Performance Measurement Framework
Implementation Guide

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Introduction

1. It is important for prescribed development financial institutions (DFIs) to have a structured and comprehensive performance measurement framework that could measure its crucial role in supporting the development agenda of the nation. DFIs, as specialised financial institutions, play an important role in bridging financing gaps by participating in markets or sectors that are not adequately served by the private sector, which are typically characterised by high risks, high costs and high uncertainties.

2. Thus, the Performance Measurement Framework (PMF) for DFIs is an outcome-based framework designed to capture the broader contributions of DFIs beyond the narrow focus of financing growth indicators. In particular, the PMF integrates developmental key result indicators to measure the socio-economic impact of DFIs’ operations and to create strong incentives for strategic alignment to achieve greater development impact.

3. The adoption of PMF is also intended to strengthen the capacity and capability of DFIs including embedding a development culture and mindset in delivering value to society by:
   (a) orienting organisational culture to prioritising development impact, supported by an outcome-based performance reward system;
   (b) enhancing institutional ability to self-assess mandate relevance in response to evolving economic landscape;
   (c) creating an end-to-end enabling system and infrastructure including enhanced monitoring and evaluation;
   (d) embedding a robust client on-boarding process that balances risk and additionality;
   (e) improving product design to provide tailored solutions for targeted segments; and
   (f) increasing transparency and accountability as key government instruments of change.

4. This Implementation Guide aims to ensure effective operationalisation of the PMF by DFIs by detailing the key results areas, relevant indicators and implementation approach, as well as sharing global best practices of leading development financial institutions, in the area of monitoring and evaluation of developmental performance.
Chapter 1: Key Components of the PMF

5. The PMF consists of three key components i) additionality, ii) social cost and benefit, and iii) operational efficiency, with additionality being the core results area.

Figure 1. Performance Measurement Framework (PMF) for DFIs

<table>
<thead>
<tr>
<th>A) Additionality</th>
<th>B) Social Cost and Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Desired additionalities from DFIs operations</td>
<td>Effectiveness in using public resources to deliver mandate</td>
</tr>
<tr>
<td>i) Financial additionality</td>
<td>i) Subsidy Dependence Index</td>
</tr>
<tr>
<td>Increasing the size of investments (e.g. via loans, equity or guarantees), providing counter-cyclical financing, technical assistance and advisory to support the underserved or unserved segments, strategic sectors and financial inclusion.</td>
<td>Quantifies the level of dependency on government’s financial assistances</td>
</tr>
<tr>
<td>ii) Design additionality</td>
<td>ii) Output Index</td>
</tr>
<tr>
<td>Amplifying the developmental impact of investments through innovative use of design features to enhance customers’ welfare and increase positive economic spillovers e.g. new employment generated, increase in income, upward migration.</td>
<td>Measures the level of effectiveness in channelling funds to strategic sectors</td>
</tr>
<tr>
<td>iii) Demonstration additionality</td>
<td>iii) Net Subsidy Cost</td>
</tr>
<tr>
<td>Demonstrating or developing the growth potential of underserved segments or strategic sectors in order to crowd-in private sector financing and investments.</td>
<td>Estimates the social cost of financial assistance given by the government</td>
</tr>
<tr>
<td>iv) Policy additionality</td>
<td>C) Operational Efficiency</td>
</tr>
<tr>
<td>Contributing to the creation of an enabling environment for target segments to flourish by proactively influencing sound public policy design &amp; supporting public sector capabilities.</td>
<td></td>
</tr>
</tbody>
</table>

6. The corresponding indicators and definitions for additionality and operational efficiency are provided in Annex 1. Meanwhile, the formulas and illustrations on the social cost and benefit indices are provided in Annex 2.
Chapter 2: Tools for Effective Monitoring & Evaluation

7. A structured additionality creation process involving planning, implementing, monitoring, evaluating and reporting, is imperative for effective operationalisation of the PMF. To support the development of a comprehensive and well-thought internal process, DFIs are highly encouraged to adopt the theory of change and enhance customer on-boarding assessment, which are key enablers to effectively measure additionality.

A) Theory of Change

Part I: Identifying, deconstructing and designing solutions for development challenges

8. DFIs should invest their resources at the planning stage to identify the most viable strategies and action plans to achieve a certain desired outcome. In this regard, DFIs can refer to the theory of change (TOC), generally defined as a comprehensive description and illustration of how and why a desired change is expected to happen in a particular context. A sound foundation of TOC begins with an end in mind which involves understanding the development (economic and social) challenges or market failures that DFIs are trying to solve in relation to national priorities (e.g. Malaysia’s Economic Plans and industry development blueprints).

9. DFIs need to identify and deconstruct the development challenges they are mandated to solve, guided by their long term goals and targeted beneficiaries. The TOC assists the DFIs by mapping out the desired change to the initiatives and resources needed to achieve the long term goals. DFIs should ascertain the root causes to be addressed, assumptions as well as risks involved to establish the sequence of events that need to happen, e.g. what do DFIs need to do, how clients need to react to what DFIs do, and how does the market/economy need to change, in determining the appropriate solutions and necessary inputs.

10. The logic model in Figure 2 outlines the key questions that DFIs need to answer in designing the solutions targeted for a development challenge, working backwards from Impact to Input.

Figure 2. Illustration of thought process mapping using a logic model

<table>
<thead>
<tr>
<th>Input</th>
<th>Output</th>
<th>Outcome</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>• What are the resources needed for the proposed solutions? (e.g. capital, talent, process)</td>
<td>• What interventions/solutions can result in the desired change? (e.g. financing, advisory, technical assistance)</td>
<td>• What does medium term change look like? (e.g. increase in revenue, job creation, increase in savings)</td>
<td>• What is the desired long term economic or social change?</td>
</tr>
<tr>
<td>• Is the solution to be developed in-house or require collaboration?</td>
<td>• Who is currently serving the same targeted segment? Are there any overlaps in role?</td>
<td></td>
<td>• Who is the targeted group/beneficiary?</td>
</tr>
</tbody>
</table>

11. In situations where a certain problem has multiple causes, DFIs should link these causes to their own suitable solution (Figure 3). This will allow DFIs to address the

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1 Source: https://www.theoryofchange.org/what-is-theory-of-change/
challenges holistically, from utilising internal resources to provide financing or advisory to customers, to playing a bigger role in making proposals to the Government in order to provide a more enabling environment in which the target groups operate.

Figure 3. Illustration of multiple causes and solutions to a development challenge

Part II: Conducting stakeholder analysis

12. In the process of developing solutions, DFIs could also conduct analysis to identify and categorise related stakeholders. This may include persons, groups or institutions, either internal or external to the DFIs, with:
   (a) an interest in the proposed project or programme, and/or whose support is necessary for effective implementation; and
   (b) the potential of being affected by the proposed project or programme, either positively or negatively.

13. Having a clear overview of all related stakeholders would allow the DFIs to identify material matters of concern and anticipate the influence different stakeholders have, either positive or negative, on the project or programme. DFIs should develop suitable strategies to address the concerns and employ appropriate resources to gain and sustain the support of key stakeholders, ensuring the successful operationalisation of the project or programme. Figure 4 provides a general categorisation of stakeholders and the corresponding levels of
engagement based on the influence and impact of the stakeholders on a particular project. An example of stakeholder mapping by the Industrial Development Corporation (IDC) in South Africa is illustrated in Figure 5.

Figure 4. Guide on stakeholder analysis: categories and treatment²

![Stakeholder Analysis Categories and Treatment](image)

**Case study: Stakeholder mapping by IDC**

Industrial Development Corporation (IDC) is a DFI based in South Africa with the mandate to maximise development impact through job-rich industrialisation, while contributing to an inclusive economy.

Since 2012, IDC has been publishing stakeholder mapping in annual reports to understand the range of stakeholders and their influence on IDC, as well as to prioritise engagement efforts which includes both external (government, investors, clients, suppliers, media, industry associations, lobby groups) and internal (employees, staff association) stakeholders. The management analysis section of the mapping entails disclosing both successes and challenges highlighted by stakeholders. IDC defines stakeholders as a person, group or an organisation with an interest or concern in, or influence over IDC and who can affect or be affected by IDC’s objectives, policies and actions.

In addition to the mapping, IDC also disclose the following in the 2019 Integrated Report:
(a) List of stakeholders;
(b) Method of engagement;
(c) Stakeholders’ needs and expectations;
(d) IDC’s expectations; and
(e) How IDC creates value.

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² Source: Theory of Change, Designing a Performance Management Framework for DFIs (World Bank)
Part III: Measuring, monitoring, and evaluating results

14. It is critical that DFIs continuously measure, monitor and evaluate the developmental results of implemented initiatives, complementing the financial performance. These results would inform the DFIs of the true success of efforts taken in addressing a particular development challenge.

15. Generally, it is more convenient and practical to measure outputs and outcomes of a certain initiative as compared to its impact, which require complex, timely and costly methods of evaluation. The attribution challenge also presents a limitation in establishing a causal link between the DFIs’ specific intervention and a broad socioeconomic impact. This is due to the fact that impact is often a product of numerous factor combinations, representing decisions made by various market agents, including the Government, financiers, businesses, development agencies and customers. In this regard, the International Financial Corporation (IFC) and the African Development Bank (AfDB) are example institutions that have taken a conscious decision to track attributable outputs and outcomes via their respective performance measurement frameworks i.e. Anticipated Impact Measurement and Monitoring (AIMM) that replaces the Development Outcome Tracking System (DOTS)\(^3\) and Results Measurement Framework (RMF)\(^4\).

\(^3\) Source: [www.ifc.org](http://www.ifc.org) and [www.worldbank.org](http://www.worldbank.org)

\(^4\) Source [www.afdb.org](http://www.afdb.org)
16. DFIs should carefully select and define key performance indicators following the SMART\(^5\) principles, prior to project implementation. In choosing the indicators, some may be aggregated to an institutional level (e.g. number of jobs created, increase in customer’s income) while others may be project-specific (e.g. length of highway constructed, acres of farming land developed). In addition, specific baselines and targets for the indicators should be established.

17. While output and outcome indicators are more practical, establishing the desired impact remains a vital element in measuring developmental performance as it provides the DFIs with a long-term objective to align their efforts and initiatives. DFIs should be able to justify how the development output and outcome generated in the short-to-medium term have contributed to achieving this desired impact.

18. Periodically, despite the high cost and complexity, an independent impact evaluation provides an unbiased view of the actual impact of DFIs’ activities. For example, in 2013, Business Development Bank of Canada (BDC) had commissioned Statistics Canada to measure the impact of its financing and consulting services in accelerating success of entrepreneur clients for the period of 2001-2010. Statistics Canada developed a methodology to compare BDC clients and non-clients and was able to determine that clients who received financing and advisory from BDC performed much better compared to the non-client firms.

<table>
<thead>
<tr>
<th>Case study: Measuring BDC’s impact on its clients(^6)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business Development Bank of Canada (BDC)</strong> is established with a purpose to support Canadian entrepreneurs by providing financing and advisory services tailored to the needs of their businesses. The goal is to help entrepreneurs build more robust and competitive businesses for the benefit of all Canadians. To measure its success in fulfilling this purpose, BDC asked Statistics Canada to conduct an independent evaluation of the Bank’s impact on its clients.</td>
</tr>
<tr>
<td>This study is the fourth version of BDC’s economic impact assessment and measures BDC’s impact using data from 2008 to 2015. The previous version used data from 2008 to 2012, while the first evaluation used data from 2001 to 2010. Each successive version uses more data to generate more robust results.</td>
</tr>
<tr>
<td>Statistics Canada developed a database of BDC clients (the “study group”) that had received BDC financing or advisory services between 2008 and 2015, and non-clients (the “comparison group”) and then compared their performance in each year over the period. Both groups were similar in terms of age, revenues, assets, liabilities, number of employees, industry and region. Statistics Canada used a statistical technique known as propensity score matching to pair BDC clients with the most comparable non-client firms. Utilising regression analyses, Statistics Canada then assessed the impact of BDC on its clients using a series of financial variables (growth in sales, revenue, employment, productivity and profitability) and firm survival rates.</td>
</tr>
<tr>
<td>The statistical analysis revealed that BDC clients achieved better results in key performance metrics than they would have achieved if they had not turned to BDC, particularly when both financing and consulting services were used. They also had a</td>
</tr>
</tbody>
</table>

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\(^5\) SMART: Specific, Measurable, Achievable, Relevant/Realistic & Timely

greater survival rate than comparable non-clients. It was found that BDC had the greatest impact on its clients’ survival rates during the last recession. Businesses that became clients of BDC in 2008 and 2009 performed better in terms of revenue growth, employment growth and productivity growth. The results clearly highlight BDC’s crucial role in supporting Canadian businesses during the last recession.

19. Combining the above elements, DFIs are highly encouraged to use the project monitoring tool based on the logic model (TOC) to measure, monitor and evaluate all DFIs’ initiatives in a uniform manner. Embedding this element in the usual monitoring process would enable the DFIs to provide clarity for the long-term goals of the project, systematically track its progress, improve performance assessment, take corrective actions and improve service delivery. DFIs should also be able to use the performance indicators in informing future business decisions and communicating the additionality narrative to stakeholders. An example of a project monitoring guide is attached in Annex 3.

Part IV: Reporting development performance

20. It is expected for DFIs to discharge their mandate effectively and generate developmental outcomes. In this regard, it is essential that DFIs maintain transparent and continuous communication with key stakeholders including the Government and the public. Reporting of development performance, whether directly to stakeholder ministries or openly to the public, serves as a medium to ensure transparency and accountability of DFIs as public institutions, in performing their developmental role.

21. DFIs should be proactive in highlighting their achievements particularly in generating greater developmental outcomes/impact to the economy/country as this justifies and supports the DFIs’ position and relevance in a rapidly evolving economy. In doing so, DFIs are expected to present accurate, honest and credible information at all times, communicating the efforts undertaken as well as giving a balanced view of both positive and negative outcomes, if any. It is crucial to include an overview of DFIs’ developmental performance at an institutional level, supplementing reporting at strategy level, for example, as practised by IDC and Finnvera in their annual report publication (Figures 6 to 8).
Figure 6. Development outputs & outcomes featured in an illustration of IDC’s business model\(^7\)

\(^7\) Source: Industrial Development Corporation (IDC) 2018 Annual Report
Figure 6 (continued). Development outputs & outcomes featured in an illustration of IDC’s business model.

<table>
<thead>
<tr>
<th>Outputs</th>
<th>Development Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Funding Provided</strong></td>
<td><strong>Investment Generated</strong></td>
</tr>
<tr>
<td>Cumulative Value Approved 5 years: 2014-2018</td>
<td>Investment Facilitated 5 years: 2014-2018</td>
</tr>
<tr>
<td>R72 bn</td>
<td>R176 bn</td>
</tr>
<tr>
<td>Disbursements 5 years: 2014-2018</td>
<td></td>
</tr>
<tr>
<td>R60 bn</td>
<td></td>
</tr>
<tr>
<td><strong>Transactions Approved</strong></td>
<td><strong>Jobs Created and Saved</strong></td>
</tr>
<tr>
<td>Number of Approvals 5 years: 2014-2018</td>
<td>Direct and Indirect Jobs Impact 5 years: 2014-2018</td>
</tr>
<tr>
<td>965</td>
<td>Direct</td>
</tr>
<tr>
<td></td>
<td>109,000</td>
</tr>
<tr>
<td><strong>Funding Raised</strong></td>
<td><strong>Industry Sectors Supported</strong></td>
</tr>
<tr>
<td>Value of Borrowings Raised 5 years: 2014-2018</td>
<td>Sectoral Distribution of Funding Approvals 5 years: 2014-2018</td>
</tr>
<tr>
<td>R52 bn</td>
<td>Manufacturing: 45%</td>
</tr>
<tr>
<td></td>
<td>Mining: 21%</td>
</tr>
<tr>
<td></td>
<td>Electricity Generation: 14%</td>
</tr>
<tr>
<td></td>
<td>For values not shown see annexures</td>
</tr>
<tr>
<td><strong>Employees Trained</strong></td>
<td><strong>Developing Rural Areas</strong></td>
</tr>
<tr>
<td>Training Costs as a Percentage of Staff Costs 2018</td>
<td>Number of Direct Jobs Created/Saved in Rural Areas 5 years: 2014-2018</td>
</tr>
<tr>
<td>1%</td>
<td>32,833</td>
</tr>
<tr>
<td><strong>Inform Industrial Policy</strong></td>
<td><strong>Economic Transformation</strong></td>
</tr>
<tr>
<td>• Industry research completed on, among others, ceramic products, chocolate confectionary, unique applications, potential, energy storage capacity run-out</td>
<td>Incl. to Black-owned businesses, of which</td>
</tr>
<tr>
<td>• Prospects for the beneficiation of South Africa’s non-core resources</td>
<td>R1.5 bn to black-owned businesses</td>
</tr>
<tr>
<td>• Estimates of the potential economy-wide impact on related public sector infrastructure spending</td>
<td>R1.5 bn to Black Industries (Included in the above categories)</td>
</tr>
<tr>
<td>• Economy-wide impact of a youth investment programme</td>
<td>Cumulative Value of Funding for Women and Youth Empowerment</td>
</tr>
<tr>
<td>• Support for the development of the Industrial Policy Action Plan (IPAP)</td>
<td>Youth empowered</td>
</tr>
<tr>
<td></td>
<td>Women empowered</td>
</tr>
<tr>
<td></td>
<td>R8.9 bn</td>
</tr>
</tbody>
</table>

**Financial Outcomes**

2018
<table>
<thead>
<tr>
<th>Total Assets</th>
<th>5 years: 2014-2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>R137 bn</td>
<td>Net Profit After Tax R8.9 bn</td>
</tr>
</tbody>
</table>
Figure 7. Information on past and projected performance for selected indicators by IDC

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2019 projected</th>
<th>Actual</th>
<th>2018 Base</th>
<th>2018 Target</th>
<th>2017 Actual</th>
<th>2016 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Development impact</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Value of funding disbursed (R'trn)¹</td>
<td>17.2</td>
<td>21.8</td>
<td>14.6</td>
<td></td>
<td>11.0</td>
<td>11.4</td>
</tr>
<tr>
<td>• Funding to Black Industrialists (R'trn)²</td>
<td>5.5</td>
<td>8.0</td>
<td>78</td>
<td></td>
<td>49</td>
<td>4.5</td>
</tr>
<tr>
<td>• Funding to women-empowered businesses (R'trn)²</td>
<td>1.2</td>
<td>1.5</td>
<td>2.0</td>
<td></td>
<td>3.3</td>
<td>3.0</td>
</tr>
<tr>
<td>• Funding to youth-empowered businesses (R'trn)²</td>
<td>0.8</td>
<td>1.0</td>
<td>1.0</td>
<td></td>
<td>1.7</td>
<td>0.9</td>
</tr>
<tr>
<td>• Funding in support of government localisation initiatives (R'trn)²</td>
<td>4.7</td>
<td>5.4</td>
<td>70</td>
<td></td>
<td>4.8</td>
<td>4.5</td>
</tr>
<tr>
<td>• Expected direct jobs created and saved (number)²</td>
<td>28 262</td>
<td>34 795</td>
<td>22 193</td>
<td></td>
<td>20 155</td>
<td>18 010</td>
</tr>
<tr>
<td><strong>Financial and efficiency indicators</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Impairments as percentage of the portfolio at cost (%)</td>
<td>22.6</td>
<td>24.6</td>
<td>17.4</td>
<td>18.4</td>
<td>16.7</td>
<td>16.9</td>
</tr>
<tr>
<td>• Net interest, dividends, fees and money market income as a percentage of total assets (%)</td>
<td>4.5</td>
<td>5.0</td>
<td>5.3</td>
<td>3.9</td>
<td>4.4</td>
<td>4.1</td>
</tr>
<tr>
<td>• Growth in reserves (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Yield on LT government bonds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Yield on LT government bonds + 2%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Subsidiaries</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Sefia – Performance rating</td>
<td>3</td>
<td>5</td>
<td>3.3</td>
<td>3.3</td>
<td>3.2</td>
<td>3.1</td>
</tr>
<tr>
<td>• Socaw – Operating profits/losses (R'm)</td>
<td>(39)¹</td>
<td>8¹</td>
<td>(538)</td>
<td>(716)</td>
<td>(787)</td>
<td>(1 074)</td>
</tr>
<tr>
<td>• Foskor – Operating profits/losses (R'm)</td>
<td>(902)</td>
<td>(349)</td>
<td>(163)</td>
<td>(97)</td>
<td>(87)</td>
<td>(902)</td>
</tr>
</tbody>
</table>

¹ Disbursements to some subsidiaries are not taken into account when the indicator is measured for performance purposes.
² Measured when agreements are signed. Information elsewhere in the report are at approval.
³ Previous Sefia Grinding Media and Cast Products divisions.
Figure 8. A broad overview of value and impact creation by Finnvera through an infographic.

Source: Finnvera 2018 Annual Report
Enhanced Customer On-boarding Assessment

22. Given the scarcity of resources, a strategic customer selection process ensures that funding is directed to the right beneficiaries, leading to a stronger developmental impact. DFIs could embed additional screening criteria for expected development outcomes to complement the existing credit risk assessment and provide a holistic evaluation on prospective customers. While the additional assessment dimensions could be configured to the nature of the project, e.g. type of customers, maturity period and relevant economic sector, Figure 9 outlines the key areas for assessing potential clients from a developmental aspect.

Figure 9. Additionality considerations for customer selection

| Client fit | • **Mandate** – How does the relationship with the potential client/project fill market gaps and align with DFIs’ mandate and national/global priorities?  
| Additionality evaluation | • **Other financing sources** – Can the potential client/project obtain financing from commercial banks/other agencies?  
| | • **Unique solutions** – Does the potential client/project require specific services not offered by commercial banks/other agencies?  
| | • **Distinct risks** – What risks are DFIs willing to take that commercial banks are not in serving the potential client/project?  
| | • **Anticipated additionalities** – What are the socioeconomic outcome and impact to direct and indirect stakeholders?  
| | • **Negative spillovers** – Are there any adverse consequences of financing the potential client/project? If yes, how can it be mitigated?  
| | • **DFIs’ significance** – What would happen without DFIs’ involvement? Would the project still proceed?  
| | • **Countercyclical** – Are commercial banks shying away from the potential client/project in event of credit supply shock?  
| | • **Demonstration effects** – Will DFIs’ involvement demonstrate viability of target segment/sector leading to replication of initiative? Will private sector crowd-in to provide additional financing?  

23. Undertaking this process allows DFIs to prioritise certain customers, projects or segments that will yield relatively greater additionalities while still maintaining satisfactory financial returns. It is also a mechanism to ensure that the customers financed and the DFIs’ activities are aligned with the national and global strategic interests outlined in priority documents such as Malaysia’s Economic Plans (RMKs) and 2030 Agenda for Sustainable Development (SDG).

24. Since the enhanced customer on-boarding requires more detailed information, a higher level of transparency is needed between the DFIs and the potential customers. DFIs should closely engage prospective customers to obtain specific information that may not be publicly available, by conducting site visits or interview sessions. DFIs may also need to increase customers’ awareness on the wider development objectives of the assistance provided by the DFIs. This is to encourage the sharing of information by the customers, particularly on their well-
being post receiving the assistance from the DFIs. This would facilitate the DFIs in collecting and evaluating customer’s individual performance to be aggregated at the institutional level as part of the DFIs’ additionality achievements. In this regard, DFIs may strengthen the capabilities of their front liners to be able to acquire the necessary information as well as advise potential clients from the additionality perspective.

25. A case study below is an example of on-boarding assessment conducted by Overseas Private Investment Corporation (OPIC).

<table>
<thead>
<tr>
<th>Case Study: OPIC’s Project Screening and Development Impact Assessment(^9)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Overseas Private Investment Corporation (OPIC) is the United States government's development financial institution providing financing, political risk insurance and support for private equity investment funds.</td>
</tr>
<tr>
<td>OPIC has developed a model to assess the developmental impact of potential projects which contains indicators in five categories i.e.</td>
</tr>
<tr>
<td>- Job creation and human capacity building Includes the number of jobs to be created as well as training and employee benefits that go beyond local legal requirements</td>
</tr>
<tr>
<td>- Demonstration effects Includes technology and knowledge transfer, technical assistance to suppliers or borrowers, the introduction of new products (including financial products), the project’s impact on legal and regulatory reform, and the adoption of internationally-recognised quality or performance standards</td>
</tr>
<tr>
<td>- Host country impact Measures local procurement and fiscal and foreign exchange impacts. For financial services projects, measures the amount of funds to be disbursed, as well as the impact on micro, small and medium-sized enterprises, entrepreneurship and homeownership</td>
</tr>
<tr>
<td>- Environmental and community benefits Assesses a project’s improvement of the environment and any philanthropic activities that benefit the local community</td>
</tr>
<tr>
<td>- Development reach Measures a project’s impact on basic infrastructure and/or its potential benefits to the poor and other underserved populations. For projects involving financial services, measures the extent to which underdeveloped areas or populations will be targeted by the financial institution</td>
</tr>
</tbody>
</table>

Each project receives a score ranging from 0 to 100, which is the sum of scores given for individual indicators. A project must score at least 25 points to be considered developmental and therefore clearly eligible for OPIC support. Projects scoring above 60 points are considered highly developmental. OPIC uses a spider graph, like the generic version below to depict a project’s development impact profile. The graph shows the percentage of potential points achieved in each impact category.

OPIC takes projected development impact into account operationally in several ways. Projects with high development returns, for example, might justify investment of more OPIC staff resources than other projects and OPIC project officers are likewise incentivised to pursue more highly developmental projects. More broadly, OPIC sets an annual target for average development impact scores of newly committed projects.

In addition, OPIC employs common sense protocols\(^\text{10}\) or use of sound judgment in practical matters to monitor economic and social effects, allowing a rapid decision on whether or not to support a proposed project. For example, projects that rely heavily on protection or subsidy to survive, that fail to provide training and promotion to indigenous workers and managers or that have health and safety standards in the workplace considerably behind industry practices may not be accepted.

Notwithstanding the above, OPIC works diligently to ensure that its policies regarding social risks, including those concerning labour rights and human rights, are well understood. Before formal applications are submitted, OPIC advises potential clients on projects that may be problematic from a social perspective. As a result, in FY17, OPIC did not have to reject any applications for finance or insurance on social grounds\(^\text{11}\).

**Conclusion**

26. In essence, the objective of the PMF extends beyond measuring, monitoring and evaluating results but also to assist DFIs in achieving them. Effective operationalisation of the framework is an iterative journey, involving persistent learning from DFIs’ own experience and the experiences of other institutions that are committed to deliver meaningful socio-economic impact and contribute towards sustainable development goals. The PMF for DFIs in its true nature is not a static approach and will continue to evolve as DFIs refine their key result indicators to better reflect their mandates. The PMF will continue to be enhanced and refined in tandem with the changing business environment and technology advancement that have direct impact on performance management and results measurement. Concerted efforts from the DFIs, stakeholder ministries, regulators and customers are imperative to ensure the successful implementation of the PMF.

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\(^{11}\) Source: Overseas Private Investment Corporation Annual Report on Development Impact (2017)
Annex 1: Indicator Taxonomy – Additionality and Operational Efficiency

1. The Indicator Taxonomy table is a living document subject to revision as and when necessary.

<table>
<thead>
<tr>
<th>PMF Component</th>
<th>Indicator</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Additionality</strong></td>
<td><strong>Financial additionality (output)</strong></td>
<td></td>
</tr>
</tbody>
</table>
| | 1) Financing / guarantee / insurance approved | • Provide a wide range of financial products to serve its mandates including but not limited to financing, guarantee, insurance and equity to support strategic sectors/segments of the economy:  
  − Strategic sectors may include agriculture, infrastructure, export, capital-intensive and high-technology industries, etc.;  
  − Strategic segments may include SMEs, non-SMEs, cooperatives and individuals as well as new-to-banking businesses and new businesses with less than 3 years in operation; and  
  − The purpose of financing may include to provide for working capital and/or capital expenditure for business purposes. |
| | 2) Training, consultation and advisory services | • Provide expertise, innovation, knowledge and/or capabilities that support the realisation of the development impact, including strengthening the capacity and capability of the client.  
  • Capacity-building may be provided either in-house or by external experts. |
| | 3) Financial inclusion | • Savings mobilised from individuals  
  Individual savings tracked by income level, age group, programme or locality.  
  • Financial access points in underserved areas  
  A physical place of banking business that provides minimum banking services of accepting deposit and facilitating withdrawal of funds by customers. Financial access points include bank branch, mobile unit, electronic terminals and bank agents.  
  • Transaction volume in underserved areas  
  Number of financial transactions conducted via financial access points in underserved areas. |


13 Definition of underserved areas is dynamic where DFIs are to consult the Bank from time to time.
**Policy additionality (output & outcome)**

4) Policy advice by DFIs taken up by Government (output)  
Qualitative data – narrative on substantive contribution by DFIs to Government policy formulation, how the Government has adopted DFIs’ proposal on economic policies and solutions and its medium-to-long term impact.

5) Impact from policy implementation by Government (outcome)  
Qualitative data – narrative on substantive contribution by DFIs to Government policy formulation, how the Government has adopted DFIs' proposal on economic policies and solutions and its medium-to-long term impact.

**Demonstration additionality (output & outcome)**

- **Total funding crowded-in from the private sector for the year**  
  Total funding sourced from the private sector towards serving targeted segments or sectors. Instruments with potential to crowd-in includes but not limited to syndicated loan, guarantee, club deal, fund of funds, etc.

- **Crowd-in efficiency**  
  Total funding crowded-in from the private sector divided by the total funding contributed by the DFIs.

**Design additionality (outcome)**

6) Positive spillover into the economy

- **Jobs**  
  Jobs created and sustained by clients of DFIs. Definition of job as per the definition of employee by SMECorp.

- **Impact-based indicators**  
  Measurements on other socioeconomic impacts generated by the clients of DFIs particularly the impacts aligned with national targets, if any. Some examples include length of road constructed, total renewable energy generated, etc.

7) Client resilience

- **Sales turnover**  
  Revenue generated by clients after receiving assistance from DFIs.

- **Productivity of clients**  
  Revenue divided by the total jobs created and sustained by clients of DFIs.

- **Client resilience**  
  Upward migration of clients according to SMECorp MSME classification, e.g. small enterprise to medium enterprise, or non-listed to public listed company etc.

- **Improvement in credit profile of clients**  
  Measurements based on the respective internal credit scorecard of DFIs. For example, B3 rating to A2 rating.

**Operational Efficiency**

8) Cost-to-income ratio  
Overheads / [(interest income – interest expense) + other income].

9) Turnaround time  
Average time taken to approve and disburse financing by type of financing i.e. consumer and business (microfinance, SME and non-SME).
Annex 2: Formula & Illustration – Social Cost & Benefit Indices

1. Subsidy Dependence Index (SDI)
   - SDI measures a DFI’s level of dependency on Government’s financial assistances.
   - Lower SDI is better, indicating financial sustainability and less reliance on Government’s subsidy.

   \[
   SDI = \frac{\text{Government borrowings (RM)} \times \text{Difference in funding rates (m-c) (\%)} + \text{Government equity (RM)} \times \text{Market rate (m) (\%)} + \text{Other assistances (RM)}}{\text{Total financing outstanding (RM)} \times \text{Average financing rate (\%)}} - \text{PBT (RM)}
   \]

   **Notes:**
   - ‘m’ is the DFI’s average rate of borrowing from the market (commercial)
   - ‘c’ is the DFI’s average rate of borrowing from the Government
   - Other assistances: Grants, interest rate subsidy, government guarantee on borrowings/bonds/sukuk, etc.

   **Interpretation:**
   - SDI > 0%: Total subsidies received is higher than annual profits
   - SDI = 0%: Total subsidies received equals annual profits
   - SDI < 0%: Total subsidies received is lower than annual profits

   **Example: Bank A**
   \[
   SDI = \frac{\text{RM1,836m x (3.9\% - 2.3\%)} + \text{RM1,350m x 3.9\%} + \text{RM275.1m - RM66.9m}}{\text{RM5,670m x 6.31\%}}
   \]
   \[
   = \frac{288.8}{359.6}
   \]
   \[
   = 0.803 \text{ or } 80.3\%
   \]

   **Interpretation of result:** Bank A receives total subsidies lower than annual profits. It needs to increase its current average financing rate (6.31\%) by 80.3\% (to 11.4\%) in order to be subsidy-free.

   **Source:** Adapted from “Measuring the Performance and Achievement of Social Objectives of DFIs”, The World Bank (2008)
2. **Output Index (OI)**

- OI measures the level of achievement of a DFI's activities in fulfilling its social objectives.
- OI lower than 1 is better, indicating greater concentration of activities in serving targeted sectors or segments (underserved and unserved).

\[
OI = \frac{1}{\text{No. of segments served, } n} \\
\text{[Total financing to targeted segments (RM)]} \times \text{Weightage on financing to targeted segments (\%)} \quad + \quad \frac{\text{[Total financing to non-targeted segments (RM)]} \times \text{Weightage on financing to non-targeted segments (\%)}}{\text{Total financing outstanding (RM)}}
\]

**Notes:**
- In the calculation, 'n' equals to 2 which represents 2 segments served i.e. targeted and non-targeted segments.
- Weightage assigned to targeted and non-targeted segments are 90:10

**Interpretation:**
- OI < 1: DFI's activities have greater outreach towards targeted segments
- OI = 1: DFI's activities have equal reach towards all segments
- OI > 1: DFI's activities have lesser outreach towards targeted segments

**Example: Bank A**

\[
OI = \frac{1}{2} \\
\text{\quad \quad (RM 5,221m x 0.90) + (RM 478m x 0.10) / RM 5,699.6m}
\]

\[
= \frac{0.5}{0.83} \\
= 0.60
\]

**Interpretation of result (OI < 1):** Bank A channelled its funds more towards the targeted segments rather than to non-targeted segments.

Source: Adapted from "Measuring the Performance and Achievement of Social Objectives of DFIs", The World Bank (2008)
3. **Net Subsidy Cost (NSC)**
   - NSC estimates the net weighted cost of the subsidy to the society against the output index (OI).
   - NSC lower than net subsidy received is better, indicating effective social gain to society as the subsidy reaches more to targeted segments.

\[
NSC = \left[ \frac{\text{Net subsidy received, } NS}{(\text{RM})} \times \text{Output Index} \right] \\
\]

\[
NS = \left[ \frac{\text{Government borrowings}}{\text{(RM)}} \times \text{Difference in funding rates } (m-c)(\%) \right] + \left[ \frac{\text{Government equity}}{\text{(RM)}} \times \text{Market rate } (m)(\%) \right] + \frac{\text{Other assistances}}{\text{(RM)}} - \frac{\text{PBT}}{\text{(RM)}}
\]

**Interpretation:**
- NSC < NS: Net weighted cost of subsidy is lower as society benefits from greater allocation of subsidies to targeted segments; implies lesser social cost to society.
- NSC > NS: Net weighted cost of subsidy is higher as less subsidy reached targeted segments; implies greater social cost to society.
- NSC = 0: The DFI is self-sufficient; implies zero cost to society.

**Example: Bank A**

\[
NS = [\text{RM1,836m x 3.9% - 2.3%}] + (\text{RM1,350m x 3.9%}) + \text{RM275.1m} - \text{RM66.9m}
\]

\[
NSC = NS \times OI = \text{RM288.8m x 0.6} = \text{RM173.4m}
\]

**Interpretation of result:** The net weighted cost of subsidy to the society is lower (from RM288.8m to RM173.4m) as the funds were largely utilised for the intended purpose (OI < 1).

*Source: Adapted from “Measuring the Performance and Achievement of Social Objectives of DFIs”, The World Bank (2008)*
### Annex 3: Project Monitoring Guide

<table>
<thead>
<tr>
<th><strong>Input</strong> (Start date)</th>
<th><strong>Output</strong> (e.g. less than 1 year)(^{15})</th>
<th><strong>Outcome</strong> (e.g. 1 – 2 years)</th>
<th><strong>Impact</strong> (e.g. 3 – 5 years)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Resources invested</strong> (e.g. RMxxb allocated to Rural Development Financing)</td>
<td>Statement of output (e.g. To ensure more financing allocated to rural areas within the 5 regional economic corridors in RMK11 including private funding) ^ less than 10,000 population with at least 40% of population aged 15 years and above were involved in agricultural activities (DOSM)</td>
<td>Statement of outcome (e.g. To ensure borrowers are generating jobs and basic infrastructure developed in the rural areas intervened)</td>
<td>Statement of impact (e.g. To develop rural communities via improved physical and communication infrastructure and increased income, contributing towards the shared prosperity vision under RMK12)</td>
</tr>
</tbody>
</table>
| **Performance indicators** | i. Financing to strategic sectors (infrastructure and rural development) [financial additionality]  
ii. Policy advise to Ministry of Rural Development to establish employment training centres [policy additionality] | **Performance indicators**  
i. Job creation by borrowers [design additionality]  
ii. Crowd-in ratio [demonstration additionality]  
iii. Construction of paved roads [design additionality]  
iv. Households with internet access [design additionality] | **Management discussion and analysis** e.g.:  
- Contributed xx% towards the goal set under RMK12  
- Contributed to SDG2030  
- Unanticipated impact of urbanisation or positive development in nearby areas |
| Preceding Year | Current Year | Subsequent Year | Preceding Year | Current Year | Subsequent Year |
| Actual | Target | Actual | Target | Target | Target |
| Management discussion and analysis\(^{16}\) | | |

\(^{14}\) The project monitoring guide is adapted from i) DOTS Indicator Framework, IFC and ii) Designing a Results Framework for Achieving Results: A How-To Guide, International Evaluation Group (IEG).

\(^{15}\) Suitable timeline based on respective category (input, output, outcome and impact).

\(^{16}\) Management discussion and analysis includes additional insights on performance indicators as well as justifications if targets have not been met in the current year.