

## SMARTAID FOR MICROFINANCE INDEX 2009

AGENCIA ESPAÑOLA DE COOPERACIÓN INTERNACIONAL PARA EL DESARROLLO  
(AECID)



### Background

The SmartAid for Microfinance Index measures and rates the way microfinance funders work. Heads of 29 major development institutions endorsed CGAP’s development of the Index.<sup>1</sup>

The premise of SmartAid is simple: funders with strong management systems are better equipped to support microfinance effectively. Its indicators assess five areas agreed by all funders as critical for effective microfinance: strategic clarity, staff capacity, accountability for results, knowledge management, and appropriate instruments.

SmartAid enables funders to understand how their systems, policies, procedures, and incentives affect their work in microfinance. An independent, external assessment, the Index highlights strengths and areas for improvement. It can also provide an impetus for funders to take action, prioritize changes, and hold themselves to account for their own performance.

Funders support microfinance with the goal of reducing poor people’s vulnerabilities and increasing their incomes. Having the right systems is a necessary, not sufficient, condition for achieving this goal. SmartAid does not, however, evaluate the quality of programs on-the-ground.

#### SmartAid Indicators

1	Funder has a policy and strategy that addresses microfinance, is in line with good practice, and is based on its capabilities and constraints
2	Funder has designated microfinance specialist(s) who are responsible for technical quality assurance throughout the project/investment cycle
3	Funder invests in microfinance/access to finance human resources
4	Funder has a system in place that flags all microfinance programs and components
5	Funder tracks and reports on performance indicators for microfinance programs and components
6	Funder uses performance-based contracts in its microfinance programs and components
7	Funder regularly conducts portfolio reviews
8	Funder has systems and resources for active knowledge management for microfinance
9	Funder has appropriate instrument(s) to support the development of local financial markets

Ten funders—AECID, AFD, AfDB, EC, GTZ, IFAD, ILO, MIF, SDC, and UNCDF—participated in SmartAid 2009. This diverse group includes development finance institutions focusing mainly on mature retail institutions, large multilateral development institutions that make sovereign loans to governments, and bilateral and multilateral agencies that primarily provide grants.

The Index presents a standard appropriate for all types of donors and investors. However, good performance against the indicators can take different forms for different agencies. Systems that work can look radically different across funders, based on numerous factors including size, level of centralization, and strategy.

<sup>1</sup> See the Better Aid for Access to Finance meeting, 2006: [www.cgap.org/betteraid\\_meeting/compact](http://www.cgap.org/betteraid_meeting/compact).

## Key Findings

AECID received 45 out of 100 points, meaning that overall the agency has “partially adequate” systems in place to support microfinance. As the graph on the following page shows, AECID’s scores fall between 2 and 2.9, on a scale from 0 to 5, on seven of the nine indicators. Strategic clarity (indicator 1) is the agency’s lowest score at 1.3 and requires immediate attention. At 3.1, the score for tracking and reporting on core performance indicators (indicator 5) is slightly better than the other indicators. Overall, the graph presents a picture of an agency that requires a careful look at all its core management systems for supporting microfinance, starting with defining what value it seeks to add and how.

At a Glance	
Type of funder:	Development finance institution
Microfinance portfolio (outstanding as of 12/2007):	\$365 million
Microfinance as % of AECID’s total budget:	13.3%
Number of projects:	54
Primary instrument(s):	Concessionally-priced debt
Primary source of funding:	Public funds

Under the aegis of the Ministry of Foreign Affairs and Cooperation (MAEC), the Spanish Agency for International Development Cooperation (AECID) manages and coordinates the Spanish government’s budget earmarked for development cooperation. Microfinance within AECID falls primarily under the Directorate for Sectoral and Multilateral Cooperation. Within the Directorate, two departments initiate microfinance programs—the Department for Sectoral and Gender Cooperation with its Microfinance Area and the Department for Non-Governmental Organizations (ONGD). In addition, the Regional Directorates may also have some credit components. The vast majority of microfinance funding, however, is delivered through the Fondo para la Concesión de Microcréditos or FCM (Microfinance Fund for Basic Social Development Projects Abroad). AECID’s Microfinance Area manages the FCM, and the Official Credit Institute (ICO) is its financial agent.

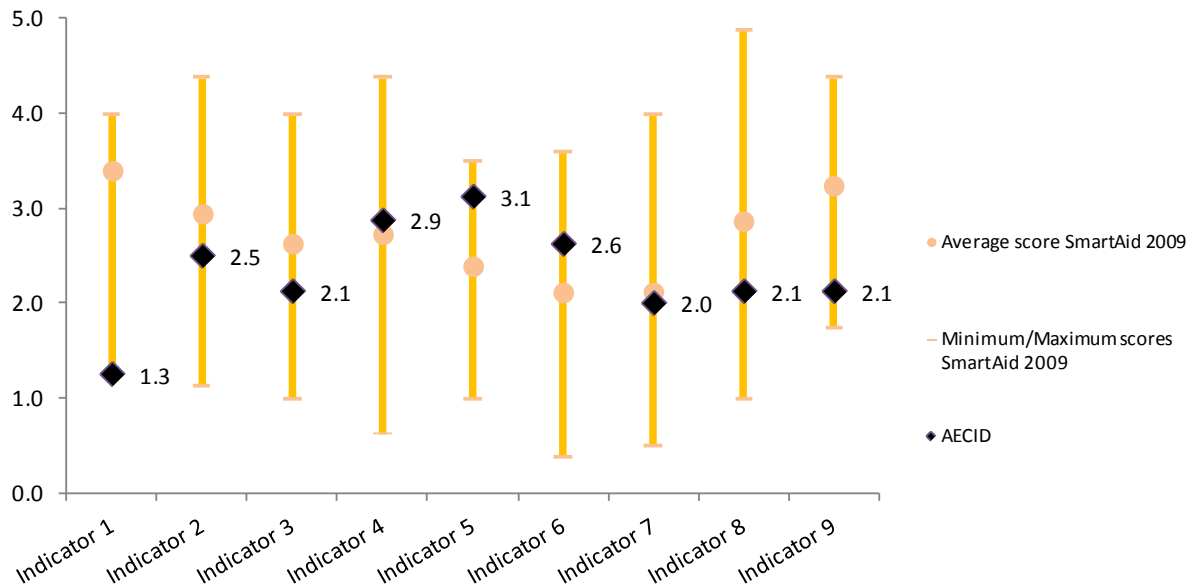
As a specialized microfinance fund, FCM has several strengths including a small core of competent staff with the skills and mandate to provide quality assurance at all stages of the investment cycle. Yet, FCM is isolated within a more complex structure. It is difficult to speak of a cohesive Spanish development cooperation approach to microfinance. There does not appear to be a common vision of what microfinance is, and even less so of the good practices and standards needed to support it effectively or of AECID’s development additionality. This lack of clarity undermines AECID’s systems and work in microfinance, including FCM’s potential to function as a good practice specialized fund. Taking swift action to rectify this situation is important and AECID’s ongoing reorganization and participation in SmartAid is an opportunity to do so. Among 54 donors and investors, AECID is one of the seven largest in terms of committed amounts as of December 2007.<sup>2</sup> As such, it can make significant contributions or cause significant harm to poor people’s access to financial services.

The SmartAid review comes at a timely moment for AECID. After ten years of experience with microfinance—less than many other leading funders—the agency has begun a complete analysis of how it works in microfinance. This re-examination of its microfinance operations coincides with a global reorganization of AECID. SmartAid seeks to contribute to the dynamic of reflection and change within the agency. For this reason, the SmartAid review analyzed the management systems

<sup>2</sup> See CGAP 2008 Microfinance Funder Survey: <http://www.cgap.org/p/site/c/template.rc/1.11.45737/1.26.1426/>

across AECID as a whole. The scores reflect the entire agency, taking into account FCM’s dominance in terms of the volume of the portfolio. We have tried to distinguish when comments are for all of AECID or for FCM specifically.

### AECID Scores



### Strengths

- Numerous efforts to join international “good practice” dialogue.** In recent years, AECID has made determined efforts to reach out to the community of funders, experts, and others working in microfinance. This demonstrates AECID’s strong drive to improve its support to microfinance and to align more closely with international standards of good practices. AECID joined CGAP in 2005, and its Secretary General participated in the Better Aid for Access to Finance meeting alongside 28 other heads of development institutions. AECID staff and consultants have attended internationally recognized microfinance training such as the Boulder Microfinance Training Programme. Staff are also engaging with specialists from other development finance institutions. This proactive openness to others working to build inclusive financial systems has helped overcome AECID’s isolation and has the potential to contribute fresh ideas for how to support microfinance.
- Specialized microfinance fund—FCM—is a promising vehicle to support microfinance.** With the creation of FCM in 1998 the Spanish government has essentially created a development finance institution (DFI) within its bilateral development agency. This approach offers several advantages. By bundling the majority of its microfinance activities into one fund, AECID can more easily concentrate the appropriate technical inputs as well as track and provide quality assurance for investments at all stages of the project cycle.
- Staff with good technical competence are in charge of all FCM operations.** AECID has found creative ways to access specialized expertise to work on FCM, drawing on resources beyond the pool of Spanish civil servants. The Microfinance Area has a core of four full-time specialists (staff and consultants) and a full-time consultant on monitoring information systems. It is assisted by a four-person External Technical Assistance team (ATE team) that is in charge of the identification process, including in-country diagnostics, implementation proposals, and due

diligence for FCM investments. The consultants play a key role: they are the source of most of the Fund's experience. Importantly, these staff and consultants are fully in charge of FCM's microfinance operations, and their close involvement at every stage of the project cycle is mandatory. Thus, no FCM investment can be designed or approved without the explicit review of the specialists.

- **Majority of the microfinance portfolio is captured by the information system.** The majority of AECID's microfinance portfolio is with FCM, and all the Fund's investments are captured in a computerized system. FCM can easily produce an updated list of investments by region.
- **FCM has requirement and systems for regular reporting from partners.** FCM has strict requirements for reporting from its partners and has created comprehensive systems to collect and store the information. The reporting requirements are made clear in Specific Agreements and Loan Agreements. Reporting is requested on a quarterly basis, and partners receive an Instructions Manual and Excel templates to guide them. *Ficha Resumen*, including a narrative on governance, institutional, and financial aspects as well as indicators, are prepared two to three times a year for FCM's Executive Board. All information is stored in a computerized database, where information can be searched by several variables. There also appears to be a clear monitoring plan, with a person dedicated to monitoring in the Microfinance Area. Additionally, FCM establishes a Joint Committee for the Monitoring of the Agreement (JCMA) for each investment. The JCMA includes representatives from AECID headquarters, the country technical cooperation office (OTC) and the investee, and meets at least once a year to allow for face-to-face discussions of progress and problems.
- **Contracts with FCM investees include some performance-based elements.** FCM uses two types of contracts with partners that include more than the standard covenants. Through its Specific Agreements (for non-financial assistance) and Loan Agreements (for financial assistance, signed by ICO), FCM is able to condition disbursements based on meeting certain pre-conditions or targets. Moreover, ICO and the AECID Microfinance Area seem to track the fulfillment of these conditions well.
- **Comprehensive review of FCM completed, although the methodology and results are questionable.** FCM received an external evaluation of its entire portfolio and *modus operandi* in 2007. This type of review has a different and complementary value to evaluations of specific investments or country portfolios. Reviews of the whole or a significant part of the portfolio are useful for learning what works and what does not in how an agency supports microfinance. Comprehensive reviews are more likely to result in policy or systems changes in future programming and are thus vitally important. In addition, ICO periodically conducts compliance portfolio reviews with a focus on the financial health of investees.
- **FCM has the ability to work directly with private actors.** FCM's ability to lend to partners without a sovereign guarantee provides great flexibility, avoids burdensome government approval processes, and reduces the risk of political distortions.

### Good Practice Highlight

#### A Fund Dedicated to Microfinance

Bilateral development agencies work in numerous sectors to respond to the complex and multiple dimensions of poverty reduction. This can create challenges as different sectors require specific staff skills, instruments, and monitoring standards. The Spanish government has responded in a creative manner to this challenge for funding microfinance. In 1998, it created a specialized fund, FCM, with the specific objective to "foster microfinance in developing countries as an instrument to combat poverty." FCM invests directly in retail financial institutions and also through wholesale structures like microfinance investment vehicles.

## Weaknesses

- **Lack of strategic vision and coherent approach to microfinance across Spanish development cooperation.** There is no agency-wide policy or strategy that clearly states AECID's approach to microfinance, nor how and why it chooses to work with certain types of institutions to reach the agency's ultimate goal of poverty reduction. Microfinance projects originate from several directorates and departments. There appears to be little consultation among departments or agreement on good practice standards for design, implementation, and monitoring. Moreover, some of AECID's decisions and programming approaches expose a possible lack of understanding of good practices, for example, the pricing strategy and level of detail requested at the client level. The lack of coherence, clear strategy, and common minimum standards affects all of AECID's work. Without a clear strategy, it is difficult for AECID to know where it is going and to invest in the appropriate systems needed for effective support to microfinance.

As a specialized fund with a very specific purpose, FCM is somewhat sheltered from this lack of a common vision but it does not have its own clear and endorsed strategy. Moreover, it is affected by the lack of overall agreement on good practices among the members of its Executive Board, including AECID, the Ministry of Foreign Affairs and Cooperation, the Ministry of Economy and Finance, and the Secretary of State for International Cooperation. The decisions made and priorities set by FCM's administrative, financial, and political authorities have direct effects on the Fund's strategy, its main instrument (hard currency loans), disbursement pressure, and systems for accountability as described in the remainder of this section.

- **Little, if any, analysis of the additionality of FCM.** There is no evidence of any reflection across AECID or within the FCM team of what value the Fund adds to the overall microfinance funding landscape. Absent of such analysis at the level of both overall strategy and individual investments, AECID runs the risk of channeling its resources to microfinance institutions that could easily have received funding from other sources, including deposits, commercial banks, and other investors. Additionality is a core principle for DFIs: are they producing or catalyzing positive change that otherwise would not happen or would take much longer? Most DFIs find it challenging to measure and optimize additionality. At AECID, however, there was no evidence of any strategic consideration of additionality or consideration of this issue in the choice of specific partners. Unless there is real and honest analysis of additionality, a DFI runs the risk not only of adding no value, but also of causing harm, for example, reducing a microfinance institution's incentive to mobilize savings and delaying the raising of local private investment.
- **Micro-management of investees is inappropriate.** Funders typically work with investees whose vision and goals they share and whose business plans they endorse and are confident to finance. They should not interfere in financial institutions' lending policies and procedures. FCM's determination of loan amounts and terms to the sub-borrowers (the poor people receiving the loans) appears intrusive. Retail providers are closest to their clients and are best positioned to make such decisions.
- **No requirement for technical quality assurance for projects outside FCM.** The Microfinance Area, the unit with the most microfinance expertise within AECID, is not required to provide quality assurance outside of its department, nor does it do so in practice. Departments that have microfinance projects or components function independently from each other and are not required to consult the Microfinance Area for technical review and advice. For example, the staff in the Microfinance Area have little to do with the revolving credit lines in NGO projects funded by ONGD. When specialists do not design projects themselves, or at the very least have a strong voice in design and implementation, microfinance projects do not tend to perform well.

- **Insufficient microfinance expertise given the size of the portfolio.** AECID has one of the least favorable staff to microfinance portfolio ratios of the ten institutions participating in this round of SmartAid. With over \$360 million outstanding as of December 2007, AECID does not have enough specialized staff working on microfinance.

First, ICO, the financial agent of FCM, is staffed with financial managers who have little microfinance experience or training. This raises questions about their ability to assess the quality of institutions' loan portfolios—the main asset of microfinance institutions—and to play a significant role in the due diligence and monitoring of investees.

Second, there is no evidence of any microfinance skills in the country offices, ONGD, or other departments that manage some microfinance projects.

Third, FCM itself does not have sufficient management capacity and staff to support its portfolio size. Additionally, the future strategy of FCM will require more staff with a diverse skills mix. For example, potential recipients of technical cooperation include regulators, yet no one in the Microfinance Area has experience with regulation and supervision. It is not clear if FCM's Executive Board members have enough exposure to basic microfinance good principles.

Fourth, with the exception of consultants within the Microfinance Area and ATE who function more like staff, AECID's recruitment procedures, procurement rules, and/or network in microfinance seems to make it difficult for the agency to hire microfinance experts. The cancelled tender for ten positions in different regions/countries is a striking example. AECID does not seem well-informed about qualified microfinance technical service providers to whom it could outsource some work.

- **Absence of agency-wide system to identify microfinance portfolio.** It appears that there is not one place (database or person) where one can get the full picture of all AECID investments and projects in microfinance. For example, though components in ONGD projects can be identified manually, it is not certain that all components throughout AECID are captured. Without this information, AECID cannot adequately assess or improve the performance of the portfolio.
- **Problems in performance monitoring of investees.** Although AECID takes reporting from investees seriously and enforces regular reporting, it does not focus enough on the overall institutional performance of each investee. FCM, for example, tracks the use of its own funds (outreach, volume of loans, etc.), but pays too little attention to the institutional sustainability of investees (profitability, loan collection, efficiency, etc.). Money is fungible, meaning that AECID's money is functionally interchangeable with the rest of funding received by an investee.

In lieu of institutional data, FCM has a burdensome focus on obtaining detailed information on the individual loans/borrowers of their investees (e.g., ID number, birth date, education, address, etc.). This creates unnecessary work for partners, and may also distract over-worked AECID staff from analyzing the few core indicators that are relevant to institutions' fundamental performance. ICO's narrow focus on financial statements does not include the kind of analysis that is required to judge the true state of an investee's loan portfolio. Moreover, the SmartAid Review Board received no indication of any performance monitoring of other parts of the microfinance portfolio beyond FCM. In short, AECID's performance monitoring reveals more about how Spanish money is used than on the results it achieves.

- **Contractual agreements with partners do not systematically include key financial performance indicators.** FCM's approach to performance monitoring is reflected in the contractual agreements with partners. The contracts do not systematically include performance targets linked to investees' financial sustainability or portfolio quality. Beyond FCM, we received no evidence of performance-based agreements.

- **2007 comprehensive evaluation of FCM provides an imperfect basis for decision-making.** The findings and recommendations of the 2007 evaluation of FCM suggest that it was conducted by a team insufficiently aware of microfinance good practices and/or the team chose an inadequate methodology. The recommendations positively identified the need to focus on institution-level performance indicators, yet also promoted dubious practices such as directed and subsidized credit.
- **FCM's highly subsidized loans may be distorting markets.** FCM's loans are highly concessional, yet many of them are probably going to microfinance institutions that do not need such subsidies at this stage in their development. Almost two-thirds of FCM's loans go to Latin America, the region with the least need for subsidized external funds. All FCM's loans are in hard currency, which creates foreign exchange risk for the investee. In contrast, the 16 leading DFIs have on average 24 percent of their loans in local currency. Finally, technical cooperation grants seem cumbersome to manage and supply-driven.
- **Credit components outside FCM likely receive little technical attention.** Outside FCM, AECID seems to have credit components or credit lines linked to other sectors such as agriculture, education, or health. Though they may be the minority, they are important to watch as the experience in many other development agencies is that credit components in larger, non-financial projects receive less technical attention from microfinance specialists during all stages of the project cycle and rarely perform well.

## Recommendations

AECID is already aware of some of the problems highlighted above. For example, staff involved in FCM and some AECID managers are aware of the need for greater coherence in microfinance across the agency and the challenges in staff capacity. Though flawed, the 2007 evaluation of FCM included some good recommendations, including the need to focus on institution-level performance indicators. However, other weaknesses identified in the SmartAid exercise, for example, the lack of attention to additionality, have not yet been recognized by the agency.

AECID has a genuine interest in aligning with other funders working in microfinance, complying with good practices, and developing greater coherence through the Master Plan. AECID also has substantial financial resources to contribute to deepening access to finance. What is needed now is strong leadership to guide the realignment of AECID's microfinance strategy and systems. The people who lead this realignment do not need to be microfinance experts, but they need to understand the basics of microfinance and to have enough political clout to coordinate all the stakeholders involved in Spanish cooperation. At the technical level, AECID will need a specialist operational champion to craft and implement its new direction. Today, the best candidate for this focal point role is the Microfinance Area. If the Microfinance Area is mandated and recognized as the microfinance focal point for all of AECID, it could play important quality assurance, training, and knowledge management roles.

Making the necessary reforms will likely require a period of slower growth, as it will be hard for AECID, and certainly FCM, to tackle underlying challenges while continuing with the current high volume of business.

The following suggestions emerge from the SmartAid review:

- **Conduct a thorough analysis of development additionality of FCM.** AECID should, with the participation of FCM's technical specialists, conduct a serious analysis of the Fund's development additionality. This analysis should include a broad reflection about where and how the Fund can add value, taking into consideration the rapid evolution of the funding landscape, including the availability of alternative funding sources for the microfinance institutions that

FCM works with. FCM should also re-evaluate its pricing policy and the high levels of subsidy in its loans.

This review and analysis of additionality should take place not only at the strategic level but also for each investment or grant. Procedures for project design and review should require a statement of (1) why the proposed FCM funding will produce development results that would probably not occur in its absence, and (2) why the proposed level of subsidy is needed. Ultimately, a formal requirement for such statements will not have much effect unless the investment committee tests and probes the explanations provided seriously. Until such systems are developed, FCM should consider slowing down approval of new investments, other than renewals.

DFIs and their staff inevitably have strong incentives to place investments. Insisting on an additionality screen runs counter to those incentives, and so making additionality a real criterion instead of a pro-forma check is challenging for any DFI. Some meet this challenge better than others, and AECID could benefit from their thinking and experience.

- **Develop a microfinance strategy and policy for all of AECID.** AECID needs a concise and operational policy that would be binding for all AECID operations in microfinance. The policy should outline AECID's vision and strategy for supporting microfinance, including a statement on additionality, based on an explicit analysis of its comparative advantages and disadvantages. Internationally-accepted principles of sound practice that will govern AECID microfinance operations should be spelled out. The new resources and systems needed to implement the strategy should also be identified. The policy/strategy should be endorsed at the highest appropriate level, and disseminated broadly by the Secretary General to signal its importance and application to all directorates. Finally, AECID should build in compliance checks at key points of the project cycle.
- **Build microfinance staff skills.** AECID can strengthen the microfinance knowledge of relevant staff throughout the Spanish development cooperation.

For ICO staff, training should focus on microfinance-specific aspects of financial management, especially the appraisal of microfinance institutions' portfolio quality (loan collection performance). This could be achieved in several ways, including sending staff to programs like the CGAP Funder Course, the Boulder Microfinance Training Program, or the School of Applied Microfinance Management. For more practical hands-on experience, AECID could explore arranging for ICO staff to join one or two missions of microfinance rating agencies.

As to FCM, AECID should increase its cadre of well-qualified staff and consultants to manage its large operations. Consultant contracts within the Microfinance Area should be stabilized. This will not only reduce FCM's vulnerability to losing skilled people, but will also strengthen the position of these consultants with other colleagues throughout AECID. The strategy of identifying additional consultants based in the regions is good, and AECID should obtain the authority to consider qualified candidates of all nationalities. The jobs should also be advertised in mainstream microfinance websites and media. In consultation with industry experts, including the Council for Microfinance Equity Funds (CMEF), the International Association of Microfinance Investors (IAMFI), and CGAP, the Microfinance Area could also establish a list of strong technical service providers to draw on.

Staff in the regional directorates and the ONGD department are good candidates for outside microfinance training such as the CGAP Funder Course, and could also benefit from short, internal, tailored courses focusing on understanding and applying the new policy once it is endorsed. AECID could also consider inviting staff from its key NGO partners to training events, as they will also need to understand and comply with the policy.

The process of defining and approving the new policy would be ideal for building a common awareness of good practice microfinance principles among the Executive Board of FCM. For this purpose, external experts could be invited to present at Executive Board meetings. It would also be judicious to consider inviting someone with a strong microfinance fund management background to join the board, even in a non-voting capacity.

- **Ensure technical quality assurance of microfinance operations beyond FCM.** One of the most direct and effective ways a funder can improve its microfinance operations is by having microfinance specialists review all project designs early on and provide inputs throughout implementation and monitoring. This is currently the case for the FCM portfolio. AECID should formally mandate the Microfinance Area to perform the same function for all AECID projects that include microfinance. This would require putting in place the right incentives for other departments to come to the specialists, and ensuring that the Microfinance Area has sufficient staff and authority to fulfill this role.
- **Move to an institution-focused performance monitoring system for all AECID.** By re-focusing monitoring on institutional capability and away from the uses of Spanish cooperation money and information on the borrower, FCM will be able to analyze its portfolio more meaningfully and efficiently. Specifically, agreement on the core performance indicators that should be monitored for support to retail microfinance providers across AECID is needed. At a minimum, the core indicators need to include institutional cost-recovery (profitability), portfolio quality, and outreach.<sup>3</sup> To implement the new performance monitoring system, all relevant reporting forms, templates, and contracts with partners would have to be reviewed and modified. In addition, staff in AECID and ICO would have to be trained on the new approach. The Microfinance Area, if approved as a focal point, could maintain a simple, central database with the core information.
- **Re-think performance-based contracts once the performance monitoring system has been improved.** The new performance monitoring system would need to be reflected in the Specific Agreements and Loan Agreements.
- **Promote social performance measurement instead of burdensome client-level reporting.** AECID's interest in the welfare of clients is clear and welcome. There is evolving literature and experience on "social performance" measurement. AECID can leverage its strong collaboration with the Social Performance Task Force to help investees develop meaningful social reporting. This approach would be much more valuable to investees than the present detailed requirements for reporting client data. Once there is consensus on core social performance indicators, AECID may be able to incorporate them in its performance monitoring system (but the industry is likely several years away from consensus on such indicators).
- **Commission a review of credit components.** To shed greater light on how pervasive credit components are at AECID and how they perform, AECID should commission a team of microfinance experts to review all components approved over the past few years. As a first step, the review should define a method to identify all credit components in non-financial projects throughout AECID. In a second step, the review should focus on the performance of the components on-the-ground, especially on whether they produce sustainable financial service delivery that will continue and grow after the end of the project.

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<sup>3</sup> See Measuring Results of Microfinance Institutions: Minimum Indicators that Donors and Investors Should Track, CGAP, 2009: [http://www.cgap.org/gm/document-1.9.36551/Indicators\\_TechGuide.pdf](http://www.cgap.org/gm/document-1.9.36551/Indicators_TechGuide.pdf)

## Methodology

SmartAid distills learning from over seven years of aid effectiveness work undertaken by CGAP with its members. The indicators draw on the consensus *Good Practice Guidelines for Funders of Microfinance* and a body of knowledge developed through peer reviews, country reviews, and portfolio reviews. Aid effectiveness experts from the Center for Global Development and OECD’s Development Assistance Committee contributed crucial advice.

Feedback from funders confirmed that the five core areas of effectiveness at the heart of SmartAid present a comprehensive picture of what funders need to support microfinance effectively. After a pilot round in 2007 and an external evaluation, the Index was refined and streamlined. SmartAid 2009 is thus the baseline year.

SmartAid 2009 uses nine indicators to assess funders’ internal management systems. Indicators are worth between 10 and 15 points each, for a total maximum of 100 points (see table). Different weights are assigned to indicators, giving more prominence to those that make a greater difference in a funders’ work in microfinance. Accountability for results is a powerful element and accounts for 40 percent of the score. As the wise dictum goes, what cannot be measured, cannot be managed.

The Index is based on self-reported documentation from participating funders, following instructions in the SmartAid Submission Guide. Scores are determined by a review board of four microfinance specialists with broad experience with a range of funders. Each review board member independently scores all funders against all indicators; final scores are agreed upon after discussion among reviewers. For each indicator, funders receive a score on a 0-5 scale (5 being the highest score). These scores are then multiplied by a factor of two or three to arrive at the 100 point scale. Averages as well as minimum and maximum scores shown in the graph in the Key Findings section change depending on the funders participating in each SmartAid round.

Dispersion among reviewers for the final scores was minimal. For all scores (per indicator and funder), the standard deviation was less than 0.5. Naturally, as a margin of error is unavoidable in this nature of exercise; funders should not give undue attention to differences of one or two points. The most strong and meaningful messages lie in where a funder performs along the range of scores for each indicator as well as whether its overall performance lies in the “very good,” “good,” “partially adequate,” “weak,” or “inadequate,” range.

It may be difficult for funders to make improvements in all indicators simultaneously, but experience suggests that even the largest of institutions can make positive changes. Over time, CGAP will perform trend analysis on SmartAid results to track evolutions within and across microfinance funders.

	Points	Range
★★★★★	90–100	Very Good
★★★★☆	80–89	
★★★★☆	70–79	Good
★★★☆☆	60–69	
★★★☆☆	50–59	Partially Adequate
★★★☆☆	40–49	
★★☆☆☆	30–39	Weak
★★☆☆☆	20–29	
★☆☆☆☆	10–19	Inadequate
★☆☆☆☆	0–9	

## SmartAid for Microfinance Index Indicators

<b>Strategic Clarity</b>	1	Funder has a policy and strategy that addresses microfinance, is in line with good practice, and is based on its capabilities and constraints	15%
<b>Staff Capacity</b>	2	Funder has designated microfinance specialist(s) who are responsible for technical quality assurance throughout the project/investment cycle	15%
	3	Funder invests in microfinance/access to finance human resources	10%
<b>Accountability for Results</b>	4	Funder has a system in place that flags all microfinance programs and components	10%
	5	Funder tracks and reports on performance indicators for microfinance programs and components	10%
	6	Funder uses performance-based contracts in its microfinance programs and components	10%
	7	Funder regularly conducts portfolio reviews	10%
<b>Knowledge Management</b>	8	Funder has systems and resources for active knowledge management for microfinance	10%
<b>Appropriate Instruments</b>	9	Funder has appropriate instrument(s) to support the development of local financial markets	10%

## Funders participating in SmartAid 2009

Agencia Española de Cooperación Internacional para el Desarrollo (AECID), Agence Française de Développement (AFD), African Development Bank (AfDB), European Commission (EC), Gesellschaft für technische Zusammenarbeit (GTZ), International Fund for Agricultural Development (IFAD), International Labour Organization (ILO), Multilateral Investment Fund (MIF), Swiss Agency for Development and Cooperation (SDC), United Nations Capital Development Fund (UNCDF)

## About CGAP

CGAP is an independent policy and research center dedicated to advancing financial access for the world's poor. It is supported by over 30 development agencies and private foundations who share a common mission to alleviate poverty. Housed at the World Bank, CGAP provides market intelligence, promotes standards, develops innovative solutions, and offers advisory services to governments, microfinance providers, donors, and investors.

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