4. Conducting performance monitoring and evaluation
4. Conducting performance monitoring and evaluation

- **Action**: Effectively conduct ongoing and annual performance monitoring.
- **Objectives**: Monitor performance of projects, introduce corrective measures as needed, and distil lessons from project implementation.
- **Key players**: PMU for implementation and CPM for supervision.

Project performance M&E is a critical component in a well-functioning project. Although M&E takes place during implementation, it should be developed as part of the project design to ensure performance-based results.

**Performance-monitoring and evaluation framework**

‘Performance’ has been defined as the extent to which FSPs or delivery mechanisms reach their target market (depth), the number of clients served (scale), and the degree to which they do so equitably and sustainably (see also World Bank 2006). Designing the framework for performance monitoring and M&E includes a number of key steps:

- Clearly define the purpose and scope of the M&E system and the information and outputs expected;
- Provide a general description of key stakeholder audiences (e.g. PMU, IFAD headquarters) and the types of performance information they each expect, when that information is required, in what format, and who is responsible for collecting it;
- Define the performance indicators to be collected and analysed for each stakeholder audience (see Box 24 on page 64 and Table 9 on page 65, for recommended financial, outreach and social performance indicators);
- Detail the necessary conditions and capacities required to manage the M&E, including the number of M&E staff, their responsibilities and linkages to other management activities, and incentives;
- Develop a budget for M&E activities;

**Figure 8. Monitor and evaluate performance phase**

![Diagram of performance monitoring and evaluation process](image-url)
• Define the steps that will be taken if the programme or partner FSPs fail to meet the established performance criteria over a given period of time. IFAD should be in a position to stop supporting implementing partners on a timely basis if they are not meeting performance expectations (see section 3 on performance-based contracts).

**Identifying relevant performance indicators**

Only information that can be easily gathered, tabulated and used to draw simple, meaningful conclusions should be used for monitoring purposes. Each indicator should be clearly defined, and a common format for their collection should be developed. Avoid extraneous information and non-standard formats, as these can lead to ‘noise’, make it difficult to measure progress, and detract from the focus of the project.

Table 9, at the end of this section, provides some standard indicators.

• Indicators should be results-based, emphasizing project and institutional performance and development impacts (e.g. portfolio quality and operational efficiency of FSPs), rather than simply the achievement of a certain number of activities or outputs (e.g. number of meetings or number of people trained) (Rosenberg 2009; IFAD 2002a).

• Include key performance indicators and targets in the project design and in contracts with partner FSPs, in addition to quarterly governance committee meetings, annual supervision missions and evaluations. FSP performance requires constant vigilance to anticipate developing problems, identify ongoing management challenges, and meet needs.

• Include participation in the MIX Market in the project design and in contracts with partner FSPs (see Box 23 on page 63).\(^{14}\) IFAD requires partner FSPs to share their outreach and financial performance information on the MIX Market on an annual basis, to the extent possible.

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**Box 22**

**Key processes related to the M&E system**

1. **Planning.** The process of setting up project objectives, deciding the time needed to achieve them, how, and by whom, is the first necessary element of a project M&E system.

2. **Identification of performance questions.** This phase specifies what information should be collected in order to respond to the knowledge demand expressed by project stakeholders. This implies specifying what information has to be collected, when, for what reason, and how this is expected to be used.

3. **Data collection.** This phase relates to the collection of data needed to respond to the performance questions formulated by project stakeholders. Data should then be stored and processed in order to be used for analysis.

4. **Data analysis.** The information is analysed, clarified and organized in order to assess whether results have been achieved, identifying best and worst practices while pointing out correlations and changes that have occurred over time at the level of individuals, households, communities or institutions.

5. **Communication.** The results of the analysis are communicated to stakeholders concerned: government, funding agencies, beneficiaries, implementing partners, donors, managers. M&E findings can be reported in various ways: written reports, audio-visual techniques, workshops and brochures.

Source: IFAD (2007b, 3).

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• For highly decentralized, community-based models of financial services – including self-help groups and village savings and credit groups – with limited capacity to keep records and simple manual tracking systems, it would be important to at least track an outreach indicator (e.g. number of active borrowers and savers, average loan size) and a repayment indicator (e.g. loans at risk, current recovery rate) (see Table 9 on page 65).

This information could be supplemented by follow-up studies, as necessary, to examine emerging problem areas, such as gender inequalities in access, and how to address them.

Box 23
The MIX Market

The 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. The MIX Market seeks to develop a transparent information market to link FSPs worldwide with investors and donors and to promote greater investment and information flows.

IFAD requires partner FSPs to participate in the MIX Market and share their outreach and financial performance information on an annual basis, insofar as possible. Reporting to the MIX Market 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 the MIX Market also provides FSPs with exposure to potential investors and international networks and encourages improvements in outreach and performance.
Box 24
Core social performance indicators

In microfinance, the success of an FSP has long been associated with financial performance, as measured by operating efficiency, profitability and the quality of the loan portfolio. Yet, these indicators tell only part of the performance story in microfinance.

Most microfinance institutions strive to meet both financial and social goals, managing a double bottom line. Strong financial performance underpins an FSP’s ability to pursue its social objectives, and conversely, achieving social goals generally enhances financial performance.

The core indicators for social performance management fall into four categories: intent; strategies and systems; politics and compliance; and social outreach and outcomes.15

1. Intent
- Mission and social goals. Mission statement; social goals of the mission include outreach to poor, very poor and low-income people, SMEs, underdeveloped areas, women (together with empowerment), and socially marginalized people and communities, 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; 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 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 exiting 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 FSP’s SR towards staff;
- Social responsibility to community. Elements included in FSP’s politics of SR towards community;
- Social responsibility to the environment. Elements included in FSP’s politics of SR towards the environment.

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.

This table highlights the nine key indicators to track for partner FSPs in an IFAD-supported programme. When evaluating and interpreting these indicators, it is important to look at the trends in the FSP over time: is it reaching more borrowers compared with three years ago? Is it increasing its operational self-sufficiency over time? Has it become more efficient and productive in the last three years?

It is also useful to compare the results with other FSPs serving the same market. Benchmarking against peers in the market can help an FSP set reasonable targets for performance and encourage a healthy sense of competition (Rosenberg 2009).

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Unit</th>
<th>Definition/calculation</th>
<th>What it measures</th>
<th>Interpretation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Total number of active borrowers</td>
<td>Number</td>
<td>Total number of individuals who currently have an outstanding loan balance with the FSP as of 31 December of that year&lt;sup&gt;a&lt;/sup&gt;</td>
<td>Number of people the FSP reaches with loans</td>
<td>Compare this with the number of potential borrowers in the market</td>
</tr>
<tr>
<td>2. Total number of active women borrowers</td>
<td>Number and percentage</td>
<td>Total number of women who currently have an outstanding loan balance with the FSP as of 31 December of that year&lt;sup&gt;a&lt;/sup&gt;</td>
<td>Number of women the FSP reaches with loans</td>
<td>Compare this with the number of potential women borrowers in the market</td>
</tr>
<tr>
<td>3. Total value of gross loan portfolio</td>
<td>US$</td>
<td>Total outstanding principal of all outstanding loans&lt;sup&gt;a&lt;/sup&gt; • Includes all loans – current and non-current • Excludes non-microfinance loans, interest receivable and loans that have been written off</td>
<td>Total value of loans made by the FSP at a certain time</td>
<td>Compare this with the total estimated demand for microcredit in the market</td>
</tr>
<tr>
<td>4. Total number of voluntary savers</td>
<td>Number</td>
<td>Total number of individuals who currently have voluntary funds deposited with an FSP&lt;sup&gt;a&lt;/sup&gt; • Count the number of savers, not the number of savings accounts • Include voluntary savings&lt;sup&gt;b&lt;/sup&gt; • Exclude compulsory savings&lt;sup&gt;c&lt;/sup&gt; • Include deposits on the balance sheet • Exclude savings mobilized by a non-deposit-taking FSP and held in another institution</td>
<td>Number of people the FSP reaches with deposit-taking services</td>
<td>Compare this with the number of potential savers in the market</td>
</tr>
<tr>
<td>5. Total value of voluntary savings</td>
<td>US$</td>
<td>Value of voluntary deposits from FSP clients&lt;sup&gt;a&lt;/sup&gt; • Include voluntary savings&lt;sup&gt;b&lt;/sup&gt; • Exclude compulsory savings&lt;sup&gt;c&lt;/sup&gt; • Include deposits on the balance sheet • Exclude savings mobilized by a non-deposit-taking FSP and held in another institution</td>
<td>Total value of voluntary savings held by the FSP at a certain time</td>
<td>Compare this with the total estimated demand for savings services in the market</td>
</tr>
<tr>
<td>Indicator</td>
<td>Unit</td>
<td>Definition/calculation</td>
<td>What it measures</td>
<td>Interpretation</td>
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<tr>
<td>6.</td>
<td>Percentage</td>
<td>Financial revenue = Financial expense + loan loss provision expense + operating expense</td>
<td>• Overall performance and sustainability</td>
<td>The higher the percentage, the stronger and more sustainable the FSP. Target: More than 120%. Sector median: 113.1%. Trouble: Less than 80%. OSS depends greatly on the institutional model of the FSP and the market in which it operates.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• How well an FSP covers its costs with its operating revenue, and how reliant it is on donor funds.</td>
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<td></td>
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<td></td>
<td>• The smaller the loans the FSP makes, and the higher their relative cost (i.e. more rural outreach), the lower this ratio</td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Percentage</td>
<td>Operating expenses = Period average gross loan portfolio</td>
<td>• Efficiency</td>
<td>The lower the percentage, the more efficient the FSP. Target: Less than 20%. Sector median: 20.0%. Trouble: Depends on the region and the model.</td>
</tr>
<tr>
<td></td>
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<td>• How much it costs the FSP to make a loan (excluding the cost of funds or loan loss/profit)</td>
<td>Efficiency is related to the type of FSP – the smaller the loans, the higher this percentage. FSPs that serve poor people tend to have a higher percentage (i.e. are less efficient) than those that target better-off borrowers and make larger loans.</td>
</tr>
<tr>
<td>8.</td>
<td>Number</td>
<td>Number of active borrowers / Number of staff members</td>
<td>• Productivity</td>
<td>The higher the number, the more productive and efficient the FSP. Target: Depends on the region and the model. Sector median: 100. Trouble: Depends on the region and the model.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Overall staff productivity of an FSP</td>
<td></td>
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<tr>
<td>Indicator</td>
<td>Unit</td>
<td>Definition/calculation</td>
<td>What it measures</td>
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</table>
| 9. Portfolio at risk > 30 days (PAR) | Percentage | Outstanding balance of all loans with a payment over 30 days late  
Gross loan portfolio  
Value of outstanding loans that have an instalment past due by more than 30 days, as a percentage of the value of the entire portfolio of all outstanding loans  
Include the outstanding value of all renegotiated loans, including rescheduled and refinanced loans, because they have higher than normal risk, especially if a payment is missed after renegotiation | Risk  
Risk of the loan portfolio of an FSP | The lower the percentage, the healthier, less risky the loan portfolio  
Target: Less than 5%  
Sector median: 3.1%  
Trouble: More than 10% |
| 9a. Loans at risk > 30 days (LAR)   | Percentage | Number of all loans with a payment over 30 days late  
Total number of outstanding loans  
Number of outstanding loans that have an instalment past due by more than 30 days, as a percentage of the total number of all outstanding loans | Risk  
Risk of the loan portfolio of an FSP | The lower the percentage, the healthier, less risky the loan portfolio  
Target: Less than 5%  
Trouble: More than 10%  
Some FSPs and many revolving funds do not have information systems sophisticated enough to calculate PAR, but they should be able to calculate LAR  
If the repayment rate is roughly the same for large loans and small loans, LAR will not be much different than PAR |
## 4. Conducting Performance Monitoring and Evaluation

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Unit</th>
<th>Definition/calculation</th>
<th>What it measures</th>
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</tr>
</thead>
<tbody>
<tr>
<td>9b. Current recovery rate (CRR) and Annual loan loss rate (ALR)</td>
<td>Percentage</td>
<td>1. CRR = ( \frac{\text{Cash collected during the period from borrowers}}{\text{Cash falling due for the first time during the period, under the terms of the original loan contract}} ) 2. ALR = ( \frac{\left[ \text{1-CRR} \times 2 \right]}{\text{Average loan term in years}} )</td>
<td>• Risk</td>
<td>The lower the percentage, the healthier, less risky the loan portfolio. Target: Less than 5% Trouble: More than 5% This calculation gives a good approximation of the percentage of the loan portfolio that an FSP loses to default every year. Community-based models of delivering financial services or revolving funds often do not have the capacity to calculate PAR, but they should be able to calculate CRR.</td>
</tr>
<tr>
<td>9c. Repayment rate</td>
<td>Amount received</td>
<td>Amount due</td>
<td>• Risk</td>
<td>The repayment rate has significant shortcomings as a performance indicator, though it is often used. Repayment rates can be particularly misleading if the FSP portfolio is growing rapidly and if loan terms are long. This is because the percentage that has become due (the numerator) is relatively low compared with the amount disbursed or the amount outstanding (the denominator). This means that a delinquency problem may not show up right away.</td>
</tr>
</tbody>
</table>

\( ^a \) This is a stock figure as of a particular date (typically the end of the year), not a cumulative figure.  
\( ^b \) Voluntary savings: deposits made by clients unrelated to other products.  
\( ^c \) Compulsory savings: deposits made by clients as a requirement to access a loan, a kind of collateral.  
\( ^d \) The MicroBanking Bulletin (MBB) provides financial and portfolio data on leading microfinance institutions worldwide. Published by the Microfinance Information eXchange (MIX), the MBB gives the sector a snapshot of its performance and provides a useful frame of reference. The figures for the sector median are from 2008 and represent 1,084 MFIs. More information on the MBB can be found at its MIX site, www.themix.org/microbanking-bulletin/microbanking-bulletin
Performance monitoring and reporting

There are a number of different users of performance-monitoring information, each with their own needs and interests. The PMU should 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 day-to-day project management decisions. Other indicators related to general project objectives would also be important, though this document, with its focus on rural finance, will not address them (see IFAD 2002a; 2007b,c).

In addition, on an annual basis, IFAD headquarters should track the overall performance of a project, as well as of the Fund’s overall portfolio, using key indicators for rural finance. The PMU should collect these indicators from partner FSPs and then submit them to IFAD headquarters. Given IFAD’s global partnership with the MIX, all IFAD-supported FSPs should also report annually to the MIX Market (see Box 23 below).

Highly-decentralized community-based FSPs (e.g. self-help groups) will likely face challenges in reporting many indicators or participating in the MIX Market. Nevertheless, at a minimum, they should still report an outreach indicator (e.g. number of active borrowers and savers, average loan size) and a repayment indicator (e.g. loans at risk, current recovery rate) to the PMU (see Table 9).

<table>
<thead>
<tr>
<th>Table 10. Performance monitoring and reporting</th>
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<tr>
<td><strong>Goal</strong></td>
</tr>
<tr>
<td>1. Regular, ongoing performance monitoring</td>
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<tr>
<td>2. Annual reporting</td>
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<tr>
<td>Report to IFAD headquarters and participate in the MIX Market</td>
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