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MICROFINANCE LEARNING PAPER SERIES

Enhancing Horizonti's Mission and Performance through the Integration of Social Performance Management

BACKGROUND

Horizonti, like many microfinance institutions (MFI), was established to provide financial services to the poorest and most underserved communities. Horizonti has been known for its focused outreach to the Roma people. The Roma people are one of the poorest communities in Macedonia. Often derogatively called "gypsies," they face discrimination on a daily basis and are unable to access many basic services. Horizonti has been reaching out to this specific group by targeting Roma communities and training loan officers to provide services to meet their financial needs. Though client interviews consistently showed that Horizonti's efforts were having a positive impact on the Roma's access to services, few indicators existed to measure the social impact of these services. In 2010, the institution received a Microfinance Lifeline[1] grant to develop such indicators using Social Performance Management (SPM) tools, with the goal of revealing:

1. whether Horizonti was targeting the right clients
2. what percentage of its clients fit the target profile
3. whether its services were meeting the needs of its clients
4. whether its services were improving the lives and livelihoods of its clients

This paper highlights Horizonti's experiences and the lessons it learned while implementing SPM.

WHAT IS SOCIAL PERFORMANCE MANAGEMENT?

When the microfinance movement began, many institutions tailored their efforts to achieve both a financial and a social impact on the communities they served. Over the years, MFIs focused on designing management information systems (MIS) to measure their financial performance, yet struggled to determine how their services were having a social impact.

SPM is a process that helps MFIs realign and achieve the social aspects of their mission by identifying areas of weakness and establishing systems, procedures and protocols to remedy the gaps. By focusing on SPM, MFIs can now measure whether they are achieving their social mission.

THE ROAD TO SPM

Horizonti started its operations with the specific intention to help poor, marginalized people access financial services to support their small enterprises. It targeted the Roma population, in addition to other poor communities in Macedonia, because of the stigma this group had traditionally faced and the fact that no one else was willing

1 An internal CRS microfinance grant mechanism designed to support innovation and learning

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to offer them microfinance services. New guidelines were developed to help its loan officers identify Roma within the larger population, understand their challenges, and know how to approach them.

Before it started SPM, one third of the loans given by Horizonti went to Roma clients, which staff saw as a strong indication of the institution's commitment to serve the poorest of the poor. Yet Horizonti did not have specific indicators in place to measure the effectiveness of its products.

In October 2007, Horizonti conducted a social audit to better gauge how well it was complying with its social mission. The audit, which was facilitated by the Microfinance Center (MFC) of Poland, using a tool known as "the Quality Audit Tool," showed that:

- Horizonti's target clientele was not clearly defined
- its mission statement did not indicate the poverty level of its potential clients, highlighting the need to specify the types of microentrepreneurs it was striving to serve
- the achievement of social goals was only being tracked informally and, as such, the information could not be used to guide the organization
- Horizonti did not have social performance objectives, targets or indicators
- staff collected a lot of information about the socio-economic characteristics of their clients and their businesses, but the data was not being analyzed in a way that would inform decisions; there were also questions regarding the quality of the information
- their MIS lacked social performance indicators; only loan portfolio and accounting information was included

The feedback from this audit resulted in a decision by senior management to create a system for measuring and monitoring the achievement of social goals and objectives, with the purpose of using this information to improve decision-making to better serve clients.

WHY SPM?

Horizonti chose to implement SPM because it hoped it would:

- help mitigate mission drift, which has been a challenge for several other MFIs in the region
- give its stakeholders a better understanding of its purpose and mission
- yield information that would attract investments from potential donors

IMPLEMENTATION

As Horizonti embarked on this project, it established the following four learning questions:

1. How will SPM contribute to a more effective decision-making process within Horizonti, particularly in strategic and business planning, new product development, modification to existing products, and the revision of operation policies and procedures?
2. How can the involvement of branch staff in the data collection process for social performance (SP) reporting and their access to SP reports strengthen their ability to develop better marketing strategies for reaching the targeted clients?

3. How will the new SP reporting system help loan officers to more easily verify (rather than assume) the target clients of Horizonti?
4. How can Horizonti set realistic SP targets and achieve a double-bottom line?

DEVELOPING INDICATORS

Horizonti's leaders spent the first six months defining social performance objectives and identifying measurable indicators, which required them to reflect on their intended clientele and revise their mission statement accordingly. This phase was particularly crucial in addressing the first learning question and laying out the framework that would later inform the institution's strategic and operational decisions.

In establishing their SMART[2] social objectives and indicators, Horizonti had to keep in mind the capabilities and limitations of its current MIS, and how the indicators would be integrated into that system. At the end of this first step, Horizonti chose indicators to measure achievements within the following categories:

1. Outreach to clients

Horizonti's core mission, as specified in its mission statement, was to serve the financial needs of low-income households. However, the institution did not have a way to distinguish between poor and non-poor client households or assess the different levels of poverty within client households. In order to determine whether their clients were indeed poor, the SP team decided to develop an internal "poverty measurement tool" by creating a poverty scorecard to define the poverty level of clients. The poverty score card is intended to support the identification of different target groups so that field staff could better know, rather than "guess," if they had selected the appropriate target population.

Prior to the development of a poverty scorecard, research was conducted to determine if there were any existing tools available to measure client poverty in Macedonia. The research confirmed that no such tools existed. Therefore Horizonti, with the assistance of MFC, attempted to develop its own poverty scorecard using existing tools and experiences from other countries in the region as a guide. The tools examined were USAID's Poverty Assessment Tools for Serbia, Bosnia and Herzegovina, and Kosovo, and the Progress out of Poverty Index for Romania. In the end it was decided to use the internally developed poverty

#	Internal Impact Scorecard Indicators		Value
1	In the last 12 months, have you done any household interventions (reconstruction, renovation, repair etc.) ?	A	No (1-150 Euro)
		B	Yes (151-500 Euro)
		C	Yes (>500 Euro)
2	In the last 12 months, have you purchased any household assets/items?	A	No (1-100 Euro)
		B	Yes (101-300 Euro)
		C	Yes (>300 Euro)
3	In the last 12 months, have you purchased any motor vehicles for private purposes?	A	No
		B	Yes
4	In the last 12 months, have you purchased any fixed assets for business purposes?	A	No (1-500 Euro)
		B	Yes (501-2,000 Euro)
		C	Yes (>2,000 Euro)

2 Strategic, Measurable, Achievable, Realistic and Time-bound

scorecard as a placeholder in the MIS until a statistically valid poverty assessment tool could be developed using national household budget survey data.

When measuring the degree of outreach within the target group, Horizonti decide to measure the poverty status of entry clients. Horizonti further decided to revamp its outreach strategy to ensure that 80 percent of all new clients were classified as either poor (60 percent) or as very poor (20 percent).

2. Client satisfaction

For Horizonti staff, client satisfaction was of the utmost importance. Though they traditionally measured client satisfaction by observing the drop-out rate, they realized during the SPM process that this was not an accurate stand-alone indicator. An analysis of 584 drop-out clients revealed that those who left due to poor credit history should be separated from those who dropped out voluntarily. Differentiating between the two allowed Horizonti's management to choose the adjusted drop-out rate as the indicator, which took into consideration only those clients who left voluntarily.

3. Client impact

One of the biggest challenges faced by the SPM Team was how to measure client impact. During the SP workshops, it was difficult to reach an agreement on the indicators to be used to measure the positive changes in clients, especially given challenges with attribution of impact. It should be noted that many external factors can and do influence client behaviors. The SPM team agreed that irrespective of the indicators chosen to measure client impact, it would be difficult to determine whether these changes could be attributed to the services provided by Horizonti or to other external factors such as: 1) the services of another competitor; 2) the local business environment; or 3) positive/negative effects of government policies or legislation. Despite these limitations, Horizonti viewed its attempt to measure client impact as a sign that it cares about its clients.

In the end, the team decided to use the change in the poverty scores of clients between loan cycles (from one loan application to the next) as a whole, rather than at an individual level, because this would show overall trends that might not be seen at the individual level. This indicator will be field tested over several loan cycles to verify its usefulness.

At the individual level, Horizonti created an internal impact scorecard to track the acquisition of household and productive assets as a measure of changes in client wellbeing.

Social Objectives Identified

Outreach to clients

- Ensure that 95% of active clients are women entrepreneurs.
- Over the next three years, ensure that at least 20% of new clients are "very poor" and 60% are "poor."
- Ensure a 10% annual increase of rural clients over the next three years.

Client satisfaction

- Reduce client drop-out rate by 10% every year over the next three years.
- Conduct client assessments every year and modify loan products, introduce new loan products and/or improve service delivery accordingly.

Client Impact

- Improve poverty level of clients by increasing client's score by 10% on average between measurements.

RESULTS

While the process of implementing SPM within the operations of Horizonti is still ongoing, the following key accomplishments were noted:

1. **Revision of Horizonti's mission statement and strategic business plan**
   One of the early achievements of the SPM process was the revision of the mission statement. The revised statement better identified the poverty levels of targeted clients and helped the management of Horizonti to provide clear directions on its strategic plan for 2012-2014. The process led senior management to modify existing products and develop new products that would better meet the needs of its clients.
2. **Development of new loan products**
   The SPM process led to the development of a new product design strategy that has a more intentional focus on serving the needs of clients residing in rural areas as well as offering housing finance to more low-income households. By the end of the project, Horizonti was able to introduce a new agricultural loan product with flexible repayment installments to better respond to client business cash flow needs and payment capacities. Horizonti has expanded the amount of funds available to its housing finance portfolio to reach more poor people living in substandard conditions, who require loans to improve their residences.
3. **Operation policies and procedures**
   Horizonti endorsed the SMART Campaign's "client protection principles" in November 2010. The principles were integrated in loan contracts and operation manuals, and published on Horizonti's website, to underline the organization's commitment to social responsibility toward its clients.

In addition, Horizonti's decision to effectively evaluate and understand the root causes of client attrition has led to the collection of more reliable data. It is anticipated that this process will assist branch offices to create more effective client retention strategies. Perhaps it will also encourage those who left voluntarily, because of frustrations with the terms and/or conditions of the loan products, to return to Horizonti to access the new products.

New mission statement

Horizonti's mission is to provide sustained and continuous access to financial services to the low-income and economically active population in Macedonia, primarily women-entrepreneurs and representatives of socially excluded and marginalized groups, with the aim to support and develop their small businesses, create new jobs and improve their quality of life.

ACHIEVEMENT OF THE LEARNING AGENDA

During the project timeframe, Horizonti management was only able to address two of the four learning questions, [3] namely 1 and 4. Since 2 and 3 are closely related to the activities and outcomes once the system for SP data collection is in place, they cannot be evaluated until the reporting has been rolled out and in use for at least six months. The SP data collection process was launched in February 2012. Therefore, Horizonti will be able to address issues pertaining to learning questions 2 and 3 in August 2012.

As for the lessons learned related to questions 1 and 4, Horizonti staff say they experienced changes in perception and decision-making at all levels. The

3 The full learning questions are listed in the "Implementation" section on page 2

implementation of SPM, and in particular the process of revising the mission statement and defining social goals and objectives, also contributed to improvements in decision-making processes that ensured the alignment of Horizonti's mission and social goals. The process helped mid-level and senior management gain a better understanding of how their strategic and business decisions could be balanced, and why the achievement of financial performance through new product development and the introduction of new policies and procedures, has to be balanced with the achievement of social performance. For instance, prior to implementing SPM, several branch managers were pushing for the development of consumer loans (personal loans for consumption purposes) in order to achieve portfolio growth and increase financial sustainability regardless of clients' needs. By clarifying in the mission statement the need to improve quality of life, it became important to ensure that the loans were indeed addressing the needs of clients. As a result, it was determined that more useful products would include housing and agriculture loan products.

LESSONS LEARNED

1. Ensuring staff participation and buy-in takes time and effort

At the inception of this project, one of the biggest challenges was getting staff to understand and value the SPM process to ensure their active participation. This required:

- Translation of the SPM terms into the official Macedonian language;
- Using practical examples so that staff could understand and apply these terms to a local context; and
- Allowing sufficient time to explain the importance of SPM to all staff, and how it could help to enhance their work.

Securing this buy-in was critical to the entire process. For example, when loan officers learned about the initiative, their first impression was that this would result in additional burdens to their work. To address these apprehensions, the SPM team first explained the process, which was done during a two-day workshop, and then encouraged the officers to share their concerns in a participatory manner. Senior staff took time to remind everyone of Horizonti's poverty focus and the impact it intends to have on its clients. They explained that Horizonti's social focus had unfortunately shifted over time to one that was predominantly driven by financial results and that it was now time to bring back the social focus, without negatively affecting the financial performance.

2. Must ensure buy-in by management and the board of directors

Senior management and board members needed to have a clear understanding of why SPM was important, as well as an even stronger motivation to apply it to their strategic and operational plans. If the reason an institution wants to integrate SPM is merely to satisfy the reporting requirements of donors or founders, then the initiative will not be sustainable. Horizonti's management and the board needed to see how this process could support the social objectives of their institution.

3. Defining indicators that show impact is critical and difficult

During the process of revising Horizonti's mission statement and defining its social goals, the key finding was that PEOPLE were their primary target and then indirectly the businesses they were running. This was seen as an extremely important finding because it is essential for MFIs to clarify where they hope to have an impact; e.g., people, businesses, or both. Only then can they select the indicators that will measure their impact.

4. The indicators selected must be practical and easily collected

The indicators that are chosen to measure achievement of the SP objectives need to be practical and based on information that can be easily collected and verified. Additionally, it is important to have an MIS that can support the measurement of such indicators. If not, the information collected will not be used to improve management decisions and will be seen as extra work with little benefits.

5. Implementation of SPM takes time

The process of implementing SPM into the work of an MFI requires significant time and human resources. It entails meticulous planning to work through the different stages of implementation and substantial involvement of senior management. It is important to note that if an institution anticipates significant internal changes during the implementation process, such as legal transformation, statutory changes, internal re-organization, and expansion, etc., this is then likely to divert the focus from completing the activities. SPM should either be started after significant changes have been completed or the changes should be postponed until after the SPM implementation process is complete.

6. Ensuring sufficient technical support in implementing SPM is absolutely necessary

During each phase of the project, Horizonti received continuous support from MFC. This interactive support helped to guide the SPM team through key project activities, especially in defining the SMART social objectives and indicators. Implementing SPM without some form of technical support (remote or hands on) will make the process more difficult and might lead to failure. It is important to reach out to local, regional, or international resources to ensure a smooth and effective process.

7. Designing a compatible MIS for social indicators requires a review of all data collected

Given that SPM is a fairly new field in microfinance, there is no simple MIS solution available on the market to be able to capture, analyze, and report on social performance. As such, another key lesson is that it is important to engage a software company to ensure that the MIS is compatible with the indicators chosen and that it can support the assessment and analysis.

For Horizonti, this process involved reviewing all existing indicators that were being collected – not just the new indicators for social performance – to determine whether the data was useful for management decision making. This allowed Horizonti to alleviate some of the unnecessary burdens on loan officers, eliminating approximately 30% of the data they previously collected. Finally, it was important that the data collection needs were clearly communicated to information technology providers prior to designing the software to ensure feasibility and compatibility.

CONCLUSION

Staff at Horizonti believe the implementation of SPM will help shape the future development of the institution. Through the tools developed to measure the poverty levels of clients, Horizonti will be better able to verify its target population and demonstrate its strong social focus to help the most vulnerable target groups. It anticipates that the SP reporting will help to establish new strategic partnerships with donors and investors who support socially-oriented MFI.

Finally, Horizonti has been able to share this experience with other CRS microfinance partners in the region, namely MIKRA (Bosnia and Herzegovina) and USTOI (Bulgaria). The exchange initially took place during a workshop with CEOs, during which Horizonti management explained the benefits and value of engaging in the process. As a result, both MIKRA and USTOI have decided to look for funding to conduct social audits of their institutions. MIKRA has also requested that their senior staff visit Horizonti to learn firsthand how the SPM process works.

The Learning Paper Series is produced by MF Lifeline Grant recipients from various CRS country programs and partners. The purpose of these papers is to document key lessons learned and disseminate that learning to other CRS programs, partners and interested practitioners.

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