Union of Credit Organizations of the Republic of Armenia

Armenia
Social Performance Country report

2016

UCORA

Union of Credit Organizations of the Republic of Armenia

2016

Social Performance Country Report

This report details the state of SPM practice among network members in key operational and strategic areas. It is based on self-reported SPI4 data (verified by networks), and discusses both successes and challenges alike. This report was developed with the support of the Social Performance Fund, financed by the Ford Foundation and managed by the Microfinance Centre.[1]

EXECUTIVE SUMMARY

The topic of social performance management has always been in the attention of UCORA, because many of its member organizations pursue not only financial, but also social goals through their missions. Therefore monitoring and measuring social performance becomes very important to highlight how the social mission transforms into practice. This report has been prepared by UCORA based on the information received from 9 member organizations, which together represent 61% of total portfolio of all credit organizations registered in Armenia. It aims to present the current status of social performance management in the country by non-bank financial institutions that carry out lending activities. The data reflects the status by the end of 2015.

Main highlights

- Financial sector in Armenia is fully regulated and all institutions involved in lending are licensed by the Central Bank. Credit organizations are the second biggest player in the financial market after the banks, with total assets amounting to AMD 312 billion comprising 8.03% of the sector.
- Institutions largely differ in size, geographical outreach, product range, target clients, but together they are represented in all regions of Armenia, with 90% of branches located outside of Yerevan, thus serving all communities of the country including border and remote areas.
- The gender balance is well-maintained both in terms of client outreach (47.5% women clients) and in terms of employees (46% women employees, 50% women represented in management), though the challenge remains at the board level, where only 15% are women.
- All institutions have solid mechanisms for client complaints and problem resolution. This is also a high priority for the regulator, which has developed strong regulations around consumer protection and introduced the institute of Financial System Mediator since 2009.
- Organizations pay big attention on protecting and supporting staff members with clear HR policies (100% of respondents), permanent trainings (78%) and appraisal mechanisms based on which employees can achieve promotions and raises (78%).

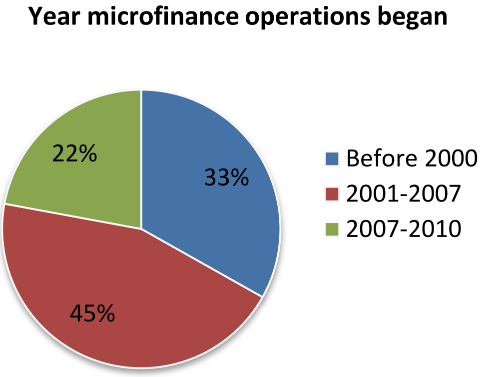
Challenges

- Many organizations target low-income and poor population as their priority clients, however there is no unified approach to measure poverty outreach. Organizations try to use their own measurements against different indicators (e.g. National Poverty Line, Consumer basket, GNI per capita) which make the data around this topic non-comparable.
- Though there are strong internal mechanisms in place to prevent client over-indebtedness, there is no comprehensive country-wide study around this topic, which could help financial service providers be better informed when designing their products and strategies.
- Many of the members provide also non-financial services and support the communities in different forms, but very few of them have actually measured the impact that such projects are having on the community and on the organizations themselves.

[1] For more information on the work of the SP Fund, please visit www.mfc.org.pl. For more information about the Social Performance Task Force, please visit www.sptf.info.

SECTOR OVERVIEW

During the past two decades the financial sector in Armenia has passed a huge phase of transition and development and evolved into a sound system regulated by the Central Bank of Armenia, which has been acting as the single financial supervisory and regulatory authority since 2005.



The microfinance sector in Armenia started to develop in mid-90s, when several international donor organizations established local foundations to support the development of the economy in rural areas of the country. Among them were UMCOR, World Vision, Save the Children, Catholic Relief Service, FINCA, OXFAM, USDA and others. Up to 2006 all of these local foundations were operating as NGOs, until the Law on Credit Organizations was adopted by the government to regulate the operations of non-bank financial institutions which are involved in lending activities. Such a decision was pushed by the fact that many of the organizations had already evolved into strong and stable financial institutions and became visible in the financial market.

As a result, the microfinance sector in Armenia is currently fully regulated by the Central Bank of Armenia, and all the organizations which are involved in lending activities are licensed by the regulator with the status of Universal Credit Organizations (UCOs). However, not all the UCOs are involved in microfinance, there are several organizations which carry out only mortgage lending or leasing activities, also some of the UCOs are focused on consumer lending and are not involved in rural communities. The legislation also does not define the term "microfinance".

As of the end of 2015, the financial sector in Armenia was represented by banks, credit organizations, insurance companies, pawnshops, investment companies, exchange offices and money transfer companies. Total assets of all credit organizations amount to 312 billion AMD and comprise 8.03% of total assets of the financial sector.

MEMBER OVERVIEW

UCORA (Union of Credit Organizations of the Republic of Armenia) was established in 2008 by its 6 founding members as a voluntary union of credit organizations operating in the country. Currently UCORA has 12 member credit organizations.

UCORA	
N of members	**12**
Total assets	**AMD 119,851,879,000**
Total portfolio	**AMD 101,370,476,000**
Active clients	**145,346**
N of branch offices	**156**

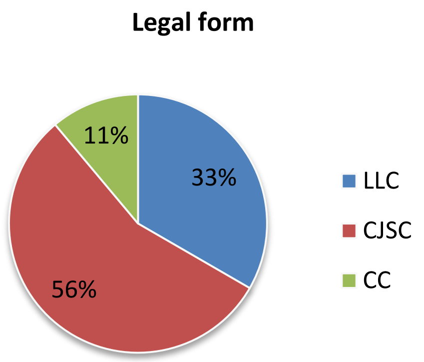
Among the members of UCORA are represented those big players in MFI sector, which have originated as rural support initiatives funded by international donor organizations in mid-90s, and later were reorganized and licensed as UCOs to be in line with the existing regulations set by the Central Bank of Armenia.

In this research 9 organizations have participated, representing 84% of the total portfolio of UCORA members, and 61% of the total portfolio of all credit organizations[1]. These 9 organizations together have 134 branch offices and are represented in all regions of Armenia, including remote areas and

[1] The total does not include those UCOs which are involved in refinancing and mortgage activities only.

border villages. Together they have more than 125 thousand active borrowers, majority of which from rural areas of the country. Clients include individual borrowers, farmers involved in agricultural activities, small and medium sized enterprises. The range of products include different types of consumer loans, loans for agricultural activities, SMEs and housing loans.

In terms of legal form, credit organizations are either registered as Limited Liability Companies or Closed Joint-Stock Companies. Only 1 institution in the market is registered as a cooperative credit organization.

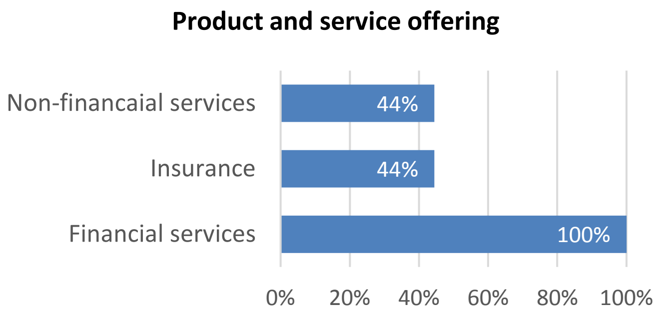


Members: Operational overview

Product range

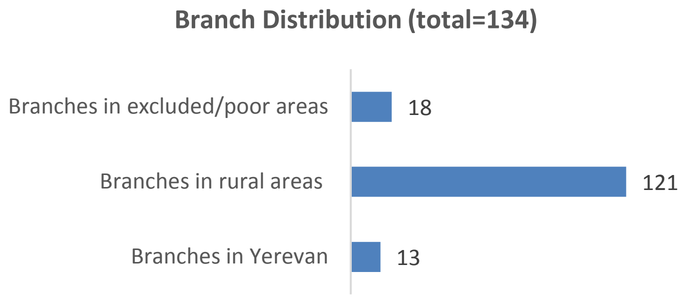
In Armenia credit organizations are not allowed to take deposits, thus their main activities are focused on lending operations. Some institutions offer also non-financial services to their clients in the form of trainings focused on different aspects of financial education, as well as business planning and support to SME development.

Some of the loan products are attached with insurance products. At the moment insurance is mainly offered as a voluntary option, though some of the institutions have recently introduced also mandatory insurance for certain products. 3 institutions have mandatory insurance, 3 offer voluntary insurance products in collaboration with local insurance companies. Mandatory insurance is only attached to mortgage lending products and purchase of cars that are offered by some of the institutions and refer to life/accidents and real estate/inventory insurance products. There are no agricultural insurance products available in the market, however this becomes a hot topic in the country and there is a big project financed by an international donor organization which is currently developing a model for agricultural insurance.



Geographical coverage

In terms of geographical coverage, the outreach of UCORA's member organizations is quite well-developed, as the branch offices are represented in all the regions of Armenia and cover also most remote and border villages, which generally don't have access to traditional banking services. By the end of 2015 respondents together had 136 branch offices, of which 90% located outside of the capital city Yerevan, mainly serving rural areas (though some of these



branch offices are located in regional towns, they generally serve all surrounding villages, loan officers are usually working directly in the field in close collaboration with local communities).

Financial performance

Institutions are very different in size, outreach, efficiency and profitability. Thus, their financial performance also varies a lot mostly driven by their strategic objectives, vision, geographical outreach, target clients and the source of funding. Though many foreign investors are active in the country, however local currency funding is not widely available, and hedging mechanisms for foreign currency funding are not largely used in the market. Main indicators related to financial performance are presented in the following table:

	2015	2016-Q3
Client outreach (gross)	126,234	118,008
Client outreach (average)	14,026	13,112
Loan portfolio (gross, AMD)	85,057,956,776	80,751,045,000
Loan portfolio (average, AMD)	9,450,884,086	8,972,338,333
PAR>30 days (average %)	3.5%	3.2%
Write-offs	2.2%	3.0%
Women clients (average %)	47.6%	-
Rural clients (average %)	54.7%	-
OSS (average %)	94.9%	-
Financial Expense Ratio (average %)	14.1%	-
Operating Expense Ratio (average %)	18.9%	-
Portfolio yield (average %)	20.5%	-

SOCIAL GOALS

Our members are working towards clear social goals

Many credit organizations have clearly outlined social goals which are defined in their mission statements. The following goals appear in the statements of several organizations using different wordings:

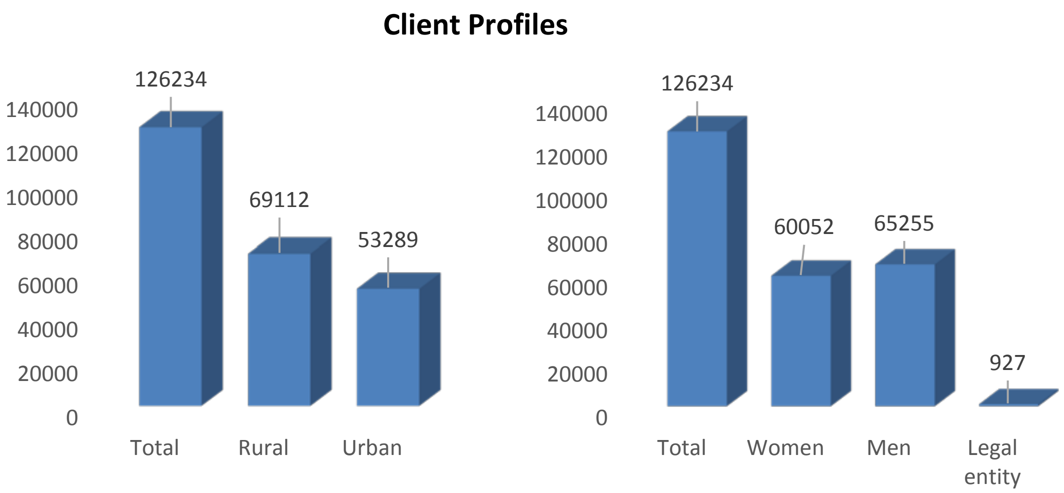
- deepening financial inclusion by providing accessible financial services (78%),
- improving the quality of life for low-income families (56%),
- poverty alleviation (33%).

Other social goals mentioned in the mission statements of members include supporting sustainable agriculture development, establishing competitive environment for SMEs, creating jobs, promoting social justice and human dignity, helping people build assets etc.

The chart below represents what other social goals our members pursue through their activities that are clearly highlighted in their strategies. Strategy documents and business plans set clear indicators on annual targets around different financial and social goals, among them geographical outreach, client profiles, product ranges, profit margins, PAR levels etc.

Our members target a range of client groups

Members provide services to all layers of population, including people living in both rural and urban areas and with no gender discrimination. However, loan products are available only for adults, even though some of the products are used for the needs of adolescents and youth below 18. For example, most often loans for educational purposes are taken by the parents to finance the fees for their children's education at universities.



According to local legislation, youth is defined as people in the age range of 18 to 30; within this, many of the organizations have introduced certain products related to the needs of youth. Some of the institutions pay special attention on retired people and low-income entrepreneurs as a specific target group. Women comprise 47.5% of total active clients, and people living in rural areas comprise 54.7% of total client base. The latter clearly shows the commitment of our members to serve rural population through their products and services, as it vastly exceeds the percentage of population of the country living in rural areas (36% as of the end of 2015 according to the official data provided by the National Statistical Service of Armenia). Percentage of women clients is adjacent to the total of women population, which comprised 52% as of the end of 2015.

Outreach to low-income and poor population

It is very difficult to actually measure what part of the microfinance clientele is living below the poverty line, which is connected with the complexity of such measurement. Only 2 credit organizations have carried out small-size sample research using widely accepted general indicators. Mostly, the comparisons are given against the national poverty line which is provided by the National Statistical Service of the Republic of Armenia. Some institutions use the World Bank data (e.g. GNI per capita level, which has been $3,880 for 2015), others use minimal consumer basket. According to such research carried out by those 2 institutions, on average 35% of their clientele were below the national poverty line.

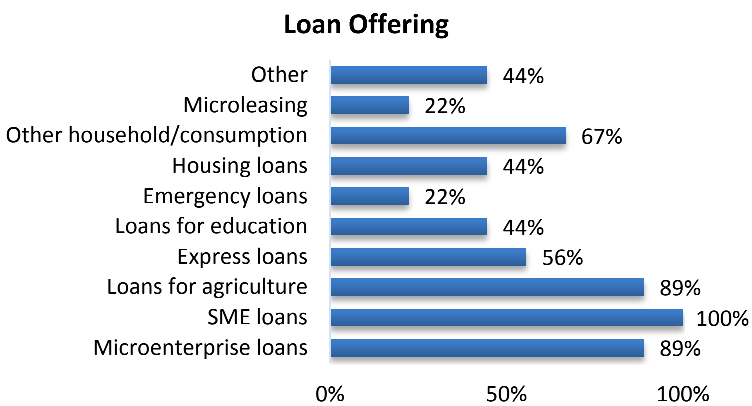
Considering the complexity and costliness of specific research, in this context outreach to low-income and poor populations is somewhat ensured by using different targeting approaches and delivery channels. For example, out of 134 branch offices, 90% are located outside of Yerevan and serve rural areas, and 13.4% are located in excluded areas. According to the official statistics by the end of 2015, 29.5% of total population lived below the poverty line with poorest regions represented by Shirak (44.2%), Kotayk (37.2%), Lori (36.4%), Gegharkunik (32.3%) and Tavush (30.6%). Taking into account that microfinance institutions serve most remote and poor regions of the country, and they have representations in all of the abovementioned communities, it is apparent that a considerable part of MFI clients include the low-income population who usually don't have access to traditional banking services.

Another indicator can be considered the average gross loan size of 1,360 USD which comprises only 35% of GNI per capita, and organizations offer loans as small as AMD 50,000 (around 100 USD), which again make the services accessible for low-income and poor population. The latter is adjacent to the National poverty line, which in 2015 has been 41,698 AMD (around 85 USD).

PRODUCTS AND SERVICES

Our members deliver a range of financial services

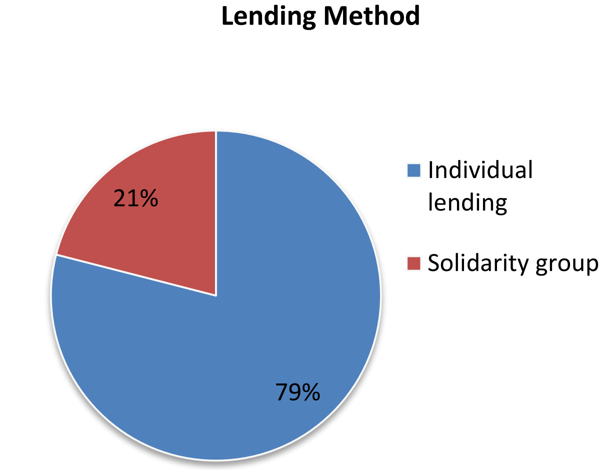
The range of loan products available in the market is very diverse and most often is specific to the needs of the target clientele. Development of new products and services are mostly informed by the needs that the clients have been showing in the market. Though organizations do not annually carry out a full formal market research with all of its components (mainly due to the price of such an activity), but separate small-size research is carried out at least annually around target clients characteristics and needs/preferences for products (100% of respondents), and around delivery channels/barriers to access products and services (89% of respondents). The feedback is also collected about the satisfaction on current products, mainly through communication between clients and loan officers.

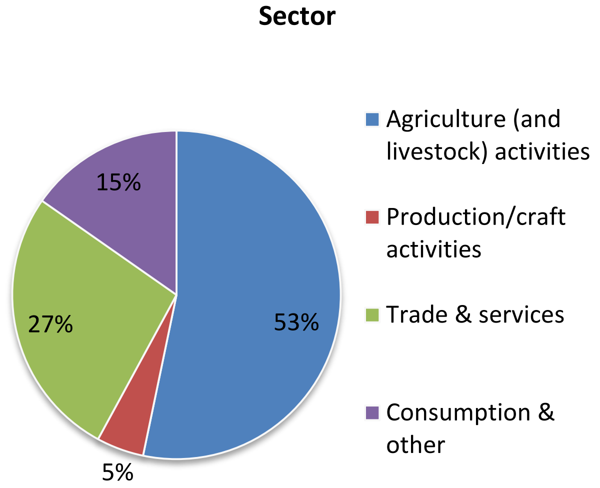


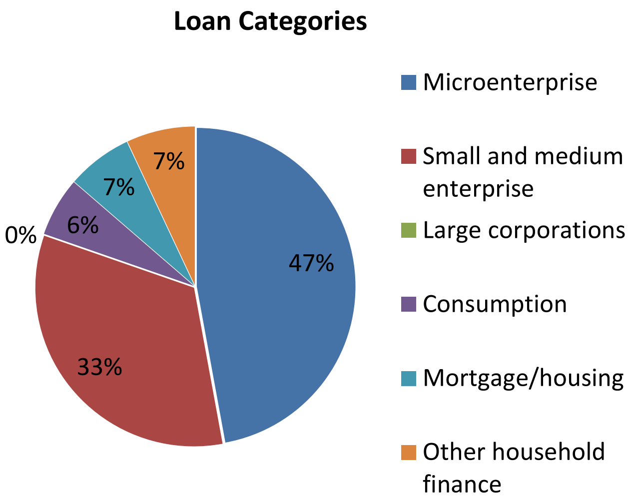
If several years ago majority of the market share was for micro-loans, agricultural loans and small SME loans, during the recent years many of the organizations introduced different types of consumption loans and started piloting housing-related products, including housing microfinance and mortgages.

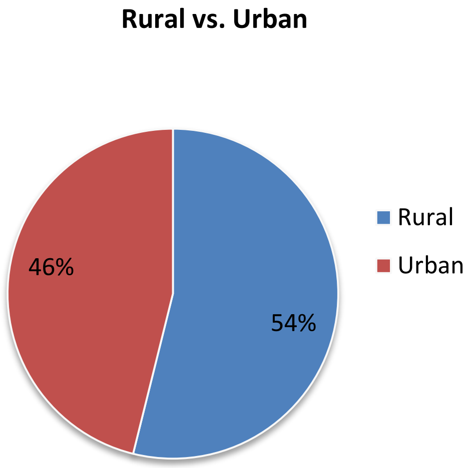
As of the end of 2015 total number of outstanding loans amounted to 133,554, with total gross loan portfolio of AMD 85 billion. 53.9% of total loan portfolio has been disbursed in rural areas. If several years ago when microfinance was just evolving, the share of group loans were high, currently they comprise 21% of total portfolio, as organizations move towards individual lending as more preferable lending method.

Gross Loan Portfolio Distribution







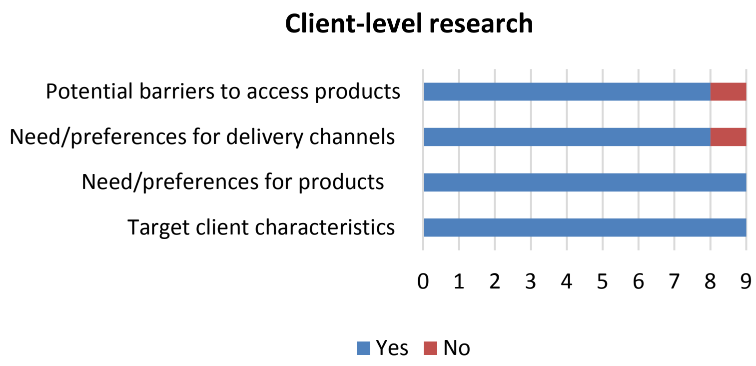


Our members also offer non-financial services in line with clients' needs

Some of the member organizations also offer non-financial services, mostly related to increasing the levels of financial education (4 organizations), support to enterprise development (1 organization), trainings related to agriculture activities (1 organization), projects towards women empowerment (1 organization). Sometimes such additional services are offered by affiliated foundations, which provide non-financial services in form of trainings and coaching to current and potential clients of MFIs.

Product Design

When designing the loan products, all institutions take into consideration target clients' preferences for products as well as their characteristics. 89% of organizations also pay attention on preferences for delivery channels and check out potential barriers to access products. Most often there is no formal market research carried out for each and every product, however client-level research is done through non-formal ways. This information is used not only to develop new products, but also to improve existing ones.



CLIENT PROTECTION

Our members understand their clients' needs, not just their "wants"

All institutions have solid complaint resolution mechanisms in place, which is also driven by the fact that the national regulator pays a big attention to this aspect of the operations of all financial institutions. There is a separate unit at the Central Bank of Armenia dealing with client protection issues and a number of regulations have been issued to protect clients especially when dealing with consumer loans.

Therefore, all procedures at MFIs are aligned with the local regulations and contain detailed mechanisms around client complaint submissions and complaint resolutions. Based on the national legislation and regulations, all clients are informed about their right to complain before signing the loan agreement. Institutions train their staff on how to handle complaints in line with their internal policies. On average, according to the internal procedures, complaints should be resolved in 10 days. The information on how to complain is included in the contracts, is displaced in branch offices, on websites and is communicated verbally by the field staff before signing the loan contract. During 2015 9 complaints have been received by respondents in formal ways, out of which 7 have been resolved.

Though no separate surveys have been conducted around client satisfaction, however client feedback is collected in every institution through non-formal ways, mostly via the communication between loan officers and the clients.

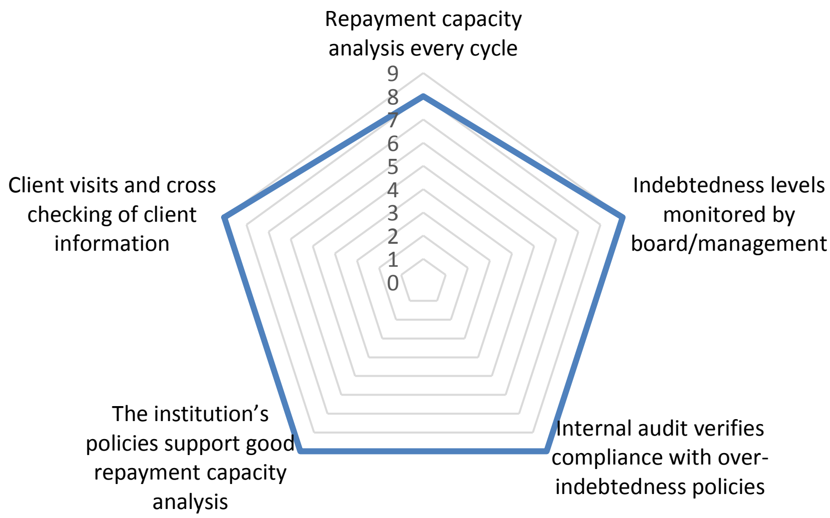
Another specific for the Armenian market is the presence of the institute of Financial System Mediator, which was established in 2009 by the Central Bank of Armenia. All natural persons can submit a complaint to FSM, if beforehand they have applied to the respective institutions and received a formal response from them. FSM can consider property claims if the request does not exceed 10 million Armenian drams. Information related to the activities of the FSM is mandatory to present on the web sites and in all branch offices that work with the clients. In 2015, FSM received 89 complaints against credit organizations, out of which only 14 were admissible to be reviewed by the FSM. Out of those 14 complaints 5 were satisfied through reconciliation, 2 were satisfied, 1 was suspended and 6 were declined.

Our members work to prevent client over-indebtedness

Institutions pay considerable attention to client protection, which is also in the center of attention of the CBA. All respondents mentioned that their institutions fully disclose to the clients all prices, installments, terms and conditions of all financial products, including all charges and fees, associated prices, penalties, linked products, 3rd party fees, and whether those can change over time. Though disclosing annual effective interest rates is mandatory by law only for consumer loans and agricultural loans of up to 2 million AMD, many of the organizations mention APRs in all their agreements. All credit organizations except one mentioned that they have a separate policy describing acceptable pledges of collateral and has clear guidelines for how collateral is registered and valued. National regulations have clear standards on communicating the terms and conditions of loan agreements with clients, which should be done individually with every client before signing the agreement.

Other dimensions of client protection that can lead to the prevention of over-indebtedness are highlighted in the graph, where mostly for all indicators 100% of respondents answered positively.

Preventing Over-indebtedness



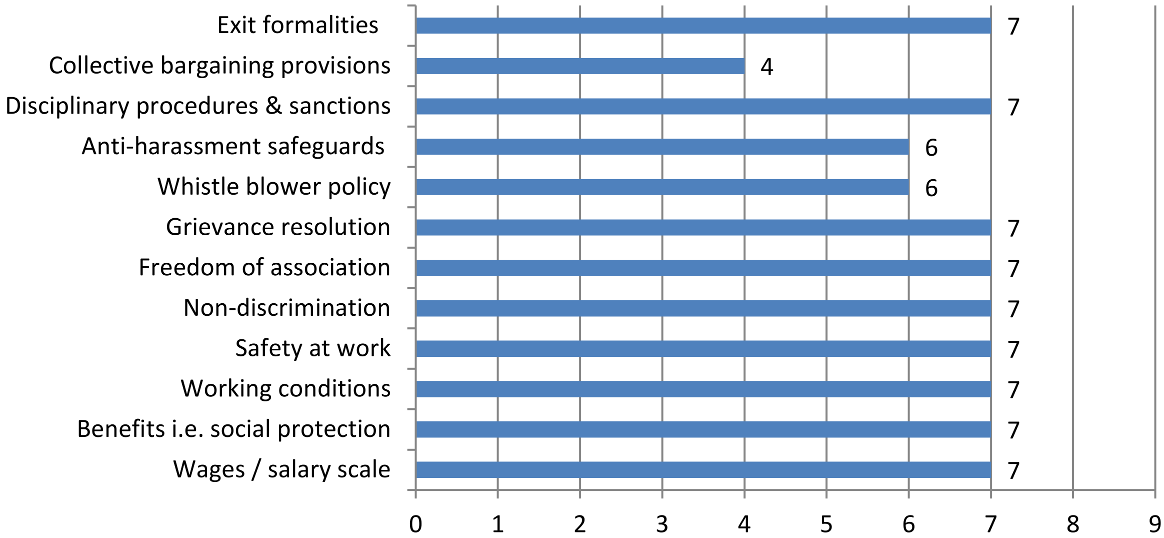
There is a Credit Bureau operating in the country named ACRA, which is holding all the information about the credit history of borrowers. In some credit organizations 100% of all borrowers are checked in the credit bureau aiming to prevent the over-indebtedness. The information from the bureau is available for all lenders and can be obtained in case there is a written consent provided by the borrower. Thus, in many organizations borrowers are asked to give their written consent on checking their credit histories during the application stage.

PROTECTING AND MANAGING STAFF

Our members protect and support staff

Most of the organizations have clearly defined HR policies. This is partially driven by strong national labor legislation and regulations, which require all organizations to have certain HR policies in place that should comply with the law. Such policies and procedures regulate the rights and working relations with the staff and provide certain safeguards and rights to everyone who enters into employment relationship with local employers. 3 institutions provide medical insurance to all their staff members. 81.8% of employees have been employed by organizations for at least 1 year, and exits during past 12 months comprised 12.6% of total number of employees. According to the detailed information provided by 7 organizations about their HR policies, most of the below-mentioned contractual rights are clearly defined in the policies used by credit organizations.

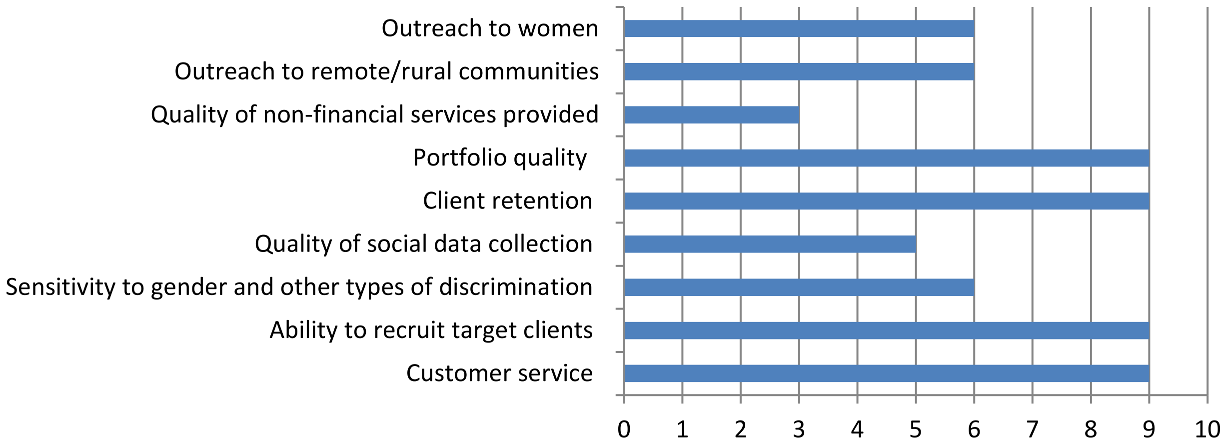
HR Policy: Contractual rights for staff



Our members train and support staff to deliver excellent social and financial results

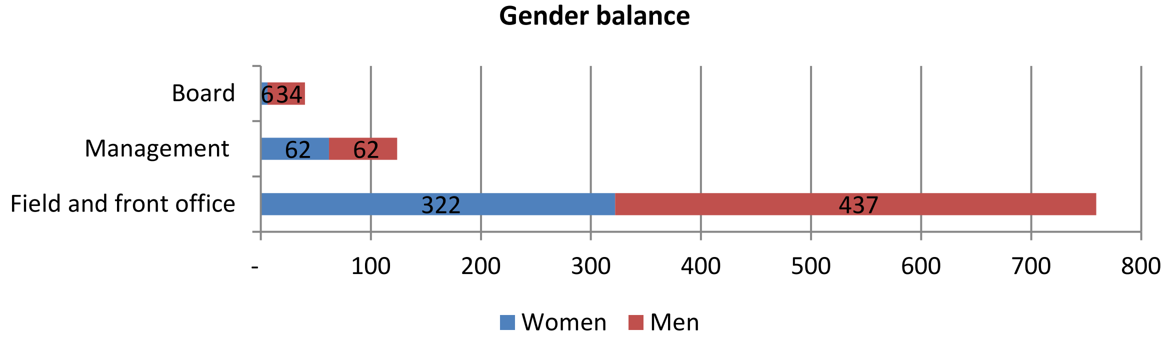
Organizations pay immense attention on staff training related to both financial and social aspects of the activities of their organizations. 7 out of 9 organizations mentioned that the majority of their employees receive ongoing skills development and trainings at least biannually. Such trainings are related to the performance of their essential job functions. 77% of respondents mentioned that their institutions have certain policies that allow employees with good performance evaluations achieve promotions and raises. According to the data provided, during past three years 27% of employees received promotion and managers recruited internally comprise 29% of total number of employees working in management positions. Employee appraisals include different social performance related factors on client outreach, portfolio quality, sensitivity to gender and general customer service.

Social performance factors considered for employee appraisals



Our members are tackling the gender divide

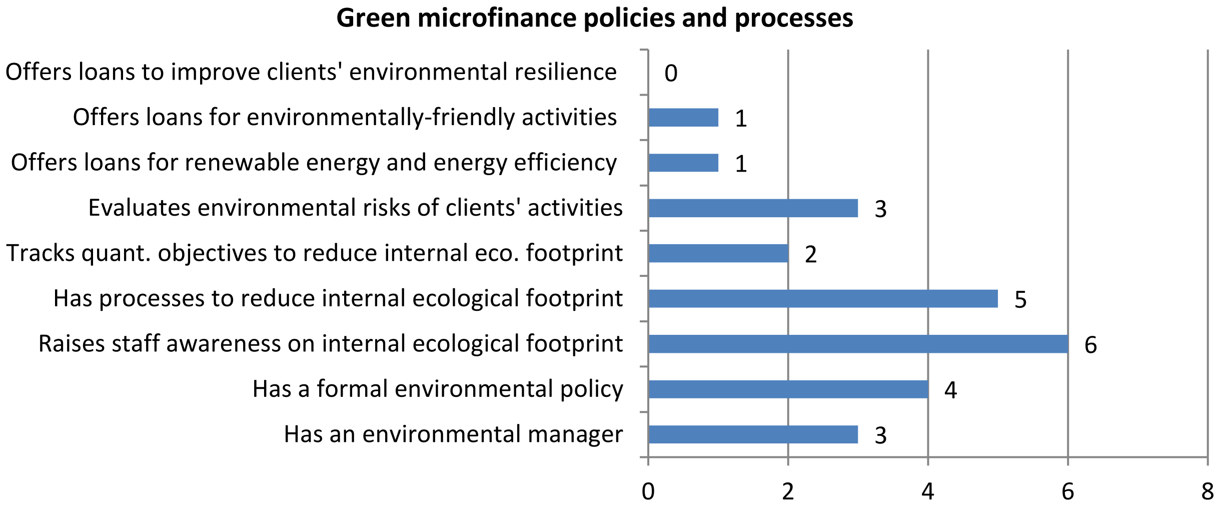
The gender balance among different levels of staff highly differs. In microfinance sector the gender balance of staff members on management levels is relatively well-balanced in general. This can partially be attributed to the fact that the percentage of high-qualified women is equal to those of men in the country (22.8% of women and 22.1% of men have higher professional degree). This is also clearly shown in the graph below, where it is obvious that the number of men and women employed in management role is equal, whilst for the field staff men surpass women by 35%. The challenge still remains when it comes to the board composition, with only 15% women, which may reflect the fact that historically men are more probable to be given decision-making role in the society.



GREEN MICROFINANCE

Our members care about their impact on the environment

Environmental policies and topics related to green microfinance have become actual during the recent years only. To some extent this is partially driven by certain requirements that some of the investors are looking for in the region. This has resulted in a situation, that already 4 out of 9 responding organizations have introduced environmental policies or are in the stage of getting final approvals from their boards and 1 of the responding organizations is in the stage of developing the respective policy. As the trend has just began to evolve, in the near future it is expected that more credit organizations will pay better attention on the financing aspects related to environmental issues.

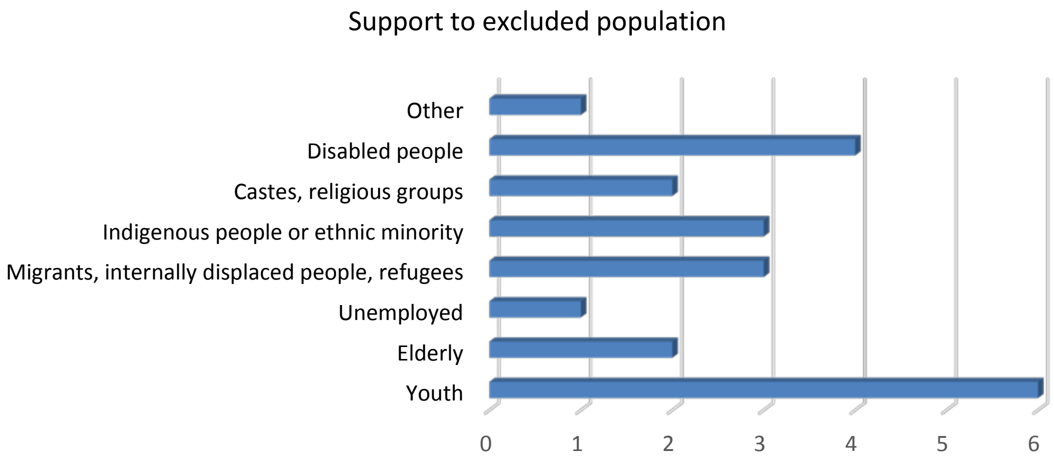


RESPONSIBILITY TO THE COMMUNITY

Our members care about their impact on the community

Though all organizations reported that they are involved in some kind of support to communities, very few of them have actually measured the impact that such projects are having on the community and on the organizations themselves. According to the information provided, up to 0.3% of total assets have been contributed to certain projects to support communities in 2015. Some of the projects mentioned by respondents were subsidizing university fees for their clients' and employee's children, supporting schoolchildren and disabled children from needy communities, renovation of kindergarten etc. When responding to this question, several organizations emphasized that they hire employees from needy families as well as youth with no previous work experience. This is an interesting revelation, as it highlights one of the major issues related to unemployment, when young graduates in the country are having problems with entering the job market. Some organizations offer special projects/products to support population from border unrest areas, where the situation remains not calm related to the Nagorno-Karabakh conflict.

The following graph presents what kind of support has been provided to excluded population. Most often credit organizations have separate projects for youth (67% of respondents), disabled people (44% of respondents), followed by projects for ethnic minorities, migrants, refugees and/or elderly people, which usually don't have access to traditional financial services due to the lack of stable income and formal income statements.



About UCORA

UCORA has been established in 2008 by the decision of its 6 founding members. It is a voluntary union of credit organizations registered in the Republic of Armenia and currently has 12 members. The mission of the Union is to foster the development of the financial system of Armenia through more efficient and overall use of the potential of credit organizations. It represents and promotes general interests and challenges of its members in the Central Bank of RA, Government of RA and other state and non-state bodies, as well as local and international organizations.

Social performance management has been in the focus of UCORA since its establishment. UCORA is a member of the Social Performance Task Force initiative (www.sptf.info), the SEEP network (www.seepnetwork.org) and in collaboration with the Microfinance Center has published a report on Social Performance Management of its members in 2012.

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Universal Standards for Social Performance Management

The Universal Standards for Social Performance Management is a comprehensive manual of best practices created by and for people in microfinance as a resource to help financial institutions achieve their social goals. The Universal Standards can unite the industry behind a common approach to social performance management and enhance its reputation for responsibly serving people's financial needs.

For more information, please visit: www.sptf.info

SPI4 tool

The SPI4 is a social performance assessment tool for financial service providers. An excel questionnaire in its current version, the SPI4 helps financial service providers (FSPs) evaluate their level of implementation of the Universal Standards for Social Performance Management, including the Smart Campaign Client Protection Principles. SPI4 also offers users with a specific mission focus – green, poverty, rural, gender – to assess their practices, thanks to optional indicators that reflect the latest industry thinking in these areas.

The SPI4 was created by CERISE, in collaboration with its partners since 2001, with constant feedback from SPI users using an iterative, collaborative approach. SPI4 is used by financial service providers and microfinance organizations around the world. SPI4 was launched in January 2014 and updated in July 2016. It is fully aligned with the 6 dimensions of the Universal Standards for Social Performance Management and Client Protection Certification Standards. Since 2003, more than 500 FSPs have used the SPI4 – updated regularly to include sector developments and user feedback – to help assess and improve their practices.

For more information, please visit: www.cerise-spi4.org

About MFC

The Microfinance Centre is a regional microfinance resource center and network uniting 101 organizations (including 77 MFIs) across 31 countries of Europe, Central Asia and beyond, who together deliver responsible microfinance services to over 1,000,000 low-income clients.

Vision
The vision of MFC is for an industry that is centered around creating benefits for clients and excels at delivering responsible financial services.

Mission
The mission of MFC is to contribute to poverty reduction and human potential development by promoting a socially-oriented and sustainable microfinance sector that provides adequate financial and non-financial services to a large number of poor families and micro-entrepreneurs.

To achieve this, the Center works with actors across the microfinance value chain: policy-makers, networks, financial service providers and investors, hoping that by pursuing a multi-prong strategy, we can affect positive and lasting change across the industry, and improve both accountability for results at an institutional level, and positive outcomes for clients.

Currently the work of MFC is organized under five key pillars:

Responsible finance: Advancing responsible finance practice among MFC Members.
Access to finance: Building government capacity to develop evidence-based access to finance policies.
EU presence: Advancing access to finance in the EU in cooperation with the European Commission.
Social innovation lab: Testing new approaches to asset-building and financial education for low-income people.
Income generation: Increasing income from our services.

For more information, please visit: www.mfc.org.pl

About Social Performance Fund

The SP Fund has been established by MFC in 2011 thanks to support from Ford Foundation. It promotes the broad adoption of the Universal Standards for Social Performance Management. The aim is to promote SPM implementation by building the capacity of national associations and MFIs to use the SPI4 tool to manage and report on their social performance.

The SP Fund offer includes: off-site technical assistance, grants for MFIs to co-finance SPI4 audit, grants for networks to develop SP country report.

In 2016 the Fund:

- provided grants to 9 national associations and 11 microfinance institutions,
- provided off-site TA to 24 organizations,
- conducted 13 workshops/trainings around the globe about SPM and SPI4 and 11 webinars (in English, Spanish and Russian),
- provided 6 scholarships for national associations.

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