



MANAGING SOCIAL PERFORMANCE THROUGH INTEGRATED APPROACH PRIZMA case study

Author: Kenan Crnkic





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MANAGING SOCIAL PERFORMANCE THROUGH INTEGRATED APPROACH – PRIZMA CASE STUDY

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MANAGING SOCIAL PERFORMANCE THROUGH INTEGRATED APPROACH – PRIZMA CASE STUDY

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Abstract:

Social performance management is commonly defined as "the effective translation of an institution's social goals into practice in line with accepted social values". This definition emphasizes that when implementing social assessment, it is necessary to look at the entire process, which must be anchored to the institution's mission, and systematically leads to changes in all aspects of the organization's day to day work, ultimately lifting its clients out of poverty. This process starts with the institution's mission, strategic objectives and social goals. The second step includes the assessment of whether the institution's internal systems and activities are appropriate and aligned with the achievement of its declared social objectives. The third step is about achieved outcome; are the clients improving their economic and social performance? The final step in the process is related to the impact—establishing causality between the program's participation and improvement in the client's condition. The process, indeed, has to be iterative. Information about the achieved outcome has to be used for decision making at all levels and functions within the organization, including management and Board of Directors.

This paper is organized as follows: the first part intends to give a theoretical overview of social performance management process in order to clarify some common misconceptions. The second part aims to analyze practical implementation of social performance within MCF Prizma, one of the world's pioneers in social performance management, by using their famous poverty scorecard system. Last but not least, this paper will provide information as to how the social performance data is used in decision making and how it affects the overall performance of the organization. Finally, the paper offers some conclusions and lessons learned as well as recommendations for further enhancement in this field.

Keywords: management, social performance, integrated approach, scorecard, Prizma

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Presentation

The Foro Nantik Lum de MicroFinanzas is honoured to present a new Monograph with the objective of publishing the work on social performance by Kenan Crnkic, General Director of PRIZMA in Bosnia and Herzegovina.

Mr. Crnkic has been one of the most active actors in the promotion of social performance and who best knows the work that is currently being carried out by this MFI, which has recently won a number of international awards for their work in the microfinance sector.

Currently, there are very few MFIs that measure levels of social performance that have been reached as a result of their labour, through the offering of microcredit or any other microfinance services. The work presented in this Monograph is an excellent example of the efforts of an MFI to evaluate and analyze whether their products and services are actually having an impact on improving the lives of their clients.

What is social performance? According to CGAP, social performance measures the ability of an MFI to improve a person's life by delivering appropriate financial services (CGAP, 2007). In other words, social performance is the attainment of the institution's social objectives.

It is well-known that MFIs have objectives that are in some cases complementary but in others cases are contradictory. On the one hand, an MFI must meet financial goals of solvency and profitability, typically measured by variables and financial ratios. On the other hand, the MFI has at the same time a series of social objectives that they have to fulfil, such as: reaching the poorest members of society, reaching the most disadvantaged women in a specific location, reducing their client's vulnerability, etc. Each MFI establishes their social objectives according to its institutional or corporate mission. Some institutions give priority to their financial objectives while others prefer to pursue their social objectives. Each MFI is sovereign and establishes the objectives it

perceives as most important and gives priority to some objectives above others in accordance with these perceptions.

In order to know if the social objectives that have been established are truly having an impact on their clients, they must measure and assess social development. There is a growing interest in evaluating the social mission of the MFI, to find out if these institutions are actually improving the lives of the impoverished as a result of microfinance services provided. This interest is on one hand, due to the MFI's need to know and control the degree in which the institution is reaching its pre-established social objectives, as well as the need to divulge and justify to third parties the institutional results, which refers to the transparency required by potential financing entities in regards to their operations.

In the past decade, many institutions such as CERISE¹, USAID², ACCIÓN, FINCA, M-CRIL³, Microfinance Rating or Planet Rating, have developed a set of tools designed to measure the social performance of an MFI. Furthermore, due to the lack of homogeneity in the criteria and given that some entities focus on the analysis of institutional information, while others analyse data that comes directly from their clients, CGAP, in conjunction with the Grameen and Ford Foundations, have in recent years developed a common format for the presentation of social performance reports, that includes indicators that are relative to both the institution and its clients. This work has been carried out by the Social Performance Task Force (SPTF) that since its creation in 2005, in collaboration with CGAP and MIX, has been working to conceptualize and evaluate social performance, creating a set of indicators of processes and their corresponding results (SPTF, 2008). This is particularly useful to improve the quality of services offered by MFIs and to attract funding to this industry by means of transparent and standardized information. The SPTF defines social performance as the effective translation of an institution's mission into practice in line with accepted social goals that relate to: reaching poorer and excluded clients, improving the lives of clients and their families and widening the range of opportunities for communities (MIX, 2008).

¹ Comité d'Échange, de Réflexion et d'Information sur les Systèmes d'Épargne-Credit (Microfinance Practice Exchange Network, Paris).

²The US Agency for International Development.

³ Microcredit Ratings International, Ltd.

The present document describes the theoretical aspect of social performance management together with an analysis of its practical implementation within Prizma, one of the world's pioneers in social performance management. Prizma is recognised for developing and using its famous poverty score-card system.

We could not end this introduction without thanking Kenan Crnkc, General Director of PRIZMA, for his work on this Monograph and the confidence he has demonstrated in the Foro Nantik Lum de MicroFinanzas to produce this publication. We would also like to thank Micol Pistelli, Program Director of Social Performance of the Microfinance Information Exchange, Inc. (MIX) for this edition's prologue, which is full of knowledge and very interesting comments. All the same time, we appreciate the support given by Casey Marie Conzett and Elizabeth Minchew for the English edition.

Finally, we would like to give our thanks to the various institutions with without whose support the publication of this Monograph would not have been possible, especially the Ministry of Immigration of the Autonomous Community of Madrid.

Signed: The Foro Nantik Lum
de MicroFinanzas Team
Madrid, 15th July, 2010

Preface

Micol Pistelli

*Director of the Social Performance Standards Program
Microfinance Information Exchange (MIX)*

If you are reading this Monograph you are most likely involved or, at the very least, interested in microfinance. Equally likely is that your interest stems from having heard or witnessed firsthand the inspiring stories of how microfinance has helped poor people to improve their lives through access to financial services. The promise of microfinance as an effective development tool has fuelled sector growth to the point that microfinance is now part of the formal financial sector in many countries. Even though microfinance emerged essentially from the non-profit sector—and is thus social by nature—until now most internal assessment and external reporting among MFIs has been based on financial performance, with quality of portfolio, cost recovery, and profitability the main indicators used to determine the success of an MFI. The social achievements of various programs, on the other hand, have largely been evaluated on the basis of anecdotal evidence rather than on a systematic and rigorous verification process, as is the case with financial performance assessment. Whether clients keep coming back is commonly seen as an indicator of clients' satisfaction, loan size over gross national income as the main indicator of poverty outreach, and women and geographic outreach as synonymous with the achievement of social goals.

As the industry grows, however, new challenges have emerged. News of clients who are over-indebted or forced to repay loans through unethical practices has caused a media backlash against microfinance. At the same time, new impact studies with randomized controlled trials have revealed limits in microfinance's claim of lifting people out of poverty, calling into question the proposition on which microfinance derives its social value.

The need for "truth in advertising" and for demonstrating the social effectiveness of microfinance regardless of its commercial success has resulted in a global social performance movement aimed at providing a framework for

analysis and a set of tools for assessing the social performance of microfinance. The most prominent manifestation of this trend has been the growth of the Social Performance Task Force (SPTF), an international group composed of investors, donors, MFIs, microfinance networks, research agencies, and other stakeholders united in the goal of defining, measuring, and improving the social performance of MFIs. The SPTF has arrived at the following definition of social performance: "the effective translation of an institution's social mission into practice in line with accepted social values such as serving larger numbers of poor and excluded people; improving the quality and appropriateness of financial services; creating benefits for clients; and improving the social responsibility of an MFI".

One major success of the SPTF to date has been the creation of a set of 22 social performance standard indicators designed to assess the social performance of MFIs and thus enable institutions to monitor and report the processes and outcomes of their operations. These indicators have been collected into a Social Performance Report by the Microfinance Information Exchange (MIX) and since February 2009, MFIs have started reporting their social information to MIX. In less than two years of data collection, MIX has received over 400 social performance reports from institutions of all sizes, types and maturity levels. These numbers demonstrate the commitment to transparency of a growing number of MFIs, as well as the industry's desire to assess MFIs' performance in a fair and holistic fashion and to ensure flows of funds to those institutions that show a strong client orientation.

The 22 SPTF indicators are not intended to assess the impact of MFIs but rather to determine whether the conditions of clients are improving and how MFIs can serve those clients better. Impact evaluation tries to establish a causal relation between social improvements and clients' participation in order to determine what would have happened to people in the absence of microfinance. In social performance, however, impact is only one element of the story. Social performance encompasses a broader spectrum of indicators all of which fall within a common conceptual framework. These indicators include analysis of the objectives of an institution, the effectiveness of its internal systems and activities in meeting these objectives, related outputs, and observed changes in the lives of clients. They were selected according to the criteria of relevance, ease of collection by MFIs, and ease of verification by a third party.

A focus on clients is at the centre of the social performance movement. It is the foundation of true success and of the fulfillment of microfinance's pro-

mise as an effective development tool. Institutions that show little attention to clients not only fail to achieve their mission but eventually experience portfolio deterioration and client desertion. A growing number of social donors and investors are recognizing this and, as a consequence, allocating their funds to MFIs on the basis of their ability to deliver affordable, accessible and appropriate products and services to their clients. Social responsibility to clients forms the core of the SPTF's other initiatives, such as the Smart Campaign's six principles of consumer protection and MF Transparency's effective interest rate reporting initiative.

It is often said that social performance and financial performance are difficult to achieve simultaneously and that one usually comes at the expense of another: the so-called trade-off theory. However, recent analyses conducted by MIX and other researchers shows that it is actually possible to be a financially sound institution and to maintain a strong focus on social performance at the same time. Important productivity and efficiency synergies have emerged through the measurement of indicators such as social performance training, human resources' policies, and client retention, suggesting that investment in staff training and progressive human resources policies lead to clients who are not only better served but who also perform better and repay on time. This translates into lower costs and higher profits for an institution. Furthermore, higher retention rates give institutions an edge in competitive markets where only MFIs that are able to assess and respond to clients' needs can expect to keep their client base and ensure their own long-term financial sustainability.

Prizma, the object of the present study, provides an excellent example. This Bosnian MFI has demonstrated how an institution can use social performance management to assess the needs of its clients and, at this regard, has developed a poverty scorecard to measure clients' poverty status upon entry and over time. MFIs commonly cite assisting the poor as a development goal but only a small percentage of these institutions are able to provide accurate and reliable numbers regarding how poor their target market is or how many of their clients have moved out of poverty. The effort of Prizma shows that cost-effective indicators for poverty measurement exist and that its results can be used to better determine clients' needs and improve a MFI's strategies and systems. Not all microfinance is about poverty outreach, of course. An institution may have different development goals such as financial inclusion or employment creation. Whatever the development goals of an MFI are, systematizing and measuring social performance is key to ensure a strong focus on delivering products and services that are affordable, accessible, and appropriate for clients.

Despite the fact that social performance reporting and management is still a work in progress, the exercise of tracking this information is already impacting the daily existence of many MFIs. These institutions have created social performance positions or departments within their organizations, set work plans on the basis of the SPTF's social performance framework, and implemented poverty assessment tools benchmarked to international poverty lines, such as Grameen's Progress Out of Poverty Index (PPI™) and USAID/IRIS Poverty Assessment Tool (PAT). Several investors have even started including social information in their due-diligence, and social ratings and audits based on the SPTF's indicators now exist to ensure the availability of high quality social data. Today, this global commitment to ethical behavior in microfinance and to the assessment of its deliverables represents one of the best methods we have of ensuring both that the sector continues to grow in a healthy manner and that an increasing number of clients' needs are met.

I invite every reader of this handbook to take a step in this direction so that stories of entrepreneurs excluded by conventional finance but empowered by successful microfinance programs will continue to be an inspiration for a long time to come.

1. Introduction

The real power and challenge of microfinance lies in its potential to combine financial sustainability with meeting social goals. MFIs regularly include this ideal of achieving the "double bottom line", i.e. both financial and social performance in their mission statements.

Nowadays, more than ever before, it is crucial to use the experiences of other industries and sectors that have had from the very start, in the theoretical and applicative sense, clear and undoubtedly set up standards relative to balancing these, at first sight, confronting concepts—financial and social performances. They have shown, so far, that it is possible to achieve both goals at the same time, that neither of them excludes the other one; on the contrary, they are two sides of the single and same coin which create in the long run, synergy, stability and extraordinary performances, even during some of the biggest crisis, such as the current one. The microfinance sector is exactly one such sector.

However, all around the world we can see clear examples in MFIs of outrageous neglect of the social mission in favor of the financial part of their mission, which as an end result creates irreparable damage to other institutions and to microfinance itself. One of the most frequent misconceptions is to consider impact assessment to be social performance management.

The first part of this paper intends to cover the theoretical part of the social performance management process, while the second part will be an analysis on how social performance management can be implemented practically, using the example of Microcredit Foundation Prizma (MCF Prizma). Finally, the paper will try to answer the following questions: What are the main obstacles in the process? What are the costs and benefits, as well as the lessons learned during the process?

2. Theoretical aspect of social performance management

Social performance is defined as the effective translation of an institution's mission into practice. Social performance includes short and long term results as well as the activities the MFI undertakes, the products it offers and the organizational values and the behavior it promotes.

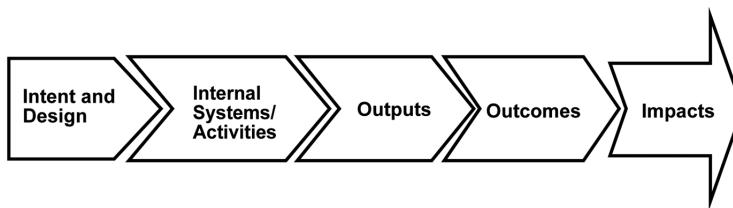
Having said that, social performance management is a practical approach that helps the MFI to look at the entire institution through a social lens; social

performance management guides the MFI in translating their missions into Specific, Measurable, Achievable, Realistic and Time-specific (SMART) social performance objectives.

Social performance management involves the process of effectively collecting and using information in order to adapt and improve an organization's products and institutional systems so that everyday operations can contribute directly to the long term goal of mission fulfillment.

Various steps in the process of achieving change are presented in Figure 1. The process starts with the analysis of the institution's mission, social goals and performance objectives. It is crucial to answer the following questions: What is the mission of the institution? Does it have clear social objectives? Are its social goals clearly defined and aligned with its social mission?

Figure 1: Dimensions of social performance



Source: Hashemi (2007)

According to the SPTF,⁴ each MFI has its own mission and model. There are certain generic social values that apply to all MFIs, such as improving the lives of poor and excluded clients and widening the range of opportunities for communities. To create this value, social objectives of a MFI may include⁵:

- Sustainably serving an increasing number of poor and excluded people by expanding and deepening the outreach to poorer people;
- Improving the quality and appropriateness of financial services through the systematic assessment of a target client's specific needs;

⁴ Social Performance Task Force - <http://www.sptf.info>.

⁵ This is part of the common definition (and social language) of social performance agreed upon by the Social Performance Task Force at the March 2005 meeting in Paris.

- Creating benefits for microfinance clients, their families and communities to improve access to social capital, social links, assets, income and services to reduce their vulnerability and meet their basic needs;
- Improving the social responsibility of the MFI toward its employees, its clients, as well the community it serves.

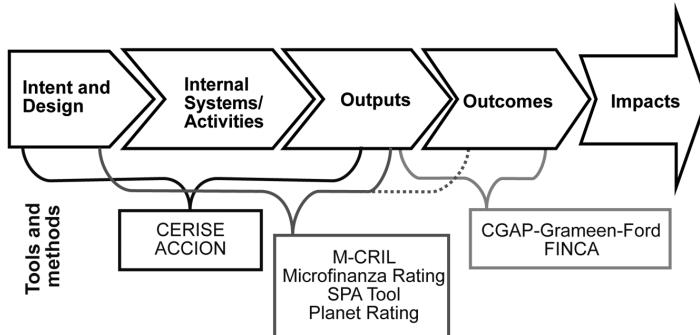
The second step in the impact pathway as illustrated in Figure 1 includes the assessment of whether the institution's internal systems (human resources, incentives, and management information systems) and activities are appropriate and aligned with the achievement of its declared social objectives. Is the progress toward social objectives regularly monitored and reported? Does the institution behave responsibly in relation to its clients, staff, community, and environment?

The next step in the process is in regards to the output. Is the institution reaching its target clients—how many of them come from remote rural and underdeveloped areas? How many live below the poverty line or do not have access to formal financial services at all? Are products designed to meet the client's needs and in line with their capacities? Are there different products for different needs, what is the drop-out rate, is the client's indebtedness being tracked, etc.

The fourth step is about outcome achieved. Are the clients improving their economic and social performance? The final step in the process is related to the impact—establishing causality between the program participation and improvement in the client's well-being.

Although the impact pathway in Figure 1 is presented as an arrow that points in one direction, there is an iterative flow of information with the achieved outcome feeding back into decision making processes that help improve performance and practice. Only in this way can an effective social performance management be developed.

Figure 2: SPM Tools covering various dimensions in impact pathway



Source: Hashemi (2007)

Various social performance tools developed within distinct initiatives focus on different steps or dimensions of social performance (Figure 2)⁶. Some tools, such as CERISE, led by the availability of information, focus on internal systems and organizational processes to determine whether institutions have the means in place to attain their social objectives. For others, such as CGAP, Grameen and the Ford Foundation, the ultimate proof of whether social missions are being achieved depends on client-level information. Whether institutions that claim to be socially responsible are reaching target clients, how appropriate their services are and whether these clients are experiencing positive changes in their lives.

There are internal organizational tools, known for being used in term of with the aim of tracking impact in clients lives over longer periods of time. One of those is the Prizma poverty scorecard used in Bosnia and Herzegovina and the Grameen/CGAP Progress out of Poverty Index (PPI) tool. PPI is used by various organizations in more than 30 countries on 5 continents. PPI is similar to the Prizma poverty scorecard due to fact that PPI is inspired

⁶For more information on different initiatives see Hashemi (2007) or SEEP (2007).

by the Prizma poverty scorecard. Beside internal tools, there are also external assessment tools used for the very same purposes created and used by specialized rating agencies, which besides credit rating also rate a social aspect of organizational day to day work.

To bridge the gap in microfinance reporting between institutional and client-level information, the Social Performance Task Force developed a common format for social performance reporting that includes both organizational and client-level indicators⁷. The emphasis is on indicators that are conceptually clear simple, practical, cost-effective, statistically rigorous, and comparable across countries. In creating the common reporting format, the taskforce acknowledges flexibility in what institutions choose as their social goals, what tools they use to assess their progress, and what indicators they report on.

3. Practical aspect of social performance management-Prizma case study

Having defined social performance management, the second part of this paper illustrates how MCF Prizma is managing social performance in its day to day operations as well as challenges Prizma has faced and continues to face in order to achieve its goal.

3.1. Background information

In 1997, the International Catholic Migration Commission (ICMC) sought funding from the Bureau for Population, Refugees, and Migration (BPRM) of the U.S. State Department to start a microcredit program in Northern Bosnia-Herzegovina. With seed funding and a strong intent to serve poor and low-income women entrepreneurs, Prizma was born. Originally conceived as a one-branch program that would operate from an office in the town of Bihać, it was envisaged that eventually the Program would be able to cover all of its costs to serve the long-term needs of poor and low income women-those with least access to formal employment and financial services.

⁷Detail specification can be found at: <http://www.microfinancegateway.org/content/article/detail/56418>.

Prizma recognized many women were single heads of households or widows as a result of war or other hardships and disproportionately represented amongst the poor. Furthermore, women had less access to formal employment and financial services than men. Indeed, even among the MFIs in Bosnia–Herzegovina, the largest share of credit resources continuously went to men. Prizma directs its resources to women to strengthen their ability to seize economic opportunities, cope with individual and family crises, secure adequate shelter and help meet their family's basic needs. Prizma believes that service to women clients is a critical means to direct assistance to poor and generally low-income families.

Since the beginning of its operations, the core of Prizma's strategy in reaching poor women clients was to focus primarily on communities with the highest rate of war destruction (like the Bihać or Mostar areas) as well as communities with large industrial capacities that sharply reduced their operations or went bankrupt immediately after the war, leading to an enormous level of unemployment (Zenica or Travnik regions). The strategy has been adopted with the collection of new data about poverty in Bosnia–Herzegovina through internal and external sources. This new data has influenced the expansion of Prizma's activities to the Republic of Srpska as well as a larger focus on rural areas of the country in last several years.

Although established as a program targeting a clearly defined group, Prizma has been from the very beginning committed to its own sustainability. This was the only way to provide long-term services to poor people in Bosnia–Herzegovina. The program in Bihać grew rapidly and, through disciplined lending and collection, achieved nearly perfect loan repayment. However, the second ICMC program in the economically destroyed industrial town of Zenica, in central Bosnia–Herzegovina, had lost direction and was without perspective. To salvage the Zenica Program, Prizma's Program Manager overhauled the design by working with the remaining staff to recover money that had slipped away and focusing intensively on recovering the spiraling portfolio quality. Within a few months, on-time repayment rose from nearly zero to 99%. Strong turnaround in repayment led to additional donor capital.

With an improving track record, the consolidated program (Bihać and Zenica) was receiving positive attention as one of the few disciplined microcredit programs in the country that explicitly sought to reach low-income women clients and a significant number of repatriates to their pre-war homes. BPRM and United Nation's High Commissioner for Refugees (UNHCR) provided additional funding

to open Prizma's two new branch offices, one in the historic Central Bosnian town of Travnik and the other in the once bitterly divided southern town of Mostar. By mid-1999, Prizma had developed a network of offices serving more than 1,500 active women clients with monthly repayment rate of 99%.

In 2001, only five years after beginning operation, Prizma achieved full financial self-sufficiency, generating an annual surplus of more than \$100,000. This helped Prizma to initiate a transition from grant funding, with stringent (and often very political) conditions, often unrelated to the organization's pro-poor mission and institutional needs, to borrowed funds. These new funds are primarily used for product diversification and development, as well as geographic expansion.

The Consultative Group to Assist the Poorest (CGAP), a consortium of donors interested in microfinance and housed at the World Bank in Washington, recognized an opportunity in Prizma to reach a poorer clientele more so than with most other microcredit organizations in the country. In early 2002, CGAP signed a partnership agreement with Prizma to strengthen efficiency, internal control, governance, costing, and staff development. This helped Prizma to improve operational efficiency and improve the figures of its financial indicators, which was crucial to attract new, especially commercial, sources of funding that were necessary for further operational expansion.

Several different poverty assessment surveys conducted in Bosnia-Herzegovina after 1995 showed a higher level of poverty in Republic of Srpska (RS), a smaller Bosnian-Herzegovinian entity with a Serbian majority. In September of 2003, Prizma's management team analyzed this data and concluded that to deepen outreach to poor people and create an even greater impact, it was necessary to expand the operations to this part of the country. This decision was of special importance, keeping in mind that at the time, Bosnia-Herzegovina was a totally divided country economically, with two different economic systems, with different institutions and regulations in place. As reminders of the war were still fresh, trade between these two entities was very low. Only a small number of companies with headquarters in one entity have succeeded to develop their operations in the other entity. Prizma was among the first organizations to break this barrier, registering and operating on a national level. One should notice that this decision was in line with one of Prizma's social goals, not explicitly stated in its mission, but that is part of all important documents in Prizma. This goal is related to work with people from all backgrounds (read: all nationalities), which is very important in context of Bosnia-Herzegovina.

Shortly after expanding its operations to RS, Prizma strategically positioned itself in the eastern part of RS. This was the poorest, predominantly rural, area of the country without any banks or MFI offices in place at the time.

During this time, all of the branches had a strong, tested methodology and a vision to serve poor and low-income women for the long term in common. Now, the institutional challenge was to leverage the strengths and dynamism of the newer branches to consolidate the organization's financial position, develop an effective governance structure and to scale up operations. An Executive Director (CEO) with a strong understanding of institutional development and management was brought on board. The Executive Director re-engineered Prizma's structure by promoting capable existing staff, documenting and refining policies and procedures as well as streamlining operations.

In 2004, Prizma relocated its headquarters from Mostar to Sarajevo. This step was taken to enhance Prizma headquarters support to a growing network of decentralized branches, draw on the broader human resource pool the capital offered and increase engagement with key policy makers. In the same year, Prizma was officially accepted into the Microfinance Network (MFN), a global network of leading MFIs committed to improving the quality of life of the poor. This was important to Prizma since MFN is a network known for its social orientation and whose members are recognized not by size but by their innovative solutions in the field of social management. Membership in MFN helped Prizma to leverage its SPM knowledge and experiences with other leading socially-focused MFIs.

The years 2004 to 2006 were ones of institutional strengthening. During these three years, Prizma worked on developing sophisticated tools for measuring social impact. All manuals and policies were revised to be aligned with the social mission. Prizma also worked extensively on implementing the highest standards of transparency, which resulted in the CGAP transparency award for three consecutive years. Planet Rating has also rated Prizma A-, trend Stable, and tested its CERISE methodology to assess social performance among the top institutions in the world.

In August 2005, Prizma expanded its operations in the already saturated region of Tuzla, where its strongest peers were based and had been operating for over nine years. The impact was tremendous. This was proof that even in areas with a high MFI presence, there are still unserved clientele. What is perhaps more important is that Prizma's down market strategy is functioning very well.

As a member of the Board of Directors of the Association of Microfinance Institutions (AMFI) as well as the Microfinance Center (MFC) since 2006, Prizma has tried even harder to promote the importance of a social mission through the media and a stronger community involvement in the local and broader region.

At the end of 2009, Prizma was a leading poverty-focused Microcredit Foundation by the number of clients in Bosnia–Herzegovina with outstanding gross portfolio of 80 million of KM (\$57 million).

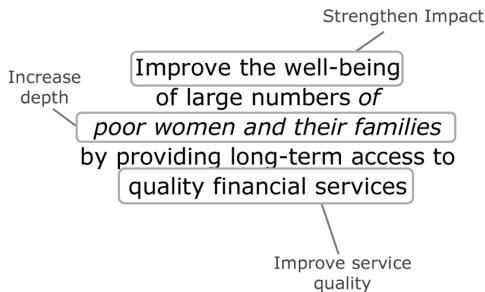
Prizma has seven branch offices and 37 satellite offices, from which 200 experienced staff members serve 50,000 active clients. 65% of Prizma's clients are women and 46% are from rural areas. Prizma offers nine loan products grouped into four segments (enterprise, agriculture, basic needs and shelter) and employs two lending methodologies to deliver these products: group solidarity and individual. Prizma targets low-end poor, predominantly female clients. Enterprise loans represent Prizma's core products, comprising about 64% of all loans issued in 2004. However, in last few years there has been a trend towards diversifying products targeted to rural clients as well as non-enterprise loans.

3.2. Strategy for social performance management

Prizma's work always begins with a mission and vision in mind. Prizma's vision is to be widely recognized for giving people the chance to improve their lives and build committed and respectful relationships. The mission is "*to improve the well-being of large numbers of poor women and their families by providing long-term access to quality financial services.*" Prizma works predominantly with women clients because they make up a disproportionately large percentage of the poor population and have fewer possibilities to access formal employment and financial services. However, Prizma does not exclude men, particularly those that are poor.

Prizma's mission statement contains the following social goals:

- To strengthen impact – "improve the well-being".
- To deepen outreach – "of large numbers of poor women and their families".
- To ensure the quality of services – "by providing long-term access to quality financial services".



The third goal "to provide long-term access to quality financial services", demonstrates how closely social and financial performance are linked.

On the basis of these three broad statements of intent, Prizma defined several social performance objectives that allowed the organization to set the performance targets as outlined in Table 1.

Table 1: Social goals and social performance objectives

Mission	Social goals	Social performance objectives	Performance target in strategic/operational plans	Specific incentive system in place
<i>To improve the well-being of</i>	Improve client's well-being	Reduce the poverty level of clients and their families over time	Under development – will give a target number for changes in poverty status over the course of the loan cycles.	
<i>large numbers of poor women and their families by</i>	Serve poor Clients	To deepen outreach to poor clients	<p>Performance target indicating the number of clients is set and revised annually.</p> <p>Performance targets that are related to the poverty level and poverty status of clients is under development – will give a target number for the percentage of new clients who are poor (below the national poverty line – score 0–2) and for the percentage of new clients who are vulnerable but not poor (slightly above the national poverty line – score 3–5).</p> <p>Performance target related to the number of women clients is also set annually and for 2007 were at least 70% of clients.</p>	<p>Loan officers are rewarded progressively for achieving >25%, >40%, or >60% of new clients who are poor (below national poverty line – score 0–2) on a monthly basis.</p> <p>Each branch team is rewarded progressively for achieving >25%, >40%, or >60% of new clients who are poor (below national poverty line – score 0–2) on an annual basis.</p> <p>Performance target related to the number of clients is set as rule.</p>
<i>providing long-term access to quality financial services</i>	Provide quality financial services	<p>Reduce client exit rate</p> <p>Increase client satisfaction</p>	<p>Keep the exit rate below 40% – revised annually but has not changed in the last several years.</p> <p>No satisfaction target, but regular qualitative assessment carried out on a biannual basis.</p>	<p>Loan officers are rewarded progressively for achieving <30% monthly exit rates.</p> <p>Each branch team as well as headquarter staff is rewarded progressively for achieving <45%, <40%, or <30% annual exit rates on an annual basis.</p>

In order to define the best strategy for reaching social goals, Prizma has sought to employ qualitative and quantitative research methods and draw on available external research to better understand who is poor in the post-war and transitional setting. This was challenging as there was no pre-war data concerning the percentage of poor people in Bosnia-Herzegovina as well as to answer the question to what extent the organization was reaching these people.

These findings helped Prizma to better understand its target market and to develop a more effective strategy on how to reach the market and how to build a product that can help the organization to realize its first objective, "to reduce the poverty level of clients and their families". Prizma seeks to develop the products that can help its clients:

- Reduce chronic poverty – by helping to create and sustain employment among the economically active poor and low-income people.
- Reduce transitory poverty – by providing financial services that enable clients to reduce income fluctuations as a result of intermittent pension payments, variable remittances, and unforeseen setbacks to business activity and family stability.
- Reducing the risk of becoming poor – by providing financial services that strengthen livelihoods, increase the level and regularity of incomes, and help mitigate vulnerability where state social services are inadequate or non-existent.

This multidimensional understanding of poverty in Bosnia-Herzegovina had great impact on how Prizma defined its target market as well as on the development of new products. For example, the poverty score card enables Prizma to divide its clients to three different target groups:

- High target group – clients from families that live below the poverty line – poverty score from 0 to 2;
- Standard target group – clients from vulnerable but not poor families that live between 100% and 150% of country poverty line – poverty score from 3 to 4;
- Non-target group – clients from non-poor families.

With the implementation of the poverty scorecard, the process of evaluating potential clients is fully automated. Poverty score is used together with other information such as credit history, which guarantees a complete process of evaluation of potential clients.

3.3. Information system in Prizma

Following its mission, Prizma has embarked on a number of client assessment activities under the auspices of the Imp–Act Project. These activities include social performance assessment as well as market research activities such as collecting information on client exit and the client's needs and wants aimed at improving its social performance.

Today, PRIZMA's SPM information system consists of five core components:

- Monitoring poverty outreach for all clients on entry using poverty score card;
- Monitoring the change of poverty status by comparing each client's poverty score on entry with the same information gathered at the start of each repeat loan cycle;
- Exit monitoring, using a short, semi-structured interview, conducted by field staff twice a year to answer the questions such as: Who leaves? What is the magnitude? What are the characteristics of dropouts? Why do they leave?;
- Client satisfaction monitoring, conducted by marketing manager twice a year order to determine the level of client's satisfactions with Prizma service;
- Focus group discussions that enable PRIZMA to investigate the reasons behind the patterns and trends in clients' status as highlighted by the monitoring data.

Due to page limitations of this paper, the main focus will be only on the most important social performance tools, in our case, the poverty score card and the exit monitoring system.

3.3.1. Poverty scorecard⁸

Working with the MFC under Imp–Act, Prizma developed a poverty assessment system which intended to measure the poverty status of its clients and to monitor change in poverty status over time. Developed as a scorecard, this system enables Prizma to rank all of its clients by relative poverty, and across different segments of its clientele. These ranks can help managers to better understand who is being served—who joins, stays and leaves to improve targeting and manage depth of outreach. Also, it enables the organization to report on client's poverty status in absolute terms, in relation to the national poverty line and the international poverty benchmark of \$1 and \$2 a day. Finally, it enables the organization to measure discrete changes in a client's poverty status and well-being over time. While this approach does not assume attribution, measuring change in household poverty status over time does provide important data on which to make inferences about outcomes of medium to long-term service provision and highlight areas for further investigation.

The poverty scorecard is a composite measure of household poverty based on some of the strongest and most robust non-income indicators proxies for poverty in Bosnia–Herzegovina. The Scorecard is comprised of seven non-expenditure indicators. The first three—education level, residence, and household size – reflect poverty risk categories. If the household head has a primary level of education or less, if the household lives in the rural area of the country, or if the household has six or more members, the likelihood that the household is poor increases significantly. The second four indicators – household assets, transport assets, meat consumption and sweets consumption – measure changes in household poverty status while contributing to the poverty risk profile of each new or renewal applicant's household, which also enable Prizma to measure changes in poverty status, or well-being, over time.

⁸ Michal Matul, Sean Kline: Scoring Change – Prizma's Approach to Assessing Poverty, Microfinance Centre. Spotlight Note 4, November 2003.

Figure 3: Prizma poverty scorecard

Prizma Poverty Scorecard						
Poor and Very Poor 0-2 * Vulnerable Non-Poor 3-4 * Non Poor 5+						
Indicator			0	1	2	
Poverty Risk Change	Education	What is education level of female household head/spouse/partner?	<= Primary	> Primary		-
		Where is residence?	Rural/Peri <=10000	Urban >10000		
	Household size	What is household size?	>=5	<5		
		Does household possess a stereo CD player?	No	Yes		
	Transport Assets	Does Household possess a transport vehicle?	No	Yes		
		On average, how often does household consume meat each week?	Rarely 0-2 times/week	Sometimes 3-5 times/week	Often 6-7 times/week	
	Sweets consumption	On average, how often does household consume sweets with main meal each week?	Rarely 0-2 times/week	Sometimes 3-5 times/week	Often 6-7 times/week	
Poverty Status Score (0-9)						

Each client score can range from 0 (most likely poor) to 9 (least likely poor). Within this overall range, three ranges have been defined that correspond to the poverty categories outlined below.

Table 2: Poverty score ranges

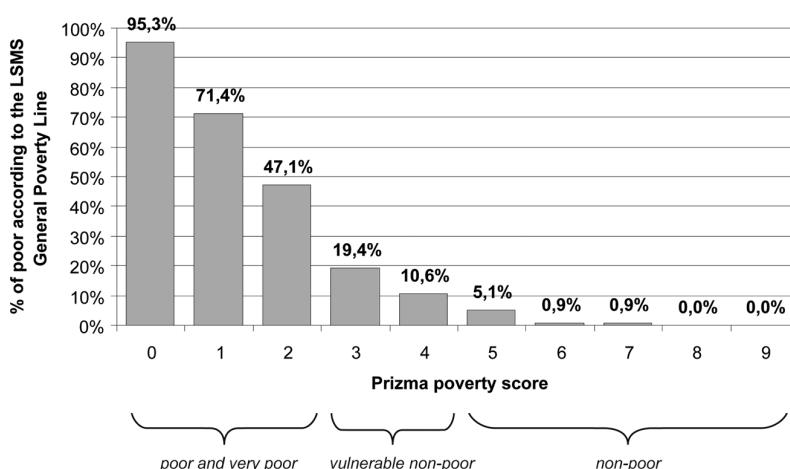
Score 0-2	Score 3-4	Score 5 +
Poor and Very Poor	Vulnerable Non-poor	Non-poor
Living below the LSMS poverty line	Living between 100-150% of LSMS poverty line	Living above 150% of LSMS poverty line

Using these three ranges, Prizma can rank all of its clients by relative poverty. For example, a household that has a composite score of two is clearly poorer than a household that has a score of four.

Ranking clients requires that lower scores are associated with higher poverty likelihoods, but it does not require knowing the exact likelihoods. Investors, however, want measures of absolute poverty, and that requires exact likelihoods. Because Prizma's poverty scorecard is benchmarked to an expenditure survey, these likelihoods are known. This enables measuring Prizma's clients overall poverty rate.

Figure 4 below reflects how relative scores can be translated into absolute measures by linking score ranges to the LSMS General Poverty Line. Prizma's overall poverty rate is its client's average poverty likelihood. Poverty likelihood of each client is defined as the poverty likelihood of households in the national survey with that same score. For example, among surveyed households in LSMS with a score of 1, 71.4 percent were poor, so Prizma clients with score of 1 were assigned a poverty likelihood of 71.4 percent.

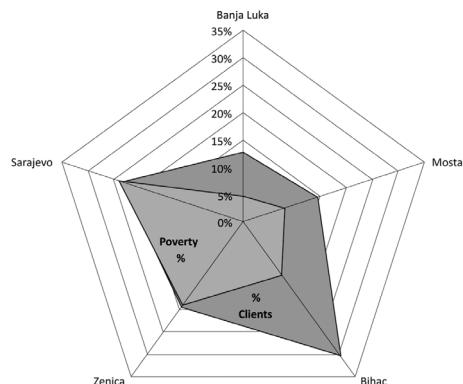
Figure 4: Comparison of Prizma poverty scorecard with LSMS poverty line on 2002 LSMS national sample



The average poverty likelihood is the share of cases with a given score multiplied by the associated poverty likelihood, summed for all scores. In Prizma's case, pilot testing for 5,177 first-time borrowers revealed an average poverty likelihood of 14.6 percent⁹. It is hard to say if this poverty outreach is high or low, because we do not know poverty outreach that is sustainable or poverty outreach of other microlenders in Bosnia–Herzegovina. In any case, Prizma has an explicit mission to serve the poor, and measuring poverty outreach helps the board to monitor the fulfillment of the mission as it helps managers look for new ways to improve an organization's poverty outreach.

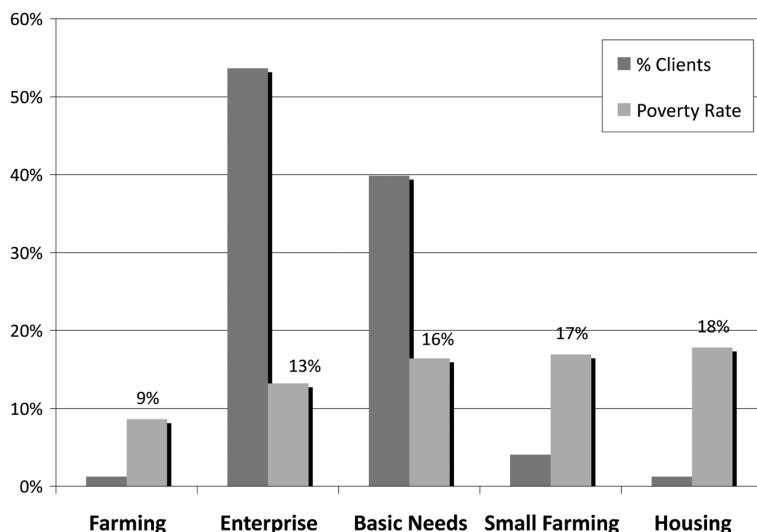
While external stakeholders focus on Prizma's overall poverty rate, managers are also interested in poverty rates by loan product and by branch (see pictures below). Pilot testing data showed that poverty outreach data varied more by branch than by loan product, perhaps highlighting the importance of branch placement and branch manager's outreach within their service areas. Also, newer/smaller/non-growing branches (those that had fewer new clients during the testing period) had lower concentrations of poverty, perhaps because older/larger/growing branches face more pressure (or are more able, due to their experience) to go beyond less-poor clients.

Figure 5: Poverty outreach by branch



⁹ Prizma's poverty rates calculated during the testing period is close to the national poverty rate of 19.3 percent .

Figure 6: Poverty outreach as % of Prizma clients by product



Prizma's poverty score card genesis, participatory design, and ongoing development are fundamentally based on the institutional mission and the manager's and director's need to assess depth of outreach and change in client's lives, as opposed to reporting needs of one or more external stakeholders. This system has proven to be a compelling tool for Prizma due to several attributes.

First, this system is much more accurate and credible in assessing poverty outreach compared to various proxies such as: average outstanding balance as a percentage of gross national product per capita, percentage of clients in rural areas or percentage of women clients. It is based on robust, non-income poverty measures that allow the organization to avoid the problems related to collecting reliable data on income and expenditure of poor households. This is particularly true in the case of microfinance applicants, whose perception that the provision of such information may determine whether they receive service or not, provides a strong incentive to underestimate, overestimate, or withhold information critical to assessing their true status.

In addition, the system enables analysis of more or less discrete change in poverty status over time.

Because the scorecard draws on non-economic data, it is appropriate for measuring the household poverty status of clients of any financial or non-financial service organization and is applicable in any context where there is national poverty level data. Due to the fact that fairly simple, non-economic information is collected directly from individuals, the accuracy of data and quality of the tool in assessing poverty status can be easily verified through routine, systematic sampling as part of an institution's internal or external audit, or some other form of external verification.

The cost and time to adopt this scorecard approach is concentrated in the design phase. The system is designed to be easily integrated into existing paperwork, operational procedures, and MIS. As a result, the implementation of the system represents a modest cost, and the system itself provides timely information to management to support market research, dropout analysis and other areas of operational concern.

Enabling staff to generate reports on client household poverty status by branch, product, dropout, gender, portfolio quality, and an array of other variables already captured in the MIS poverty score card is going to represent a milestone in Prizma's future efforts to enhance social performance. In addition to enabling the institution to better meet its developmental imperatives, this system is enabling Prizma to meet critical institutional imperatives, including:

- Depth of outreach and change in client status are incorporated into the institution's incentive system to motivate staff and affirm the primacy of social performance which helps in managing human resources;
- Monitoring client dropout by poverty status enables the institution to better understand the appropriateness of its service and what can be done to retain and help these clients;
- Developing products and services that meet the development needs of poor clients;
- Strategically positioning the organization by developing more effective promotion strategies and delivery channels to attract, serve, and retain its target clients;
- Integrating poverty scoring data into Prizma's activity-based costing (ABC) system to help the organization better understand cost structure

of its products and locus of cost associated with outreach to poorer clients that enables the institution to identify means to provide more efficient service;

- Prizma can use poverty scoring data to enhance its understanding of credit risk to further deepen its outreach.

3.3.2. Exit monitoring system¹⁰

In order to better understand and address client exit, a phenomenon that is costly to Prizma's bottom line of achieving sustainability¹¹ and its effort to achieve a sustained social impact over time, Prizma together with MFC has designed an exit monitoring system (EMS). This is a valuable tool for verifying that its services and procedures meet different target clients needs and preferences and for identifying key operation areas to be improved and necessary changes in its products to changing markets. EMS provides Prizma's different users with timely answers to the questions such as: Who is leaving? What is the magnitude? Why does a specific group leave? Is that group important for the organization? EMS is also helping the organization to be more realistic in designing a retention bonus system.

Prizma has made distinction between voluntary and "forced-out" drop-outs¹². Voluntary drop-outs are further disaggregated to satisfy reasons not related to Prizma and dissatisfied for Prizma-related reasons. The table below sums up the general drop-out categories Prizma has agreed to monitor.

¹⁰ Michal Matul, Sefika Vejzovic: Prizma's Exit Monitoring System, Microfinance Centre Spotlight note nr. 10, March 2004.

¹¹ An Activity Based Costing exercise showed that Prizma invests a lot in its first-cycle clients. If these clients leave the institution, Prizma loses money.

¹² The forced-out drop-outs are those who are expelled by an institution or, in the case of group lending, by other group members because they did something that suggests that they may be a bad credit risk.

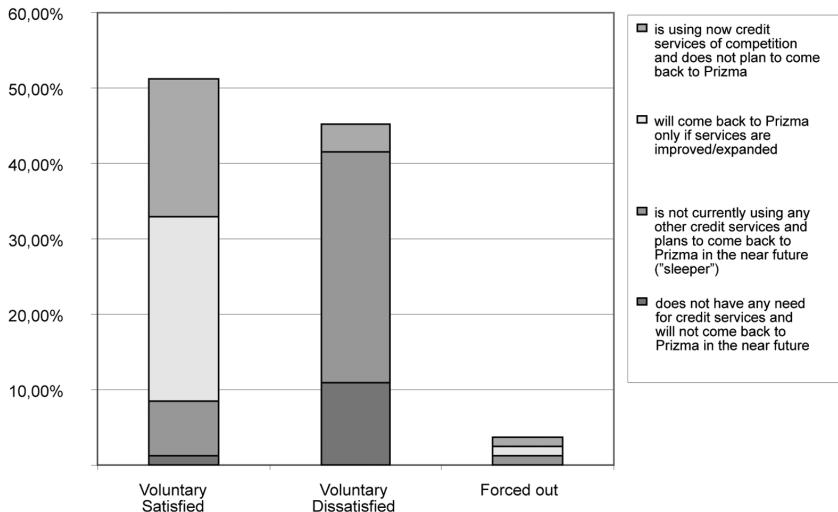
Table 3: The main drop-out profiles

Type of Drop-out	Core follow-up questions to be considered:
Voluntary – satisfied (reasons not related to Prizma)	<ul style="list-style-type: none"> • Forever or “asleep”¹³ ? • Can microfinance assist in solving their problems? • Loyal or not?
Voluntary – dissatisfied (Prizma-related reasons)	<ul style="list-style-type: none"> • Forever or “asleep” • Dissatisfaction factors? • Went to competition? • Will come back if services improved?
Forced out	<ul style="list-style-type: none"> • Bad character or bad services? If latter, what should be adjusted? • Went to competition?

Prizma has decided to sample drop-outs randomly without excluding any drop-out client from the list. Prizma EMS is based on the semi-structured interview. The first part of the interview is an in-depth investigation of the different reasons for client drop-out (dissatisfaction with Prizma services, external reasons, repayment problems, etc.). At the end of the first part, the interviewer summarizes the two main exit reasons with the respondent. The second part is devoted to the current use of financial services by the ex-client, competition analysis and his/her intent to take another loan in Prizma. Upon completion of the interview the loan officer (LO) classifies the drop-out according to the nature of his/her reasons, current use of other financial services and intention to take an additional loan to achieve the main profile of the drop-out.

¹³ Prizma defines "sleeper" as client who, dropped out within 90 days and is not currently using other credit services, but planning to come back to Prizma in the near future.

Figure 7: Cross Tab (main reasons/behaviors)



While monitoring the profiles by their different breakdowns provides a reliable basis for making management decisions, the Figure 7 (based on aggregated data) does not tell anything to management per se. It is difficult to act on such an aggregated piece of information without knowledge of the exit reasons for specific groups of clients. In Prizma's case, more sophisticated reporting was possible with breakdowns by variables such as: last product type used, use of multiple services, loyalty level (length, breadth, depth), seasonality, repayment performance, business, household, individual (demographic) characteristics, and loan use. However, since activities on poverty scoring had not yet begun, it was impossible to have a breakdown according to poverty status, the most important variable from the SPM perspective.

3.4. Means to ensure quality control

In order to ensure quality of the data used by the above mentioned tools in its information system, Prizma uses three strategies:

1. Prizma kept the system simple, yet robust.

- Prizma ensured broad staff understanding of the purpose of measuring poverty status and provided training to support a robust system.
- Prizma followed the simplest path possible, which still yields the strongest verifiable information. Inquisitive people naturally want as much information as possible, but complexity threatens the integrity of any system and pursuing many indicators, which yields significant information, will lead to a significant higher opportunity cost to clients and staff alike. In short, it is cost-effective to select as few indicators as necessary to maintain the integrity of the system in order to provide the institution only with the information that it needs.
- Prizma integrated into their induction training accurate information collection methods giving focus on the collecting of accurate information rather than on an exhaustive understanding of poverty indicators or poverty assessment theory.
- Prizma has clearly defined all indicators and ensures simple and consistent wording in the way the questions are asked to clients across all branches and loan officers in order to be sure that outputs are comparable and they can aggregate results.
- Place sensitive questions in application where they are most natural and logical in terms of the flow of questions.

2. Discuss incentive for and specific opportunities field staff or clients may have to manipulate data collection, to identify means to mitigate such manipulation.

3. Integrate data quality and sampling into the internal auditing operations (i.e. formal annual audit plan), to ensure poverty data is collected and verified in a rigorous manner as part of the broader internal audit process. Additionally, Prizma required its external auditor to verify the quality of its scorecard data in its routine sampling for the annual external audit of the organization.

3.5. Information analysis and communication

Prizma has from the beginning of its SPM activities invested a lot of effort on defining what information the organization really needs. This was neces-

sary in order to ensure efficient use of resources and to increase efficiency of gathered data. The base for an information needs assessment was its mission i.e. Prizma's triangular mission based social goals.

As illustrated above, one of Prizma's social goals is "to deepen outreach of poor women". To meet this goal, Prizma has to be able to precisely match which of the loan applicants can be defined as poor, i.e., which of them are Prizma's target clientele. The poverty score card is a very powerful tool that will enable this match.

Prizma, in its effort to operationalize social performance management in 2004, has introduced a report that covers three core performance areas: (1) social area, (2) operational area, and (3) financial area (Figure 8).

Figure 8: Core performance report format in Prizma

PRIZMA	Depth		Breadth		Drop Out		Productivity & Efficiency		Portfolio Quality				
	New Poverty clients (%)	Active Poverty clients (%)	Active Clients	New Clients (%)	Drop Out	Drop Out Among Poor	Staff Productivity	Administrative Efficiency	1-30	31-60	61-90	91-180	TOT PAR 18
OVERALL													
2007													
January													
February													
March													
April													
May													
June													
July													
August													
September													
October													

Core performance reports are created on a monthly basis and are disseminated to staff and Board of Directors through the intranet site. The core performance report is presented to the Board every three months on the relevant committees. On a day to day basis, data can be used and analyzed using a loan tracking system reporting facility which allows staff to use a spread of reports with the possibility to additionally filter and segment data. However, since the poverty score card tool is not fully implemented yet, some parts of the report are still missing.

It also possible to generate a report on the level of individual clients, as presented on Figure 9.

Figure 9: Loan tracking system reporting facility screenshot



Prizma's SPM team is currently working with an external consultant on creating proposals on how to adapt the information system to enable the organization to tracking how successful it is in realization of its second goal, i.e. improving the well-being of its clients. As said before, the poverty score card allows the possibility of tracking poverty status through loan cycles. As you can see, core performance report and reports on individual clients currently do not show this. It is estimated that the timeline to finish these activities is 2009 and the first analysis will be conducted in the first quarter of 2010.

When we talk about the third goal – "to provide long term quality services", Prizma has developed several tools for this purpose. An exit monitoring system in combination with poverty score card gives insight as to why different

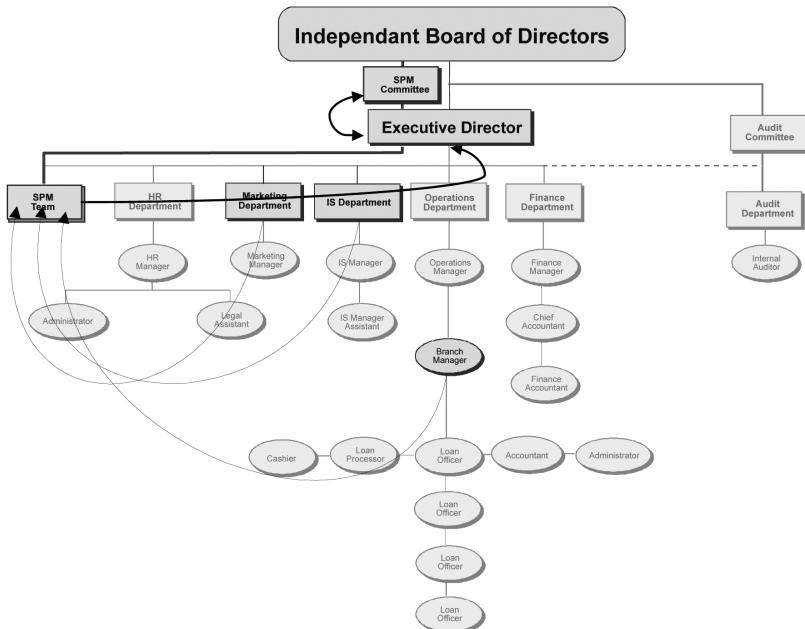
target groups of clients are leaving Prizma. This way, collected information combined with client satisfaction analysis will help Prizma to find out if targeted clientele are satisfied with Prizma's loan products, and what could be done additionally in order to match Prizma's client needs as much as possible.

3.6. Aligning the systems and structures to SPM

Prizma has undertaken some important steps in aligning the organizational systems and structures to its SPM goals (See Figure 10). Organizational culture was of fundamental importance for these processes. Key contributions came from senior management, who has taken important steps to communicate and reshape the culture to balance developmental and institutional objectives. Management has revised and strengthened the recruitment and induction process to ensure that mission, vision, and organizational values are central to every applicant and employee's introduction to and training within Prizma. Management then affirms mission and values on an ongoing basis via the organization's intranet, memos, annual retreat, and regular office visits. Also, it has been clear from Prizma's inception that the communicating branch, product, and organization-wide performance results to staff on a regular basis yields accountability for results and strong consequent performance.

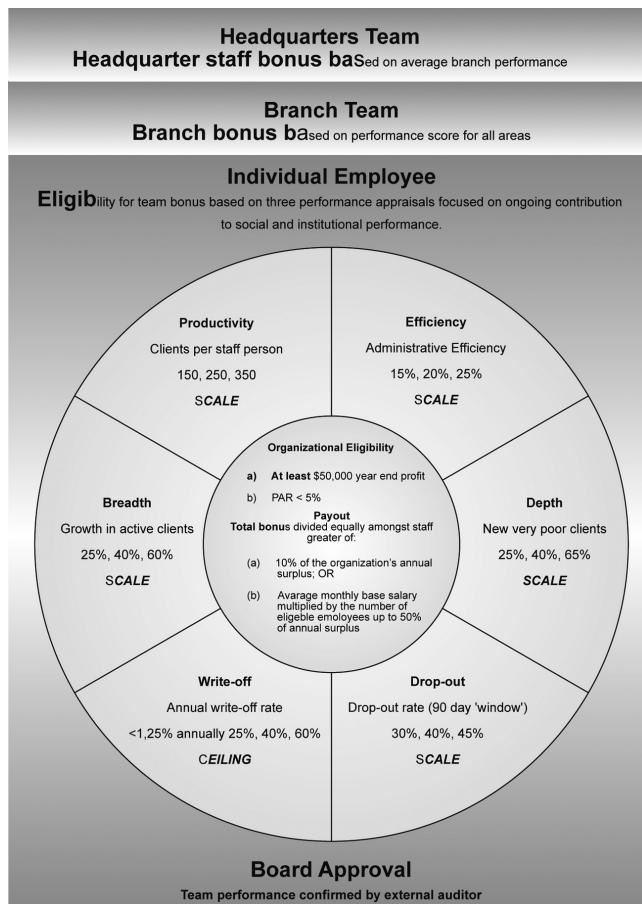
To include even more members of the board in SPM activities and to ensure their support in the future, in 2007 Prizma formed the Social Performance Committee. Prizma's general strategy is to integrate SPM into its every day operations, instead of special SPM department. However, currently in Prizma there is also a special SPM team that coordinates the SPM process and is actively working on applying a poverty lens to all formal documentation, adding to or revising where there were opportunities to reframe Prizma's operations – methodology, policies, and procedures – in terms of targeting, attracting, serving, and retaining poor people.

Figure 10: Prizma's organizational structure



Perhaps the most important areas where Prizma has taken steps to enhance and institutionalize social performance has been in re-engineering its performance management system—appraisal, reward and communication – to better align employee interests and reward with a greater depth of outreach, improved service quality, and the financial health of the institution. On one level, loan officers are rewarded monthly for performance on a few select indicators, including those of four of Prizma's six core performance areas – depth, breadth, drop-out, administrative efficiency, productivity, and write-off. This monthly incentive focuses on short-term social and institutional performance. On another level, each member of each branch team receives a percentage of Prizma's annual surplus as a flat profit share based on their team's aggregate score across its six core performance areas.

Figure 11: Appraisal system in MCF Prizma



Rather than a reward for short-term results, this incentive affirms strong team performance towards the organization's social and institutional objectives on an annual basis. Affirming the fundamental role of headquarters to facilitate branch and, in turn client success, each member of the headquarters team is

rewarded based on the performance of the overall branch network; if those in the field succeed, headquarters is rewarded. The figure above summarizes eligibility at each level and the six core performance areas on which the bonus is based. Among other benefits, this new system has contained personnel costs by tying them more closely to Prizma's financial health; increased regularity, consistency, and relevancy of formal performance appraisal (now every trimester); clarified what good performance is for every position at every level; balanced reward for individual and team performance; balanced short and medium term performance; and helped maintain focus on sustaining social performance.

3.7. Cost and benefit of SPM

In this part of the case study, there will be a short overview of the costs involved in different client assessment activities. To calculate the costs of the three client assessment activities, members of Prizma's management team, loan officers, and the lead consultant from the MicroFinance Centre (MFC) who advised Prizma on each of the three client assessment activities were interviewed. The purpose of the interviews was to identify the level of effort (days and hours worked) invested by each participant in each step in the client assessment process for each of the three activities examined as well as expenditures on supplies and logistics. Of course, these cost estimates should be considered ballpark estimates rather than precise point estimates.

As illustrated in Table 4, overall costs attributable to scorecard development are estimated at 17,746€. The costs attributable to development of the exit monitoring system are estimated 5,403€, and costs attributable to FGD development and implementation are estimated to 11,254€. The total cost for all three client assessment activities is thus estimated to be around 34,400€.

Table 4: Overall costs of different client assessment activities

Client assessment activity	Overall development costs
Poverty scorecard	17,746 €
Exit monitoring system	5,403 €
Focus group discussions	11,254 €
Total	34,405 €

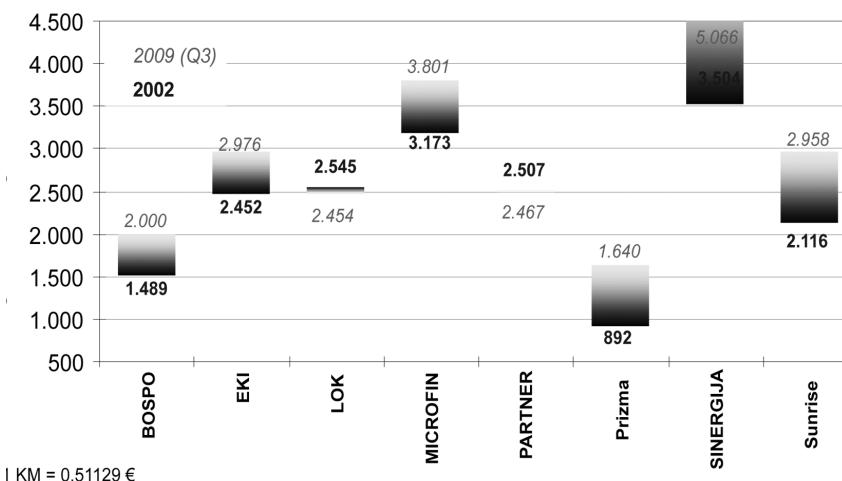
In 2004, using activity-based costing (ABC) data, Gary Woller calculated that Prizma would need to retain 78 clients (1.1 per cent of clients) for one loan cycle to cover the costs of the poverty scorecard, 24 clients (0.4 per cent of clients) for one loan cycle to cover the costs of the EMS and 50 clients (0.7 per cent of clients) for one loan cycle to cover the costs of the FGDs (Woller, 2004). These figures translate into a fall in Prizma's weighted average drop-out rate from 44.4 per cent to 42.2 per cent to cover all client assessment costs; to 43.3 per cent to cover the costs of the poverty scorecard; to 44 per cent to cover the costs of the EMS, and to 43.7 per cent to cover the costs of the FGDs.

For each of the three assessment activities, overhead costs can be expected to be significantly lower for successive implementation rounds given that the initial phase included substantial technical assistance and planning and training costs, many of which were one-offs. Finally, as Prizma's management and staff move up the learning curve, implementation efficiency is expected to increase, driving the variable costs down further, thereby increasing the net benefits of client assessment accordingly. According to Prizma's estimates, the monthly costs of ongoing activities related to social performance management (training, loan operations, compiling and writing reports, and internal auditing) are approximately 1,200 Euros.

All the above explained that social performance management activities had a strong impact on Prizma's continuous down market focus and fulfillment towards its mission objectives. Maybe this is best seen through the analysis of the trend in outstanding balance from 2002 to 2008 among the biggest MFIs in Bosnia–Herzegovina. We can see a slight increase in the average outstanding balance for all MFIs but also that Prizma's balance is much lower compared to its competitors.

Figure 12: Change in average outstanding balance 2002–2008

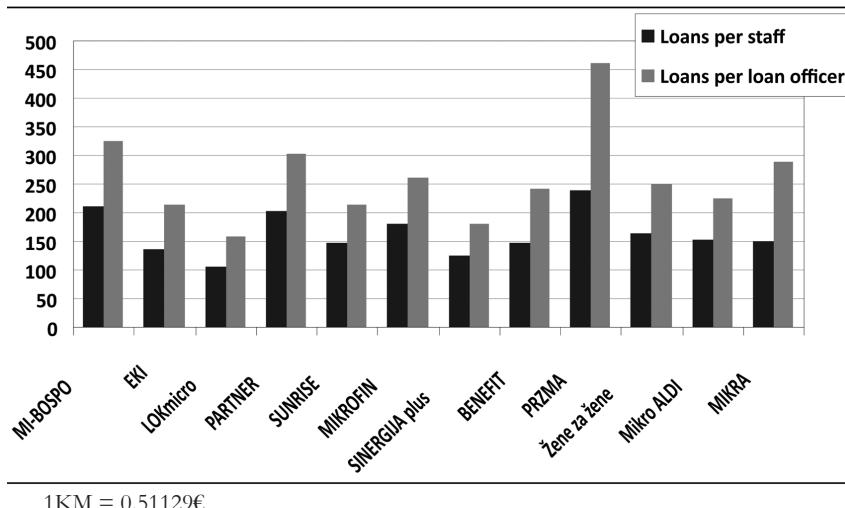
(figures in black denote 2002 average outstanding balance in KM)



1 KM = 0,51129 €

Down-market focus brings Prizma some important benefits. Operating in a niche market where competition is weaker allows it to increase its productivity and efficiency. The number of loans per loan officer in 2008 was 464 compared to the industry average of 262 (see Figure 12). Also, the cost per loan disbursed (210 KM at the end of 2008) is much lower than the industry average (362 KM).

Figure 13: Loans per staff and officer in different MCFs



1KM = 0.51129€

4. Concluding remarks

Social performance management is commonly defined as "the effective translation of an institution's social goals into practice in line with accepted social values". This definition emphasizes that in implementing social assessment it is necessary to look at the entire process anchored in the institution's mission and systematically leads to changes in all aspects of an organization's day to day work and ultimately in the client's status in terms of its progress out of the poverty.

This process starts with the institution's mission, strategic objectives and social goals.

The second step includes the assessment of whether the institution's internal systems and activities are appropriate and aligned with the achievement of its declared social objectives. The third step is about the achieved outcome. Are the clients improving their economic and social performance?

The final step in the process is related to the impact – establishing causality between the program participation and improvements in the client's condition. The process, indeed, has to be iterative. Information about the achieved outcome has to be used for decision making at all levels and functions within organization including management and Board of Directors. That in turn should lead towards improvement of client's well-being as well as institution in terms of its social or and institutional performances.

In this paper, using in-depth analysis of social performance management processes at MCF Prizma, different steps in the process of achieving the change have been explained particularly from their practical point of view. Some of the most important conclusions and lessons learned are as follows:

First and perhaps the most important conclusion, is the fact that social performance management is often mixed up with impact assessment. We define impact assessment as a snapshot of previous actions in a previous time. These snapshots might be helpful in the decision making process. However, it is slow process, and considering recent rapid environmental changes it is sometimes very inaccurate. On other side, managing social performance refers to the process of measuring, analyzing, reporting, and using social performance information at any time during business process. In order to have such a system in place, information needs to be integrated into the work of institution, operational routines, and value systems if it is to be useful; in other words, they must be operationalized or translated from the mission to the ground day to day work and activities at all level and functions of organization.

The second conclusion is that operationalization takes time and effort in order to build quality systems, integrate them in standard operating procedures and create around them a strong and cohesive organizational culture that embraces social performance management and its core values and principles. This is achieved by communicating over and over again as to why it is good and important for all. This should be done by keeping in mind that all successful companies should never accept a short-term solution for a long-term problem.

Being socially oriented should be considered a sound business decision and good investment rather than a cost. Because of this, in building effective social performance management, it is of extreme importance to have strong support from senior decision makers such as the Board of Directors, the CEO in particular and the management board as well. This is necessary to ensure the

communication line from top to bottom of the organization. This is also the reason why there is still no best social performance management practice an organization can follow, and sometimes it faces trade offs between social and financial goals. Lastly, SPM operationalization means investments today, and eventually the organization will bear the fruits sometime in the future.

What is also important is that the organization must ensure staff buy-in. A lot of effort has to be put in to make them understand the purpose of the whole process and try to involve them as much as possible in planning and discussing necessary institutional changes. In addition, the organization should introduce explicit support for staff performance that leads to greater poverty outreach by introducing or adapting existing incentives in terms of outreach to poor people to affirm that outreach to poor people is not only valued, but rewarded as well.

Another conclusion is that the organization needs to appoint a project champion of the whole process that coordinate the SPM activities and acts as its advocate. This person should have strong position within the senior management of the organization. There are two reasons for this.

First, implementation of SPM is multidisciplinary process which involves coordinated action of different functions in the organization.

Second, SPM operationalization implies permanent changes in an organization – applying a poverty lens to all formal documentation, adding to or revising where there were opportunities to reframe methodology, policies, and procedures in terms of targeting, attracting, serving, and retaining poor people.

The ultimate conclusion might be that operationalizing social performances -meaning, integrating them in standard operating procedures at all levels and functions of an organization day to day work- is the most effective long-term approach in managing double-bottom line, enhancing impact in terms of eradicating extreme poverty, contributing on day to day basis toward achievement of Millennium Development Goals, for every single microfinance organization and/or institution in the world.

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The support of the Fundación Nantik Lum to the microcredit sector

The members of the Board of Trustees of the Fundación Nantik Lum, through their businesses and the solidarity of their employees, offer a continuous moral and financial support to the activities of the Foro Nantik Lum de MicroFinanzas in their mission to promote microcredit as a tool to eradicate poverty as well as social and financial exclusion.

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The Foro Nantik Lum de MicroFinanzas is a forum of open debate and permanent study of microfinance, the first of its kind in Spain. Its objectives are to:

- Create a centre for the permanent study of microfinance in which universities, NGOs, financial entities, public administration and the general public participate.
- Support the exchange of experiences and knowledge about microfinance programs in the search of a common goal: Reduce the level of poverty in the world.
- Raise public awareness about the causes of social exclusion and poverty, supporting microfinance and microentrepreneurial initiatives, ethical savings, social investment and other financial alternatives as instruments to fight these causes of poverty.

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