

SmartAid

for Microfinance Index

WORKING SMARTER FOR BETTER RESULTS

Microfinance is retail banking for poor people, and a powerful way to fight poverty. Though market forces are changing microfinance globally, there is still a need for development institutions to be involved. This need is best served by organizations that are transparent and accountable, have a clear strategy, staff with relevant expertise, share knowledge, and use appropriate funding instruments.

CGAP is a global resource center for microfinance, with 33 members. A key area of focus is helping microfinance funders work more effectively. Building on more than a decade of analysis, reviews, and technical assistance efforts, CGAP in 2007 developed the SmartAid for Microfinance Index.

AID EFFECTIVENESS AND MICROFINANCE

Microfinance is attracting funds from ever increasing sources. How can we best make use of these resources to build local financial markets that work for poor people? CGAP works to ensure that funds for microfinance are directed to the right places, and in the most effective manner.

WHAT SMARTAID IS

A service for development institutions

SmartAid is a service for organizations that seek to better understand how internal management systems, processes and incentives affect their work in microfinance. Participating institutions receive a score and a report that details strengths and weaknesses, highlights examples of good practice, and suggests improvements. Throughout the process, SmartAid includes opportunities for in-depth discussion and advisory services for technical staff and senior management.

A commitment to transparency and accountability

By participating in SmartAid, organizations demonstrate a strong commitment to transparency and accountability. SmartAid is one concrete way for agencies to act on the pledge for more effective aid as spelled out in the Paris Declaration.

A tool to define comparative advantage and opportunities for collaboration

SmartAid helps institutions understand where they stand relative to other microfinance funders. This provides ways to find synergies and opportunities for collaboration with other organizations—identifying areas of common interest and comparative advantage.

HOW SMARTAID WORKS

In 2006, the heads of 29 major development institutions endorsed the creation of an index that would measure the way microfinance funders work. SmartAid is CGAP's effort to fulfill that commitment, assessing organizations in five key areas:

- **Strategic clarity** measures whether the organization has an agency-wide vision for microfinance aligned with good practice and documented in a policy.
- **Staff capacity** measures whether the organization has staff with relevant expertise to ensure quality of design, implementation, and monitoring of programs.
- **Accountability for results** measures whether the institution has systems in place that ensure the adequate monitoring and performance-based management of microfinance programs.
- **Knowledge management** measures whether the organization has systems and resources to create, disseminate, and incorporate learning from its own and others' experience.
- **Appropriate instruments** measures whether the institution has instruments that are used in a flexible manner and adapted to market needs.

"How do you know a high-quality aid agency when you see one? Is it one that learns from past projects, or that rewards employees for a subtle blend of results and risk-taking? Measuring such characteristics is hard—especially when the agencies being measured fund your budget. But that is exactly what CGAP has done, in the realm of aid for microfinance, using extensive surveys and interviews."

—David Roodman,
Center for Global Development



SmartAid is based on self-reported documentation. Scores are determined by assigning points to indicators, for a maximum total of 100 points. A review board of four persons with extensive microfinance expertise and broad experience working with a range of funders analyzes agencies' submissions and attributes scores. Each review board member independently scores agencies against all indicators; final scores are agreed upon by consensus.

HOW SMARTAID CONTRIBUTES TO CHANGE

The pilot round of SmartAid examined seven development institutions (Asian Development Bank, FMO, GTZ, KfW, Sida, UNCDF, CIDA) with a total outstanding portfolio in microfinance of about \$3.2 billion. These institutions said they found the exercise valuable on several fronts. Participating in SmartAid helps:

- **Facilitate internal reflection.** The SmartAid process—from preparing submissions to reviewing report findings—sparks frank dialogue among staff, cutting across departments and lines of responsibility. For example, the Asian Development Bank organized a series of working meetings to assure buy-in and participation from regional departments, project officers and directors general.
- **Focus management attention on key strengths and weaknesses.** Management appreciates the expert, independent assessment. The external perspective provides fresh insights, sheds light on challenges and opportunities, and affords management a sense of how their institution compares to others. KfW top management, including a member of the board of directors, paid particular attention to SmartAid, using the results to assess their microfinance activities.
- **Define strategic options.** Institutions use SmartAid findings to kick-off strategy discussions. At UNCDF, for example, the SmartAid report was mandatory reading for all staff and the recommendations helped shape UNCDF's new business plan and strategy for microfinance.
- **Prioritize changes to be implemented.** SmartAid provides the impetus for making concrete improvements. While GTZ had previously discussed the need to strengthen its monitoring systems, a SmartAid recommendation gave new urgency to move forward. FMO has quickly taken on board recommendations to strengthen its microfinance capacity by developing new training programs and proactively targeting staff to attend international training events.



MICROFINANCE—AN EXAMPLE FOR AID EFFECTIVENESS

The need for independent evaluation, benchmarking and standards-setting has never been greater in the field of development. As agencies are under growing scrutiny to deliver results and remain relevant to the people they serve, tools such as the SmartAid for Microfinance Index provide individual institutions a rigorous and objective assessment as well as a way to benchmark a diverse group of institutions. Though created specifically for the field of microfinance, SmartAid's focus on core management systems is relevant—and indeed easily applicable—to other sectors of development.

What development organizations are saying about the SmartAid for Microfinance Index

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

—Nimal Fernando, ADB

"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

"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