Outcomes Working Group
Brief on Session 12: Opportunities for Outcomes Management in MSME finance
(July 2016)
Presenter: Debbie Watkins, Fern Software

Micro, Small, and Medium Enterprises (MSMEs) represent the 'missing middle' for credit, and microfinance institutions as well as other banking institutions are beginning to move into this space. In this webinar, Debbie Watkins discussed some unique features of this sector, the importance of viewing outcomes in a business context, practical challenges in collecting information on business indicators, and an innovative approach to tracking outcomes with reference to the goals of the business owner.

Outcomes measurement for MSME lending is important for a number of reasons relevant to the development opportunities associated with this level of business:

- Determine whether the services add value to the business
- Determine whether the services also contribute indirectly to employment and to the value chain of the business
- Ascertain the business readiness for follow-on services.

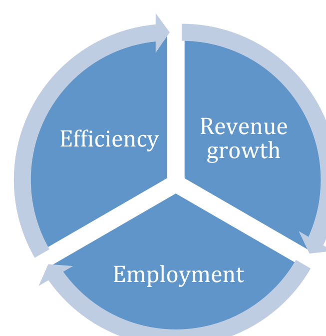
Relevant indicators for MSMEs are therefore not only the typical business indicators (assets, growth, profits), but also indicators to capture a transition from a typically informal, micro-individual business to a more formal, small business, with regular, better paid employees, making regular payments to suppliers. Examples of such indicators are as follows:

Reduction in:
- reliance on money lenders
- risk of theft
- temptation to dip into savings

Increase in:
- ability to cope with financial shocks
- keeping business money separate from household money
- ability to plan for the future
- bankability/creditworthiness

Moreover, in the wider context of 'national building', we need to know whether business loans are catalysing the "growth cycle" of:

Efficiency	Investment in equipment, technology
Revenue growth	Investment in marketing, new product lines
Employment	investment in new jobs, or avoiding layoffs due to cashflow problems



"All too often, business loans do not catalyse the "growth cycle" – the business owner repays the loan, but their business has not moved forward."

How to measure outcomes effectively and reliably?

a) We can ask direct questions:
   - "Do you rely less on money lenders than you did before"?"
   - "Are you more able to cope with financial shocks?"

b) We can ask indirect/triangulated questions:
   - "Where did you last borrow short-term funds?"
   - "If you needed the equivalent of two months' income urgently, where would you get it?"

c) We can observe how they deal with these issues in their daily lives.

d) We can consider other tangible measurements that would drive all of the other outcomes.

But there are obvious challenges:

- Without triangulation or validation, you cannot be sure the answers are accurate; small businesses (and most people!) tend to overstate or understate facts and figures, because of pride, concern about the tax inspector, human error, and other reasons.
- Observation or validation can be time consuming and intrusive – "Why do you want to know all of this?"

An alternative approach – linking in with business goals

An alternative approach is to ask clients at intake about their goals for their business: e.g. How will they use the money? What will this achieve for them? What do they expect the end result to be? And then measure the results at the end of the loan cycle, and compare these to the goals stated at the outset.

An explicit discussion with the client about outcomes, can serve to bring a focus to the use of credit and planning. The benefits of this approach – to the service provider, and to the business owner – are that:

- The business owner thinks about what they want to achieve with the funds
- You are able to evaluate this and provide guidance on any flaws in their approach (i.e., help them to become more business-savvy)
- If you decide not to give a loan, you can explain why not and what they could do to be reconsidered
- Having articulated it (and see you write it down) they are more focused on achieving it
- They will not have any objection to the end measurement, as it was discussed at the beginning and can be the basis for another loan.

Example: managing outcomes with advisory services to help clients develop their business skills

OACFDC, Canada represents Community Futures Development Corporations (CFDCs) in Ontario, offering free business counselling, loans for start-up and expansion of small business, strategic planning on local projects, and community economic development in rural areas. In-depth counselling interviews with business owners involve discussions about business goals with a focus on the catalysts of the "growth cycle," along with recording of data and review of the data in subsequent visits.

The OACFDC was previously using a number of disparate and disconnected software solutions to track activities, loans, and outcomes. In 2014, it contracted Fern Software to develop a new integrated MIS. The solution has been rolled out to 35 CFDCs so far, enabling all activities related to the client to be recorded, including whether the business is starting up with the loan, being maintained, or expanded, as well details of jobs maintained or expanded.

The experience has been that whilst asking questions may not produce accurate or meaningful results, tangible measurements are more reliable. And combining loans and visits with technical assistance can help MSMEs use funds effectively. Having an integrated MIS enables coordinated tracking with visibility of the "big picture."