

Social Performance Management in the Azerbaijani Microfinance Sector

2016

Azerbaijan Micro-finance Association

This report details the state of Social Performance Management (SPM) practice among AMFA members in key operational and strategic areas. It is based on members' self-reported Social Performance Indicators – version 4¹ data verified by AMFA², 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.³



EXECUTIVE SUMMARY

The Azerbaijani Microfinance sector, after a decade of high rapid growth, were faced with the challenge of a crisis starting in 2015. AMFA members currently serve around 600,000 micro entrepreneurs throughout 66 branches over the country with the outstanding portfolio of USD \$535 million. A period of financial challenges leads sector regulators and AMFA member institutions to enact structural reforms including consumer protection, increasing client trust, financial literacy, client loyalty and mobilizing/enhancing long term savings and investments. The currently proposed National Strategy on Financial Inclusion is and if this industry initiative will be enacted it will enable AMFA members to enter a new stage to offer innovative services and products to increase financial inclusion.

Accomplishments

- The sector achieved an enhanced understanding of client protection and integrating this as an objective to its core operations. More members passed through SMART Campaign CP assessments and engage in various

Trends explored by AMFA members to improve SPM:

- *Sharing client risks and business challenges (offering moderating Forex rate for payment of USD loans, refinancing, restructuring, moratorium)*
- *Extending client service hours (some institutions are open until 9.00 pm and offer 24hour service centres, some now operate on Saturday and Sundays)*
- *Passing SP assessments and certifications to learn their gaps and improve their operations.*

¹ Social Performance Indicators (SPI4) is a reporting tool developed by CERISE and upgraded to the 4th version in 2016.

² The date collection and verification process endured from April to August, 2016.

³ 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.

initiatives to improve their systems and process to be compliant with the client protection standards.

Despite the economic situation caused by currency exchange rate challenges, important non-financial services including financial literacy and long term savings and investments building activities are being undertaken by AMFA members on a much wider scale.

Challenges

- **Economic slowdown and devaluation: managing FOREX risk and intensified management on non-performing loans (NPL.)** Currently the primary focus of financial institutions is managing their FOREX risks. Meanwhile creditors (investors) are losing interest in the market due to foreign exchange risks. In the short term this potentially will mean the survival of larger and stronger financial institutions and potentially the collapse of smaller institutions and in longer term may reduce funding to meet consumers' financial needs;
- **Lost client trust: decreasing long term savings and investments and need for banking services.** This factor affects the reputation of the banking sector in the market and is negatively expressed in a worsening of client repayment culture.
- **Lower financial awareness:** Increased incidence of parallel borrowing and raising over-indebtedness coupled with the massive dollarization or withdrawal of savings from banks puts the need for increased financial literacy and education to reach a healthier, more stable microfinance sector through client focused activities (along with other bank level measures for internal pro-client campaigns, rescheduling, new risk management /hedging and etc.) and educating for long-term saving and investments opportunities.

Looking ahead

- **Structural reforms:** New regulatory requirements on responsible lending, managing foreign capital and foreign currency loans, stricter capital requirements, restructuring-refinancing, and hedging policy upgrades are now being implemented in banks and non-bank credit organizations (NBCOs) which is recommended by the regulators to undertake best efforts to comply with in order to keep their place in the market;
- **Responsible Finance:** AMFA members should look ahead of becoming responsible lenders and work out value added products and services that will meet the basic needs and capabilities of financial service consumers (local currency lending, long term savings and investments, sharing consumer risks and challenges, repairing client trust)
- **Financial awareness and literacy:** More can be done to organize and implement a strategic vision starting from the bottom to top in all levels of financial market stakeholders from consumers to regulatory bodies.

SECTOR OVERVIEW

Micro-finance emerged in Azerbaijan in the post-war period of the 1990's when there were suddenly 1 million refugees located within the country with no employment opportunities or assets. Thus, almost all emerging microfinance institutions (specialized NBCOs) put forward their social mission to help the economically disadvantaged low-income population who were often not served by the commercial banks to earn a living, build their small businesses and improve their welfare.

The market has now been active for over 20 years represented by banks, NBCOs and credit unions. Over the same period Azerbaijan had one of the strongest performing economies in the world, which helped to sustain the growth of the microfinance sector even when the global financial crisis severely impacted microfinance sectors across the rest of the Eastern Europe and Central Asia (ECA) region.

However, the country has experienced 2 substantial and unanticipated currency devaluations in 2015 (by 34 % and by 48 % consequently)⁴. Along with this, Central Bank of Azerbaijan Republic (CBAR) instituted an interest rate cap for loans at 21%, which meant less costly finance for clients but serious financial challenges for MFIs who had little or no access to lower cost funding.

During the crisis period, some institutions ceased operations and are now in the process of leaving the sector. CBAR withdrew the licence of around 10 banks which resulted in a massive withdrawal of deposits from banks by the population. CBAR also cancelled the license of currency exchange points when, due to the rapid devaluation and public concern, people began buying hard currency in unregulated exchange points. Now, only banks can offer currency exchange services.

The devaluation of the national currency (manat) caused the following consequences:

- Intensive purchase of foreign currencies, including the conversion of manat deposits in dollars.
- Reduction of cash money in circulation and reduction of term deposits in national currency by over 40%
- Gradual increase in the annual average inflation
- Sharp decline in CBAR foreign exchange reserves
- Despite the transition to a floating exchange rate in order to meet market demand for dollars, the Central Bank continues to provide hard currency to the detriment of its foreign exchange reserves.

⁴ As the third-biggest oil producer in the former Soviet Union and continued decline in the international oil prices by three times, the Central Bank of Azerbaijan introduced a floating exchange rate that immediately devalued the Manat to the USD by almost 50%. This drop was in line with Russian and Kazakhstan's national currencies devaluations, however afterwards another 30% devaluation of local currency became the final straw for some financial institutions who were depending on foreign currency borrowings. During this time the microfinance loan portfolio decreased in USD terms by 18.9%, while in local currency it increased by 21.2%.

This situation definitely impeded the rapid increase in financial inclusion, as currently it is risky for consumers to be finance due to over-indebtedness and parallel borrowing of clients who take loans in USD. Over-indebtedness increased to the highest rate in the history of microfinance in Azerbaijan. This coupled with the closing of FIs had a negative impact on financial inclusion.

Regulatory environment

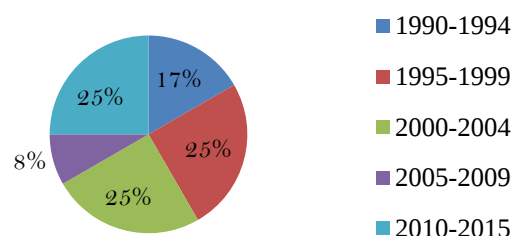
All financial institutions were regulated by the Central Bank of Azerbaijan Republic (CBAR), whereas now the main regulatory body is the Chamber of Control over Financial Institutions. In November 2011 CBAR issued a Methodological Guidance on Handling Client Appeals in Financial Institutions. This document played a significant role in getting members buy-in to build client appeal/complaint handling mechanisms in their institutions. Also, starting from 2014 the CB started Responsible Lending and financial awareness education and issued a decree that prevents financial institutions (banks and NBCOs) from lending outside of registered branches. The decree also requires that all FI should conduct a thorough repayment capacity analysis before issuing a loan and should not lend to someone that cannot provide documents proving their business activities, including taxpayer identification number (TIN) to prevent aggressive selling loan products which is growing in the market (especially big banks.) This set of measures is also designed to curb consumer lending that was growing, with FIs posting Loan Officers in shops that could lend without any analysis. Consequently, in 2014 CBAR issued a requirement for the FIs to show **Effective Interest Rate** (previously they were required to show only annual percentage rate) on all loan documentations and as well as in promotion materials.

Early in 2011 NBCOs joined to the Centralized Credit Registry under the Central Bank which enabled NBCOs and banks to conduct better repayment capacity analyses and prevent clients from over indebtedness by getting information about the current loan debts of a client in the other institutions.

The Azerbaijan Micro-finance Association was established in 2001 to be the voice of the microfinance sector in the country, to defend the interests of local microfinance institutions (MFIs) and to support members' needs.

AMFA's mission is to strengthen the capacity of MFIs and to promote effective collective action in advancing the interests of the microfinance community and its clients.

Microfinance Institution Start Dates



Member overview

Today, AMFA has 39 members, including non-bank financial institutions (NBCOs), banks, credit unions and leasing companies compared to 10 members that started the microfinance association in the 1990s. All AMFA members are regulated by the Central Bank of Azerbaijan until the beginning of 2016. Currently they are being regulated by the Chamber of Control over Financial Institutions.

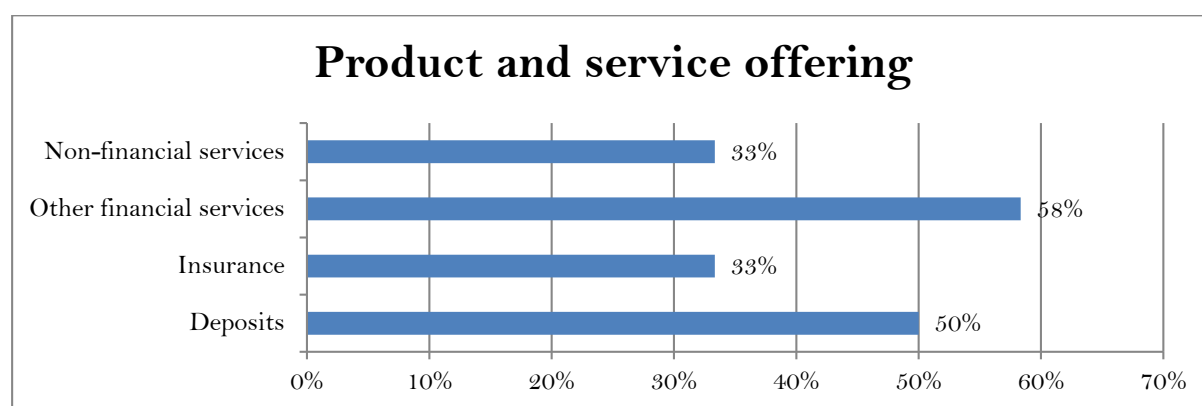
25% of AMFA members are banks, 52% are Non-Bank Credit Organization and the rest are Credit Unions and Leasing companies. For this report, 12 AMFA members⁵ provided data for this report. Together they comprise 60% share of total AMFA membership market.

Members: Operational overview

Product range

Initially the products offered for micro-finance were mainly micro, small and medium business loans and agriculture. However, as more and more institutions entered the market they started to diversify their product range to include consumer loans, loans for travel or medical purposes, education loans, emergency loans and other specialized loans. Non-Bank Credit Organizations are not allowed to take deposits, thus NBCOs offer only loan products while banks also offer mobile banking and express loans, along with their deposit products.

AMFA encourages its members to offer non-financial services (for example financial literacy education) and AMFA provides capacity building assistance for these activities. Currently, 33% of members provide financial literacy and entrepreneurship development training.



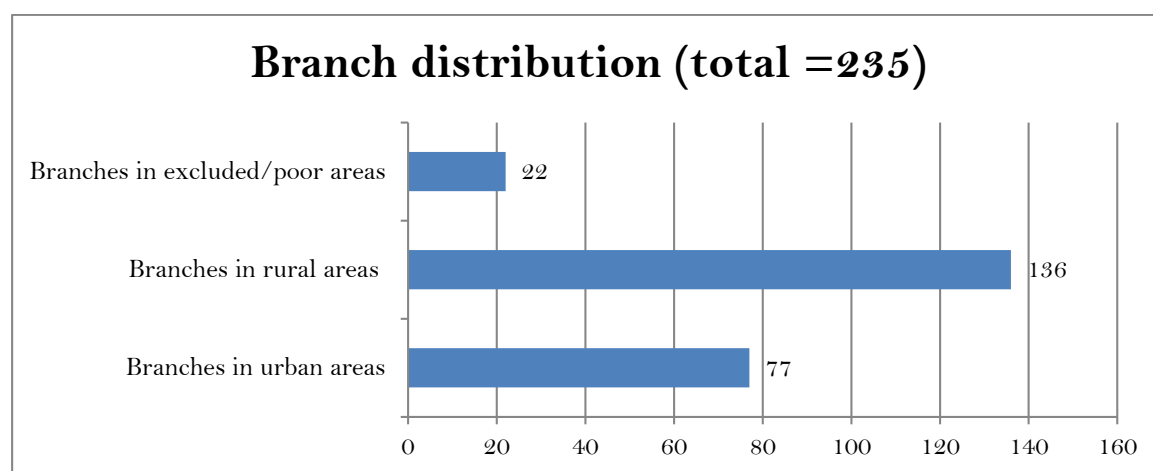
Geographical coverage

Target clientele for the specialized NBCOs were traditionally refugees, internally displaced persons (IDPs) and vulnerable populations in rural areas. Gradually this expanded to the local population and those in urban areas. For the Banks although their main clientele was

⁵ Accessbank, AgrarCredit, Azmikroinvest, Bank of Baku, Demirbank, Finance for Development, PASHABANK, Rabitabank, TBC Credit, Turanbank, VF AzerCredit, Viator Microcredit, NBCO

economically active and higher income population in urban areas, although starting from 2008 they also expanded their outreach to the rural and low-income populations.

With a total of 235 branches the 12 AMFA members who contributed to this report have high rural outreach. This can be explained by the fact that geographically 60% of the country are rural. Also, the high demand of rural population for the micro-loans is definitely influencing argument for the wider branch network of FIs in rural areas. As well as members serving in specific areas like war affected or bordering sites which is classified as excluded and poor areas.



Financial performance

Although in the beginning of microfinance in Azerbaijan there was humanitarian and social donor funding, since 2006 there is no donor funding for operational expense and AMFA members are operating on a commercial basis while also trying to keep their commitment to the social goals. Sustainable high portfolio growth period has ended starting from early 2015 as the result of devaluation of the local currency. In the current scenario the microfinance loan portfolio of the financial institutions decreased in USD terms by 18.9%, while in local currency it increased by 21.2%.

Among the difference institutional forms, the average loan balance for NBCOs registered the largest decline of 17.3%, banks decline of 12.7%, and credit unions (CU) dropped by 2.7%. Total outreach at the borrower level (number of borrowers) declined by 8.5% and in total decline for NBCOs was 39.5 %, for banks 39.7 % and for CU 8.3 % ⁶.

⁶ MIX Market, Azerbaijan Factsheet report, December, 2015

Social Performance Management in the Azerbaijani Microfinance Sector

2016

GLP (balanced) by Peer Group - Volume						
Peers		Dec 14	Mar 15	Jun 15	Sep 15	Dec 15
Bank	Gross Loan Portfolio	2,573M	2,153M	2,006M	1,925M	1,552M
	Gross Loan Portfolio Growth		-16.3%	-6.9%	-4.0%	-19.4%
Credit Union / Cooperative	Gross Loan Portfolio	24M	21M	23M	24M	22M
	Gross Loan Portfolio Growth		-15.2%	11.1%	5.4%	-7.7%
NBFI	Gross Loan Portfolio	531M	426M	413M	386M	321M
	Gross Loan Portfolio Growth		-19.8%	-2.9%	-6.5%	-16.9%

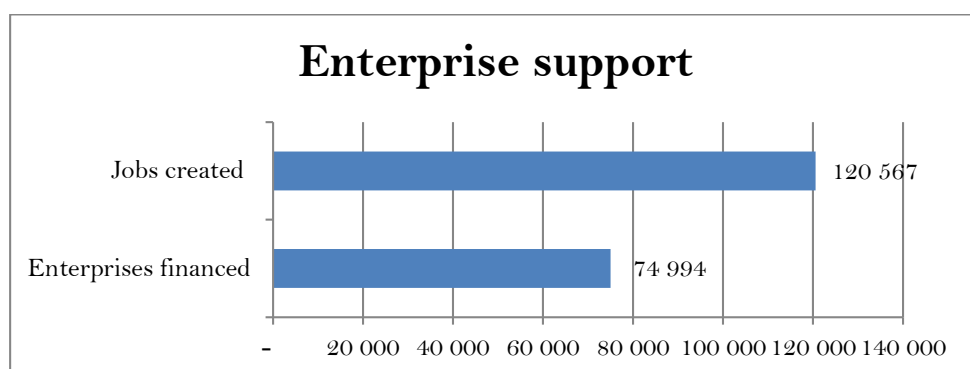
Source: Mix Market Azerbaijan Factsheet

As can be seen in the table below, portfolios, outreach and risk have all been dramatically impacted in the recent past. Risk levels have seen a rising trend where currently NBCOs have reported PAR greater than 30 days at an aggregated level of 24.0% and by legal types they report banks PAR at 16.0%, NBCOs at 10.0% and credit unions at 2.8% for December 2015.

Key Performance Indicators of Azerbaijani Micro-finance Sector			
	Dec 2014	Dec 2015	June 2016
Client outreach (gross)	817 367	632,593	476,738
Client outreach (average)	30 273	25,304	19,070
Loan portfolio (gross)	3,383,929,608	1,830,978,151	1,375,032,502
Loan portfolio (average)	130,151,139	73,239,126	55,001,300
Women clients (average %)	5%	17%	N/A
Rural clients (average %)	4,6%	16,7%	N/A
PAR>30 days (average %)	7%	16%	24%
Write-offs	8 927 060	8 574855	5 280 034
ROA (range %)	25%	-15%	N/A
Portfolio yield	22%	26%	N/A

Support to Local Enterprises

Not all AMFA members monitor and track enterprise support. However, based on the data provided by 3 members, around 120,000 jobs were created through financing 74,994 enterprises as of December, 2015. Considering that almost all member institutions are financing micro and SME businesses, the total figure is likely much larger. Due to high risk, start-ups are not the preferred target for the FIs in Azerbaijan. Most of them do not provide loans to businesses operating less than a year. Start-ups are being financed on rare cases and only in case of some special lending programs or projects availability in FIs and is not tracked or reported separately.



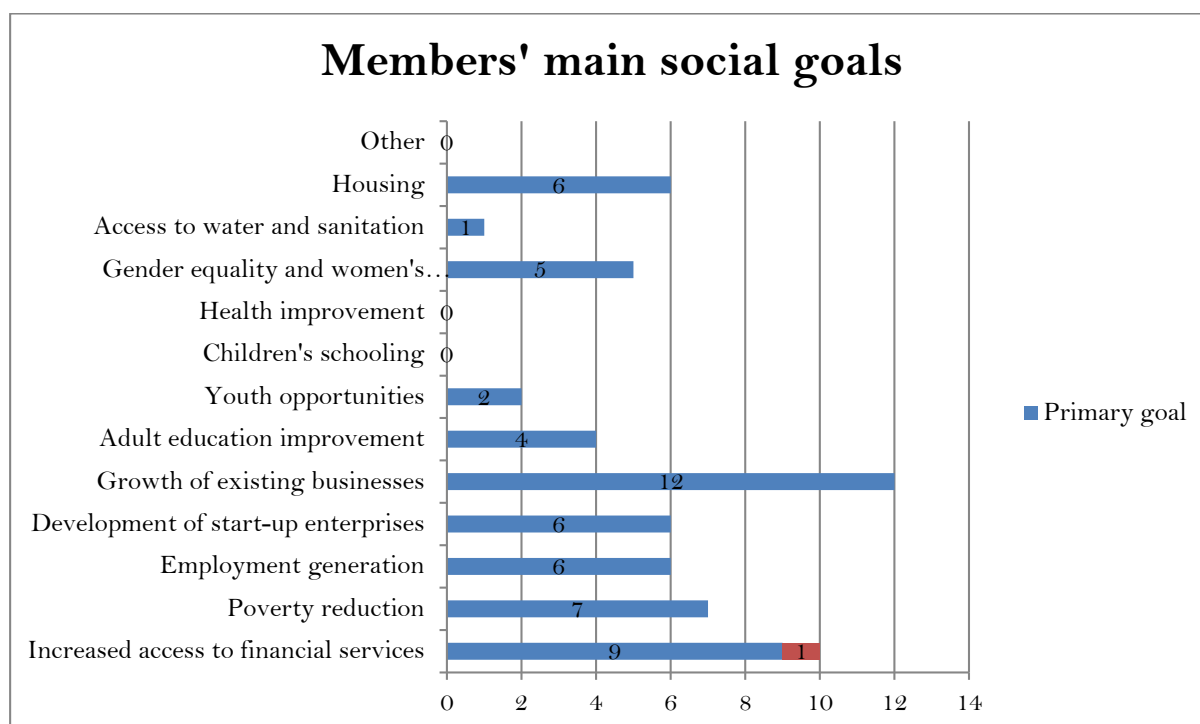
SOCIAL GOALS

All institutions that provided data for this report have social components in their mission statements and some formal and informal social objectives. However, some banks and MFIs don't intentionally follow up their social goals sometimes due to what some describe as mission drift. The primary focus of the micro-finance providers (both banks and NBCOs) is to support micro business of low income people.

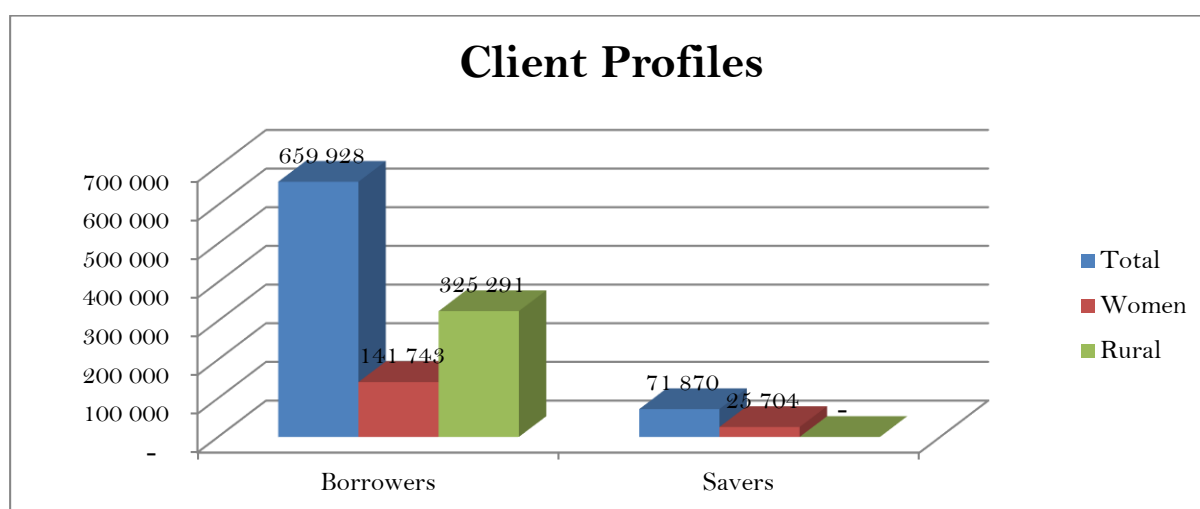
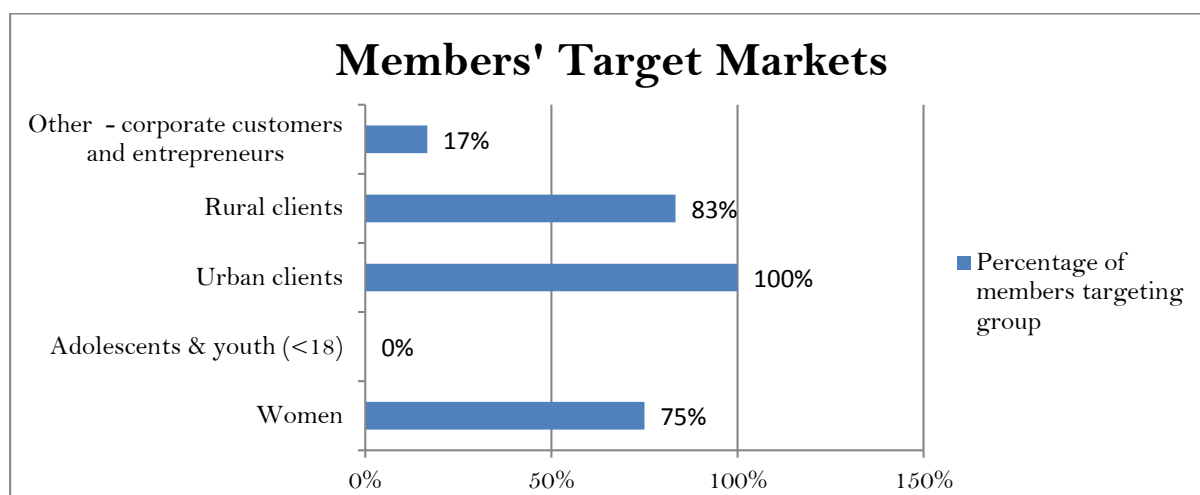
For Azerbaijani micro-finance providers' growth of business activity is their primary social goal which is also a main driver of their operations. Although for MFIs social mission and goals were their starting objective, for the banks they incorporated social missions only after 2000s when they started to launch their micro-financing services.

Social missions are realized by achieving social goals. But not all of the institutions set, track, monitor and /or report on achievement of their social goals. Mature MFIs and banks collect client level data on social indicators which are in most part aligned with their social goals and report to their stakeholders based on request. Small MFI and banks lack the capacity to collect and report on social data.

As seen below all AMFA members seek to support business activities. This is followed by increased access to financial services and poverty reduction, employment generation, and development of start-up businesses. The latter, due to its risk was not on the agenda of a majority of MFIs and especially not for Banks. However, MFIs through various donor supported social projects are financing start-up businesses. In addition, housing started to be become one of the social goals of MFIs in recent years, starting in 2009-2010 following the launch of government programs for mortgage loans. MFIs explored this opportunity and started providing housing loans where they open credit lines and provide yearly installments for construction of houses in rural areas to those who are not eligible for government or commercial mortgage loans provided by local banks. Supporting adult education has also started to emerge as a social goal for financial institutions in Azerbaijan during the recent years which can be explained by the higher over indebtedness level and need for educating /raising awareness of microfinance consumers. While there are numerous social goals of MFIs, youth opportunities and access to water/ sanitation are not on the agenda of MFIs in Azerbaijan.



AMFA members target a range of client groups with the main focus of economic activeness of population. Urban clients are the main target group for all FIs and for some this is the only target group as indicated in the chart below. However, rural clients are also a wide group of clientele for the majority of MFIs which is evidenced by the number of rural branches stated above in this report. Not all MFIs were specifically targeting women unless their shareholders or founders were setting this objective for them. However, during recent years, women proved to be reliable clients, especially those who had official jobs although with lower income (teachers, medical staff and other government employees.). Many banks started to target this lower paid, but regularly employed clients by providing them consumer loans and emergency loans which guaranteed by their salary cards. Also, AMFA has been conducting several gender related projects, the last funded by EBRD on “Mainstreaming gender equality in the Caucasus” where top management of AMFA member banks and MFIs were trained on gender sensitivities. These AMFA member then set targets for increasing female clients and staff as a result of project.



Our members don't target very poor clients.

AMFA members are mainly targeting low income clients –who are economically active and already have at least one regular source of income although in small amounts - (both MFIs and Banks) and poor clients – who are economically active, but don't have stable income sources (only some MFIs). Most members do not specifically measure the income level of their clients – only two institutions are using poverty measurement tools which is internally developed ⁷.

⁷ Poverty headcount ratio at National Poverty Line in Azerbaijan was last measured at 5.30% in 2013 as reported by the World Bank⁷. Economic growth in the country resulted in a steep decline in poverty rates from 46.7 percent in 2002 to 5 percent in 2014.⁷ However with the current economic slowdown and crisis starting from 2015, raising percentage in poverty rate is expected.

PRODUCTS AND SERVICES

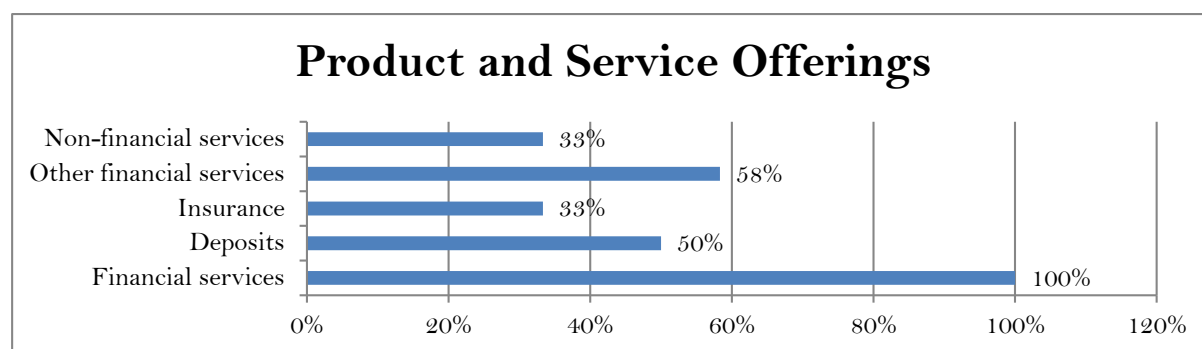
Diversification of micro-finance products and services is due to the diversified needs of consumers and increased competition in the market.

The commercialization of microfinance after the post-war period in Azerbaijan resulted in expanded services by MFIs. Currently there is a strong shift from microcredit (limited to providing small loans) to microfinance (a wider range of services other than loans including micro-leasing and micro-insurance).

As seen from below chart, all AMFA members provide loan products, however only banks provide deposit products⁸. Insurance mainly is the service provided by MFIs to insure the credit that they are disbursing rather than risks of the clients. The insurance cost is around 1% of total loan amount.

Product Diversification

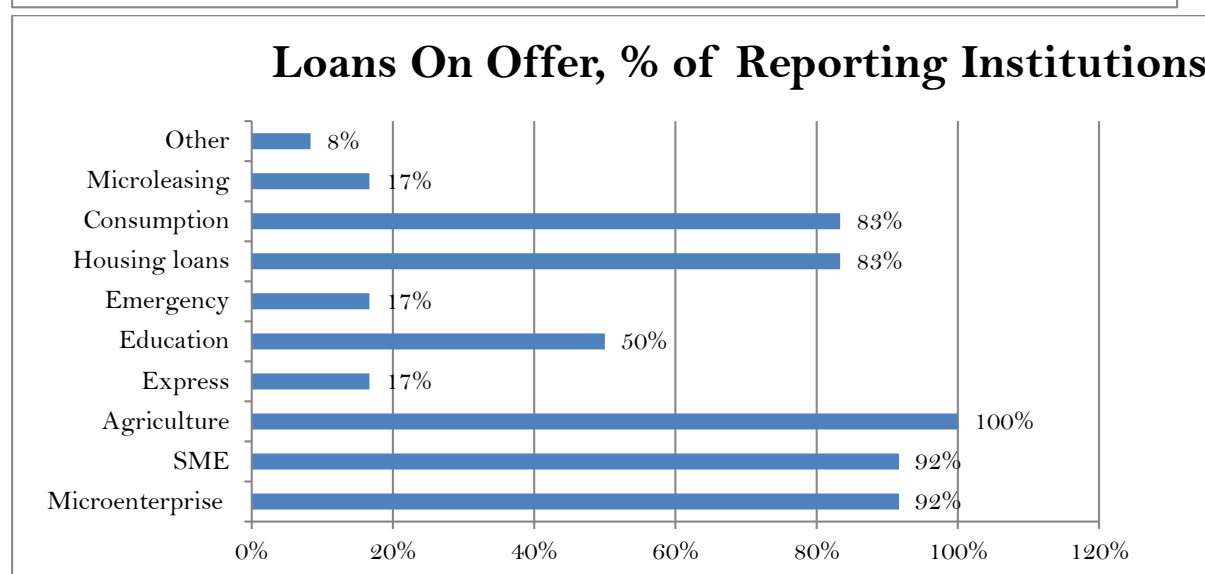
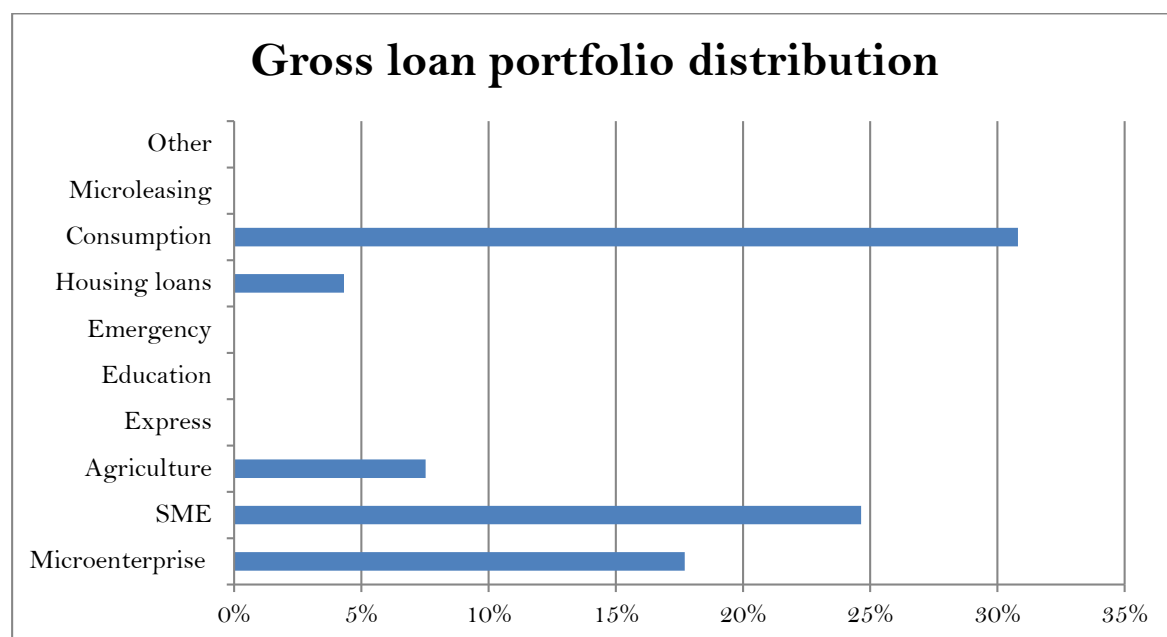
AMFA members' diversified products and services now reflects different purpose loans, insurance, assisting clients development, as well as , launching new banking technology, such as charge cards, ATMs, the use of cell phones and the internet has begun to enter the microfinance business, helping to reduce costs and improve the delivery of services.



To keep loyal clients and provide better services, thus ensuring their competitiveness in the market, MFIs started to launch new products and services against the limited 2 types of MFI services in the 1990s (business and agriculture loans). MFIs started to segment their business loans and design different terms and conditions for their products with flexibility to meet client needs. For business and agriculture loans, terms and conditions are now adjusted to mirror client income periods by offering grace periods and flexible payment dates. Consumer loans also started to grow in member portfolios. Most of them also launched a parallel loans option (for example, business loans vs parallel consumer loans). As described above, for meeting the needs of clients for housing loans, MFIs designed special housing loans, and the diversification

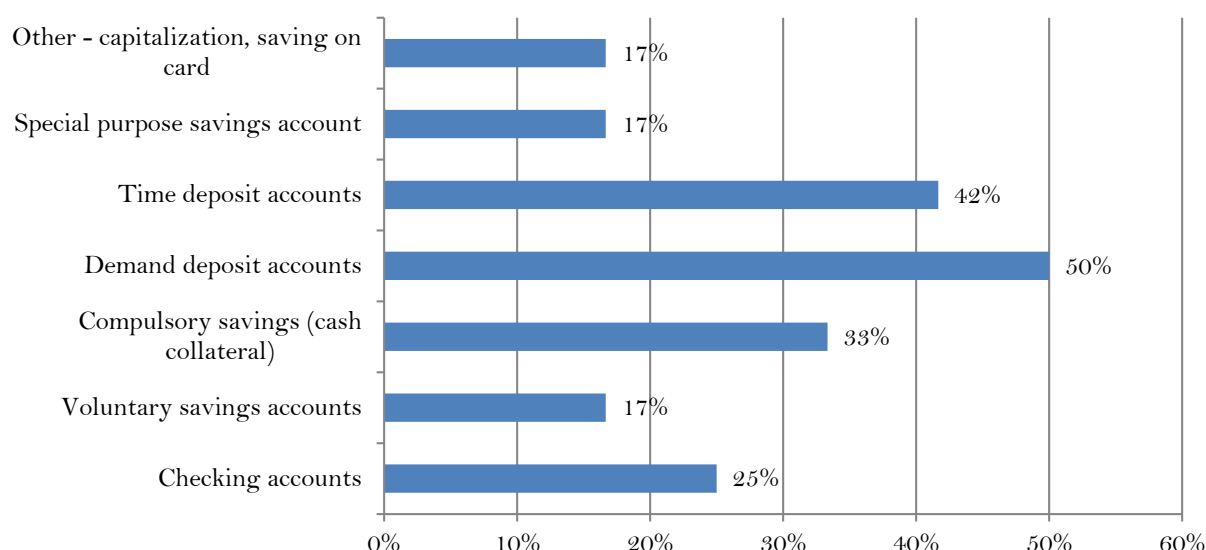
⁸ Only banks are allowed to take deposits.

list was enriched to include travel loans, express loans (quick loans), education loans, and special life event loans (wedding and funerals) and they represent less than 1% of the portfolio.



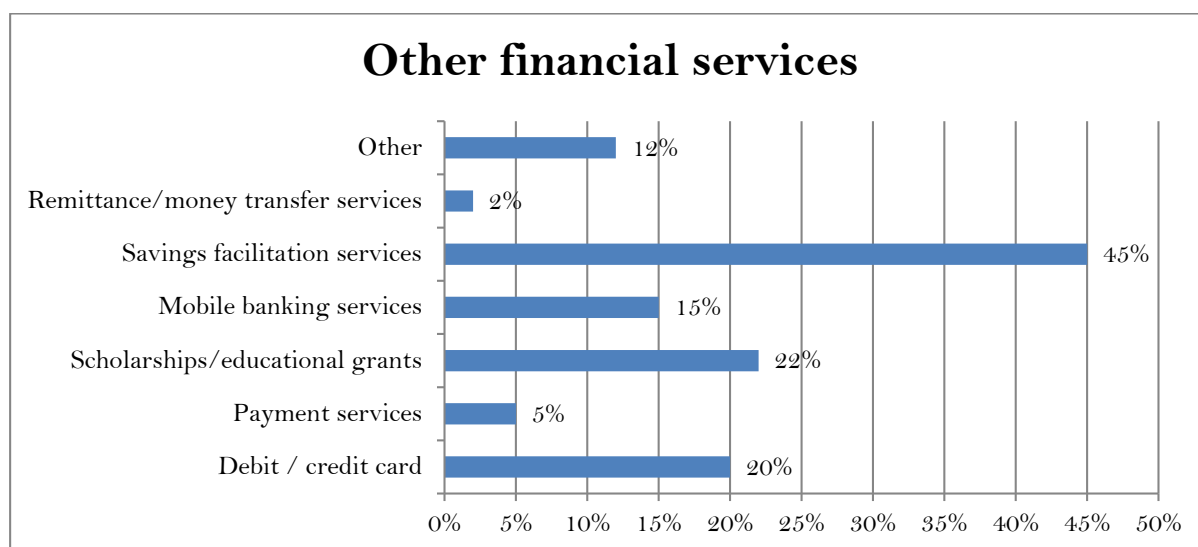
On the deposit side, not much wider diversification happened, which can be explained with the fact that population experienced a banking crisis in early 90s. When this negative experience was eliminated by long years of promotion by banks, starting from 2015 the closure of several banks due to the crisis and devaluation of local currency again reduced confidence in the banking sector which ruined the habits of population saving through banks.

Deposit offering, % of Reporting Institutions

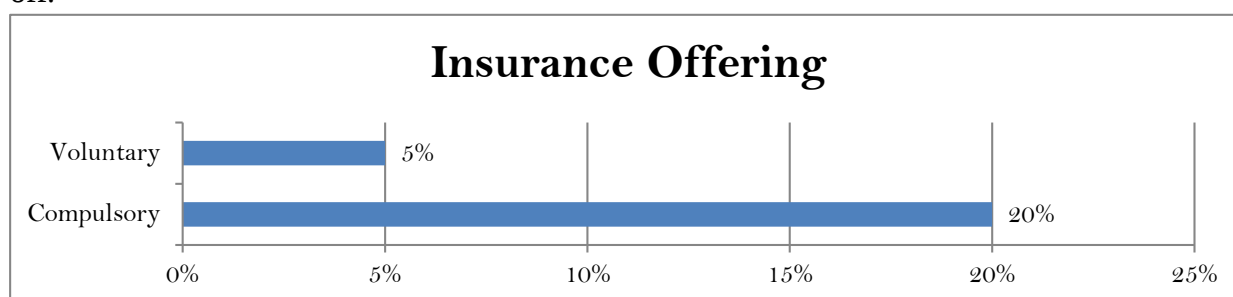


Mobile and internet banking has improved and access increased through these channels during recent years, although these services are mostly provided by banks. However, bigger MFIs also provide mobile and internet banking opportunities. The launch of credit /debit cards widened up extremely – banks started to promote credit cards – which when used also meant a liability for the client. However, clients didn't really recognize these credit cards as outstanding debt cards (or loan liabilities) due to the low awareness, thus, this also resulted in increasing over-indebtedness levels in the country.

The biggest development happened in the payments sphere, as now almost all MFIs and banks are linked with easy payment terminals which are located throughout the country including E-Manat, EasyPay, MilliON and etc. In addition, online payments are now accepted both by banks and NBCOs. Both payment terminals and online payment allows client to pay their loan debts 24 hours /day. The most recent innovation in range of micro-finance services and products is micro-leasing. Although in total portfolio this product has a lower share, this new product is being improved.



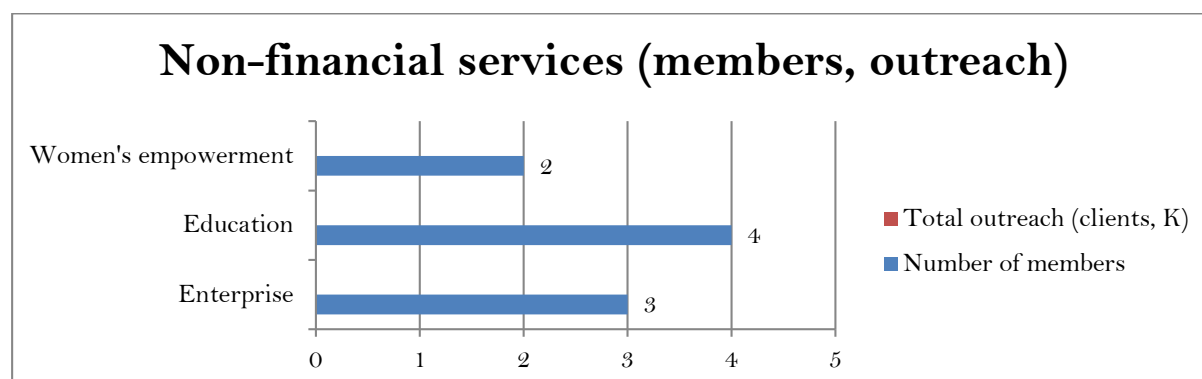
Some AMFA members also offer compulsory insurance of loans against the death case of a client with specific death cases defined in which outstanding debt of client is being written - off.



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

Again, AMFA member MFIs with social missions are more committed to offering non-financial services however these are mostly limited to financial literacy, enterprise development and in case of one institution - vocational training. As banks' commercial goals are relatively more important than their social goals, they are not very proactive in offering non-financial services. Some MFIs, before and after financing a business, offer enterprise development or business skills trainings to their consumers. As a network, AMFA's role is evident in increasing the contribution of member institutions to wider financial education and literacy, promotion of gender equality. One example is AMFA's project conducted with MFC and supported by the European Union on "Building women professionals and promoting women entrepreneurship development in rural regions of Azerbaijan". The project trained trainers from banks and MFIs on financial literacy who are in their turn training broader groups of the population and their customers. In addition, a group of AMFA members are also part of the Raising Financial Literacy initiative run by the Central Bank of Azerbaijan who are contributing to financial education through industry wide campaigns and initiatives and pushing banks and MFIs to participate. Within the activities under this initiative, banks

launched several awareness raising campaigns for different levels of the population starting even with schoolchildren.

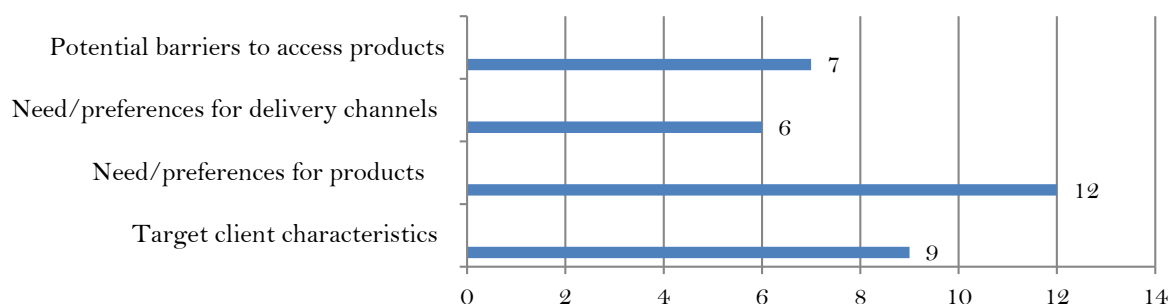


Our members try to learn their clients’ needs, not just their “wants”. Although not all AMFA members are conducting / recording / tracking client satisfaction level through official means (such as surveys, analyses, mystery shopping.), the majority of them collect feedback of clients’ satisfaction informally, thus very few AMFA members were able to present data on client satisfaction. Banks are using smile-check satisfaction learning mechanism (clients mark with one touch their satisfaction from the service while being at the bank and using their service) – this data is being centralized, but not effectively analyzed or used for further decision-making.

Some MFIs try to keep the trend of market needs based on a) informal feedback from clients and b) monitoring new offerings from competitors and c) regulatory requirements (for example, requests for recent changes in lending operations-limitation of dollar lending, putting limits in loan amount for the retired persons, requirements for business analyses and etc.), thus diversify their product services and ranges.

While offering new or improved current products and services, AMFA members mostly consider need/preferences for products primarily, target client characteristics followed by potential barriers for accessing these products. Less attention is being paid to client preferences for delivery channels. It should be stressed that some institutions conduct formal feedback collection, others only collect informal information.

Client-level Research



CLIENT PROTECTION

Most MFI and banks adhere to Client Protection Principles partially or in full both per se and informally.

Now they are changing their policies, procedures and operations in order to comply with regulatory requirements which also reinstates client protection (laws and normative documents mentioned above) and both to meet the requirements of their lenders.

For better repayment capacity analyses, members are consulting to Centralized Credit Registry as one of the main sources, thus in the graph above we can see commitment of majority members for monitoring indebtedness level.

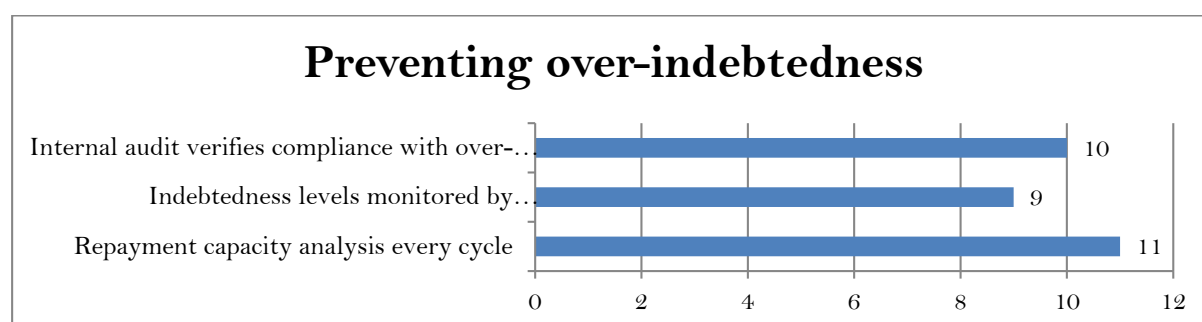
Our members work to prevent client over-indebtedness

After stopping lending operations for some months in 2016, AMFA member institutions are strengthening their repayment capacity analyses, and trying to convert their liability funds into local currency and provide local currency loans to tackle the over indebtedness. PAR > 30 days is 40 % on average. Some banks are also offering lower exchange rates to their clients who repay their debt in USD, the others are doing restructuring and prolongation of repayment period in order to offer clients smaller instalments. Repayment analyses for every cycle even for the long term good clients become the first priority for our members.

However, as manat continues to go cheaper, outstanding debt of clients continues to grow (those who took USD loan), clients are not willing to pay, so repayment culture is also ruined. Evidently, even higher over indebtedness level is being expected by the end of year.

Increasing commitment to Client protection on a snapshot:

- Around 50 % of AMFA members endorsed the Smart Campaign Client Protection Principles
- 10 of them completed a self-assessment,
- 5 passed external SMART Assessment,
- 4 received SMART Certification (VF AzerCredit, FINCA Azerbaijan, Demirbank and Viator MicroCredit)
- 2 members are in the process of passing SPI4 Assessment



Members try to be as much as transparent

With the current crisis period, members started to pay more attention to disclose all relevant loan information to clients, including the currency. This was a case, when after the devaluation people mentioned their they were not aware that their debt was in USD (as they were received manat funds from the cash desk of the banks) and / or not understanding that what is the risks of taking USD loan. So, members started to change their internal procedures on communicating clients the loan terms, some banks introduced EIR calculator at their website, changed their promotion materials. CBAR issued a requirement for the FIs to show **Effective Interest Rate** on all loan documentations and as well as in promotion materials (2014), only APR was expressed in the documents.

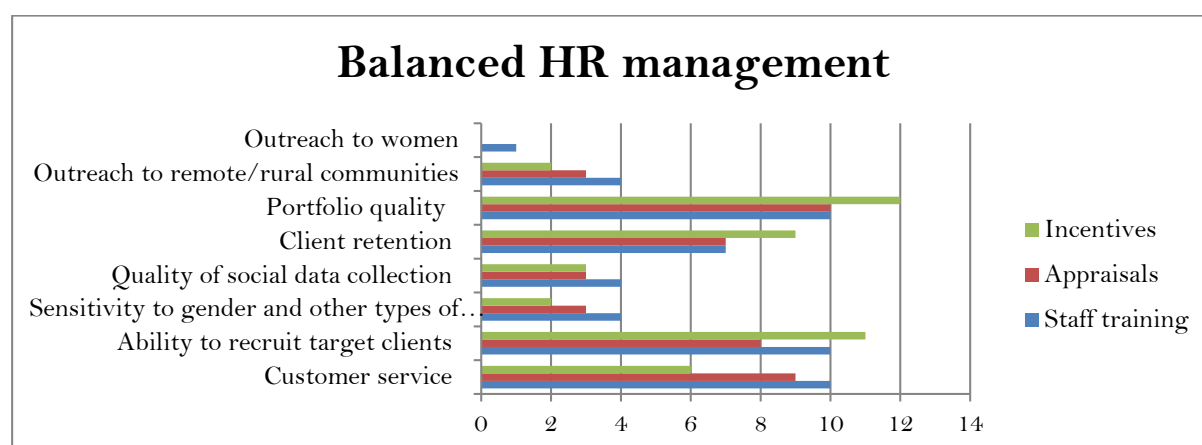
Treating fairly

Many MFIs have fair and respectful treatment of clients as a fundamental principle stated in their internal policy and procedures. Based on the recommendations through SMART Assessment reports, SMART certification reports and other internal or stakeholder requirements and due to the raising competition, during the last years, there were considerable steps towards improving fair and respectful treatment of clients, building commitment of staff for, training staff on this, changing attitude. This can be explained by raising interests of AMFA members to pass through external assessments (SMART, SPI4) and investing in increasing capacity of the staff on SPM as now more members try to demonstrate their social commitment not only through their services, but also in active participation in sector initiatives.

PROTECTING AND MANAGING STAFF

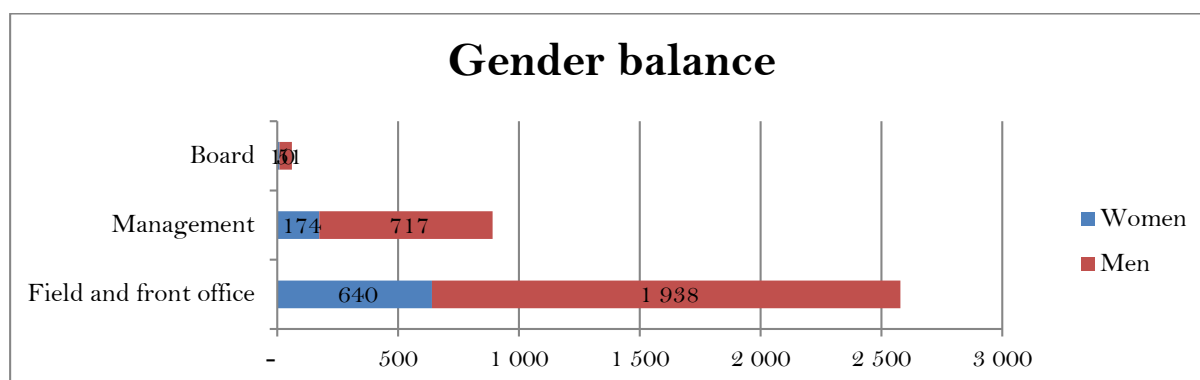
Our members train and support staff to deliver excellent social and financial results

As the staff is one of the main valuable assets of AMFA members grow their personnel to be well equipped for providing better services to clients. As see from below chart, Portfolio Quality, client retention rate and ability to recruit target clients are the most important indicators for incentives of staff. However, these are not in all cases part of the appraisals and staff training. Outreach to women is turned to be not much important for FIs to incentives or appraise. However, some institutions are training their staff on this. As mentioned above, there is not always better mechanism for collecting and analyzing social data –thus, evidently this is not always criteria for incentivizing and appraising.



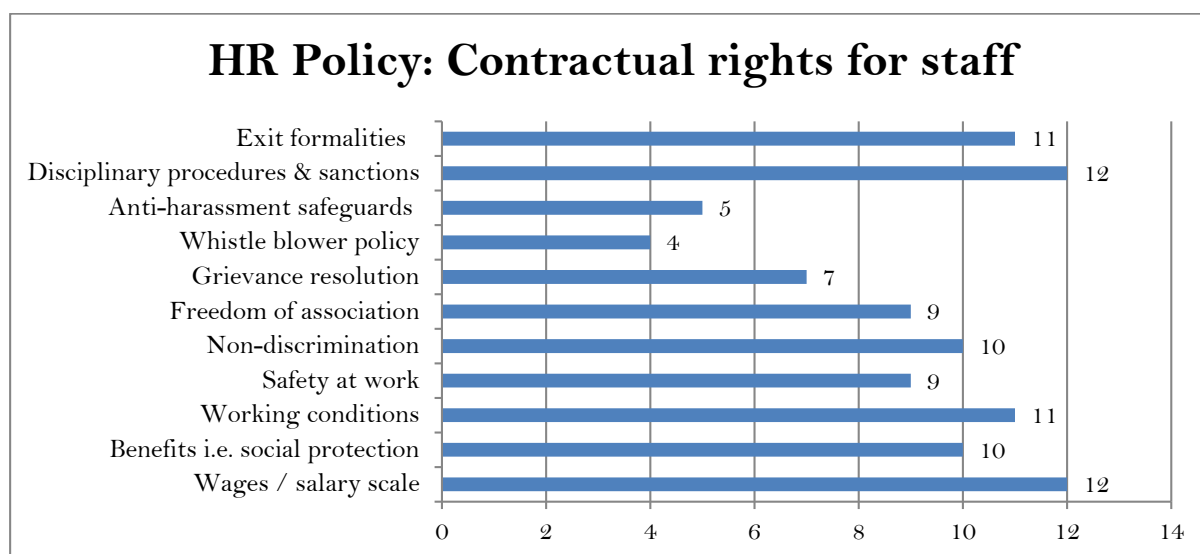
Gender focus

As indicated in below chart, bigger share of staff in financial institutions are men. This could be explained by cultural matters for the period of new emergence of micro-finance. Women are not willing / not allowed to work on fields, to go on business sites, or in some cases, banks and MFIs are not willing to hire women branch staff or managers considering that they will not be able to manage this job. In some cases, they are limited gender selection already in vacancy announcement. However, in recent years this attitude started to change. As, on filed level, some MFIs and banks started to hire women Loan Officers which was appreciated by women clients especially in the rural areas stating that its more comfortable to share business information and family issues to the women LOs. Also, in the management, today more and more women staff are being promoted to higher positions. As a network, AMFA also contributed to this change through its several gender initiatives and projects.



Our members protect and support staff

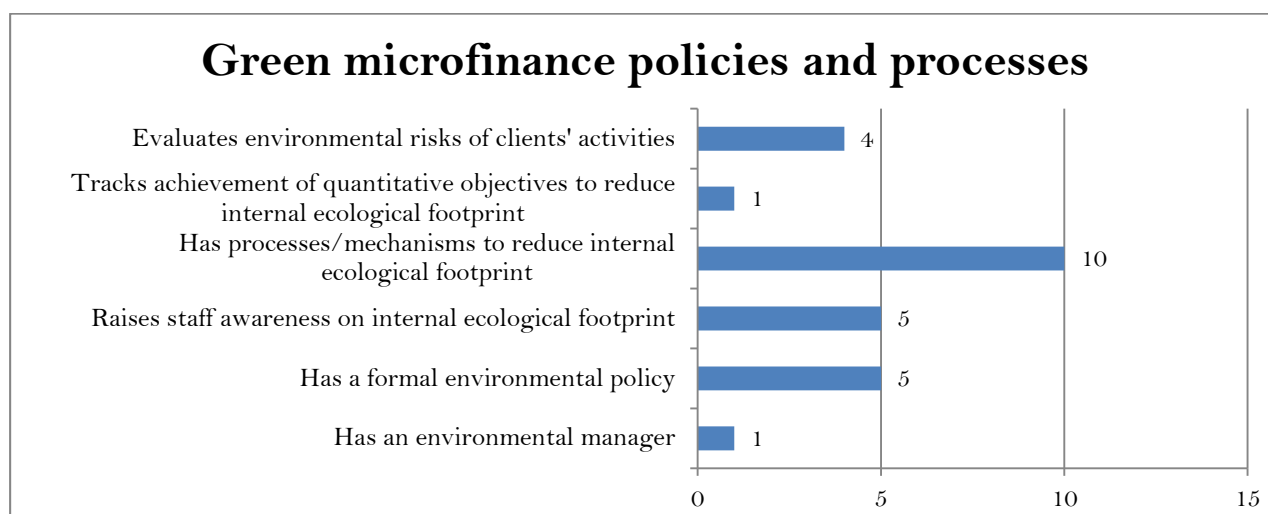
On the top of HR policies and procedures, employee rights are regulated by the Labor Code of the Republic of Azerbaijan. Thus small MFIs even don't always have well written and updated HR manual and are managing their staff based on Labor Code. In case of bigger MFIs and all banks – they are regularly updating their HR policy and presenting/ protecting rights of their staff as stipulated in below chart. As seen, the highest score is for wages and disciplinary procedures which are followed by exit formalities and working conditions. Not all institutions incorporate whistle blower policy and anti-harassment policy in their HR policies.



GREEN MICROFINANCE

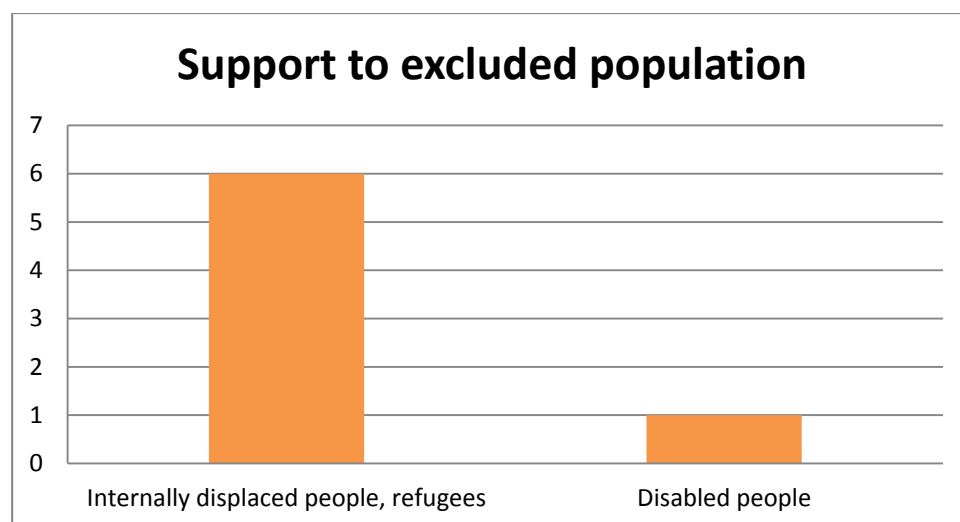
Our members care about their impact on the environment

With the changing market trends and members' efforts to be aligned with both international and local best practices, some AMFA members have started putting forward their green microfinance goals. This is very initial stage for green microfinance in Azerbaijan. As also seen from below chart, AMFA members started from having some processes and mechanism to reduce internal ecological footprint. Some of them have environmental policy which stipulates environmental responsibility of staff (usage of office things, having cleaner offices, less disposals and etc.). Some including all SMART certified institutions have clauses related to financing or /not financing some businesses which they consider environmentally irresponsible (wood production, production of chemical cleaning solutions and etc.). One AMFA member Turanbank is launching special loan products for renewable energy and energy efficiency and loans for environmentally friendly technologies /activities. But as seen it's very limited, however these products may come up in other members and offered more widely in near future as one of the country's priority fields is also development of renewable energy and energy efficiency.



RESPONSIBILITY TO THE COMMUNITY

As mentioned above, micro-finance in Azerbaijan initially was launched as humanitarian programs in post-war period at 90s when Azerbaijan had more than 1 million refugees and IDPs. So, from the very beginning, IDP and refugee communities was core target for most MF programs. If in early 2000s main target population around 80 % of MFIs were IDP and refugees, now this is quite limited and only few MFIs still target them specifically. Also, for one AMFA member, war-affected and mine –victim disabled people are also one of the target community. Support to them is mainly covers better term loans – with discounted interest rates and for the institution providing services to war affected victims, they also provide a job places for them (almost 40 % of the rural branch office staff are mine-affected local population) and provide free vocational trainings.



SUMMARY: COUNTRY PERFORMANCE BASED ON UNIVERSAL STANDARDS FOR SPM

In general, AMFA members perform their experiences more or less compliant with the Universal Standards for Social Performance Management. According to the benchmarking analyses by Cerise conducted based on their data base and AMFA members' data, our members are scoring above the global average on client protection related practices and principles. This is mainly covers member efforts on preventing from over indebtedness, transparency and fair treatment to the clients.

AMFA members are being scored below the global average on setting social goals and objectives, having impact measurement on social goals and on few indicators on responsibility towards employees. On this, AMFA members need to set mission compliant social goals and targets with clear measurement which may require board buy-in and commitment.

About Azerbaijan Micro-finance Association Social Performance Management in the Azerbaijani Microfinance Sector

AMFA is an umbrella organization of almost all MFIs and 11 downscaling banks (decreasing their depth of outreach) presented in Azerbaijan - in total of 39 members. The successful ingredients of association dimension include having a great number of stakeholders and good peer- to-peer learning opportunities and pioneering in industry initiatives.

AMFA is one of the first national Associations in the region going through the capacity building of networks on SMART Client Protection Principles and SMART Assessment since early 2010. With the portfolio of 3 Client protection principles trainings for its members and peer associations, 5 SMART Assessments conducted in the biggest market players, 23 members endorsed SMART Client Protection Principles, implemented several client protection projects and its input to the SMART Certification process design through international discussions, it was able to get a recognition of presenting SMART Campaign in the region by its certified Lead Assessor and 2 Support Assessors. AMFA conducted several customized and general trainings on SMART Client Protection Principles and currently implements technical assistance for its in-country member institutions as well as external MFIs abroad by helping them to build responsible social performance management integrating Client Protection Principles and Universal Standards for Social Performance Management.

AMFA members contributing to the country report:

1. Accessbank, OSC
2. AgrarCredit, NBCO
3. Azmikroinvest, NBCO
4. Bank of Baku, OSC
5. Demirbank, OSC
6. Finance for Development, NBCO
7. PASHABANK, OSC
8. Rabitabank, OSC
9. TBC Credit, NBCO
10. Turanbank, OSC
11. VF AzerCredit, NBCO
12. Viator Microcredit, NBCO

For further information, contact: Sevda Huseynova, Responsible Finance Programs Manager program@amfa.az