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Practice Notes

Choosing and using Indicators

for effective social performance management

Imp-Act

is a global action research programme designed to improve the quality of microfinance services and their impact on poverty.

Imp-Act promotes the development of reliable social performance management systems, which include impact assessment. These systems reflect and respond to client needs, as well as the priorities of microfinance institutions (MFIs) and their stakeholders.

The programme is a collaboration between 30 MFIs in 20 countries and a team of academics from the UK universities of Bath and Sheffield, and the Institute of Development Studies, Sussex University. The **Imp-Act** programme was initiated by the Ford Foundation, which funds all **Imp-Act** activities.

Imp-Act

Imp-Act Secretariat
Institute of Development Studies
University of Sussex
Brighton, BN1 9RE
Telephone: 01273 873733
Fax: 01273 621202/691647
Email: Imp-Act@ids.ac.uk
Web: www.imp-act.org
[www.microfinancegateway.org/
section/resourcecenters/
impactassessment](http://www.microfinancegateway.org/section/resourcecenters/impactassessment)

What are Indicators?

Indicators are criteria or measures against which changes can be assessed. Microfinance institutions (MFIs) need to use a variety of financial and social indicators, to track both their financial and social performance and the impacts they are having on their intended beneficiaries.

There is a set of standardised financial indicators that allow financial performance measurement, but indicators of social performance are usually more complicated. This is because an almost infinite number of changes can be brought about by a programme, and each possible change can be measured by a number of different indicators. However, as this Practice Note shows, it is possible for MFIs to develop and apply a set of useful indicators, if they follow some simple steps and have a particular goal in mind.

What are the right indicators for social performance assessment in microfinance?

There are no right or wrong indicators. Indicators for social performance assessment must be appropriate to the mission of each particular MFI and the types of products and services being offered. Useful indicators for one programme will not necessarily be suitable for

another. Indicators therefore cannot be picked "off the shelf", but instead need to be adapted to the local situation.

Each MFI needs to undertake a process of developing a set of indicators which will produce answers to the questions – or *hypotheses* – that the programme is asking itself, with the maximum accuracy for the minimum additional cost and effort. There are many factors that determine how useful an indicator will be, and we lay out some of them in this Practice Note.

How can this Practice Note help you?

Because of the need to contextualise and adapt indicators, this Note does not set out to give a "menu" of indicators. Instead, it aims to help you think about the steps you need to take to develop indicators that make sense for your programme. The Note also highlights issues that may influence your choice of indicators, as well as difficulties you may encounter. The Note is based on the *Imp-Act* partner MFIs' experience of developing social performance indicators, and gives examples of how different MFIs have developed their own indicators that respond to their information needs and the kinds of impacts they expect.

Choosing and using Indicators

Step 1

Be clear about what you want to measure and why

What changes can be measured and at what levels?

Assessing the social performance of your MFI can be done in many different ways, and at different levels. The following are questions you may wish to answer through your indicators:

HOW are you achieving impacts?

You may wish to assess whether they have the right **design** and **systems** to enable your MFI to fulfil its social mission. For this to happen you have to first make sure your MFI's social objectives are clear. Then you need to assess the systems, services and delivery mechanisms in place for achieving these social objectives.

WHAT are you achieving? You may want to assess your MFI's **outputs**, developing indicators to reflect its breadth and depth of outreach, and the quality and appropriateness of its services.

WHAT long-term EFFECTS are you achieving? You may wish to focus on your MFI's **outcomes** and **impacts** in terms of changes at the client level. These include changes in client status, the client's business and the household, as well as community-wide impacts.

Decide what you want to measure
Your **mission statement** and **objectives** are a good place to start, as they will give you an idea of what your ideal social performance will be, and what you

need to assess and measure. This will also help you to develop **hypotheses**, which your indicators will help you test.

For example, your mission may be to alleviate poverty among rural women through provision of microfinance. One of your **objectives** might be to make appropriate savings and credit services available to all poor and vulnerable women within a specific area. A **hypothesis** you may wish to investigate is that access to savings and credit services leads to increases in household welfare. An **indicator** to test this hypothesis could be the changes in household expenditure on food (see Box 1).

Step 2

Identify sources of information

There are various stages involved in identifying appropriate indicators for your information needs. Once you are clear about what you want to measure and your hypotheses, your next step will be to identify all the sources of different indicators. Suggestions for indicators to match your hypotheses may come from management, field staff or clients, but may also be found in past studies, such as impact surveys, focus group discussions (FGDs), poverty assessment tool studies, etc.

You may also choose to undertake brief exploratory investigations; for example, an MFI wanting to know whether participation is leading to increased women's empowerment may decide to hold an FGD with female clients to discuss how and where they experience empowerment.

Step 3

Draw up a selection of possible indicators

If you use these sources of information, you will then be able to draw up a "pool" of possible indicators and select those that best respond to your needs, and which fulfil a number of key requirements, as laid out in the next sections. Remember, you are testing your hypotheses, so you will need to draw up a selection of indicators for each one. Box 1 gives an example of a hypothesis and a pool of related indicators.

How many indicators do you need?

The final number of indicators you use depends on why you need them and how much time and money you have. A very simple poverty score-card (see Case Study 1) will probably use fewer indicators than a more complete impact survey. But at this stage you need to list all the indicators that you believe are worth considering, so you do not overlook any that could be useful.

Step 4

Narrow down your list of possible indicators

This is the key step in indicator selection, and getting it right is essential if you want to obtain valid answers to your questions. It is a learning process; you first need to understand the different types of indicators that can exist. You can then take informed decisions about which are your strongest indicators.

Making sense of different types of indicators

For most social performance assessment, there are four broad types of indicators:

1. Some indicators serve as markers of changes you anticipated as a result of participation – in other words indicators of the effects or impact that the programme is having. Examples of these **impact indicators** are income, expenditure and levels of self-esteem.
2. Some indicators do not mark change but are useful to collect. **Moderating**

BOX 1 EXAMPLE OF A HYPOTHESIS AND RELATED INDICATORS

Hypothesis: "Participation in microfinance programmes leads to increases in household welfare"

- Household income (level and sources)
- Household assets
- Expenditure patterns that reflect improved quality of life
- Increased expenditures on education
- Seasonal fluctuations in per capita food expenditures

- Household's effectiveness in coping with shocks
- Borrowing, saving and lending patterns
- Practices related to non-financial programme services
- Poverty gap: difference between household poverty level and poverty line

Adapted from: AIMS/SEEP Guidelines

CASE STUDY 1

PRIZMA, in Bosnia and Herzegovina, has developed a poverty scorecard to measure the poverty status of its clients upon entering the programme, and to monitor their change in poverty status over time. For this, they chose seven indicators: three reflecting *poverty risk categories* (education level, residence and household size) with the remaining four measuring *more discrete changes in household well-being* (household assets, transport assets, meat consumption and sweets consumption). These indicators were found to be some of the strongest and most robust non-income poverty proxies in Bosnia and Herzegovina, validated using the 2002

Bosnian Living Standards Measurement Survey (LSMS). Five of the seven indicators are scored from 0–1, and two of them 0–2; a total of nine points is possible, with clients then assigned to one of three poverty categories according to their points (0–2 poor and very poor; 3–4: vulnerable non-poor; or 5+: non-poor). Prizma has found that its scorecard presents many advantages, including being accurate and credible, adaptable, verifiable, cost-effective (four of the seven indicators were already being collected), embedded in existing operations, complementing market research and capable of assessing change over time.

indicators refer to factors that affect change processes, such as the number of children being supported in a family. **Segmenting** indicators might or might not influence change, but will provide useful insight into how impact might be affected by factors such as gender, region, loan type or number of loans taken. Box 2 gives some examples of this group of indicators.

3. Indicators can be either **direct** or **indirect**. Indirect indicators – or **proxies** – are “shortcuts” which allow us to simplify complex phenomena. They are used where direct indicators may be too difficult to measure because they are too costly, time-consuming, or require complex calculations. For example, the AIMS-SEEP impact survey (see resources section) uses a proxy indicator for increased household income: ‘percentage of clients reporting increased income over the last 12 months’. In this case, clients are asked to report on what they think increases in their income might have been, rather than the MFI measuring the amount exactly.

4. Indicators can be **numerical** (e.g. loan size) or **categorical** (e.g. poverty status). They can show **directions** of change (positive or negative, increase or decrease), **patterns** of change or **amounts** of change. Directions and patterns are categorical measures, while amounts of change are usually numerical. Most social performance assessments are likely to involve a mix of indicator types.

What makes a good indicator?

Each MFI needs to use its own judgement in selecting and adapting a set of indicators most useful for its objectives, but there are a number of factors that you will want to consider. Where possible, indicators should be:

- **Relevant:** indicators should be directly linked to the mission and objectives of your MFI’s programme. To do this, you need to be clear about how you are trying to change the lives of your clients and how you can measure those changes.

Case Study 2 illustrates how the suitability of an indicator is unique to each MFI. This does not mean that one MFI is right and another wrong; it simply means that the indicator is appropriate in one context and not another.

- **Easy to use:** the indicators should be understandable and provide useful information to assess programme performance and assist decision-making at different levels of the MFI,

from immediate operations to long-term strategic planning. Some indicators of short-term change (e.g. income) are immediately useful for management in its decision-making. Others measure characteristics that are only likely to show any change over a much longer period of time.

- **Reliable:** the data collected needs to be valid – in other words, the indicators need to measure what they are intended to, with a minimum of errors in measurement or data entry (see Box 2). A reliable indicator should also strive to measure changes that are related to the programme rather than to external factors. This is known as attribution. In practice, however, it is often difficult to decide what is due to your programme and what has been externally caused (See *Imp-Act* Practice Note 4 on Surveys for more on this).

- **Sensitive:** your indicators should be able to reflect existing and potential changes. The level of detail you record through your indicators will be linked to what you want to assess, and the time changes within which changes might occur. For one-time assessments, an MFI can choose fairly general indicators that give a broad picture of change. But for monitoring systems, indicators must remain valid and sensitive to changes experienced by individual households. For example, the ownership of a well-constructed house is an indicator that will be good for distinguishing between rich and poor clients, but a weak indicator for poverty monitoring, as it will not be sensitive to small changes in poverty levels of clients.

CASE STUDY 2

SEEP’s Client Assessment Working Group (CAWG), which included a number of *Imp-Act* partner MFIs, undertook to ask its members which had been their most influential client indicators, and why. The answers given included: *number of livestock, daily per capita expenditure and income, client drop-out, number of employees, or financial investments (life insurance, pension policies etc)*. Reasons given explaining why these were their most important indicators

were equally varied. The CAWG then asked the same MFIs which indicators they had given up on, and why, and found that some of the “most important” indicators had been abandoned by other MFIs: for example, *jobs created or sustained* was abandoned, as it was found to be easily misunderstood; *household income* was also rejected by other MFIs, for being ‘too difficult to measure, affected by response bias, and too sensitive a conversation topic’.

BOX 2 HOW TO ENSURE DATA QUALITY

Ensuring the quality of data requires good training of interviewers, supervisors and data-processing staff; monitoring of data collecting; data validity checks; cross-checks with indicators from different sources; and other forms of quality control. Data collection is also more reliable when clients and those collecting the data understand the indicator's relevance and how it is going to be used.

- **Simple but of sufficient scope:** a simple indicator is easy to collect and to understand. This means that data collection should take a short time for both staff and clients, that staff can easily explain the indicator to clients and that the information can be easily analysed. On the other hand, you also want your indicators to reflect a range of important outcomes. You need to collect enough indicators to address your MFI's key questions, but not so many that they place burdens on staff or clients. As seen above, you need to choose indicators based on specific hypotheses. You should also stick to a small number of indicators to reduce cost and make the process easier (see Box 3).
- **Practical and technically feasible:** your indicators should allow you to easily assess and measure changes, and should not stretch your MFI's resources and capacity in collecting data. Your questionnaire should also be short, so that it does not take up a lot of clients' time.
- **Sustainable:** for monitoring systems and surveys that you will want to repeat, you need to think about whether you can use the same indicators again. Will they still work just as well a year later?
- **Cost-effective:** a cost-effective way to collect, process and analyse indicators is to integrate them into routine activities, such as loan appraisal and routine reporting of portfolio information. If learning more about your clients helps you lower your

dropout/desertion rate, that could improve your bottom line and help pay for the cost of the assessment process – but only if it is a low-cost and efficient system.

- **Ethical:** the collection and use of the indicators should be acceptable to those providing the information. It is a good rule to be able to explain to any client why the information requested is needed, especially when questions might ask for embarrassing, private or sensitive information. You should also be aware of any possible regulations in your country that might prohibit the sharing of certain client information.

What makes some indicators difficult to use?

Some indicators are difficult to use because of certain characteristics. The experience of the *Imp-Act* partner MFIs revealed a number of common difficulties that MFIs face, which can be useful to know about when selecting your indicators:

- **Attempting to measure income can be difficult:** this is due to the complex calculations that need to be made, the multiple sources of incomes to consider, and difficulties in recalling amounts that have often never been recorded formally. While some MFIs have succeeded in reliably capturing income data, others have found it easier to use proxies for income, including *number of income sources*, *steadiness of income* or *expenditure*.
- **Asset valuation can be difficult to carry out:** this is because what is valued and how much can vary from person to person.
- **Formal economic measures can be difficult to use:** in a situation where

the majority of clients operate in informal markets, they will not be able to provide information on some aspects such as wage levels. Successful proxies have included *number of income sources per household*, *paid and unpaid employment generated by an enterprise*.

- **Community-level indicators remain rare:** this is because MFIs are usually more concerned about individual, household and enterprise-level change, and partly because changes in community cohesion or involvement take longer to occur and are harder to measure.

How important is it that indicators are comparable?

As noted above, it has been possible to develop financial performance standards in microfinance because there is near universal consensus regarding broad financial performance objectives. This means that results can be compared quite easily across MFIs, regions and countries. However, finding indicators that can be compared in the same way for social performance has not been so easy, because measuring social outcomes is a subtle, complex matter and the indicators used to do so are numerous. In addition, as seen in Case Study 2, MFIs also have different goals for social performance.

Developing social performance indicators that are appropriate for your MFI is more important than seeking **the** social performance benchmarks needed by the industry. However, in some cases it may be possible to develop a core set of common indicators for comparison purposes. Case Study 3 describes the experience of an international multi-programme study that succeeded in doing this.

BOX 3 THE BENEFITS OF A SMALL SET OF INDICATORS

- It forces the MFI to concentrate on its mission and operational objectives
- It avoids imposing excessive data collection duties on field staff, while still giving management valuable information on programme effectiveness
- It is easier to manage and analyse; using a large number of impact indicators complicates the data management and analysis process
- You are likely to end up focusing on certain impact indicators and ignoring others, either because they are less important for your purposes or because they yield less useful information

Step 5

Think about how and when you will ask the questions

The questions you ask to get answers about indicators need to be carefully planned.

Make sure that the respondent understands the question

Always:

- Use correct grammar and everyday language
- Only ask for one answer at a time
- Specify clear time periods for which the respondent should report

Think about how you will record the information

Think about how you will structure, record and measure information. For example, you may decide to use a ranking or scoring method to put a different value on each question (see Case Study 3).

Think about the order of your questions

The order in which you ask your questions can affect the response. Asking questions that are easy to answer first, such as type of business etc, will

CASE STUDY 4

LAPO, in Nigeria, undertook to scale down its lengthy impact monitoring system to a five-indicator poverty score to act as a participation form, looking at *steadiness of income, regularity of daily feeding, dwelling conditions, frequency of cooking special foods, and sleeping arrangements*. Based on the comparison with results from the implementation of the CGAP PAT, consultants and staff drawing up this list of indicators removed *marital status, occupation and education* from the list of indicators, as these proved to have little correlation with poverty

scores from the PAT – in other words, they did not prove to be strong enough indicators of poverty. Comparison with the PAT results also found that the *poverty cut-off* points of the participation form did a poor job of placing households in the same categories as the PAT; the approach used in the PAT, to rank households by poverty score and group them into three poverty groups representing poorest, less poor and least poor, was adopted by the participation form. This was done partly to make the process more effective, but it produced high accuracy rates.

help to relax the interviewees. You can then decide whether to ask more sensitive questions. However, be careful not to leave the most important questions until last, as interviewees may be tired and less able to answer. Test your survey in the field with clients and then analyse the test data to ensure you are asking questions clearly and in a logical sequence.

be prepared to accept the possibility that one or more of the indicators will prove either too difficult to collect or not useful for analysis, in which case you will need to make adjustments (see *Imp-Act* Practice Note 4 on Surveys).

Step 6

Pilot-test your indicators

Always pilot-test your indicators to make sure they are valid and that you are asking the right questions. You should

Step 7

Validate your selected indicators

The process of selecting your indicators has up to this stage been largely **subjective**. How do you make them more **objective**? The way to do this is to *correlate* the findings from your indicators with those from other, validated sources of information. These can be either specific to your MFI – such as the Consultative Group to Assist the Poor (CGAP)'s poverty assessment tool (PAT), or a past survey that has provided strong data – or external to your MFI such as national poverty lines or the World Bank's Living Standards Measurement Surveys (LSMS).

By developing indicators that you can "anchor" to other sources of data in this way, you will not only be able to make your choice of indicator more objective but also be able to define measures and ranges such as poverty cut-off points, which are also largely subjective until compared with other data. This type of data correlation may require external expertise. *Imp-Act* Practice Note 4 on Surveys gives additional advice on managing consultants.

The experience of many *Imp-Act* partners has been that testing results against CGAP's PAT has been particularly useful (see Case Study 4), as has the

CASE STUDY 3

FINCA undertook an international study of the social performance of its programmes worldwide, based on three groups of indicators: client information, indicators referring to economic changes or "money metrics" (income sources, dependents, household expenditure and daily per capita expenditure) and a set of six "social metrics" – food security, housing, healthcare, education, empowerment and social capital. In order to allow for comparison across programmes, FINCA invested considerable effort in fine-tuning the way each indicator should be turned into questions – for example, for "health expenditure", one element of household expenditure, it developed the following training for its

interviewers:

'Health: this is a difficult question to answer based on weekly or monthly estimates because not everyone goes to the doctor on a monthly basis. Nevertheless, a fairly accurate estimate can be obtained from the following questions: "At each visit to the doctor, how much do you normally spend for medicine and medical services to support your own health and that of other household members?" (This gives you an accurate estimate per visit) "Now, how many times have you or someone in your household visited the doctor in the last year?" Add the amount of each visit to get a yearly estimate and then divide by 12 to obtain a monthly estimate'.

use of the high-quality LSMS data. Other data sources such as Freedom From Hunger's Food Security 10-Item food classification system have also been used, and national poverty line data can also be useful, providing it is available and of sufficient quality.

Step 8

Make the most of your indicators for social performance management

As with client assessment in general, indicators will prove most useful to MFIs if they are integrated into ongoing assessment processes. You need to constantly check, however, that the indicators continue to provide good quality data and therefore continue to be useful. Case Study 5 provides a good example of a set of tested social performance indicators, which have been thoroughly integrated into the normal operations of the MFI.

CASE STUDY 5

SEF, in South Africa, has developed a complex impact monitoring methodology, composed of client-level and systemic indicators:

- *Client-level indicators*, which are qualitative and participatory, are seen as "leading" indicators because they provide a warning of problems that could develop. Examples include satisfaction with food, housing, savings etc.
- *Systemic indicators* such as their "vulnerable centres tool", which assesses attendance, savings and

arrears, is both quantitative and qualitative, and seen as an "intermediate" indicator, useful to fieldworkers and to middle management, helping them to identify problem areas for remedial action before they affect the MFI's overall performance.

- Client exit is considered a "trailing indicator" since it is a response to an existing problem. This is useful to senior management and the Board, helping them identify the MFI's problems and design and implement solutions.

Resources

This *Imp-Act* Practice Note is one of a series of concise guidelines written for people involved in the day-to-day work of delivering financial services to the poor. Other related titles in the series include

1. The Feedback Loop: responding to client needs
2. QUIP: Understanding clients through in-depth qualitative Interviews
3. Learning from client exit
4. Using surveys effectively for social performance management
6. Planning research to assess social performance: guidance for managers
7. Monitoring systems for social performance management
8. Social Performance Reviews
9. Social Performance Management

The ***Imp-Act Guidelines to Social Performance Management*** provide an overview of the issues surrounding SPM and its design. The resource includes a set of Practice Notes on technical aspects of SPM. The Guidelines and Practice Notes can be downloaded from the *Imp-Act* website, or are available in hard copy from the secretariat.

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MicroSave training toolkits and other resources available from website at www.microsave.org

Nelson, C. (ed.), 2000, *Learning from Clients: Assessment Tools for Microfinance Practitioners*, Washington: SEEP/AIMS

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