How to do

Key performance indicators and performance-based agreements in rural finance

IFAD
Investing in rural people

Inclusive rural financial services

How To Do Notes are prepared by the IFAD **Policy and Technical Advisory Division** and provide practical suggestions and guidelines for country programme managers, project design teams and implementing partners to help them design and implement programmes and projects.

They present technical and practical aspects of specific approaches, methodologies, models and project components that have been tested and can be recommended for implementation and scaling up. The notes include best practices and case studies that can be used as models in their particular thematic areas.

How To Do Notes provide tools for project design and implementation based on best practices collected at the field level. They guide teams on how to implement specific recommendations of IFAD's operational policies, standard project requirements and financing tools.

The **How To Do Notes** are "living" documents and will be updated periodically based on new experiences and feedback. If you have any comments or suggestions, please contact the originators.

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List of acronyms

CBFO	community-based financial organization
CGAP	Consultative Group to Assist the Poor
FSP	financial service provider
KPI	key performance indicator
LAR	loans at risk
M&E	monitoring and evaluation
MFI	microfinance institution
MIS	management information system
PAR	portfolio at risk
PBA	performance-based agreement
PMU	programme management unit
PPI	Progress out of Poverty Index
RIMS	Results and Impact Management System
SMEs	small and medium-sized enterprises
SPM	social performance management
SPTF	Social Performance Task Force

Introduction

Effective performance monitoring and greater transparency in rural finance will generate stronger institutions and increased competition in the sector, which in turn results in better financial products for the rural poor (IFAD, 2009). For this reason, it is important to measure the performance of IFAD's rural finance investments against current best practices using key performance indicators (KPIs) and performance-based agreements (PBAs). These tools can be useful in future decision-making on IFAD-supported projects that focus on rural finance.

The evolution of financial inclusion and the development of the rural finance industry have led to a greater focus on the financial viability of financial service providers (FSPs). Various measurements have been used to gauge their performance, many of which have been recognized internationally as standard indicators. This knowledge document addresses KPIs and PBAs at the level of partnering financial institutions. In this context, key performance targets are included in various documents, including strategic plans, business plans and possibly budgets at different levels. Also, they can be used as an important support instrument for results-based management.

It is important for FSPs and IFAD to agree on well-defined targets. Clear, time-bound targets are critical for determining the right KPIs, measuring performance and comparing it to the agreed target. PBAs which include KPIs are the recommended tool against which to measure performance. The KPIs included in the PBAs can be used to monitor the result(s) of a project-participating FSP (a retail institution and/or wholesaler, such as an apex organization or second-tier finance institution) and to track progress against agreed on expected results. Achieving these results can be used to trigger project actions (e.g. the next tranche of fund disbursement) (IFAD, 2011).

Key issues and questions

IFAD interventions will produce better results when design, monitoring and reporting focus explicitly on key KPIs that are measured and reported on regularly. Today, many IFAD-supported projects do not report adequately on KPIs. This knowledge document provides guidance on how to use and prioritize KPIs and how best to include them in PBAs.

"Performance" is the extent to which FSPs reach their target markets (depth), the number of clients serviced (scale) and the degree to which they do so in an equitable and sustainable manner (IFAD, 2010). KPIs can be a powerful management tool because they allow:

- a timely identification of problems before they become major challenges, acting as an early warning system
- an ambitious yet realistic formulation of strategic and business plans
- the budgeting and quantification of the money required to carry out the tasks set out in annual workplans and budgets.

KPIs should be tracked at all stages of the project: design, supervision and evaluation. Effective KPI data collection facilitates performance assessment of the regional and country portfolios, and makes comparisons between FSPs more significant. KPIs promote more transparency in FSP reporting, which is increasingly important as FSPs come under increased scrutiny when seeking external funding (IFAD, 2011). Furthermore, transparent results allow IFAD staff to learn from successes as well as failures and to take corrective actions when needed (IFAD, 2010).

Lessons learned

Identifying relevant performance indicators

Applying a set of KPIs poses both opportunities and challenges, especially for informal institutions. However, there is a base minimum set of KPIs that should be considered, regardless of the FSP's size, maturity, product offering or legal form. Other KPIs are supplemental and can be implemented as FSPs acquire adequate capacity in their internal management information system (MIS).

At a minimum, a project should include the following types of indicators:

- outreach indicators
- financial and portfolio quality indicators
- profitability indicators
- efficiency indicators
- social performance indicators (IFAD, 2011).

Outreach indicators

Standard outreach indicators generally comprise:

- the number of people who make use of deposits, loans and other financial services
- the number of active accounts in terms of deposits, loans and other financial services.

One measurement of outreach is a comparison of the poverty levels of the FSP's clients in relation to national poverty thresholds. A more elaborate approach compares the average loan or deposit balance to per capita gross national income (GNI) (IFAD, 2011). Although this two-track averaging has some conceptual shortcomings, it permits a direct look at how small, average loans and savings relate to national income distributions in terms of:

- average outstanding loan or savings balance
- average loan or savings balances as a percentage of GNI.

This metric is a proxy for the "market segment" and is more likely to reflect lower income clients with lower credit balances. Please refer to the Progress out of Poverty Index (PPI) and other poverty assessment tools for more robust poverty measurement.

Financial/portfolio quality indicators

Lending performance indicators focus on portfolio quality, which generally includes the following:

Portfolio at risk (PAR) for a specific number of days: The PAR measures the percentage of the outstanding loan portfolio that is overdue and classifies all future installments of the infected loans as non-performing. Comparisons should consider how restructured loans were treated. In standard banking practice, these loans are included back into the performing portfolio, while for microfinance, standards such as the Small Enterprise Education and Promotion (SEEP) Framework assign higher risk values to restructured loans and thus still include restructured principals in the PAR ratio. Very strict KPIs for lending performance have become standard yardsticks for the microfinance industry.

The PAR measure has steadily become narrower over the past decade without any noticeable regional or country-specific variations observed in its required interpretation. A global standard is still the PAR ≤ 30 days ratio. In reality, however, the PAR range has stiffened considerably to reach PAR ≤ 3 or even one day in some higher performing FSPs.

Since the PAR is an internal management tool, it can be designed according to the needs of the institution. However, it is recommended to mark the entire outstanding balance of loans with an overdue payment as “at risk” (Rosenberg, 2009).

Repayment rate: The repayment rate is the ratio between amounts received and amounts due. It can be based on cumulative performance of a specific portfolio or on current repayment rates. Comparisons can be made only after establishing the base for calculations. However, this measure can be difficult to interpret if there are regular differences in actual versus expected cash flow (e.g. if clients regularly pre-pay or pay late loan installments). This cash flow based-approach can be helpful in understanding repayment patterns but is not a strong metric for quantifying risk.

Loans at risk (LAR): LAR calculations are based on transaction units, i.e. loans rather than on transaction volumes. LAR is most useful for small or fledgling community-based financial organizations (CBFOs) that are not able to track specific impaired portfolio information but are still able to report on the number of loans at risk.

Write-off ratio: The write-off ratio is calculated by dividing total write-offs for the period by the period’s average gross portfolio. This indicator represents the loans that a CBFO has removed from its books because of a substantial doubt that they will be recovered, which prevents assets from being unrealistically inflated by loans that may not be recovered. Writing off a loan affects the gross loan portfolio and loan loss reserves equally.

High scores on KPIs for portfolio performance can be achieved when impaired loans are quickly written off (i.e. removed from the balance sheet). Overambitious loan write-offs occur frequently in the microfinance industry. The opposite is true for cooperative finance institutions, where in a number of countries, loan write-offs are still not permitted. Loan write-offs can best be measured through the write-off ratio (IFAD, 2011).

Practitioners are recommended to look at both latent (PAR) and realized (write-off) risk ratios in order to see the complete picture of credit risk.

Profitability indicators

A positive balance of incomes over expenditures indicates that an institution is profitable. Surpluses generated in a not-for-profit FSP are reinvested as retained earnings into the capital base. For-profit FSPs, in contrast, can distribute their positive earning balances as profits to owners and investors. The two standard profitability indicators are: the **return on assets** and the **return on equity** of a financial institution. For IFAD partner FSPs, a third indicator can be used: **financial self-sufficiency**, which highlights subsidy inflows into the organization (IFAD, 2011).

Efficiency indicators

Efficiency indicators focus on the productivity and effectiveness of the institution in providing financial services. Operating costs are put into relation with the average loan portfolio by measuring:

- the operating expense ratio
- the cost per client.

Projects should build on the FSP's existing MIS. In general, donors should standardize their reporting requirements to the largest extent possible. When selecting KPIs, the focus should not be on measuring project activities but rather on concrete results of the project (IFAD, 2011). For specific examples, refer to *IFAD Decision Tools for Rural Finance*[1] or the website of MIX Market.[2]

Social performance indicators

Client welfare is more difficult to measure than financial status and there is little consensus on a minimum standard set for social indicators. However, there has been continued progress in the development of useful social performance indicators. IFAD and other investors have selected a set of social performance indicators for reporting by their partners, which are becoming more widely used. IFAD chooses indicators in close coordination with the FSP, ensuring that the indicators reflect the priorities of both parties, as well as the institution's stage of development. Standard indicator definitions should be preferred, such as those published by CGAP or the Social Performance Task Force (SPTF). SPTF has a detailed and evolving overview of social performance indicators on its website (www.sptf.info), which are discussed further in the next section.

Guidance for design/implementation

Key steps in determining social performance indicators

Good financial performance alone is insufficient to serve the poor. It must be accompanied by good social performance. Each reinforces the other in the long term. When determining which social performance indicators to use, the following steps (as developed by SPTF) should be taken:

- Define social performance as the translation of an institution's social goals into practice, which includes:
    - serving increasing numbers of poor and excluded people sustainably (i.e. expanding and deepening outreach to poorer people)
    - improving the quality and appropriateness of financial services available to target clients through systematic assessment of their specific needs
    - creating benefits for clients of rural finance transactions, their families and their communities, relating to social capital and social links, assets, reduction in vulnerability, income, access to services and fulfilment of basic needs
    - improving the social responsibility of our own organizations and the partners we support. This includes consumer protection and gender equity, as well as social responsibility to staff, the environment and the community.
- Recognize that financial performance and social performance work together.
- Further recognize a growing interest from donors, networks, practitioners, rating agencies, funders and other stakeholders in testing, applying and improving new tools for social performance management (SPM), assessment, monitoring and reporting.

[1] *IFAD DeicisionTools for Rural Finance*: http://www.ifad.org/ruralfinance/dt/index.htm
[2] MIX Market website: http://www.mixmarket.org/

- Commit to improving the social performance of rural finance by:
  - setting clear and specific social objectives for IFAD and expectations for the FSP
  - designing, introducing and using systems to manage, assess, monitor and report on social performance inside our own organizations and the organizations we support
  - using information on social performance to improve IFAD operations
  - verifying results with external assessments, audits and ratings, where appropriate and available (IFAD, 2011)
  - being transparent about social performance and promoting transparency of partners through regular reporting to the MIX (IFAD, 2010).

Table 1: IFAD's core social performance indicators

Core indicators	**Explanation**
1. Intent	
Mission and social goals	Mission statement: outreach to poor and socially marginalized people, small and medium-sized enterprises (SMEs), underdeveloped areas, women (together with empowerment), as well as employment creation
Governance	Experience and background of the management, including specific training on social performance; the independence of the body of directors; executive compensation and achievement of social goals
Values of social responsibility	Policy for client protection; social responsibility to community and the environment
2. Strategies and systems	
Range of services	Financial products, non-financial services and lending methodology
Use of social performance (SP) information	By board and management. Management evaluation; use of SP data on product development, marketing and strategy planning
Training in mission	Staff training in social mission
Staff incentives	Incentives related to the social mission and values
Market research	Systems for obtaining feedback from clients; client satisfaction surveys
Client retention	Exit/dropout rates; exit surveys or informal feedback from existing clients
Poverty evaluation	Methods of calculation of poverty levels of clients; methods of collection of information
Services supporting empowerment	Promotion of women's empowerment
3. Politics and compliance	
Social responsibility to clients	Fair treatment of clients
Costs for clients	Transparency in pricing; information disclosure
Social responsibility (SR) to staff	Elements included in the FSP's SR towards staff
Social responsibility to the community	Elements included in the FSP's politics of SR towards community
Social responsibility to the environment	Elements included in the FSP's politics of SR towards the environment

Core indicators	Explanation
4. Social outreach and outcomes	
Geography	Percentage of clients living in diverse geographical areas
Women	Percentage of women clients
Poor and very poor	Poverty rates according to national and international poverty lines
Client exit rate	Client exit/dropout rate
Client retention	Clients still with the institution after three or five years
Households in poverty	Clients still below the poverty line
Families out of poverty	Clients who moved above the poverty line

Source: IFAD, 2010.

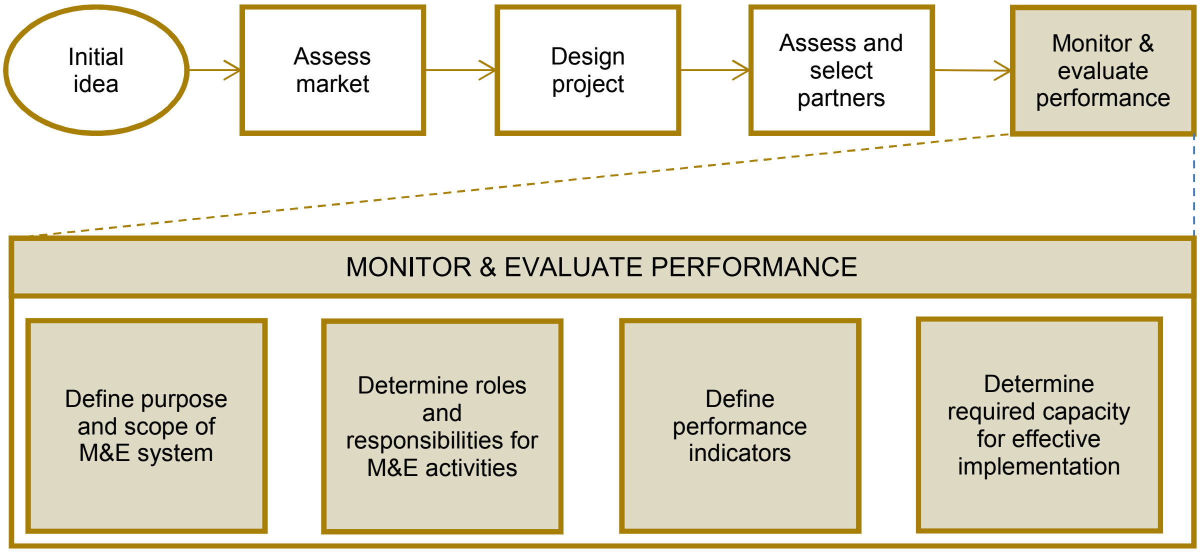
How KPIs fit into IFAD's performance monitoring in rural finance

Key steps in designing an M&E system

IFAD Rural Finance Policy (2009) states that all rural finance interventions are monitored. Performance monitoring is fundamental for ensuring that IFAD's policies and procedures are implemented and generate concrete results. *IFAD Decision Tools for Rural Finance* outlines the key steps in designing a framework for performance M&E (Figure 1).

1. Clearly define the purpose, scope and expected outcomes of the M&E system.
2. Provide a general description of key stakeholder audiences (e.g. programme management unit (PMU), IFAD headquarters) and the types of performance information they each expect, when and in what format that information is required and who is responsible for collecting it.
3. Define the performance indicators to be collected and analysed for each stakeholder audience.
4. Detail the necessary conditions and capacities required to manage the M&E system, including the number of M&E staff, their responsibilities, and linkages to other management activities and incentives.
5. Develop a budget for M&E activities.
6. Define the steps that will be taken if the programme or partner FSPs fail to meet the established performance criteria within a given period of time. Timely provision of management information should allow IFAD to stop supporting implementing partners if they continue to perform below performance expectations or are not meeting the improvement goals established when the underperformance was first recorded.

FSPs should focus on information that can be easily gathered, tabulated and used to draw simple, significant conclusions. Each indicator should be clearly defined and a common format for its collection should be developed. It is advised to avoid extraneous information and non-standard formats that can lead to confusion, making it difficult to measure progress, and distracts from the focus of the project (IFAD, 2010).



Source: IFAD, 2010.

Figure 1. Key steps in designing a framework for performance monitoring and M&E

IFAD Decision Tools for Rural Finance identifies nine KPIs that should be adjusted to the specific requirements of the FSP (Table 2). These indicators are consistent with microfinance best practice, including the MIX Market reporting formats (Box 1) and the Results and Impact Management System (RIMS), IFAD's comprehensive system for results-based monitoring. Note that not all of the RIMS KPIs are currently measured from the start of a project but it is recommended that at least RIMS second-level indicators are used from the beginning (IFAD, 2011).

Box 1: MIX Market

MIX Market is a global, web-based microfinance information platform. It provides information to sector actors and the public at large on FSPs worldwide, public and private funds that invest in microfinance, FSP networks, raters/external evaluators, advisory firms and governmental and regulatory agencies. MIX Market seeks to develop a transparent information market to link FSPs with investors and donors and to promote greater investment and information flows.

IFAD requires partner FSPs to participate in MIX Market and share outreach performance and financial performance information on an annual basis, insofar as possible. Reporting requires that FSPs use standard formats for financial statements and indicators for portfolio quality and outreach, thus building their capacity and further integrating them into the mainstream financial sector. Listing on MIX Market also provides FSPs with exposure to potential investors and international networks and encourages improvements in outreach and performance.

MIX and IFAD have a long-standing partnership. Currently, MIX provides three services to IFAD:

- MIX mapping: to fill important gaps in the information available on rural finance provision by improving information on rural finance providers and rural outreach
- e-learning modules: to assist all stakeholders in the project cycle to better understand and analyse monitoring for better management and performance analysis based on standard MIX financial, operational and social performance
- MIX Gold reporting tool: to provide a tailor-made, standardized online portfolio monitoring tool to aid better performance monitoring and management in IFAD-supported projects and for partner FSPs.

Source: IFAD, 2010; 2013a; 2013b.

Table 2: IFAD's set of KPIs for partner FSPs

Indicator	Measure	Interpretation
1. Total number of active borrowers	Number of people the FSP reaches with loans	Compare this with the number of potential borrowers in the market
2. Total number of active women borrowers	Number of women the FSP reaches with loans	Compare this with the number of potential women borrowers in the market
3. Total value of gross loan portfolio	Total value of loans made by the FSP at a certain time	Compare this with the total estimated demand for microcredit in the market
4. Total number of voluntary savers	Number of people the FSP reaches with deposit-taking services	Compare this with the number of potential savers in the market
5. Total value of voluntary savings	Total value of voluntary savings held by the FSP at a certain time	Compare this with the total estimated demand for savings services in the market
6. Operational self-sufficiency	• Overall performance and sustainability • How well an FSP covers its costs with its operating revenue and how reliant it is on donor funds • The smaller the loans the FSP makes, and the higher their relative cost (i.e. more rural outreach), the lower this ratio	The higher the percentage, the stronger and more sustainable the FSP. Anything higher than 100% indicates profitability
7. Operating expenses/gross loan portfolio	• Efficiency • How much it costs the FSP to make a loan (excluding the cost of funds or loan loss/profit)	The lower the percentage, the more efficient the FSP
8. Active borrowers/staff members	• Productivity • Overall staff productivity of an FSP	The higher the number, the more productive and efficient the FSP
9. Portfolio at risk > 30 days (PAR)	Risk of the loan portfolio of an FSP	The lower the percentage, the healthier, less risky the loan portfolio
A. Loans at risk > 30 days (LAR)	Risk of the loan portfolio of an FSP	The lower the percentage, the healthier, less risky the loan portfolio
B. Current recovery rate (CRR) and annual loan loss rate (ALR)	Risk of the loan portfolio of an FSP	The lower the percentage, the healthier, less risky the loan portfolio
C. Repayment rate	Risk: It does not reflect the quality of the loan portfolio, only the historical rate of loan recovery	The repayment rate has significant shortcomings as a performance indicator, though it is often used

Source: IFAD, 2010.

Setting up results-oriented performance M&E frameworks

Project design

- Include results-based indicator sets in project preparation. A complete set of indicators for financial performance, institutional efficiency and outreach are part of the attachments to the Rural Finance Working Paper. Identify and highlight coherence and potential duplication issues.
- Analyse the current status of the FSPs' MISs and its degree of automation. Make recommendations for the FSPs to plan for installation of MISs and appropriate software platforms to manage their operations, where appropriate.
- Critically assess the capacity of FSP management to interpret and use MIS data for strategic and corrective action. The capacity to interpret MIS data is as important as having enabling hardware and software, and internal procedures in place. Requirements for capacity development in the course of partnering with the FSP should be clearly spelled out and addressed during project design.

Start-up

- Ensure that the start-up workshop, as well as underlying agreements between the FSP and the PMU or IFAD, contain the monitoring framework, definitions of the key indicators and guidance for collection, aggregation and analysis.
- Ensure that FSP staff and the project M&E officer in the PMU are trained during start-up workshops.
- Highlight deviations from country-specific definitions and use of non-standard indicators. Explain the rationale for any non-standard indicators.

Implementation

Identify operational problems and management deficits at the FSP level early, using constant monitoring between annual supervision missions.

- If data flow and consolidation does not occur as expected, determine whether deficits are due to field-level data input, data collection and aggregation, or to data analysis and presentation at the FSP head office level.
- For more advanced FSPs, consider using forecasting and trend analysis linked to additional KPIs (IFAD, 2011).

Scaling up: PBAs with partner FSPs

CGAP considers an agreement to be "performance-based" when it:

- is clear and specific about the expected results and how they will be measured
- strengthens incentives for good performance by defining benefits (or sanctions) that are tied to the achievement (or non-achievement) of the expected results (CGAP, 2010).

PBAs with clearly defined KPIs:

- increase accountability

- make disbursement triggers more transparent
- ensure that development objectives of the funding agency are met
- enhance the prospects of partner financial institution's commitment to the project over time
- upgrade management's ability to track performance
- identify early trends in performance.

IFAD PBAs take a wide variety of forms but most include outcome-based indicators that serve as triggers for funds disbursement or other project support, such as technical assistance or equipment. In particular, trigger approval or non-release authority needs to be clearly defined. Outcome-based indicators are mostly used for on-lending arrangements: subsidiary loan agreements (SLAs) between the project and FSPs; grant agreements where support originates from one of the IFAD grant facilities; management agreements where the FSP is mandated with the execution of a larger part of the activities under an IFAD-supported project; and other types of special agreements (e.g. Letters of Agreements or similar). Development of a PBA is a structured dialogue and agreement between IFAD and the FSP on the context, indicators and performance triggers and on sanctions.

However, there are presently factors that may restrict the use of PBAs. The concept is still relatively unknown; legal and/or enforcement possibilities in the case of incorrect reporting are problematic; and many very small FSPs have a manual and rudimentary MIS, which often results in time lags for reporting and project implementation. For this reason, decentralized hands-on supervision is required for IFAD-specific FSPs, especially in remote rural areas. There may be a need for training for partner FSP staff to establish how PBA triggers can be incorporated into standard contracts (IFAD, 2011).

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Key steps in designing a PBA

CGAP's *Performance-Based Agreements* (2010) provides comprehensive technical guidance on PBAs, which includes six steps in establishing a PBA:

- Identify appropriate results/outcome-based indicators to serve as triggers.
- Establish realistic target levels for performance indicators.
- Identify minimum performance thresholds.
- Identify non-compliance measures.
- Link disbursements to thresholds.
- Provide sample reporting formats and instructions on reporting.

This publication includes recommendations on how to manage PBAs, detailing outcome-based monitoring frameworks in which PBAs best operate, as well as possibilities and limits for sanctioning mechanisms in the case of non-compliance.

Additional resources/tools

TORs for specific work

- IFAD Rural Finance Policy
- IFAD Decision Tools for Rural Finance
- MIX Market
- Social Performance Task Force.

Links to other How To Do products

For more information on the links between KPIs and community-based organizations, please refer to the *How To Do Notes*[3] on:

- Community-based financial organizations (CBFOs)
- Loan Guarantee Funds
- Lines of Credit.

[3] How To Do Notes: http://www.ifad.org/knotes

Standardized templates, formats, other models and tools

- The United Nations Capital Development Fund's (UNCDF) Model Performance-based Grant Agreement (Annex 1).

SPM tools

SPM is an institutionalized process of translating social mission into practice.

- ***Universal Standards for Social Performance Management*:** The Universal Standards for Social Performance Management (the "Standards") offer a comprehensive toolkit of essential practices to clarify and standardize SPM for MFIs, investors and others working to achieve financial returns and social goals.
- ***MFC Strategic Management Toolkit*:** Based on the balanced scorecard methodology, this toolkit is adapted to incorporate the double bottom line objectives of microfinance.
- ***Imp-Act SPM Practice Guide:*** This guide examines how MFIs can integrate social goals into organizational systems. It helps MFIs to shape their performance management system so that it helps them understand and respond to the realities of their clients' lives.

For information on more tools, visit the SPTF resource center.[4]

Poverty assessment tools

Commonly used tools to help determine the **absolute** poverty level of clients:

- ***Progress out of Poverty Index (PPI)*:** The PPI[5] scorecards use a small set of simple, easily observable and objective indicators to estimate the share of clients who are below an established poverty line.
- ***United States Agency for International Development (USAID) Poverty Assessment Tool*:** The USAID Poverty Assessment Tool[6] is a set of country-specific surveys, developed under contract with the IRIS Center at the University of Maryland, to predict the prevalence of extreme poverty within a group of people.
- ***FINCA Client Assessment Tool (FCAT)*:** The FCAT[7] employs a set of 13 individual screens to record income sources and dependents, monthly household expenditures, and daily per capita expenditures and poverty levels.

Tools that help determine the **relative** poverty level of clients:

- ***Housing index*:** This index uses the structure of the house, and sometimes the compound, to differentiate between economic levels of households and identify those who are poor.
- ***Means tests*:** These are a very simple household survey using a small number of easily verifiable and asset-based indicators, including land ownership, livestock ownership, ownership of radio, television, among others. Other indicators that may be used are education level or social indicators (e.g. female-headed households as a demographic category often constitute the poorest households in rural areas). A composite score is then derived to rank households.

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[4] SPTF resource center website: www.sptf.info/resources/resource-center
[5] PPI site: http://www.progressoutofpoverty.org/
[6] USAID Poverty Assessment Tool: http://www.povertytools.org/
[7] FCAT: http://www.finca.org/site/c.6fIGIXMFJnJ0H/b.6088807/k.9066/FINCA_Client_Research_Tools.htm

- ***Participatory wealth ranking (PWR)***: This is a ranking by community members of the relative poverty or wealth of households, using perceptions and criteria defined by community members themselves.

More detailed information on these tools can be found on CGAP's website on social performance.[8]

Frequently asked questions

How do the KPIs relate to IFAD's RIMS?

IFAD's RIMS monitoring framework contains KPIs. The minimum indicators proposed above and the additional indicators contained in *IFAD Decision Tools for Rural Finance* form a much larger and more encompassing monitoring framework for rural finance that can feed into the RIMS.

Should KPIs be changed during project implementation?

Measurement of performance depends on directly comparable data sets over a time period. Therefore, KPIs should be kept standard whenever possible.

Can projects add more indicators to the suggested core set of KPIs?

Both the suggested safe minimum KPIs and additional indicators contained in *IFAD Decision Tools for Rural Finance* will need to be complemented in certain situations. This is mostly because different institutional forms of FSPs (e.g. multilayered cooperative banking systems, membership-owned and managed institutions, other decentralized institutions) can require IFAD to track different types of indicators (IFAD, 2011).

[8] CGAP website on social performance: www.cgap.org/sites/default/files/CGAP-Brief-Toward-Socia-Performance-Bottom-Line-Microfinance-Nov-2007.pdf

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Annex 1: Model performance-based grant agreement

PERFORMANCE-BASED AGREEMENT

PERFORMANCE-BASED AGREEMENT BETWEEN [Second-tier Institution] and [Retailer] FOR THE PROVISION OF [FUNDS/TECHNICAL ASSISTANCE]

Performance-based Agreement made between the [Second-tier Institution] (hereinafter referred to as the "Second-tier Institution") and the [Retailer] (hereinafter referred to as the "Retailer").

WHEREAS, without prejudice to any other agreement between the Parties hereto, the Second-tier Institution desires to provide [funds/technical assistance] to the Retailer for the implementation of the rural finance activities of [Project/Programme] [Loan/Grant No.] (hereinafter referred to as the "Project/Programme") financed [inter alia] by the International Fund for Agricultural Development (hereinafter referred to as "IFAD") and on the terms and conditions hereinafter set forth;

WHEREAS the Second-tier Institution is ready and willing to accept such [financing/technical assistance] for the abovementioned component on the said terms and conditions.

NOW, therefore, the parties hereto agree as follows:

I. <u>Responsibilities of the Retailer</u>

1.1 The Retailer agrees to: achieve the targets specified in the Section III below, including providing reports and statements to the Second-tier Institution in accordance with this Agreement. The Retailer shall be responsible for verifying the accuracy of all reports. Funds provided pursuant to this Agreement shall be used to achieve these targets.

1.2 In the administration and implementation of the rural finance activities of the [Project/Programme] the Retailer shall act: (i) with due diligence and efficiency; (ii) in conformity with appropriate administrative, engineering, financial, economic, operational, environmental and agricultural development practices and good governance; (iii) in accordance with the terms of reference attached hereto.

1.3 The Retailer agrees to inform the Second-tier Institution about any problems it may face in a timely fashion or any anticipated failure to complete the activities or achieve the targets. The Retailer also agrees to immediately report coercive, collusive, corrupt or fraudulent practices or any incidences of theft or significant operational loss that negatively impact its ability to fulfil the terms of this Agreement or threaten or have a relevant impact on its ability to continue as a going concern.

1.4 Without prejudice to the right of the Retailer to mobilize other resources, the Retailer agrees to notify the Second-tier Institution of any variations in available funds for the purpose of implementing the [Project/Programme]. The Second-tier Institution reserves the right to adjust the [funds/technical assistance] in this Agreement if it determines that such [are/is] no longer necessary as the result of other sources of [financing/technical assistance] becoming available.

II. <u>Duration</u>

2.1 This Agreement shall enter into force upon its signature by the Parties hereto and shall expire on the [Project/Programme] Completion Date unless otherwise agreed upon in writing by the Parties hereto.

III. Targets

3.1 The Second-tier Institution shall make available to the Retailer a [Loan/Grant] in [ ] instalments in an amount of [<Local Currency>] and/or [technical assistance] upon the Retailer achieving the minimum targets within the period set forth below.

Performance Indicators[9]	Baseline	Minimum Target [for the period from … to…]	Proposed Target [for the period from … to…]
Outreach			
Total number of active borrowers			
Total woman active borrowers			
Total value of loan portfolio			
Number of voluntary savers			
Value of voluntary savers			
Profitability			
Operational self-sufficiency			
Financial self-sufficiency			
Efficiency and Productivity			
Operating efficiency			
Staff productivity			
Risk			
Portfolio at risk > 30 days (PAR)			
Miscellaneous			

3.2 The Retailer shall submit a request for [funding/technical assistance] with supporting information and documentation. All payments shall be deposited into the account, the details of which are as follows:

Name of the Bank:
Bank Routing Number:
SWIFT Code:
Beneficiary Account Name:
Beneficiary Account Number:
Address of Bank:
[ ]

[9] Include indicators as appropriate.

3.3 The [funding/technical assistance] is not subject to any adjustment or revision because of price or currency fluctuations or the actual costs incurred by the Retailer in the performance of any activities under this Agreement.

IV. Records, Information and Reports

4.1 The Retailer shall maintain clear, accurate and complete records in respect of the [funds/technical assistance] received under this Agreement throughout the [Project/Programme] implementation and for ten (10) years thereafter.

4.2 The Retailer agrees to provide reports at timeframes agreed with the Second-tier Institution including progress supervision report(s), a Mid-Term review, a final evaluation [and audited financial statements] and fulfil its obligations in accordance with the targets specified in Section III above. The Retailer further agrees to reasonable requests to make its personnel available to participate in on-site monitoring visits.

4.3 Within [ ] days after the [Project/Programme] Completion Date, the Retailer shall provide the Second-tier Institution with a final financial report describing how the [funds/technical assistance] provided thereto were utilized.

4.4 All correspondence regarding the implementation of this Agreement shall be addressed to:

For the Second-tier Institution:

[ ]

For the Retailer:

[ ]

V. General Provisions

5.1 Without prejudice to any other agreement between the Parties hereto on matters other than performance related, this Agreement shall form the entire Performance-Based Agreement between the Second-tier Institution and the Retailer, superseding the contents of any other negotiations and/or agreements, whether oral or in writing, pertaining to the subject of this Agreement.

5.2 If the Retailer fails to meet the minimum targets in Section III within the timeframe specified therefor or if in the Second-tier Institution's determination the Retailer is not achieving the targets described in Section III above or complying with any of the terms and conditions of this Agreement, [subject to reasonable notice] the Second-tier Institution may: (i) suspend the [payment of funds/technical assistance] until in its opinion the situation has been remedied; or (ii) declare this Agreement terminated by written notice to the Retailer; and/or seek any other remedy as may be necessary at its sole discretion. The Second-tier Institution's determination shall be binding and conclusive upon the Retailer insofar as the terms of this provision are concerned.

5.3 The Second-tier Institution undertakes no responsibilities in respect of life, health, accident, travel or any other insurance coverage for any person which may be necessary or desirable for the purpose of this Agreement or for any personnel undertaking activities under this Agreement. Such responsibilities shall be borne by the Retailer.

5.4 The rights and obligations of the Retailer are limited to the terms and conditions of this Agreement. Accordingly, the Retailer and personnel performing services on its behalf shall not be entitled to any benefit, payment, compensation or entitlement except as expressly provided in this Agreement.

5.5 The Retailer shall be solely liable for claims by third parties arising from the Retailer's acts or omissions in the course of performing this Agreement and under no circumstances shall the Second-tier Institution be held liable for such claims by third parties.

5.6 The Second-tier Institution shall not be held liable for loss, damage or injury sustained by the Retailer or by any person acting on behalf of the Retailer during the performance of this Agreement. The Second-tier Institution shall not accept any claim for compensation in respect of any such damage. Except in the case of *force majeure*, the Retailer shall be required to indemnify the Second-tier Institution for any loss, damage or injury that it may sustain from any act performed by the Retailer. The term *force majeure*, as used here, shall include unforeseen events not within the control of either Party, such as laws or regulations, strikes, lock-outs or other industrial disturbances, acts of terrorism, wars, whether declared or not declared, blockades, embargoes, insurrections, riots, civil disturbances, explosions, epidemics, landslides, earthquakes, storms, lightning, floods and washouts. If either Party considers that force majeure affecting the performance of its obligations has occurred, it shall promptly notify the other Party, giving full particulars in writing, including its probable duration and its effect on the Party's ability to perform. However, once the condition of *force majeure* has been agreed by the Parties, the Parties shall be relieved of liability for non-performance of their obligations until it ends. The Retailer shall not be entitled to [funding/technical assistance] if it is prevented by *force majeure* from performing the tasks assigned to it. Part performance of any task shall result in pro-rata payment.

5.7 This Agreement may be terminated by either Party before expiration thereof by giving [ ] days written notice to the other Party. In the case of early termination, the Second-tier Institution may at its discretion require the Retailer to return to it all or part of the unutilized funds or those funds which were not used in accordance with this Agreement to implement the [Project/Programme] unless otherwise provided for in any other agreement between the Parties hereto. The Retailer has [ ] days to comply with this request.

5.8 The Retailer acknowledges that the Second-tier Institution has made no actual or implied promise of [funding/technical assistance] except as specified by this Agreement.

5.9 No amendment to this Agreement or waiver of any of its provisions or additional contractual provisions shall be valid or enforceable unless previously approved in writing by the Parties to this Agreement or their duly authorized representatives in the form of an amendment to this Agreement duly signed by the Parties hereto, with the prior consent of IFAD.

5.10 The Parties shall settle any controversy or claim arising out of this Agreement or the breach thereof, through amicable means. Failing which, the dispute shall be submitted to the jurisdiction of [ ] and the laws of [ ] shall apply.

IN WITNESS WHEREOF, the undersigned, duly appointed representatives of the Second-tier Institution and the Retailer, respectively, have on behalf of the Second-tier Institution and the Retailer signed the present Performance-Based Agreement on the dates indicated below.

On behalf of the Second-tier Institution:

Name:___________

Title: ___________

Date: ___________

On behalf of the Retailer:

Name: ______________________

Title: ______________________

Date: ___________

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