Lessons learned

Key Performance Indicators and Performance-Based Agreements in Rural Finance

IFAD
Investing in rural people

Inclusive rural financial services

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These 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

FSP	financial service provider
KPI	key performance indicator
M&E	monitoring and evaluation
MFI	microfinance institution
MIS	management information system
PBA	performance-based agreement
PMU	programme management unit
PPI	Progress Out of Poverty Index
RIMS	Results and Impact Measurement System
SPM	social performance monitoring

Introduction

Key performance indicators (KPIs) can be used in an IFAD-sponsored project to measure performance in a regular and consistent manner. This knowledge document discusses the use of KPIs as well as the challenges associated with it. This discussion is followed by a review of the lessons learned by IFAD and other organizations, and concludes with strategic recommendations for follow-up.

Context and challenges

In the past decade, IFAD has undergone a number of reforms, largely driven by the *Action Plan for Improving IFAD's Development Effectiveness* (2005). The Action Plan was developed as a response to the Independent External Evaluation of IFAD in 2005, which defined a number of broad areas for improvement, including strategic planning and guidance, and project quality and impact (MOPAN, 2011). Other important tools related to monitoring and evaluation (M&E) include the *IFAD Decision Tools for Rural Finance* (2010) and the Result and Impact Measurement System (RIMS).

IFAD continues to address organizational and management challenges that require closer alignment between IFAD's resources and its strategic priorities and key deliverables. One intitiative is addressing the challenge of strengthening the management and reporting capabilities for financial service providers (FSPs). This initiative is based on the premise that IFAD's interventions in rural finance can produce better results when design, monitoring, and reporting are aligned with KPIs that are measured and reported regularly. The more transparent the results, the more likely IFAD will be able to learn from successes and failures and take corrective actions when needed (Rosenburg, 2009).

IFAD programmes have used a variety of indicators to measure FSP performance. Many of these are recognized internationally as standard indicators, while others are specific to particular contexts. It is important for FSPs and IFAD to agree on clear, time-bound targets which are critical to measuring financial and social performance.

Performance-based agreements (PBAs) which include KPIs are the recommended tool against which to measure results-based outcomes on a regular basis. PBAs monitor the results of projects by tracking progress against agreed on targets. PBAs are based on KPIs and minimum performance thresholds that must be met, for example, to trigger the next fund disbursement.

The United States Agency for International Development (USAID, 2013) states that monitoring these KPIs alone does not provide sufficient information on project performance. These data typically need to be supplemented with other quantitative and qualitative data to help understand the drivers behind the trends and results revealed by the KPIs. Useful supplemental data can include key informant interviews, focus group discussions, small-scale targeted surveys, market scanning and/or rapid assessments. By using a mix of quantitative and qualitative data that complement and reinforce each other, projects can triangulate information and come to a greater understanding of their effectiveness.

Lessons learned

Designing KPIs and a performance monitoring system

In developing a performance monitoring system, projects can follow a set of widely validated best practices. The following is a selection of the most important best practices.

Training

Stakeholders in the implementation of a performance monitoring system should be trained in system design and implementation by qualified trainers. Training is particularly important when FSPs themselves are responsible for collecting and reporting performance data. Training should include, at a minimum, the following:

- Work through the causal model to highlight the underlying causal logic of the programme and identify the critical links in the causal chain.
- Review each indicator to be collected, its purpose and meaning, and the methods and time line for collection and reporting.
- Review complementary quantitative and qualitative data collection activities, their purpose and methods, and the time line for collection and reporting.
- Review data analysis plans and protocols, and ensure that there is the appropriate capacity.
- Review and explain the use of standardized reporting formats and methods.
- Describe and agree on expectations and responsibilities for all relevant parties, including implementing partners.

Verification of resources and technical capacity

Verify that there are the required resources and technical capacity at the project and FSP levels to ensure that KPIs and other monitoring tasks can be implemented in the performance monitoring system. When necessary resources and technical capacities are not present, either scale back or provide appropriate training.

Participation

Involve staff members who are responsible for data collection and reporting in the performance monitoring design process, including in the selection of KPIs. This will not only create more awareness and buy-in among staff but also help to determine what is feasible to expect of staff.

Oversight and monitoring

Establish a system of oversight to manage each important phase of the performance monitoring system, including data collection, data management, data analysis and reporting. The validity of the system critically depends on the validity of the data, data analysis and the conclusions it generates. Monitoring of the FSPs responsible for collecting and reporting performance data is especially critical to ensure data quality.

Pilot test

Pilot test all aspects of the performance monitoring system before full roll-out. Many design features, such as supplemental performance indicators, can look good on paper but not necessarily work well in the field (USAID, 2013).

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Indonesia - National Program for Community Empowerment (PNPM) - October 2012

Implementing KPIs

Implementing KPIs can pose challenges regarding data collection, analysis and reporting. When FSPs are aware of these challenges, using KPIs activities can have a higher impact on the FSP's performance since their board and management can better monitor results and adjust service provision accordingly.

Data collection and analysis

Data collection can be costly and time-consuming, especially for smaller FSPs (SEEP Network, 2009). Therefore, it is critical to figure out in advance which data will be most useful and how outcomes will be used for strategic and operational decisions. Data collection must be feasible, e.g. the questions asked to clients must be relevant and representative, and must be user-friendly for both clients and interviewers. Results should be analysed by trained individual field officers and compared at the management level according to context benchmarks and performance targets. In conclusion, data analysis should be concise, relevant and simple in order to assist effective decision-making (Box 1).

Box 1: Management supported by Fonkoze's social impact monitors

Fonkoze is a Haitian FSP that follows the "graduation model" in its approach to its target clients. It conceptualizes its programmes as a ladder with four steps. On each step is a target group with an economic (or poverty) level for which a corresponding Fonkoze programme was designed. Fonkoze collects social performance indicators using eight full-time and well-trained social impact monitors (SIMs). SIMs are assigned to 8 out of 40 branches as a representative sample, where they collect client data and promote social performance.

Before the data collection, SIMs ask branch managers what client information they would like to collect in addition to standardized feedback and client satisfaction with products and services. This helps Fonkoze managers identify areas for improvement and makes data collection relevant for both top and branch management.

For example, from a sample of more than 300 clients who defaulted on their loans in 2008, SIMs determined that one primary reason for clients' business failures was that they sold their goods on credit without keeping a formal account of their receivables. As a result, Fonkoze has increased efforts to educate clients about bookkeeping techniques to help them avoid losing money when they sell their merchandise on credit. This helps Fonkoze better satisfy customers, while lowering the chances of clients defaulting on a loan.

Source: SEEP Network, 2009.

Training of staff to collect accurate and consistent data

To ensure that the collection process of client-level data results in accurate outcomes, staff will need training in how to collect data from clients in an unbiased fashion. Box 2 provides different methods for collecting social indicator data.

Box 2: Examples of staff training for accurate and consistent data collection

In the context of the multi-year CGAP/Ford Foundation Social Indicators Project (SIP), the SEEP Network collected data on several experiences of FSPs to compare their lessons learned from training on social indicators.

- ***FINCA*** uses research fellows to collect client data to reduce demands on field staff time and to avoid potential bias with data collected on field staff performance.
- ***Fonkoze*** believes that branch management must set the example for commitment to social performance culture in order that staff will also be committed. Branch managers are introduced to the whole system through training. A week-long on-the-job training programme at the branch office has proven effective in ensuring that the training is fully understood and assimilated.
- ***Pro Mujer*** was unable to collect some survey data because clients did not understand certain questions. Further investigation showed that the credit assistants conducting the interviews were not able to adequately explain these questions because they themselves did not understand them. Training was identified as a key determinant for both credit assistants and staff in general. The organization developed specific instructions, guidelines with a glossary of the most important terms used and a guide with thorough explanations of the uses and value of the survey. The development of training tools and the enhancement of staff skills and understanding proved to be instrumental in making the survey an asset to staff.

Source: Coleman and Rogers, 2009a.

Reporting

FSPs use different types of performance reports with specific formats depending on the audience and purpose.

- **Internal reports** are used for day-to-day management and strategic decision-making. They contain KPI data and analysis for staff and management for self-assessment and improvement, and inform decision-making at the management level. Internal reports mainly track FSP progress on specific financial and social objectives and targets, as well as progress in implementing processes and systems to manage and use these indicators.

- External reports are for partners, such as investors and funders, to demonstrate that the FSP is achieving its financial and social performance goals. These results are preferably validated by independent third parties, such as rating agencies. In addition to proper financial data on the FSP, investors prefer reports with concise, comprehensible summaries of the social bottom line, demonstrating the effectiveness of an FSP's policies on social responsibility. These reports should also demonstrate how active monitoring systems and processes assure that the FSP is complying with its own policies on social responsibility (Coleman and Rogers, 2009a).

  A significant number of investors assume that microfinance investments produce social results by default. This creates an opportunity for FSPs with superior social results to use data and social indicators to distinguish themselves from their competitors. External reports provide an opportunity for FSPs to educate interested investors on social performances and how to detect differences in the quality of results (SEEP, 2009).

Box 3: Example of opportunities in external reporting: Moody's Social Performance Assessment

Moody's Analytics Microfinance Social Performance Assessment (SPA) reviews how effective a microfinance institution (MFI) is at translating its social mission into practice. It encompasses an MFI's objectives, systems, services, human resources and results, as well as its use of performance indicators.

The tool takes into account the views of microfinance investors. Their inputs are used to determine the social performance indicators. It also takes into account the multiple MFI stakeholders, including customers, staff, funders, regulators, owners and the community that it is intended to serve.

The tool assesses an MFI's social performance by looking at its past activities and reviewing the quality of the structure and processes it uses to assess future sustainability of its operations. Moody's Analytics are based on the premise that an MFI that performs better on the SPA will have a higher likelihood of positively affecting the lives of its customers and be less likely to cause harm.

The tool can also compare the performance of MFIs globally and highlight an MFI's relative strengths and weaknesses in terms of social performance, while also providing investors with the information needed to make better informed socially-oriented investment decisions.

Source: Moody's Analytics, 2012.

Policies

- Written policies help an organization clarify its financial and social objectives. These policies show the staff that the FSP is committed to many dimensions of social responsibility (Box 4). For example, written policies should require staff members to disclose the full costs of financial products to customers in easily understood statements. These policies may also be prerequisite for socially responsible investors to finance a particular FSP (Coleman and Rogers, 2009a).

Box 4: BASIX's social performance policies

BASIX is the umbrella name for a group of companies under the holding company Bhartiya Samruddhi Investments and Consulting Services, Ltd. (BSFL). BSFL, a non-bank FSP in the BASIX group, is one of the leading MFIs in India. BSFL has adopted an integrated strategy towards livelihood promotion, using microfinance as one tool.

BASIX has policies on transparency to customers and listening to customer feedback. It provides customers detailed information on product costs, including a video for customers with limited literacy. However, when BASIX commissioned a social rating, it found that many of its customers still did not understand the costs of BASIX products. This resulted in a change to its client information materials and communication to assure that these complied fully with its policy of client transparency.

Source: Coleman and Rogers, 2009a.

Determining social performance indicators

In the last decade, IFAD and other institutions focusing on rural finance have been strongly advocating the use of social performance indicators. Although it can be difficult to implement social performance indicators for small FSPs, such indicators are essential to keep FSPs focused on clients and aligned to their social mission. It can also form an important building block for FSPs as an institution. Social indicators help FSPs to assess their social results internally and to report to external stakeholders (Coleman and Rogers, 2009b).

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Niger - Project for the Promotion of Local Initiatives for Development in Aguie - 2006

- **Staff acceptance:** Staff acceptance of KPIs is crucial to the success of the FSP; but it can be challenging to get staff to take on additional responsibilities. The first step is to secure buy-in from management, which should be augmented with continuous feedback and communication to all staff. Acceptance can be made easier by demonstrating that concise reporting results in greater effectiveness. Educate management and staff at all levels to be aware of and fully understand: (i) the FSP´s social mission; (ii) the highest-priority social objectives of the FSP; and (iii) how the FSP measures progress towards these objectives. Moreover, awareness-raising should show how a double bottom line, when supported by appropriate data collection, analysis and decision-making, can be mutually reinforcing. Soliciting staff input and feedback is a vital component in staff buy-in. Incentives that reward staff contributions to specific KPIs can help create and reinforce a culture of performance management (Coleman and Rogers, 2009a).
- **Poverty assessment tools:** Poverty assessment tools, such as Grameen Foundation’s Progress Out of Poverty Index (PPI), help FSPs collect data to answer questions about client poverty levels and other personal attributes. These tools help FSPs gather data that is easily obtained and understood, refine their use of social indicators, develop more and better client-level data, and define target client market segments (Box 5) (IFAD, 2011; Coleman and Rogers, 2009a).

Box 5: Comparisons of different poverty measurement tools

Negro Women of Tomorrow Foundation (NWTF), a Grameen Foundation partner in the Philippines, replaced its use of a “means test”, which included a housing index, with the PPI. NWTF found that the PPI more accurately tracked poverty levels and was less labour-intensive than the housing index. In addition, the PPI allowed the organization to distinguish market segments more specifically and to design appropriate products for them.

In contrast, Trickle Up, an MFI active in Asia, Africa and Central America, uses the **PPI** to benchmark client poverty data but continues to use the **Participatory Wealth Ranking Index*** for client targeting, since it is perceived to better suit the organization.

Capital Aid Fund for Employment of the Poor (CEP) uses its ***own poverty tool*** to set and monitor its poverty outreach goals. Each branch identifies its own individual targets for poverty levels of new clients, on which financial incentives for branch managers and loan offices are then based. This can make indicators flexible and context-specific, and thus more relevant for the branch level. However, it is also more difficult to monitor and analyse indicators at the MFI level. It is, therefore, recommended to require branches to use a core set of indicators which are needed for organization-wide management information, while allowing branches the liberty to supplement these with context-specific indicators.

* A ranking by community members of the relative poverty or wealth of households using perceptions and criteria defined by community members themselves

Source: Coleman and Rogers, 2009a.

Integrating social indicator data into the management information system (MIS)

Well-designed and properly-used poverty measurement tools produce valuable data, which can be collected during client enrollment, on loan applications or during a loan utilization check. When data can be entered into the FSP’s MIS, they can easily be compared over time, across FSPs in a network, across countries and against financial data (Box 6).

In practice, it is often expensive to modify an MIS to incorporate new indicators so FSPs often collect and maintain social indicator data separately (e.g. in spreadsheets). Often, FSPs do not realize which social indicators are valuable until after they see what the data reveal (Coleman and Rogers, 2009a).

Box 6: Social indicators in Pro Mujer´s MIS

Pro Mujer currently serves more than 200,000 clients. Their households include approximately 1 million children and extended family members in five countries: Bolivia, Mexico, Nicaragua, Argentina and Peru. Pro Mujer adopted the ten indicators in the country level PPI and added nine additional client-level data indicators, including indicators for health care (women and children), education and women's empowerment for its FSPs in Bolivia, Mexico, Nicaragua and Peru.

Pro Mujer not only measures the poverty level of clients with the PPI but also gathers more detailed client information in its MIS to better understand holistic details of client poverty. For example, Pro Mujer added "whether of indigenous community" to its client profile and information on clients' use of income, as well as level of income. It also notes whether its clients live in a female-headed household and tracks information on attendance and years of school for both daughters and sons. Analysis of this data provides Pro Mujer a better overview on specific needs for different types of households, which can be translated into specific services.

Source: Coleman and Rogers, 2009a.

Feedback loops for communication and compliance

Collection and analysis of KPI data create opportunities for different types of feedback. Client satisfaction and exit interviews are now widespread as a standard client feedback tool and are increasingly integrated in monitoring systems. Data on client needs, client product preferences and client actions, e.g. dropping out, are valuable to loan officers for improving client service.

KPI feedback is especially useful when shared with staff members who are in a position to respond to it. Amount and frequency of feedback should be scaled to the FSP (e.g. smaller FSPs might have shorter exit interviews); but having such systems in place can be critical to socially responsible investors (Coleman and Rogers, 2009a; IFAD, 2011).

Kenya - Farmers' Groups and Community Support Project-Phase 2

Performance-based agreements

PBAs strengthen incentives for good performance

PBAs with clearly defined KPIs increase FSP accountability. PBAs enhance FSP commitment to project objectives over time and the ability of IFAD's programme management unit (PMU)(as well as the FSP itself) to track performance and identify trends early. PBAs make disbursement triggers more transparent, while ensuring that development objectives are met (Box 7).

IFAD's contracts with FSPs vary widely but most include outcome-based indicators that serve as triggers for disbursement or other project support, such as technical assistance or equipment (Box 8). However, there are limiting factors restricting the use of PBAs at present. Since the concept is still relatively unknown, legal or enforcement issues (e.g. in the case of incorrect reporting) are problematic and many of the very small FSPs have manual and rudimentary MIS, resulting in time lags for reporting. Therefore, local supervision and "hand-holding" are often required, in particular for FSPs in more remote parts of a country. Start-up training on how PBA triggers can be incorporated into standard contracts is recommended (IFAD, 2011).

Box 7: Performance triggers for disbursements in Zambia's Rural Finance Programme

Zambia's Rural Finance Programme uses PBAs) based on IFAD's RIMS. According to the Loan Agreement, FSPs must report to the PMU on a quarterly basis. The PMU must also report on progress to the Zambian government and IFAD, quarterly. Reporting requirements include the following:

- quarterly progress reports, submitted no later than the end of the month following a quarter, and by the PMU no later than two months after the end of each quarterly and annual period during the programme implementation period
- financial statements within three months after the end of each fiscal year
- audit reports within six months of the end of each fiscal year
- a baseline survey report and impact survey reports
- a midterm review no later than 36 months after the effective date
- a completion report no later than six months after the programme completion date.

All deliverables are linked to specific disbursements, which are released when KPIs are assessed as sufficient. If a partner FSP fails to provide information by the requested deadline, IFAD could, as an ultimate resolution, terminate the programme or support.

Source: Damen, 2009.

Follow-up and strategic recommendations

According to *IFAD Decision Tools for Rural Finance,* IFAD's PMUs have the specific obligation to closely monitor the implementation of project activities and the performance of participating FSPs. A range of key financial and social performance indicators for partner FSPs should be collected on a quarterly basis in order to make the appropriate project management decisions. Other indicators related to general project objectives are also important. A standardized set of KPIs used by IFAD can be found in *Key Performance Indicators and Performance-Based Agreements in Rural Finance: How To Do Note*.

In addition, IFAD headquarters should annually track the overall performance of a project as well as of the Fund's overall portfolio. Each PMU or regional office should collect indicators from partner FSPs and then submit them to IFAD headquarters. Given IFAD's global partnership with the MIX, all IFAD-supported FSPs should aim to report annually to the MIX Market.

Highly decentralized community-based financial organizations (CBFOs) will likely face challenges in reporting many indicators. Moreover, participating in the MIX Market will not be feasible for many of them. Nevertheless, as an IFAD institutional decision, CBFOs at a minimum, should report on outreach indicators and repayment indicators to the PMU (for more information, see *Key Performance Indicators and Performance-Based Agreements in Rural Finance: How To Do Note*).

How can IFAD and other stakeholders best support FSPs interested in financial and social performance through KPIs and PBAs? Advancing financial and social performance in rural finance requires a long-term perspective. IFAD has the opportunity to make sustainable investments with long-lasting impact in this field by partnering with FSPs. While not all FSPs provide the same types of services, most need support to develop their capacity in the following ways:

- **Create capacity-building programmes to increase their knowledge of financial and social performance indicators:** Train FSP monitoring staff; offer scholarships for FSPs to participate in training programmes; and support exchange visits to more experienced FSPs or MFIs to draw on lessons learned in measuring and analysing KPIs and implementing PBAs.
- **Market awareness and advocacy:** Use communication tools and processes to increase understanding and support of financial and social performance by the board, management and staff.
- **MIS:** Use training and develop tools and guidelines for specialized systems and processes that support data collection, reporting and verification of social performance data at the association level and within member organizations.
- **Knowledge management:** Generate action research and documentation, and publish and disseminate knowledge local experience with KPIs, SPM and PBAs, as well as other relevant market information.
- **Strategic planning:** Jointly develop a financial and social performance strategy with the FSP, identifying local needs to match with clear KPIs, choosing the most appropriate approach to capacity-building, reporting on financial and social performances, and integrating social performance into the FSP's strategic plan.
- **SPM officer:** Create a dedicated position that is charged with the development and oversight of social performance strategy and service provision to members (Associations Social Performance Working Group, 2010).

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