

VF AzerCredit's Code of Ethics: *Putting values into practice*¹



BACKGROUND

This case study has been written with a specific audience in mind: microfinance providers who seek to improve practice in relation to specific standards of the Universal Standards for Social Performance Management (USSPM)². This case study provides a practical overview of the process of developing and implementing VF AzerCredit's Code of Ethics. The case also provides recommendations on improving the Code to bring it more closely in line with the Universal Standards for Social Performance Management, and some general lessons for practitioners. This briefing has been written as part of the MFC's Social Performance Fund USSPM Implementation Project³.

NBCO VisionFund AzerCredit LLC of Azerbaijan was established in 1996 as a credit-delivering program of World Vision (a worldwide relief and development organization) to help people take control over their own lives and livelihoods. In 2003, VF AzerCredit registered as a limited liability company and started operating as a non-banking microfinance institution.

VF AzerCredit's mission is to provide financial services that have a positive impact on the lives of the poor. The primary objective of VF AzerCredit has always been to provide loans to those who are not able to access facilities through the formal banking sector.

As the second largest MFI in the country, VF AzerCredit currently (as of June 2013) serves more than 68,610 clients (including 34% women and 76% in rural areas) through 8 branches and 22 sub-branches (see Table 1 for key performance indicators). It uses an innovative, in-house poverty scorecard to ensure outreach to the poor and track changes over time. Currently, self-employed and subsistence poor clients account for over 88% of the portfolio.

Currently VF AzerCredit provides a range of financial products, including: group and individual business loans, agricultural loans, household loans and family loans (for education, house repair/construction, medical care, etc.)

and credit life insurance. It also provides non-financial support in the form of financial literacy booklets on over-indebtedness for clients, and ad-hoc women's business and empowerment support when the funding opportunity arises.

As an organization, VF AzerCredit is deeply committed to its mission and clients. Ljiljana Spasojevic, AzerCredit's CEO, notes: "We've always been very conservative — rather than trying to become the biggest player in the market, we focused on protecting clients and helping them improve." Since 2006, when it took part in its first SPM training (delivered by MFC), the institution has become more deliberate about managing and achieving its social objectives. As part of this, it has clarified its social performance goals and strategy, and strengthened its information systems around poverty outreach and listening to clients.

In 2009, VF AzerCredit became the first Azerbaijani MFI to undergo a Comprehensive Social Rating by Microfinanza⁵, and was awarded a rating grade of "BB", indicating a high likelihood of financial stability and social goal achievement. A subsequent social rating⁶, in 2011, demonstrated improvement across the board, resulting in a rating of "BB+".

Table 1: Key performance indicators

Area/year	2009	2010	2011	2012
Clients	32,207	35,880	47,232	59,751
Loan portfolio (\$ K)	20,293	27,029	41,693	56,923
PAR % (<30 days)	0.4%	0.3%	0.4%	0.3%
Client exit (%)	28.4%	45.1%	6.3%	20.3%
Women clients	43%	41%	31%	34%
Rural clients	66%	70%	71%	74%
Staff (total)	209	277	282	457
Staff turnover	5.5%	6.0%	6.0%	9.0%

¹ Written by Katherine E. Knotts, with input from Ljiljana Spasojevic, Ilkin Zeynalli, Samir Jafarli, Parviz Hasanov, Anar Aliyev, Kinga Dabrowska and Kasia Pawlak. Particular thanks to MehribanYusifova, for insights and diligence alike. Peer reviewers included: Tony Sheldon, Amelia Greenburg, Patricia Richter, Arsène Koffi, Jacqueline Mbabazi, Joel Mwakitalu, Norma Rosas Lizarraga and Lalaine M. Joyas.

² The USSPM are management standards and practices for all MFIs pursuing a double bottom line. www.sptf.info/spmstandards/universal-standards

³ More information can be found at www.mfc.org.pl/en/content/social-performance-fund

⁴ VF AzerCredit's in-house poverty scorecard classifies clients into vulnerable, subsistence, self-employed, and entrepreneurial poor, as well as non-poor.

⁵ Read the report here: www.mixmarket.org/sites/default/files/Azercredit_Social_Rating_Microfinanza_page_1.pdf

⁶ Read the report here: www.mixmarket.org/sites/default/files/social_rating_report_2011.pdf

OVERVIEW

VF AzerCredit's Code of Ethics and Business Conduct, developed in 2010, relates to many of the essential practices found in sections two (ensuring commitment to social goals), four (treat clients responsibly) and five (treat employees responsibly) of the USSPM. See **Annex 1** for details of how the Code maps onto the specific essential practices in each of these sections.

The development of this Code of Ethics responds to two key factors within VF AzerCredit. Firstly, as a mission-driven entity, the Code acts to ensure organization-wide consistency in how its values are understood and reflected in daily business practice. This is especially true given its operational context within a post-soviet state, where both financial literacy and trust in financial institutions are low.

Secondly, this Code marks the shift from an informal to a formal expression of its values. Previously, management relied on VF AzerCredit's strong organizational culture to convey its values and expectations to staff. Spasojevic notes: "Before we had a single policy on this, management never tolerated unethical behavior." Ethical behavior was routinely part of the institutional dialogue, and management set the tone for this discussion. In the face of organizational growth, however, a formalized Code of Ethics was needed to set the foundation for training large numbers of new staff and subsequent compliance monitoring (using clear and concrete indicators of good behavior). After all, client trust takes time to build, and only a moment to destroy.

The Code of Ethics is a foundational document for all other internal policies and procedures. In the main, it covers the responsibilities of staff vis-à-vis safeguarding the reputation of the organization. These include: the integrity of business relationships, protection of physical and intellectual assets, conflict of interest, procurement activity, entertainment, gifts and payments, alcohol and substance abuse, using company communication systems, dress and appearance, and professional conduct.

To a lesser extent, the Code covers a few issues related to staff and client rights. These include: equal employment opportunity (staff rights) and integrity of records, confidentiality of customer and proprietary information (client rights).

A Code of Ethics is a written set of guidelines to help staff and management enact an organization's values and ethical standards in everything they do.

DEVELOPMENT & IMPLEMENTATION

VF AzerCredit's Code of Ethics has a number of key strengths. Firstly, it is written in clear and concrete language which is easy for staff to understand. Secondly, each section lays out general principles before presenting a bulleted list of behavioral expectations. This structure facilitates ease of comprehension by allowing readers to pull out the main points quickly. Thirdly, applying a simple and engaging graphic design "makes people want to read the document," notes Mehriban Yusifova, Marketing & Product Development Manager. See **Figure 1** for a sample page from the Code.

Developing the Code of Ethics

The two-month development process surrounding VF AzerCredit's Code of Ethics was, according to those involved, "quite straightforward" (much more so than

Figure 1: Excerpt from the Code — Part 1

1. Integrity of Business Relationships and Antitrust

VF AzerCredit will conduct its business honestly and ethically wherever we operate in the country. We will constantly improve the quality of our services, products and operations and will create and maintain a reputation for honesty, fairness, respect, responsibility, integrity, trust and sound business judgment.

VF AzerCredit will conduct business based on the principles of fair competition. No antitrust violations are accepted. Thus we will not enter into agreements with competitors to control prices, to boycott certain suppliers or companies or to allocate markets, products and territories.

VF AzerCredit will not compromise its principles for short-term advantage.

We expect our employees to:

- Clearly communicate our standards to the clients and business partners;
- Never involve in negotiations or agreements with competitors regarding pricing and/or allocation of customers and geographical areas;
- Suspend all activities if there is any suspect of unethical or inappropriate conduct.



the implementation process). Once the Management Board (comprised of senior managers) identified the need to develop the Code, the human resources manager was tasked with conducting research and crafting the initial language. See **Table 2** for a breakdown of the level of effort required to develop the Code.

Table 2: Code development level of effort

Position	Role in brief	Hours
Supervisory board	Review and approve final Code	1
CEO	Review and give input on draft Code	2
Deputy CEO	Review and give input on draft Code	3
HR Manager	Research good practice and draft Code	64
Regional managers	Review and give input on draft Code	10
<i>Total</i>		<i>80</i>

This initial drafting phase, led by the HR manager, drew upon a number of sources (both internal and external) for guidance. These included:

Researching existing practices and policies

Due to its history as a program of World Vision International, VF AzerCredit already had a strong ethos and policy-level guidance (put in place by World Vision) relating to ethical behavior. These included policies around conflicts of interest (between personal and professional interests of staff), and child protection (avoiding exploitation, abuse and neglect within clients' families). These two policies were the first pieces to be integrated into the newly-formed Code of Ethics and Business Conduct.

Researching external resources

A second step was to look outside of VF AzerCredit to good practice in the broader industry, both in the financial and non-financial sectors. This included:

Established practice of local banks and MFIs: Where VF AzerCredit staff had previously worked for other local microfinance institutions, the HR manager tapped into their insights about expectations and guidelines around ethical behavior. In some cases, competitors' Codes of Ethics were publicly available on their websites, which also provided useful points of reference.

“Our Code of Ethics is a non-material way of gaining our clients’ trust. You can buy all the nice office furniture you want, but if staff treat clients badly, it’s all for nothing.”
– Anar Aliyev, Credit Manager

Practices of microfinance sector globally: The HR manager sought out specialist guidance online in order to ensure that the draft Code was in line with international best practice. This included accessing information online from the Microfinance Gateway, CGAP and the Social Performance Task Force.⁷

The non-financial sector: A number of local and global industries (e.g. oil, gas, and telecommunications)⁸ have made significant progress in developing their own Codes of Ethics, and were instructive in terms of defining areas of concern, and providing examples of language used to describe ethical responsibilities.

Conducting internal reflection conversations

After the initial research stage (looking at external examples and bringing together the internal foundations of the Code, as described above), the HR manager facilitated a discussion with the management board. The aim of this discussion was to present research findings to date, and to use these to facilitate a conversation around the values and expectations of top management around ethical behavior. Once the initial Code was drafted, the HR manager and the management board completed a line-by-line review.

Once this initial feedback had been incorporated, the HR Manager invited Regional Managers for a 3-hour face-to-face discussion to get additional input— and also to secure their buy-in and commitment to the Code. During the meeting, the HR Manager walked regional managers through the details of the draft Code — inviting them to suggest deletions, edits or improvements along the way.

Implementing the Code of Ethics

In terms of daily implementation of VF AzerCredit's Code, there are three key junctures that are important to explore: staff training, staff appraisal/assessment, and internal auditing.

Creating awareness through staff training

In line with Essential Practice 2c.2 and 2d.2, each new staff member receives a copy of the Code of Ethics when hired, and signs a form⁹ to indicate that it has been read and understood. Subsequently, all staff undergo a day-

⁷ See www.microfinancegateway.org, www.cgap.org, and www.sptf.info

⁸ See in particular the Code of Ethics developed by British Petroleum: www.bp.com/content/dam/bp/pdf/Code-of-conduct/Code_of_Conduct_2011.pdf

⁹ Download the form here: https://dl.dropboxusercontent.com/u/85004503/AzerCredit_COEBC_signatory_form.docx

long training course, of which discussions around the Code of Ethics form the first half (four hours). After a presentation on the mission and structure of the MFI, the training describes, in detail, each section of the Code. In this way, it is the first aspect of the organization that staff learn about when they join VF AzerCredit.

Checking compliance on a routine basis

While the Code of Ethics is not a formal part of the incentive system, in line with Essential Practice 2d.2 there is a specific target around ethics included in the staff appraisal process, as follows: "Non-existence of disciplinary issues in terms of the Code of Ethics and Business Conduct during the period (annum)". Line managers use the appraisal process to initiate an informal discussion around ethics with their staff, to check understanding, and to emphasize the importance of compliance.

Staff are also tested on an annual basis as part of a broader staff competency assessment. The test includes a few questions around ethical behavior (see **Box 1** for sample questions). Where aggregated staff appraisal results, or competency assessment scores, reveal a gap in good practice, the Human Resources Department arranges a follow-up training for all staff to address the issue. The format this takes depends on the topic: it can range from a one-hour to a half-day training, depending on the need. On average, the HR Manager estimates, staff receive refresher training on the Code of Ethics every two years. For gaps revealed at the individual level, management uses verbal explanation, verbal warning, written warning, or formal reprimands as appropriate, depending on the severity of the case.

Box 1: Sample test questions on ethical behavior¹⁰

What can staff expect regarding aggressive behavior and discrimination?

VF AzerCredit stands against the violation of which anti-monopoly legislation?

What is the objective of Code of Ethics and Business Conduct?

Which pricing agreements do we adhere to?

What do we mean by our organization's intellectual resources?

What are organization's expectations from staff in terms of child protection?

Integrating the Code into the internal audit function

In VF AzerCredit's view, unethical behavior is a risk to the institution. In this way, the annual branch audit provides an opportunity to systematically monitor compliance with institutional policies, including the Code of Ethics (in line with Essential Practice 2d.3). As Parviz Hasanov (Internal Auditor) describes: "We start with information on the loan itself from the loan tracking system, to check on whether clients are at risk of becoming over-indebted. There are strict eligibility criteria included in the terms and conditions of our loans." This includes verifying credit bureau information included in each client's file.

The next step is to probe the quality of each loan officer's work, using feedback from their line manager, peers, clients, and interviews with the individual in question. Feedback from staff and clients is collected using a 20-question survey, which includes questions around the quality of service and ethical considerations such as privacy, transparency and child protection. Areas probed by the auditor in each instance are detailed in **Box 2** (overleaf).

Findings are consolidated into a branch-level audit report for the Management Board for review and feedback. The report itself presents information around risk both at the branch- and loan officer-levels, currently and compared to past performance (to identify trends over time). Importantly, risks are weighted by value, to distinguish between different levels of risks (see **Annex 2** for a breakdown, and for how risks are weighted). See **Annex 2** for samples (branch names redacted) on how the information is presented. (Note that the report presents information around all institutional risks, not just those related to the Code of Ethics).

All issues of concern are discussed and agreed between the audit team and the Management Board, and the final report is sent to the audit committee at the Supervisory Board level. According to the Internal Audit policy, a negative report (at branch or loan officer level) will trigger different actions (see **Annex 2**), depending on the severity of the infraction (as decided by the Disciplinary Committee):

- in the case of minor infractions, a warning letter will be issued
- an overall poor branch report will be followed up with targeted training from the HR department
- major infractions by staff result in immediate termination.

Where issues of grave risk arise, a discussion is held at the Supervisory Board level, and remedial actions agreed. Hasanov estimates that of the approximately 2,000 issues of concern identified each year through the auditing process, 300 will relate to the Code of Ethics, of which 2-4 will be serious enough to bring to the attention of the Supervisory Board.

“Integrity is more than the staff-client relationship. It’s also about the integrity of the information we keep about our clients.”

–Parviz Hasanov, Internal Auditor

Box 2: Auditing ethical behavior

Areas to probe with staff:

Is the employee familiar with the Code of Ethics?
Can the employee describe the clients’ rights?
What behaviors are unacceptable according to the MFI’s “zero-tolerance” delinquency policy?
What does the employee think about the MFI’s strategy and management?
Has the employee had any suggestion or innovation rejected by management?
Has the employee met with any kind of harassment by other staff members?
Has the employee learned of any bribery or criminal behavior by another staff member?
Is the employee happy with their grade and wage?
General suggestion and complaints

Areas to probe with clients:

Has the Loan officer visited the client’s business?
Has the client faced any inconvenience or bad attitude from any member of staff?
Did the client need to pay an extra charge to speed up the loan process (as a bribe)?
Verify the day of application and day of disbursement, to ensure loan disbursement was conducted within acceptable time period
Verify the business plan figures with actuals
Verify client’s over-indebtedness status
Ensure the client’s children are enrolled in formal education and not involved in business or work (avoiding child labor)
Ensure the client’s activity is environmentally-friendly; ensure all environmental concerns are recorded and managed appropriately
Complaints and suggestions

IMPROVING THE CODE

A number of potential areas of improvement exist for this Code of Ethics in relation to the USSPM. These fall into three broad categories: maintaining staff feedback loops, taking a more comprehensive view of the ethics question, revisiting the MFI’s “zero-tolerance” delinquency policy, and strengthening the language around compliance monitoring.

Creating and maintaining feedback loops

When it comes to ethical behavior, a two-way dialogue with staff is important in a number of moments: ensuring that staff have an active voice in the Code development process, guaranteeing staff’s right to respond to allegations against them (and appeal decisions where needed), and creating feedback loops around updating/maintaining the language of the Code over time. In particular, these last two instances should be detailed in the Code itself.

Taking a comprehensive view of the ethics question

VF AzerCredit’s Code of Ethics addresses the responsibility of staff to uphold the positive image of the organization. To a lesser extent, it covers issues around staff rights to fair treatment, and client rights to responsible treatment. The Code does not cover the responsibility of the board to uphold and protect the reputation and mission of the organization. *All four* aspects of ethics are envisioned in the Universal Standards, and should be included in VF AzerCredit’s Code of ethics to strengthen its role as a foundational document for the organization.

See **Annex 1** for a breakdown of how the Code maps to these broader ethical questions, and where gaps exist. These additional dimensions relate to staff rights (to fair treatment and wages, benefits, working conditions, safety at work, non-discrimination, freedom of association and grievance resolution) and client rights (client protection principles). Moving forward, VF AzerCredit should consider updating the Code to outline the *general principles or values* behind these policies and reference the *specific policy* that contains the practical detail around expectations, roles, responsibilities, rights, monitoring and sanctioning.

Define rights of client in relation to delinquency

The issue of acceptable debt collection practices is called out specifically a number of times in the USSPM. The

industry's historical "zero tolerance" approach for delinquency is one of the most critical shortcomings around client protection — and increasingly, MFIs are moving towards a client-centered approach, rather than a collection-centered approach. As a strategy, this includes bringing back the focus on preventive measures and especially very diligent client repayment capacity assessment as well as recognizing situations in which there is a need for rescheduling of delinquent loans.

Importantly, VF AzerCredit's approach (as described in its policies around delinquency management and client protection) highlights the role of *preventative measures* in avoiding over-indebtedness and delinquency (including effective business evaluation and loan size assessment). However, the language around actions to be taken *after* a problem is discovered places more emphasis on recovering payments and/or collateral than on working with the client to identify and address the problem. Two recommendations are made here:

- Include language in the Code of Ethics to affirm the rights of vulnerable clients in times of repayment stress
- Revise the delinquency management policy to affirm the institution's commitment to working with clients to solve repayment problems (through a variety of means, up to and including loan rescheduling).

Strengthening language and practice around compliance

VF AzerCredit's Code of Ethics closes with a section on compliance (page 21), which includes language around staff responsibilities for upholding the Code, the whistleblowing policy, sanctions for Code violations, waivers and a message to managers emphasizing their responsibility to lead by example. A review of this section highlights a number of potential improvements:

Briefly explain the monitoring and assessment process
Staff should be aware of how this Code fits into the annual performance review and auditing processes. (See USSPM Essential Practice 5b.3.)

Clarify the procedures around sanctions

Insert language to reference the specific policies related to disciplinary procedures that apply (E.g.: "Details of what constitutes a Code violation can be found in [insert name of file], which can be found in [location]." (See USSPM Essential Practice 2d.3.)

Clarify the sliding scale of sanctions for Code violations

This could be achieved by clearly spelling out which violations can be considered gross misconduct (resulting

in immediate termination). (See USSPM Essential Practice 2d.3.)

Spell out process for staff education around the Code

Couple the language with staff responsibilities vis-à-vis the Code with their rights around access to education and guidance (including more frequent refreshing training). (See USSPM Essential Practice 2d.2)

Integrate clients into compliance monitoring

Consider making clients aware of the Code, their rights around reporting violations, and the means to do so without fear of retaliation. (See USSPM Essential Practice 4e.1)

BENEFITS AND COSTS

For VF AzerCredit, staff pride and consistent behavior are the biggest benefits of having a Code of Ethics.

For VFAzerCredit, perhaps the biggest benefit of its Code of Ethics is an intangible one: "that we enact our values in every single step, and are proud of it," describes Ilkin Zeynalli, Human Resources Manager. Beyond this, its role in staff education and organizational culture is vital. Samir Jafarli (Deputy CEO) notes: "Most of our new staff are young people, hired right out of university. They don't have any work experience — so the Code helps us to set the tone. Since putting it in place, it has definitely improved the customer service function of our field staff."

VF AzerCredit required 80 hours of staff time in total (or approximately two person-weeks) to develop the Code, an investment they feel was worthwhile to unify staff behavior and communicate their values. On-going implementation costs are marginal, as the Code is integrated (see **Table 3**) into existing procedures. Assessing the financial and social outcomes of having this Code in place would be prohibitively expensive, but the counterfactual is easy to imagine. Without those systems in place, the reputation of the institution and the well-being of its clients would be at risk. Without a doubt, the institution sees anecdotal evidence that their client-focused ethos is working. As CEO Ljiljana Spasojevic notes: "Our competitors take a more aggressive approach to growth. We often lose clients to those organizations, but then they return after two years — and they tell us how glad they are to be back!"

ADVICE FROM VF AZERCREDIT

VF AzerCredit's experience highlights key insights around developing and implementing a Code of Ethics:

Start with what you have

If you have a strong organizational culture, then your Code should formalize values that are already present and enacted by staff. For an organization with a weak organizational culture, take an "aspirational look" (where do you want to go?) instead.

Put international best practice through a local lens

Examples from other institutions¹¹ and industries can serve as an important guide in developing your Code. However, culture and ethics are closely entwined: a standard that you find in a Code from an American private enterprise might not resonate in your own context. Develop the standards that are right for you.

Weigh board perspectives more heavily

Engage everyone in the Code development process, especially field staff; as your frontline with clients, their buy-in and input is critical. However, VF AzerCredit's experience is that it's important to weigh the perspectives of board and management more than those of field staff where there are differences of opinion, to ensure the Code is robust enough.

Make it a living document

If your Code of Ethics just sits on a shelf, it's not doing what it's designed to do. There needs to be visible monitoring and follow-up, and any remedial actions taken should be immediate and consistent.

Table 3: Level of effort to implement the Code

Department	Step	Time
Human Resources	Training	4 hours per training session
Human Resources	Staff appraisal	5-15 minutes per staff member
Internal Audit	Monitor branch-level compliance	20% of total branch audit time
Management Board	Review all Code breaches and take action	3 hours per month
Disciplinary Committee	Review important Code breaches	1 hour per month
Supervisory Board	Discuss severe Code breaches	1 hour per year

Box 3: The Social Performance Fund

The Social Performance (SP) Fund for Networks is designed to mainstream the new Universal Standards for Social Performance Management (USSPM). The Implementation Component 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 section(s) 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.

More information

Key documents from AzerCredit:

Code of Ethics: https://dl.dropboxusercontent.com/u/85004503/Azercredit_Code_of_Ethics_and_Business_Conduct.pdf

Grievance Procedures: https://dl.dropboxusercontent.com/u/85004503/Azercredit_Grievance_Procedure_for_Staff.pdf

Anti-Fraud Policy: https://dl.dropboxusercontent.com/u/85004503/AzerCredit_Anti_Fraud_Policy.rtf

Client Protection Policy: https://dl.dropboxusercontent.com/u/85004503/AzerCredit_Client_Protection_Policy.doc

Information about the project partners:

VF AzerCredit: www.azercredit.az,
www.mixmarket.org/mfi/azercredit
 Microfinance Centre: www.mfc.org.pl
 Social Performance Task Force Website: www.sptf.info

¹¹ The SMART Campaign has useful resources here: www.smartcampaign.org/tools-a-resources/84. See also an excellent sample Code of Ethics from the Small Enterprise Foundation (South Africa) here: https://dl.dropboxusercontent.com/u/85004503/SEF_Code_of_Ethics.pdf

Annex 1: Mapping AzerCredit's Code of Ethics to the USSPM

Essential practice		Notes on VF AzerCredit's Code
2a.2	The institution requires Board members to adhere to the institution's Code of Ethics.	<ul style="list-style-type: none"> + Board members are required to sign on to the Code + Code compliance is verified by internal audit
2c.2	The institutional culture raises awareness and concern about fair and responsible treatment of clients.	<ul style="list-style-type: none"> + The Code sets out basic ethical expectations around professional conduct. + The Code has been approved by the Board. + Staff members formally sign on to the Code on hiring. o Gaps exist in the Code around key aspects of client protection, most of which are covered in the Client Protection policy. Ethical collections behavior remains a gap.
2d.2	The institution provides training, and evaluates employees, on how they perform both the social and financial performance responsibilities related to their position.	<ul style="list-style-type: none"> + Ethical behavior forms part of the staff appraisal discussion.
2d.3	The institution implements policies to promote ethics and prevent fraud.	<ul style="list-style-type: none"> + Ethical behavior forms part of the staff appraisal discussion and the internal audit process. o Sanctions for unethical behavior are outlined in the Disciplinary Rules and procedures rather than the Code. o Fair working conditions for staff (wage levels) are not described in the Code.
4c.1	The institution has defined in specific detail what it considers to be appropriate debt collection practices.	<ul style="list-style-type: none"> + The Delinquency Management policy emphasizes prevention of default. o Guidance on staff behavior in the case of default is limited to the order and escalation of repayment notices. No guidance on ethical behavior, or criteria for rescheduling, is given. In this way, VF AzerCredit operates a "zero-tolerance" policy.
4c.5	The institution informs clients of their rights.	<ul style="list-style-type: none"> o Policy on Client Protection outlines customer grievance procedures. Code of Ethics should affirm position on educating clients on the Code, their right to complain about ethical violations, and the procedures to do without fear of retaliation.
4d.1	The institution has a privacy policy and appropriate technology systems.	<ul style="list-style-type: none"> + The Code envisions the integrity of records and confidentiality in part two.
5a.1	A written Human Resources policy is available to all employees; is compliant with any existing national law; and explains employees' rights related to all of the following: wages, benefits, working conditions, safety at work, non-discrimination, freedom of association, and grievance resolution.	<ul style="list-style-type: none"> + Code addresses principles around non-discrimination (Part nine). o Grievance resolution is outlined in the Grievance Procedures for Staff, which should be referenced in the Code of Ethics. o Gaps in the Code include employee's rights to fair working conditions, wages, benefits, and freedom of association. These are addressed elsewhere in standard employment contract terms and conditions and the staff grading policy.
5a.3	The institution accepts and responds to employee grievances through a formal and confidential grievance system that protects employees from retaliation for submitting their complaints.	<ul style="list-style-type: none"> o Grievance resolution is outlined in the Grievance Procedures for Staff, which should be referenced in the Code of Ethics.

Annex 2: Defining, weighting and tracking risks

Table A2: Distinguishing between risk levels

Risk level	Definition	Management response	Fraud?	Intentional violation?	Material risk?	Policy violation?
Unacceptable	Findings flag serious risks. Usually implies fraud or intentional policy breaches.	Urgent action: written warnings or staff dismissal	YES	YES	YES/NO	YES
Significant	Findings flag financial or control risk which may lead to serious failure and loss. Often there is fraud or serious policy violations.	Close monitoring, issuing written or verbal warnings.	YES/NO	YES	YES/NO	YES
Medium	Findings don't indicate financial risk but continued breaches may cause control failure.	Strengthen process control and conduct staff training.	NO	YES/NO	YES/NO	YES
Limited	Findings don't imply financial or control risks rather errors or slight violation of procedures.	Eliminate weaknesses in control procedures.	NO	YES/NO	NO	YES/NO

Box A2: Weighting risks

Each audit risk criteria has its risk value:

Unacceptable=0.4 Significant =0.3 Medium=0.2 Limited =0.1

Then the number associated with each category is multiplied by the number of findings and divided by the number of audit samples for that category and summarized.

Example: X Loan Officer's portfolio was audited with a sample of 10 loans. The audit found 1 unacceptable, 3 significant, 3 medium and 5 limited risks. This is calculated accordingly:
 $(1 * 0.4 / 10) + (3 * 0.3 / 10) + (3 * 0.2 / 10) + (5 * 0.1 / 10) = 0.24$

To estimate full portfolio of each loan officer, the audit team uses the following scale:

0 > x > 0.1: Limited Risk 0.1 > x > 0.2: Medium Risk 0.2 > x > 0.3: Significant Risk

x > 0.3: Unacceptable Risk.

Accordingly, our example loan officer above (with a risk score of 0.24) falls in the "Significant Risk" category, and should expect a written or verbal warning and close monitoring.

Annex 2: Defining, tracking and weighting risks

Figure A2-1: Reporting on risk at the branch level (by current percentage and trend)

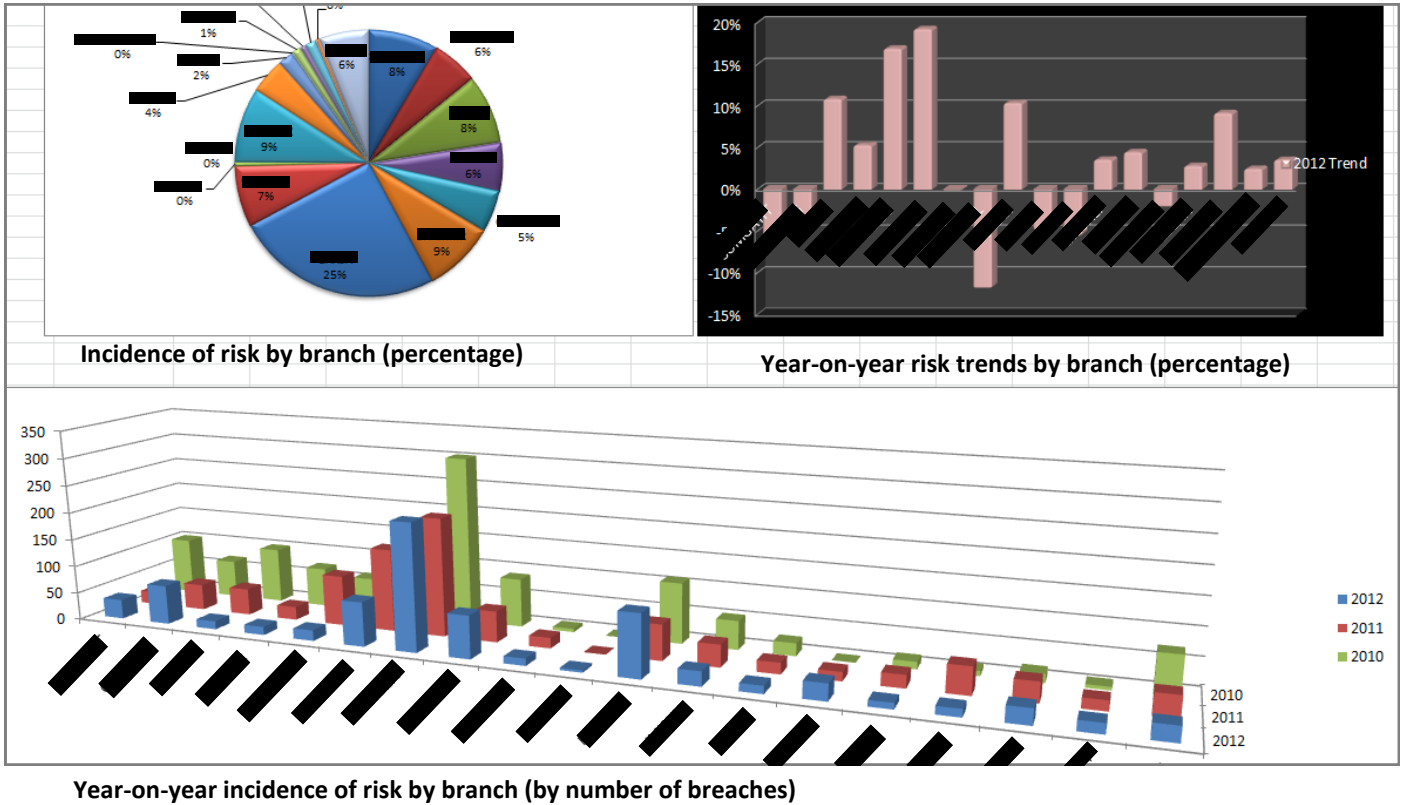


Figure A2-2: Reporting on risk at the individual staff level

		3	1	4	AUDIT OPINION: [redacted]'s portfolio has got worse for -0.405 percent. According to [redacted] was evaluated as 'High risky'
Audit samples		20	12	5	
Audit findings		2	4	0	
	TOTAL		2010	2011	2012
Risk category					
Significant	3	1	2	Two or more loans was taken by the same family members for the same business.	
Medium	2	1	1	Client has transferred a loan to another person.	
Limited	1	1		There is not a registration form confirming the client's current address.	

Risk report for individual staff member