

Media Development Impact Dashboard 2006



Key Findings

- In 2005, more than 21 million people in developing democracies got their news from 28 current MDLF clients.
- After six years with MDLF, clients on average had increased their readers, listeners or viewers by 33 percent.
- In 2005, MDLF clients together generated nearly \$104 million in sales.
- After two years with MDLF, clients on average increased their sales by 54 percent and after six years by 191 percent.
- In 2005, each dollar invested by MDLF leveraged \$3.57 in sales by MDLF clients, compared to \$2.49 in 1999.
- For every \$10,000 invested in 2005, MDLF supported access to independent news for 7,299 readers, listeners and viewers, compared to 1,871 in 1999.
- In 2005, based on MDLF's risk ratings, 19 of MDLF's 27 clients maintained a level of financial risk compatible with long-term sustainability.

MDLF's Impact Dashboard
was developed with funding from



Measuring Effectiveness

Media Development Loan Fund promotes and reinforces democratic development by helping independent news media to become commercially sustainable businesses. It provides low-cost financing and management training to enable leading journalists to develop viable enterprises, contributing to their countries' development over the long term.

In case-by-case reviews, MDLF and its donors have been able to see the positive results achieved with most of its clients. However, up to now there has been no way to systematically measure impact on media sustainability, no way to objectively gauge effectiveness. Yet it is critical to MDLF's mission – and to its funders – to understand how much it is assisting news companies become self-sustainable. In 2006, MDLF moved beyond its detailed monitoring to an objective, systematic means of measuring overall effectiveness.

MDLF has developed two ways of measuring its impact on the sustainability of independent media.

- **Client Impact** – by analyzing details of client businesses, such as sales figures and the number of people who get their news from that outlet, it can accurately measure how clients' businesses are developing and whether they are becoming more financially secure.
- **Portfolio Impact** – by compiling all the client impact results, MDLF can measure the overall impact of its loan and investment portfolio.

MDLF Portfolio

For its first 10 years, starting in 1996, MDLF measured its impact by tracking its portfolio numbers, such as new annual investments and principal repayments by clients. While these numbers remain important, MDLF has started looking even deeper with the Impact Dashboard.

In 2005, MDLF worked with 33 clients in 13 countries, ranging from Guatemala to Malaysia, Armenia to South Africa. Most of MDLF's clients were in Russia, Ukraine and Serbia. The 13 new projects funded in 2005 included such investments as establishing printing houses, purchasing printing equipment, constructing new premises and financing expansion. In addition to two new clients, MDLF funded 11 new projects for existing clients and continued intensive monthly monitoring and managerial technical support for ongoing projects.

MDLF's portfolio includes both small, regional companies and national media outlets, ranging from OK Radio in southern Serbia with a listenership of about 21,000 to Kantor Berita Radio 68H in Indonesia, a network with approximately 13 million listeners. It should be noted, however, that media outlets of all sizes can have a significant impact on their cities, regions and, at times, countries. All MDLF clients, whether large or small, are leading news organizations in their market, directly connecting with decision-makers and the general public and helping to bring about increased openness, change and accountability.

	Cumulative (1996-2005)	2000	2001	2002	2003	2004	2005
Portfolio size:		10,575,272	14,167,011	17,488,168	21,460,940	25,724,091	29,132,836
Number of clients:	53	22	20	28	29	35	33
Number of countries:	17	11	11	14	12	15	13
New investments made:	45,829,148	3,394,083	5,126,174	5,314,588	6,953,244	8,019,611	7,334,488
New projects funded:	117	8	13	15	15	20	13
Principal recovered:	\$15,200,849	833,020	1,534,435	1,717,925	2,930,423	3,207,460	3,304,743

Measuring Impact on Sustainability

MDLF is well placed to measure changes in business performance over the lifetime of its involvement with each news company. MDLF analysts monitor detailed monthly financial reports and closely track changes in business performance. For the Impact Dashboard, this undertaking goes further. Analyzing the data on an annual basis, MDLF is able to precisely track long-term developments for each company throughout the investment relationship – generally five to 10 years. With this reporting system, established in 1996, MDLF has the necessary data to look deeply at change over time.

Over the lifetime of an investment project, many factors may impact the sales and the number of readers, listeners and viewers (“reach”) of each company – markets develop, political changes impact press freedom and shifts in the economy influence advertising. Although MDLF client data alone cannot show reasons for change, by maintaining close relationships with clients, MDLF can determine how its financial assistance has made its mark. For example, a printing press generates additional revenue, a new transmitter allows for wider broadcasting and new offices provide stability that would have been unattainable while renting in a state-owned building.

MDLF has identified three indicators that give an accurate insight into the overall sustainability of a news company: sales, reach and long-term viability.

Sales

- Sales refers to client income from circulation, advertising and printing services. This data is collected from monthly monitoring reports.

Readers, listeners and viewers

- To calculate a newspaper’s readership, MDLF averages monthly circulation results for its print clients, and then applies a “multiplier” to calculate the number of people who read each copy. MDLF included its clients’ primary newspaper, as well as secondary publications and websites that have strong news content or provide practical information. Overall, in 2005, the dashboard includes 27 print publications from 19 companies.

Measuring Impact continued

- To determine radio and television viewers, MDLF uses third-party research whenever possible. When not available, client estimates for market share are used. For clients that operate more than one station, the Impact Dashboard includes listeners and viewers for all channels that carry news.
- Figures have not been calculated for MDLF's one news agency client, Beta Press News Agency – cited by 87 percent of Serbian news outlets with national coverage as the most important news source in the country, according to a 2005 IREX study – as it is an indirect provider of news.

Financial viability

- MDLF looks at the long-term viability of its clients by using its risk-rating scale – as defined by seven key risk factors. In order to monitor the level of financial risk in each client business as part of its own risk management process, MDLF developed a scale for client companies from one (minimal risk) to nine. A rating of five is considered to be the highest rating that is compatible with long-term sustainability and, consequently, MDLF strives to keep clients below this danger zone.

Taken together, these factors evaluate the company's financial position, market position and management capacities.

[See the Methodology section on page 16 for further details of all indicators.]

MDLF Client Impact - Findings

Sales

MDLF financing, backed up by intensive technical support, aims to grow businesses, whether through printing or production facilities, equipment or other forms of support, so they can become sustainable in the long term. In most cases, this will result in significant sales growth over a period of time.

In addition to MDLF financial support and training, however, many factors can affect sales growth or decline. A lot depends on the client's owners and managers and their will to develop and adjust their business practices. Changing economies and advertising markets also can be unpredictable.

Despite these challenges, almost all MDLF clients have seen significant sales growth in the years following receipt of their first financing. After two years, clients on average increased their sales by 54 percent and after six years by 191 percent.

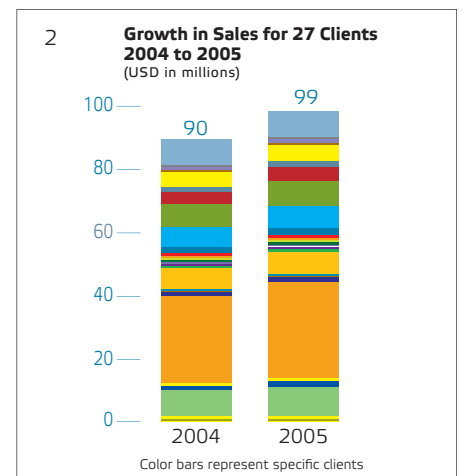
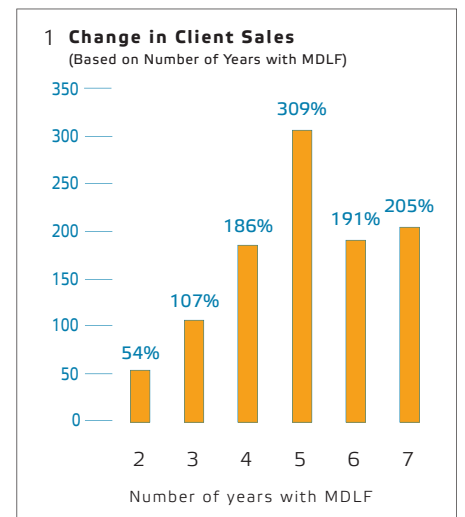
For the eight clients that have reached the six-year mark with MDLF:

- three increased sales between 51 and 150 percent;
- four increased between 151 and 300 percent; and
- one increased by 387 percent.

To examine changes in sales over the past year in more detail, MDLF compared total client sales in 2004 to sales of the same clients in 2005, both collectively and individually. Sales for the same 27 clients increased by 10 percent, from \$90 million to \$99 million. Of these, 23 clients increased their sales – 11 by more than 20 percent each.

The greatest increase in sales over this period – 283 percent – was for OK Radio, the client with the smallest reach, which created additional revenue by launching a café/news center at the station.

A spotlight on sales growth for two MDLF clients – in Croatia and Guatemala – helps to put the overall results in context, demonstrating the many factors that can impact sales results, including the partnership with MDLF.



Client Impact continued

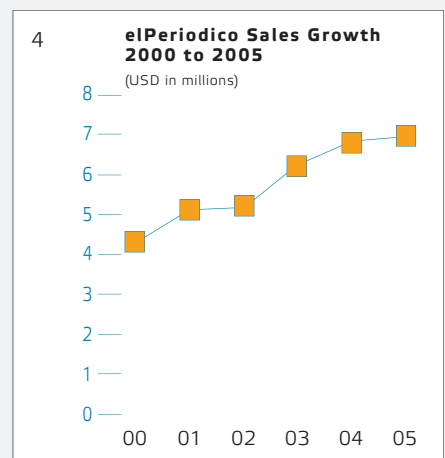
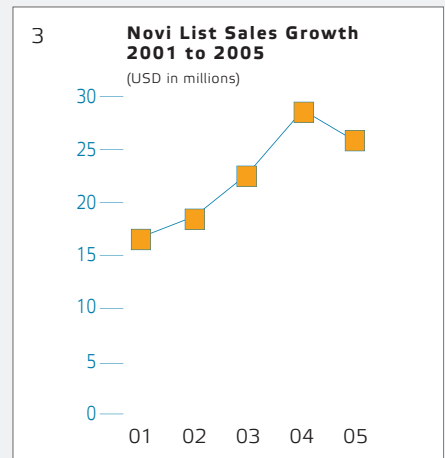
Spotlights

Sales at **Novi list** newspaper in **Croatia** increased from \$16 million in 1996 to more than \$26 million in 2005. On average, the company increased sales by seven percent each year it worked with MDLF. During the early years of Novi list’s relationship with MDLF, sales growth was stifled by pressure from the authoritarian Tudjman regime. However, following Tudjman’s death in 1999, government pressure on advertisers decreased and Novi list’s revenues increased strongly, despite new competition in the local market from West European media companies.

MDLF initially provided Novi list with loan financing for a computer network, facilitating its growth from a local to a national publication. Later, in 1999 and 2000, MDLF financing allowed for a dramatic upgrading and expansion of the company’s printing capacity. More recently, MDLF provided strategic assistance and advice to create a “super desk,” a method of organizing a newsroom for maximum collaboration among the company’s different media platforms.

Sales at **eIPeriodico** newspaper in **Guatemala** increased from \$4 million in 2000 to nearly \$7 million in 2005. The company’s primary challenge was to transition from a free newspaper to one that is paid for, while suffering intimidation through violence, advertising boycotts and threats for exposing government corruption. Despite these difficulties, as well as a sharp economic decline caused by collapsing coffee prices and a decrease in the advertising market, eIPeriodico has seen annual sales rise by an average of 11 percent per year since it started working with MDLF.

MDLF has provided funding at key points in eIPeriodico’s development and most recently supported the company with working capital to stabilize its relationship with a printing house. In 2006, MDLF expects to provide eIPeriodico with a loan to launch its own printing house.



Client Impact continued

Readers, listeners & viewers

In most cases, the number of readers, listeners or viewers is an important indicator of the underlying business performance of a news outlet. In addition, higher reach means more people have access to an independent source of news. However, occasionally there are times when a decline in reach is desirable and anticipated in the business plan, paradoxically making it more sustainable. After studying the market, for example, a newspaper might increase its cover price, resulting in fewer readers but an increase in revenues and savings in production costs. There also are external factors at play. In Russia, MDLF's regional clients have increasingly faced competition from Moscow newspapers and have had to find strategies to increase sales income, despite lower circulation.

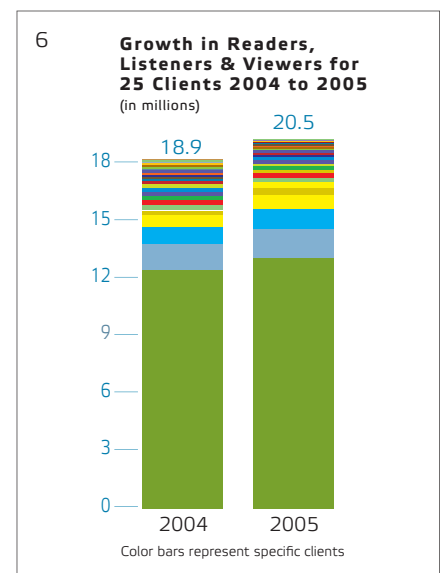
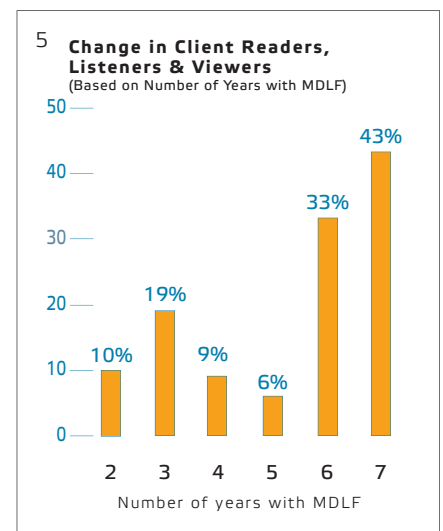
Even with these challenges, many MDLF clients have seen significant increases in reach after receiving their first loan financing. After six years with MDLF, clients on average increased their reach by 33 percent. This includes companies in regional cities that reach fewer than 50,000 people, mid-sized clients that reach several hundred thousand people and three clients that each has more than 1 million readers or listeners.

To examine changes in reach over the past year, MDLF compared total client data in 2004 to figures for the same clients in 2005. Results showed that 8 percent more people got their news from MDLF's 25 clients in 2005 than in the previous year – an increase of nearly 1.6 million people. As it is an indirect provider of news, these numbers do not include Beta Press News Agency, which over the course of its relationship with MDLF has become Serbia's primary news agency. For further details, see the Methodology section below.

Of the 25 companies:

- 15 saw an increase in reach;
- two stayed the same; and
- eight experienced a decrease in reach (seven of which, however, nonetheless increased revenues).

The largest growth in reach in 2005 – 100 percent – was for a newspaper in St. Petersburg, Russia that increased the number of its community editions. The most notable decline was for a small news magazine and printing house in Montenegro that was forced to close. The company's problems largely were due to its neutral position regarding independence from Serbia, an unpopular stance with officials who pressured businesses not to print at the company. Without printing clients, revenues were reduced and the company's business was destroyed. MDLF worked closely with the client to minimize its losses and ultimately close down the project.



Client Impact continued

Additional examples from Ukraine and Indonesia show the types of external factors that can impact reach over the course of a year, as well as how MDLF support can help media companies access more readers and listeners.

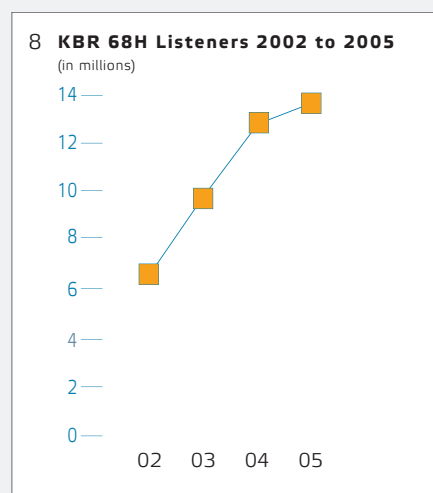
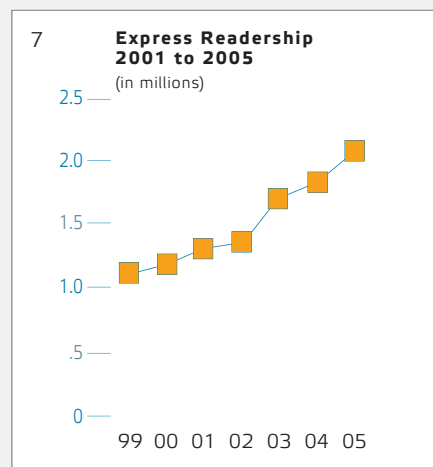
Spotlights

In **Ukraine**, readership of **Express** newspaper almost doubled from 1999 to 2005, climbing from over 1 million to more than 2 million – an average rise of 11 percent each year. Since MDLF’s first loan to Express, the company has grown from being the second paper in the city of Lviv into the country’s leading Ukrainian-language daily, with localized editions covering most of Western Ukraine. With MDLF financing, Express purchased a printing press, which it uses to print its own paper and to provide outside printing services to other publications.

Express has been an active leader of the independent press in Ukraine and an advocate for democratic change since its launch. Since the Orange Revolution, the circulation of Express has grown by about 50 percent, with its main Thursday edition reaching a circulation of about 600,000 copies with 2 million readers.

In **Indonesia**, the number of people listening to **KBR 68H** – a radio news agency that supplies local stations across the archipelago with 18 hours per day of news and information programming – increased from 6 million in 2002 to 13 million in 2005. KBR 68H achieved a large part of this rapid, 22 percent average annual growth by adding new stations to its network, which totaled 423 by the end of 2005.

KBR 68H is Indonesia’s only independent national radio news agency, providing news and current affairs programming via satellite to its network of radio stations. After the fall of authoritarian rule in 1998, radio stations were no longer restricted to airing state-sponsored news. For the first time, there was an opportunity to harness this low-cost medium to provide Indonesians with access to accurate, independent information. KBR 68H did so by using satellite and internet to link stations. MDLF co-funded and provided crucial technological support for the development of the radio network.



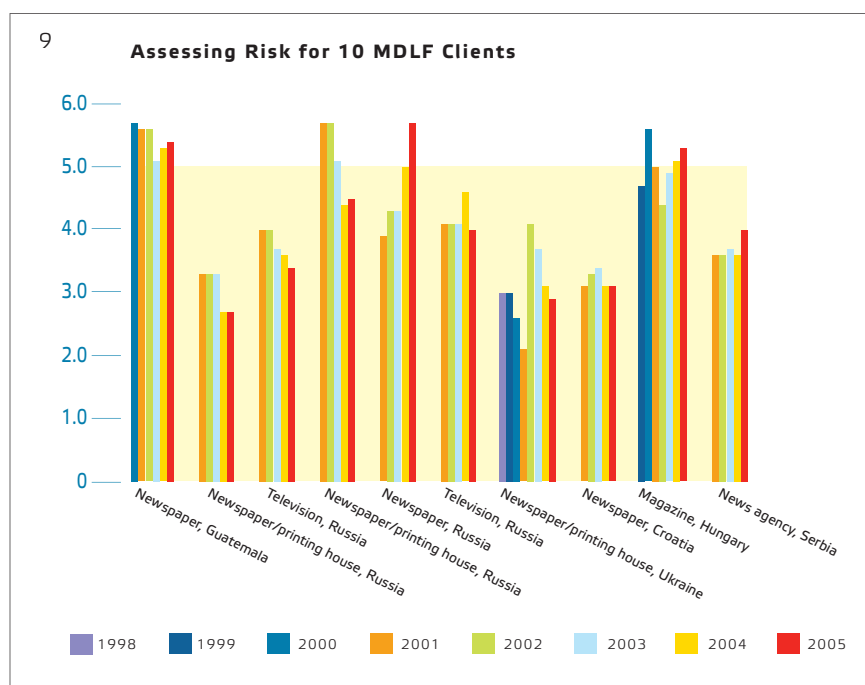
Client Impact continued

Financial viability

For news outlets to succeed in emerging markets, they must maintain an aggressive operational strategy. Not to take risks would hinder the company’s chances of long-term sustainability and financial success. MDLF encourages clients to periodically make new investments in their business so they can develop through a risk cycle: a new project is taken on and financial risk rises; the project is managed well and financial risk is reduced; a new project is taken on and risk rises once more. This happens, for example, with the expansion of a printing business or the launch of a new news product.

MDLF maintains an official risk-rating system, assessed by auditors, which is used to calculate loss reserves. From this system, MDLF derived seven factors that impact long-term sustainability. The rating ranges from one to nine, with the top rating being the most risky. While financial risk for clients varies over time, MDLF has been successful at keeping most clients below five, which is considered the point above which risk becomes unsustainable. MDLF also has been successful at bringing high-risk clients down to this advantageous level.

In 2005, 19 of MDLF’s 27 clients were ranked on the scale at five or below. Of those, five had at one time exceeded this acceptable level of financial risk, but have moved into the sustainable zone. One client irremediably moved out of this zone in 2005, a small printing house in Montenegro (see above). The adjacent chart shows fluctuations for 10 MDLF clients with risk ratings for five years or more.



MDLF Portfolio Impact - Findings

While gauging MDLF’s direct impact on the performance of individual client businesses is an important measure of its work, it does not tell the whole story. To give a fuller picture of MDLF’s overall impact, client results were compiled so that total effect on media sustainability could be measured: How many more people get their news from MDLF clients? How many more sales are leveraged from each dollar of loan financing?

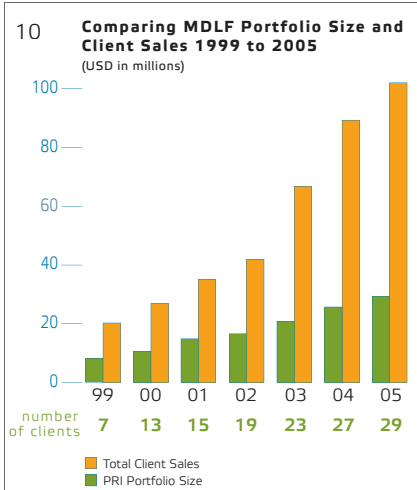
- MDLF identified two indicators that show overall impact:
- sales (income from circulation, advertising and printing services); and
 - number of readers, listeners or viewers.

Sales

There has been dramatic growth in the total sales generated by MDLF’s portfolio companies, which in 2005 reached \$103.8 million – virtually all in locally generated revenue.

This increase was partly attributable to the increasing number of client companies in MDLF’s portfolio, which climbed from seven in 1999 to 29 at the end of 2005, as well as the increase in MDLF’s portfolio size from \$8 million to nearly \$30 million.

However, a third factor also helps to explain the increased impact of MDLF’s portfolio: MDLF is achieving greater leverage from each dollar it invests. In 2005, every dollar invested in the portfolio leveraged \$3.57 in client sales, compared to \$2.49 in 1999, a gain of 43 percent. This increase might be explained by MDLF’s clients seeking financing for projects with higher rates of return, general increasing profitability among clients, projects benefiting from greater economies of scale, or growing client capacity to develop and manage projects.



	1999	2000	2001	2002	2003	2004	2005
Leveraged annual sales per \$1 invested	\$2.49	\$2.54	\$2.48	\$2.38	\$3.12	\$3.49	\$3.57

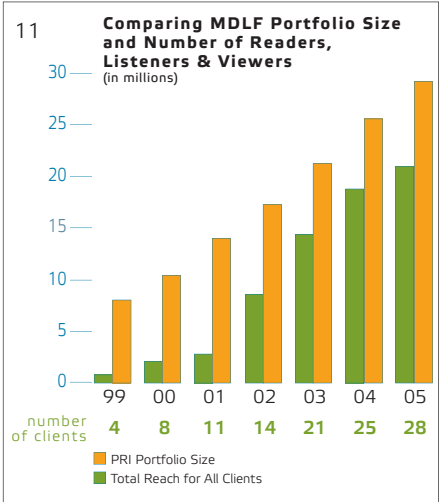
In addition, one constant factor contributing to the increasing impact of MDLF investments is the channeling of loans through a revolving pool. As each loan repayment is made, it is recycled and loaned out to other independent news businesses, meaning the effect of each dollar is multiplied. For example, a Colombian newspaper that has taken a \$500,000 loan to purchase a printing press might repay \$100,000 one year after its receipt. That \$100,000 in turn might then be lent out to a radio station in Indonesia to finance the purchase of a new transmitter. While the printing press in Colombia is still at work generating higher revenues for the newspaper, the transmitter in Indonesia – financed with the same \$100,000 – is at work increasing the revenues of the radio station.

Portfolio Impact continued

Readers, listeners and viewers

In 2005, more than 21 million people in developing democracies got their news from MDLF clients. This compares to 1.5 million in 1999. As with sales, the dramatic increase in readers, listeners and viewers was due both to the increasing number of clients in MDLF’s portfolio and the increase in MDLF’s portfolio size. Again, a third factor was the impact of each dollar invested by MDLF: For every \$10,000 invested in 2005, MDLF supported access to independent news for 7,299 readers, listeners and viewers, compared to 1,871 in 1999. This means that every dollar invested in MDLF’s portfolio helps to provide significantly more people with access to independent news.

MDLF’s client with the greatest reach – KBR 68H in Indonesia with 13 million listeners in 2005 – makes up more than 50 percent of total reach, and its dramatic audience growth without doubt is a major factor in the increasing number of news consumers benefiting from MDLF’s financing. However, as with sales, MDLF’s revolving loan pool model is also a constant contributing factor: As repayments are made they are recycled as loans to other clients, which ensures that each dollar goes to work again and again, multiplying the number of readers, listeners and viewers it impacts.



	1999	2000	2001	2002	2003	2004	2005
Reach for every \$10,000 invested	1,871	2,025	1,712	4,996	6,755	7,343	7,299

Portfolio Impact continued

Two regional case studies show the impact MDLF clients have through their reach.

Spotlights

In **Russia and Ukraine**, where MDLF has worked for 10 years, more than 5 million readers, listeners and viewers got their news from MDLF's 14 clients in 2005. This represents an increase of 4 million, or 335 percent, since 1999.

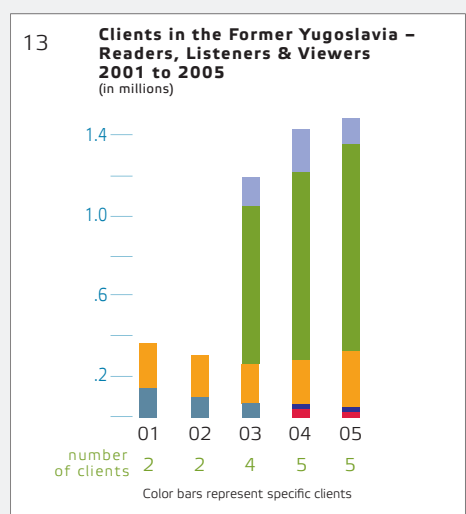
Part of this growth is explained by an increase in the number of clients, which rose from 2 to 14, and part by the development of existing client businesses, in particular the newspapers Express in Ukraine and Moy Rayon in Russia. Moy Rayon enjoyed readership growth of 100 percent from 2004 to 2005 through its strategy of developing 'zoned' editions of its newspaper in St Petersburg.

Most of MDLF's work in Russia and Ukraine has involved financing to establish printing houses and technical support related to advertising, distribution and printing house management. In the last few years, MDLF clients in the region have increasingly taken part in client-to-client visits to train and support their counterparts at other independent media companies.

In the **former Yugoslavia**, MDLF's five clients together reached more than 1.5 million readers, listeners and viewers in 2005. Compared to the reach of the same five in 2004, this represented an increase of 6 percent. MDLF's growth has accelerated along with that of its clients, particularly at TV B92 in Serbia, which has increased its television, radio and Internet audience by more than 44 percent since 2003.

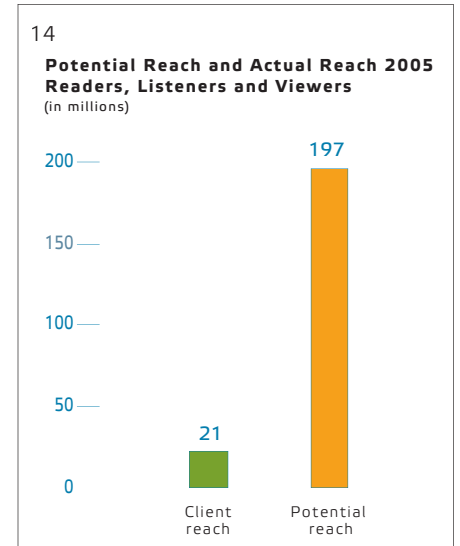
These numbers do not include the large number of ultimate users of news provided by Beta Press News Agency (see Methodology below).

In the former Yugoslavia, MDLF has supported its clients by financing the construction of new premises, broadcast equipment, working capital, printing facilities and new ownership structures during the privatization of socially owned companies.



Portfolio Impact continued

When analyzing MDLF impact, it is also interesting to note the size of the market – or “potential reach” – in which each client operates. In 2005, potential reach – i.e. relevant populations aged 15 or over – for all MDLF clients was 197 million, compared to 21 million for actual reach. While this suggests that there is clearly significant room for growth across the whole sector, penetration in any market will never approach 100 percent due to competition, access, literacy, cost etc. Interest in the specific type of news product is also a major factor. A magazine that features investigative or political articles, for example, will have a more limited audience than a sensationalist newspaper. Mass electronic media will inevitably reach more people than print, and a national publication may have more opportunities for expansion than a regional publication. Even so, this comparison provides perspective about the companies’ scale within their cities and countries.



Next steps

MDLF plans to update the Impact Dashboard each year and is continuing to explore the possibilities for additional metrics. MDLF also remains committed to assessing the value of each dollar invested in its portfolio. By understanding this very real return on investment – the social and financial result of media loans – MDLF, its donors and the media development community may better support independent media companies.

Glossary

Financial viability: Defined by seven key risk factors (see **Methodology** on the following pages).

Financing: MDLF loans and other financial investments, including such tools as finance leases and equity investments.

Independent media: Privately owned, nonpolitical enterprises that provide the general public with a socially valuable service through the publishing or broadcasting of independent news.

Portfolio: The group of companies in which MDLF has outstanding investments, including loans, finance leases and equity.

Reach: readers, listeners or viewers.

Risk rating scale: The set of key risk factors used by MDLF to measure the risk of loss of each loan (see **Methodology** on the following pages).

Sales: income from circulation, advertising and printing services.

Methodology

MDLF used three indicators to provide an accurate insight into the overall sustainability of news companies: sales; readers, listeners and viewers; and long-term viability. There are ongoing methodological challenges for each indicator, many of which MDLF aims to address in the next edition of the Impact Dashboard.

It should be noted that 15 companies were not included in the dashboard, due to lack of data. These were mainly for small or short-term loans, for which rigorous monthly reporting was not required. In addition, not all sales and reach data was available for a small number of clients.

In addition to the particular points raised in the Methodology Review and Challenges section below, other methodological issues included:

1. Sales

Sales includes the income from circulation, online subscriptions, advertising and printing services. This data is provided monthly by each client, and for the Impact Dashboard MDLF used the total sales figures for the year. Sales is a good indicator of the “size” of a business – showing growth over time as it moves toward sustainability.

To best represent percentage change by year, MDLF uses local currency for each country, referring to the annual conversion rate. For total sales, the USD equivalent is used.

2. Readers, listeners and viewers

MDLF averages monthly results of readers, listeners and viewers to calculate yearly “reach.” There are two issues to note:

- The overlap in readers, listeners and viewers for the 10 clients that have multiple publications or broadcast outlets was not calculated.
- A large percentage of MDLF’s reach (more than 50 percent) is due to one client – a radio network in Indonesia. This presents a risk of over-representation in the overall Portfolio findings and unduly diluting the impact of smaller clients.

Print:

Every month, print clients provide circulation numbers to MDLF as part of their regular reporting. The Impact Dashboard includes clients’ primary news publication, as well as secondary publications that have strong news content or provide useful information, such as those related to business or youth. Publications that primarily include entertainment content were not included. In 2005, the Dashboard includes 27 print publications from 19 companies.

For each publication, reach is significantly higher than circulation as, for example, several members of the same family usually read one copy of a newspaper. For clients that provided a specific “multiplier” for their publication – which when applied to circulation totals provides a more accurate number of actual readers – these were used to produce figures for reach. When no multiplier was supplied, MDLF used a multiplier of five. This figure was calculated by averaging the multipliers for missing countries in which MDLF has a client, as determined by the World Association of Newspapers, an independent organization of newspaper publishers, and – where both clients and WAN were unable to provide a figure – multipliers for neighboring countries.

Methodology continued

Publications that are free likely have a lower readership multiplier than applicable to paid-for newspapers, and magazines generally have a higher multiplier than newspapers. When provided by the client, specific reach numbers were used rather than the general multiplier.

Online:

In addition to one MDLF client that publishes solely online, 16 had websites that included news updated on a regular basis. MDLF was able to include reach estimates for seven that measured website traffic in 2005.

Online readers are the “unique visitors” who visit a site, taking into account the fact that server statistics tend to under-represent visitors. MDLF clients that monitor visits use data tracking software like StatCounter statistics, Nielson/NetRatings and Google Analytics. When possible, MDLF obtained both unique visitor data and the official readership estimate from each client, using the latter for the Impact Dashboard.

Methods used for measuring online readers varied, and some clients do not regularly track online reach at all. Only two clients supplied data on the percentage of online readers who are domestic versus international. A clearer distinction may be made in future editions of the Impact Dashboard.

Radio and television:

The number of listeners and viewers is calculated by estimating audience share, based on third-party ratings research whenever possible. Of MDLF’s nine radio and television clients in 2005, one provided estimates for its audience share based on its own research, seven provided external research and one gave no estimate.

Market research for broadcast clients was not consistent or, in many cases, regularly conducted. A company may look at average market share or prime-time share, for example, and the ages included in each study vary. In addition, for three MDLF broadcast clients that do not yet conduct market research on an annual basis, available reach numbers were used for missing years.

News agencies:

Figures have not been calculated for MDLF’s one news agency client, BETA Press News Agency in Serbia. The company’s subscribers include all the major news media in Serbia and the company views the entire population of Serbia as its audience. In addition, BETA has clients in Kosovo (about 2.5 million people) and Montenegro (about 670,000 people), which bring its immediate regional audience to about 3 million people. Additional clients in Slovenia, Macedonia, Bosnia and Herzegovina and Croatia also use BETA’s services, as do international news agencies. Overall, BETA’s services have more than 320 subscriber companies.

Potential reach:

MDLF requested “potential reach” data from all clients to give perspective on the size of the city, region or country in which they operate. An estimate was used for the city or municipal population if not provided. Potential reach generally estimated the relevant population that is 15 years and older, as defined by the client or the CIA Factbook.

Potential reach for several clients was particularly difficult to estimate, including an online news site in Malaysia and a radio network in Indonesia.

3. Financial viability

MDLF looks at the long-term viability of its clients by using its risk-rating scale – as defined by seven key risk factors below. These risk factors are drawn from a larger set of measures that MDLF uses to assess the risk of loss of each of its outstanding loans. Based on that risk assessment, MDLF sets the level of its loss reserves.

MDLF's management re-assesses the loss-reserve three times each year for presentation to and approval by its Board of Directors. The year-end loss-reserve is subject to review by MDLF's auditors.

Seven risk rating factors were used to demonstrate financial viability in the Impact Dashboard. The factors are measured on a scale of one (minimal risk) to nine. A rating of five is considered to be the highest rating that is compatible with long-term sustainability and, consequently, MDLF strives to keep clients below this danger zone.

The types of questions asked for each factor include:

1. Earnings/operating cash flow trends – Are earning trends substantial or strained?
Is there excess operating cash flow and a strong track record?
2. Asset/liability value – Are assets above average quality? Is leverage low? What is the liability type?
3. Financial flexibility/debt capacity – Is there access to the best international banks or large banks?
What are the credit rankings and status of debt capacity?
4. Industry/industry segment – What is the level of industry cyclical and vulnerability to sudden economic or technological change? What is the capital intensiveness and operating leverage?
5. Position within industry – Is the company a pricing leader and low-cost producer?
What are the performance ratios in the industry, and where does the company rank?
6. Management and controls – Is the company a world class organization with a highly experienced management team with continuity and depth? Does the company have modern and highly efficient facilities and excellent internal controls?
7. Financial reporting – Does the company have a clean audit with no qualifications with a major or reputable accounting firm? Does the company provide detailed and reliable monthly reporting?

Methodology review and challenges

There are three key areas of methodological concern in the Impact Dashboard 2006, MDLF's first effort to demonstrate client and portfolio change through data analysis. To the extent possible, MDLF aims to address these issues when assembling the Impact Dashboard 2007.

Key issues:

1. The validity and accuracy of the measures: Are the metrics used the most appropriate for measuring the impact of MDLF's intervention and are these accurate?
2. Establishing change: Are the changes over time above those expected by chance?
3. Establishing cause: Can it be established that any change that has occurred is causally related to the intervention of MDLF?

Validity and accuracy of measures

To assess the impact of MDLF's intervention it is necessary to use a number of independent measures that assess a sufficient range of different aspects of client activity. Emphasis was placed on three measures: sales; number of readers, listeners and viewers; and long-term financial viability. In terms of validity, these appear to be reasonable indices. However, statistically, to some extent it may be redundant to use both sales figures and readership/listeners because there is some correlation between the two measures.

To establish a greater breadth of valid measures, MDLF will examine the practicality of disaggregating the financial risk measure and considering capital reserves and assets separately from cash flow and earnings – one measure being an indicator of long-term, and the other of short-term, viability.

MDLF also notes inconsistencies arising from the application of multipliers to calculate readership figures. Efforts will be made to improve the accuracy and consistency of multipliers in future editions of the Impact Dashboard.

Establishing change

From a statistical viewpoint, it is necessary to determine whether or not changes that occur are beyond those that would be expected by chance variation. This requires the consideration of both the changes in the average (mean) and also the variation that would occur in each measure across all clients. It may be possible in future editions of the Impact Dashboard to establish for each measure the probability that change over time is not due to chance. Given the apparent size of the changes revealed in the Impact Dashboard 2005, it is very likely that most would prove to be statistically significant, but efforts will be made in future editions to demonstrate this beyond doubt.

Establishing cause

A final challenge lies in establishing that the changes revealed in the Impact Dashboard are due to the intervention made by MDLF rather than simply a general upsurge in the fortunes of media companies. To establish cause, it is necessary to determine whether change in each measure is greater than that which has occurred in other comparable companies that have not had MDLF intervention. In future editions of the Impact Dashboard, MDLF will try to examine the fortunes of comparable media companies and so better determine whether improvements in performance by MDLF clients are due to MDLF intervention.



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