

Fitting the pieces together to understand our client's reality



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As responsible operators in the microfinance industry, our impact on society is an inherent part of our business model. We stand accountable for the way we service a segment of vulnerable clients and accompany them as they grow and develop. When our institutions scale up in a sustainable manner, both financially and operationally, the impact on their surroundings comes naturally.

But it is not sufficient to clients-provide access into the financial system. We need to go one step further and try to understand the environment in which our clients' live and work, so we can adapt our offering. This is quite a challenge in developing countries where there is limited standardised basic information to monitor performance over time and sometimes it is even hard to gauge the current situation with any degree of accuracy.

In the BBVA Microfinance Foundation (BBVAMF), in line with our mission, we go out of our way to gain in-depth understanding of our microentrepreneurs, so that we can customise our products to their needs and work with them to improve their living conditions, through a new function, namely Impact Assessment and Strategic Development (IASD). This might seem easy to say, but in practice it is extremely complicated. We want to come up with authentic value propositions that fit each client and we aim to build up our internal structure so that we can manage the impact we generate.

How can we best support our clients and adapt to their needs?

For the member entities of the BBVAFM Group (the Group), it is vital to establish a common structure of data collection if we want reliable impact measurement. This will enable us to understand our clients' characteristics (e.g. their socio-demographic profile, the size of their businesses, how long they have been with us, etc.) and their environments (urban, rural, etc.), so that we can be more flexible when offering them products and services. We need to understand their behaviour, connect them to other entrepreneurs or stakeholders in their value chain, and broaden the scope of information they can draw upon to better manage their businesses.

Our clients hold the ultimate responsibility for change. However, in the Group we try to help them manage change. That means identifying their strong points and their weaknesses, tracking their progress, by starting with the information that we have.

To gain the level of understanding required for this, we have to start by asking the right questions:

What are our clients' vulnerabilities? How poor are they? How is their family structured? What are their social surroundings like? What chances do their businesses have of progressing? What makes their businesses different from others?

Since 2012, we have been capturing this information in a systematic, robust and standardised manner through the Group's six member financial institutions. We now have a system including over 80 variables with 25 quantitative and qualitative indicators that help us to periodically analyse and monitor how our clients develop their businesses and how their living conditions have changed since they started their relationship with the Group entities. Information architecture is at the heart of our business, our guiding light.

This has given us the opportunity to drill down into certain core concepts and elaborate new hypotheses. We are creating silos of knowledge that we need to connect so that we can adapt the fundamentals of our business to the changes that our clients are experiencing. We do this by focusing on two lines of action:

First of all, we have IASD Lab – research at the service of our clients. It identifies factors that impact clients' progress and seeks to relate it to their socio-economic characteristics and their environment.

For example, we see that clients involved in farming (16% of our total client base) tend to have received very basic education, completing primary school at best, but the net incomes from their businesses are relatively high compared to other sectors. However, they face a range of difficulties such as revenue volatility and a lack of technical tools to grow their businesses.

We also observe that because women (60% of our total client base) rarely have access to ownership rights over land and the means of production, they tend to focus more on non-farming sectors, above all trading. Such businesses require a relatively low level of investment in order to be successful, and the profit margin is quite reliable, due to the lack of structural competition. However, the probabilities of growing scaling up businesses are low given the difficulties in accessing larger markets.

Special projects –products, services and channels– that entity's added value . We identify and categorise projects that have defined specific tools to address the basic needs of vulnerable clients within specific geographical areas or for the client groups that they are intended for.

Such (often pilot) projects have been designed to test address specific client needs/segments and allow us to analyse whether they are generating the expected outcomes.

One example of these projects are banking agents, which are often one-man stores or trading outlets. They help to bring clients closer to the financial institution, saving them time and money, and whose activity has made it possible to demonstrate that the greater the clients' economic poverty, the greater his/her transactionality.

At the BBVAMF we combine studies that look into client behaviour with studies of our microfinance institutions' activity. We seek to shed light on the challenges facing vulnerable entrepreneurs. When we work on managing impact, we are putting together the pieces in a jigsaw puzzle. We can discern the different elements within the often unstable environment in which our clients live, and despite the poor infrastructure around them, we can thereby understand their changing reality and see how to optimise the impact our services can directly have on their lives and businesses.

Thus, measuring impact is becoming an intrinsic part of our business model. It gives insights into our clients, our institutions and the products and services they offer; it enables us to integrate client intelligence into our management policies up to the last governing body, our Trust.

It is not a one-off assessment, or an investigation into a limited set of clients. It does not respond to a request from any specific investor, or in reaction to any circumstantial event. IASD is a core function.

It is strategic, not executive. It operates around the clock, to gather dynamic statistics, as reliable as those that big banks collect for their risks or their finance departments. This provides an invaluable stream of information with which to define projects.

By way of conclusion, then: detailed, recurring measurement of our microentrepreneurs' progress is an effective way of ensuring that we never lose sight of our mission and convert it into an actionable purpose.