

Outcomes Working Group Brief on Session 19: Fundación Genesis Empresarial

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Background

Fundación Genesis Empresarial is a non-profit financial institution in Guatemala that has been in operation for thirty years. Recently, Genesis earned a five star social performance grade from MicroRate. This is the highest qualification in social performance, and Genesis was only the second institution in the world to earn it. Genesis uses the Universal Standards for SPM as its guide, and explains that trying to implement every essential practice in that manual put Genesis on the path to the five star award.

Reason for implementing an outcomes management system

Genesis has a social mission to improve the lives of its clients both financially and socially. Poverty is widespread in Guatemala; almost 60% of the population lives in poverty, and 23% live in extreme poverty. Yet, as the Executive Director of Genesis, Edgardo Pérez, explains, “When we embarked on our engagement with social performance, we asked ourselves, ‘What is the difference between what we do and what another financial institution does regarding our products, processes, and methodology?’ It was not much different. We were not sure what impact we were having on clients’ lives. Focusing on that brought us to where we are today.”

Data collection as part of the loan application process

Genesis identified the financial and social indicators that it wants to monitor, and aggregated them within the loan application form. Loan officers fill out the application form electronically, on a cell phone. It takes about 25 minutes to fill out a loan application. The system transmits the data in real time to the central database. A program analyzes it to identify where this particular client falls within the client segmentation matrix that Genesis developed (see details below), and then sends that information back to the loan officer’s phone, along with the list of products and services that Genesis offers that are suited to this particular client. The system will likely propose 3-4 products. 1-2 would help on the financial axis (e.g., invest in machinery for business) and 1-2 would help on the social side (e.g., help to buy a health service). The client then chooses among these products and services, depending on the development path that she prioritizes. For example, some clients may choose to focus on financial development, others on social, and others on both. In the end, the goal is to help customers reach the upper right corner of the matrix, which is the segment of clients with the highest financial and social development. But, the customer can choose any number of paths to get there. In total, Genesis has 200-300 different products it offers, so that no matter where a client falls on the segmentation matrix, she gets offered a product that is tailored to her needs.

Segmentation

The first step to improving clients’ lives is to understand the needs of the customer. For this, you need segmentation analysis to guide how you create products and services. If you do not segment, you have commodity products that serve some customers well and others not well, and then you leave some clients out of the development route because your products and services do not match their needs. Genesis spent some time developing a methodology to segment its client population, and this led to changes in marketing, product development, and risk management policies.

One type of segmentation is financial. After statistical analyses of client data and other relevant data such as the cost of living in Guatemala, Genesis came up with six distinct financial categories:

- Extreme poverty: client does not have enough to eat
- Poverty base line: client has enough to eat, but not enough to meet basic needs
- Basic extended basket: client can pay for her basic needs, but nothing beyond that



- Microenterprise: Client is succeeding. She has her own business. It is very small –a microenterprise – but the client is moving ahead with her endeavors.
- Small business: The business generates employment, may have more than one store, and is more developed.
- Medium company: Similar to the small business (generates employment, may have more than one store, more developed) but is even larger.

Another type of segmentation is social. Genesis examined the social data it has on clients, which include data on the Poverty Probability Index (PPI) indicators, and identified four levels of social development:

- Poverty: no housing, no education, no access to health services
- Vulnerable: usually has a house but likely with a dirt floor and a low-quality roof, may have access to clean water but not necessarily plumbing
- Developing: more education, better housing, better health services
- Developed: most developed

Based on the above analysis, Genesis developed a segmentation matrix. On the y-axis is a financial score. Each client receives a single financial score, derived from six variables. These variables are the ones most strongly correlated to the cut off points in the six levels of financial development mentioned above.

- Time in business
- Monthly sales
- Net profit
- Total Assets
- Equity
- Working Capital

The x-axis of the matrix is the social score. Genesis identified the social data variables that are most strongly correlated to the four levels of social development mentioned above, grouped into three major areas:

- Housing includes a) ceiling/floor/walls, b) hygienic services; c) water source; d) electricity; and e) home appliances.
- Health includes a) health services; b) waste disposal; c) cooking fuel; d) water quality
- Education has just a single indicator, the client’s level of education

The score for each variable is weighted, and together they produce one social score

When Genesis mapped its clients onto the segmentation matrix it developed, it saw this:



Analysis and Use of Data:

One observation came immediately to mind: Genesis had no clients in extreme poverty. It asked itself, “Why not?” The most likely reason was that what it offered did not meet those clients’ needs. As a result, Genesis



developed new products and services for extremely poor people. Now, it offers a loan product that does not involve the disbursement of funds but the disbursement of supplies (e.g., for crops, for handicrafts) along with training.

Genesis also investigated what types of products the customers in each segment were using. It found that some customers were using products that they should not have been using, based on their needs. Genesis responded by improving its system to identify which products are suitable to which clients, and to give loan officers that information.

In 2017, Genesis was able to analyze change over time. Genesis launched this outcomes management system in 2016, so its recent analysis of change in clients' lives considers change for clients that had a loan in 2016 and then again in 2017. It conducted these analyses:

- Segmenting clients by the four levels of social development (poverty, vulnerable, developed, developing), then calculating what percent of clients in each group showed an increase in their social development, which had no change, and which had a decrease.
- Segmenting clients by the six levels of financial development (extreme poverty, poverty baseline, basic extended basket, microenterprise, small business, medium business), then calculating what percent of clients showed an increase in their financial development, which had no change, and which had a decrease
- Taking the client group as a whole, what percent of clients had a change in social but not financial development, or a change in financial but not social, or a change in both, or a change in neither? In each group, was the change positive or negative?

As follow up to this analysis of change over time, Genesis is investigating why clients experienced a decrease in development. Genesis has a department called special development services, which it used previously to train clients. Now this department is investigating on a case by case basis why clients experienced negative change. Common answers have been the crop went bad, or we had a flood, or I was ill for six months. As a result, Genesis is developing recovery products that will help clients who experienced a disaster to rebuild.

In the future Genesis will analyze which products clients are choosing and correlate these to client outcomes. The goal will be to identify which are the most successful products for clients in each section of the matrix, defined as those that put clients on the fastest route to the top right corner of the segmentation matrix.

Changing the Culture and Motivating Staff

Genesis management has changed how it interacts with branch managers and loan officers. Management used to ask them only financial questions: What is your productivity? What are your past due accounts? What is your average loan size? These are the essence of the financial side of the business, and doing well in these areas ensures the sustainability of the institution. But the challenge is to change the mindset of the loan officer to a balanced philosophy on social and financial performance. Now the leadership asks, "How many of your customers increased their financial statements? How many customers increased their social results? Of those who decreased, why did they decrease? Then it also asks the same financial questions as before. Genesis is also motivating field staff to work hard on social development of clients by institution social bonuses for field staff and connecting wage compensation to social ranking. Edgardo notes, "Everything that we say and do at the management level, if we don't translate that to the loan officer, it's just theory."

Costs and Benefits

Genesis is strong financially in all the major areas of consideration, including past due accounts, return on equity, return on assets, productivity level, and efficiency. Genesis observes that the engagement with social performance is complimentary to strong financial performance. For example, a customer who is past due on her loan has also moved backward on her financial development route. Edgardo states, "We found that a perfect

balance between social performance and financial performance brings excellent results in both areas, as one is tied to the other.”

Question and Answer:

- Q: *Can you provide more detail on how Genesis can offer hundreds of different products, to customize what it offers to where the client falls in the segmentation matrix?* A: Considering the different needs of the segments leads you to construct products differently. For example, you would not ask a customer in extreme poverty for collateral. He won't have it, so why ask for it? In a higher level in the matrix, if a customer asks for a loan amount that is above the average, you would need collateral and that person would probably have it. You can change your risk policies regarding a loan. Having two different set of requirements creates two different products out of that loan. Also, products change according to methodology – an individual loan is different from a loan via group lending. You would adapt not only to loan products, but also insurance products and training courses.
- Q: *You shared results that show some clients increased their business revenue but did not improve in social aspects. How do you explain that a client achieves a better financial performance without showing a better social performance?* A: Sometimes you have customers that sell more but they don't profit more. Maybe their margins are decreasing or they have inefficiencies, and this prevents them from increasing their quality of life in social areas. But there are other customers that are making more money, putting money in their pockets, but are not interested in putting cement on their floors or installing a bathroom. In these cases, it goes back to training. For this, we rely on our social services department, and they create a need. The trainers can go to the customers and explain that having a dirt floor brings intestinal illnesses and skin illnesses. If you improve your floor, you'll provide a better quality of life to your kids. Another example of creating need relates to improved stoves. I helped install a new stove in customer's home, and I went back two months later, and he was still using the old one. I asked him, "Why are you using the old one still? It uses more woods and it's contaminating the air?" He said, "It's faster." And I said, "Yes, but the other one is more efficient and the heat will last longer." It's a continuous process of training. Sometimes, the belief can be so strong that the old way is fine. You have to incentivize clients to move to a different quality of living.
- Q: *SPTF is trying to understand, for our sector, what is good and what is bad regarding outcomes results. You said the Genesis result showing 4% of clients with an increase on both the financial and social axes is a bad result. I am not sure that is a bad result, given that you are measuring change over just two years. How do you know whether a result is bad or good?* A: I want all of our clients to show increases in financial and social development. At Genesis, we talk about two sins: one is letting a good employee leave the institution, and the second is having a client decrease her place in the segmentation matrix. It may be impossible to have 100% of our customers increase, but our goal is to understand what makes a customer go backward. Once we have that really well understood, and we have products that will help that situation so the customer can recover - that is the next step. But as a goal, I'd say that at least 50% of our customers should be on the growth path or no change path. In the meantime, we'll continue developing what we call rescue products for the customers that encountered unforeseen difficulties. That type of product has to be in place for our goals to make sense.
- Q: *Even within the same segment (e.g., a certain level of poverty), sometimes people have a diversity of needs if they engage in different livelihoods strategies. How do you address the diversity of needs within the same client segment?* A: There is a vast list of needs, especially within the extreme poverty and poverty customers. You have to recognize that as a financial institution, there are some of the needs that you can address and some that you cannot. For example, Genesis does not provide nutrition services. Addressing all of the clients' needs for us would be impossible, because the needs are so vast. So understand what types of needs you can address with your products and services, and offer those.
- Q: *Genesis has invested in a comprehensive outcomes management system. What is the cost of implementing this type of system? How did you design something that did not drain your profits and*

stress your sustainability? A: This is not an expensive tool. It took us about two years from the beginning of the concept to the final implementation. The first thing you need to have is digitalized loan applications, so the data automatically transmits into the central database. Probably a programmer can set this up in one day once you have the loan application questions developed. Once you have that, you need to implement a system to compare different loan applications for the same customer. Hopefully more than one, two, three, or four, to see if the customer is improving and, if so, how. Identify who are the most successful ones, so you can define the optimal development path. Those systems are simple to construct. You do need a lot of data capacity, hardware, to keep the data all in one place and query and extract data. But it's actually not that complicated doing it – it's a database application. You can also do this by hand, where you would have to enter the data into the database from the forms that loan officers fill out. The data collection is the most important thing, and it's the easiest part. The hardest part is to do marketing surveys on the segments, to analyze the data, and to put your minds to designing the products and services that are appropriate for each segment of the clients. All this ties to the financial performance – you get lower risk and lower defaults when you match products to clients' needs.

*The working group is open to all stakeholders:
practitioners, networks, technical assistance providers, funders, researchers, support organizations, and others
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