

3. Sustaining Social Performance:

Institutionalising Organisational Learning and Poverty Outreach at Prizma, Bosnia and Herzegovina

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1. Introduction

In recent years, important segments of the microfinance industry have demonstrated a renewed interest in and commitment to understanding how to effectively reach poor people, assess their level of poverty, and judge the performance of microfinance service providers. However, for all of the public and, increasingly, private money that flows to microfinance, there are few models that provide guidance on reaching, and making a positive impact on the lives of poor people in a sustainable manner over an extended period of time. In fact, remarkably few microfinance organisations (MFOs) are capable of even demonstrating how many of their clients are poor and to what degree. As new tools for evaluation and market analysis suggest, failure to monitor and evaluate social outcomes can cut costs in the short term at the expense of achieving long-term social and economic objectives (Murdoch and Haley 2002: 6).

In Central and Eastern Europe and the Newly Independent States (CEE-NIS) – one of the youngest regions for microfinance – this picture is affirmed in the results of a recent survey undertaken on behalf of the SEEP Network.¹ The results of the survey echo the state of the industry more broadly, with the majority of the 41 institutions responding that they do not have any holistic approach to poverty assessment. Nor do any use proxy indicators that provide reliable information on poverty outreach that would indicate to the institutions and their external stakeholders that they are reaching their mission-defined target group. In fact, only half of the organisations even attempt to measure the poverty level of their clients and those that do use only direct economic measures (MFC/SEEP 2003: 2–3).² The survey indicates that practitioners themselves wish to identify indirect means to measure their clients' poverty status in order to satisfy internal stakeholders and understand their depth of outreach. Commensurate with the need to measure clients' poverty status is that of enhancing social performance, including depth and breadth of outreach and impact. This article outlines some steps that the MFO Prizma has taken to enhance and sustain social performance by institutionalising organisational learning and deepening outreach to the poor in the culturally specific context of Bosnia and Herzegovina.

1.1 The context of Bosnia and Herzegovina

Out of a pre-war population of 4.4 million, the war in the early to mid-1990s left 250,000 people dead or missing, and over 50 per cent of the population displaced. Significant displacement and the destruction of housing and production facilities led to a dramatic reduction in living standards and an equally dramatic increase in poverty (Chong and Bosogno 2002: 63). The devastation that war brought meant that Bosnia and Herzegovina's loss of gross domestic product (GDP) exceeded that of any other transition country, even those that had also suffered war during their transition (*ibid*). Despite an estimated 23 per cent loss of the population as a result of death and migration, per capita GDP dropped from US\$2,000 in 1990 to an estimated US\$500 in 1995 (World Bank 1999: vi; 48).

In response to Bosnia's severe condition more than \$5 billion was invested in the five years following the end of the war (OHR 2000) with little or no formal assessment of actual need. However, donor funding is clearly diminishing in Bosnia and Herzegovina as other areas of the Balkans and other corners of the world capture attention. At the same time, there are estimated to be 42 registered financial service organisations in Bosnia and Herzegovina (Dunn and Tvrtkovic 2003: 10). In a country of an estimated 3.5 million people, this has translated into the most competitive microfinance environment in the region and one of the more competitive environments in the world. It is in this context that financial self-sufficiency has become absolutely imperative, especially for those MFOs not selected for long-term, subsidised funding under the World Bank's Local Initiatives Programme (LIP).

1.2 Prizma overview

Founded in 1997 by an international non-governmental organisation³ and registered locally in 2001, Prizma is still a relatively young institution with a great deal to learn and capacity to grow.⁴ Prizma's vision is to provide people with choices to improve their lives; its 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. The fully localised institution now serves roughly 10,000 active clients from five decentralised branch offices and more than 30

satellite offices across the country. In 2001, Prizma achieved full financial self-sufficiency, generating an annual surplus of more than \$100,000.

Prizma's steps to strengthen social performance, increase its internal and external accountability for depth of outreach and impact, and position itself strategically to remain effective in an increasingly competitive environment, have been based fundamentally on board and management analysis of the context and needs of poor people in Bosnia and Herzegovina. In addition, there is an increasing body of research that demonstrates the potential, diversity, and flexibility of microfinance service providers to achieve social impact while strengthening their institutional viability. Among important recent findings are the following:

- Microfinance can help reduce extreme poverty more than moderate poverty (Khandker 2003: 21);
- MFOs do not necessarily face a trade-off between sustainability and outreach (Barrès 2003: 29);
- Institutions can become self-sufficient, reaching a poor clientele with productivity and efficiency gains based on solid credit methodology, streamlined operations, an effective management information system (MIS), and skilled staff (Nègre and Maguire 2003: 17);
- Microfinance can be effective for a broad range of clients, including the very poor – those living in the bottom half of those below a country's poverty line;
- Excellent financial performance does not preclude strong outreach to poor households;
- Reaching the poor is not at odds with maintaining excellent financial performance and professional business practices; and
- Organisations that seek to address poverty and vulnerability as an explicit goal and make it a part of their organisational culture are far more effective at reaching poor households than those that prioritise financial performance (Murdoch and Haley 2002: 6–7).

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* is that social and institutional performance are mutually enforcing goals. Within this principal framework, Prizma has focused on three critical objectives:

- Measuring and deepening outreach in an environment of poverty and growing inequality;
- Improving service quality and institutional performance in an environment of growing competition; and
- Measuring and improving social impact. To these ends, the organisation has sought to enhance social performance by institutionalising organisational learning and deepening poverty outreach, focusing fundamentally on leadership, organisational culture, incentives, and systems.

2. Institutionalising organisational learning

2.1 Understanding poverty in Bosnia and Herzegovina

As the outline of poverty and vulnerability at the beginning of this article indicates, there is still much to learn about the extent, nature, and severity of poverty and vulnerability in Bosnia and Herzegovina. Employing qualitative and quantitative research methods and drawing on available external research, Prizma has sought to better understand who is poor in this post-war and transitional setting and to what extent the organisation is reaching these people. Additionally, Prizma has sought to identify and mitigate biases that lead to exclusion of the poor.

2.1.2 Internal research

First, Prizma is mining rich existing information from its MIS, to better understand seasonality, risk, and other salient features of poorer segments of its clientele. Second, the organisation has worked with staff of the Microfinance Centre for Eastern Europe

and Newly Independent States (MFC) to adapt participatory rapid appraisal (PRA) tools, used for many years in the developing world and recently adapted to microfinance by MicroSave-Africa,⁵ to the culturally specific context of Bosnia and Herzegovina. Employing these adapted tools, Prizma has sought to better understand the multidimensional nature, complexity and dynamism of poverty; the daily challenges and vulnerability that people face; client, non-client, and staff perceptions of the poor; and the landscape for financial services more generally. Third, with financial support from the Consultative Group to Assist the Poorest (CGAP)⁶ and the Ford Foundation-funded *Imp-Act* programme, Prizma contracted an independent research firm in 2002 to carry out a poverty assessment to assess the poverty level of clients relative to non-clients, and a national omnibus survey, incorporating the questions from the poverty assessment, to assess poverty more generally across the country. In addition to contributing to Prizma's understanding of the character of poverty, this research – the first of its kind in the region – highlighted areas of the country where poverty is most prevalent and, thus, ways in which Prizma can strengthen its targeting and outreach. Additionally, it has provided Prizma with valuable information on which its organisational learning, poverty assessment, and impact monitoring work is progressing.

Among other findings, Prizma's research indicated that:

- Sixty-four per cent of new clients are among the poorest and moderately poor terciles in every community in which it provides service;⁷
- Poverty is particularly prevalent among ethnic minorities, returnees and refugees, women, people in rural areas generally, and in many communities of the Federation and virtually all communities of the Serb Republic;
- The character of poverty in the country is complex, encompassing an educated “new poor” who may have a significant asset base but limited and intermittent income, as well as a more “traditional” poor who have few assets and little or no education, and limited and intermittent income;

- While some regions of the country have a greater concentration of poor people, there are dramatic differences in poverty among regions and within each region due to the ethnic and rural character of poverty; and
- Shelter, an asset that has proven a critical indicator of poverty in the developing world, is only modestly correlated with poverty among the 'new poor' – those with an important asset base but limited and intermittent income.

2.1.3 External research

Complimenting its internal or contracted research, Prizma has drawn on recently completed Living Standards Measurement Survey (LSMS), United Nations Development Programme (UNDP), and other data, to correlate non-economic proxies for its clients' poverty status identified through the GCAP poverty assessment and omnibus research. Among the important findings, recent research concludes that 27.3 per cent of the population is considered poor and 11.5 per cent can be considered extremely poor (Chong and Bosogno 2002: 64), but as indicated in the omnibus survey, significant variations exist within each region and among regions across the country. For example, Chong and Bosogno report that in the Republika Srpska – one of the two legal entities that comprise Bosnia and Herzegovina – 51.9 per cent of the population is below the general poverty line and 21.5 per cent of the population is living in extreme poverty (2002: 64). Additionally, only 20 per cent of the poor live in urban municipalities, indicating that poverty is concentrated predominantly in small communities – villages and towns – across the country (World Bank 2002: 30). Sadly, ethnic cleansing appears to have succeeded, directly or more likely indirectly, in isolating ethnic groups from one another in significant pockets of poverty (Chong and Bosogno 2002: 69). Importantly, individuals employed in state-owned firms, socially owned enterprises, and government face higher risk of being poor than those employed in the private sector or self-employed in microenterprise, following similar findings in other transitioning countries. In fact, the private sector has the lowest poverty and extreme poverty risk (ibid). Meanwhile, inequality has deteriorated since the end of the war, with 50 per cent of the population receiving just 20 per cent of the total income (ibid) – a particularly striking development

given Bosnia and Herzegovina's relatively egalitarian pre-war societal structure.⁸

2.2 Understanding exclusion

Drawing on Simanowitz's analysis of exclusion (2002: 1–2), Prizma has identified areas and means by which poor people have been left behind through informal and formal exclusion. Understanding exclusion has been central to Prizma's organisational learning, leading it to re-evaluate aspects of its operations and re-engineer its performance management system, including incentives, to deepen and broaden outreach.

2.2.1 Informal exclusion by the organisation

Prizma has identified and taken steps to address informal exclusion – one of the most significant areas that cause poor people to be left behind.

- Through ongoing focus group and drop-out research, and regular feedback from field staff, management has sought to better understand clients and non-clients' perceptions of the organisation, to ensure poor people find affinity with its image, public projection, and staff approach. Understanding poor people's perceptions has also been critical to Prizma's efforts to monitor and clarify its strategic position and identify market opportunities in an increasingly competitive environment.⁹
- Through regular market research Prizma has identified ways in which products, policies, and procedures have contributed to informal exclusion of poor people.
- Branch managers have undertaken focus group research with non-management staff to understand and develop strategies to mitigate staff bias towards poor people.
- Prizma is piloting new means of delivering service to poor people in rural areas, leveraging organisational infrastructure and capacity, and community networks and trust.
- Given that many solidarity groups are formed along income and ethnic lines, and the

exclusionary dynamic this represents for poor and very poor people who are less influential in forming or joining groups of less or non-poor members in small communities, the organisation is facilitating group formation by poorer members.

- Prizma has taken steps to simplify paperwork, minimise eligibility requirements, and shift tasks requiring literacy and numeracy from applicants to trained field staff.
- Finally, Prizma has re-assessed its approach to repayment delinquency – one of the most important areas of informal exclusion among lending organisations – based on knowledge that poor and vulnerable people often face family and business crises, intermittent pension, salary or remittance payments, or otherwise struggle to maintain smooth income flows that allow them to provide for their family's and their basic needs. Though branch managers have full autonomy to approve renewal applications from clients who have previously been delinquent for understandable and compelling reasons unrelated to willingness to repay, field staff bias and Prizma's previous loan officer incentive programme had previously led loan officers to screen out and exclude larger numbers of clients with repayment difficulties, so that many poorer applicants' cases never made it to the credit committee.

Recognising that minimising arrears is fundamental to its long-term viability, Prizma has maintained very strong portfolio quality since its inception.¹⁰ However, with experience it has also recognised that portfolio quality, like financial self-sufficiency, is a means to an end and something that can be maintained through a combination of incentives, disincentives, and delinquency management approaches. Thus, following trend analysis using historical data from its MIS and reflection on the nature of credit risk in Bosnia and Herzegovina, Prizma abandoned repayment rate altogether as a measure of short-term portfolio quality and shifted loan officers' monthly bonus weighting for portfolio at risk (PAR) from >1 to >30 days past due. Given that repayment for all products is monthly, this step has effectively freed branch managers and loan officers from the pressure to

maintain zero portfolio at risk for arrears of 1–30 days. At the same time, branch managers have emphasised stronger outreach to poor people, analysis of poor clients' circumstances when any payment becomes one day past due, and sensitive differentiation between clients' *ability* and *willingness* to repay.

This combination of steps has helped diminish a long-standing tendency for loan officers to practise zero tolerance for delinquency by screening out and informally excluding clients who do not contribute to perfect portfolio quality calculated at one day past due and, in turn affect their monthly incentive pay and professional standing in the branch. Prizma's portfolio quality has remained very strong, but field staff now have somewhat greater flexibility to understand and negotiate repayment with those clients who occasionally suffer a family crisis or other setback. Preliminary evidence also suggests that greater flexibility towards delinquency in the first 30 days of arrears is helping reduce voluntary and non-voluntary drop-out. Though flexibility towards delinquency may seem heresy in some corners of the industry, it is one of a number of areas Prizma has identified opportunities to strengthen social and institutional performance by increasing efficiency, reducing drop-out generally, and better retaining those most often left behind.

2.2.2 Formal exclusion by the organisation

Prizma has also identified formal attributes of the organisation and its service that have led to exclusion of poorer people. By recognising that some product attributes, such as high minimum loan sizes or stringent collateral requirements, discourage poorer applicants, Prizma has refined product terms to better match poor people's needs and capacities. Prizma has researched, pilot-tested, costed, and launched new products to meet a broader array of needs of poorer segments of its broad low-income clientele, including non-enterprise needs such as small sums that help clients smooth income flows. The organisation has also affirmed ongoing support for start-up enterprises, including those that require modest inputs and limited risk. Branch offices approve the large majority of all applications for start-up

enterprises, and lack of collateral is rarely a deal-breaker, provided a client can demonstrate some knowledge of the risks and needs of the enterprise. Finally, though Prizma remains a lending-only organisation by law, ongoing research is helping position the organisation to address poor people's critical non-credit needs at a point when the legal environment allows it to engage in broader activities.

2.2.3 Self-exclusion by clients

Self-exclusion is another area where Prizma has taken steps to understand and mitigate bias. Analysing historical delinquency data from the organisation's MIS and branch practices confirm the degree to which group loan sizes grow over time as a result of disbursement pressures and explicit or implicit step lending. Though many poor and low-income clients can and do absorb larger loans over time as their capacity grows or seasonality leads to periods of higher demand, emphasis on automatic increases over time, particularly within groups, can lead to poorer clients' self-exclusion. To understand this informal bias Prizma has undertaken focus group research with poorer clients and non-clients and, among steps, introduced a new quick access individual product with a modest collateral requirement, to address poorer clients' smaller, short-term needs, and re-emphasised lending based primarily on clients' identified need rather than on automatic increases.

2.2.4 Client exit

Finally, Prizma has taken important steps to understand and address client exit, a phenomenon that is costly to Prizma's bottom line of achieving sustainability and its effort to achieve sustained social impact over time. These steps are:

- To understand who is leaving voluntarily and why, Prizma tracks drop-out generally and among poorer clients specifically.
- Prizma follows up on trends highlighted through drop-out monitoring using exit interviews and focus group discussions with poor drop-outs, to explore causes of exit in greater depth.

- Drawing on important learning from the Small Enterprise Foundation (SEF) in South Africa, and other organisations, Prizma now includes drop-out in its loan officer and annual team incentives, matched with strategies to help loan officers and other front-line staff better retain clients.¹¹
- Prizma has re-evaluated the causes and costs of forcing people out as a means to maintain very high portfolio quality. A policy of zero-tolerance was a prudent step to minimise credit risk when Prizma was a young organisation in a fast changing post-war environment in 1997. However, with more experience, increasing competition, and the desire to support clients' longer-term needs and wants, Prizma now recognises the financial, competitive, and social costs of failing to be flexible and the need to encourage greater service flexibility.¹²

3. Managing for social performance

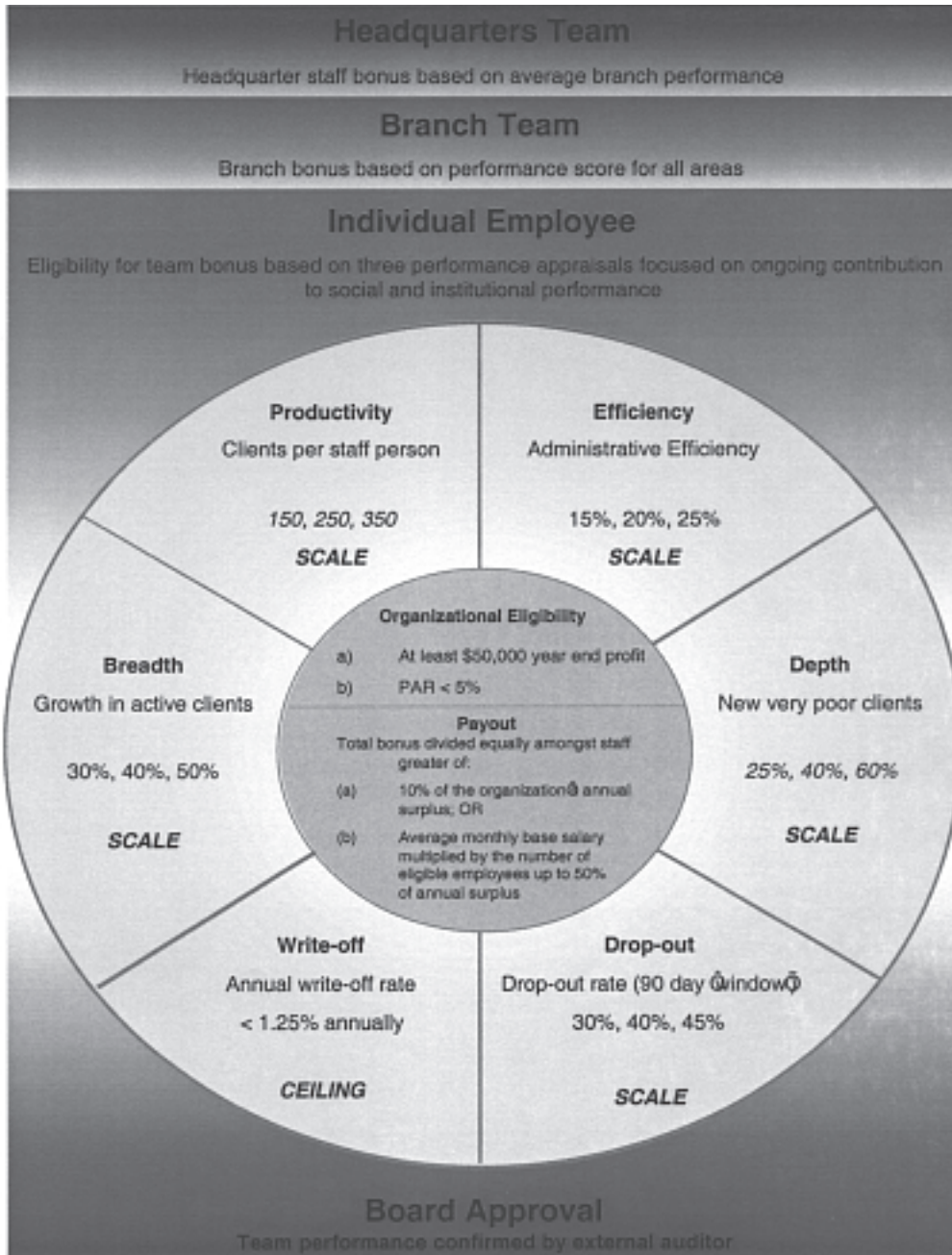
3.1 Leadership

Leadership has proven critical to Prizma's progress on its social performance agenda, as senior and middle managers have strengthened the organisation's pro-poor orientation and re-affirmed the pro-poor mandate embedded in its mission. The management has applied 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. Also, while senior management has led the organisation's social performance agenda, it has also sought to develop and nurture middle and non-management leadership on this agenda across Prizma, recognising that any effort to deepen outreach, improve service quality, and strengthen impact must be broadly supported and implemented by field staff engaged with poor people in communities across the country.

3.2 Organisational culture

Organisational culture is fundamental to Prizma's historic and future social and institutional performance, and senior management has taken important steps to communicate and reshape the

Figure 1: Team incentive balancing social and institutional objectives



culture to balance developmental and institutional objectives. The management has revised and strengthened the recruitment and induction process to ensure mission, vision, and organisational values are central to every applicant and employee's introduction to and training within Prizma. The management then affirms mission and values on an ongoing basis via the organisation's intranet, memos, annual retreat, and regular office visits. Also, it has been clear from Prizma's inception that communicating branch, product, and organisation-wide performance results to staff on a regular basis yields accountability for results and strong consequent performance. Thus, headquarters provide social, financial, and portfolio performance reports to staff on a monthly basis via the organisation's intranet and regular branch level meetings. The next section highlights ways in which Prizma has integrated appraisals with performance reporting in six core performance areas, to tightly align incentives and performance with its fundamental social and institutional objectives.

3.3 Incentives

Perhaps one of the most important areas where Prizma has taken steps to enhance and institutionalise social performance has been in re-engineering its performance management system – appraisal, reward, and communication – to better align employee interests and rewards with 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,¹³ including those in 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 a second 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.¹⁴

Rather than a reward for short-term results, this incentive affirms strong team performance towards the organisation'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 branch network overall; if those in the field succeed, headquarters is rewarded.¹⁵ Figure 1 summarises 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 the 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.

4. Measuring social performance

4.1 Assessing poverty and monitoring impact

Internal and external research and other organisational learning have moved Prizma along a continuum of three critical objectives: determining the relative and absolute poverty level of its clients; strengthening targeting of and service to poor and very poor clients; and measuring change in the lives of these people over time. Working closely with the MFC and members of the 'Microfinance for the Very Poor' working group under *Imp-Act*, Prizma has used data from the UNDP's Early Warning System, a recent LSMS, the CGAP poverty assessment and omnibus survey, focus group research with clients, and input from staff, to identify robust (non-economic) proxy indicators to assess clients' poverty status and monitor impact over time.

Developed as a scorecard, this system serves two critical purposes. First, it enables Prizma to report on the poverty level of every client in absolute terms in relation to the national poverty line and the international '\$1 a day' measures. This new capacity to gauge the poverty status of clients in a fairly clear and cost-effective manner is based on robust and meaningful indicators rather than on average outstanding balance as a percentage of gross national product per capita – an easy but wholly inadequate means of gauging depth of outreach in Bosnia and Herzegovina. Second, it enables the organisation to measure discrete

change in clients' well-being over time, to indicate to internal and external stakeholders the extent to which the organisation is improving clients' and their families' well-being. While this system does not, on its own, capture the complex, dynamic, multi-dimensional, and context-specific nature of poverty in Bosnia and Herzegovina, it does enable Prizma to understand and demonstrate more clearly and on a regular basis the extent to which it is (a) reaching who it seeks (and claims) to be reaching, and (b) fulfilling its social mission.

5. Conclusion

This article has outlined the primary ways in which Prizma has set out to enhance and sustain social performance, by building capacity for and undertaking ongoing research, leveraging leadership, shaping organisational culture, crafting appropriate incentives, and developing systems to assess poverty status and monitor impact. Through this process Prizma has learned or affirmed a number of important lessons:

- People's poverty status does not determine if they are able to access microfinance services, whereas good institutional design, in the form of leadership, structure, culture, incentives, can answer some of these questions.
- Organisations committed to effective and sustained poverty outreach and positive impact must maintain absolute focus and clarity of purpose.
- Organisations committed to serving large numbers of poor and very poor people must be ruthless about efficiency and transparent about performance.
- Sustained service that leads to positive impact requires understanding and differentiating between poor people's developmental *needs* and market *wants*. This understanding, in turn, will allow organisations to sustain social performance by effectively balancing developmental and institutional imperatives.

Notes

1. The SEEP Network is a network of US-based organisations engaged directly or indirectly in microfinance.
2. It is widely recognised that direct measures are more prone to bias – respondents' overstatement, understatement, or withholding of information based on their perception that such action will serve their interests *vis-à-vis* the microfinance.
3. The International Catholic Migration Commission (ICMC). Though primarily focused on non-microfinance interventions to assist and support refugees or those in refugee-like settings, ICMC has leveraged donor funds to develop and fully localise three MFOs in the Balkans – DEMOS, a Croatian savings and loan cooperative, the Kosovo Enterprise Program (KEP), and Prizma in Bosnia and Herzegovina.
4. For more information on Prizma see www.prizma.ba
5. See www.microsave-africa.com for more details.
6. CGAP is a consortium of 29 bilateral and multilateral donor agencies which support microfinance. CGAP serves microfinance institutions, donors and the microfinance industry through the development of technical tools and services, the delivery of training, strategic advice and technical assistance, and action research on innovations.
7. Though findings suggest that Prizma is reaching its mission-defined target group in general, because the CGAP poverty assessment is a relative measure, it is not a definitive statement on poverty outreach.
8. Emphasising this point, Milanovic (1998) finds that per capita income Gini coefficient of the Country is 0.45 – among the highest of all transitioning countries – compared to a pre-war coefficient of 0.26.
9. One of the clearest opportunities for Prizma has been the fact that most of its peers have begun moving up market. Thus, for both developmental and competitive reasons, Prizma has continued its move to serve a larger number of poorer people, particularly in rural areas.
10. Between 0.5 per cent and 1 per cent portfolio at risk 1–180 days.
11. In addition to strengthening products and service generally, Prizma Management monitors cross-selling between products and involuntary drop-out, which offer opportunities to improve client retention.
12. In 2002, Prizma began using activity-based costing (ABC) to calculate product and other costs of its operations. In 2003, the organisation plans to pursue credit scoring to manage risk, improve efficiency, and further deepen outreach.

13. PAR 31–180 days, loans disbursed, client caseload (per product), and drop-out. Additionally, depth is monitored and rewarded non-financially.
14. Performance is measured against historic benchmarks rather than targets set by branch teams themselves, to mitigate the risk of ‘gaming’ – over or under targeting – that can result when teams or individuals are rewarded for performance towards targets they have been tasked with setting.
15. Prizma’s external auditor confirms performance results at the end of the year to ensure transparency and objectivity before the board of directors approves the bonus.

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