

OCTOBER 2015

CASE STUDY

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*The authors wish to thank
Monica Velasco for her
valuable input.*

IDEPRO

Desarrollo Empresarial

Introduction

IDEPRO Desarrollo Empresarial (IDEPRO) is a Bolivian development finance institution founded in 1991. IDEPRO has a portfolio of USD 53.8 million with 19 branches across the country providing financial and non-financial services to 13,037 clients.¹ The institution's mission is to contribute to the improved productivity, incomes, and employment of rural and urban small producers and micro and small enterprises with specialized products and services. To advance this mission, IDEPRO offers credit and other services, and monitors client outcomes using a comprehensive impact evaluation system.

Thanks to its impact evaluation system, IDEPRO is able to state confidently the degree to which it is achieving its mission, and to provide data to demonstrate the outcomes its work has on clients' businesses. However, this has not always been the case. IDEPRO's impact evaluation system has been an evolutionary process, and over the course of the last ten years, the organization has progressed from occasional external impact evaluations to a continuous internal monitoring that allows IDEPRO to report rigorous data on its outcomes regularly.

In 2005, IDEPRO's leadership hired an external consultant to analyze the impact of its services on its clients. The evaluation showed that the credit and business development services (BDS) were not spurring meaningful change in the productivity, employment, or income of the clients' micro-enterprises. In short, IDEPRO was not achieving its mission to a satisfactory degree. So IDEPRO decided to make significant changes. One of those changes was the development of a new product line, Pro-Cadenas, a value chain-based credit product with specialized business support services. One year after the launch of Pro-Cadenas, IDEPRO designed and implemented an impact evaluation system to measure the effect the new services were having on its clients' businesses.

¹ Figures current as of September 2015.

Pro-Cadenas

The Pro-Cadenas line was developed in response to the external evaluation that showed IDEPRO was not achieving its desired level of impact on its target clients. The institution developed a hypothesis that in order to have a greater impact, credit and business development services should be offered together and specifically tailored to the unique characteristics of the key sectors in IDEPRO's target communities.

To test this hypothesis, the institution broadened its product offering from a single standardized microcredit product to a value-chain oriented credit product with highly specialized BDS delivered for five priority sectors (i.e., Brazil nuts, wine grapes, quinoa, textiles, and timber). The sectors were chosen by IDEPRO through a comprehensive diagnostic assessment that mapped the entire value chain for each sector along with:

- the status of clients within the value chain
- bottlenecks within the value chain
- opportunities for sustainable productive linkages
- competition among MFIs for target clients.

Pro-Cadenas financial services take into account the specific sector in which the client operates as well as the client's type of business, and where the business falls along the value chain (e.g., whether the client is a small producer, processor, or exporter, etc.). The BDS include financial, commercial, and environmental technical assistance.

Why is it important to measure outcomes?

Whether good or bad, intended or unintended, outcomes are the results that tell an organization whether it is achieving its mission. By regularly measuring and analyzing outcomes, an organization can improve products, inform decision-making, and enhance its double bottom-line.

Systemically using outcomes data to improve performance requires a commitment from the organization's leadership. The process involves defining indicators, gathering data, setting targets, analyzing outcomes, and implementing the necessary changes based on those findings. Although setting up a system can involve a significant upfront investment, there are economical solutions to make it cost-effective, as IDEPRO has shown. No matter how limited its budget, there are steps that any organization can take to track outcomes and evaluate whether products and services are creating positive effects in the lives of its target population.

Since its launch in 2006, the Pro-Cadenas portfolio has grown to USD 14.4 million and 2,336 clients, with a 20 percent growth rate in the last two years alone. Compared to IDEPRO's standard microcredit product (Pro-Micro), Pro-Cadenas has had less client turnover, lower delinquency rates, and a higher level of client satisfaction. Given the lower rate of delinquency within the Pro-Cadenas line (1.7 percent compared to the 4.0 percent seen in the Pro-Micro line), this product also reduces administrative costs through lower costs of collection and provisioning.

The Impact Evaluation System

Since the founding of IDEPRO, the leadership has always believed it important to measure the extent to which the organization is meeting its mission. In the beginning, evaluations were conducted by external consultants, but the creation of Pro-Cadenas caused a shift in IDEPRO's approach. The whole purpose of the Pro-Cadenas line of products and services was for IDEPRO to advance its mission by offering its clients a holistic and highly specialized set of services—Pro-Cadenas was a big investment. IDEPRO did not want to risk that investment falling short of its objectives, so an internal impact evaluation system was designed to monitor impact continuously and allow for more frequent adjustments to products and services.

IDEPRO's Impact Evaluation System measures impact at the level of a client's business rather than the client. This metric was chosen based on IDEPRO's theory of change, which argues that increasing the profits of a client's business will improve income and quality of life not only for the owner of the business but also for employees. Through the Pro-Cadenas product, IDEPRO chose to test whether it was achieving impact in four areas related to the institution's mission:

- overall impact of the Pro-Cadenas line
- impact by value chain
- impact by business activity (within the value chain)
- impact by type of service offered (financial services or financial services plus BDS).

IDEPRO wanted a system that was both operationally and financially sustainable, so it decided from the beginning to track only a small number of indicators. It began by testing ten indicators, chosen from the long list of indicators already routinely collected by loan officers during initial client visits to record socio-economic and financial data on loan applications. IDEPRO selected those indicators that best coincided with its ability to measure the institution's target outcomes, which included:

- revenue (monthly average)
- inventory
- income (monthly average)
- total equity
- total liabilities
- fixed costs (monthly average)
- variable costs (monthly average)
- level of production (monthly average)
- average price per unit
- employment generated.

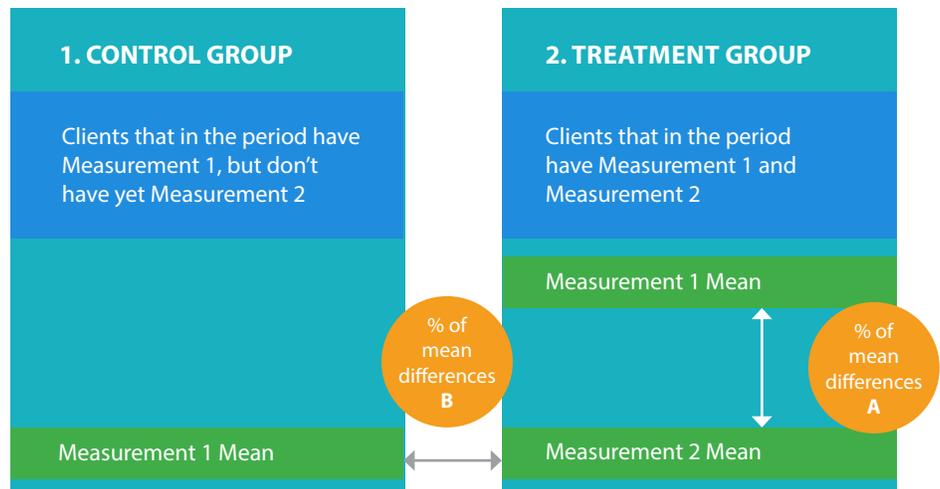
From this list, IDEPRO selected five main areas of outcomes—revenue, income, equity, employment, and productivity—and defined indicators for each. These indicators were chosen based on their relevance to IDEPRO's mission (i.e., to improve productivity, incomes, and employment of small producers and micro-entrepreneurs).

INDICATOR	FORMULA
REVENUE: Monthly average	Amount of product(s) sold in the last year multiplied by the average selling price of the product divided by 12
INCOME: Monthly average	Revenue generated in the last year minus (variable costs in the last year plus fixed costs in the last year) divided by 12
EQUITY: At the time of the assessment	Value of all of the business' assets at the time of assessment minus the value of the business' debt with third parties or other businesses, at the time of assessment
EMPLOYMENT: Monthly average	Number of permanent and temporary employment positions, from the last year, generated by the business divided by 12
PRODUCTIVITY: Monthly average	(Value of production during the last year divided by the average number of employees during the last year) divided by 12

Data collection on these key indicators occurs at two or three points during the client’s first two loan cycles. First, a loan officer collects the baseline data during the credit application process for all clients. Next, business advisors from the Pro-Cadenas staff collect subsequent data both one year and two years after the first loan’s disbursement, or the end of the loan period, whichever is applicable. After the data has been collected, the branch manager reviews it for accuracy and then sends it to headquarters, where the impact evaluation system is housed. At headquarters, trained analysts compile all of the branch data, validate it, and conduct various statistical tests. The baseline data is used as a proxy for a control group and the follow-up data is analyzed to determine both the amount of change in the clients’ businesses and the percent of that change attributable to IDEPRO’s intervention. Given the wealth of information in the database, it is also possible to analyze data by client and by other characteristics such as gender, purpose of the loan, amount of the loan, and sector, among other factors.

In terms of attribution, IDEPRO has created its own formula to calculate the amount of the change in its clients’ businesses that is attributable to their participation in Pro-Cadenas. The control group consists of customers for whom IDEPRO has only baseline information, collected before the credit was approved. At the time of data analysis, all members of the control group have spent less than one year as Pro-Cadenas clients. The information obtained from this group is compared with the information of the treatment group, whose members have baseline information as well as information collected one year after the disbursement of their first credit with IDEPRO. Any additional increase observed (A in the diagram below) – beyond the percentage increase in the mean difference between the control group’s baseline data and the second measurement done on the treatment group (B in the diagram below) – is attributed to the intervention of IDEPRO.

ATTRIBUTION METHOD FOR IDEPRO’s IMPACT EVALUATION SYSTEM



The increment of **A** with respect to **B** is attributable to IDEPRO’s intervention through the Pro-Cadenas product and services.

In order to ensure both the consistency and quality of the data, IDEPRO developed a very detailed manual for its impact evaluation system that covers the following topics:

- continuous data collection
- monthly transfer of data to the central database
- monthly validation and data cleaning
- annual statistical data analysis
- preparation of a semiannual report
- who should receive the report
- how this information should be used.

The internal audit department is responsible for monitoring adherence to the procedures contained in the manual, and that department evaluates the quality of information incorporated into the system at the branch level. Since the procedures are considered institutional policies, any infraction is subject to the penalties described in the Internal Staff Regulations manual.

Applied Data

Information is key to being able to make claims about impact, but simply collecting and compiling data is useless if there is no follow-up action. IDEPRO fully utilizes its impact evaluation system not only to measure whether or not it is achieving its mission, but also to make strategic and operational decisions.

IDEPRO has designed a multi-step system of analysis and reporting that involves internal stakeholders at all levels in the examination of the data and the discussions on how to improve performance. Twice a year the manager of institutional development, who oversees the program, generates a report summarizing data from the system and offers strategic and operational recommendations based on her analysis of that information. The mid-year report is shared with senior management at headquarters and the field staff of each branch where the Pro-Cadenas line of products is offered. The year-end report is shared with these groups, as well as with the board and shareholders.

In addition, the information from the impact evaluation system is integrated into the institution's larger social performance data set (containing data on the Universal Standards for Social Performance Management, SPI social audits, social ratings, and the Client Protection Principles). That data is analyzed in a series of "integrated quality management workshops" that take place in each branch that offers the Pro-Cadenas product and involves all the branch staff. From these seven workshops, an annual action plan is produced that identifies any necessary adjustments or opportunities to strengthen the institutional strategy to advance the social mission.

Information from the impact evaluation system has also helped IDEPRO adjust its strategy and the financial models for selected value chains within Pro-Cadenas. For example, in 2013, information from this system prompted IDEPRO to terminate its work in the tourism value chain because results there did not meet the institution's threshold for desired level of impact. Branch managers also use the information to better understand the different client segments that exist in their local markets and to make changes to products and services to better meet these clients' needs. The business manager uses the information to make more general adjustments to product offerings as well as to define corporate-wide policies related to the institution's target market segments. The information is also helpful to determine whether adjustments to the staff incentives policy are warranted.

Steps in building IDEPRO's Impact Evaluation System

- 1. Select hypotheses and indicators** – IDEPRO chose four hypotheses to test regarding its outcomes. To test these hypotheses, it selected ten indicators from the long list of indicators already being collected by loan officers. IDEPRO then narrowed this list even further to the five indicators most relevant to its mission.
- 2. Determine data collection method and timetable** – IDEPRO chose not to hire additional staff, but rather tasked its existing loan officers to collect baseline data during the credit application process. Next the business advisors from its "Pro-Cadenas"² staff were assigned to gather follow-up data at various points (either at the end of the client's loan period, or at both one year and two years after the initial loan disbursement, as applicable).
- 3. Set up a system to transfer, validate, and clean data** – To ensure consistent and high quality data, IDEPRO created a detailed manual for its staff. The manual describes the processes for data collection, transfer, validation and cleaning, statistical analysis, reporting and uses of the information. The data collected at each branch is reviewed and validated by the branch manager. Once a month, the data from all branches is sent to headquarters, where it is compiled and validated by Pro-Cadenas analysts.
- 4. Ensure quality data** –The internal audit department monitors staff and ensures that they follow the procedures and policies outlined in the data collection manual. The IT Department supports data security, as the system administrator maintains hard copies and digital files of all client data.
- 5. Conduct analysis and reporting** – Pro-Cadenas analysts conduct different statistical tests and use attribution analysis to determine impact. IDEPRO produces a semi-annual report, which is distributed to all internal stakeholders, about the results of its outcomes monitoring and analysis.
- 6. Apply the results of the analysis to operations** – The board, senior management, branch managers and Pro-Cadenas business advisors all receive copies of the semi-annual impact reports. IDEPRO also shares this information with its field staff through annual workshops in each branch, where the impact evaluation report is reviewed and discussed alongside other social performance management information. Both at the headquarters and branch levels, the findings are used to make changes to products and services and to improve operations.

² Pro-Cadenas is a product line in which IDEPRO provides credit and business development services to clients in certain priority sectors.

Cost/Benefit

Monica Velasco, IDEPRO's manager of institutional development, described the impact evaluation system as "not a cost, but rather an investment." When an organization is contemplating whether and how to measure impact, it should consider the long term. Depending on the type of system an organization selects, there can be significant up front costs, but if the system is well implemented and the data analyzed and used to guide operational decisions, then the benefits, both tangible and intangible, outweigh those costs.

The main cost of the system for IDEPRO was related to the data collection by the six Pro-Cadenas business advisors who spend about 30 percent of their time on data cleaning and preparation before sending the data to headquarters. A headquarters-based analyst also spends about 30 percent of his time cleaning and analyzing the data, as well as preparing the semi-annual reports, which takes two to three days every six months. IDEPRO was able to save on costs by leveraging existing mechanisms, such as using loan officers to collect baseline data (which was already part of their job) and analyzing indicators already collected by those loan officers. The decision not to define new indicators saved IDEPRO from having to collect additional data, and therefore saved it from having to modify its MIS and place more of a data collection burden on the loan officers.

In addition to measuring mission effectiveness, for IDEPRO, the investment in the impact evaluation system has yielded two principal benefits: credit risk management and refinement of products and services. When IDEPRO increases the productivity, income, and employment of its clients' businesses—that is, when it succeeds in its mission—those clients are better able to repay their loans. With improved repayment capacity comes a significant decrease in delinquency and collections costs, cost savings which can be passed along to clients. The impact monitoring system also assists in developing differentiated products and services for the various segments among IDEPRO's clients. It allows IDEPRO to see the impact created by each product or service and to adjust terms and conditions to maximize the potential impact. In sectors where the level of impact does not meet the institution's threshold for producing value, IDEPRO can eliminate a product or service altogether, or make adjustments to enhance effectiveness.

Conclusion

IDEPRO's experience demonstrates two critical and related points. First, actually measuring outcomes is essential to determine whether an organization is achieving its social mission. Second, strategic use of outcomes data can help an organization advance that mission, by yielding valuable insights into areas such as risk management, client retention, and product design. Ultimately, good data does not just measure outcomes—it helps shape them. Implementing an outcomes monitoring system is an investment whose benefits, both to the clients and the institution, significantly outweigh the costs. ■