cjec1kv1dzo9z/n-X5M6Wrpr](https://www.dropbox.com/sh/39cjec1kv1dzo9z/n-X5M6Wrpr)

FinDev’s staff satisfaction tools: [www.dropbox.com/sh/yb1nw9t71ux2jrr/NaX6vH0zY-](https://www.dropbox.com/sh/yb1nw9t71ux2jrr/NaX6vH0zY-)

FinDev’s staff overtime form: [www.dropbox.com/sh/pllgbgzgi612nl4/hO\\_zRWictA](https://www.dropbox.com/sh/pllgbgzgi612nl4/hO_zRWictA)

##### Learn more about the project partners:

FinDev website: [www.findev-az.com/en/](http://www.findev-az.com/en/)

FinDev on the MIX Market: [www.mixmarket.org/mfi/findev](http://www.mixmarket.org/mfi/findev)

Azerbaijan Micro-finance Association: [www.amfa.az](http://www.amfa.az)

Microfinance Centre: [www.mfc.org.pl](http://www.mfc.org.pl)

Social Performance Task Force: [www.sptf.info](http://www.sptf.info)

## Annex 1: Comparing FinDev's appraisal system against the USSPM

Dimension	Essential practice	FinDev's staff performance appraisal and salary compensation schemes
2b3	The Board incorporates social performance management criteria into its performance evaluation of the CEO/ Managing Director.	The Board conducts a formal annual review of the CEO
2c5	The CEO/Managing Director holds senior managers accountable for making progress toward the institution's social goals.	The CEO formally assesses and rewards senior managers on their annual achievement of social performance targets, a role which is written into their job description.
2d2	The institution provides training, and evaluates employees, on how they perform both the social performance and financial performance responsibilities related to their position.	The staff performance appraisal system considers client service, reaching target clients, and client retention.
2b4	The institution incentivizes quality loans. <sup>6</sup> (Client Protection standard 2.2)	PAR level affects the performance appraisal of loan officers, branch managers, and coherently affects compensation review level.
5a.2	Employee compensation levels constitute a living wage for employees	FinDev complies with indicator 2 and 3. Regarding the 3 <sup>rd</sup> indicator, FinDev's HR policy prohibits discrimination in salary weighting for male or female staff. Hence, no separate evaluations exist for this.
5b.3	Each employee understands how his/her performance will be evaluated and rewarded by the institution. IND 1) Each employee receives the up-to-date performance metrics that the institution will use to evaluate the employee's performance. IND 2) Each employee receives an up-to-date written explanation of the institution's incentive/reward system (if applicable), and the incentive/reward system is clear enough to allow a generally good understanding by the staff. IND 3) The institution's evaluation and reward system is periodically reviewed to ensure fair application. IND 4) Employees are included in the development and review of the metrics and rewards system.	For indicators 1 and 2, employees have open access to performance metrics and compensation scales. These are also announced on the branch office board. Regarding indicator 2, loan officer appraisal soon will be conducted quarterly, as it involves more measurable, tangible targets. Upon reaching these targets, their performance and compensation level is assessed.
5b.4	5b.4 The institution implements policies to promote ethics and prevent fraud IND 6) The loan officer base pay is at least a living wage.	FinDev offers a market-based salary to loan officers, which exceeds the national living minimum salary (95 AZN per month) and is within the living minimum that is calculated by NGOs (300- 500 AZN)
5c.2	The institution monitors the rate of employee turnover and understands the reasons for employee exit. IND 1) The institution annually calculates the employee retention rate <sup>7</sup> and monitors its trend over time as well as its concentration in relevant categories, such as staff level and gender. IND 2) The institution annually collects data on the reasons for employee exit and monitors its trend over time as well as its concentration in relevant categories, including staff level, gender, and reason for departure e.g. voluntary vs. involuntary.	Staff retention rate is calculated quarterly and can be additionally calculated on an ad-hoc basis as requested by management for reporting to external stakeholders. Every exiting staff member completes an exit survey, and attends a discussion with their line manager, or (if needed) the Director.

<sup>6</sup> "Quality loans" includes proactive consideration of appropriate loan products that prevent over-indebtedness and provide benefits to clients.

<sup>7</sup> The MIX calculates employee rotation rate in the following way: Staff rotation rate = Exit during the period / average (Number of employees at the end of the reporting period + Staff employed for one year or more).