

## Impact Analysis and Social Return on Investment

"To claim that tangible assets should be measured and valued, while intangibles should not - or could not - is like stating that 'things' are valuable, while 'ideas' are not."

~ Barach Lev, Professor  
Stern School of Business, NYU

### SOCIAL IMPACT

Receiving a Prisma loan generates significant social impact in the following areas:

- ⇒ **Human Capital Development:** relates to improved economic standing, heightened self-esteem and sense of empowerment, and creation of a stable financial situation for borrowers
- ⇒ **Community Development:** resulting from borrowers improved economic standing and ability to give back to the community
- ⇒ **Corporate Governance:** refers to the equity incentives that Prisma will offer to its employees and its ethic of empowering its staff through inclusive decision-making roles
- ⇒ **Socially Responsible Market Creation:** speaks to the industry-wide desired outcome of Prisma's activities, which is to be at the forefront of the B2-4B revolution, developing viable products to improve the situation of the world's four billion poor people

#### ❖ Human Capital Development

Prisma's impact on human capital development results from the positive externalities generated by each dollar lent. The positive externalities start a ripple effect, which leads to subsequent ripples such as 1) improved diet as a result of having a stable cash flow and 2) increased education level for borrowers' offspring who can stay in school rather than be forced to drop out to contribute to the family's income. Improvements to borrowers' lives can be seen in all areas of basic need as a result of having a higher standing of living.

#### ❖ Community Development

In addition to improving individual borrower's economic situation, Prisma's loans also fuel community development, which in essence is the aggregated effect of the individual loans. The loans improve the standing of individual borrowers, thus stabilizing economies at the community level.

The sense of empowerment that comes from economic stability also leads to greater community involvement. This involvement can take many forms, including being involved with public health projects such as latrine building, providing for community members who are sick or in a time of crisis, and skills transfer to other local business owners. These activities and interactions build healthy, sustainable communities.

These impacts of human capital development and community development are incorporated and quantified in the social return model described below in terms of dollars lent.

❖ Corporate Governance

Prisma is offering a balanced, inclusive equity structure that extends to every employee. Senior management is indigenous, except for David Satterthwaite, the CEO and President, who worked in Nicaragua for five years. There is local representation on the board, currently one-third of the membership. Equity incentives in Latin America, including ESOPs, are far from the norm, especially for a small company. However, by doing so Prisma is promoting a new business culture of equitable private property ownership in an American company - this is globalization at its most positive!

❖ Creating a commercial market that benefits poor people

According to Jeffrey Ashe, founder of Boston's Working Capital and former Vice-President of Accion International, there are approximately four billion people throughout the developing world without access to affordable credit. Entrepreneurs with excellent skills and incredible ideas are restricted in their opportunity due to lack of financial resources. Even the small amount of money needed as investment capital to start micro-enterprises like weaving baskets and selling them at the local market is beyond the grasp of the majority of the world's poor.

The world's 'unbankable' populations have three options:

1. gather limited resources from family and friends
2. borrow from a moneylender at exorbitant rates
3. turn to a microfinance institution like Prisma.

Frequently, family and friends cannot generate the necessary excess cash and the moneylender's rates are too high to be able to pay them back. So, only a loan from an institution like Prisma can result in the successful growth of a new business that may break the cycle of poverty.

According to industry sources, less than \$10 billion currently is invested in the worldwide microfinance industry. This does not even scratch the surface towards serving this market. Microcredit is NOT a panacea solution for social problems. But, it is a useful tool for many to bridge the gap out of poverty and improve their lives. In addition to this activity providing a social return, there are equally compelling market driven motivations to undertake these operations using private capital - providing this service can produce a financial return.

As with any industry sector, once an example of a successful model is provided, others will enter the field. Microfinance then will become a viable commercial market, serving billions of the world's poor.

## **SROI METHODOLOGY AND ANALYSIS**

While some of Prisma's Social Impact Areas are easily quantifiable, others are best evaluated in terms of qualitative impact analysis. Human Capital Development and Community Economic Development are included in the quantitative analysis using number of dollars lent as the unit of measurement. The qualitative methods analyze aspects of all four impact areas. The following sections outline Prisma's quantitative and qualitative methodology for measuring SROI.

### **Quantitative Analysis**

*CURRENT SROI ANALYSIS:* In developing its quantitative methodology, Prisma has drawn from models developed by Roberts Endowed Development Fund (REDF), one of the leaders in social enterprise. The use of a social benefit/cost ratio, adjusted for present value, gives a clear sign as to whether the social benefits outweigh the social costs and by what degree. Using traditional cost/benefit analysis benchmarks, if the ratio is greater than or equal to one, the project should be pursued.

$\text{SROI Ratio} = \frac{\text{Present Value of Social Benefits}}{\text{Present Value of Social Costs}}$
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### **Social Benefits**

Social benefits accounted for in the quantitative analysis of SROI include ripple effects from improving one's financial situations through receiving a loan, such as:

- improved health for all family members, leading to higher productivity on a long-term basis
- increased education for borrower's children as they are not required to drop out of school in order to supplement the family's income
- increased civic participation as a result of a heightened level of confidence and overall sense of self-worth

These benefits are cited extensively in microfinance literature, including by industry leaders such as FINCA and ACCION International. The social benefits are captured in terms of dollars lent to borrowers, as they are the outcome of the loan. The dollar amounts in the table below are taken from the financial projections for Prisma's loan portfolio. They represent the total number of dollars Prisma expects to lend in each year.

### **Social Costs**

Prisma has always borrowed capital at market rates, therefore eliminating the social cost of subsidies or grants often included as social costs in SROI analysis. We have included a small social cost that reflects loan loss due to our choice to

make loans to extremely high-risk individuals. As our loan loss has historically been under 1%, the estimated social cost per dollar lent of \$.05 used in the model reflects our acknowledgment that in undertaking an expansion strategy into new geographic markets, we run the risk of an increase in the loan loss rate. Even taking that into account, \$.05 is a generous estimate.

**Prisma's SROI Ratio: 2000 - 2004**

	2000	2001	2002	2003	2004	TOTAL
<b>Benefits</b>	\$ 906,272	\$1,309,380	\$4,427,150	\$5,449,600	\$10,648,000	<b>\$22,740,402</b>
<b>PV of Benefits</b>	\$906,272	\$1,138,591	\$3,347,561	\$3,583,200	\$6,088,029	<b>\$15,063,654</b>
<b>Costs</b>	\$45,336	\$65,469	\$221,358	\$272,480	\$532,400	<b>\$1,137,043</b>
<b>Present Value of Costs</b>	\$45,336	\$56,930	\$167,378	\$179,160	\$304,401	<b>\$753,205</b>

**Present Value of Social Benefits/Present Value of Social Costs = \$15,063,654/753,205 = \$21**

A benefit/cost ratio of 21 means that for every unit of cost, 21 units of social benefit are derived. As the unit of measurement in this model is dollars, the social return can be assessed as \$21 of social benefit for every \$1 of social cost incurred.

The fact that Prisma's SROI ratio is as high as 21 indicates that in terms of benefit/cost analysis, it is an attractive project, with an extremely high social return on investment.

*FUTURE SROI ANALYSIS:* Ideally, Prisma would quantify its SROI in terms of the increase in income derived directly from the loan. Measuring income generated specifically from a Prisma loan is complicated in that it would involve measuring a portion of each borrower's increase in income, rather than their total income. This approach would require an in-depth understanding of loan usage and borrower's expenditures. We propose to develop this understanding through the qualitative methods described below.

A SROI analysis based on incremental increases in income would enable Prisma to project the increase per month in income over time. We would then calculate the social net present value of that increase and calculate the appropriate social internal rate of return.

**Qualitative Analysis**

Prisma has historically collected some of the information described below, such as customer finances, professional activities, age, and gender. Based on our experience, we believe the most effective way to gather information on a going forward basis is to administer questionnaires at the loan's beginning, closing, and annually thereafter (on a voluntary basis), in conjunction with qualitative interviews. These new methods will standardize the process of information gathering and enable Prisma to do more rigorous quantitative analysis, in addition to maintaining a clear sense of its customer base - even

as it rapidly expands. Information gathered from customers will include both economic and social indicators.

#### 1) Economic Indicators

As bankers, we must make loans that are fiscally responsible and will be paid back. Therefore, we need to determine a borrower's financial status before, during, and at the end of the loan. During the loan application process, we will collect information about customers and their finances, including their professional activities, income, historical income, familial financial resources, and projected future income. This builds on the information Prisma currently collects, and believes is reasonable to collect in the future.

#### 2) Social Indicators

Because of the level of trust we establish with customers, they have been consistently helpful in providing information enabling us to track their status. At the time of the loan, social indicators including age, gender, economic condition of borrower, number of family members, and current income are provided. Throughout the term of the loan, it is easy to track the number of employees, business income, and changes in standard of living. This is done implicitly by following the timeliness of loan payments and seeing if loans payments are made on time, or late. Receipt of late payments usually indicates a change for the worse in the borrower's status. We will also begin using a standardize method for tracking the ongoing conversations Prisma staff has with customers, through which much information about social indicators is gathered. At the end of the loan, the same information will be formally gathered with an exit questionnaire. Plus, because of our active involvement in the communities we serve and the fact that many customers renew loans for additional working capital, we will be able to track social indicators longitudinally.

Information gathered through loan review, questionnaires, and interviews will be included in Prisma's Annual Report. This will enable our investors to track the SROI and ensure that we stay true to our mandate of doing well by doing good.

*"If we are looking for one  
single action which will  
enable the poor to overcome  
their poverty, I would focus  
on credit."*

*~ Dr. Muhammad Yunus  
Founder, The Grameen Bank*