

# Getting Smart about Financial Inclusion: Lessons from the SmartAid Index

Indices are frequently used to motivate behavior—think of the World Bank’s Doing Business reports or the United Nations Development Programme’s (UNDP’s) Human Development Index. By measuring and benchmarking how countries perform on specific policy objectives, indices aim to influence decision-making and create competition to catalyze reforms. In the same spirit, the SmartAid Index was launched by CGAP in 2007 to measure and improve the effectiveness of funders in supporting financial inclusion. The Index focuses on funders’ internal management systems, building on the simple premise that better management systems lead to better projects. Eight years after SmartAid was launched and with 20 funders participating over those years, what lessons can be drawn both on the use of indices to motivate behavior change and the effectiveness of funders in financial inclusion? Has the Index triggered change? What has driven this change? This Focus Note reflects on these questions and also looks at upcoming challenges for funders in light of evolutions in financial inclusion and the broader aid architecture.<sup>1</sup>

## Racing to the Top: Using an Index to Change Practices

Indices of all types draw on the power of scores to focus attention and drive behavior. Like grades in school, these scores can lead to both positive and negative responses. On the positive side, indices help summarize a complex set of variables into something that is measurable, manageable, and comparable. For those motivated by competition, indices drive their efforts to improve performance and excel. Indices also enable benchmarking and comparison of performance to those of others and to an organization’s historical performance.

By focusing attention on a limited number of indicators, indices are purposefully biased toward the kind of behavior they want to influence. In that sense, they are not neutral; they make a value judgment on what “good performance” is. While this helps motivate behavior, there is always a risk that indices focus on the wrong things—since what matters cannot always be easily measured. Experts on indices<sup>2</sup> point out that there is a danger that indices focus too much on the things they are measuring and not enough on what we really care about (development outcomes). This can lead to perverse incentives, to spend more time on these things than they warrant, or simply fail to take into account the many unmeasured influences on outcomes. Because of this focus on a score and a limited number of indicators, innovation may be discouraged and listening to other sources of feedback, such as feedback from clients or beneficiaries, can become secondary.

In 2006 the heads of 29 development agencies committed to measure the quality of their support to access to finance. They gave CGAP a mandate to develop an index, recognizing the power of indices to benchmark performance, create incentives, and stimulate the debate about aid effectiveness within their institutions.<sup>3</sup> Many years of in-depth research on what makes a funder effective in supporting financial inclusion provided a solid basis for developing an index that would focus on what really matters. Through peer reviews conducted among 17 funders from 2002 to 2004, five elements of effectiveness were identified that most influence how well a funder works in financial inclusion. Those five elements—strategic clarity, staff capacity, accountability for results, knowledge management, and appropriate instruments—were then translated into a set of well-defined indicators that constitute

1 This paper distills learning from CGAP’s work on aid effectiveness from 2007 to 2014 and relies on various sources described in Annex 3.  
 2 For example, Owen Barder from the Center for Global Development (CGD), interviewed in September 2010. CGD developed the Commitment to Development Index (CDI) and was one of CGAP’s thought partners in developing the SmartAid Index.  
 3 Twenty-nine heads of development agencies signed the “Compact for Better Aid for Access to Finance” at the Better Aid for Access to Finance High Level Meeting in Paris, France, 2006. The Compact states their collective commitment to improve effectiveness, transparency, and mutual accountability, and expresses their engagement in refining and piloting an index. The four specific commitments adopted with the Compact are (1) measure the quality of aid management, (2) implement the good practice guidelines for funders of microfinance, (3) improve field-level coordination, and (4) partner with the private sector.

the SmartAid Index.<sup>4</sup> Moving from a purely qualitative approach, such as peer reviews, to an index based on quantifiable indicators introduced a sense of competitiveness among funders and also increased the analytical rigor of the assessments. After the pilot round of SmartAid in 2007, the set of indicators was significantly streamlined to improve efficiency and relevance of the Index. In the following three rounds (2009, 2011, and 2013) the set of indicators has proven relevant and, according to feedback from participating funders, gives an accurate picture of a funder's overall institutional effectiveness.

Contrary to project evaluations that look at the performance of specific interventions a funder supports in the field, SmartAid focuses on funders' internal management systems, a deliberate choice since SmartAid aims at behavior change at the institutional level (see Figure 1). As such, SmartAid does not replace and is complementary to other types of evaluations, such as project evaluations, portfolio reviews,<sup>5</sup> and impact evaluations.<sup>6</sup>

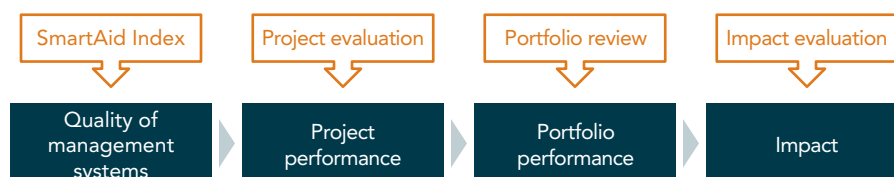
The SmartAid Index relies on evidence provided by the funder, which is then reviewed by an independent board that assigns a score to each indicator. The review board comprises four independent financial inclusion experts who have extensive experience working with funders. Participating funders receive a concise report that describes the main strengths and weaknesses and provides recommendations

for improvement. Most funders also organize a debriefing meeting with CGAP to discuss the findings and develop an action plan to implement the recommendations.

SmartAid is first and foremost a learning tool that draws on the power of numbers and rankings to motivate and support a process of internal change. SmartAid assesses and ranks institutions that willingly participate and relies on confidential information that is provided by participating institutions to analyze their internal systems. While transparency is encouraged, funders can choose to publish their results or not. This approach differentiates SmartAid from most other indices used to measure aid effectiveness (see Table 1); these typically use publicly available data to rank performance of actors and make the results public.<sup>7</sup>

The voluntary nature of SmartAid also has its limitations, as not all institutions that would benefit from the exercise participate in it. An aid institution's funding source seems to affect its willingness to subject itself voluntarily to an external evaluation of this nature. Donor agencies that fundraise periodically from member countries/organizations seem to be more driven to prove their effectiveness. Bilateral agencies that rely on a political process of lobbying for their funding are more concerned with the changing political priorities of their governments. Thus we see a trend of multilateral funders being more likely to participate in assessments such as

**Figure 1. Spectrum of evaluations serving different goals**



<sup>4</sup> For further information about the five elements of effectiveness and the SmartAid indicators, see Annex 1 or consult El-Zoghbi, Javoy, and Scola (2014).

<sup>5</sup> See Scola-Gähwiler and Nègre (2012).

<sup>6</sup> See El-Zoghbi and Martinez (2011).

<sup>7</sup> For example, CDI ranks 27 donor countries according to their performance on seven policy priorities, including areas such as the quantity and quality of foreign aid, policies that encourage investment and financial transparency, and openness to migration. The Index makes the point that development is not just what happens with aid dollars, but is influenced by many other policy issues such as migration, trade, and environmental decisions.

**Table 1. List of major aid effectiveness indices**

Index	Initiator	Focus	Type of data used	Frequency
Quality of Official Development Assistance (QuODA) assessment	Brookings Institution and Center for Global Development (CGD)	Assesses 23 donor countries and over 100 aid agencies on four dimensions related to the Paris Declaration on Aid Effectiveness	Survey on monitoring the Paris Declaration on Aid Effectiveness and additional sources	Annual (since 2009)
Commitment to Development Index (CDI)	CGD	Ranks 27 rich countries in 7 policy areas related to development	Official sources and academic research	Annual (since 2003)
Best and Worst of Aid Agency Practices	William Easterly and Claudia R. Williamson, Development Research Institute at New York University	Rating of bilateral, multilateral, and United Nations aid agencies in terms of transparency, specialization, selectivity, ineffective aid channels, and overhead costs	OECD Development Assistance Committee database and data reported by donors	One-off (2011)
Aid Transparency Index	Publish What You Fund	Ranks donors on how transparent they are; 67 participants in last round	Public data complemented with survey	Annual (since 2011)

SmartAid and to strive to improve their performance over time.

## Change Happens

### *Lessons from the International Fund for Agricultural Development (IFAD)*

When the rural finance team at IFAD, a specialized UN agency working to improve the lives of poor people in rural areas, decided to participate in SmartAid in 2009, it knew it wasn't going to be an easy exercise. Managing change processes in an organization where decision power is highly decentralized and the technical advisory division has only limited influence on project implementation is akin to coaching a football team from the stands. One staff member remembers that it felt "scary opening yourself up and exposing everything you are doing even if you know, not everything is perfect."

IFAD had updated its rural finance policy in 2008 and therefore scored well on strategic clarity. However, the new policy had not yet been fully operationalized, and the rural finance team saw SmartAid as an opportunity to help it translate words into action. Following the SmartAid assessment, IFAD developed its operational guidelines, known as the IFAD Decision Tools for Rural Finance, and a number of other practical tools that translated the policy into key principles and practices at every step of the project cycle, such as Technical Notes, Lessons Learned, and "How to do Notes," providing in-depth guidance on specific rural finance topics. Having scored low on staff capacity, IFAD decided to invest heavily in capacity building efforts for staff. Based on a needs assessment, the team designed and delivered a targeted offer of in-house training involving its five regional divisions and the Human Resource Department. IFAD also worked with the Microfinance Information Exchange (MIX)<sup>8</sup> to develop an online course for staff on financial and

<sup>8</sup> MIX is a nonprofit organization promoting responsible financial services for underserved communities through data analytics and market insight. For further information see [www.themix.org](http://www.themix.org).

social monitoring and strengthened its partnerships with regional microfinance networks and service providers. These combined efforts show a cohesive approach to bringing harmony to strategy, capacity building, knowledge management, and quality assurance.

The reform that probably had the most significant impact on projects was the introduction of quality enhancement reviews and technical support early in the project cycle. This required IFAD's rural finance experts to be involved in project design and play a stronger role in project supervision. According to IFAD and evidenced by the documents it submitted for the 2013 round of SmartAid, all these measures combined resulted in a drastic reduction of market-distorting subsidized lending and generally low-performing and unsustainable credit components within multi-sector programs. It helped IFAD to take a more systemic approach to financial sector development and to promote a wider range of financial institutions that increase long-term access to diverse financial services for the rural poor. And from the perspective of IFAD's rural finance team, transparency was rewarded. SmartAid has led to an increased agency wide commitment to IFAD's role in rural finance and strengthened the importance of rural finance within the organization's diverse portfolio.

#### ***Lessons from the United Nations Capital Development Fund (UNCDF)***

According to UNCDF, the UN's capital investment agency for the world's 48 least developed countries, SmartAid has become part and parcel of who it is and what it does. Having participated in all four rounds of the SmartAid Index since 2007 and having reached the label "very good" for its internal systems in 2011, is there still something UNCDF can learn from SmartAid? According to the staff of UNCDF's Financial Inclusion Practice Area, permanent learning is UNCDF's daily business. And indeed, UNCDF is not resting on its laurels; it is taking the recommendations

from SmartAid very seriously. The SmartAid results are discussed at the annual staff retreat, and an action plan is prepared to implement the recommendations. Over the past years, this continuous change process has resulted in significant improvements. Staff have been recruited and trained to fill gaps at the technical level, but also to strengthen internal knowledge management following an agency wide knowledge management strategy. Based on the results of evaluations and a thorough portfolio review, UNCDF has refocused its strategy around an ambitious market development approach that is very much in line with UNCDF's comparative advantage and its local presence in 28 least developed countries.

UNCDF's high-performance culture is also reflected in its relationships with partners, thus showing how doing business differently can lead to improved results on the ground. Over the years, UNCDF has tested and refined the use of standard performance-based agreements<sup>9</sup> not only with financial service providers (FSPs), but also with support networks and central banks. Performance-based agreements are used to set clear targets and to ensure results are on track, and, if not, trigger enforcement mechanisms. To monitor performance, UNCDF requires all FSPs to report to MIX and uses MIX Business Solutions to analyze performance across the entire portfolio. Standardized processes and templates, which can easily be tailored for each partner institution led to rapid clearances (2–3 days) of new contracts. The policy of clearly signaling that agreements will be suspended in case of nonperformance and actually enforcing sanctions showed results. Seventy percent of FSPs in UNCDF's portfolio met performance targets, while 21 percent of FSPs did not meet minimum performance thresholds, triggering a temporary suspension of funding. In some cases (5 percent of FSPs in the portfolio), a waiver was given and funding continued, and in only a few cases (4 percent of FSPs in the portfolio) nonperformance persisted and led to termination of the agreement.

---

9 See El-Zoghbi, Glisovic-Mezieres, and Latortue (2010).

### Lessons from all participating funders

The examples cited describe only a few among many smaller and bigger steps taken by funders toward greater effectiveness in supporting financial inclusion. For many funders, developing or updating a financial inclusion strategy is often the natural starting point to improve effectiveness. Operationalizing a new strategy requires action at many different levels and represents a large coordination effort. Since SmartAid was launched, funders have made significant investments toward becoming learning organizations, where lessons from projects are effectively captured, made accessible to staff, and help refine future strategic directions. However, only a few institutions fully integrated a learning agenda into their accountability systems. Most often, accountability systems are designed from a controller's perspective and tailored to prove that taxpayers' money isn't wasted, rather than feed learning into new project design or updating of strategies.

If we analyze broader trends across all participants, we see significant improvements in total scores over time. This is very evident for the agencies that have conducted SmartAid on multiple occasions (see Figure 2). Scores on individual indicators mostly also increased over time. However, some agencies scored lower on individual indicators, usually in cases where an agency's systems did not keep up with the evolution of the portfolio or external trends. While it is impossible to know whether SmartAid was the cause of progress over time, feedback from SmartAid participants and the fact that agencies participate

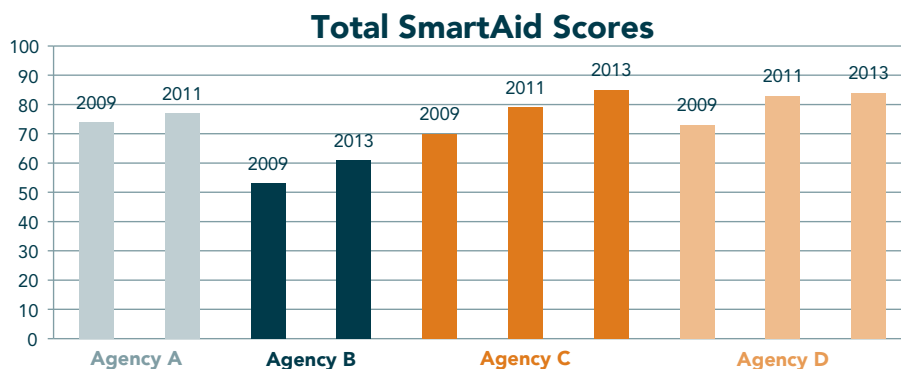
more than once, suggest that the Index did indeed stimulate or accelerate change.

### Drivers of Change

While change happens at different speeds in different organizations, there are some common trends across SmartAid participants as to why and how change happens.

**Leadership of internal champions is crucial for institutional change.** Institutions that have successfully used SmartAid to improve their effectiveness tend to have strong internal champions. Participation in SmartAid is based on an organizational commitment; however, the individuals initiating and managing the process are critical for its usefulness and for ensuring that action is taken as a result of the assessment. Typically, the process is driven by the financial inclusion focal point, one or more technical experts responsible for knowledge management and technical advice on financial inclusion within an organization. Designating a financial inclusion focal point was a common recommendation of the peer reviews, the predecessor process of the SmartAid Index. As one focal point noted from the 2009 round, "SmartAid presented us with a nice opportunity to bring the topic of financial systems development to the top of the agenda, and to the minds of our management, so now there is a higher level of expectation, and we have to continue to improve and meet these expectations."

Figure 2. Evolution of scores for repeating agencies



Consequently, most of the organizations participating in SmartAid had a financial inclusion focal point. However, not all focal points had a strong internal standing within the organization. In addition to individual leadership, the responsibilities assigned to focal points determine their influence. For example, focal points play a stronger role in agencies that oblige project managers to take into account the focal point's technical inputs in project design. When technical reviews by focal points are purely voluntary, with no requirement that their opinion is sought or their feedback addressed, the role of the focal point is weakened in relation to program or country staff. Additionally, when organizations require the focal point's input only at the final stages of project approval, this also greatly diminishes their role and influence in the organization. Organizations that integrate the focal point review earlier in project design, requiring technical comments to be addressed by program staff, benefit more systematically from technical reviews of their projects and increase technical know-how throughout the organization.

**Top management commitment counts.** Participation in the SmartAid Index is open to all funders of financial inclusion that are committed to improving their effectiveness. An explicit expression of commitment from top management, evidenced by the signature of the Compact for Better Aid for Access to Finance and a letter confirming the agency's participation in SmartAid, has proven critical to the usefulness of the Index and its likelihood to lead to internal change. This requirement engages top management from the start, creating a strong incentive for staff to dedicate the necessary resources to the process and to share the results, at least internally. In the few cases where organizations abandoned SmartAid midway or didn't approve the final report, management had not been involved in the decision to participate in SmartAid.

Even more importantly than stimulating management's commitment to effectiveness upfront, SmartAid draws their attention to priority areas

for improvement. The SmartAid report highlights key strengths and areas for improvement and presents concrete recommendations. An external, independent review by recognized experts helped put financial inclusion related issues on agency management's agenda and triggered concrete actions. As one executive director of a participating agency noted, "I think the fact that it's done by an external body (CGAP) that has legitimacy is a key thing. As a manager you may know where weak spots are but having some transparent and external review just inherently strengthens your hand." It also drew attention to weaknesses in internal systems common to many funders and therefore easily ignored by staff and management. In particular, results management systems were weak in most participating agencies, and after their participation in SmartAid, many invested significantly in improving results tracking and management systems. In that sense, SmartAid helped to raise the bar on what is expected, and what can be done, to support financial inclusion effectively.

Management commitment proved to be particularly important at institutions that scored low in SmartAid. Low scores can be demotivating. And if nobody cares at the top, there is not much to gain by mid-level management and technical staff investing time in conducting a SmartAid assessment and advocating for cumbersome reforms. Not surprisingly, several "low performers" have not repeated SmartAid. But in institutions with committed management teams, even those with low SmartAid performance ratings experienced some positive change as a result of the Index. For example, in one agency there was an internal dialogue on why financial inclusion was not receiving the kind of attention management thought it deserved. This was followed by the creation of a task force and a much deeper internal review to explore the topic further. Another agency conducted a portfolio review and as a result has refocused its strategy.

**Learning from peers and colleagues matters.** Ranking funders does not only serve the purpose of creating competition, it also shows which organizations do best in specific areas of effectiveness.

Many examples of exchange between SmartAid participants confirm this type of peer learning taking place. Besides learning events organized by CGAP, SmartAid participants exchanged with peers on areas such as knowledge management and conducting portfolio reviews. For example, UNCDF invited the German development agency, Gesellschaft für Internationale Zusammenarbeit (GIZ), the top performer on knowledge management, to participate in its knowledge management strategy development process. Several agencies contacted the French development agency Agence Française de Développement (AFD) to learn how to conduct a portfolio review. IFAD consulted UNCDF to discuss lessons and techniques to inform plans to develop a system for performance-based agreements.

Beyond peer learning, participating in SmartAid provided opportunities for internal learning. In many institutions, multiple departments or operational units design, manage, or evaluate financial inclusion projects. In addition legal, risk management, and procurement departments are involved in projects. In many cases SmartAid highlighted that there was no common understanding of good practices in financial inclusion across departments and provided opportunities for interdepartmental exchange within the funding agency. Higher-performing funding agencies require all departments to participate in financial inclusion knowledge management and learning events.

### Keeping up with the Times

Drivers of change, such as the ones discussed above, determine whether and at what speed organizational change happens and, ultimately, whether organizations are able to anticipate or adapt to a continuously evolving environment. Organizations must continue to evolve and integrate learning into their projects and portfolios to add value in the markets where they work, or to even stay relevant at all. SmartAid has served as an important tool for funders of financial inclusion to evolve over time and to respond to market changes. But the pace of change may leave even the best of them struggling to catch up.

#### Box 1. Do Better Management Systems Lead to Better Projects?

The question most asked about the SmartAid Index is whether better management systems actually lead to improvements in projects on the ground. This is also the most difficult question to answer. SmartAid focuses on internal systems and does not capture the performance of funders' financial inclusion projects on the ground. Some indication can be drawn from comparing SmartAid scores with results from portfolio reviews, which assess project performance throughout a funder's financial inclusion portfolio (see Scola-Gähwiler and Nègre [2012]). However, there is a caveat to this approach. Portfolio reviews use scoring systems developed for each institution, and there is no standard across all funders, making it difficult to compare performance across different funders. Given that only four funders (EIB, AfDB, UNCDF, and AFD) have undertaken portfolio reviews following a similar methodology since 2007, the sample is insufficient to draw any general conclusions at this stage.

However, there is emerging evidence, when comparing results from SmartAid and the portfolio reviews, showing a correlation between the quality of management systems and project performance. But, agencies that perform highest in SmartAid do not necessarily have consistently high-performing projects on the ground. Likewise, some of the poorly performing SmartAid agencies can still manage to have some good projects on the ground. For example, one of the agencies that scored below average has several investments in very strong banks and microfinance institutions that reach out to rural areas or that integrate new products. These investments were made from the private sector arm, one of the departments that integrated good practices in its operational systems. The majority of the other investments in the portfolio is channeled by the rest of the agency as loans to government or national apexes, with fairly weak performance overall. Often these kinds of differences are a result of staffing, country context, and partner selection at the project level; highlighting that other factors, not just the quality of management systems, contribute to project performance.

On a qualitative level, portfolio reviews often point out similar strengths and weaknesses as SmartAid. Both SmartAid and portfolio reviews conclude that many funders have weak accountability systems. Funders consistently score lowest on three of the four indicators related to accountability for results in SmartAid.

How does the turtle compete with the hare? By being smarter, not faster. The entire aid industry and the architecture that defines it are rapidly changing. Aid flows are a much less powerful instrument through which OECD countries can wield influence in the developing world. Private capital flows, in particular remittances, now far outstrip official development assistance. New players are redefining global priorities. Countries such as China and the Gulf Cooperation Council countries are using their wealth—private investment as well as aid flows—to set the tone for aid and trade.

At the same time, OECD countries are still reeling from the effects of the 2008 financial crisis. Most countries continue to cut their aid budgets, putting severe strains on how donor agencies can operate. Budget cuts have meant fewer staff managing larger projects. Even when budgets are not the binding constraint, the watchful eyes of parliaments and the media provide little room for maneuverability. Everyone is looking to see results, and fast.

Funders supporting financial inclusion have to shift from funding microfinance institutions to supporting broader market development, as microfinance institutions now attract private investments and technology enables the emergence of new business models for the delivery of financial services, many of which are mainly driven by the private sector. This requires more and more specialized technical expertise and working with an increasing number and diversity of actors.

The broader changes in the aid industry, coupled with the trends in financial inclusion, require funders to reflect on how they can add value, often in technical areas they historically know little about. The SmartAid experience points to several important lessons that can help funders be better prepared for a fast changing environment:

- **Need to refresh strategy to reflect drivers of financial access.** While many funders have financial sector strategies, private sector strategies, or even microfinance strategies, the pace of change in the financial inclusion field and the drivers that

are propelling it forward may not be sufficiently integrated. Even the top-performing SmartAid agencies can see their strategic relevance erode if they do not refresh their strategies regularly. From the agencies participating in SmartAid, we see that those that update their strategies every four or five years are more likely to stay relevant.

One of the most important considerations funders must integrate into their strategies is the role of the private sector in advancing financial inclusion and how limited aid can effectively leverage private resources. While policy makers and others also play important roles in advancing financial inclusion, much of the change is emanating from technological advances used by the private sector. Thus donors working in this space need to have a clear understanding of how their work leverages or influences the private sector. The European Commission (EC), for example, recently took a serious look at its private sector framework, which involved consultation with many actors (nongovernment organizations, bilateral governments, multi-lateral institutions, academics, think tanks, etc.). This process has helped the EC define and articulate, both internally as well as to the outside world, how its work will incorporate the private sector.

- **There is no substitute for technical competence: invest in it internally or leverage it through partners.** Despite budget cuts, the shrinking number of staff, and larger project sizes, financial inclusion is becoming increasingly technical and is not well-served with money alone. Funders contributing to financial inclusion projects increasingly need technical know-how to identify the right partners and provide the value added that partners need. This has significant implications for how funders operate. Funders need to decide if they will build their own technical competence or if they will partner with those that already have it. If they choose the former, they need to hire the right staff and put in place the funding mechanisms that allow them to make investments and grants that are large enough to have value but small enough to meet the needs of the types of players operating in the financial inclusion ecosystem. If they choose



the latter, they need to have the sufficient capacity to select the right partners but they must also cede control and let their partners sit in the driver's seat.

- **Measure, learn, and do.** The cycle for learning must get faster and better. Funders can no longer accept inadequate monitoring and evaluation systems that are disconnected from project design and staff development. Systems need to go beyond measuring project results to assessing whether a funder's interventions contribute to market development. Funders must continue to learn from their projects and must integrate this learning regularly into their strategies and the design of new projects. Only when these learning loops are working will we see the full benefits of aid. Beyond internal monitoring and evaluation systems, we must also work collectively to better communicate what it means to be effective and how this is measured.

In a nutshell, organizational change is not always easy for funders to address, but neither is it impossible. Funding agencies have the means to make the changes that matter—years of assessment through SmartAid have shown this. The need to continue on this path of renewal is the only thing that remains constant.

*SmartAid remains available as a tool for funders that want to improve their effectiveness in financial inclusion. The SmartAid Index Technical Guide provides a detailed description of the methodology and process. Interested funders can register at [www.cgap.org/about/programs/smart-aid](http://www.cgap.org/about/programs/smart-aid).*

## References

Birdsall, Nancy, Homi Kharas, and Rita Perakis. 2012. "The Quality of Official Development Assistance Assessment 2009: Is Aid Quality Improving?" Washington, D.C.: Brookings and Center for Global Development.

CGD (Center for Global Development). 2013. "Commitment to Development Index 2013." <http://www.cgdev.org/sites/default/files/CDI2013/cdi-brief-2013.html>.

Easterly, William, and Claudia R. Williamson. 2011. "Rhetoric versus Reality: The Best and Worst of Aid Agency Practices." New York: New York University.

El-Zoghbi, Mayada, and Meritxell Martinez. 2011. "Measuring Changes in Client Lives through Microfinance." Brief. Washington, D.C.: CGAP.

El-Zoghbi, Mayada, Emmanuelle Javoy, and Barbara Scola. 2014. "SmartAid Index." Technical Guide. Washington, D.C.: CGAP.

El-Zoghbi, Mayada, Jasmina Glisovic-Mezieres, and Alexia Latortue. 2010. "Performance-based Agreements." Technical Guide. Washington, D.C.: CGAP.

Latortue, Alexia, Mayada El-Zoghbi, and Barbara Gähwiler. 2009. "Improving Effectiveness from Within: SmartAid for Microfinance Index." Brief. Washington, D.C.: CGAP.

Publish what you fund. (accessed 2014). "Aid Transparency Index." <http://www.publishwhatyoufund.org/index/>

Scola-Gähwiler, Barbara, and Alice Nègre. 2012. "Portfolio Reviews: Resource Guide for Funders." Technical Guide. Washington, D.C.: CGAP.

## Annex 1: SmartAid indicators

Depending on their performance, funders reach a score ranging from 0 (no systems in place) to 5 (good practice) for each indicator. Indicators account for either 10 or 15 points depending on their relevance for a funder's overall effectiveness in financial inclusion. This results in different weights for the five elements of effectiveness. Funders can reach a maximum of 100 points in the SmartAid Index.

Elements of Effectiveness	SmartAid Index Indicators		
Strategic Clarity	1	Funder has a policy and strategy that addresses financial inclusion, 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 financial inclusion projects and investments.	10 points
	3	Funder has the staff capacity required to deliver on its financial inclusion strategy.	15 points
Accountability for Results	4	Funder has a system in place that identifies all financial inclusion projects and components.	10 points
	5	Funder monitors and analyzes performance indicators for financial inclusion 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 financial inclusion portfolio.	10 points
Knowledge Management	8	Funder has systems and resources for active knowledge management for financial inclusion.	10 points
Appropriate Instruments	9	Funder has appropriate instrument(s) to support the development of local financial markets.	10 points
MAXIMUM SCORE			100 points

## Annex 2: List of participating funders 2007–2013

SmartAid round	New participants	Repeaters	Number
SmartAid 2007 (pilot round, scores are not comparable with other rounds)	<ul style="list-style-type: none"> <li>• Asian Development Bank (AsDB)</li> <li>• Canadian International Development Agency (CIDA)</li> <li>• FMO</li> <li>• Gesellschaft für Technische Zusammenarbeit (GTZ)</li> <li>• KfW Entwicklungsbank (KfW)</li> <li>• Swedish International Development Cooperation Agency (Sida)</li> <li>• UNCDF</li> </ul>		7
SmartAid 2009	<ul style="list-style-type: none"> <li>• Agencia Española de Cooperación Internacional para el Desarrollo (AECID)</li> <li>• AFD</li> <li>• African Development Bank (AfDB)</li> <li>• EC</li> <li>• IFAD</li> <li>• International Finance Corporation (IFC)</li> <li>• International Labour Organization (ILO)</li> <li>• Multilateral Investment Fund (MIF)</li> <li>• Swiss Development Cooperation (SDC)</li> </ul>	<ul style="list-style-type: none"> <li>• GTZ</li> <li>• UNCDF</li> </ul>	11
SmartAid 2011	<ul style="list-style-type: none"> <li>• Australian Agency for International Development (AusAID)</li> <li>• European Investment Bank (EIB)</li> </ul>	<ul style="list-style-type: none"> <li>• GIZ (former GTZ)</li> <li>• KfW</li> <li>• MIF</li> <li>• UNCDF</li> </ul>	6
SmartAid 2013	<ul style="list-style-type: none"> <li>• AFD Group (including AFD and Proparco)</li> <li>• European Investment Fund (EIF)</li> </ul>	<ul style="list-style-type: none"> <li>• IFAD</li> <li>• MIF</li> <li>• UNCDF</li> </ul>	5
Total number of assessments done			29
Total number of participants (unique count)			20

## Annex 3: Sources

This Focus Note is based on learning from CGAP's work on aid effectiveness from 2007 to 2014. This learning has been captured in multiple ways, including the following:

- Documents provided by 20 funders in four rounds of the SmartAid Index
- Feedback survey completed by participating funders after every round of the SmartAid Index
- In-depth semi-structured interviews with 11 funder staff
- An external evaluation conducted after the SmartAid pilot round in 2008
- Scores and comments from the Review Board on the performance of participating funders
- Feedback from the Review Board on the relevance of the SmartAid indicators and the process

- Discussions with senior management of participating funders collected during debriefing meetings on SmartAid
- Inputs and feedback from funders and aid effectiveness experts provided during two learning events (2011 and 2014)
- Feedback received during High Level Aid Effectiveness Events (Accra High Level Forum in 2008 and High Level Forum on Aid Effectiveness in Busan, 2011)
- Consultations and interviews with aid effectiveness experts: Owen Barder and David Roodman from the Center for Global Development, Homi Kharas from the Brookings Institution, and Elisabeth Sandor and Brenda Killen from OECD/DAC
- Literature review on aid effectiveness and indices

Please share this Focus Note with your colleagues or request extra copies of this paper or others in this series.

CGAP welcomes your comments on this paper.

All CGAP publications are available on the CGAP Web site at [www.cgap.org](http://www.cgap.org).

CGAP  
1818 H Street, NW  
MSN P3-300  
Washington, DC  
20433 USA

Tel: 202-473-9594  
Fax: 202-522-3744

Email:  
[cgap@worldbank.org](mailto:cgap@worldbank.org)  
© CGAP, 2014

The authors of this Focus Note are Mayada El-Zoghbi, senior financial sector specialist at CGAP and Barbara Scola, financial sector specialist at CGAP. The authors would like to acknowledge the many individuals who advised, conceptualized, participated in and supported the SmartAid Index including: Alexia Latortue, Tilman

Bruett, Claudia Huber, Richard Rosenberg, Heather Clark, Ruth Goodwin-Groen, Alice Negre, Kathryn Imboden, Lene Hansen, Klaus Maurer and Emmanuelle Javoy. Special thanks also go to the 20 participating agencies in SmartAid and, in particular, to IFAD and UNCDF for reviewing and contributing to this publication.

The suggested citation for this Focus Note is as follows:  
El-Zoghbi, Mayada, and Barbara Scola. 2014. "Getting Smart about Financial Inclusion: Lessons from the SmartAid Index." Focus Note 99. Washington, D.C.: CGAP.

