Putting the Principles into Practice

Smart Campaign (SC): Why has AMFA decided to prioritize client protection among the many important issues facing your members?

AMFA: The problem of multiple borrowing attracted our attention in 2009 when several banks began to downscale and enter rural markets. Last year we conducted surveys among our members and found that multiple borrowing and cross-lending are a threat to our market. As an association, we feel responsible for taking preventive industry-wide measures to avoid a client overindebtedness crisis.

Additionally, recent global discussions on SPM and client protection at numerous industry events caught our attention and led us to consider the impact of microfinance on clients more deeply. As members of the Microfinance Center, Poland (MFC) and the SEEP Network, we were able to access technical knowledge of SPM and client protection that we now pass on to our members.

SC: So AMFA originally became interested in client protection because of a potential overindebtedness crisis in Azerbaijan. How did you get your members involved and interested?

AMFA: Before we suggest that our members make changes to their policies and procedures, we start with educating them on why it is important. We lead by example. We endorsed the Smart Campaign and educated ourselves about the Client Protection Principles. Then we invited our members to endorse during awareness-raising seminars and networking meetings.

We also translated some of the client protection materials offered by the Campaign, and translated the Getting Started Questionnaire into our national language, Azerbaijani. It is important that we make the tools and resources accessible to our members.

Established in 2001, the Azerbaijan Microfinance Association (AMFA) champions client protection among their 28 member organizations. As a part of their larger social performance management (SPM) strategy, AMFA supports members in the adoption of the Client Protection Principles. AMFA shared with the Smart Campaign why client protection is a priority for the association, and how they encourage strong client protection practices in the Azerbaijani microfinance industry. Their client protection initiatives can serve as a good practice example to other networks and associations.

1 The Getting Started Questionnaire: Client Protection Self Assessment for Microfinance institutions is available on the Smart Campaign website: http://www.smartcampaign.org/tools-a-resources/2/41
For institutions that need assistance filling out the Getting Started Questionnaire, we offer on-site or long-distance support. Once the institutions complete the questionnaire, we translate the answers into English so we can send the results back to the Smart Campaign, to add to the global learning on client protection.

Our efforts are helping to increase the momentum around client protection among members. Currently, 90 percent of our members have endorsed the Campaign and half have completed the Getting Started Questionnaire.

SC: Speaking of the building momentum—has it been easy to generate interest among your members?

AMFA: For some members, yes—for other members, no. Two things really helped us to build interest—facts and training.

To convince our members that they need to put time and effort into something new, they want to see the facts on why it is important. AMFA sponsored a study on the Azerbaijani microfinance market, which included interviews with 2,000 clients. The study highlighted some important weaknesses among the country’s MFIs, including weaknesses in several areas of client protection. The members found it so valuable that several of them asked us to conduct individualized evaluations. Those studies were very eye-opening for our members and the results helped to legitimize our focus on client protection.

Offering client protection related training has also helped us to generate interest among members because they are always hungry for more information, training, and assistance. Our training efforts started in 2010 when we started offering training on SPM. Our members became very enthusiastic about the importance of SPM to their institutions. Then in 2011, we offered training on the client protection principles specifically. Now, this training is available as part of AMFA’s regular “service package” for MFIs. New members will receive the training so that all institutions can be on the same page.

SC: What resistance have you encountered?

AMFA: Institutions are not usually resistant, but some of them have been slower than others to improve their practices. Sometimes it is because of competing institutional priorities. Some think that they are not ready for client protection because they have other things to worry about first.

For example, thanks to the generous funding of USAID, and their “Building the Capacity of Associations on Client Protection” project, several AMFA members...
staff members are trained in the client protection assessment methodology. In 2011, we told our members that we would perform free assessments for the first two institutions that made a request. Only two institutions requested assessments, which was surprising. The two that requested assessments are the two largest microfinance providers in the country. Our other, smaller members did not feel like they were ready to be evaluated—they want more time to make improvements before going through an assessment.

So, we continue to work with all of our members on their capacity to put the Client Protection Principles into practice. We also tell our members that the two assessed institutions are now better prepared to make positive changes within their organizations, and are prepared for future ratings and certifications.

SC: Besides offering training and other services, how do you convince institutions that are “slow” to adopt client protection?

AMFA: We try to make the business case for client protection. Our members want to have good relationships with clients and to build a loyal clientele. Clients want to bank with transparent institutions that treat them with respect and allow them to ask questions and make complaints. Client loyalty can mean higher retention rates and lower costs related to poor portfolio performance.

We also talk to them about their relationship with the Central Bank of Azerbaijan. The Central Bank is very involved with our client protection efforts. AMFA meets regularly with the staff in charge of the Centralized Credit Registry (CCR). We also host informal and formal networking meetings during which CCR officials and our members can discuss important issues related to over-indebtedness, transparency, data privacy, and responsible pricing.

Recently, AMFA sent a formal request to the Central Bank from our membership, asking them to lower the cost of making a Credit Registry inquiry, because it is expensive for our members. The Bank agreed to review the cost.

All this to say that the Central Bank is very interested in client protection. We make sure our members understand that client protection is a Central Bank priority and that by making it an institutional priority, the members are aligning themselves with the Central Bank—which they consider to be a good thing.

SC: You have mentioned that AMFA offers training, client protection assessments, and you advise the Central Bank—What other services do you offer members?

AMFA: We are involved in client protection in many other ways. AMFA continually receives ideas from members that would like to see us offer a particular product or service. One such idea was to develop a financial education booklet to distribute to clients. Currently AMFA is developing two such booklets—one that educates clients on the basics of borrowing, how to approach an MFI for a loan, and the importance of avoiding over-indebtedness, and a second booklet that covers basic financial education topics including the importance of saving. Our members will use these booklets to help their clients understand how to protect themselves from the consequences of poor financial decisions.

3Although in piloting stage these assessments were free of charge under the joint project funded by USAID and implemented by the SEEP Network and the Smart Campaign, “Building capacity of Associations on Client Protection” the new assessments will be an available service, or cost-shared with the members under specific projects.
AFMA offers the following client protection services to member institutions:

- Awareness-raising activities: publications, meetings, surveys, and member forums.
- Training on social performance management, including client protection.
- Client protection assessments: institutional evaluations of client protection practices.
- A Code of Conduct for the local industry with a compliance verification system.
- Educational publications for clients to assist members in educating clients on various financial topics including avoiding over-indebtedness.
- Lobbying and advising the Central Bank of Azerbaijan.
- Conducting an over-indebtedness study among members, in partnership with MFC.
- Establishing a Credit Counseling Center for all microfinance clients in the country.
- Gathering member feedback on the SPTF Universal Standards for SPM, in partnership with MFC.

AMFA is in the process of creating a common Code of Conduct that will apply to all members. We are also designing a system for ongoing verification of member compliance. We are using a member Working Group to draft the Code, so that it will be practical and accepted by members from the outset. Members will not be required sign the Code so that a signature will imply a voluntary willingness to adhere to the Code. Additionally, we will certify members annually. This will ensure that members are observing the Code, and it will also add value to their institutions because they can publicize their compliance.

Recently, MFC chose AMFA to conduct a study on client over-indebtedness among our members, financed by European Fund for Southeast Europe (EFSE). We will use field surveys as well as focus group meetings to examine multiple borrowing among our members’ clients. We are also using another tool for checking the level of multiple borrowing among our member institutions in separate regions. The tool integrates client data from many different MFIs, and allows us to see how many client are cross-indebted.

SC: In addition to working on projects with your members, does AMFA participate in any industry-wide initiatives on client protect?

AMFA: Yes. AMFA is in the planning phase of a Debt Counseling Center that will serve the whole microfinance market in Azerbaijan, not just our members. The Center’s principle activities will include counseling over-indebted borrowers, financial education to avoid over-indebtedness, and awareness raising campaigns on the importance of prudent borrowing.

In addition, we are participating in the development of the Social Performance Task Force Universal Standards for Social Performance Management. We are working with MFC to collect feedback from our members. The Standards incorporate the Client Protection Principles alongside other SPM practices that our members will already be familiar with. We are collecting feedback from members because we want them to adopt the finalized Standards, and we want the Standards to reflect our members’ input.

SC: Thank you very much for sharing your experience.

AMFA: It is our pleasure.

Sevda Huseynova and Leah Wardle were responsible for preparing this note.

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