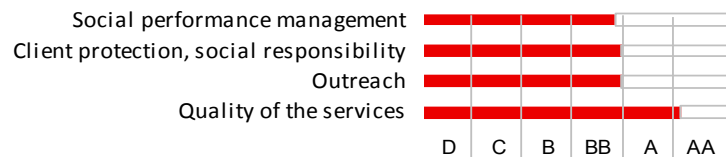


CREDO - Georgia

SOCIAL RATING ^SBB+

Adequate social performance management and client protection systems.
Satisfactory alignment to the social mission.



Social Rating Committee: May 2014. **Previous Social Rating:** ^SBBB (February 2012)

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SOCIAL RATING RATIONALE

SOCIAL PERFORMANCE MANAGEMENT SYSTEM	CREDO's governance and management displays clear commitment to the mission. Nevertheless, although the strategy is directed towards achievement of the social goal, it is not complemented with complete set of SMART objectives. Tracking and monitoring systems are moderate with measuring indicators lacking relevance and reliability to assess the progress towards the mission. The alignment of product design and the human resource management is good.
CLIENT PROTECTION AND SOCIAL RESPONSIBILITY	CREDO's good working environment and opportunities to grow within the institution insures staff adherence to the company. The client protection systems are overall satisfactory with proper product design processes and policies to mitigate the over-indebtedness risk in place. Nevertheless, further efforts in formalization of collection practices, stronger internal control over operations and revision of the incentive scheme are needed. The pricing is slightly above the peers presenting an opportunity for better value distribution. CREDO is currently taking steps for improvement of pricing transparency while continuously striving for high quality service. There is a good social responsibility towards environment and community.
OUTREACH	Alignment of CREDO's outreach to the mission is overall adequate. The breadth of geographical coverage is good due to CREDO's presence in most of Georgian regions, while depth of the outreach is satisfactory with most clients served located in rural areas. Although overall portfolio share indicates adequate outreach to rural businesses, the company has improvable capacity to monitor loans by purposes. Flexible loan guarantee terms and further planned expansion into rural areas suggest targeting low-end population.
QUALITY OF THE SERVICES	The variety and design of credit products are overall appropriate to meet clients' needs thanks to flexible repayment schedule and soft guarantee requirements. Accessibility of services is insured through extensive delivery channels. High quality of customer service is prioritizes across the operations and continuously monitored.

Institutional data	Dec-13	Social indicators	Dec-13
Active borrowers	139,428	Individual methodology, clients	100%
Gross outstanding portfolio, US\$	126,554,823	Rural coverage, loans	66%
Branches	40	Cientes femmes	42%
Total staff	1,174	Average loan balance, US\$	745
		Average balance per borrower / GNI pc	30%
Legal form	Limited Liability Company	Average disbursed loan amount, US\$	868
Year of inception	2007 (operations since 1997)	Average loan disbursed (\$PPP)	1,225
Networks of reference	Association of Georgian Microfinance Organizations, Vision Fund	Client drop-out ratio	56%
	International	PAR30	0.13%
Area of intervention	Rural & Urban	Clients at third loan cycle	14.86%
Credit methodology	Individual lending	Clients at ≥ fourth loan cycle	26.85%
Financial Services	Credit, insurance, credit cards	Female staff	40%
Non-Financial Services	None	Female staff in management	22%
Geographical Coverage	National Coverage	Staff turn-over ratio	6%
		Portfolio yield	35%
		Average annual percentage rate (APR)	38%
		Average transparency index	63%
		Clients without additional credit	36%

See annex 2 and 4 for more details.

Area	Factor	Main results
Social Performance Management system	Social mission	The mission statement is formalized and consistently reported across the institution's documents. The mission overall reflects the institution's intentions, but definitions of target population and change created are rather generic. Key terms require further formalization.
	Social governance	Supervisory Council (SC) members and top management are committed to social mission and share common values. A good share of the BoD members and the CEO have financial and risk management skills. Reporting lacks full set of social indicators to measure alignment of operations to the mission hampering the SC ability to provide guidance towards the reach of social goals.
	Social Strategy	The overall institutional strategy is well aligned to the mission, but some social operational targets are to be identified and formalized in BP. Good product design capacity. The Business Plan lacks full set SMART social objectives and three social goals are yet to be adequately supported by quantitative targets.
	Social and financial balance	Considering the market condition, the growth targets are steep; nevertheless the risk associated with growth is somewhat monitored. No dividend distribution and transparent financial structure. High profitability with limited efforts to reduce the pricing.
	Social monitoring and reporting	MIS is moderate. Poverty Score Card is time consuming, expensive and lacks statistical data consistency to be used as a measurement tool. Limited room to see loans by purpose, entailing poor capacity to control compliance with the social goals. Several channels are frequently used to monitor and analyze client satisfaction (i.e. surveys, focus groups, mystery shopping, internal controls) Client profile information not fully exploited for decision making and tracking of the progress towards the achievement of the mission.
	HR alignment to the mission	Staff recruitment is well aligned to the mission. Induction is properly carried out insuring adequate dissemination of the mission among employees. The staff incentive scheme and productivity targets may contribute to the mission drift, increasing the practice of refinancing and serving better off clients.
Client protection and social responsibility	Product design and delivery	Product design is appropriate and frequently updated. Client feedback is continuously used to enhance product features in order to comply with clients' needs. More control on cross-selling sales techniques of personnel is required.
	Prevention of over-indebtedness	Good repayment capacity analysis performed on each and every loan with data cross check mechanisms in place. Credit Bureau and internal database are used for verification of clients' credit history. Strict incentive scheme on quality results in positive trend of portfolio quality, but puts some pressure on assessment of clients' needs (refinancing) and collection. Improvable concern of the management team over the risk of over indebtedness and market saturation. More monitoring of internal audit is required to insure the prevention of over-indebtedness.
	Transparency	Repayment schedule to be revised immediately, through including all the fees for credit access and to fully disclose costs to the client (flat rate). Limited disclosure of pricing mechanisms and improvable system to communicate the conditions prior sale.
	Responsible pricing	Prices are above the peers, but compensated by high quality service. There is an opportunity for better value distribution considering high profitability.
	Fair and respectful treatment	Customer Service quality is frequently controlled. Generic Code of Ethics and Code of Conduct. More formalization needed in case of violation of Code of Ethics and collection.
	Privacy of client data	Concent for Credit Bureau, client data sharing with insurance and other third parties are to be enhanced in the policies and credit contracts. Increase of personnel awareness on confidentiality of client data is required.
	Mechanisms for complaint resolution	Post disbursement, exit survey, mystery shopping are regularly conducted internally and outsourced. Staff is trained to handle complaints. Hot line needs further development and complaint resolution loop is to be reinforced (control by internal auditors).
	Social responsibility towards the staff	+ Overall good labor climate and working conditions + Compensation of employees is in line with the market and slightly above for field staff. + Good staff quality and number of training opportunities. No formal assessment of LO for career development are yet performed.
	Responsibility: community and environment	+ Environmental policy is not yet in place but several activities are carried out to support the community.

Area	Factor	Main results
Outreach	Breadth of outreach	<p>High geographical coverage, market leader in microfinance sector in Georgia and one of the top MFIs in Caucasian region.</p> <p>+ High growth both in borrowers and portfolio size (+46% and +44% respectively as of Dec 2013)</p>
	Alignment to the mission of geographical outreach	<p>+ Good rural in depth outreach (73% of clients) thanks to the village counsel system and wide network of branches.</p>
	Alignment to the mission of clients vulnerability and financed activities	<p>+ Positive trend of share of women (42% of clients).</p> <p>Adequate alignment of the financed activities to the mission with good outreach to rural businesses (55% of portfolio are agro loans). Nevertheless, the MIS data analyzed by purpose indicates 42% of the portfolio to be disbursed for consumer purposes. Poor capacity to monitor the portfolio allocation by purpose.</p> <p>+ Flexible loan guarantee terms (73.1% of portfolio mixed pledges) suggest targeting low end population.</p>
	Alignment to the mission of client poverty and financial exclusion	<p>- No comparable data to national/international benchmark is available.</p> <p>+ Geographical expansion suggests targeting population with lower financial inclusion.</p> <p>+ Slight increase of average loan size, but overall in line with the mission.</p>
	Quality of the services	<p>+ Adequate variety of financial services including crop insurance, agro and urban credit card.</p> <p>+ Good variety of credit products segregated by rural and urban regions.</p>
Quality of the services	Accessibility of credit services	<p>+ Good accessibility of credit services through wide network of branches and village counsel lending strategy. Pay points and planned cash desk in the branches.</p>
	Flexibility of credit services	<p>+ Very flexible credit conditions and negotiating capacity left to the client (to beat the market and retain the customers). Adjustable to clients' income flow repayment schedules.</p>
	Customer service and client drop-out rate	<p>+ Retention rate monitored on a monthly basis, and customer service is prioritized in throughout the operations.</p>
	Quality of other financial services	<p>+ Crop insurance services are adequate.</p>
	Quality of non-financial services	<p>Some efforts into development of non-financial services are carried out.</p>

Annex 5 – Social Rating Scale

Grade	Definition
^s AA	Excellent social performance management and client protection systems. High likelihood of achieving the social mission.
^s A	Good social performance management and client protection systems. Social mission likely to be achieved.
^s BB	Adequate social performance management and client protection systems. Satisfactory alignment to the social mission.
^s B	Moderate social performance management and client protection systems. Partial alignment to the social mission
^s C	Weak social performance management and client protection systems. Medium risk of mission drift
^s D	Poor social performance management and client protection systems. Risk of mission drift.

The modifiers “+” and “-” which can be added to the rating grade denote small relative differences within each rating category.

For more information please review the **Social Rating Methodology** in the [Social Rating](#) section of our website www.microfinanzarating.com. The correspondence table between the Universal Standards of Social Performance Management (USSPM) and the Social Rating criteria is available in the Social Rating Methodology (annex 1).

The information used in the social rating has been partly provided by the evaluated institution and partly collected during the meetings with the head executives, the staff and the clients of the institution. The analysis is based on internal MIS data and other official sources. MicroFinanza Rating cannot guarantee the reliability and integrity of the information, as it does not conduct auditing exercises, and therefore does not bear responsibility for any mistake or omission coming from the use of such information. The social rating has to be considered as an external and independent opinion and it has not to be considered as a recommendation to realize investments in a specific institution.