

Key performance indicators and performance-based agreements in rural finance

Inclusive rural financial services



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Uganda - Rural Finance Services
Programme

Introduction

Rural finance plays an important role in poverty reduction; however, its management remains a challenge. Key performance indicators (KPIs) and performance-based agreements (PBAs) can significantly improve the ability to monitor its financial and social dimensions.

Effective performance monitoring and greater transparency in rural finance generates stronger institutions and increased competition in the sector, which in turn results in better financial products for the rural poor.

Background and context

In the past decade, IFAD has undergone a number of reforms. One of the main drivers of this reform process has been IFAD's *Action Plan for Improving its Development Effectiveness* (2005). This has led to other important tools related to monitoring and evaluation (M&E), such as the Results and Impact Measurement System (RIMS) and *IFAD Decision Tools for Rural Finance*. According to CGAP's SmartAid 2013 Index, the advances made by IFAD since 2009 were received positively and show a commitment from the highest levels to strong execution at the strategic and operational levels. In addition, they show that IFAD has clearly benefited from past experiences in implementing the rural finance policy, new directions set out in the strategic framework, and attention to operational procedures in quality assurance, including early involvement of the Policy and Technical Advisory Division in design. These combined efforts show a cohesive approach to bringing harmony to strategy, capacity-building, knowledge management and oversight.

Rural finance projects are measured by the extent to which they reach their target markets (depth), the number of clients they service (scale) and the degree to which they do so in an equitable and sustainable manner. KPIs can be a powerful management tool. If KPI data are collected regularly and made available to the appropriate financial service provider (FSP) or the funding agency's internal management, they can enable:

- timely identification of problems
- realistic formulation of strategic and business plans
- transparent budgeting.

KPI data collection facilitates performance assessment at the level of regional and country portfolios and it makes comparisons between FSPs more meaningful. It also promotes more transparency in FSP reporting. Transparency is increasingly important in an industry where mature FSPs look for commercial funding sources and investors to support their growth and are under increasing public scrutiny.

Rationale

IFAD interventions will produce better results when design, monitoring and reporting focus explicitly on KPIs that are measured and reported on regularly. The more transparent the results are, the more likely it is that IFAD project staff can learn from successes and failures, and will be able to take corrective actions if needed. However, many rural institutions do not report adequately on KPIs. *Key Performance Indicators and Performance-Based Agreements in Rural Finance: How To Do Note* provides guidance on how to use KPIs in projects and PBAs.

Summary of key issues

Past projects have yielded much practical knowledge on the use of KPIs. *Key Performance Indicators and Performance-Based Agreements in Rural Finance: Lessons Learned* provides an in-depth discussion of these experiences.

Designing key performance indicators and a performance monitoring system

When developing a performance monitoring system, projects can follow a set of widely validated best practices. These include the following:

- **Training:** All stakeholders in the implementation of a performance monitoring system should be trained on system design and implementation by qualified trainers in order to create awareness among the FSP staff.
- **Verification of resources and technical capacity:** The available resources and technical capacity in the FSPs must be verified to ensure that KPIs and other monitoring tasks can be implemented.
- **Participation:** The staff members responsible for data collection and reporting in the performance-monitoring design process should be involved, including in the selection of KPIs.
- **Oversight and monitoring:** A system of oversight should be established to manage each important phase of the performance monitoring system.
- **Pilot test:** Many design features can look good on paper but work poorly in the field. It is prudent to have a small test case before rolling out a fully formed set of KPIs to the organization.

Implementing KPIs

Implementing KPIs can pose challenges related to data collection, analysis and reporting. When FSPs are aware of these challenges, the board and management can take steps to address them. These challenges include the following:

- **Data collection and analysis:** It is critical to determine in advance which data will be most useful and how data will be used for strategic and operational decisions.

- **Training 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 to collect data from clients effectively and in an unbiased fashion.
- **Reporting:** FSPs must prepare separate internal and external performance reports, which often have their own specific formats, objectives and targets.
- **Policies:** Written policies help an organization to clarify its financial and social objectives. In addition, these policies show staff that the FSP is committed to many dimensions of social responsibility.

Determining social performance indicators

IFAD and others have strongly advocated the use of KPIs. More recently, social performance indicators are increasingly recognized as important determinants of FSP success in achieving a double bottom line. 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. Indicators 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 them to external stakeholders. KPIs can also address:

- **Staff acceptance:** As the responsibilities and daily work of staff will be affected, making them commit to social performance is vital. In this respect, the process of demonstrating results through effective and concise reporting is an important step towards staff buy-in.
- **Poverty measurement tools:** Poverty measurement tools help FSPs collect specific data to answer questions about client poverty levels and other personal attributes.
- **Integration of social indicator data into the management information system (MIS):** Well-designed and properly-used poverty measurement tools produce valuable data. However, in practice, since it is often expensive to modify an MIS to incorporate new indicators, FSPs often collect and maintain social indicator data separately.
- **Feedback loops for communication and compliance:** Collection and analysis of KPI data, including social indicators, create opportunities for different types of feedback. Feedback on KPIs is especially useful when shared with staff members who can act on it.

Formulating PBAs

PBAs with clearly defined KPIs can increase FSP accountability. PBAs strengthen incentives for good performance by clearly outlining how an FSP will be measured against its goals. PBAs enhance FSP commitment to project objectives and upgrade the ability of counterparts to track FSP performance.

Summary of key issues

Key steps for designing an M&E system

IFAD Decision Tools for Rural Finance sets out the key steps for a designing performance M&E system. *Key Performance Indicators and Performance-Based Agreements in Rural Finance: How To Do Note* provides detailed step-by-step guidance on how to design the M&E framework, resulting in KPIs that can be easily collected, analysed and used to draw simple, meaningful conclusions.

Set-up of result-oriented performance M&E frameworks

Performance monitoring is fundamental for ensuring that IFAD policies and procedures are implemented and generate concrete results. Monitoring indicators to measure the performance of participating FSPs should be included in the project design document and in the PBAs with participating FSPs.

Steps to realizing social performance indicators

In the past decade, more emphasis has been placed on the use of social performance indicators. *Key Performance Indicators and Performance-Based Agreements in Rural Finance: How To Do Note* provides details on the following key steps:

- defining social performance indicators as a measurement of an institution's social goals
- recognizing that financial performance alone is insufficient to achieve sustainable financial inclusion
- recognizing a growing interest from donors, networks, practitioners, rating agencies, funders and other stakeholders in testing, applying and improving new tools for social performance management, assessment, monitoring and reporting
- committing to improve social performance rural finance.

Formulating PBAs with partner FSPs

In order to scale up and start using KPIs as a management tool for rural finance development, it is crucial to implement PBAs with partner FSPs and establish standard operating procedures for them. *Key Performance Indicators and Performance-Based Agreements in Rural Finance: How To Do Note* discusses the advantages of using PBAs and it provides the key steps for formulating designing a PBA.

Challenges, opportunities and benefits

IFAD will continue to address organizational and management challenges to achieve closer alignment across resources, strategic priorities and key deliverables. FSPs, and by default IFAD, can produce better results when design, monitoring and reporting are aligned to KPIs that are measured and reported regularly. The more transparent the results, the more likely practitioners will be able to learn from experiences and implement corrective actions.

Brief description of the toolkit

- **Teaser:** Sets out the scope (you are here).
- **How To Do Note:** Conceptualizes key issues and provides guidance for design and implementation. It highlights the importance of tracking and analysing the performance of IFAD's rural finance investments. This information can support decision-making.
- **Lessons Learned:** Analyses past experiences and makes recommendations for the future.



International Fund for Agricultural Development
Via Paolo di Dono, 44 - 00142 Rome, Italy
Tel: +39 06 54591 - Fax: +39 06 5043463
E-mail: ifad@ifad.org
www.ifad.org

www.ruralpovertyportal.org

ifad-un.blogspot.com

www.facebook.com/ifad

instagram.com/ifadnews

www.twitter.com/ifadnews

www.youtube.com/user/ifadTV

Originators

Michael Hamp

Lead Technical Specialist, Inclusive Rural Financial Services
Policy and Technical Advisory Division
E-mail: m.hamp@ifad.org

Francesco Rispoli

Senior Technical Specialist, Inclusive Rural Financial Services
Policy and Technical Advisory Division
E-mail: f.rispoli@ifad.org

Jonathan Agwe

Senior Technical Specialist, Inclusive Rural Financial Services
Policy and Technical Advisory Division
E-mail: j.agwe@ifad.org

Acknowledgements

The writing of this toolkit has been a highly collaborative effort and we the originators would like to thank Miriam Cherogony, Emily Coleman, Chris Jarzombek and Graham Perret for their support and contributions. We thank our peer reviewers of the Policy and Technical Advisory Division of IFAD for their insightful feedback.

Contact

Maria-Elena Mangiafico

Knowledge Management and Grants Officer
Policy and Technical Advisory Division
E-mail: m.mangiafico@ifad.org

October 2014