



CLIENT PROTECTION CERTIFICATION

*Report for FINCA Azerbaijan, Baku, Azerbaijan
Certified in August 2015*

Mission Conducted by MicroFinanza Rating
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“Certified financial institutions have demonstrated their commitment and practice to treat the people they serve fairly. They contribute to a microfinance industry that prioritizes client care.”

- *Isabelle Barrès, Director, the Smart Campaign*

Selected Examples of Practices

This document was prepared by MicroFinanza Rating, a licensed certifier of the Smart Campaign's Client Protection Certification Program. It contains excerpts of analysis from a certification mission conducted at FINCA Azerbaijan. FINCA Azerbaijan became client protection certified in August 2015.

Certification missions entail a streamlined desk review of institutional policies and procedures followed by an on-site due diligence visit that includes extensive staff interviews and focus group discussions with clients. The certifier looks for evidence of adherence to the [Client Protection Principles](#) as evidenced by meeting [standards](#) associated with each principle in institutional policies, procedures, systems, organizational culture and staff behavior. In order to become certified, an institution must meet all of the client protection standards. Only organizations that pass certification will be made public. The certification status is valid for four years. At the two-year midpoint, certified institutions must undergo a renewal in order to retain their certification.

This summary presents selected excerpts from the certification mission analysis, which in total covers 30 standards of care. The evidence presented is not exhaustive but rather meant to illustrate what the certification standards of care look like in practice and to highlight specific practices by this institution. We encourage readers to reference the [client protection standards](#) when reading this report. For more information about the certification program and a list of certified organizations please visit the Smart Campaign's website <http://www.smartcampaign.org/certification>.

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Selected Examples of Practices

Client Protection Principle 1 – Appropriate Product Design and Delivery

- FINCA offers a variety of individual and group loan products with flexible terms and conditions including grace periods matching borrower cash flows.
- Acceptable and unacceptable pledges of collateral are defined in the credit policy forbidding the seizing of assets depriving borrowers of their basic survival capacity.
- FINCA monitors client satisfaction and investigates reasons for dropout quarterly. The findings inform executive decision-making and product development.
- FINCA does not employ aggressive sales techniques. Growth targets are defined based on branch expectations taking into account current levels of market saturation.

Client Protection Principle 2 – Prevention of Overindebtedness

- Loan approval is based on borrower repayment capacity through the analysis of household surplus. The minimum thresholds for debt service coverage are set at adequate levels.
- The formation of solidarity groups is based on self-selection.
- The management team monitors portfolio quality weekly. The Supervisory Board reviews quarterly management reports detailing portfolio performance.
- FINCA abandoned its loan officer bonus policy altogether to prevent aggressive sales. Sales targets are reasonable and defined individually for each loan officer.
- The Credit Registry reports on all borrowers and guarantors are checked at each loan cycle.
- Internal Control verifies staff compliance with credit policies and procedures (e.g. repayment capacity analyses and the appropriateness of loan decisions) and crosschecks client information during field visits.

Client Protection Principle 3 – Transparency

- FINCA adequately communicates to clients the product terms and conditions including interest rates, fees, and penalties for late payments during initial client meetings and prior to the signing of the loan contracts. Repayment schedules are detailed and provided to clients for review before loan contracts are concluded.
- Staff are trained to communicate with clients in an accessible language.
- The loan contracts are standardized and written in plain language. They stipulate key terms and conditions including amounts, tenure, nominal annual interest rates, disbursement fees, the Factual Interest Rates (FIFD), and prepayment and late payment fees.
- FINCA discloses accurate pricing information (nominal interest rates and FIFD) in its marketing files (i.e. posters and product brochures) and on the company website.

Client Protection Principle 4 – Responsible Pricing

- Loan pricing is market-based and non-discriminatory. It is comparable to those of peer institutions. The APR of the two main products—Individual Rural Loan and Express Loan—range from 34.5% to 37.1% in local currency and from 32.5% to 36.6% in U.S. dollars, respectively (October 2014).
- The operating efficiency has improved over time and is in line with that of comparable peer MFIs. The operating expense ratio (on average portfolio) is 21.5% as of December 2013.

Client Protection Principle 5 - Principle 5 - Fair and Respectful Treatment of Clients

- The standards of professional conduct expected of all staff defines a minimum list of prohibited behaviors toward clients including the use of abusive language, use of physical force, limitation of physical freedom, shouting, public humiliation, breach of client privacy, discrimination, fraud, and harassment.
- In the event of loan default, collateral seizure is a measure of last resort. The realization of

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collateral is carried out either through express client consent or a court decision.

- Unacceptable debt collection practices are defined and staff are trained in them upon hire. They include making threats, visiting and phoning clients during inappropriate times, entering unlawfully clients' homes, and taking client property.
- The staff sanctions matrix in the Personnel Manual defines disciplinary measures (up to employment termination) for violating internal policies and procedures including the standards of conduct (unacceptable behaviors).
- Loan officers are required to inform clients about the main aspects of the staff code of conduct during initial consultations.

Client Protection Principle 6 – Privacy of Client Data

- All staff sign confidentiality agreements forbidding them from disclosing any internal information including that collected from clients.
- Loan contracts contain a privacy clause. Loan officers are required to ensure client understanding prior to the signing of the contracts.
- Information security protocols prevent unauthorized use and access to client information. Client files are maintained in secure locations at the branch offices.

Client Protection Principle 7 – Mechanisms for Complaint Resolution

- FINCA has a multi-channel complaint resolution system, including a toll-free hotline, to resolve customer complaints. The system has a clear reporting line and fixed timelines.
- Staff are trained in how the system functions upon hire and, as a standard procedure, inform clients how to file complaints using different channels during consultations.
- Complaints are recorded and reported to the management team weekly.
- Internal Control verifies complaint resolutions and customer satisfaction monthly. The sample size is set at a minimum of 10% of all complaints received during the reporting period.