



Draft Paper
Global Thematic Group on Microfinance for the Very Poor¹
Tazneen, South Africa, November 2001
Sean Kline

Prizma's vision is to be recognized for giving people choices to improve their lives and building committed respectful relationships

Prizma's mission is to improve the well-being of poor and low-income women and their families by providing long-term access to quality financial and non-financial services

Analyzing Poverty in Bosnia-Herzegovina

Prizma analyzes poverty and vulnerability among two groups of poor and vulnerable people. First, Prizma analysis focuses on those traditionally vulnerable and poor as a result of low education, illness, disability, and other factors typical of many poor people worldwide. The elderly, especially those who have lost family members, are particularly vulnerable given the collapse of the state social safety net, the loss of the family support, and the disintegration of the informal support previously provided by neighbors in trusting multi-ethnic communities undivided by war and ethnic hatred.²

Second, Prizma has focused on those who are 'newly' poor and vulnerable as a result of war and ethnic conflict and/or because they have been negatively impacted by the transition from a state planned economy of the former Yugoslavia to a market economy. Many of the newly poor often have multi-roomed houses, secondary education, or other attributes associated with the non-poor in the developing world. This dramatic economic transition has been characterized by the collapse of state firms built on socialist management practices and industrial organization, political favoritism, and the notion of permanent lifetime employment. Most seriously, however, this transition has led to widespread unemployment and hastened the collapse of the state social safety net that limited that the breadth and depth of poverty before the breakup of the former Yugoslavia.

Compounding the challenge to understand vulnerability in this context is the fact that there has been no significant census or other social statistics collected since before the war of the early 1990s, which would help clarify the widespread effects of the war and economic transition on people. As yet, there is no poverty line defined for Bosnia-Herzegovina.

Targeting the Poor

Prizma has sought to address poverty directly by targeting women in low-income and ethnically divided communities, as women have the least access to formal employment and financial services in Bosnia-Herzegovina. Prizma has also sought to reach those in rural communities distant from market activity and what minimal social services the state is still able to provide, and ethnic minorities, who remain targets of community exclusion and subtle and overt persecution. Among women in poor communities, Prizma has given special attention to those that fled and became refugees (or internally displaced people) during the war and have since returned home to find themselves politically and physically vulnerable as ethnic minorities in their community of origin. Prizma has served more of these 'returnees' than any other of the 18 MFIs operating in Bosnia-Herzegovina.

¹ This global impact program is funded by the Ford Foundation. See www.Imp-Act.org for further details.

² For further discussion, see World Bank Briefing Paper, Development Brief No 47, January 1995 and other literature on social capital in conflict and post-conflict settings.

Within this wide group of poor ethnic minority 'returnees', refugees (still displaced), and ethnic majority domicile women (those who remained during the war), Prizma has further targeted single heads of households—divorced and widowed women, and single women who lost family members (often household income earners) during the war. Prizma has employed group lending primarily to reach its poorest clients.

Poverty Sensitive Product Development

Given the restrictive legal framework in the region, Prizma is not yet allowed by law to offer more than credit to its clients. Even within its status as a non-profit, non-deposit taking microcredit organization, the law stipulates that credit must support 'entrepreneurship'. This restriction on the nature of credit provision notwithstanding, Prizma has taken a calculated risk to introduce non-enterprise credit products in pursuit of its mission to improve the well-being of poor and low-income women and their families. It has thus introduced new products to address its poor clientele's *needs*, informed by its analysis of poverty and vulnerability, and *wants*, informed by market research. This double lens on its work has led Prizma to focus on (a) shelter, (b) livelihoods, and (c) basic needs.

Shelter

Prizma offers its target clients relatively small loans to reconstruct and repair their war-damaged home. Some of the poorest people live in war-damaged homes, abandoned train cars, UN cargo containers, and other sub-standard housing. This product is the most challenging for Prizma, in terms of reaching the poorest, given the cost of housing, government building standards, and norms and mores governing shelter. Prizma's smallest housing loans repaid over three years represents roughly 200% of GDP per capita.³

Livelihoods

Prizma's core activity remains group enterprise lending. With this, Prizma has reached very poor and poor women un-served by the commercial banking sector or other institutions. Given that many poor people are starting over after the war, having lost their spouse and primary income earner, Prizma emphasizes assistance to start-up businesses (50%+ of enterprise loans). Also, given limited formal market opportunities and the larger capital requirements of registered business, Prizma has from its inception supported primarily licit un-registered ('gray') market activity. In fact, more than 80% of Prizma's clients operate un-registered trade, service, and petty production businesses. Prizma's poorest clients generally use these loans for subsistence (cows, chickens, small agriculture, etc.) rather than entrepreneurial activity. Prizma's smallest enterprise loans to its poorest enterprise clients represents roughly 25% of GDP per capita.

Basic Needs

In an effort to deepen its outreach and serve a larger number of poor clients, Prizma recently launched an un-collateralized quick access consumer product intended to serve emergency or otherwise basic short-term needs of the poorest segment of its clientele, often those with low and intermittent pensions or remittances and minimal livelihoods. This has allowed the Institution to reach much poorer clients in urban areas for things such as medicine, food, utility bills, and children's clothes. To support similar needs among rural people, Prizma is preparing to pilot test a group basic needs product for outreach in distant communities. Prizma believes that combining features of its group and consumer lending in a group basic needs product will enable the Organization to reach even poorer clients in rural communities. The smallest of these loans to Prizma's poorest clients represents roughly 10% of GDP per capita.

Challenges to Reaching the Poorest

Prizma has not yet achieved significant depth of outreach that would strengthen its developmental and institutional (business) imperatives. The goal to deepen outreach is particularly important given that no other formal institution in Bosnia-Herzegovina is targeting the poorest, other forms of NGO assistance is diminishing quickly, and it is not clear when and how the state will reconstitute its social safety net to address the needs of the poorest. Prizma also feels greater urgency to refocus on depth of outreach now that it has achieved full financial sustainability and this challenge has proven attainable. Finally, Prizma seeks to deepen its outreach because the poor and poorest represent important market

³ This % is intended to provide perspective only, not a definitive picture of Prizma's depth of outreach.

segments of the Organization's clientele un-served by others in an increasingly competitive market for financial services.

As indicated, Prizma has been only modestly effective in reaching the poorest for a number of important reasons. First, Prizma it is not yet able to offer savings services, which might address important needs of the poorest segment of its clientele. Second, its core group enterprise lending has attracted less poor people, which often leads to more groups of less poor clients.

Third, a collapsed, immature, and under-capitalized financial sector has led to strong demand for Prizma's products among many less poor people who would otherwise be drawn to commercial banks and other forms of formal finance. Informal finance certainly exists, but does not appear to be addressing the tremendous demand for capital among virtually all segments of the population.

Fourth, staff bias towards less poor clients, as a result of common biases about poor people generally, coupled with a performance bonus that puts significant weight on portfolio quality, has inhibited field staff from reaching deeper in many communities.

Fifth, reaching very poor people in rural communities is costly and, thus, continues to present a formidable challenge to Prizma's depth of outreach. Rural people are not necessarily poor, but many of the poorest people are in rural areas. Currently, 25% of Prizma's clients are in rural areas, defined as communities of less than 2,000 people; 10% of Prizma's clients are in small towns of between 2,000 to 10,000 people, and the remaining 65% are in medium towns of between 10,000 to 100,000 people.

Sixth, the World Bank Mission-driven proliferation of microfinance institutions (37 in 1997 and 18 in 2001) in this small country of 3.8 million has spurred competition quickly and influenced the sector as a whole to prioritize sustainability over poverty reach. Rather than poverty alleviation (elimination), the World Bank's post-war microfinance focus in Bosnia-Herzegovina has been on enterprise growth and employment. This pressure has been affirmed, for example, by outside case studies, such as that in the recent Microbanking Bulletin, which had as one of its key foci the "success" of the MFI sector to reach sustainability.⁴ This environment influenced Prizma to create institutional incentives emphasizing financial sustainability over poverty outreach and it is only in the past year that Prizma has refocused its attention on the strategic (institutional) and developmental imperative of serving poorer clients.

Finally, Prizma has followed a similar path as many MFIs, to quickly screen out and exclude those clients that demonstrate an inability to repay a loan in their first cycle. While this has contributed to very high portfolio quality (PAR of less than .3% >30 days in 2000), it has also led to the exclusion of many very poor clients for whom monthly repayment and other inflexibility is a challenge. Recognizing this outcome of zero tolerance and inflexible product development, Prizma recently introduced a short-term basic needs product for which it does not exclude very poor clients because of zero tolerance. Portfolio at risk for this product has increased in the period of 1-30 days past due, but it has not posed a significant problem beyond 30 days. Prizma's experience thus far is that its poorest clients often suffer intermittent pensions, remittances and family crises—circumstances that demand greater institutional flexibility, sensitivity, and understanding.

Innovations to Reach the Poorest—Current and Planned

Given the relative youth of the microfinance sector in NIS-CEE and Prizma's inability to offer more than credit under the law, the Organization recognizes that it has a long ways to go still in innovating to reach the poorest people. However, Prizma has developed some important strategies and innovations to strengthen its depth of outreach.

First, Prizma has leveraged the use of hired community coordinators—poor members of the community themselves—to represent Prizma and target poor people of all ethnic backgrounds in ethnically divided communities. The Organization is currently reviewing the role of these coordinators, reflecting on ways to deploy them in a new service model. Second, Prizma seeks to move beyond its branch level provision of very small un-collaterized loans to explore the provision of this quick access basic needs product closer to people's homes, to reach very poor households more effectively. Third, Prizma has

⁴ See article on Bosnian MFI sector in April 2001 Microbanking Bulletin. World Bank Mission financed MFIs were the exclusive focus of this article

recently explored the use of credit scoring that would allow it to manage risk more effectively and, in turn, reach deeper in every community with un- or minimally-collateralized loans.⁵ Finally, beyond the next three years, Prizma recognizes that deepening its reach requires a greater array of service options, including the introduction of small flexible savings services that ensure routine savings and ability to draw down these savings, again, to better manage crises, take advantage of opportunities, and otherwise address important life-cycle needs.

'Mission Drift'

Prizma has increased its commitment to poverty reach in the past year rather than drift from such a mission. However, as mentioned above, World Bank Mission pressure on the sector as a whole to achieve full-financial sustainability (as a primary objective) over a short time horizon (≤ 3 years), coupled with internal pressure to secure new financing contingent on full sustainability, has distracted Prizma somewhat from focusing on the poorest. Additionally, Prizma's concern for larger numbers of clients has led it to increase its clientele base, which has brought new less poor clients into its fold.

Prizma's Experience with Impact Research

Prizma completed a USAID-funded AIMS impact survey in 2000, which hypothesized that (a) Prizma was reaching its target clientele; (b) the household well-being of its clients was improving (measured by fixed assets, expenditure, and savings); and (c) there was an improvement in clients' business (measured by income and fixed assets). Whether Prizma was serving the poorest in a significant way was not the focus of the study. Rather, the survey asked whether Prizma was reaching poor and low-income women generally. In retrospect, a research focus on reaching the poorest would have certainly influenced Prizma's re-direction to the issue of depth of outreach sooner. An important, if predictable, confirmation of the study was that many poor clients, including the poorest, were diverting some or much of their enterprise loans to non-enterprise basic household needs. This was the genesis of Prizma's recently launched small basic needs product, which is now enabling the Organization to reach very poor clients more effectively.

Prizma's Potential Contribution to Wider Learning

Given its youth, Prizma has a long ways to go in offering a comprehensive strategy to reach the poorest in the Bosnian context. What Prizma may offer are some important lessons about the role of microfinance in reaching the poorest in a post-conflict setting, where people remain divided and vulnerable as a result of war, ethnic conflict, and economic transition.

Challenges to the Microfinance Sector as a Whole

The broad microfinance sector is still grappling with a number of important issues, including the view that profitability must supplant sustainability. In the past five years there has surfaced a widespread view that the microfinance sector needs, by necessity, to achieve strong profitability and, in turn, link with capital markets to secure long-term financing. However, only a small handful of MFIs in the world have achieved significant profitability and tapped capital market financing. Thus, there remains the question whether such profitability is possible for the sector, but more importantly, whether such ambition (and donor incentives) will move MFIs away from developing services designed to reach the poorest. In short, will this 'capital markets' paradigm lead to greater depth of outreach or simply push MFIs to shed a poverty focused mission and lose their developmental imperative?

⁵ Though not a direct parallel, evidence in the US affirms that scoring has led to a strong move down market among credit card and other financial service providers.