

**AZERBAIJAN HUMANITARIAN ASSISTANCE  
PROGRAM**

**SAVE THE CHILDREN  
COMMUNITY BASED LENDING AND  
SAVINGS PROGRAM EVALUATION**

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## **Executive Summary**

Save the Children began the Community Based Lending and Savings (CBLS) Program in 1998 under the auspices of AHAP I, and received continued funding under AHAP II. The program is headquartered in the city of Barda, and serves Barda and the surrounding areas. The program was designed to reach IDP's and members of communities that are hosting large numbers of IDPs. These are some of the poorest communities in Azerbaijan and the need for a microfinance program is great. Most target clients are involved in small-scale agricultural trades, such as livestock rearing, or in petty trade.

At the end of 2001/beginning of 2002 CBLS began to experience severe delinquency problems. The problems had several different causes, the primary cause being a poorly designed loan product that relied heavily on community leaders recommendations and did not include adequate follow-up from loan officers. There was also an atmosphere of lax policies and procedures in the office that resulted in open corruption. As a result Save the Children (STC) fired almost all of the CBLS staff, including the expatriate technical advisor. One exception is the current program manager, Rufat Abbasov, who was new at the time and tasked with much of the clean up.

Save the Children and the remaining skeleton staff dedicated quite a bit of time and energy in redesigning the CBLS program, introducing new loan products and training new staff members. The result is a well-designed loan program that so far has excellent portfolio quality. The current loan products are only about 6 months old, so CBLS and STC should continue to be vigilant to ensure that they remain on track.

STC is in the process of registering CBLS as an independent Limited Liability Company, as per Azeri laws on Non-Banking Credit Organizations. It is imperative that this process be completed as quickly as possible so that CBLS can then receive a license from the National Bank of Azerbaijan. Without a license local authorities could close Save operations at any time, although at this point they enjoy some protection as an international organization.

Now that CBLS has its core loan products on track, it is time to begin to focus on organizational development and reaching operational self-sufficiency. CBLS is experiencing many common growing pains for a NGO program transitioning into an independent MFI. The most urgent of these is the need to develop an independent accounting system within CBLS, one that is separate from STC. Currently CBLS is unable to prepare basic financial documents that are needed to manage the program and prepare for growth.

There are also other institutional issues CBLS will need to address. These include implementing a functional MIS system in order to produce accurate portfolio data. This will take some pressure of the accounting department, which is currently handling the job of portfolio management. CBLS will also need to focus on developing a qualified Board of Directors. The board should be made up of representatives for STC as well as members of the local community.

The short-to-medium-term goal of CBLS is to reach operational self-sufficiency within the next 18 months to 2 years. This seems to be a reasonable goal, but will need to be approached with diligence and a lot of hard work. CBLS needs to develop a detailed strategic plan and accurate financial projections. This will provide a road map for growth in terms of new product development and market expansion. It will also detail the amount of new capital needed from outside sources to fund this growth.

## **Institutional Factors**

### **Legal Structure**

Save the Children has recently applied to register the Community Based Savings and Lending Program (CBLS) as a Limited Liability Company, as per Azeri law. There is currently no legal framework for NGO's operating micro-finance programs in Azerbaijan, and programs are therefore forced to form a commercial entity, an LLC. The LLC is then eligible to receive a license from the National Bank of Azerbaijan (NBA) as a non-banking credit organization. As an NBCO the company will have no right to mobilize deposits. The registration process could take several more months before it is completed.

There is currently little legal infrastructure to support the use of collateral in Azerbaijan proper. Although there is a legal framework, the reality is that local courts, especially in the regions are inefficient and reluctant to act on collateral documents. Extra "fees" charged by courts to rule on and enforce collateral agreements often make the process unprofitable. Lack of legal registration makes it even more difficult for Save the Children to advocate at the local or national level for improved collateral enforcement.

### **Recommendation**

It should be a priority for Save the Children to complete the registration process as swiftly as possible.

### **Ownership**

Currently the Economic Opportunities Development Program is run simply as another Save the Children program activity. Once the LLC is established per Azeri law it will function as a wholly-owned subsidiary. Save management in Baku expressed the desire over time to sell some ownership shares to local persons and perhaps staff members.

### **Leadership**

The Save CBLS has a management team that includes the Program Manager, 2 credit managers, the Office/HR manager, Finance Manager, MIS Manager and expatriate Technical Advisor. The management team represents both the administrative and program side of the activities. However, it may be a bit large and cumbersome for making regular management decisions.

The Program Manager and principle leader of the MFI, Rufat Abasov, has been with the CBLS program since 2001 and has seen it through its reorganization. Rufat appears to be a good manager and is well respected by the staff. In the past six months Rufat has concentrated on reorganizing operations and developing more appropriate loan products and policies and procedures. He has done this with the support of various outside technical assistance from Save headquarters.

Rufat is now supported by a full time Technical Advisor who is based in Barda. Prahlad Mali has wide experience in microfinance, and Save plans to have him stay with the program for the next 18 months to 2 years, after which Save will continue to supply short-term technical assistance as needed.

The role of the Finance Manager will be discussed in a later section.

#### Recommendations:

Save CBLS may want to consider dividing the management team into two separate bodies. A management team that consists of the program manager, finance manager and two credit managers and a coordination team which consists of all members of the original management team. The management team would then be responsible for strategic issues, planning growth, managing financial projections and liquidity planning. The coordination team would meet on a regular, but less frequent, basis to discuss office coordination and information management.

For the past year, the CBLS program has focuses on reorganization and redesign of its loan products. Because of this, the Program Manager has had to focus quite of bit on day-to-day operational issues, ensuring that new programs and procedures are followed, and that new loan products are appropriate. This role has been appropriate and has ensured that Rufat has strong management skills. However, over the next 18 months Save and Rufat should concentrate on developing Rufat's leadership skills. His role as the leader of the MFI will require the ability to develop and articulate a strong vision and strategy for the organization and to express that to staff and donors. Save should recognize that this is a skill set that needs to be developed. In order to reduce costs, it might be possible to piggyback on other NGO leadership training that is being offered in Azerbaijan, as this area is not microfinance specific.

Save The Children should ensure that its two Credit Managers also have access to training opportunities, especially when they are offered within Azerbaijan, to ensure there is a depth of management and microfinance skills in the organization. Both managers are relatively new, but appear enthusiastic and express a commitment to the strategic vision of CBLS.

### **Human Resource Management**

CBLS currently has a very vertical organizational structure, with all department managers reporting directly to the Program Manager. (See attached organizational chart) These departments include finance, MIS, credit and human resources.

All personnel management issues currently follow the Save the Children personnel policies. A Human Resource/Training/Office Manager oversees some aspects of personnel management for CBLS. Her role as human resource manager seems to be largely in record keeping rather than in developing policy or in developing staff.

CBLS seems to have a gender-neutral hiring practice, and many members of the management team are women. However, they have identified some difficulty in hiring female loan officers. Currently only one in nine loan officers is a women. Rural Azerbaijan is a conservative Muslim culture, and the staff expressed that there is some difficulty in women taking on a role that involves so much travel and interaction with such a wide range of men. While loan officers reported that there were no problems with male loan officers supervising female group, it might help in recruiting women into the program to have more female officers.

The Program Manager and Technical Advisor have a regular staff training mechanism in place, training all new loan officers when they are hired, and then conducting regular Friday training for all staff in various microfinance issues. This has ensured that the entire staff are aware of microfinance principles and the organizations overall goal of reaching sustainability. Members of the management team have received training from the Microfinance Centre in accounting and delinquency management as well as from Constanta, a successful Georgian MFI that was established by Save the Children.

There is a new incentive scheme in place that rewards all levels of the staff for good performance. Loan officers are rewarded based on individual performance as well as team performance. Non-credit staff is rewarded based on the percentage of loan officers who reach their targets. The incentive scheme seems well thought out and recognizes the importance of all levels of the organization in reaching the MFI's goals.

#### Recommendations:

CBLS may want to look at developing a more horizontal organizational chart. Currently 6 people report directly to the Program Manager. CBLS should consider a structure that divides the organization into two halves, credit and finance/administration. On the credit side, a senior credit officer would be designated to report to the Program Manager on credit issues. The Finance/Admin Manager would report directly to the Program Manager on finance issues. The human resources/office manager would report to the Finance/Admin Manager and the MIS Manager and other Credit Managers would report to the Senior Credit Officer. This would again reduce the Program Managers daily management role and allow more time for strategic issues.

CBLS should develop updated position descriptions for all key staff members. This should clarify the roles and responsibilities of all managers.

While the incentive scheme seems to be well designed, the actual amounts of the incentive are a bit low, beginning at just \$3.00 for a loan officer who reaches the first

level. Incentives should represent a higher percentage of the loan officers salary, thus tying compensation to performance. Save may want to consider maintaining the base salary levels as they are and raising the incentive amounts when it comes time for annual salary increases.

CBLS should develop training plans for key staff members. This will ensure that training is well planned and serves a purpose, rather than being received on an ad hoc basis as it becomes available.

The Human Resources/Training/Office Manager needs further training in human resources and staff development. Currently her role is primarily record keeping, rather than being a pro-active member of the management team. She should also be charged with developing personnel policies and a personnel manual for the MFI once it is registered.

### **Management Information System**

The CBLS program has no functioning MIS system. The accounting department maintains all portfolio information in Excel spreadsheets. In addition, there is an Access database that is currently being converted into a SQL database. Once it is converted it will serve as the primary MIS database. There are plans to run both systems simultaneously for a time to ensure that the new system produces accurate information and correct reports. Then the accounting Excel spreadsheets will be phased out. This will be accomplished at the same time accounting is transferred to a full accounting software. There will be no link between the two systems, so there will be a duplication of data entry to some extent.

### **Recommendations**

The conversion of the MIS system should be completed as rapidly as possible. However, it is important that the MIS manager works closely with accounting and the program manager and loan officers to ensure that the MIS will produce the type and quality of information that is needed by all parties. The MIS system should produce reports at all levels, for the individual loan officer, the finance department and the program manager. In addition, the MIS system should be able to produce aging reports, calculate required reserve amounts and provide portfolio quality data. It should also be able to produce client data that is needed for reporting to donors. Loan officers should receive information on specific loans that are coming due and on delinquencies. The MIS system should be able to calculate individual loan officer's portfolio performance and calculate incentive payments. All these reports should be automated and produced on a regular basis.

It will be critical for the MIS system and the accounting system to be reconciled on a regular basis, at a minimum every month before reporting to management and outside sources. Reconciliation is not required at the individual borrower level, but only on program totals. As will be discussed below, the accounting system should not be concerned with individual borrowers.

## **Internal Control System, internal audit and supervision**

CBLS has no internal control system or internal audit function in place. The internal audit role is carried out by Save the Children Baku with a greater emphasis on grant compliance rather than on compliance with program policies and procedures and portfolio quality. On an informal basis the Program Manager, Credit Managers and Finance Manager all monitor compliance.

During one of our site visits, the evaluation team noted that a loan officer received a loan payment without giving the client a receipt. When questioned, the loan officer explained that he had simply forgotten the receipt book and would bring it to the client the next day. The loan officer did fill out the client's passbook, so there was a record of payment. However, further discussion revealed that it was not unusual for receipts to be given at a later date.

### Recommendations

CBLS will need to develop its own internal controls and internal audit system. (*Improving Internal Control* by Anita Campion is a particularly helpful resource.) With the size of the CBLS program, initially management, based on regular spot checks, may perform audit functions. However, the procedures and items to be checked should be documented, as well as the results. An internal audit manual should be produced and available for all to read. Internal audit results should be used at individual evaluations and should also be discussed at management meetings to determine if larger control problems are at issue. When CBLS forms a Board of Directors, consolidated internal audit results should be shared with the board.

As CBLS get larger and reaches a loan portfolio of close to \$1 million it should hire a regular internal auditor. The internal auditor will need training in this area, and CBLS may want to talk with the ADRA program to see if they would like to share costs for internal audit training. The internal auditor should report directly to the program manager, or preferably to the board of directors once it is established.

As CBLS reaches this larger portfolio, it should have an external audit preferably by a recognized international audit firm. If possible they should find a firm that has some experience with MFI audits. At the least, both the firm and CBLS should be required to read the CGAP manual on external audit. An external audit will be important for CBLS in ensuring the accuracy of its financial statements and in future fundraising. Many development donors and commercial sources of funds will require audited financial statements. CBLS will need to budget for this audit, as it can cost between \$10,000 and \$15,000.

An appropriate internal audit function should help to eliminate sloppy record keeping, such as the incident noted above. While initially it is simply a matter of sloppiness, if there is a lack of follow-up loan officers can soon see it as an invitation to commit fraud.

CBLS may also want to consider posting a chart of clients rights and responsibilities, so that clients can also play a role in internal controls, and know what documents they can demand from their loan officer. Since all clients come to the office for loan disbursements, they would have a chance to read it there.

### **Financial Management**

Financial management is provided by a finance department consisting of three people: the Finance Manager, an accountant and a cashier. The Finance Manager, Mamet Bayramov, has a Ph.D in Mathematics and Physics and has received training from the MFC in microfinance accounting.

CBLS accounts are maintained in Barda using an Excel spreadsheet system. Data is then sent to STC Baku where it is entered into the SUN accounting system. Accounting focuses on grant reporting and tracking. The CBLS program does not maintain its own accounts, nor maintain ongoing financial reports such as a Balance Sheet or Income and Expense Statement to track financial performance.

Lack of a separate accounting system is beginning to cause some significant problems for the CBLS program. From a programmatic standpoint, CBLS is unable to accurately judge its sustainability or measure its performance against industry-standard ratios because it lacks the appropriate financial information. It is also unable to make accurate financial projections that could result in improved performance because it does not have an accurate picture of its financial situation. From an accounting perspective, CBLS is unable to produce basic financial documents. Data is entered into the SUN system for the purposes of grant tracking, therefore it is not tracked in a way that can produce accurate financial reports for the program. While the financial reports that have been submitted to Mercy Corps accounting department can be considered correct, the financial reports submitted as part of the program reports cannot.

Because of the inadequate accounting system at the program level, as well as the lack of a functional MIS system, the role of the Financial Manager has largely been that of a portfolio manager. All portfolio data is entered into Excel spreadsheets maintained by the FM, and he produces all portfolio reports. The result is that he has little or no time to fulfill the true function of a financial manager, i.e. to give the program manager a true sense of the financial state of the MFI, to make cash flow projections and measure liquidity, and to help prepare financial projections that will help the organization develop and grow.

The FM himself seems confused about his role in the organization, and seems to view himself more as a deputy program manager. He sometimes makes site visits to the field to check up on the loan officers. When questioned about the transition to a more functional MIS system, he seemed reluctant to give up his role as the manager of all portfolio information. In addition, he had difficulty articulating a larger role for the position of Financial Manager and saw no problems with the current Excel based accounting method.

## Recommendations

It is essential that the CBLS program begin to maintain its own accounting system, using a commercial accounting software package. Peachtree Accounting is a relatively inexpensive, easy to use accounting package that has been used by many MFIs worldwide, and would be a good fit for CBLS. Because Azeri accounting laws differ slightly from International Accounting Standards, when CBLS becomes a legally registered LLC it may need to maintain two sets of books, one appropriate for Azeri accounting. However, it is still important that they also maintain accounts according to IAS. As a financial institution seeking commercial and donor funds, they will be required to produce financial statements in the recognized formats.

The new accounting system will need to be reconciled with the MIS system on a monthly basis at a minimum. This is an important check and balance to ensure the accuracy of both systems and prevent fraud.

CBLS should produce accounting and finance manuals, detailing the accounting policies and procedures. This will help to ensure accuracy and smooth transitions during staff turnover.

Save the Children and CBLS should assess the role of their Financial Manager. On a monthly basis he should be preparing financial statements and projecting cash flow for the coming month for the program manager. In addition, he should be participating in preparing financial projections for the next several years. While Mamet has received training in microfinance accounting, he has not been putting any of it to use given the current accounting structure. Because he does not have a formal accounting background, there is some concern that he does not understand basic accounting concepts. In addition, he seems reluctant to change his role with the institution and to give up control of some of the portfolio management responsibilities. CBLS will need to work with him to develop his new role, or find someone more appropriate for the position.

## **Products, Clients and Markets**

### **Products**

CBLS has two loan products, a solidarity group loan and a newly introduced individual loan. Both loan products have been newly designed and have a history of only about 6 months in operation. The new loan products were developed after an extensive market survey of Barda and surrounding villages. Neither has a significant delinquency rate, and initial signs are good that these loan products will do well in this market.

The solidarity group loan features groups of 7-15 members, and groups are single sexed. It takes about two weeks from the initial contact with a group and the time their loans are disbursed. During this time the groups are trained in the group lending process, and the

loan officer and credit managers verifies each business plan. All loan payments are made on a monthly basis, on a loan term of 4 to 6 months. Interest rates are expressed as 4% flat for first cycle loans of approximately \$100, and 3.5% for subsequent loans. Each cycle the loan amount increases by approximately \$40-\$50. This yields an effective interest rate of between 68% and 74% annually.

Individual loans are available starting at \$300 with a maximum loan amount of \$2,000. All loans are collateralized at 150% of the loan value and acceptable collateral is jewelry or other personal property. The interest rate is 4% declining, or 48% annual effective interest. Loan terms are from 4 to 12 months. A separate loan officer handles individual loans, and new loan officers will be hired as the program expands. Individual loans are available to group loan graduates as well as the population at large. The individual loan officer has received specialized training in business plan evaluation, and all individual loans must be approved by a loan committee headed by the program manager. For the time being the expatriate technical advisor also sits on this committee, although his role will lessen as local staff becomes more familiar with individual loan evaluation.

CBLS does not maintain current retention rates per loan product. However, it is anticipated that the new MIS system will be able to calculate this for CBLS to help determine if the loan product design is appropriate.

New operations manuals have been produced for the redesigned loan program. They are up-to-date and the information regarding loan products agrees to the information received verbally from loan officers and other staff.

### Recommendations

The existing loan products seem appropriate for the market and well tailored. Given the history of the program, I suggest CBLS carefully monitor portfolio performance to ensure that program quality stay's high. When available, CBLS should monitor client retention to make sure the loan product is well developed for growing businesses.

CBLS is also interested in introducing an agricultural lending product for production agriculture. This also seems appropriate given the rural setting. However, agricultural lending can be very difficult. I would recommend exploring successful agricultural lending programs worldwide, and meeting with ACDI/VOCA in Azerbaijan as they run a successful agricultural lending program. Once a loan product is designed, I would recommend testing it for one loan cycle on a small basis, in one community. This way CBLS can make any changes or revisions needed before exposing themselves to too much risk.

### **Clients and Outreach**

CBLS operates in a rural area of Azerbaijan, serving Barda and surrounding communities. CBLS is currently in the process of conducting detailed market surveys of surrounding areas to determine the potential for growth. One area identified for potential

growth is the city of Ganga. This is the nearest large city, located about 1 ½ hours from Barda. There is more competition in Ganga; from Oxfam, World Vision and others. However, their loan products are slightly different and this is a large urban market so CBLS feels there is room here.

CBLS clients are primarily involved in subsistence businesses and live in poverty. Access to credit that can increase their household income plays an important role in sustaining these families and reducing their vulnerability, according to a recent AHAP evaluation. To date CBLS has been restricted by the terms of their subgrant to a certain geographical area that has been most affected by the influx of a large number of IDP's from Nagorno-Karabak.

### Recommendations

CBLS should continue to look for opportunities to expand geographically, particularly looking at possibilities in the city of Ganga. Ganga offers a large potential client pool combined with relatively low transportation and communication costs. Its proximity to Barda would make it easy to oversee both offices. If possible under the terms of a grant extension, CBLS should also look at expanding outside of IDP affected areas. These areas are also desperately poor, and have been relatively neglected in terms of humanitarian and basic development services. Not only are there many clients there who would benefit from access to credit, there is less competition from other loan programs.

If CBLS does open a branch in Ganga, it may want to make this it's headquarters branch, as it might be easier to attract qualified administrative staff to Ganga rather than Barda.

There is some concern from the primary donor that CBLS continue to serve the most vulnerable segment of the population. However, the design of the group loan product, with it's relatively small initial loans, high collateral or group guarantee requirement, ensures that only the poorest segments of the community would be interested in participating.

## Strategic Objectives

### Mission and Objectives

The mission statement for CBLS reads as follows:

*The mission of the Community Based Lending and Savings (CBLS) Program is to provide access to financial services to micro entrepreneurs, primarily women and predominantly IDP's in order to increase the profitability of their enterprises and in turn increase their household income.*

Interviews with key leaders of the CBLS program, and of the future MFI, showed a strong emphasis on providing quality loan services in a way that would ensure the MFI can reach sustainability. All members of the management team spoke strongly about the

need to reach sustainability, and felt that they would need to reach 3,000-4,000 clients in order to reach that point. However, there was an overall feeling that an ultimate size of up to 10,000 clients was possible in western Azerbaijan if funding was available.

Enthusiasm for the goal of reaching sustainability seemed to permeate all levels of the organization. Loan officers spoke knowledgeably of the need to expand the client base in order to reach sustainability, although many expressed the desire to grow slowly to ensure that program quality stayed high. Several loan officers expressed multiple layers of a mission, first to improve the incomes of the poor and secondly for the MFI to become sustainable. Interestingly, one loan officer also expressed the “psychological” mission of getting clients used to market conditions and credit. CBLS and STC have done an excellent job of training staff and conveying to them a sense of the mission of the organization.

In order to reach these goals, CBLS will need to access additional sources of capital. Currently it has no plan to leverage commercial funds, but will continue to search donor funding through AHAP and other means. In addition to AHAP, STC will apply to USAID Washington for an IGP grant and will look at sources within Azerbaijan such as the oil companies. Finally, STC has been approached by the Asian Development Bank and offered a concessional loan at 7% per annum. Although they do not plan to use this funding now, they may access it at a later date.

#### Recommendations

CBLS has done an excellent job of developing a positive internal culture. All levels of the staff seem to buy into the mission and are enthusiastic about reaching the goal of sustainability. As the next step, CBLS will need to flesh out and articulate the details of this mission to ensure that it can be reached. This will be discussed below.

In the future CBLS may want to look at excluding gender and/or IDP status from its mission statement. These seem to be restrictions from the donor, rather than an ideological statement from the program.

## **Financial Performance**

### **Income Statement and Balance Sheet**

Because of the accounting problems discussed above, CBLS is unable to produce accurate financial statements. This makes it almost impossible to judge their financial performance. In particular, CBLS cannot provide an accurate estimate of the amount of loan capital available to the program. They also cannot accurately estimate the amount of retained earnings for the program over the past three years.

Based on estimates, it looks like CBLS has between \$200,000 to \$300,000 of unused loan capital. With an outstanding loan balance of approximately \$203,000 at year-end 2002, CBLS has more funds in cash than in its loan portfolio.

## Recommendations

Save the Children and CBLS must clarify and rectify accounting issues before the program can expand and reach its strategic goals. Once the amounts are clarified, CBLS should produce Balance Sheets and an Income Statement on a monthly basis that comply with both International Accounting Standards and CGAP standards.

Once accounting issues are rectified, CBLS should focus on using its available cash to rapidly expand its two existing loan products and to pilot a third agricultural loan product. In the event that CBLS continues to have large cash reserves, the money should be kept in a separate, interest bearing account from other STC funds. That interest will need to be tracked and reported to the donor, but can be invested in the program and used to cover operating costs.

### **Loan Portfolio Analysis**

On an outstanding portfolio of \$203,525, CBLS has a Portfolio at Risk Rate of 18.9% and a Loan Loss Rate of 11.4%. On the face these numbers look fairly daunting. However, the entire portfolio at risk is more than 180 days past due and represents old loans that need to be written off the books. None of CBLS's new loan products have any payments in arrears as of the end of February, 2003.

## Recommendations

Given the history of the program, CBLS should maintain a close watch on portfolio performance to ensure that it remains high.

STC needs to write off all old loans, as they are all more than 180 days overdue. From this point onward CBLS should follow its write-off policy and automatically write off loans that are over 180 days past due.

CBLS should produce monthly portfolio reports that include the SEEP Sixteen performance ratios. This will allow CBLS to monitor the quality of their loan portfolio as well as their progress towards operational self-sufficiency. Portfolio-at-risk should be maintained at less than 5%.

### **Business Plan and Financial Projections**

CBLS does not have a medium or long-term strategic plan that includes financial projections, although they are working on these documents. In addition, they do not produce annual budgets at the program level. (Annual budgets are prepared by STC Baku, but are not used for program management and actual results are not compared with these budgets.) Without these documents, CBLS cannot plan their growth, nor can they accurately assess their performance as an institution.

It is critical that CBLs begin to produce these documents. They will signal the transition from thinking as a “program” being managed by STC, to being an independent MFI. It is also critical that once these documents are produced they are actually used. Of course they are projections, and actual results will vary. However, the process of tracking results, comparing with projections, and making adjustments to projections will ensure that the management teams continue to think strategically about growth. The strategic plan and financial projections should be revised every 2-3 years, as circumstances change.

## Recommendations

CBLs should complete a full strategic plan and create financial projections based on that plan. The strategic plan should involve the entire staff and look at the following elements:

1. Loan Products – Are existing products adequate? Can new products be added to attract new clients?
2. Markets – What are the markets for particular loan products? Can you reach new clients in the same area or will you need to expand geographically?
3. Institutional capacity – What is needed in terms of staffing, fixed assets and administrative support to reach new markets or introduce new loan products? What are current strengths and weaknesses and how can they be improved? What are opportunities and threats?
4. Financial needs – What will be the cost to reach these goals?
5. Financial sources – What sources are available to meet these financial needs? What has to be done to reach these sources? Are there costs associated?

Financial projections, preferably using the Microfin software, should be completed based on the strategic plan. These projections will give detailed information on the cost of any program expansion and will give a more accurate estimate of when the programs might reach operational and financial self-sufficiency.

## **Operational Self-Sufficiency**

The accounting problems of CBLs and Save the Children make it difficult to adequately assess their potential for operational self-sufficiency in the short-to-medium-term. Without a picture of their current financial situation, it is difficult to make even elementary financial projection.

Given these limitations, I do feel it is possible for CBLs to reach self-sufficiency within the next 18 months to 2 years. They have strong new loan products, which seem to be working very well in their markets. More importantly, they appear to have very motivated staff and management teams who all have the goal of reaching sustainability. Current excess capital gives them a good base to work with for their expansion, however they will need additional capital to reach their client targets and thus operational self-sufficiency.

For purposes of this evaluation, very rough balance sheet estimates were made to use for projections. Based on these numbers, Save the Children would also need approximately 3,200 outstanding loans by the end of the 18-month period, with an outstanding loan balance of approximately \$800,000 to reach operational self-sufficiency. However, more precise estimations could be made only after SBLS program's accounting problems are resolved.

It is important to note that although operational self-sufficiency is the short-to-medium term goal, the long-term goal needs to be full financial sustainability. This is a much higher benchmark, and implies that the MFI is generating enough revenue to cover all costs of capital, including inflation, concessional loans and subsidies.

### **Conclusions**

Save the Children's Community Based Lending and Savings Program has gone through some difficult times and some major changes in the past year. That it has come so far is because of the dedication of some key staff members and critical support from Save the Children. However, there is still much work to be done.

CBLS needs to look at both organizational and financial limitations in the coming months, and find appropriate ways to deal with them. The most critical of these is the accounting situation. Without concrete and reliable financial information, it is impossible to adequately manage or plan for growth. Hand in hand with the new accounting system will be implementing the new MIS system to ensure that accurate portfolio information is reported to management and donors.

Once these two issues are dealt with, CBLS will be in a position to prepare a strategic plan and make financial projections necessarily for managed growth. These two documents can provide the road map CBLS needs to reach its goal of operational sustainability. It should be remembered that the purpose of reaching this goal is to provide continued access to needed credit services to Azerbaijan's most vulnerable populations.

**ATTACHMENT 1  
PORTFOLIO DATA**

**ATTACHMENT 2**  
**HUMAN STATISTICAL SUMMARY**

**ATTACHMENT 3  
DONOR SUMMARY**

**ATTACHMENT 4  
FINANCIAL STATEMENTS  
SEEP FORMAT**

**ATTACHMENT 5  
INCENTIVE SCHEME**

**ATTACHMENT 6**  
**ORGANIZATIONAL CHART**