

**SOCIAL PERFORMANCE
REPORT**
ECLOF ARMENIA



ECLOF INTERNATIONAL DEFINES SOCIAL PERFORMANCE AS THE EFFECTIVE TRANSLATION OF THE ECLOF MISSION INTO PRACTICE, IN LINE WITH ACCEPTED SOCIAL VALUES THAT RELATE TO:

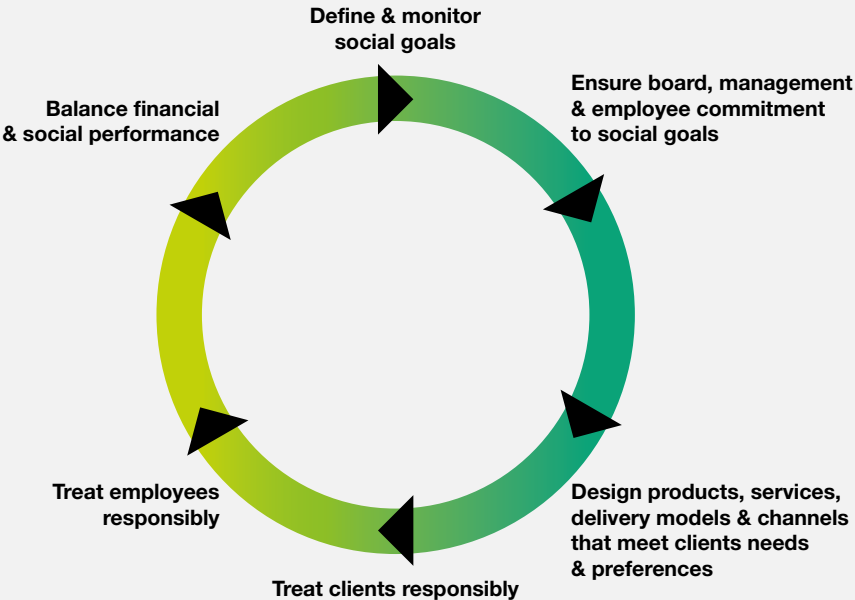
- Reaching our target market
- Delivering high-quality and appropriate services
- Responding to the needs of clients, their families and communities
- Protecting clients from negative effects of accessing financial services
- Ensuring responsibility towards our employees, clients, the communities we serve and the environment



ECLOF International seeks to actively manage the social performance that its network delivers. ECLOF therefore has adopted the Universal Standards for Social Performance Management (Universal Standards for SPM): a set of core management practices that constitute “strong” SPM. In applying the standards, ECLOF members hold themselves accountable to their social mission, facilitate greater social impact and can even boost their operational and financial performance over time.

As part of its strategy to be accountable and transparent in meeting its financial and social goals, ECLOF International conducts social audits of its network members, supports capacity building in the members and monitors the social performance of members through a social performance reporting framework. The framework applies 30 quantitative and qualitative metrics to measure the degree of success of network members in reaching ECLOF’s social mission. This report is the result of applying the social performance reporting framework to ECLOF Armenia.

THE SIX DIMENSIONS OF THE UNIVERSAL STANDARDS FOR SOCIAL PERFORMANCE MANAGEMENT



SOCIAL PERFORMANCE MANAGEMENT AS A MEANS OF ATTAINING SOCIAL IMPACT

ECLOF attains social impact by targeting those in need and giving them access to financial and non-financial services that empower them and effect positive changes in their lives. Impact evaluations attempt to demonstrate the outcomes of microfinance. They tend to be onerous and costly. Because rigorous research methods like randomized control trials usually track a rather short time-frame of 12 - 18 months, their findings are often questioned. For obvious reasons it is difficult to clearly attribute improvements in clients' lives to a single (microfinance) intervention. Undertaken by researchers rather than practitioners, their results often are not used effectively to improve institutional performance. Social performance management on the other hand focuses on those recognized management practices that can be expected to lead an institution toward positive social changes in the lives of their clients, whether these can be "proven" or not.

It is ECLOF's goal to accompany its clients as they graduate, i.e. they rise on the economic ladder from ultra-poor over poor to vulnerable and beyond. Therefore, ECLOF has started to monitor the poverty level of its clients using tools like the Poverty Probability Index (PPI). With the collected data it will be possible to document how clients graduate over time. It will also help ECLOF to consistently target poor clients.

FACTS & FIGURES OF ECLOF ARMENIA

ECLOF Armenia is a small microfinance institution headquartered in the town of Etchmiadzin. Through a network of five branches, ECLOF targets smallholder farmers, rural micro entrepreneurs and small enterprises that face limited access to financial services. ECLOF's agricultural loans are designed to fit the income stream of the farmer. Given for longer terms and at affordable interest rates, they facilitate investment and foster rural development.

Year of foundation: 1999

Legal form:
Universal credit organization LLC

Number of clients: 2,762

Loan portfolio USD: 3.5 million

Number of branches: 5

Number of staff: 36

Operational self-sufficiency: 146 %

All information as per June 30, 2019



MISSION & VALUES OF ECLOF ARMENIA

MISSION

**Promote social justice
and human dignity
through microfinance**

VALUES

**Human dignity
Social justice
Solidarity
Participation**

WHO DO WE REACH & EXCLUDE

INDICATOR	DATA POINT	COMMENT
Number of clients reached	2,762	ECLOF Armenia serves both women and men residing in rural communities.
thereof women	1,381	
thereof men	1,381	
thereof urban	0	
thereof rural	2,762	
Number of people reached	19,334	ECLOF's work can have an exponential effect on the families and communities it serves. The average household size in rural areas is 7 and often includes grandparents staying with the family.
thereof urban	0	
thereof rural	19,334	
Geographically poor areas served		All outlets are located in small and mid-sized towns, covering surrounding rural areas.
% of vulnerable clients	58 % of clients earn main income from agriculture 40 % of clients are women heading their household 14 % of clients are informal businesses	Because of precarious living conditions in rural areas and often unstable income, smallholder farmers tend to be more vulnerable to external shocks. ECLOF estimates that 4 out of 10 served households are always or temporarily headed by a woman. Many loans finance smallholder agriculture or informal businesses without a registration or license.
% of youth clients	22 %	Nearly a quarter of clients are younger than 30 years.
Average outstanding loan / Gross national income (GNI) per capita	26 %	This proxy indicator applied across the whole portfolio indicates that a financial institution reaches poorer clients. MIX Market defines that loans up to 20 % of GNI per capita are loans to the lowest income clients.
% of very poor clients	20 %	One in every five ECLOF clients lives in a household eligible for the Paros state social support scheme.

38 % of Armenia's population reside in rural areas. Their main income source is agriculture. As a finance provider exclusively focused on serving rural areas, ECLOF inhabits a unique position. All branches, including the head office, are located in small or mid-sized towns and serve the rural zones around them. There are branches covering the disadvantaged border areas with Azerbaijan and Turkey. This geographic focus is intentional. Before beginning to serve an area, ECLOF Armenia conducts an in-depth assessment. On the basis of socio-demographics of the population, data on employment, access to public services, social infrastructure and agricultural activities, ECLOF identifies low-income areas with a need for its services.

ECLOF Armenia defines its target market as the economically active rural population, in particular women and young people who engage in agriculture and micro business. Across Armenia, the unemployment rate stands at 18 %. However, for youth it is estimated to be over 40 %. Micro loans and capacity building can provide a way for youth to develop their own business or agricultural activity and become self-employed. Nearly a quarter of ECLOF's clients are young people between the age of 18 and 30.

It is important to ECLOF Armenia to measure and monitor client-level data. As part of its social objectives, ECLOF monitors selected key performance indicators (KPIs): a low average loan size indicating outreach to low-income groups, a high number of rural-based, youth and women clients, and a high share of agricultural loans. Among its peer group of microcredit organizations targeting rural areas, ECLOF has the lowest average loan size.

In Armenia, it is practice that men migrate to work abroad, mainly in Russia, for some months every year or longer. The money earned as laborers or farmhands, they send home to support the family. That drain comes particularly from the vulnerable rural areas where economic opportunity is scarce. ECLOF estimates that 4 out of 10 of the households it serves are always or temporarily headed by a woman.

In 2016, the poverty level was estimated by the government at 29 %. Most poor reside in rural Armenia, one in three people are poor by local standard—compared to only one in four in the capital city of Yerevan. Around 20 % of ECLOF clients live in households that qualify for social welfare by the state.

CUSTOMER EXPERIENCE

INDICATOR	DATA POINT	COMMENT
Client retention rate	90%	Only 10 % of clients decided to leave the institution in 2018.

ECLOF Armenia puts clients at the center of all strategic and operational decisions. Well-designed and regularly reviewed loan products target agriculture, agro processing, rural trade and services. The top 5 purposes ECLOF loans are used for are cattle-breeding, farming, viticulture, purchase of agricultural machinery and construction and renovation of agricultural facilities. The long available terms of ECLOF's agro loans make them especially suitable for investments in mechanization and construction. The interest rate is lower than the market average.

A consumer loan product with no fixed purpose helps clients cope with emergencies and manage their daily and life cycle financial needs. Some employed clients start off an agricultural activity on the side with these loans.

Client loyalty is strong: only 10 % of clients opt out every year. This is a proxy indicator for the quality and relevance of ECLOF's services. There is evidence that a stable long-term relationship with a finance provider can facilitate the graduation of poor clients to higher income levels.



CLIENT PROTECTION

INDICATOR	DATA POINT	COMMENT
Adherence to the client protection principles	6	This indicator shows for which of the 7 CPPs (Client protection principles) explicit policies and procedures are in place.



Client protection—doing no harm to clients—is the foundation of and an integral part of social performance. There are 7 accepted client protection principles. They range from offering suitable products over preventing client over-indebtedness to transparently disclosing information to clients. ECLOF Armenia has formal policies and procedures in place for 6 of the 7 principles. The area of adequate product design is not covered in a formal policy but through an informal approach.

In Armenia, ECLOF is subject to strict regulation and supervision by the Central Bank. The regulator requires strong consumer protection measures to be in place in all financial institutions. ECLOF fully complies with those requirements.



“Borrow wisely” campaign

Proactively offering clients financial education belongs to the mission of ECLOF. Through an online and brochure campaign titled “Borrow wisely”, ECLOF Armenia has been promoting financial literacy among clients for many years. The campaign teaches clients to analyze what they can afford to borrow and repay, how to save, to understand

interest and fees, and to comprehend the loan contract. ECLOF’s loan officers who visit each village once weekly, also advise clients on credit issues, budgeting or financial planning.

Another part of client protection is actively listening to clients, gathering their feedback and responding to complaints. ECLOF offers clients multiple channels for clients to get in touch: in person, by telephone or physical boxes, and through an online form. In 2018, ECLOF Armenia received 55 complaints that were all resolved within less than 10 days. ECLOF is a member to a Central Bank Mediator system where clients can turn if their query is not resolved. In 2018 only three cases were filed by ECLOF clients with the Mediator.

In a market like Armenia where the risk of client over-indebtedness has long been looming, ECLOF registers very high repayment rates. This indicates that the products and services are appropriate to clients’ needs and that the financial situation of clients is taken well into account before making a loan. To protect clients from too much debt, ECLOF applies strict credit policies that limit the number and volume of a client’s credit exposure.

RESPONSIBILITY TO STAFF

INDICATOR	DATA POINT	COMMENT
Staff turnover rate	14 %	In a competitive labor market, ECLOF Armenia is a rather attractive employer.
Staff satisfaction survey process established	No	
Staff exit interview process established	Yes	When staff leave, they are asked the reasons why.
Share of women in staff/management/board	38 % in staff 40 % in management 40 % in board	Women take responsibility in positions across the institution.
% of staff benefiting from training	60 %	Most staff benefit from professional training over the year.

In microfinance, employees are an organization's main asset. They have rights, and if treated well they are more likely to treat clients responsibly. Treating staff well also improves service quality and sustainability because more satisfied staff treat clients better; and well treated clients are loyal to the institution.

To increase the attractiveness of working for ECLOF, training is essential: 60% of all staff benefited from professional

training in 2018. ECLOF also pays full health insurance contributions for all staff. ECLOF Armenia regularly tracks staff turnover and conducts exit interviews with departing staff. Staff attrition is relatively low. When staff exit, it is often in pursuit of higher salaries or better career options in larger organizations.

Women take an even share of responsibility at ECLOF Armenia both at the management and the board level.



BENEFITS TO CLIENTS

INDICATOR	DATA POINT	COMMENT
Number of clients trained	0	Clients are trained ad hoc on-site by loan officers.
% of clients trained	0 %	
Number of services addressing basic client needs	1	The “consumer loan” product can serve non-productive personal needs.
% of loan portfolio in those products	22 %	The share of purpose-free “consumer loans”.
Number of clients benefiting	606	A sizable share of clients accesses the purpose-free loan product.



For a socially motivated provider of financial services like ECLOF, it is not enough to protect clients from harm. We actively seek positive impact on the lives of our clients: their economic wellbeing, their community integration, and their ability to cover basic human needs. A dedicated loan product addresses these needs ranging from medical or emergency expenses, school tuition or home improvement.

ECLOF Armenia serves clients that are otherwise unable to access credit for reasons including their rural location, absence of credit history and collateral, and small required loan size. Thereby ECLOF helps clients build a credit history and eventually become “bankable” to bigger financial institutions. For clients with informal businesses, a loan from ECLOF can be a stepping stone into formal financial services and legal registration of their companies.

ECLOF Armenia offers personalized “close touch” service to its rural clients. Once a week loan officers visit each of the villages they serve to meet with current and prospective clients. At this occasion they advise clients on financial matters, budgeting, investment, and business planning. The place where these gatherings take place is often the community center “Selsovet” or the central square.

Recently an online chat function was introduced via the website. A member of staff answers client questions and queries online in real-time. This new communication channel has been well accepted by clients and potential clients. During the first 6 months of 2019, over 350 queries from clients were addressed.



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