



## The *STAR* Tool: Analyzing Funders' Effectiveness and Defining Comparative Advantage

### What is the *STAR* tool?

The *STAR* tool is a self-assessment mechanism that helps funders of microfinance evaluate their effectiveness. It allows funders to identify their strengths and weaknesses in order to improve the way they work, coordinate more effectively, and achieve a better division of labor.

### Why use the *STAR* tool?

While many funders participate in coordination groups and meet regularly, these gatherings are often simply "show and tell" meetings where each funder reports on what they are doing and then leaves to continue operating just as before. Real discussions on what works, what does not, how to work better, and how to coordinate better with others are often hard to initiate.

The *STAR* tool facilitates such frank discussions among groups of funders and helps kick-off a self-reflection process that examines the effectiveness of their support to microfinance. Ultimately, the *STAR* tool stimulates funders to take concrete actions that will improve the way they work, both individually and as a funder community.

#### Summary of CGAP's main aid effectiveness messages

- Funding agencies should continuously reassess their value proposition and act according to their comparative advantage, partnering with complementary agencies when appropriate. Knowing when to lead, when to follow, and when to exit is crucial, and it will help foster a more effective division of labor.
- Effective collaboration among the funder community working in a country is key to maximizing results, avoiding duplication, and identifying opportunities for joint work. However, collaboration does not mean doing everything together. Rather, it is about consulting with others before acting.
- Funding agencies' internal management systems (policies, procedures and incentives) are key to meaningful microfinance programming. The way funding agencies work is as important to the quality of aid as any external factors.

### What can the *STAR* tool do?

Specifically, the *STAR* tool provides a framework—the *Aid Effectiveness Star*—for funders to:

- ✓ identify the relative strengths and weaknesses of the overall funder community and build consensus on how funders can work better as a group, including improving collaboration and coordination;
- ✓ probe their organization's strengths and weaknesses, and define actions to improve their internal systems; and
- ✓ adapt programming based on individual and group comparative advantage for a more effective division of labor.

### Who can use the *STAR* tool?

The *STAR* tool is designed primarily for groups of funders interested in analyzing the effectiveness of the funder community's support to microfinance in one country. As such, pre-existing funder groups are an ideal entry point for the *STAR* tool. It can also be a useful exercise for funders that are part of a nascent coordination group to start meaningful interactions. Finally, the *STAR* tool can also be used by individual agencies interested in probing their own organization's effectiveness.

The *STAR* tool aspires to spark a dialogue on funder effectiveness, and ideally would be part of a process, with ongoing reflection, prioritization, and follow-up actions.

### When should the *STAR* tool be used?

The *STAR* tool can be used at any time, but it is likely to garner more interest—and thus have more impact—when there is an explicit recognition that funders need to operate more effectively. Certain situations could inspire this, such as funders being confronted with a particular challenge (stagnating outreach, poor financial institution performance, repressive government policies, etc.), a significant turnover in funding agency staff, or a sudden increase in funding commitments.

**How much time is needed to use the *STAR* tool?**

The initial overview and questionnaire (steps 1 and 2 below) can be completed in about 90 minutes. However, because the results of the questionnaire lead to more in-depth discussions and, ultimately, help to define action steps for improvements, an extra one to two and a half hours are needed. Funders can choose how best to organize and combine the steps described below.

**What resources are required to use the *STAR* tool?**

**Moderator**

Successful use of the *STAR* tool requires a moderator who prepares the meeting, facilitates the assessment process, stimulates a lively discussion, and encourages concrete next steps as part of the wrap-up. Typically, moderators should be persons with credibility in microfinance and funder coordination, and they should command respect from peers for their ability to be neutral and accommodate multiple perspectives. Facilitation skills include the ability to keep the discussion focused on objectives, to make everyone comfortable to speak while not shying away from the difficult questions or areas of disagreement, and to move the discussion forward toward concrete outcomes.

While the moderator is key, s/he cannot be held responsible for the follow-up. Creating a sense of ownership within the group of funders is one of the moderator’s most important challenges.

Good candidates to moderate could come from many backgrounds. S/he can be the chair of the funder coordination group, a funding agency staff nominated by her/his peers, or a CGAP staff member or consultant, for example.

**Handouts**

- **STAR Self-Assessment Questionnaire** – A brief questionnaire that helps identify strengths and weaknesses around the five core elements of aid effectiveness in microfinance depicted as the *Aid Effectiveness Star*. The questionnaire can be used to analyze a specific funding organization or a group of funders.
- **Donor Brief #22** – A two-page note that outlines the five core elements of effectiveness that are key for funding organizations to improve how they support inclusive financial systems and to identify their comparative advantage. [http://www.cgap.org/docs/donorbrief\\_22.pdf](http://www.cgap.org/docs/donorbrief_22.pdf)

**Core Background Reading**

- **Good Practice Guidelines for Funders of Microfinance (October 2006)** – Lessons learned and operational guidelines for all types of funders that help build financial systems that work for poor people. <http://www.cgap.org/donorguidelines>
- **Reading List on Aid Effectiveness** – A comprehensive, annotated list of readings and resources about CGAP’s work on improving the effectiveness of funding agencies working in microfinance. <http://cgap.org/docs/AidEffectivenessReadingListJune07.pdf>

**Support Materials**

- **PowerPoint Presentation** – An introduction to CGAP’s work on improving the effectiveness of microfinance funding and the framework behind the *STAR* tool. The presentation can be used and adapted for a group presentation or for self-study (**coming soon**).
- For facilitation purposes, it would be useful to have a power point projector, flipcharts, color markers, and a calculator available in the meeting room.

**How is the *STAR* tool applied to analyze funders’ effectiveness?**

**Four Key Steps**

Steps	Suggested minimum time requirement
Step 1: Background and Set-up	35 or 65 min (see options below)

<b>Step 2:</b> Analyze the Funder Community's Effectiveness	60 to 90 min (see options below)
<b>Step 3:</b> Build Consensus on Priority Actions	60 min
<b>Optional Step:</b> Analyze Individual Funders' Effectiveness	60 to 90 min (see options below)

## Step 1: Background and Set-Up

### Purpose:

- ✓ Define the objectives of the STAR tool and present the exercise
- ✓ Establish participants' expectations
- ✓ Review what it takes for funders to effectively support microfinance

### Approach:

#### a) Define expectations and review STAR tool methodology

Briefly review the STAR tool and STAR Self-Assessment Questionnaire. Estimated time: 5 minutes.

#### b) Present and discuss learning from CGAP's work on aid effectiveness in microfinance

Using the PowerPoint presentation and Donor Brief #22, Maximizing Aid Effectiveness in Microfinance, review the lessons learned from CGAP's work with over 25 funding organizations to improve funder effectiveness at headquarters and the country-level. Estimated time: 15 minutes.

### What does a funding agency need to support microfinance effectively?

Many aspects influence the impact of microfinance programs at the country-level, such as local politics, governance and regulatory issues, macroeconomic conditions, and performance of partners. However, funding agencies' internal systems, i.e., the way agencies work and the way funders collaborate with each other, are key to the success of microfinance programs on the ground. Based on 17 Microfinance Donor Peer Reviews, six country-level effectiveness reviews, and two portfolio reviews, CGAP has learned a lot about what it takes for funders to support microfinance effectively.

Much of CGAP's learning about agencies' internal requirements to work effectively are encapsulated in the *Aid Effectiveness Star*. The Star can help agencies evaluate themselves and also compare their strengths and weaknesses to other agencies in order to determine—and act on—each others' comparative advantage.



According to the *Aid Effectiveness Star*, a well-managed funding agency should have:

- **Strategic Clarity:** a common vision of microfinance aligned with good practice, which is internalized by staff and translated in the field;
- **Staff Capacity:** sufficient staff with microfinance technical expertise relative to size and composition of microfinance portfolio to design, implement, and monitor programming;
- **Accountability for Results:** systems in place that ensure the transparency and performance-based management of microfinance programs and components;
- **Knowledge Management:** a culture that promotes the creation, dissemination, and incorporation of learning from own and others' experience; and
- **Appropriate Instruments:** flexible instruments used in a manner that complements the private sector and local capital markets and that are adapted to market needs.

**c) Discuss local context, priorities, challenges, and opportunities**

The *STAR* tool is meant to be a practical exercise. Improving effectiveness should not be done in a vacuum, but rather must take into account the reality of each country.

Funders can choose to briefly discuss the local state of microfinance or conduct a more in-depth discussion on the state of microfinance using the SWOT (strengths, weaknesses, opportunities, threats) method.<sup>1</sup> Estimated time: 15 minutes for the first option; 45 minutes including the SWOT.

## Step 2: Analyze the Funder Community's Effectiveness

Purpose:

- ✓ Assess the overall effectiveness of the group of funders supporting microfinance in the country based on the *Aid Effectiveness Star*
- ✓ Identify areas of strengths and weaknesses
- ✓ Delve into the reasons behind the scores, focusing on strengths and weaknesses

Approach:

**a) List all microfinance funders that will be included in the assessment**

The group should jointly decide which funders working in the country should be included in the “overall community of microfinance funders.” This decision should be based on criteria such as size of microfinance portfolio, influence, expertise, etc., not just on whether the funder is in the room. If major funders (based on the above and other criteria) are missing, participants should reflect on how they can be included in the future. The moderator should list the names of those agencies that will be included in the exercise on a flip chart. Estimated time: 5 minutes.

**b) Complete the *STAR Self-Assessment Questionnaire***

Using the *STAR Self-Assessment Questionnaire*, each participant should individually score the overall funder community fairly quickly based on a general impression or gut feeling. The richness of the exercise will emerge during discussions about the results of the questionnaires. Estimated time: 10 minutes.

**c) Compile the responses to the questionnaire**

The moderator should collect the results from the group and calculate the average score for each arm of the star. A calculator and support from one of the participants can help speed up this task. Estimated time: 10 minutes.

Here is an idea for effectively showing the results to the group: The moderator can pre-prepare a large drawing of the star on a flip chart, with each arm divided into five equally-sized parts (1 through 5). Once the results are compiled, the moderator should color in each arm of the star, starting from the center of the star, to visually depict the average scores.

**d) Go over “ground rules” for the discussion**

Before debriefing the compiled results, the moderator should lay out the “ground rules” for the discussion with the participants. Ideas for these include encouraging all participants to be frank (even when difficult issues arise), constructive, and committed to a spirit of improving effectiveness to better reach objectives. Participants should avoid blaming one funder or another. Estimated time: 5 minutes.

**e) Discuss the results, focusing on the underlying reasons for strengths and weaknesses**

The moderator should stimulate a discussion to “unpack” why the overall score looks the way it does. There are several approaches to guiding such a discussion and each can be fruitful. Some groups will want to systematically go over each arm, while others will want to focus on areas of weaknesses. The moderator should list the reasons identified for why each element of the star looks the way it does on a flipchart.

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<sup>1</sup> For an approach that combines aid effectiveness analysis with financial systems analysis, see the CGAP Country Level Effectiveness and Accountability Review (CLEAR) tool (**coming soon**).

If the group completed a mini-SWOT analysis, the moderator may also wish to draw out comments on how elements of the star relate to the strong and weak points of the pro-poor financial market. Estimated time: anywhere from 30 to 60 minutes.

### Step 3: Build Consensus on Priority Actions

#### Purpose:

- ✓ Prioritize specific issues that the group would like to tackle
- ✓ Define approaches for tackling the issues, including a plan for implementation
- ✓ Identify agencies that have relative strengths with regard to the priority issues

#### Approach:

##### **a) Prioritize main challenges the group wants to focus on**

The moderator should first agree with the participants which elements of the star they want to prioritize for improvement (often those that are weaker). Usually, starting with one or two elements is sufficient. Then, the moderator can refer back to the flip charts drafted previously with the list of issues and, after numbering each issue, ask the participants to rank the main challenges to tackle. An easy way to rank is to ask participants to list their top three issues on a piece of paper (using the number assigned to each issue). The moderator can then compile the rankings and list the three issues that get the most votes as the “three priority challenges” for the group. Typically, participants select issues that appear the most urgent for improvement and/or areas where they can take immediate action to show quick progress. Estimated time: 15 minutes.

##### **b) Craft strategy for concrete joint actions to improve effectiveness**

The moderator should facilitate a discussion that leads participants to identify a few, concrete joint actions they can take to respond to the challenges identified. The ambitions of the joint actions should be commensurate to the level of trust, cohesiveness, and capacity of the group of funders. One idea is for participants to identify agencies that are doing particularly well in the areas of priority challenges and agree to have them lead joint efforts. Estimated time: 45 minutes.

#### Examples of Joint Actions to Improve Effectiveness

##### *Strategic Clarity*

- Organize a meeting for all microfinance funder staff (management and operational) on the *Good Practice Guidelines for Funders of Microfinance*
- Define vision statement and/or rules of engagement for all funders; engage government and practitioners in this process as well (see experience of funders in Sri Lanka: [http://www.microfinance.lk/clear\\_review.php](http://www.microfinance.lk/clear_review.php))

##### *Staff Capacity*

- Organize joint trainings for key staff (including long-term, local staff) to reputable microfinance training programs
- Delegate programming to agencies with the strongest staff

##### *Accountability for Results*

- Set up one standard, joint performance monitoring framework for retail financial service providers to report to funders (see experience of funders in Uganda: [http://cgap.org/direct/docs/case\\_studies/cs\\_07.php](http://cgap.org/direct/docs/case_studies/cs_07.php))

##### *Knowledge Management*

- Share information on current programs and pipeline
- Invite all funders willing to work in the country to present new program ideas to the funder group during design phase

##### *Appropriate Instruments*

- Share lessons learned on use of new/innovative instruments
- Determine whether current available instruments meet the needs of the market (enough grant for capacity building, enough equity for strong financial service providers) and act on findings
- Investigate usefulness/benefits of setting up multi-donor challenge funds, etc.

\*\*\*Optional step\*\*\*

#### Step 4: Analyze Individual Funders' Effectiveness

Purpose:

- ✓ Assess the effectiveness of an individual funding organization's support for microfinance in the country based on the *Aid Effectiveness Star*
- ✓ Identify areas of strength and weakness
- ✓ Delve into the reasons behind the scores, focusing on strengths and weaknesses
- ✓ Define approaches to tackle priority issues and work toward improvement

Approach:

**a) Agency staff rank their own agency's effectiveness**

Using the *STAR Self-Assessment Questionnaire*, staff from funding agencies should assess their own agency's effectiveness. They should focus on the way the agency works in the country. They can also choose to take into account the links/relationship with headquarters, but they should not attempt to assess the agency's overall effectiveness. If there is more than one staff per agency, they should jointly discuss the results, focusing on areas of discrepancies. Estimated time: 15 minutes.

\*\*\*\*Specific agencies may conduct this exercise internally. For agencies doing this exercise internally, go to (c).\*\*\*\*

**b) Determine action steps for the funding organization**

Staff from the funding organization should determine the reasons why the overall score looks the way it does. They should identify a couple of issues they wish to tackle, and whether or not doing so would require involving headquarter staff. Estimated time: 30 minutes.

**c) Share results**

Results for each agency represented in the room should be written on a flip chart. Staff from one agency should open the discussion with an analysis of how they perceive their agency's performance. They should then encourage feedback from peers. Do other funders agree with their self-assessment? Finally, participants can seek to identify patterns of strengths or weaknesses across all agencies. Estimated time: 45 minutes.



## The STAR Tool: Self-Assessment Questionnaire

This questionnaire—designed around the *Aid Effectiveness Star*—can help identify a funder’s strengths and weaknesses in supporting microfinance. It can also be used to analyze a group of funders working in a particular country or a specific funding agency.

Please score each of the five elements of effectiveness on a scale of 1 to 5, where 1 is the weakest and 5 is the strongest. Your score should reflect your first, immediate impression. For a full understanding of the elements, please read the descriptions below carefully. This questionnaire should take about 10 minutes to complete.

When using this questionnaire for a group of funders, base your score on the effectiveness of the whole of the funder community, not the outliers.

### Descriptions of the Elements of Effectiveness

#### Strategic Clarity

Common vision aligned with good practices, internalized, shared and communicated consistently

#### Staff Capacity

Staff with microfinance/financial sector expertise to ensure quality of design, implementation and monitoring of programs

#### Accountability for Results

Systems in place to ensure the transparency and performance-based management of microfinance programs and components

#### Knowledge Management

Systems in place to create, disseminate, and incorporate learning from experience

#### Appropriate Instruments

Range of instruments available and used in a flexible manner and adapted to local market needs

