

SmartAid for Microfinance Index

Alexia Latortue December 16, 2008

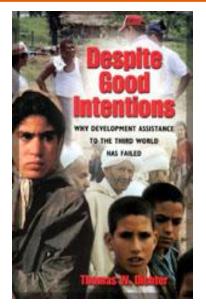
Microfinance and aid effectiveness

CGAP....

not in the Index business

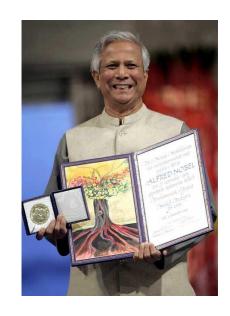


Microfinance: Everyone's new favorite

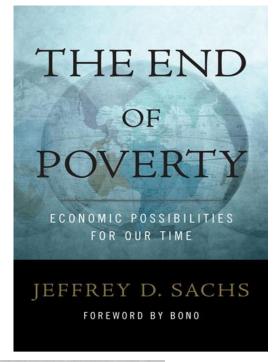




















Significant funding for microfinance



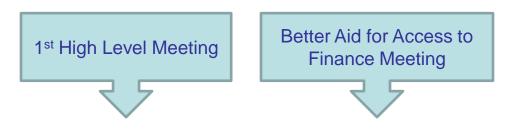
Number of respondents: 54

Note: Global projects are not included in this graph. They account for about 1,094 million USD (9%).



SmartAid: Where are we coming from?

Aid Effectiveness Initiative: Microfinance as a Test Case



2002 2003

2004

2005

2006

2007

2008

Peer Reviews

AfDB, AFD, AsDB, CIDA, Danida, DFID, EC, GTZ, ILO, IFAD, KfW, Netherlands, NORAD, Sida, SDC, USAID, UNDP

Country Reviews

Uganda, Cambodia, Nicaragua, Madagascar, Sri Lanka, Pakistan

SmartAid for Microfinance Index

Portfolio Reviews

IDB, UNDP and World Bank



What SmartAid is

A service to development institutions

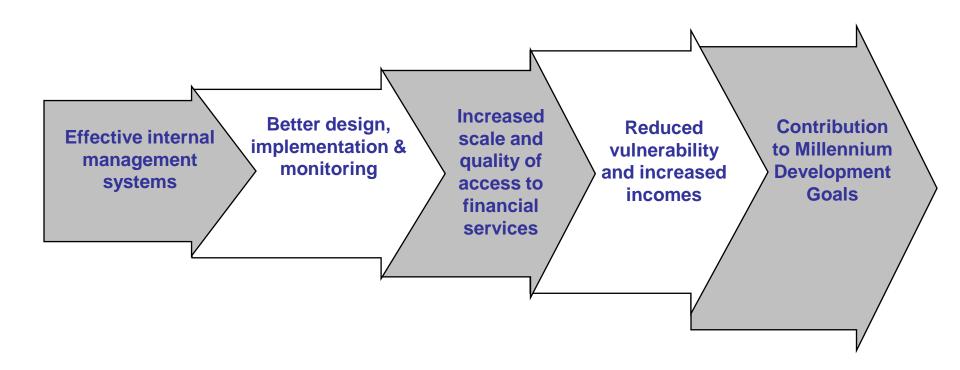
- determine where change is needed
- provide incentives to improve
- help identify comparative advantage and opportunities for collaboration

A means to promote transparent assessment of funders

A communication tool to participate in discussions o aid effectiveness



Fundamental premise: Change starts at home



Measures whether funding agencies are set up to support microfinance effectively



What SmartAid measures

Strategic Clarity	Policy and strategy that addresses microfinance, is in line with good practice, and is based on its capabilities and constraints	15 points
Staff Capacity	2. Designated microfinance specialist(s) who are responsible for technical quality assurance throughout the project/investment cycle	15points
	3. Investments in microfinance/access to finance human resources	10 points
Accountability for Results	4. Flagging system for all microfinance programs and components	10 points
	5. Tracking and reporting on performance indicators	10 points
	6. Use of performance-based contracts	10 points
	7. Portfolio reviews are regularly conducted	10 points
Knowledge Management	8. Systems and resources for active knowledge management	10 points
Appropriate Instruments	Appropriate instrument(s) to support the development of local financial markets	10 points



How SmartAid works



Funder receives SmartAid **Submission Guide** with nine indicators

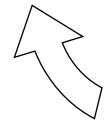


Funder implements changes; CGAP available for advisory services

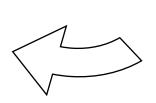


Ongoing discussion with management and technical staff











A Review Board of four microfinance experts reviews documents and assigns a score



SmartAid: More than just a score

A tailored report...

- Strengths and weaknesses
- Good practice example
- Recommendations for improvement

A learning process...

- Debriefings with management and technical staff
- Assistance in prioritizing recommendations and developing an action plan



SMARTAID FOR MICROFINANCE INDEX 2007

FMO

Overall Score 73/100

The SmartAid for Microfinance Index (SmartAid) measures whether funding agencies are set up to support microfinance effectively. It scores agencies on a framework of five dements of effectiveness—statistic factory, safet capacity, appropriate instruments—that capture the requirement of quality aid management throughout the project or investment cycle. At the Setter Aid for Access to Fince the engineer of the project of the

At a claim or Type: Development finance institution (DFI)

Outstanding Fortfolio: (14.5 million (14.7 million (14.7 million))

No figeroy Fortfolio: 7%

Frimany Fortfolio: 40%, equity

Frimany Fortfolio: primare acctor

Frimany Source of capital markets.

SmartAki builds on the premise that sound management systems, polition, procedures and incontrise are accessory (flowing) not sufficiently conditions for successful programs. In this visit, the limites is impired by the EO standards that specify requirements for state-of-the-art products and services and for good conformity assessment, as well as managerial and organizational practice. As such that does not evaluate the on-the-ground performance of agencies' microfinance portfolios. The results of SmartAki, therefore, cannot be taken as a direct proxy for periodio performance.

The Index is designed to help identify areas in which all types of funders can improve their systems and policies for microfinance programming. Through this process, the aim is to encourage funders to make changes so that microfinance lives up to its potential contribution to improve poor people's lives and deepen financial systems.

CGAP developed. SmartAdd in partnership with its members and with advice from experts from the Center for Global Development, CECD, and the United Nations World Institute for Development Economics Research (WIDER) University: 2007 marks the first and pilot edition of SmartAdd. Seven funders—AdOB, CDA, PAO, GTZ, KIW, Sids and UNCDF—volunthered to participate in the pilot* They spereous to avariey of finaling agenties, including agencies where financial sector/institutionance is one of two or three priority areas and ones where microfinance represents less than five percent of overall finaling. The agencies offer the fall mage of evaluble instruments, and span the spectrum from focusing purely on developmental objectives working primaryly with government actors, to taking a more commercial approach with mostly private section actors.

Participating agencies reviewed and approved SmartAid's framework and methodology for the pilot round. Lessons harmed on the relevance of the indicators and the submission and scoring processes will be discussed in a separate report focusing on the methodology. SmartAid will be refined and streamlined based on the barring of the pilot round. The essence of the Index and what it measures, however, will remain the same.

¹ Please see www.cpap.org/betteraid_meeting/compact for more information.

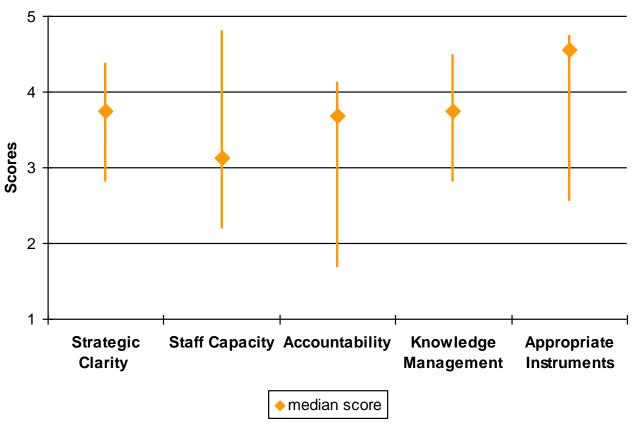
³ CGAP and IFC agreed that the IFC would withdraw from the pilot round before its completion.

Prepared by CGAP as part of its Aid Effectiveness initial



Pilot round in 2007: results

Seven pioneering funders: AsDB, CIDA, FMO, GTZ, KfW, Sida, and UNCDF





Pilot round in 2007: What funders say

"SmartAid is useful for UNCDF both internally and externally. Internally, we created an action plan to put the recommendations into practice. Not all actions will be completed in the next year, but they are underway. Externally, it has helped us identify where the other agencies are strong and how UNCDF can partner with them."

John Tucker, UNCDF

"SmartAid helps us rethink our microfinance operations — what works well, what does not work so well."

Nimal Fernando, AsDB

"At first, GTZ was worried because as a technical assistance provider we were not sure if the interpretation of the results would make sense. But it worked. SmartAid is credible and so are the indicators. It was easy to provide documents for the indicators. The trust in CGAP is an important component."



Gabriela Braun, GTZ

Lessons learned

- Broad consensus on validity of five elements of effectiveness
- Consultative development process of Index creates buy-in
- Adding opportunities for discussion/exchange around paper-based methodology is key
- Change is possible, but a strong mandate from top management and continuity in staffing is necessary
- Measuring agency-wide systems can be a challenge
- Not all that matters can be measured, not all that can be measured matters



Critical success factors

- Evidence to validate link between systems and outcomes/impact
- Incorporating new funders, including private aid flows
- Linking sectoral effectiveness initiatives like SmartAid to broader efforts
- Getting to the incentive gap balance between carrots and sticks





























CCGAP

Advancing financial access for the world's poor

www.cgap.org www.microfinancegateway.org





















































