

**Guidelines for Monitoring and
Evaluating Projects
of the Social Entrepreneurship
Program**

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Abstract

The purpose of this document is to define and discuss a minimum set of core project monitoring and evaluation indicators that should be collected in all or nearly all projects approved under the IDB's Social Entrepreneurship Program (SEP). The document is aimed at those IDB and counterpart institution personnel involved in designing, monitoring, or evaluating SEP projects. The document describes two sets of proposed project monitoring and evaluation indicators: one set to be used for projects or project components in the microfinance area and the other set to be used for projects or project components in the non-financial services area.

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Introduction and General Issues

The purpose of this document is to define and discuss a minimum set of core project monitoring and evaluation indicators that should be collected in all or nearly all projects approved under the IDB's Social Entrepreneurship Program (SEP). The document is aimed at those IDB and counterpart institution personnel involved in designing, monitoring, or evaluating SEP projects. The document describes two sets of proposed project monitoring and evaluation indicators: one set to be used for projects or project components in the microfinance area and the other set to be used for projects or project components in the non-financial (NF) services area. NF services include what are traditionally referred to as business development services, involving especially the provision of training, technical assistance, marketing, information, and technology services, and the creation or reinforcement of networks, clusters, or subcontracting chains. NF services also include other types of non-financial programs that fall under the Social Entrepreneurship Program definition, which include community development and social projects with productive impacts, such as day care facilities, health clinics, and housing improvements. The proposed NF services indicators are meant to be used for both types of NF service projects. The full set of indicators for microfinance and NF services are discussed below in Sections A and B, respectively, and are summarized in Table 1.

There are at least three reasons for producing these project indicators. First, by collecting indicators on a regular basis (at least annually), the project executor and the Bank are better able to ensure that project execution is going to plan, and to take corrective actions if it is not. Second, having an agreed-upon set of core indicators eases the burden on project teams to "reinvent the wheel" for each project by having to generate a set of indicators for each operation. Rather, project teams can make use of the core indicators discussed here, perhaps complemented by a small number of special indicators that they deem important for their particular project. The third reason for collecting a standardized set of indicators is that doing so facilitates cross-project comparisons and any future evaluation work.

The set of indicators for microfinance and NF services found in Table 1 includes both required and optional indicators. Depending on the circumstances, it may be desirable to use some or all of the optional indicators presented in Table 1, in addition to the required indicators shown there. As noted above, a project team may also wish to add its own indicators in order to have measures tailored to the specific nature of the project with which it is working. For example, it might add a crop yield indicator for a project aimed at improving farm productivity, or an export volume indicator for an export marketing project. We refer to this last group of indicators as "project-specific" indicators and discuss them in the "Optional Indicators" subsection below and again in Section B in relation to measuring development impact.

Table 1
Indicators for Monitoring and Evaluation of Microfinance and Non-Financial Services Projects

Microfinance Indicators	Non-Financial (NF) Services Indicators
<p>I. Outreach</p> <p>O1 Total number of clients receiving financial services</p> <p>O2* Client characteristics (number or % of clients who are, for example, women, indigenous, rural, or poor)</p> <p>O3 Service subgroups (number or % of clients who are borrowers vs. savers)</p> <p>O4 Total gross loan portfolio (= total balance outstanding at a given point in time)</p> <p>O5 Average outstanding loan balance = Total gross loan portfolio/Number of loans outstanding at a given point in time</p> <p>O6 Total savings (if applicable)</p> <p>O7 Average size of savings deposits = Total savings/Number of savers (if applicable)</p>	<p>I. Outreach</p> <p>O1 Total number of clients using NF services</p> <p>O2* Client characteristics (number or % of clients who are, for example, women, indigenous, rural, or poor)</p> <p>O3* Number of clients—by service subgroups</p> <p>O4 Total gross revenue from NF service operations</p> <p>O5* Gross revenue—by service subgroups</p>
<p>II. Sustainability/Profitability</p> <p>S1 Operational self-sufficiency = Total gross revenue from financial operations/Total expenses from financial operations (cost recovery ratio)</p> <p>S1a Return on assets (ROA) = Net income from financial operations/Average assets</p> <p>S2 Cost of funds ratio = Interest and fee expenses on funding liabilities/Average funding liabilities</p> <p>S3 Capital adequacy ratio = Equity/Assets</p> <p>S4 Portfolio at risk (30 days) = Outstanding principal balance of loans with arrears over 30 days/Total gross loan portfolio</p> <p>S5 Loan loss coverage = $\frac{\text{Loan loss reserve}}{.35 \left[\frac{\text{Outstanding principal balance of loans late by over 30 days}}{\text{Outstanding principal balance of loans late by over 30 days}} \right] + .65 \left[\frac{\text{Outstanding principal balance of loans late by over 1 year}}{\text{Outstanding principal balance of loans late by over 1 year}} \right]}$</p>	<p>II. Sustainability/Profitability</p> <p>S1 Operational self-sufficiency (cost recovery ratio) = $\frac{\text{Total gross revenue from NF service operations}}{\text{Operating expense from NF service operations}}$</p> <p>S2* Operational self-sufficiency—by service subgroups</p>
<p>III. Efficiency</p> <p>E1 Operating expense ratio (assets) = $\frac{\text{Operating expense from financial operations}}{\text{Average assets}}$</p> <p>E1a Operating expense ratio (loans) = $\frac{\text{Operating expense from financial operations}}{\text{Average gross loan portfolio}}$</p> <p>E2 Loan officer productivity = $\frac{\text{Number of active borrowers}}{\text{Number of loan officers}}$</p>	<p>III. Efficiency</p> <p>E1 Operating expense ratio = $\frac{\text{Operating expense from NF service operations}}{\text{Number of NF service client attentions}}$</p> <p>E2* Operating expense ratio—by service subgroups</p>
<p>IV. Development Impact</p> <p>D1 Retention rate = (Number of clients at the end of the period – Number of new clients acquired during the period)/ Number of clients at the start of the period</p> <p>D2* Client satisfaction (from a survey)</p>	<p>IV. Development Impact</p> <p>D1 Repeat clients ratio = $\frac{\text{Number of project clients who have used any single NF service more than once from the project provider(s)}}{\text{Total number of project clients of NF services}}$</p> <p>D2* Repeat clients ratio—by service subgroups</p> <p>D3* Client satisfaction (from a survey)</p> <p>D4* Client satisfaction (from a survey)—by service subgroups</p>

Note: Indicators marked with an asterisk (*) are optional; all others are required. In projects offering both financial and non-financial services, some required financial and non-financial indicators can be combined (see the discussion below of financial indicators S1, S1a, S3, E1, and E1a and non-financial indicators S1 and E1 in the subsection entitled, “Projects with Both Financial and Non-Financial Services”). Indicators marked with the letter “a” at the end of their name are alternative indicators. Thus, microfinance indicators S1 and S1a are alternatives; only one or the other of this pair would normally be collected. The same is true of microfinance indicators E1 and E1a. NF services indicator D1 may be replaced by an alternative indicator (see text discussion of this indicator).

Required Indicators

An effort has been made to restrict the proposed indicators to a limited number of highly-important measures. These are broadly grouped into indicators of outreach, sustainability/profitability, efficiency, and development impact. Indicators are numbered using the first letter of the group name (“O” for outreach, “S” for sustainability/profitability, “E” for efficiency, and “D” for development impact) plus a number; as shown in Table 1.

In the case of the microfinance indicators, data on all indicators shown in Table 1 should be collected, with four exceptions. First, if the institution has no savings clients, outreach indicators O3, O6, and O7 would not be used since they refer to savings. Second, client characteristic indicators (outreach indicator O2) may or may not be relevant depending on whether the project is attempting to focus on or influence the conditions of any population subgroups in particular, and so indicator O2 is considered optional. Third, sustainability/profitability indicators S1 and S1a are alternatives, as are efficiency indicators E1 and E1a; normally, only one indicator from each pair would be collected. Fourth, development impact indicator D2 (client satisfaction survey) is optional. In summary, 11 microfinance indicators are required in all microfinance projects, namely: O1, O4, O5, S1 or S1a, S2, S3, S4, S5, E1 or E1a, E2, and D1. If the microfinance project provides savings services, an additional three indicators are required: O3, O6, and O7. These 14 indicators carry no asterisk in Table 1, to indicate that they are required. Only indicators O2 and D2 are optional, and are marked with an asterisk in Table 1.

In the case of NF services, the client satisfaction survey (indicator D3) is optional, as it is for the microfinance indicators. NF services indicators O3, O5, S2, E2, D2, and D4 (all marked in Table 1 as referring to “service subgroups”) would be collected only if more than one NF service is provided and it is desired to have separate performance indicators for one or more of the individual services. The remaining NF services indicators would all be collected in any project providing non-financial services, with the possible exception of the client characteristic indicators (O2), depending, as with microfinance, on whether the project is attempting to focus on or influence the conditions of any population subgroups in particular. In summary, a total of five NF services indicators are required: O1, O4, S1, E1, and D1. These indicators refer to NF service operations as a whole and carry no asterisk in Table 1. The remaining eight indicators are optional, and are marked with an asterisk in Table 1.

Projects with Both Financial and Non-Financial Services

The words “projects or project components” in the first paragraph of this paper are meant to recognize the fact that projects sometimes provide both financial and NF services, for example, credit and training. Projects may also provide more than one NF service, for example, training and marketing, perhaps in addition to credit. What is the minimum set of indicators that must be collected in these cases of multiple service provision? The answer is mostly given in the preceding two paragraphs: those 14 microfinance and five NF services indicators that carry no asterisk. This means, for example, that in the case where there are multiple non-financial services, it is never required to provide indicators

on the individual NF services; it is only required to present indicators for all NF services together. This allows one to escape a potentially difficult problem for the cost recovery and operating expense ratios (NF services indicators S1 and E1) since it implies that one is never required to allocate overall NF cost and revenue data among the various NF services offered. One need only obtain overall cost and revenue data for all non-financial services combined.

In cases where the project provides both financial and non-financial services, one further economy in reporting is allowed, in the spirit of the previous paragraph. The idea is again to avoid having to disaggregate cost, revenue, and possibly asset data between financial and non-financial services. The issue arises for financial indicators S1, S1a, S3, E1, and E1a and for non-financial indicators S1 and E1. In cases where it would be too costly or simply not worthwhile to obtain (or estimate) separate financial and non-financial cost, revenue, and asset data, these seven indicators may be combined into four indicators and calculated on a global basis for all financial and non-financial services combined, as follows:

- Financial and non-financial indicators S1 (both are the cost recovery ratio) would be calculated as the ratio of total gross revenue to total expenses, where both the numerator and denominator refer to all financial and non-financial operations combined.
- Financial indicator S1a (ROA) would be calculated as the ratio of net income to average assets, where both the numerator and denominator refer to all financial and non-financial operations combined.
- Financial indicator S3 (capital adequacy ratio) would be calculated as the ratio of equity to assets, where both the numerator and denominator refer to all financial and non-financial operations combined.
- Financial indicators E1 and E1a and non-financial indicator E1 (various operating expense ratios) would be calculated as the ratio of operating expenses to average assets, where both the numerator and denominator refer to all financial and non-financial operations combined.

These combined sustainability and efficiency indicators are collected in order to provide at least an overall picture of the financial and operating health of the project's service provider(s), for purposes of monitoring and evaluation by the Bank and by the executing agency. For all of these indicators, however, it is also very useful to separate cost, revenue, and asset data and calculate separate financial and non-financial indicators if this is possible. Even if separate data are not routinely calculated by the organization(s) providing the financial and non-financial services, separate cost, revenue, and asset values can often be estimated with reasonable accuracy ex post, as discussed below for financial indicators S1 and E1. Similarly, when the project provides more than one NF service, the collection of separate indicators for each of the major NF services can be

very helpful, both to the provider(s) as well as to the Bank, and is therefore also encouraged.

In projects providing both financial and non-financial services, all of the remaining financial and non-financial services indicators must be calculated using separate financial and non-financial data (rather than on a combined basis, as permitted for the five financial and two non-financial services indicators just discussed). However, this should present little problem since no issues of cost, revenue, or asset allocation arise for the remaining indicators. For example, separate data are usually kept on the number of credit and non-financial services clients, on the total loan portfolio and total sales of NF services, etc.

Optional Indicators

It is left to each individual project team to decide whether, in addition to the required indicators noted above, any further indicators should be calculated. Optional indicators could include any of the indicators listed in Table 1 marked with an asterisk. In certain projects, other indicators, not listed in Table 1, could be included as well. As noted earlier, these are referred to as project-specific indicators, and are always optional. For example, in a project that provides technical assistance to increase farm production, there could be indicators for land under cultivation and the yields of selected crops (in addition to such required indicators as the number of farmers assisted and the total fees paid for the technical assistance). In export marketing projects, one could include measures of the volume and value of exported goods (in addition to such required indicators as the number of clients assisted by the export marketing services and the value of these services, the latter possibly being calculated from the export marketing margin, or difference between the export marketer's buying and selling prices). Naturally, for purposes of project management and evaluation it is desirable that the project executor and the Bank have as much data as possible. However, project teams will have to trade off the benefits of additional data against the cost of its collection.

The need for additional, project-specific indicators can arise in another context as well. Consider a project that improves only some (or only one) of several services offered by an institution. Then, it will normally be desirable to add relevant indicators for the services that are benefited by the project. The same holds true when the project *adds* a new product or service, for example: a housing loan program to an existing microfinance institution, a village banking product to an existing credit union, or marketing program to an existing training firm. Some or all of the Table 1 performance indicators (and possibly others) should be collected for the housing, village banking, and marketing programs, in order to monitor and evaluate these project activities. For example, if a housing loan program is introduced into an existing microfinance institution (MFI), we may be interested in the number of housing loan clients and the value, cost recovery ratio, and delinquency rate of the housing loan portfolio. We would also collect data on required indicators such as the MFI's total number of loan clients (who borrow for housing and for all other purposes), total portfolio, and overall cost recovery ratio and delinquency rates.

These required indicators serve as a check on the overall financial and operating health of the MFI.

Multiple Providers

Projects may, in some cases, involve working with multiple providers of the same service, for example, several credit unions, training providers, or day care centers. In all cases, the indicators being discussed in this paper should be calculated at the aggregate level, that is, summing over all providers of the same service. Hence, in a project that strengthens 10 credit unions, the outreach indicators refer, for example, to the total number of clients and the total value of the loans of the 10 credit unions together; the sustainability indicators refer, for example, to the ROA and the capital adequacy ratio of the 10 credit unions combined; and so forth. Of course, project teams can always add reporting requirements at the level of each individual service provider if it is felt that this would be useful for monitoring or other purposes. Here we describe only the minimum reporting requirements.

Desirable Characteristics of Indicators

It may be helpful to those adding project-specific indicators for their projects to recall some of the desirable characteristics of indicators:

- **Simplicity**—indicators should be as easy to measure and implement as possible.
- **Relevance**—indicators should measure aspects of projects that are of particular interest and importance.
- **Additionality**—in a set of indicators, another indicator must add significant additional information to be worth including.
- **Completeness**—to the extent possible, the set of indicators should collectively measure all major aspects of a project that are of interest.

Conformity with the MFI Roundtable Definitions

The microfinance indicators described in this paper are in conformity with the names and measurement conventions suggested in the MFI Roundtable's (2002) definitions of standard financial terms and ratios for microfinance. Readers wishing additional discussion of microfinance performance indicators are referred to this publication. These same names are carried over from microfinance to non-financial services whenever the same basic concept is being used, so as to further standardize terminology and simplify the task of the reader in understanding the indicators being described.

A. Indicators for Microfinance Projects or Project Components

This section discusses the four types of microfinance indicators, namely, those measuring outreach, sustainability/profitability, efficiency, and impact.

I. Outreach

O1 Total number of clients receiving financial services.

O2* Client characteristics: Number of clients (or percentage of total clients) of a given type or belonging to a given target group (e.g., women, indigenous, rural, or poor).

O3 Number of clients—by service subgroups: Number of clients (or percentage of total clients) who are borrowers or savers (if applicable).¹

O4 Total gross loan portfolio (= total balance outstanding at a given point in time).

O5 Average outstanding loan balance = Total gross loan portfolio/Number of loans outstanding at a given point in time.²

O6 Total savings (if applicable).³

O7 Average size of savings deposits = Total savings/Number of savers (if applicable).

Indicators O1, O3, O4, and O6 are meant to describe different aspects of the *breadth* of outreach: how many clients are reached of different types and how much in resources is involved. Indicators O5, O7, and possibly O2 attempt to describe something about the *depth* of outreach, that is, the extent to which underserved or underprivileged groups are attended to by the project. The extent to which lower average loan and savings sizes (indicators O5 and O7) measure outreach to lower income groups is not really known. However, there is a loose consensus that at least some correlation exists between average loan or deposit size on the one hand and income level on the other hand (if for no other reason than the fact that high income entrepreneurs would be less likely to bother requesting very small loans or maintaining very small deposit accounts).

II. Sustainability/Profitability

S1 Operational self-sufficiency = $\frac{\text{Total gross revenue from financial operations}}{\text{Total expenses from financial operations}}$
(cost recovery ratio)

This ratio measures the extent to which overall expenses from financial services operations are covered by revenue from financial services operations. The numerator includes interest and fees earned from loans and investments but excludes donations since

donations do not provide a sustainable, business-related source of revenue. The denominator consists of all operating expenses (including wages, rent, utilities, depreciation, etc.) plus all interest expenses paid on funding liabilities plus all provisioning expenses for bad loans.⁴ These three cost items together sum to total expenses from financial operations, the denominator in S1.

For institutions that offer both financial and non-financial services, the calculation of indicator S1 exactly as it is defined above requires the allocation of all revenue and expenses to either financial service revenue and expense or else non-financial service revenue and expense. In cases in which such an allocation is impractical, then a combined ratio of total gross revenue to total expenses for all financial and non-financial services operations combined should be used.⁵ It may also be desirable to report this overall measure of cost recovery even when disaggregated measures are also being reported, in order to have an indicator of how well the program is recovering costs overall.

To see how well the *microfinance* program is recovering costs, it is generally desirable to calculate indicator S1 exactly as it is defined above, if this is possible. This means that revenue and expense data must be disaggregated. Generally, this is fairly easy to do on the revenue side, as most revenue is or can be identified as coming from a particular program or service, for example, credit on the financial side versus marketing or training on the non-financial side. The great majority of revenue is often derived from credit services. On the cost side, the interest costs of funding liabilities plus the provisioning expenses associated with the loans extended in a credit program should both be allocated to the credit program, along with those operating expenses that can be wholly attributed to this program. This last category of expenses might include loan officer salaries (to the extent that loan officers do not also offer training or other non-financial services), expenditures on loan tracking systems, vehicle expenses for vehicles used only for loan operations, etc. Similarly, expenses that are attributable only to the provision of non-financial services should be allocated to those services. Overhead and other shared costs such as rent, utilities, insurance, and the salaries of personnel involved in both financial and non-financial services should be divided between financial and non-financial services. For example, personnel working in both programs can be asked to allocate their time between the two activities, and their salaries apportioned accordingly. Rent can be allocated according to the floor space used by each activity, etc.⁶

S1a Profitability: Return on assets (ROA) =
$$\frac{\text{Net income from financial operations}}{\text{Average assets}}$$

ROA measures how well a financial institution uses its assets to generate income, and is an alternative to indicator S1.⁷ Typically, ROA is used for institutions such as credit unions that have been sustainable and perhaps even profitable for some time, and it is desired to measure how profitable they are. In contrast, the cost recovery ratio in S1 is a commonly-used sustainability measure for NGOs that are still struggling to cover all operational costs.

$$S2 \text{ Cost of funds ratio} = \frac{\text{Interest and fee expenses on funding liabilities}}{\text{Average funding liabilities}}$$

The cost of funds ratio is essentially a weighted average of the effective interest rates paid by the financial institution on its borrowed funds, deposits, and any other funding liabilities. This ratio does not include consideration of grant funds in either the numerator or denominator since grants are entered into the capital accounts of the financial institution's balance sheet, not into its liabilities. The cost of funds ratio helps determine how competitive a financial institution can be in the marketplace, and thus its ability to survive.

$$S3 \text{ Solvency: Capital adequacy ratio} = \text{Equity/Assets}$$

The capital adequacy ratio provides a measure of the amount of capital, expressed as a percentage of assets, that is available to absorb losses before insolvency is reached. Assets may be unweighted or risk-weighted. The latter are usually employed for regulated financial institutions and reflect the fact that some assets, such as government bonds, are safer than others, such as unsecured loans.

Equity (or net worth) is equal to total assets minus total liabilities. In the case of credit unions, it is common to use only a component of equity, namely institutional capital, in the numerator of S3. Credit unions build up institutional capital over the years by accumulating retained earnings and donations.⁸ Institutional capital serves to protect both member shares and member deposits.

$$S4 \text{ Loan delinquency: Portfolio at risk (30 days)} = \frac{\text{Outstanding principal balance of loans with arrears over 30 days}}{\text{Total gross loan portfolio}}$$

Portfolio at risk is the most widely accepted measure of the quality of a credit portfolio. It shows the share of the unpaid principal balance of all outstanding loans that is contaminated by arrears and therefore at higher risk of not being repaid. By "gross" loan portfolio in the denominator of S4, we mean the principal balance of all outstanding loans, before subtraction of any loan loss reserves (or provisions).

$$S5 \text{ Loan loss coverage} = \frac{\text{Loan loss reserve}}{.35 \left[\text{Outstanding principal balance of loans late by over 30 days} \right] + .65 \left[\text{Outstanding principal balance of loans late by over 1 year} \right]}$$

The numerator of this indicator is the balance sheet measure of the amount of money the financial institution has set aside to cover likely losses of loan principal from its credit portfolio. The denominator is one measure of the expected losses from the credit portfolio. These expected losses equal 35% of the amount of loans 1-12 months overdue plus 100% of the amount of loans more than 12 months overdue (the latter percentage because, in the formula, $0.35 + 0.65 = 1$, that is, 100%). The World Council of Credit

Unions (WOCCU) has adopted this loss calculation as a simple approximation to the normally more complex provisioning schedules used in many countries to estimate expected loan losses. Indicator S5 thus measures the coverage of expected losses by the financial institution's loan loss reserve. Hopefully, this ratio is equal to at least unity (100%).⁹

III. Efficiency

$$E1 \text{ Operating expense ratio (assets)} = \frac{\text{Operating expense from financial operations}}{\text{Average assets}}$$

$$E1a \text{ Operating expense ratio (loans)} = \frac{\text{Operating expense from financial operations}}{\text{Average gross loan portfolio}}$$

Both indicators E1 and E1a measure efficiency as the ratio of operating expense to size of the financial institution, where size is measured either by assets or loans. Normally, one would report data on only one of these two indicators. Indicator E1a is typically used for NGOs. Indicator E1 is typically used for credit unions and other deposit-taking institutions, where there are significant operating costs associated with mobilizing deposits as well as with making loans.

While operating expenses include the depreciation of fixed assets, they do not include interest expenses (paid on funding liabilities) and provisioning expenses (for bad loans), cost items that *are* included in ratios S1 and S1a.

As is the case for ratios S1, S1a, and S3, one must obtain data for the numerator and denominator of indicators E1 and E1a *for financial operations only* in order to calculate these ratios as they are defined above. That is, for indicators E1 and E1a, the operating expenses and assets associated with the provision of non-financial services should not be included. As noted earlier, it may also be of interest to calculate indicators E1 and E1a, as well as indicators S1, S1a, and S3, on a joint basis, with all financial and non-financial operations combined, in order see how well the overall program is doing. Moreover, in the absence of disaggregated data, such combined indicators are the only indicators that can be calculated.

E2 Loan officer productivity:

$$\text{Borrowers per loan officer} = \frac{\text{Number of active borrowers}}{\text{Number of loan officers}}$$

Both the numerator and denominator are measured at a single point in time (e.g., end of year). The number of loan officers is measured on a full-time-equivalent (FTE) basis. If a staff member acts as a loan officer part time and also has other duties, the denominator should include a fraction (< 1) for this person, representing the portion of the year that he or she performs loan officer duties.

The number of active borrowers is the number of individuals with loan accounts in force with the project MFI(s). The number of active borrowers is used in preference to the number of loans because borrowers who take out two loans that run at least somewhat concurrently (e.g., a borrower with a consumption and a business loan from his or her credit union) would typically generate much less than double the amount of loan analysis work that is required for the first loan. Similarly, there should be great economies in loan officer time in the area of collections, both for normal and defaulted loans. For example, borrowers who default on two loans generate relatively little additional collections and legal work compared to those who default on only one loan. Because the majority of loan officer time is often dedicated to loan analysis and perhaps to loan collection, loan officer productivity is probably best related to the number of borrowers that a loan officer manages rather than to the number of loans.

IV. Development Impact

To measure a microfinance project's impact, one must measure the benefits of the financial services provided by the project to the microentrepreneurs using these services. Expensive case-control studies are typically needed to obtain measurements of project impact. Even then the results are usually controversial because of the difficulties of disentangling the effects of the project-provided financial services (on microenterprise profits, job creation, growth, etc.) from the effects of general economic growth (of the country, region, local area, and sector) and from the effects of all other factors that impact on firm performance. These other factors include such firm-specific variables as the number and quality of workers, the amount and type of machinery and other capital goods, the education and entrepreneurial ability of the firm owner, etc.

For routine monitoring and evaluation purposes such as considered here, simpler approaches are required. While far from perfect measures, the following two indicators give some idea of impact. Both have the advantage that they are relatively inexpensive to collect, and both may be used for either credit or savings services.

D1 Retention rate = $(\text{Number of clients at the end of the period} - \text{Number of new clients acquired during the period}) / \text{Number of clients at the start of the period}$

Programs with high client retention rates are often thought of as better, higher-impact programs, on the argument that clients would only return if they were obtaining significant benefits. While this may often be the case, other factors must be considered to complete this argument. If the program offers loans at highly subsidized interest rates, it may be that participants consider it a worthwhile program at subsidized rates, but would not at cost-covering rates. Or, it may be that there is little or no competition in the area, so that while the program's services do not have high impact, they are the "only game in town." On the other hand, if the program has high retention rates despite charging fully

B. Indicators for Non-financial Services Projects or Project Components

This section discusses the four types of non-financial services indicators, namely, those measuring outreach, sustainability/profitability, efficiency, and impact. The names used for these NF services indicators parallel the names used for the microfinance indicators whenever the same or similar concepts are used.

I. Outreach

O1 Total number of clients using non-financial (NF) services.

O2* Client characteristics: Number of clients (or percentage of total clients) of a given type or belonging to a given target group (e.g., women, indigenous, rural, or poor).

O3* Number of clients—by service subgroups: Number of clients (or percentage of total clients) using each NF service (applicable if more than one NF service is provided).¹²

O4 Total gross revenue from NF service operations.

O5* Gross revenue—by service subgroups: Amount of gross revenue (or percentage of total gross revenue from all NF services) from each individual NF service (applicable if more than one NF service is provided).

These five indicators are meant to describe different aspects of the breadth of outreach: how many clients are reached of different types and how much gross revenue is generated. Indicator O2, depending on which groups it refers to, may also attempt to describe something about the depth of outreach, that is, the extent to which underserved or underprivileged groups are attended to by the project.

II. Sustainability/Profitability

S1 Operational self-sufficiency = $\frac{\text{Total gross revenue from NF service operations}}{\text{Operating expense from NF service operations}}$
(cost recovery ratio)

This ratio measures the extent to which overall expenses from NF service operations are covered by revenue from NF service operations. The numerator excludes donations since donations do not provide a sustainable, business-related source of revenue. The denominator consists of all operating expenses, including interest paid on office space mortgages and equipment loans, depreciation, wages, utilities, etc. Since, by definition, there are no funding liabilities or credit portfolio in a NF services program, there are no funding liability interest costs or loan loss provisioning expenses in the denominator of indicator S1 here (in contrast to the denominator of microfinance indicator S1).¹³

To calculate NF services indicator S1 for institutions that offer both financial and non-financial services, one must be able to allocate all revenue and expenses to either financial service revenue and expense or else non-financial service revenue and expense. See microfinance indicator S1 for a discussion of this and of the possibility of calculating indicator S1 for all financial and non-financial services combined.

S2* Operational self-sufficiency—by service subgroups: Operational self-sufficiency ratio S1, calculated for each individual NF service (applicable if more than one NF service is provided).¹⁴

III. Efficiency

E1 Operating expense ratio =
$$\frac{\text{Operating expense from NF service operations}}{\text{Number of NF service client attentions}}$$

(cost per client attention)

The numerator of NF services indicator E1 is the same as the denominator of NF services indicator S1. Both consist of the operating expenses associated only with *NF service operations*. Operating expenses associated with the provision of financial services are not included. However, as noted in the discussion of financial indicators E1 and E1a, it may be necessary or desirable to calculate an operating expense ratio for all financial and non-financial services together (instead of or in addition to separate ratios).¹⁵

The denominator of NF services indicator E1 refers to all NF service clients, regardless of whether they also obtain financial services or not. This denominator measures the number of client attentions, meaning that if one client buys three different NF services one time each (or, alternatively, buys a single NF service three times) then three is added to the total in the denominator of ratio E1. This number of NF service client attentions in the denominator of E1 is measured as the total number of client attentions over the same time period as that used to measure the operating expenses from NF service operations (the numerator of NF services indicator E1). For example, both might be measured on an annual basis.

While we hope to see the operating expense ratio decline over time, it may not, even if the provider is becoming more efficient in the delivery of services. This seemingly paradoxical situation may occur if services are becoming more elaborate over time (e.g., training courses have been extended from five to eight hours each, or agricultural marketing services now include on-farm pickup and storage of the harvested crop) or if the mix of NF services is tending more toward high-cost services and less toward low-cost services over time. Because of these changes in the nature or mix of the services whose overall cost is being tracked by the operating expense ratio, this indicator needs to be interpreted with great care, and should ideally be accompanied by some explanation of how service definitions and mix have changed over the measurement period.

It may sometimes be desirable to use a variant of NF services indicator E1, depending on the nature of the NF services being provided. Instead of using the number of client attentions in the denominator, it may be better to use the number of client attention *hours*.

For example, if training courses are the primary service being delivered, and if one 20-hour course is approximately equivalent in value to two 10-hour courses, then this alternative measure may be a way to overcome some of the problem noted above of heterogeneity in the products being offered.¹⁶ (Some heterogeneity may still remain; for example, courses taught by senior versus junior personnel may differ greatly in value even on a per hour basis.) This alternative measure is inappropriate for services not measured in hours, for example, marketing and information services.

E2* Operating expense ratio—for service subgroups: Operating expense ratio E1, calculated for each individual NF service (applicable if more than one NF service is provided).

IV. Development Impact

Following along the lines of the impact indicators described above for microfinance, a repeat client rate and a client satisfaction indicator are suggested for NF services as well. These are general indicators that may be used in a wide variety of projects providing NF services.

There may be other impact indicators, beyond these two, that can be employed in particular situations, such as when: (a) it is reasonable to assume that little would have changed (e.g., in production techniques or marketing channels) in the absence of the project, and when (b) there is a centralized tracking of production or other indicators of interest, so that collecting the indicator data is not overly burdensome or expensive. An example of such a situation arises in some farming communities where it may be very likely that small producers will continue to grow the same crop(s) in the same way for the foreseeable future. A project that aims to introduce new crops and increase the yields of existing crops may include impact indicators such as the number of hectares of new crops grown and the yield of each old crop. In the case of the latter indicator, however, year-to-year variations in rainfall, in the prevalence and virulence of pests, and in other factors may create difficulties in attributing all observed changes to the project. Despite these difficulties, such indicators may well be useful, particularly when an attempt to factor out extraneous influences is made. Such indicators may be not only useful but also *practical to collect* (condition (b), above) if the project works with producer organizations such as agricultural cooperatives that can easily gather crop acreage and production statistics or may already do so as part of their ongoing operations.

Marketing projects are another case in which potentially relevant indicators such as production and sales revenue often are readily available from a centralized source (the marketing firm). Such indicators may serve as valuable measures of impact provided that the project intervention is the overwhelming cause of changes in the indicators for participating firms.

In both the agricultural and marketing examples, the suggested indicators would normally be considered *intermediate*, not final, indicators that there has been an impact on the

well-being of project participants. That is, while intermediate indicators may show that something positive seems to have happened to project participants, they do not consider all the elements necessary to make a final judgment that well-being has truly improved. Final indicators, such as the change due to the project in net household income, are more difficult and expensive to collect than intermediate indicators such as production. For example, while the project may have increased crop yields, it won't be known what happened to *net* income until data are collected on crop production costs. And since crop production costs are not readily observable (as crop acreage is) or measurable at some centralized location (as total production is), fairly expensive sample surveys are required to estimate these costs. In addition, measures of the impact of the project on net household income would have to consider the influence of changes in the prices of both the final products and the inputs used to produce these products, as well as the influence of other, non-project factors on net household income.

In projects that provide NF or financial services to a *wide variety* of producers, it is generally far more difficult to obtain even intermediate impact indicators inexpensively since production is not normally tracked by a central organization. Urban microfinance projects typify this problem since they generally provide credit to great variety of commerce, service, and manufacturing firms. Similarly, organizations that provide general training to a wide variety of firms in different sectors normally do not track the production levels of trainee firms. Nor would it be straightforward to know what share of any production gains should be attributed to the training course. In projects that provide NF or financial services to a wide variety of producers, then, the two standard indicators below may be the primary impact measures that will be used.

D1 Repeat clients ratio =

$$\frac{\text{Number of project clients who have used any single NF service more than once from the project provider(s)}}{\text{Total number of project clients of NF services}}$$

Though the repeat clients indicator is listed as a required indicator, in fact, it may be dropped if the project team *replaces* it by another indicator that is believed to be a better indicator of impact. Thus, while the D1 indicator is not itself required, at least one impact indicator *is* required. This flexibility reflects the great variety of SEP projects and possible impact indicators, as discussed above.

To illustrate the calculation of indicator D1, suppose that during the past year, 100 different individuals have used the project provider's technical assistance (TA) and training services. Of these, 20 are repeat TA clients (they have obtained TA services before from the provider, during the past year or before), 15 individuals are repeat training clients, and 5 individuals are both repeat TA clients and repeat training clients. Then, the overall repeat clients ratio (indicator D1) is 30%. This is calculated by summing the 20 repeat TA clients and 15 repeat training clients, and then subtracting the 5 repeat clients that appear on both lists, obtaining, $(20 + 15 - 5)/100 = 30\%$. Clients who use both the TA and training services once each are not considered repeat clients; rather, they must use a single service more than one time to be considered a repeat client.

Although the repeat clients ratio is listed as a required indicator, there are circumstances in which it should not be required or possibly even computed. In supply-driven projects where, for example, credit clients are required to take training courses as a condition for accessing loans, the repeat clients ratio is not a meaningful indicator and should not be computed at all. The repeat clients ratio can be a misleading indicator under other circumstances as well. When a training provider, for example, changes from offering a small number of longer and more comprehensive training courses to a much larger number of shorter training courses, the repeat clients ratio may jump dramatically even when the same number of clients are covering the same overall training material. Where such structural changes in training courses occur all at once or over a limited period of time, this information should be reported together with the indicator values, so that the indicator can be interpreted appropriately. Where such structural changes keep occurring over much of the life of the project, the repeat clients ratio should probably be abandoned, as it is unlikely to be a useful indicator.

The repeat clients ratio differs somewhat from the retention rate measure described earlier in the microfinance section (as indicator D1 there). The difference arises because while most credit or savings clients remain as clients on a continuous basis, this is not the case for many NF services. For example, a client may take a training course or access technical assistance only once or on a very sporadic basis, as specific needs arise. Hence, while it is appropriate in microfinance to speak of retaining clients from year to year, it may be more useful in NF services to employ the repeat clients ratio defined above, which asks what share of current clients have *ever* used the same service before from the project provider(s).

On the other hand, for those NF services that are typically accessed on a continuing, or at least on an annual, basis (providing that service price and quality are reasonable), the retention rate indicator described in the microfinance section should be used instead of the repeat clients ratio. An example of such NF services is handicrafts marketing, where production and marketing continue on an ongoing, year-round basis. Another example is marketing of organic vegetables or other annual crops in which marketing occurs at least once per year.

D2* Repeat clients ratio—by service subgroups: Repeat clients ratio D1, calculated for each individual NF service (applicable if more than one NF service is provided).

D3* Client satisfaction (from a survey).

The discussion of this indicator in the microfinance section is applicable here, in particular, the need to establish clearly the counterfactual and the chain of events and benefits that result from using the service(s).

D4* Client satisfaction—for service subgroups: Client satisfaction indicator D3, calculated for each individual NF service (applicable if more than one NF service is provided).

Conclusion

This document attempts to standardize and routinize, at least to some degree, the indicators project teams will ask executing agencies to collect and report. To this end, it establishes a minimum set of indicators in both the microfinance and non-financial services areas that should be useful for monitoring and evaluation of SEP projects. It also discusses additional indicators that project teams may want to request of executors, depending on project aims, risks, and the capacity of the executing agency to provide these additional measures. Finally, the annex that follows narrows the scope of the discussion from all indicators collected for a project to the subset of these indicators that should be used as a warning system that the project has gone seriously off track. In such cases, project disbursements may be suspended until this subset of indicators is brought back into line.

Annex I: Contractual Indicators

All indicators are not equal. Among the list of indicators to be monitored for a given project, some are likely to be more important than others. Those that are most crucial to project success or indicative of major problems should be selected as the “contractual indicators.” In accordance with general SEP practice, targets should be set at the time of project preparation for all project indicators. Violation of these targets for the subset of contractual indicators would then trigger a red flag, whereby the Bank would suspend or consider suspending disbursements for the project until the contractual indicators are again on track.

Which indicators should be selected as contractual indicators? That depends very much on the nature of the project, on what the project is trying to accomplish, and on what the major risks to the project are. Perhaps the only indicators that belong in virtually every project are those related to sustainability/profitability and, to a lesser extent, outreach. This is because it is typically considered crucial that the organization that is being assisted progress towards full sustainability or at least maintain some minimum level of cost recovery. The improvement or maintenance of outreach levels is also important, and so one or more outreach measures may also be included among the contractual indicators. On the other hand, in projects that are not attempting to increase outreach and in which there is little risk of unfavorable trends developing in outreach levels, project teams may elect to exclude outreach measures from the set of contractual indicators.

For microfinance projects, the most important sustainability indicators to monitor contractually are normally S4 (portfolio at risk) and either S1 (cost recovery ratio) or S1a (return on assets). In the case of credit unions and other deposit-taking institutions, S3 (the capital adequacy ratio) is normally a critical variable to monitor as well. Which outreach indicators to select for microfinance projects depends on what is important to improve or maintain. For example, one or more of indicators O1 (total clients), O4 (total loan portfolio), and O6 (total savings) could be included as overall measures of breadth of outreach.

For non-financial service projects, indicator S1 (cost recovery ratio) would typically be used as the contractual indicator of sustainability. Indicators O1 (total clients) and/or O4 (gross revenue) could be used to monitor outreach.

Beyond these basic indicators, each project team will have to select additional contractual indicators based on what it sees as the key purposes of and risks to the project. For example, a project designed to improve the operating efficiency of an MFI or of a NF services provider may wish to include efficiency indicators such as E1 and/or E2 in Table 1. In the case of NF service projects, contractual indicators may be drawn from the type of project-specific, intermediate indicators of development impact that are discussed in Section B. As a final example of project-specific contractual indicators, consider the case of a project that is designed to improve some services but not others or that adds a new service (e.g., improves or adds a housing loan program to an MFI, a village banking

program to a credit union, or a marketing program to a training provider). Contractual indicators of the outreach of the new or improved program (rather than of the entire institution) or of the program's sustainability, efficiency, or development impact may be selected from the Table 1 indicators, or other (new) indicators may be introduced, depending again on what are the key purposes or risks one wishes to monitor.

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Endnotes

¹ These two percentages can sum to more than 100% whenever individuals can have both a loan and a savings account. If other financial services, such as insurance, are offered by the project, these would be reported on here as well. Indicator O3 is required (as signified by its having no asterisk) only if there is more than one financial service offered; otherwise, indicators O3 and O1 coincide and O3 is not reported.

² A group loan to five individuals counts as five loans. A loan to a village bank of 30 women counts as 30 loans to women.

³ Indicators O6 and O7 are required (as signified by their having no asterisk) only if savings services are offered. Many credit unions mobilize savings in the form of share certificates. Therefore, total savings and the average size of savings deposits (indicators O6 and O7) typically should include share certificates. On the other hand, programs intending to increase liquid deposit account holdings and diminish credit union reliance on share certificates (which are normally illiquid) may instead wish to exclude share certificates and include only savings and time deposit accounts in indicators O6 and O7.

⁴ An earlier draft of MFI Roundtable (2002) usefully defined “funding liabilities” as “liabilities that finance the loan portfolio and the cash and investments necessary to administer the loan portfolio. Normally, funding liabilities do not include payables related to staff, equipment purchase, and other administrative activities, nor long-term mortgage loans for acquisition of office space.” Interest paid on office space, mortgages, and equipment loans is counted as an operating cost (akin to rent), not as a cost related to funding liabilities. To better understand the concept of funding liabilities consider the example of an MFI maintaining a total loan portfolio of \$1 million and also keeping \$200,000 in cash and short-term investments as a liquidity reserve. The liquidity reserve is meant to guard against such things as the possibility that loan delinquencies might cause a liquidity crunch that could impede loan renewals or new lending on demand. The MFI may have borrowed \$1.2 million to fund this \$1.2 million in portfolio and associated liquidity investments, in which case funding liabilities equal \$1.2 million. Or the MFI may have borrowed \$400,000 and obtained the remaining \$800,000 out of capital (e.g., grants or retained earnings), in which case funding liabilities equal \$400,000.

⁵ See the first bullet in the subsection, “Projects with Both Financial and Non-Financial Services,” above.

⁶ Helms (1998) offers a number of simple, practical methods for allocating joint costs to two or more activities. If this division is too difficult to do or the amounts involved are too small for disaggregation to be worthwhile, the full amount of joint costs can be included in (or excluded from) ratio S1, with the resulting change in the meaning of the ratio.

⁷ The numerator of indicator S1a equals the numerator of indicator S1 minus the denominator of indicator S1. Average assets are typically measured as the average of assets at the beginning and end of the period over which net income from financial operations (the numerator of indicator S1a) is measured. In the case of institutions that offer both financial and non-financial services, the same allocation of revenue and expenses to financial vs. non-financial services that is discussed for indicator S1 must be made in order to obtain net income from financial operations in indicator S1a. In addition, assets must also be allocated to financial and non-financial services according to which purpose the assets serve. Helms (1998) discusses simple techniques for asset, as well as revenue and expense, allocation.

⁸ More precisely, institutional capital is defined as: “all legal and non-distributable reserves, capital donations and the portion of the current year’s surplus that will be retained as legal and non-distributable reserves. These reserves are not expended and no member may present an individual claim” (Richardson, 2001, p. 19). Unlike institutional capital, distributable reserves, such as those that are intended to be used for member educational programs or social events, may be utilized at any time and are not necessarily available to the credit union to confront emergencies, such as those occasioned by large loan defaults. Therefore, distributable reserves are not counted as institutional capital. Since members can redeem their shares from the credit union simply by leaving the credit union, shares are also not counted as institutional capital even though they are typically considered a component of equity. In contrast, those holding shares in a corporation such as a bank (instead of in a cooperative such as a credit union) have no right to redeem their shares for cash from the corporation, but must instead sell their shares to a third party, leaving the bank with the money it originally raised by selling shares. This is why bank shares are typically counted in solvency ratios like S3, and credit union shares often are not.

⁹ If we change the two coefficients in the denominator from 0.35 and 0.65 to 1 and 0, respectively, we have MFI Roundtable's (2002) Risk Coverage Ratio, the ratio of loan loss reserves to the outstanding balance of loans late by over 30 days. While this latter ratio is simpler to compute than indicator S5, it is very difficult to know what an appropriate minimum value for the Risk Coverage Ratio would be. This is because of the lack of any information on the age structure of arrears, beyond the basic fact that all arrearages represent loans that are more than 30 days overdue. By using both 30-day and 1-year delinquency rates, indicator S5 attempts to significantly reduce this problem while not adding greatly to the reporting burden.

¹⁰ Formula D1 could equivalently be written as: Retention rate = $1 - (\text{Number of clients that drop out during the period} / \text{Number of clients at the start of the period})$. The formula given in the text employs data that may be more readily available in some situations than the data employed by this alternative formula.

¹¹ Sebstad and Cohen (2000) discuss common uses to which microloans are actually put in a number of programs studied by their research team. They find that in a significant minority of cases, at least a portion of MFI loans are used for non-business purposes.

¹² These percentages can sum to more than 100% whenever the same individual can use more than one NF service.

¹³ That is, for NF services, operating expense and total expenses coincide.

¹⁴ Again, see Helms (1998) for simple guidelines on allocating revenue and expenses to more than one activity (here, to more than one NF service activity).

¹⁵ As noted in the last bullet of the subsection entitled, "Projects with Both Financial and Non-Financial Services," the suggested indicator is the ratio of operating expenses to average assets.

¹⁶ Using this measure, if 10 people take a 10-hour course and 15 people take a 20-hour course, then total client attention hours is 400 ($=10 \times 10 + 15 \times 20$).