Realizing Mission Objectives

A Promising Approach to Measuring the Social Performance of Microfinance Institutions

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Print your mission statement on the back of your business card to remind your people, your prospects, and your customers of what your company stands for.

—Philip Kotler

Abstract: This paper proposes a new approach for measuring the social performance of microfinance institutions. The key to developing sustainable social performance measurement (SPM) systems and practices is to consider their design from the perspective of the organizational mission. The fact that the SPM system is built on the organizational mission ensures its cost-effectiveness and facilitates its institutionalization. It not only stimulates an MFI to verify the fulfilment of its social mission and to innovate in the search for optimal solutions to address development needs in a given intervention context, but it also can improve its financial condition through client segmentation and risk management leading to increased efficiency, better product development, and strategic decision-making on the competitive microfinance markets.

This paper proposes a new approach for measuring the social performance of microfinance institutions (MFIs). The term "social performance" refers to social and economic impact that, together with financial performance, constitutes an MFI's "double bottom line" (Simanowitz 2003). Based on

Microfinance Centre (MFC) field experience with different partners in Central and Eastern Europe (CEE), it appears that the key to developing sustainable social performance measurement (SPM) systems and practices is to consider their design from the perspective of the organizational mission. Building the SPM into institutional mission and goals is a promising way to ensure it is institutionalized and cost-effective. This new approach promises to help practitioners fulfil their social mission. Just as there is a need to have financial performance indicators to guide the effort to achieve profitability, the same applies to the social aspect of microfinance. If there is no system in place to support improvement in social performance, the MFI's social mission may be lost in the sole pursuit of financial targets. Moreover, combining social and financial measurements can potentially increase financial returns in the long term through a better understanding of target clients and through allocating scarce resources in a more efficient way, thus avoiding the unnecessary costs of ineffective actions. Combining social and financial indicators will enable managers to successfully balance institutional and development impact trade-offs while striving to achieve the "double bottom line" and improve overall performance.

In order to advance the ongoing debate about developing practical methods for measuring and improving social performance of MFIs,[1] this paper summarises ideas for the mission-driven SPM concept—its rationale, development process, necessary elements, use, costs, and benefits. It starts with some reflections on the inefficiencies of current practices for measuring social performance that inspire further thinking about social measurement principles.

Current Practice

In the majority of cases, MFIs do not have a systematic process to monitor whether their social goals are being fulfilled. Social and

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financial goals have been treated separately, the latter gaining more attention than the former. Efforts to monitor social performance have focused more on tracking commonly used standard lists of social indicators. Typically these indicators have been replicated from other institutions or imposed by donors without any attempt to understand their relevance to a particular organization and culture or to adapt them accordingly. A corollary of this approach is that monitoring or assessment has not been integrated into other organizational processes. There has thus been a missing link between social performance indicators and organizational mission—the driving force for the organization, reflecting the beliefs put behind its activities.

Impact Assessment

The aim of the Impact Assessment (IA) concept is to assist microfinance practitioners in measuring their impact at the client level and consequently to give some insights into how an MFI's social performance could be improved. The main goal of IA methods is to investigate the attribution of changes in target client well-being to microfinance intervention. However, given the lack of awareness among microfinance industry stakeholders about IA methods when they were initially introduced, there was a clash between expectations and the methodology applied. Practitioners thought that IA would contribute substantially to improving their services and boosting their operations in a cost-effective and long-term way, but the design of the IA methods was not ready to meet these expectations. Therefore, IA has unfortunately gained a bad reputation. Most practitioners who invested in assessing the impact of their services did so in an ad-hoc manner. The majority of those who tried would agree that it was costly and simplistic, was not useful for management, did not provide timely information, and did not bring groundbreaking changes in the MFI's operations, although it did enable staff to see that their work was bringing positive changes to people's lives. The failure of IA to meet all these expectations was mainly due to the following factors:

- In the majority of cases the design of a study has been replicated from other institutions operating in different contexts; there has been no internal participatory process to design appropriate IA. When impact hypotheses, pathways, and indicators are simply borrowed from other institution the level of understanding and further use of results, even if they are positive, is very poor.
- The results of practitioner-led impact studies are very often overestimated. Firstly, the number of people leaving the program is seldom taken into account but is very important information. If 60%–70% of clients leave the program after taking only one or two working capital loans, this would seem to indicate that they either did not benefit from the service or were adversely affected by it, so it is important to include them in the analysis.2 Showing the results of impact on the current—"strongest"—clients presents a very simplistic overview. Secondly, the unintended outcomes of microfinance—whether positive or negative—are rarely considered, but if an attempt is made to track them, much can be learned about the impact of services. Everybody knows about the spiral of debt, but hardly anyone considers negative impact pathways and incorporates relevant indicators in the study design.
- There is virtually no segmentation in the impact studies. It is accepted that disaggregation by different variables (e.g., age, sex) is key in "commercial" market research and marketing strategy development. In the same way, it cannot be assumed that the impact of microfinance is the same on each and every group of clients. Furthermore, considering business and development imperatives, it would be interesting to identify those groups which register low or negative impact and ask them what could be improved in the services provided.
- Last but not least, the IA efforts are not institutionalised. Unless IA is designed internally and becomes part of the institution's ongoing operations, there will be no buy-in among staff, and it is difficult to see how it can contribute to easy-to-manage, innovative changes.

These lessons provide important insights that should guide the development of SPM systems and practices. The Assessing Impact of Microenterprise Services (AIMS) initiative[3] led to discussions about practical ways of measuring the impact of microfinance. It contributed extensively to promotion and better practice in impact assessment and, in general, in client assessments of microfinance. Current discussions on social performance are building on cutting-edge practitioner-led and middle-range methods for IA developed by AIMS and work undertaken through the Imp-Act program to develop practitioner-friendly IA systems.[4]

Mission-Based Approach to Measuring Social Performance of Microfinance

To create and develop a successful institution, there is a need for clear goals that will drive the institution forward. Clarity is needed to direct not only the staff, management, and clients but also the actions of other stakeholders. These goals are reflected in the organizational mission, which therefore is a good starting point for the development of institutional performance systems.

The role of microfinance differs from one context to another: filling the gap in the financial market, giving risk management tools to vulnerable groups or individuals, allowing micro-entrepreneurs to benefit from economic opportunities, facilitating a return to work for the unemployed, building social networks, etc. Based on a needs assessment, each microfinance practitioner aims to develop services for selected target groups and to manage its social performance successfully to address their development needs. Consequently, when we look across the missions of different MFIs, it can be seen that they vary considerably; some claim to focus on serving poor clients, others talk about improving economic well-being of a more broadly defined target group, and some aim to address social as well as economic issues. Each institution perceives its role in a different way and wants to achieve different objectives within a wide development agenda of microfinance as a whole. As a consequence, they need different systems and approaches for measuring social performance. Such systems would reflect an institution's uniqueness and stimulate its effectiveness. Whatever the design, there is a need to answer two fundamental questions:

- Verification: How successful are we in fulfilling our mission?
- Improvement: What can we do to better fulfil our mission?

Given up-to-date practice and the mission-based concept, the SPM should have the following functions:

- Identifying target clientele
- Monitoring client status change among target clientele (both current and exiting clients)
- Stimulating the search for new solutions to improve the fulfilment of the organizational mission through targeting tools, new products, partnerships, delivery channels, etc.

It is important to note that SPM does not have the function of attributing changes within target groups to the microfinance intervention. This is probably the biggest difference between IA and SPM. SPM has predominantly an internal use.[5] In this context it is more appropriate to refer to "monitoring client status change" rather than "impact assessment" (IA).[6] It is widely known that monitoring financial performance can help an institution improve its financial condition. This is possible thanks to the measures that help verify the current situation and provide information on where an organization can do better. In the same way the SPM works by looking at inefficiencies or areas for further improvement—creating an institutional drive for ongoing learning and innovation.

Developing Sustainable SPM

The link between cost and revenue and their relationship to financial performance is relatively clear. The relationship between an organization's actions and its social performance is not so self-evident, however. To be able to link inputs to the social results, there is a need to conceptualize how expected changes may occur. This will depend on the MFI's mission, context, and methodology, but it should be embedded in the perceived role microfinance can play in a given setting. Such an approach makes it important for the institution to select performance indicators that will reflect the way expected changes within their target group occur in the context of its operations.

To select such "valid" indicators, it is important to go through a rigorous selection process following the suggested steps. This process is a key to building a sustainable SPM for an MFI.

Getting Consensus on the Institutional Goals and Needs

Before starting any work related to SPM it is necessary for an MFI to better understand what kind of information is really needed. This clarity allows efficient allocation of resources and enhances the usefulness of the collected information. The key element in assessing needs for the SPM is a thorough analysis of the MFI's mission, taking into account the broader picture of current program design and potential areas for future development intervention.

Identifying the Target Group

The mission reflected in the institutional goals determines specific target groups for intervention. The target groups should be selected in terms of both financial and social goals. They will differ across contexts and MFIs. It is important for each microfinance practitioner to have a tool to identify these groups. Usually, clear indicators should be defined in order to identify the target groups. Additionally, psychographic segmentation can be run to further separate specific target groups into more detailed segments by their behavior and socio-demographic profile. This disaggregation is crucial, as MFIs should develop services based on an understanding of the needs of potential clients in the area where the MFIs operate. In addition, it allows an estimation of costs of serving different target groups and managing trade-offs to achieve the double bottom line. As shown in the Prizma example, mentioned below, the client poverty level is one possible indicator to identify target groups. There is a growing impetus to develop practical tools to measure the poverty level of microfinance clients.[7] It is important to note that not necessarily all MFIs should claim poverty outreach and use poverty level criteria in setting their target groups.

Conceptualizing Impact Pathways

Once an organization is clear about its goals, operational rationale, and target group(s), the next step is to be clear about the way the expected changes within its target group(s) will occur. As proposed in the SEEP/AIMS manual (Nelson 2000) the following elements should be investigated: intervention inputs, effects, and expected and unintended outcomes. When the pathways are being investigated, it is very important to include a variety of information sources that will increase the quality of the information. Triangulation provides a more complex picture through cross-checking different perspectives on the same issue. It may involve techniques such as brainstorming with staff, analyzing information from widely available country-level data, receiving clients' feedback, and conducting sophisticated research studies and analysis; it may also require various informants: staff, management, board, clients, other stakeholders, academics, and experts. The degree of rigor required will depend on the needs of the end users of the systems.

While establishing pathways, it is important to think beyond the MFI's current operating model and services offered. It is essential to consider the target client's behaviors, needs, and attitudes; to analyze how those aspects link to development goals; and to define what those development goals mean in the wider context of microfinance. This will result in more indicators and social performance measures that are broadly applicable and relevant in the long-term.

Identifying Indicators and Relevant Measures

The pathways inform the selection of indicators corresponding with the expected outcomes. Indicators should be:

- Sustainable: valid in the long-term and able to withstand changes in services and institutional environment.
- Universal: relevant for all target clients, rather than only for a specific group.

- Sensitive to change: able to reflect the changes associated with the MFI's intervention over a specified period of time.
- Easy to measure: ensure low cost and ease of information collection, and provide reliable data.

Once the indicators are identified there is a need to develop reliable, easy-to-use measures.

Identifying the Best Ways to Collect, Validate, Analyse, Report, and Use the Information

Identified indicators should drive the selection of data collection method and the development of tools. At this point it is very important to assess the institutional capacities. The system needs to be adjusted to the existing institutional resources in order to use them effectively. Consequently, more detailed issues should be addressed internally, such as how data is collected, who collects and inputs data, and how data should be stored and analyzed. If these operational aspects are well adapted and integrated with other operational systems and processes, the SPM will be cost-effective.

Depending on capacities, some of the approaches and tools may be beyond the reach of some smaller, less developed institutions. To allow for effective SPM usage, a well-operating management information system (MIS) is an advantage. In addition, there is a need for appropriate data collection and analysis skills within the institution or from outsourcing possibilities. An effective management structure that will oversee the data collection and the use of information is also very important, as are the human and financial resources that will be devoted to system design, maintenance, and development.

Institutionalizing Social Performance

Indicators, methods, and tools alone will not provide an institution with useful information in a cost-effective manner. SPM must be a part of institutional operations and use existing resources; this will enable operational and timely use. The organization should make continuous efforts to institutionalize social performance measurements from the very beginning of the development process. Therefore, special attention must be paid to senior staff commitment, staff buy-in, incentive systems, participatory meetings, planning and system development processes and relevant training.

Necessary Elements in the SPM System

To fulfil SPM functions and methodological aspects mentioned in two previous sections, the following outline is suggested (see Figure 1):

- A routine impact monitoring component tracks changes appearing among target clientele, including current, exiting, and rejected clients, and enables the portfolio segmentation. This gives a picture of patterns of client change and behavior. However, it does not explain the reasons behind those changes.
- A periodic decision making component ensures that the collected information is analyzed and used by management and other internal stakeholders. SPM data combined with ongoing monitoring of internal and external changes enables better understanding of the institutional and client-level impact of an organization's actions. In addition, at this stage areas for improvement are identified and automated. This allows them to be translated into well-defined, specific research objectives for exploratory follow-up research.
- A follow-up systematic research component investigates further and clarifies issues around the signals identified through the routine component. This to some extent enables an MFI to isolate the effect of its intervention from externalities through providing better understanding of the factors underlying observed phenomena. Qualitative research, in triangulation with the existing secondary data and anecdotal information (staff feedback), leads to an understanding of why changes are happening. It also follows up on new ideas coming from the routine monitoring results. Exploratory research prompted by routine monitoring findings results in the refinement of policies and services and the development of new products, leading to better mission fulfilment.

- Ad-hoc research can be undertaken in response to opportunities or challenges as well as any new ideas that an MFI may have, regardless of the signals from the routine component. This component ensures that the institution does not limit itself to the signals emerging from the monitoring of the "attracted," current clients but opens up the space for innovation and institutional inspiration that help further improve mission fulfilment. Such ad-hoc research may involve exploratory market research on other segments, loyalty studies, or client satisfaction studies, which might be incorporated into the routine monitoring system and further increase institutional effectiveness in reaching its mission.

This framework is deliberately very general to allow every organization to adapt it to its needs, taking into consideration its mission and, consequently, social performance monitoring needs, operational model, and current capacities.

Figure 1. SPM system framework

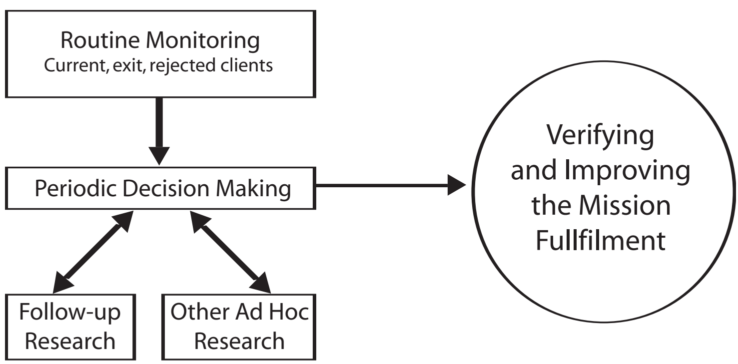

Figure 2. Sample mission fulfillment report

Mission Fulfillment Report—Jan 2015

Mission Statement	Improve standard of living of poor and/or vulnerable female entrepreneurs and their families by providing a full range of sustainable financial services	
Target Group	high-target group	female clients from famillies that are very vulnerable and live below the poverty line
	standard-target group	female clients from families that are moderately poor (but not vulnerable) or vulnerable living above the poverty line
	nontarget group	other clients (accepted mostly for financial reasons)
Number of clients	Now	20,000
	In previous period	17,500

Reaching the Target Group

	Number Now	% Total Now	% in Previous Neriod	% Among New Clients	% Among New Clients in the Previous Period	% Among New Clients Rejected Now	% Among New Rejected in the Previous Period	% Among Old Clients Expelled Now	% Among Old Expelled in the Previous Period
high-target group	1,500	7.5%	10.0%	5.0%	5.0%	10.0%	10.0%	8.0%	8.0%
standard-target group	13,000	65.0%	70.0%	50.0%	50.0%	66.0%	65.0%	65.0%	65.0%
nontarget group	5,500	27.5%	20.0%	45.0%	45.0%	24.0%	25.0%	27.0%	27.0%

	% Among All Dropouts Now	% Among Dropouts in the Previous Period	% Among Dissatisfied Dropouts Now	% Among Dissatisfied Dropouts in the Previous Period	% Among Satisfied Dropouts Now	% Among Satisfied Dropouts in the Previous Period
high-target group	10.0%	5.0%	20.0%	10.0%	50.0%	30.0%
standard-target group	60.0%	65.0%	80.0%	65.0%	10.0%	30.0%
nontarget group	10.0%	30.0%	0.0%	25.0%	40.0%	40.0%

Figure 2 continued

Changes in Status of Existing Clients

	Changes comparing to previous period								
	Security index			Well-being index			Other variables, indexes, domains		
	Negative	Stagnant	Positive	Negative	Stagnant	Positive	Negative	Stagnant	Positive
All	5%	55%	40%	20%	70%	10%			
high-target group	5%	55%	40%	70%	25%	5%			
standard-target group	5%	55%	40%	40%	55%	5%			
nontarget group	5%	55%	40%	10%	65%	25%			
early cycles (1–2)	5%	55%	40%	20%	70%	10%			
medium cycles (3–5)	5%	55%	40%	20%	70%	10%			
high cycles (6+)	5%	55%	40%	20%	70%	10%			
using only 1 product	15%	85%	0%	20%	70%	10%			
using 2 products	10%	70%	20%	20%	70%	10%			
using 3 and more products	0%	50%	50%	20%	70%	10%			
. . . other breakdowns									
. . . other breakdowns									

Actions

Follow-up research on previous data

Summarized findings addressing information gaps and research questions from previous mission fulfillment reports (investigations realized by internal research team).

Ad-hoc Research

For example: Research team during its regular market research activities identified a priority need for asset building term savings product among its high-target group clientele. Responding to this need the internal research team segmented further the market and designed the concept of the new product.

Financial Performance

Standard financial indicators demonstrating to what extent the organization meets the goal to be institutionally viable. Note. Security index refers to client household vulnerability (dynamic); well-being index refers to its poverty level (static).

Potential Use of the SPM System

What can management get out of the SPM system? One can imagine very simple, periodic reporting that shows not only figures but also actions, as shown in Figure 2.[8]

Figure 2 provides an example of how changes in target clientele composition can be isolated and tracked. It shows that, although the socioeconomic situation is stable, there is a mission drift away from serving target clientele due to the high dropout rate of dissatisfied target clients. The client status information is even more worrying, indicating that there has been no increased security of target households. Further exploration of these results will enable the organization to better understand factors behind these phenomena and develop appropriate strategies to improve the double bottom line. One can imagine an initiative addressing client dropout in the target group. A well designed loyalty strategy directed at this group will not only result in a social return in terms of reducing the mission-drift, but will also affect financial returns through the increase of client repeat purchases, referrals, cross-selling, up-selling, client emotional connectedness, etc.[9] In other words, such a report enables the MFI to see worrying trends and preempt possible problems, enabling the MFI to investigate the underlying causes. The information gathered can have implications for several institutional areas, such as product development, human resources, credit application procedures, and loyalty strategies and promotion—all having implications for both financial and social performance.

Costs and Benefits

The highest costs of measuring social performance are associated with the system development, implementation, and integration with other institutional functions and processes. These costs are considerable, because they are usually linked to a significant change in the organizational culture. However, an important point is that once the SPM systems and practices are in place, additional costs are very minor in relation to the benefits. It can be argued that implementation of SPM should further cut organizational costs through more efficient allocation of resources.

The SPM, which is built on the institutional mission in a structured process, performing all the functions and taking into account all the methodological issues, has the following potential benefits to an MFI:

- Facilitating decision making processes: the SPM enables in-depth analysis of "microfinance trade-offs" and reveals the best solutions.
- Providing information needed to improve the service: the SPM is not static but action-oriented, thanks to trend analysis, periodic discussion, and follow-up.
- Increasing understanding of social performance: the SPM is based on clear pathways and robust, contextually adapted indicators.
- Opening up new dimensions in client segmentation and target group identification: the SPM has a smaller number of strong impact and well-being proxies, which enables the segmentation of the portfolio by target group variables. Combining the use of good target variables with standard psychographic segmentation enriches the analyses. In addition, it provides another source of data that can later be mined.
- Verifying outcomes of programmatic changes: the SPM provides a simple tool for trend analysis that can be used to evaluate outcomes of internal changes made to improve performance. It goes beyond current clients, taking exiting and rejected clients into consideration. It points to reasons behind product adaptation failure and other inefficiencies.
- Indicating social performance to external stakeholders: the SPM system is linked to the mission and uses carefully selected and adapted indicators. In this way, it can provide a reliable means to justify the MFI's existence and intervention to external stakeholders. Moreover, it shows them how services are being improved to better fulfil an organizational mission and demonstrates how their investment contributes to

development. Consequently, it allows an MFI to better position itself in a competitive market for funding.[10]
- It should be easier to institutionalize: the SPM is driven by institutional goals and based on actual informational needs and operational capacities of an institution.
- It can be sustained with low additional cost: the SPM can be integrated with existing systems and processes at low cost and with efficient use of time and other resources.
- Providing timely information: the SPM is ongoing and automated.
- Having a wide range of institutional uses: collected variables can be used for other institutional purposes, such as risk management, staff incentives, identifying new market opportunities, etc.

Two Examples from the Field

Opportunity International, Serbia

Opportunity International Serbia (OIS) is a young microfinance bank that works to create employment opportunities and improve the standard of living among its clients and their families, regardless of ethnicity, religion, or political affiliations. OIS strives to provide stability for its clients, allowing them to help themselves in dignity, with self-confidence, and to rebuild confidence in financial institutions. The OIS identified its key impact areas focusing mainly at the household level as priority and in particular was interested in driving development in the following areas:

- employment creation and opportunities
- standard of living and stability
- self-confidence

Therefore, the conceptual framework was created around these three areas and focused on household well-being, defined as its stability and ability to provide for various needs. Household stability was analyzed from the perspective of the household assets accumulation and possessions (human, social, physical, and financial), which determine its stability through the role they play in protecting from and coping with crises.

In the proposed framework (see Figure 3) increased household stability is an objective in itself but also leads to increased employment opportunities (employment opportunities usually grow along with accumulating assets). Improving living standards is also an objective in itself, which leads to increased self-confidence. In such a defined framework, the role of OIS is to provide such products and services that will build necessary assets and provide a low stress-coping mechanism.

Necessary information is provided through MIS reports. The required information is generated from the set of indicators chosen in a rigorous selection process by means of application forms registered with new, follow-up, and rejected clients as well as monitoring forms with dropping out clients.

Such a framework provides the starting point for segmenting the target group, based on household well-being, and for identifying the most underdeveloped areas as an indication of the need to improve service. Based on this information from the impact monitoring system, OIS may adjust its products or develop new ones to have a better impact on household well-being and on other areas of development.

The segmentation based on household stability is also very useful from the point of view of managing institutional risks (thus helping to link the social and financial goals). OIS is able to keep their risks low and serve target clientele through attracting a mix of vulnerable, nonvulnerable, poor, and nonpoor clients that will maximize its social goals at the minimal possible level of risk, thanks to appropriate client base diversification.

Prizma in Bosnia and Herzegovina

Prizma (www.prizma.ba) is still a relatively young institution intervening in Bosnia and Herzegovina with a great deal to learn and the capacity to grow. Prizma's vision is to enable people to make choices to improve their lives; its mission is to improve the well-being of poor and low-income women and their families by

Figure 3. SPM indicators—Example of OI Serbia

Area	Indicator	Measure
SELF-CONFIDENCE		
Self-confidence	Individual satisfaction from the quality of life	How are you satisfied with your current quality of life? 
STANDARD OF LIVING AND STABILITY		
1. Household Security		
Financial Assets	Stability of household income	How many adults have no regular source of income (cannot work, have no job or only seasonal job/income)?
	Monthly family income per capita	What is your family's average monthly income? (in dinar)
Physical Assets	Ownership of a house/apartment	Where does your family live? 1. sharing rented apartment/house with other families 2. renting apartment/house 3. sharing your own apartment/house with other family(ies) 4. own apartment/house 5. own newly built apartment/house (last 5 years)
	Ownership of a car and its condition	How old is the car(s) owned by your family? (if you have more than one car, please put the number of cars under relevant categories) We don't have a car _____ Less than 6 years old _____ 6–15 years old _____ Older than 15 years _____
	Value of productive assets	If you were to sell your productive (business) assets, how much would you get for them (cars used mainly for business, buildings, machines, livestock, etc.)? (in dinar)
Human Assets	Individual satisfaction from the quality of life	How are you satisfied with your current quality of life? 
	Experience in current work	How many years of working experience do you have in the area of your current job/business?
	Skills upgrade in the last 12 months	Have you gained any new skills/knowledge (attended any training, language course, professional literature, continuation of education, computer course, etc.) in the last 12 months? 0 = No 1 = Yes

Figure 3 continued

Social Assets	Availability of help from the family	In case of family financial problems would you be able to get help from your relatives? 1. rather not 2. there is a chance 3. rather yes 4. almost in any situation 5. definitely yes
	Availability of help from friends	In case of family financial problems could you get help from friends? 1. rather not 2. there is a chance 3. rather yes 4. almost in any situation 5. definitely yes
2. Needs Satisfaction		
Basic Needs Satisfaction	Family diet	How would you describe your family's diet? 1. we can afford only basic food 2. we can afford slightly diversified food 3. we can afford everything we need 4. we can afford everything we want (including eating in restaurants)
Luxury Needs Satisfaction	Going for a holiday	Have you or any of your family members gone for a holiday during the last 12 months? 0 = No 1 = Yes, in ex-Yugoslavia 2 = Yes, outside ex-Yugoslavia
CREATION OF EMPLOYMENT AND EMPLOYMENT OPPORTUNITIES		
Employment Creation	Jobs created Jobs sustained	Number of current workers in the business (including full-time, part-time, paid-in-cash, students, etc.)
Employment Opportunities	Experience in current work	How many years of working experience do you have in the area of your current job/business?
	Skills upgrade in the last 12 months	Have you gained any new skills/knowledge (attended any training, language course, professional literature, continuation of education, computer course, etc.) in the last 12 months? 1 = No 2 = Yes

providing long-term access to quality financial and nonfinancial services. Since its inception, Prizma has embraced social performance and financial sustainability as core values, which has led to constant clarification of the essential indicators of its effectiveness as a social enterprise. In fact, the premise of Prizma's work under Imp-Act has been that social and institutional performance are mutually enforcing goals. Within this principal framework, Prizma has focused on three critical strategies: (1) measuring and deepening outreach in an environment of poverty and growing inequality, (2) improving service quality and institutional performance in an environment of growing competition, and (3) measuring and improving impact. Consequently, the organization has sought to enhance social performance by institutionalizing organizational learning and deepening poverty outreach, focusing fundamentally on leadership, organizational culture, incentives, and systems (Kline 2003). To these ends, Prizma has worked together with MFC over the past 18 months developing a poverty assessment and impact monitoring system intended to support the organization's developmental and institutional imperatives. Developed as a scorecard, this system specifically seeks to meet the following overarching needs:

- First, it enables the organization to assess clients' poverty status relative to other clients and non-clients across different segments of its clientele, to understand who is being served—who joins, stays, and leaves—and to refine targeting strategies, incentives, and product attributes.
- Second, it enables the organization to report on every client's poverty status in absolute terms in relation to the national poverty line and the widely referenced international benchmark of $1 and $2 a day.
- Third, it enables the organization to measure discrete change in clients' well-being over time.[11]

The scorecard is a composite measure of household poverty level based on nonincome indicators, reflecting some of the strongest and most robust poverty proxies in Bosnia-Herzegovina identified using 2002 Living Standards Measurement Survey (LSMS), United Nations Development Program (UNDP) data, a Consultative Group to Assist the Poorest (CGAP) Poverty Assessment, and focus group research findings. The scorecard is composed of two sets of indicators. The first three—education level, residence, and family size—reflect poverty risk categories. For example, if the female household head, spouse, or partner[12] has primary level education or less, the likelihood that the household is classified as poor increases significantly. The second four

Figure 4. Prizma's Poverty Scorecard

Prizma Poverty Scorecard

Indicator	**Measure**	**Scale** 0	1	2
Education	What is the education level of female household head/spouse/partner?	≤ Primary	> Primary	
Residence	Where does family reside?	Rural/Peri ≤ 10,000	Urban > 10,000	
Family Size	What is household size?	≤ 5	< 5	
Consumption: meat	On average, how often does family consume meat each week?	Rarely 0–2 x/wk	Sometimes 3–5 x/wk	Often 6+ x/wk
Consumption: sweets	On average, how often does family consume sweets with main meal each week?	Rarely 0–2 x/wk	Sometimes 3–5 x/wk	Often 6+ x/wk
Asset: household durables	Does family possess a stereo/CD player?	No	Yes	
Asset: transport	Does family possess a transport vehicle?	No	Yes	

Total score (sum): 0–9

indicators represent more or less discrete measures of household well-being. Thus, in addition to contributing to the poverty risk profile of each applicant's household, these second four enable Prizma to measure change in status over time.

Simple ranges for each of these seven indicators were defined based on the multiple data sources indicated above. Each point in these ranges reflects one, two, or three points towards a score ranging from zero to nine. Within this range of nine, three ranges have been defined that correspond to the poverty categories outlined below:

1. Poor: Score 0–2, living below LSMS poverty line
2. Vulnerable Nonpoor: Score 3–4, living between 100–150% of LSMS poverty line
3. Nonpoor: Score 5+, living beyond 150% of LSMS poverty line

These ranges mirror categories of client poverty status validated using LSMS data. The scorecard thus provides a relative measure for the organization to assess its depth of outreach in each area of operation. For example, a household that has a composite score of two can clearly be said to be poorer than a household that has a score of four. Just as data sources identified above can be used to identify indicators and determine appropriate ranges for each, LSMS or other national datasets, or data generated from a short survey focused on key areas of interest, can be used to define cutoff points for absolute poverty status categories.

While this system does not, on its own, capture the complex, dynamic, multidimensional, and context-specific nature of poverty in Bosnia-Herzegovina, it does enable the organization to understand and demonstrate more clearly and on a regular basis the extent to which it is (1) reaching who it seeks (and claims) to be reaching and (2) fulfilling its social mission. Additionally, it stimulates further learning and, in turn, stronger strategic positioning and development of sound operating policies and pro-poor products and services.

Conclusion

This paper argues that microfinance can be more efficient in reaching the double bottom line if it is equipped with a mission-based Social Performance Measurement system. The fact that the SPM system is built on the institutional mission ensures its cost-effectiveness and facilitates its institutionalisation. Successful

SPM—an output of a thorough, bottom-up, internal, and participatory process—should be integrated with other operational systems and processes. It is based on a mix of routine and ad-hoc components that supports systematic monitoring, research, and decision making. Upfront costs of the SPMs development and implementation and the management of the associated organizational changes are considerably high. However, as the paper argues, this investment is compensated by low usage costs, better allocation of resources, and other multiple benefits for an MFI. It not only stimulates an MFI to verify its social mission fulfilment and innovate in the search for optimal solutions to address development needs in a given intervention context, but it also can improve its financial condition through client segmentation and risk management, leading to increased efficiency, better product development, and strategic decision-making on the competitive microfinance markets.

Notes

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1. See Cohen (1999), Hulme (1999), Morduch (2000), Schreiner and Woller (2000), Zeller et al. (2003), Brody et al. (2003) and Tulchin (2003) for more reflections on social performance of microfinance.

2. The methodological problems caused by dropouts encountered in impact assessments—incomplete sample and attrition bias—are discussed in more detail in Karlan (2001).

3. http://www.usaidmicro.org/pubs/aims/

4. http://www.imp-act.org/

5. However, the authors believe that if the relevant SPM is in place, an MFI is empowered to justify its intervention to external stakeholders as well. More discussion is included further in the text in the section "costs and benefits."

6. See Copestake (2001) for differences between IA and client monitoring.

7.http://www.seepnetwork.org/povertyassess.html; http://www.povertytools.org/

8. This is just an example to illustrate potential outputs from the SPM system. It is assumed that an MFI has an SPM including all the necessary elements listed in the previous section. It should also be integrated with other client-level monitoring systems, for example client satisfaction, desertion, and loyalty. Moreover, the reporting format should be extended by trend analysis over longer period of time and profitability analysis for all target groups. The report presented is simplified only for the sake of presentation.

9. For more information on client loyalty and related social and financial benefits, see Pawlak and Szubert (2004).

10. It is difficult to come up with a set of standardized indicators applicable for all MFIs because they have different profiles and work in different contexts. However, if the process of developing indicators is standardized, there is a social performance audit and some overlap of customized solutions allowing some standardization. It is believed that investors and donors can justify social return on their actions using this mix of information.

11. See Matul and Kline (2003) for more detailed description of Prizma's poverty scorecard.

12. Female-based measures turn out to be more powerful than or at least as powerful as aggregated household measures. Prizma decided to use them as they limit number of questions on the application form.

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