



SMARTAID INDEX 2013 MULTILATERAL INVESTMENT FUND (MIF)



Background

The SmartAid Index measures and rates the way funders with an interest in financial inclusion work. Heads of 29 major development institutions endorsed CGAP's development of the Index.¹

The premise of SmartAid is simple: funders with strong management systems are better equipped to support financial inclusion effectively. Its indicators assess five areas agreed by all funders as critical for effective financial inclusion: 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 financial inclusion projects. 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 financial inclusion 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.

Five funders— AFD Group (AFD/Proparco), EIF, IFAD, MIF and UNCDF —participated in SmartAid 2013, increasing the total number of funders participating in the SmartAid Index to 19. Prior rounds have included the participation of AECID, AFD, AfDB, AsDB, CIDA, EC, EIB, FMO, GIZ, IFC, ILO, KfW, SDC, and Sida. Three agencies from the 2013 round participated in prior SmartAid rounds (IFAD, MIF and UNCDF). AFD (AFD/Proparco) and EIF are both considered new participants given that different units in the agencies participated in prior rounds.² This diverse group of funders 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.

¹See the Better Aid for Access to Finance meeting, 2006.

² In the case of AFD/Proparco, AFD participated in the 2009 round and the submission did not include Proparco. For EIF, two departments of the EIB Group's Directorate of Operations – Africa, Caribbean and Pacific region, and the Mediterranean region—participated in the 2011 round and did not include EIF.

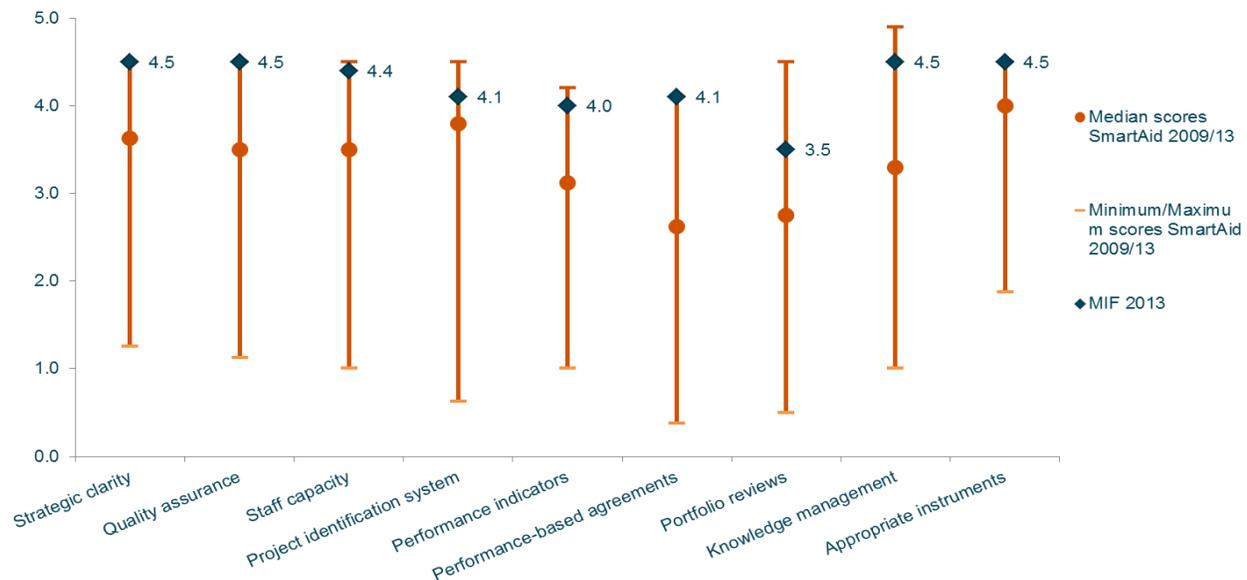
Key Findings

MIF received 85 out of 100 points, meaning that overall it has “very good” systems in place to support financial inclusion. As the graph below indicates, MIF received a score 4.0 or higher (on a scale from 0 to 5) on eight out of nine indicators. MIF also had a relatively strong performance on portfolio reviews (indicator 7) with a score of 3.5.

MIF’s scores on strategic clarity, quality assurance, and appropriate instruments (indicators 1, 2 and 9) were the highest amongst all SmartAid participants to date, placing MIF as the top rated agency by SmartAid since its inception.

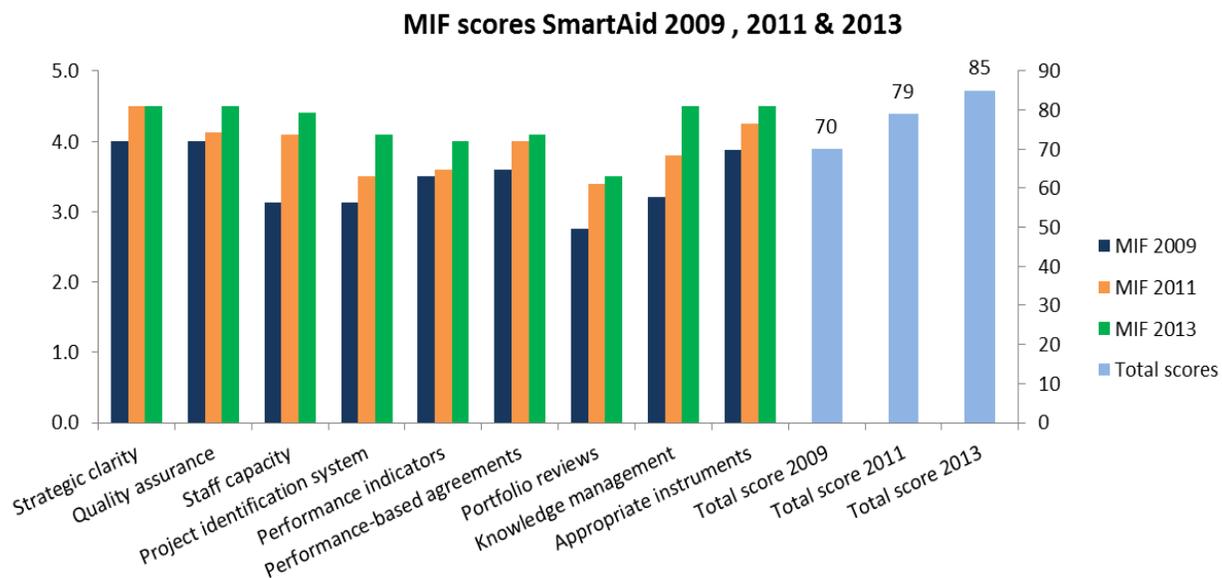
MIF, a specialized fund focused on private sector development, has a long history of support to microfinance in Latin America and the Caribbean (LAC). Reflecting MIF’s commitment to its Access to Finance (ATF) agenda, 28 percent of MIF’s overall portfolio is in microfinance. MIF has made considerable gains from the 2011 SmartAid review, taking actions to implement the recommendations from the SmartAid 2011 round. MIF has reclassified its entire portfolio in line with the Access Framework, invested in staff capacity and knowledge management, and conducted a comprehensive portfolio review, which was presented to the Board in February 2013.

| At a Glance | |
|---|--|
| Type of funder: | Development Finance Institution |
| Microfinance portfolio (committed as of 12/12): | \$165 million |
| Microfinance as % of total portfolio: | 28% |
| Number of projects: | 56 |
| Primary level(s) of intervention: | <input checked="" type="checkbox"/> Retail <input checked="" type="checkbox"/> Infrastructure <input checked="" type="checkbox"/> Policy |
| Primary instrument(s): | Commercially-priced debt, equity, grants. |
| Primary source of funding: | Public funds |



The Access Framework, which focuses on three Access areas—Access to Finance, Access to Basic Services, Access to Markets and Capabilities—was launched in 2010, and it is fully operational. The Access Framework strengthens MIF’s focus on areas by supporting innovative projects where it can maximize its impact. MIF has demonstrated organizational and technical skill to support this strategy on a variety of fronts. The activities under the ATF area are continuously monitored and reviewed by management to take into account the evolution of the market, and the effectiveness of the contributions of individual initiatives to boost financial inclusion. The new strategy is accompanied by strengthened efforts in quality assurance. Staff at headquarters and country-level staff form multi-disciplinary teams to support project design and implementation. Moreover, innovative knowledge management techniques and methods have been developed to ensure all staff have access to a variety of technical and organizational resources. In addition, MIF recently launched a practical and user friendly data sharing platform and tracking system. Finally, MIF’s exclusive focus on LAC brings unique advantages to strategic clarity, sharing knowledge and convening stakeholders to learn from experience. MIF draws on this advantageous position and the variety of its instruments to engage in policy dialogue, support stakeholder learning events and improve performance.

The efforts made to combine strategy with knowledge management (KM) and improved operational procedures are impressive. MIF should take advantage of the momentum thus created to learn from the ATF portfolio, and reach the ambitious goals to deepen its market building initiatives more broadly.



Key Strengths and Weaknesses

- Strategic Clarity (4.5/5.0).** MIF’s Access to Finance (ATF) Area, under its corporate-level Access Framework, supports a market-building approach to achieve greater financial inclusion. As a departure from the established norm, and the first major corporate change, the new (2010) strategy had major implications for the way MIF works. Measures to ensure strategic directions are on the right track and involve a continuous process of monitoring and review by management. Intent to play a catalytic role, management also takes actions on ensuring MIF’s additionality to support inclusive markets. In this respect, MIF is one of the few DFIs to consider “non-financial” additionality. MIF takes into account the overall health of the market, building networks, leveraging skills, experience and synergies in the local

market, as well as extending this experience to neighboring regions before making any final investment decisions. The new strategy is complemented by operational guidelines for staff. Despite the strength and innovation of the ATF area, a stronger policy document may be needed in due time. An articulation of how investment and technical cooperation serve as mutual complements would be beneficial. And finally, while there is an annual budget proposal submitted to the Board that analyzes internal capacities and identifies gaps, an agency wide SWOT analysis could serve as a valuable resource to define agency strengths and position them to support the new strategy, as well as address gaps that may need attention.

- **Quality Assurance (4.5/5.0).** MIF's quality assurance system is particularly strong, as MIF's ATF specialists are involved in all phases of MIF's work—project design, evaluation, and learning agenda. As part of the internal procedure and a requirement for Board approval, all projects must have a Quality for Effectiveness in Development (QED) report and quarterly external and internal reviews. ATF staff ensures that three steps are completed before the QED is finalized and submitted to the Board: projects are reviewed against eligibility criteria, project design is vetted and approved by ATF experts, and a comprehensive rating is completed following established criteria. The QED, while thorough, is not specifically designed for microfinance, and does not include ATF guidelines. Particular strengths of the quality assurance process are: monitoring and supervision by ATF staff; delegation of monitoring to country level staff with a financial specialist performing an oversight role; and, monitoring recommendations are binding. Furthermore, MIF's tracking system delivers automatic prompts that show deviations from established benchmarks. The system takes into account a formula for risk, using ratings of supervision team leaders, an analysis of milestones achieved, as well as an analysis of the likelihood for improvements. A consolidated review for loans and equity investment, the Annual Supervision Report (ASR) is completed once a year with additional and intensive monitoring. Additional updates to the report may be useful. Reviews of grants are consolidated every six months within the Project Status Report (PSR). Since 2011, the MIF score on quality assurance increased by 0.5 points.
- **Staff Capacity (4.4/5.0).** MIF's ATF team represents a strong team of microfinance specialists and professionals with experience and educational backgrounds to support microfinance. The team is complemented by evaluation and communications experts. The team incorporates local knowledge and headquarters experience, with nearly equal representation of headquarters and country level staff. Depending on the size and complexity of the country portfolio, the team may be complemented by

Good Practice Highlight

DFIs Can and Do Engage in Market Building

The ATF Area sets out the broad goals of *responsible* financial inclusion, engaging all stakeholders, policy makers, infrastructure providers and financial services providers.

Research, operational systems, performance indicators, staff training and KM efforts are devoted to the goal. Instruments available support grants for policy dialogue and learning events; equity placed is attached to a governance role, and debt is financed in local currency.

Intention is supported by action. MIF is one of the few DFIs with a strong track record in building local market development by attracting private investors and exiting when the time is right and not overextending its welcome.

specialized consultants. Of particular note, the teams are organized by ATF topics, thus inspiring more responsibility for achievements. In addition, training is considered a vital part of new staff orientation and a crucial aspect of implementing the ATF strategy. MIF's efforts to improve training content, delivery methods and technologies to reach staff throughout the region are truly impressive. To date, the training focuses mainly on organizational processes and systems, the mainstay of implementing the current strategy. In the future, capacity building initiatives could consider new topics that relate to the ATF agenda. Since the 2011 SmartAid review, MIF's score increased by 1.3 points, one of the highest increases in the 2013 SmartAid round.

- **Project Identification System (4.1/5.0).** MIF has coded all projects by topic and agenda, following the Access Framework classification system—an impressive accomplishment. Financial components in projects outside ATF projects are easily identifiable since they are covered by loan covenants in those projects and the ATF unit is responsible for tracking all loan agreements, regardless of their origin. In some cases, there are cross-cutting projects among different Access agendas, such as with the adaptation and mitigation to climate change agendas. The ATF team participates in the early stage of project design for these projects. This practice strengthens quality assurance, but still depends on a manual tracking system for financial components in non-ATF projects. Microfinance projects in non-ATF projects account for 5 to 10 percent of the project portfolio, and may warrant additional oversight.
- **Performance Indicators (4.0/5.0).** Clear financial performance monitoring is a MIF tradition. It is now shored up by a data platform that produces all performance indicators on a consolidated basis per country, topic or institution, depending on user priorities. Further, a monthly consolidated portfolio report is posted on the intranet which is available to staff in headquarters and IDB country offices. The Project Status Reports (PSR), Annual Supervision Reports (ASR), and Expanded Supervision Report (ESR) are well structured, highly automated, and benefit from built-in cross-checks. Moreover, in the last two years, MIF has made strides towards establishing a new system that includes social indicators, such as poverty levels, environmental and gender inclusion indicators. MIF has also ventured into sponsoring a new set of initiatives in responsible finance performance, including advancing knowledge in this area. For example, MIF works with the Smart Campaign, accompanying assessors to learn about client protection indicators and ways in which a funder can hold MFIs accountable for meeting these standards. Additionally, "Microscope" helps MIF track 12 topics such as savings and mobile banking accounts, as well as how policy advances contribute to increased access. Finally, MIF recognizes the power of the MIX data base to track a standard set of microfinance retail level performance indicators and works to fully integrate MIX's Premium services into MIF's data base. However, plans have not yet yielded results, leaving room for improvement in tracking MFI performance in a systematic way.
- **Performance-based Agreements (4.1/5.0).** The MIF has made solid progress in supporting performance-based agreements. It has a nuanced method for selecting performance indicators for inclusion, ones which clearly contribute toward a project's theory of change. Tracking achievements against milestones is also facilitated by an automatic notification of non-compliance. The web-enabled Loan Management System (WLMS) – in charge of disbursement of financial resources— checks against the MIF system in charge of registering achievement of milestones. When milestones are not achieved, the system automatically blocks further disbursements, calling staff attention to further measures that may be necessary. The MIF's Agreements include specific clauses related to the indicators, minimum performance thresholds and the targets to be achieved. Agreements clearly stipulate MIF's response to

a partner's non-compliance. The MIF has also demonstrated that it enforces non-compliance measures in practice, such as stopping disbursement and requiring measures to develop work plans to achieve milestones. However, it is not clear whether the same rigor is applied to all grant agreements. Additionally, MIF is working with the Smart Campaign to better understand the implications of the client protection principles, before including these principles in its operations. Overall, the improvements in the usage of performance-based elements are notable in MIF's agreements, even though they rely on sanctions, instead of incentives to achieve targets.

- **Portfolio Reviews (3.5/5.0).** MIF conducts yearly reviews of its portfolio, which are presented in the Development Effectiveness Report. The review encompasses the range of MIF activities and is not solely focused on microfinance. MIF periodically presents consolidated reports on its investment portfolio to its donor committee, which includes its microfinance operations and potential exit strategies. In addition, MIF's microfinance operations have benefited from thorough evaluations by the Inter-American Development Bank's Evaluation Office. All of these activities combined reflect on project experiences and lessons, helping to fine tune and adjust MIF's intervention strategies. Yet, portfolio reviews is an area which could be strengthened. This year, MIF reviewed the entire ATF portfolio and its investments in MIVs, with a special focus on microfinance. The MIV report examines MIVs world-wide and compares MIVs in two countries with respect to "crowding in" private investors, additionality, and performance. In addition, MIF conducted a review of "Lessons Learned from TA Projects", which provides rich data to inform operations. In light of these recent efforts, MIF's score increased by 0.7 on this indicator since SmartAid 2009.
- **Knowledge Management (4.5/5.0).** MIF substantially improved its knowledge management systems, demonstrating commitment to being a learning organization. MIF's knowledge management reaches both internal stakeholders and the broader microfinance industry. A Knowledge and Strategic Communications Unit (KSC) was established which engages and coordinates knowledge management within the ATF unit. KSC uses a state of the art system, targeting audiences and making use of audiovisual materials, as well as a variety of methods and venues, such as blogs, newsletters, active intranet, twitter, YouTube, and Facebook. "How to Guides" are presented in attractive formats, encouraging self-learning. In addition, MIF demonstrates leadership in supporting initiatives such as Microscope, FOROMIC and publications, such as Microfinance Americas: The Top 100 or Microfinance Trends, which have gained legendary status in LAC. MIF's performance on knowledge management increased by 1.3 points since SmartAid 2009, one of the highest increases in the SmartAid round.
- **Appropriate Instruments (4.5/5.0).** MIF has a wide range of instruments available to support its ATF market building strategy, including equity, debt and grants. Grants are used astutely to support market building efforts, such as policy dialogue and learning exchanges among stakeholders. The increase in the share of equity investments, accounting for 62 percent of the portfolio in 2011, supports MIF's strategy to ensure additionality and push the frontier. The MIF is a pioneer supporter of local currency funds in LAC. While MIF's direct lending in local currency is limited, MIF invests in local currency funds with equity and debt, and plans to support more of these efforts in the future. Moreover, a wide range of delivery channels are used, such as direct equity investments, and wholesale facilities, such as funds and MIVs. Finally, even though exits have slowed within the past two years, MIF's noteworthy practice of determining an exit strategy at the time of investment and taking exits seriously and responsibly, serves as a model to other DFIs.

Recommendations

As noted in the 2011 SmartAid review, MIF still represents the “best in class”. The advances made by MIF since 2011 are impressive, showing a commitment at the highest levels, strong execution on the ground and astute design of operational systems. MIF has clearly benefited from the past three year’s experience in implementing the ATF agenda strategy, with a focus on refining systems and ensuring staff have the tools and knowledge to support new directions. These combined efforts show a unified approach, bringing harmony to strategy, capacity building, knowledge management and quality assurance. The SmartAid Review supports these accomplishments and encourages MIF to continue its momentum and share its stellar work in market building with other funding agencies.

The following suggestions emerge from the SmartAid review:

- **Reconsider how well the manual consolidation of indicators works** to ensure microfinance components in non ATF agenda items are identified. Manual tracking systems are subject to error and omission, regardless of the care taken. Financial components in non-financial projects also have a tendency to become orphaned, as they are neither a primary objective of projects to which they belong, nor are they a part of a wider financial services agenda. MIF should continue to monitor carefully microfinance components in other projects by leveraging the experience of other innovative areas, such as MIF’s experience with the adaptation and mitigation to climate change agendas.
- **Continue to advance work on performance indicators.** MIF should finalize how standard microfinance performance indicators will be tracked. If MIF decides to use the Mix Gold platform, a consolidated microfinance portfolio review will be forthcoming, but if not, the current MIF system should be expanded to include microfinance, as otherwise some of the basics could be lost in the process. Indicators should also be incorporated into other performance-based agreements, in addition to grant agreements. Already, ATF performance indicators reach beyond the retail institutional level, and are impressive in that respect. But MIF can and should continue to push the envelope to explore meaningful indicators for financial infrastructure and policy level initiatives as part of the ATF agenda. MIF has already accomplished a great deal in this area, and is in an excellent position to expand its own and the industry’s thinking about useful indicators to support a market building approach.
- **Refine performance based agreements and continue industry discussions about accountability measures.** First, ensure that conditions and sanctions are more explicit for loans. While the term sheet follows a standard template, the PBA process could benefit by developing a manual for setting targets or conditions for loans as part of MIF’s impressive toolkits available to staff. Second, explore how incentives to achieve milestones may be used, in addition to sanctions. Finally, continue the dialogue with the Smart Campaign to test client protection principles (CPP) indicators with the ultimate aim of using them as responsible performance thresholds in performance based agreements.
- **Expand horizons for portfolio reviews.** MIF has a distinct advantage in producing research to benefit future ATF operations, and the industry at large. MIF could focus portfolio reviews on

specific topics that are crucial to achieving ATF results across all projects and types of instruments. This can contribute to learning about implementation and market level impact using different instruments with a variety of institutional partners. Secondly, identify topics within the ATF framework, and thoroughly mine advances in innovation in market building for financial inclusion, consistent with MIF's focus on being a learning laboratory.

- **Monitor uptake of knowledge events and knowledge projects.** The new knowledge management strategy is showing results in a variety of areas. Going forward, MIF should monitor staff uptake of knowledge events and tools to serve institutional priorities. In addition, MIF should undertake a user survey of the different KM products among networks to see whether partners know about the different tools and how they use them.
- **Review the complementarities of loans, equity and technical cooperation.** Given MIF's depth of topic approach, it could leverage the experience gained to date to engage in more dialogue with DFIs and funders drawing lessons from its experience with equity and its governance role. As MIF's portfolio shows a shift from debt to equity, such lessons would be valuable contributions to MIF's future strategic directions and contribute to the industry at large.

Methodology

SmartAid distills learning from over eleven 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.

The nine indicators used in the SmartAid Index were selected and refined over the course of a pilot round in 2007, an external evaluation, consultation with experts and the first round of the Index in 2009. For the 2011 round two of the indicators were further refined to remove redundancy, however the indicators remain consistent in nature and scores are comparable across the 2009-2013 rounds. The scores of the 2007 pilot round are not comparable.

The nine 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 financial inclusion. 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. Medians as well as minimum and maximum scores shown in the graph in the Key Findings section represent the scores of all participants of the 2009-2013 SmartAid rounds. For agencies participating in more than one round, only their latest score is included in the medians.

Naturally, a margin of error is unavoidable in this type 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.

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

| SmartAid Index Indicators | | | |
|-----------------------------------|----------|--|-------------------|
| Strategic Clarity | 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 points |
| Staff Capacity | 2 | Funder has quality assurance systems in place to support microfinance projects and investments. | 10 points |
| | 3 | Funder has the staff capacity required to deliver on its microfinance strategy. | 15 points |
| Accountability for Results | 4 | Funder has a system in place that identifies all microfinance projects and components. | 10 points |
| | 5 | Funder monitors and analyzes performance indicators for microfinance projects and investments. | 10 points |
| | 6 | Funder incorporates performance-based elements in standard agreements with partners. | 10 points |
| | 7 | Funder regularly reviews the performance of its microfinance portfolio. | 10 points |
| Knowledge Management | 8 | Funder has systems and resources for active knowledge management for microfinance. | 10 points |
| Appropriate Instruments | 9 | Funder has appropriate instrument(s) to support the development of local financial markets. | 10 points |
| MAXIMUM SCORE | | | 100 points |

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.

Funders participating in SmartAid to date

Agencia Española de Cooperación Internacional para el Desarrollo (AECID), Agence Française de Développement (AFD), AFD/Proparco, African Development Bank (AfDB), Asian Development Bank (AsDB), Australian Agency for International Development (AusAID), Canadian International Development Agency (CIDA), European Commission (EC), European Investment Fund (EIF), European Investment Bank (EIB), FMO, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), International Fund for Agricultural Development (IFAD), KfW Entwicklungsbank (KfW), International Finance Corporation (IFC), International Labour Organization (ILO), Multilateral Investment Fund (MIF), Swedish International Development Cooperation Agency (Sida), Swiss Agency for Development and Cooperation (SDC), United Nations Capital Development Fund (UNCDF)

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