From Intentions to Outcomes:
Indicators and Tools for Managing Social Performance

This case study was written by Scott Graham and Anahit Tevosyan, with the support of Soledad Gompf, Allison Scuriatti, Seth Spiro, and The MasterCard Foundation staff.
Introduction

FINCA aims to extend financial services to half a million customers in Zambia, Malawi and Tanzania by 2017, with support from The MasterCard Foundation. The strategy for growth features an investment in low-cost delivery channels such as agency and mobile banking, in order to make financial services more convenient and affordable for customers, especially those in remote areas. It also includes intensive training of local staff, so that they can offer a diverse range of products through fully-fledged financial institutions.

The goal of the project is not just to grow FINCA’s client base, but to ensure that financial services reach those who can most benefit from them, especially low-income entrepreneurs, helping them to create jobs, build assets, and improve their standard of living. With this purpose in mind, the partnership between FINCA and The MasterCard Foundation also includes an important investment in managing our social performance, with a special focus on gauging FINCA’s outreach to poor and other financially-excluded populations, as well as the client-level outcomes that result.

A FINCA client in Pakistan with her family
Social Performance: Focusing on Clients

The primacy of social goals is what distinguishes mission-oriented microfinance organizations from the growing tide of commercial lenders who see the unbanked primarily as a new class of consumers. As newcomers to financial services, low-income borrowers can be especially vulnerable to various forms of abuse, such as deceptive sales techniques that ensnare them in debt that they can’t afford, or the application of harsh penalties and dubious collection practices. Such behavior wreaks havoc in the lives of customers and is antithetical to any mission-driven organization. It also undermines the entire microfinance industry, as evidenced by periodic debt crises around the world and resulting clamp-downs by concerned governments.

To protect clients against careless or unscrupulous practices, a group of like-minded organizations founded the Smart Campaign, which highlights the importance of client welfare for the success of microfinance. Led by the Center for Financial Inclusion, the Smart Campaign evaluates participating institutions and certifies them as client friendly (i.e. non-abusive), based on their adherence to certain standards of behavior, embodied in the Client Protection Principles. These standards require lenders to avoid overindebting their borrowers, to fully disclose loan terms, and to eschew coercive collection practices, while promoting appropriate product design and fair treatment of clients.

The Universal Standards for Social Performance (USSPs), promulgated by the Social Performance Task Force (SPTF), go one step further, by helping organizations to integrate social goals into their strategies and operations. One basic indicator, for example, is whether the organization’s mission statement is embedded in its strategies and written policies. Further, how are these intentions borne out through its products and services, as well as the activities of its staff and their interactions with clients?

FINCA enthusiastically supports both the Smart Campaign and the USSPs as important tools to highlight the social purpose of microfinance and to raise client welfare as the central objective of stakeholders. Two of FINCA’s leading subsidiaries have successfully completed the rigorous process of gaining Smart Certification; others will soon follow. The USSPs were a very useful point of reference when FINCA was developing its own global social performance policies.
Intentions and practices are important, but social performance requires a factual accounting for the results that we produce. To view these results, the attention of social performance efforts must be shifted beyond lenders (and their behaviors) and focus more intently on the actual living and working conditions of our customers. We may be earnestly pursuing our mission, but what matters most is whether we are actually achieving it.

Geared to answer this fundamental question, FINCA’s social performance framework is based on household and business information collected from our clients. We started by translating our mission into measurable social indicators, and then developed the tools to monitor those indicators on an ongoing basis. To implement this type of social performance system, we also had to reinforce our basic skills in the collection and analysis of customer data. As a result, our social performance platform has catalyzed the creation of a rigorous customer research practice—one that informs us on our mission while also enabling us to better meet our customers’ needs.

Managing our Mission

FINCA launched a comprehensive social performance initiative in 2011, coinciding with the entry of new social investors into our organization. These new partners joined to help scale up our operations and to enable our local subsidiaries to transform into regulated, full-service institutions that could offer savings and other services, in addition to credit. We were cognizant that these new investors, such as the International Finance Corporation (IFC), would bring a stronger focus to FINCA’s financial sustainability and growth. At the same time, we wanted to ensure that these investments would produce the social returns demanded by our mission, and that we would be able to manage them with the same level of rigor that we apply to our financial results. FINCA’s board of directors created a social performance audit committee, charging it to develop and monitor a set of indicators corresponding to our social mandate and allowing for strategic decision-making towards our desired social outcomes.

This action initiated a process to define and embed a vision for social performance throughout the organization. We started by defining FINCA’s social goals, originating from our mission:

…to alleviate poverty through lasting solutions that help people build assets, create jobs, and raise their standard of living.

We asked FINCA’s leaders to rearticulate this mission in measureable terms, ones for which we could hold the organization responsible.
Reflecting on our collective experiences in the field, we observed that our customers struggle with poverty in three principal arenas—in their households, in their businesses, and in society at large. Accordingly, we devised a framework for social performance that encompasses all three arenas—home, business and society—through an approach we call the *Five Dimensions of Social Performance*.

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<th>Five Dimensions of Social Performance</th>
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<td>1 Improving <strong>access to financial services</strong>, particularly among underserved, low-income people and communities</td>
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<tr>
<td>2 Increasing <strong>employment</strong> and income</td>
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<td>3 Improving <strong>living standards</strong></td>
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<td>4 <strong>Empowering clients</strong> to fulfill their personal aspirations</td>
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<tr>
<td>5 <strong>Acting responsibly</strong> and equitably towards all stakeholders, including the communities where we work</td>
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The five dimensions convey a complete picture—the who, what, and how—of FINCA’s mission in action. We start by reaching underserved people and providing them with financial services to improve their economic opportunities. With the enhanced productivity, our customers are able to generate jobs and incomes, and to gain a higher social status. Bolstered by the extra income, clients are able to raise their families’ living standards and to reach their personal goals. While we pursue these social outcomes, we also hold ourselves accountable to high standards of corporate behavior, treating everyone fairly and contributing positively to the community at-large.
**From Goals to Indicators**

Having defined broad goals, the next task was to select the indicators that we could measure over time. First and foremost, these indicators need to accurately portray the living and working conditions of our clients. Since we intend to embed the collection and analysis of customer data within ongoing operations, not as an occasional effort, the implementation approach needs to fit within strict financial and organizational constraints.

Some basic information is available from our existing operational reports, such as the number of women we serve and the reach of our delivery channels. What we really need to know, however, is our clients’ well-being in terms of their household consumption and general living conditions. These include the family composition, the educational status of its members, as well as their health, housing and access to services. We also need to measure the profitability of our clients’ enterprises and whether they are growing and generating employment. We need an accurate baseline of these indicators, as well as a methodology for measuring how they are evolving over time. The corresponding indicators and data sources are summarized below.

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<th>Dimension</th>
<th>Indicators</th>
<th>Data Source</th>
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| Increased Access to Financial Service by the Poor and Other Excluded Populations | — % clients < National Poverty Line (NPL)  
— % female clients  
— % rural clients  
— # service point per 1,000 | FCAT Household Survey (Abbreviated Consumption Survey) operations data |
| Incomes and Employment | — jobs created  
— wages paid > NPL  
— income generated | Enterprise Survey |
| Living Standards | — home ownership  
— access to internet  
— % single-parent and female household  
— % household main earner < secondary education | FCAT Household Survey |
| Empowerment and the Fulfillment of Personal Aspirations | — % of clients who attain their goals  
— % female-headed enterprises  
— % jobs created by female entrepreneurs | Enterprise Survey |
| Acting responsibly and Equitably towards all Stakeholders | — % compliance with corporate responsibility standards | Corporate Survey |

These are ambitious data requirements, even for organizations that are professionally dedicated to research. For a widely-dispersed international institution with limited research capacity, the challenges seemed particularly daunting. Nevertheless, we believe that this focus on our clients is critical for both our mission and the long-term viability of our business. So, with the support of The MasterCard Foundation, we set out to build the capacity to collect this information and to manage our social performance on the basis of customer data.
Survey Instruments

Household Survey. A fundamental concept for assessing poverty and living conditions is household consumption (per-capita). On the basis of a specialized survey, we measure how our client population is distributed with respect to national and international poverty lines and their stratification by different income levels. By measuring consumption at different intervals, we can also observe whether the household’s economic status is improving over time, and by how much. With enough data from different countries, we could potentially control for some external economic factors (like GDP or employment) to approximate our own effect on the observed outcomes.

Despite its high value, measuring household consumption requires time, money and expertise that are normally beyond the reach of many organizations, especially non-profits such as FINCA. To overcome this constraint, we developed an abbreviated consumption survey, based on the Living Standards Measurement Surveys (LSMS) conducted by the World Bank and national statistical agencies. Using common regression methods, we identified those consumption items that are most associated with poverty, particularly different types of food. The abbreviated household survey, which we call the FINCA Client Assessment Tool, or FCAT, is a country-specific instrument, based on the most recent LSMS data and reflecting local consumption patterns.

A FINCA client being interviewed at his business
We also use the FCAT to gather data on the standard of living of FINCA clients and their families. These include household demographics and assets, access to utilities, and human capital indicators such as education and health. Using a handheld device to capture data, the surveyor also records the GPS coordinates of the household, enabling us to map our customers’ residences. This information enables us to assess our rural penetration. It also allows for a range of location-based analytics, by overlaying our client and branch locations with other data sets, such as transportation networks and basic services, farming and business activities, poverty rates and other population data.

**Enterprise Survey.** A family’s welfare relies heavily on the productive capacity of its economically-active members. FINCA strives to enhance this capacity by providing credit to people who are engaged in small businesses. To measure our performance in this area, we gather data on our clients’ enterprises, with a particular interest in their ability to generate employment, wages, and profits.

We collect the data via a customized survey, which measures the jobs and income generated by the business, and the impact of our loans according to the business owner. We assess the quality of wages and income by comparing their value relative to the poverty line, in effect, measuring whether employees and business owners are able to earn a living that keeps them out of poverty. In order to measure our effect on women’s empowerment, we count the number of female business owners and their employees, which demonstrate women’s social status and their role in decision-making.

The *FINCA Enterprise Survey* also gathers information on the growth of our clients’ businesses, as well as their seasonality and other factors that affect the demand for financial services. Knowledge about our customers’ business activities can allow us to tailor our offering according to the needs of distinct segments, and to adapt our commercial strategies more closely to the markets we are serving. These types of customizations—whether they be different loan terms, seasonal campaigns or service features—are intended to improve the impact of our services and enhance customer loyalty. We can also identify the business types that have the most potential to grow and create jobs, so that we can pursue them with greater intent.

In any survey, it is important to select respondents who have knowledge of the topics to be discussed. For example, in the FCAT household survey, we interview the person with the best knowledge of the family budget and consumption, who might be the spouse of a borrower, or another family member who manages the household. By contrast, the enterprise survey is targeted at the FINCA customer who runs a business, manages its cash flow, and makes direct use of financial services. The enterprise survey presents an ideal opportunity to gauge our customers’ views on the adequacy of FINCA’s services (for example, loan sizes), their affiliation with other banks and their unmet demand for services. This information is particularly useful when it is segmented by sector, geography and other characteristics, allowing for more focused product development, market positioning and service activities.
Based on their scope and sampling, the household and enterprise surveys each produce about 90,000 pieces of data, allowing for the construction of accurate baselines on the living and working conditions of our clients. These baselines should be refreshed on a 3-5 year basis, because the changes in these conditions, at a population level, occur over a relatively long period of time. In this regard, our household and enterprise surveys are similar to other instruments, such as the World Bank’s household and financial inclusion surveys, which are normally applied at intervals of 5 years or more.

**Screening Tools.** In the years between baseline surveys, we will be using customized screening tools to assess whether we are moving towards or away from our social goals. The screening tools are probability measurement tools (similar to Grameen’s *Progress out of Poverty Index*, or PPI), derived from our own household and enterprise data sets. Unlike a full baseline survey, a screening tool captures a handful of easily-observed characteristics, and it can be administered by operational staff in the course of their routine activities. In the case of the household, for example, it may capture some asset ownership or family conditions such as number of children, adults employed, their educational level, etc. At the enterprise level, we may be looking at certain sectors of activity, the potential of each sector to gen-
erate employment or to pay living wages. These indicators are selected and weighted according to their correlation with the social goal that is targeted.

While these screening tools—one for the household, one for the enterprise—share the same statistical structure as other scorecards (that is, they are probability tools, allowing indirect estimates of a specific condition), they are different in a couple of important respects. First, they are not based on nationwide data sets, but rather on the data that correspond directly to the clientele we are presently serving. This enables us to deepen our outreach incrementally with respect to our current client base, rather than aiming towards customer segments that we are unlikely or unable to reach. Our concern is not just to distinguish between poor and non-poor customers, but rather to direct each FINCA subsidiary towards the neediest and most financially-excluded clients that it can reasonably serve.

Secondly, the screening tools will be calibrated to the social goals of each subsidiary. One FINCA bank may be targeting people below the national poverty line because it is in the right place with the right business model to serve that population. Another may be targeting a customer segment that is able to generate employment and living wages more intensively, while deepening its outreach to those who are vulnerable to poverty. The screening tools in each case will be selected and customized to the goals of the subsidiary in question.

Customer Satisfaction. In addition to the social performance instruments, our client research function administers comprehensive customer satisfaction surveys to uncover their needs, complaints and expectations of FINCA. The survey gathers feedback on our products, customer care, pricing and convenience. Each attribute is measured by more than 10 sub-attributes. The study includes both in-depth qualitative interviews and quantitative data. We use the results to strengthen our customer retention strategies as well as local brand positioning. From the large-scale survey, we derive some basic “pulse” indicators, which allow us to actively track customer satisfaction at key touchpoints on an ongoing basis.
Data Quality

Managing social performance through customer data requires competency in the basic functions of applied research, starting with the ability to frame precise and relevant questions, to articulate data requirements, and to construct survey instruments. These activities require knowledge of statistical methods, quantitative analysis and research techniques, and they can easily be handled by a properly-qualified specialist.

The actual implementation of a field survey, however, is a different matter. The most skilled analyst cannot compensate for a set of poorly-executed field interviews. Yet field surveyors, whose role is so critical to our research, are typically hired on a short-term basis, often with very little professional preparation. If their work fails to meet applicable technical standards, the data and resulting analysis will be severely compromised, if not invalidated altogether. All types and sizes of organizations can get tripped up on this pitfall, resulting in high margins of error and the small but devastating footnotes that appear next to any of their findings, warning of their statistical unreliability.

The potential data quality issues are familiar to any researcher. They include poor recall by respondents, misinterpretation of questions (or answers) by the surveyor and/or the respondent, incorrect recording of the answers, mishandling of data, or even falsification of information by unscrupulous enumerators. Dealing with these kinds of data errors is laborious and requires specialized statistical skills.

It was tempting, given the challenges, to scale down our ambitions. Instead of accurate, direct measures of client well-being, we could opt for indirect measures, such as those that are typically produced by poverty scorecards. Taking this approach would have significantly reduced the data collection and expertise required by our staff. But it also would have required us to sacrifice our ability to directly observe the client-level conditions that are critical to our mission.

Data quality issues are challenging but not insurmountable. A robust set of statistical tools is available to screen the information that is provided by surveyors. These include filters that delimit the range of possible answers, internal consistency checks, data normalization, and dealing with outliers. These analytical tools are commonly applied once the data set has been assembled, often long after the interview itself is completed. Due to the time that has elapsed between the original survey and the data cleaning, the only solutions are to artificially adjust the data set, or to throw out the incorrect data altogether, which wastes resources and reduces the quality of the analysis.
To avoid these problems, we created a survey platform that uses technology to compress the time between data collection and data cleaning, so that errors can be corrected through immediate follow-ups with the field staff. The platform detects, in real time, individual data points that are outside an acceptable range, using logistical and conditional probabilities. It also identifies surveyors whose behavior raises red flags, through advanced statistical algorithms such as support vector machines (SVMs) and random forest modeling. The platform sends automated notifications to warn survey managers about suspicious data points and allows for cleaning and auditing of the data in real time. A future paper will discuss the data quality protocols and their technical application in greater detail.

An surveyor interviewing a FINCA client at her home
The Benefits of a Customer-Based Approach to Social Performance

FINCA is fortunate to have strategic partners—such as The MasterCard Foundation—who support our approach of managing social performance through client data, and who are willing to help us build the capacity needed to do so. This support allowed us to place qualified research specialists at various levels of the organization. Prior to this change, data collection was typically assigned to administrative or call-center staff, who were often unfamiliar with basic statistical concepts such as in sampling, questionnaire design and data collection. Methodological errors would introduce bias, making it impossible to generalize the results. Knowing that it is better to act on instinct than on faulty data, managers were usually wise enough to regard the findings with suspicion, or simply ignore them altogether.

When data quality and credibility issues were solved, the next challenge was learning how to apply our findings in management decision-making. Senior staff deal regularly with measurable outcomes such as portfolio-at-risk, but they are often unpracticed in the use of customer research. It is easy enough to identify the main concerns, especially given the immediate relevance of topics like client loyalty and market positioning. How can we serve our customers better and gain their continued business? What are their unmet needs, and what service attributes matter the most to them? But deeper engagement, involving both management and clients, is needed to articulate these broad questions in terms that are sufficiently constrained and actionable, such as the loan sizes required by different types of borrowers, or some particular aspect of customer service at the branch level.

Insofar as it translates into tangible benefits to our customers, our mission is indistinguishable from our business strategy, both of which hinge on knowing who our customers are and whether we are meeting their needs. This knowledge starts with a clear grasp of the conditions in their households, especially the assets and consumption that define their quality of life. It continues with an understanding of the business activities by which our customers generate wealth, both for themselves and for their employees, and whether we are helping them to grow. At the same time, we need feedback from clients to understand the ups and downs of their experience with FINCA, and which aspects of our service they value the most.

Lenders today are aggressively pushing the boundaries of financial inclusion, turning knowledge of their customers into growing profits and share values. To survive and grow, FINCA must do the
same, with the additional mandate to generate the social outcomes of our mission. Customer data provides evidence of that mission in action, and it is the link that ties our success as an organization to the wellbeing of our clients. Embedding this effort in a broader research function, we can go beyond simply measuring our impact to actually strengthening it, using the knowledge we gain from our customers to deliver services that increasingly help them to prosper.
FINCA, with the support of The MasterCard Foundation, is working to scale up financial inclusion in Sub-Saharan Africa. By investing in our social performance, we are gaining valuable insights into the needs of our clients. This information is helping us to deliver on our mission to alleviate poverty through lasting solutions that help people build assets, create jobs, and raise their standard of living.