CGAP

SMARTAID INDEX 2013
UNITED NATIONS CAPITAL DEVELOPMENT FUND (UNCDF)

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Background

The SmartAid Index measures and rates the way funders with an interest in microfinance 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. As 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 accountable 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 an essential condition for achieving this goal. SmartAid does not, however, evaluate the quality of programs on the ground.

Five funders— 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/Proparco and EIF are both considered new participants because in prior rounds different units within the agencies participated.[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.

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

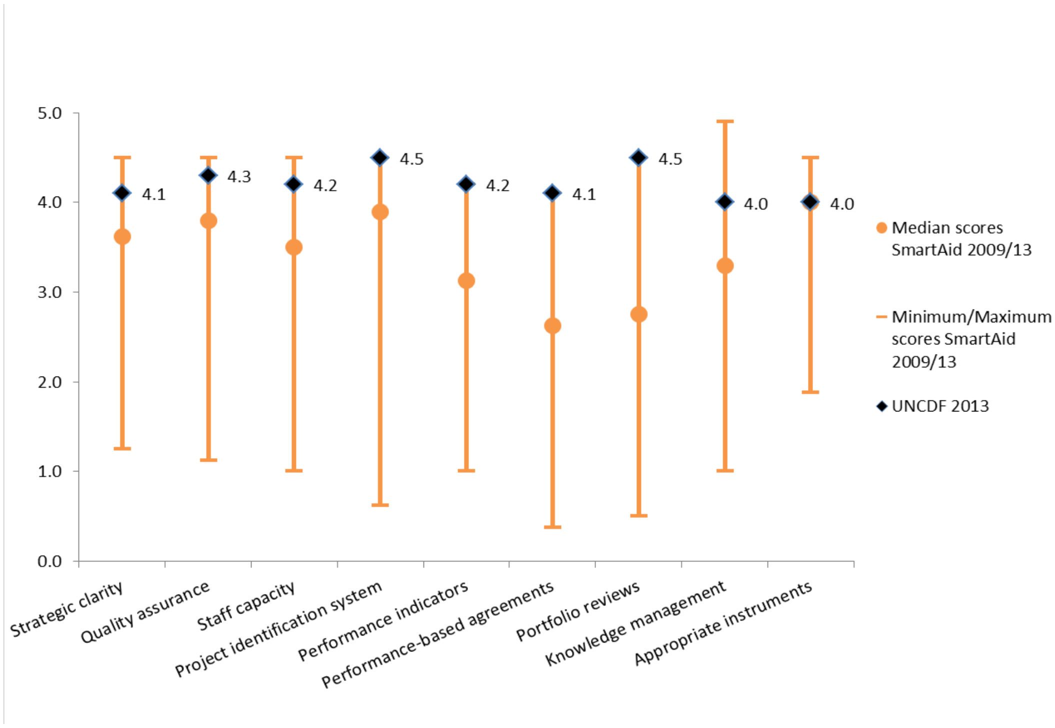
[2] In the case of AFD/Proparco, AFD participated in the 2009 round and the submission did not include Proparco. For EIF, two departments of the EIB Group's Directorate of Operations – Africa, Caribbean and Pacific region, and the Mediterranean region—participated in the 2011 round and did not include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

Key Findings

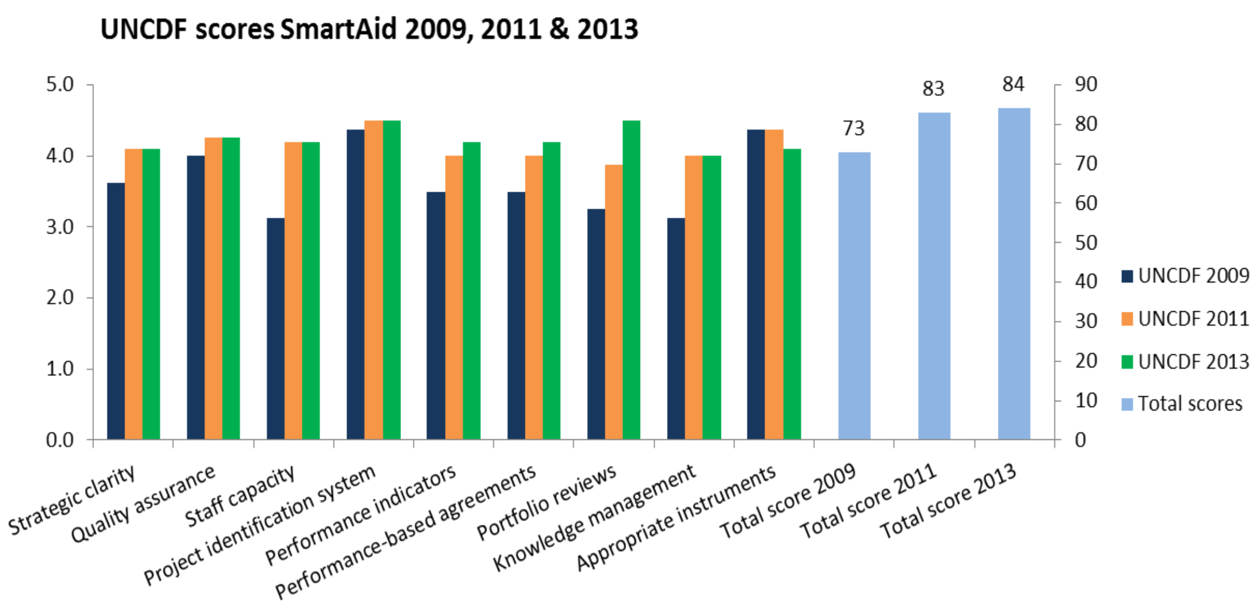
UNCDF received a score of 84 out of 100, meaning that overall it has “very good” systems in place to support microfinance. This represents an increase over UNCDF’s SmartAid 2011 score, demonstrating UNCDF’s commitment to continued high achievement. As the graph below indicates, UNCDF received a score of 4.0 or higher (on a scale from 0 to 5) on all nine indicators. UNCDF’s score on project identification system, performance indicators, performance-based agreements, and portfolio reviews (indicators 4, 5, 6, and 7) were the highest amongst all SmartAid participants to date, placing UNCDF in the top two of all agencies scored by SmartAid since its inception. The small increase in 2013 recognizes UNCDF’s efforts to improve in all areas, reflecting that some improvements were not commensurate with growth and the demands from increased complexity placed on the systems.

At a Glance	
Type of funder:	**Multilateral / UN Agency**
Microfinance portfolio (committed as of 12/12):	**$ 96 million**
Microfinance as % of total portfolio:	**45.5%**
Number of projects:	**26**
Primary level(s) of intervention:	**☑Retail ☑Infrastructure ☑Policy**
Primary instrument(s):	**Grants Concessionally-priced debt**
Primary source of funding:	**Public funds and Private-socially oriented funds.**

UNCDF provides investment capital and technical advisory services to support development in the least developed countries (LDCs). Established by the General Assembly in 1966 and with headquarters in New York, UNCDF is an autonomous UN organization affiliated with UNDP. UNCDF has remained concentrated on two distinct business lines: microfinance (the financial inclusion practice area, or FIPA) and local development. FIPA manages a country program portfolio and global thematic initiatives on the South-South expansion of microfinance institutions (MicroLead), financial services for youth (YouthStart) and, more recently, Mobile Money, Clean Energy and the Better Than Cash Alliance. UNCDF continues to count on strategic partnerships to expand its portfolio and develop new initiatives, e.g. on microinsurance with the ILO and on remittances with IFAD. Recent developments include the adoption of a revised results framework (in preparation for the portfolio review) and a Corporate Gender Strategy Framework that is consistent with FIPA’s client focused approach. UNCDF’s small size and well-conceived procedures provide it with the necessary agility to fulfill its mandate.



UNCDF has taken significant steps to implement recommendations from the SmartAid 2011 round including conducting a full portfolio review, expanding its staff, and strengthening its performance based elements in loan agreements. At the same time, UNCDF has continued to grow in complexity but has not yet sufficiently kept quality assurance and knowledge management functions in line with this growth.



Key Strengths and Weaknesses

- **Strategic Clarity (4.1/5.0).** UNCDF continues to build on its strong set of policies to support inclusive financial systems. Its strategy, which is endorsed by management, focuses on its role to provide catalytic capital and adding value. Its strategic guidelines and procedures are solid as it provides clear guidelines for staff. For instance, the guidelines on additionality that are applied as a check for each program buttress this point. An early leader in promoting an inclusive financial sector paradigm, UNCDF has embraced an ambitious market development approach. This has been strengthened by the development and pilot testing of its Making Financial Access Possible (MAP) diagnostic and implementation tool, which has considerable potential to significantly contribute to building inclusive financial markets, building synergies between UNCDF country programming and global thematic initiatives and contributing to UNCDF's value added. Additionally, the new Gender Policy contributed to greater strategic clarity, evidenced by changes to the Corporate Management Plan.

FIPA now works in 28 LDCs, having slightly expanded its geographic focus. Moreover, FIPA is a tight unit with the ability to control its strategic directions and its systems. Its global thematic initiatives are timely and evaluated for relevance to LDCs, the comparative advantage of FIPA, and capacity to implement. Despite strong strategic clarity within the FIPA team, there is a concern that insufficient flexible core resources may dampen momentum, disrupting the balance between meeting key priorities and the interests of funders. The multiplication of thematic initiatives over the past few years, each with dedicated funding, heightens the need for vigilance to ensure matching interests.

- **Quality Assurance (4.3/5.0).** UNCDF's quality assurance function is embedded in the job description of most, but not all, key staff. Even though the Chief Technical Advisors (CTAs) lead the sector work and thematic programs implemented in each country, they can also rely on thematic programme managers, regional office and headquarter staff for quality assurance. Moreover, the comments of technical specialists, which are binding, must be incorporated before the program document can be submitted for final approval to the Program Appraisal Committee. UNCDF's quality assurance function is strengthened by the use of Performance Based Agreements and review by CTAs, Regional Technical Advisors (RTAs), global thematic Programme Managers, and FIPA management. However, a combined decentralized and global quality assurance system presents the concern that ultimate oversight and responsibility remains somewhat fragmented. Furthermore, there is no specific methodology or guidelines to assess financial intermediaries that UNCDF supports, and the various staff responsible may not share the same level of understanding on the standards to apply for quality assurance during project review or monitoring.
- **Staff Capacity (4.2/5.0).** UNCDF has taken steps to strengthen its staff capacity by recruiting 17 new specialist staff, increasing the total FIPA staff to 50. The Headquarters team is also very strong, with 13 staff members focused on providing strategic and technical guidance. Nonetheless, given the rapid growth of new programs, staff may still be overstretched, particularly at the level of Country Technical Advisors. UNCDF has streamlined processes to recruit Country Technical Advisors (CTAs) in order to reduce the gap in time between program approval and staff deployments. Furthermore, with its simplified procurement policies, UNCDF can easily recruit external consultants. With learning considered to be an important dimension of human resource development, UNCDF can justifiably be called a "learning organization" given that training budgets are built into program budgets at all levels.
- **Project identification System (4.5/5.0).** UNCDF has a strong system to identify all stand-alone microfinance projects. With the use of the Atlas system, UNCDF can automatically generate a list of its entire microfinance portfolio at any time. This practice strengthens quality assurance. However there is no mechanism to capture the amount of grant funding requested by FSPs to finance loan portfolios, requiring additional staff oversight. Beyond its own system, the role of FIPA in the project appraisal and monitoring process is embedded in UNCDF's operations manual. As a result, FIPA is involved in any

financial services component within the Local Development practice area. There are no financial intermediation components in the local development operations at this time.

- **Performance Indicators (4.2/5.0).** Through its partnership with the MIX in 2011 - 2012, UNCDF made significant efforts to upgrade monitoring systems and analysis of performance indicators, providing real-time data to access, track and monitor the portfolio. As a result, the score on this indicator increased by 0.2 points since SmartAid 2011. The MIX Gold upgrade introduced a new set of indicators with quarterly reporting and migrated data on 89 FSPs from the old system (Financial Inclusion Online (FIOL)) to MIX Gold Premium. Preparation of new portfolio analysis reports became a requirement, reflecting the changed role of UNCDF from "data chaser" to "data analyzer." The MIX Gold upgrade has also meant progress in the integration of social performance indicators. However, the existing reports cluster FSPs geographically. Given the diversity of partners this has somewhat limited analytical value. Re-grouping by institution type may allow for comparison with the relevant MIX peer groups.

  With a new system that centralizes performance indicators, UNCDF is in a position to enable staff to analyze the challenges of performance, not the challenges of data accuracy. FIPA has also introduced PAMIRA Banker loan software to manage its small loan portfolio, with mandatory indicators in its performance-based agreements. FIPA is currently addressing the challenge of integrating client protection indicators and has started to use indicators for its support to policy level work. This is an important area for UNCDF given its increasingly important global role in policy work, housing the office of the United Nations Secretary-General's Special Advocate for Inclusive Finance for Development (UNSGSA).

- **Performance-based Agreements (4.1/5.0).** UNCDF has made progress in strengthening performance-based agreements (PBAs). UNCDF's performance-based agreements incorporate standard indicators for performance targets, with clear conditions for disbursements. Operational guidance clearly stipulates the responsibilities of FIPA staff regarding monitoring and enforcing performance of its partners. Monitoring of compliance with PBAs is now included in portfolio analysis reports. UNCDF has also developed and updated its loan policy to guide the issuance of new loans: using performance based targets in all loan agreements with reporting requirements on targets, tranching of disbursements, and clear consequences of non-payment of loans. FIPA has a strict system of blocking payments for FSPs that are non-compliant and requires documented justification for exceptions. Guidance is provided on when to suspend, terminate or approve on a waiver basis. Two PBAs signed for programs in Rwanda (with the National Bank and with a microfinance association) serve as models for future PBAs at the policy and meso levels. However, the expansion of the use of performance based loans is a work in progress. UNCDF's score on PBAs increased by 0.2 points since SmartAid 2011.

- **Portfolio Reviews (4.5/5.0).** UNCDF recently conducted a thorough portfolio review and formulated an action plan to implement the findings of the review. A review of MicroLead was also recently conducted and many of the recommendations in that review have already been acted upon. Since SmartAid 2011, UNCDF's score on portfolio reviews increased substantially by 0.6 points to 4.5, which is the highest score achieved so far on this indicator in all SmartAid rounds. Compliance with good practice, additionality, and the quality of management inputs were all key areas of focus in the 2012 portfolio review. The portfolio review findings have been widely disseminated, including a debriefing session with all UNCDF staff by the Independent Evaluation Office. UNCDF should leverage the strength of its external portfolio review by applying an adapted methodology in its internal reviews.

- **Knowledge Management (4.0/5.0).** UNCDF has systematically put emphasis on knowledge management which has been included in all FIPA job descriptions since 2011, and has recently put in place a knowledge management policy. The annual staff retreat provides opportunities for knowledge sharing amongst staff. (See Good Practices Highlight.) The intranet and frequent calls also facilitate knowledge exchange and communication between countries and headquarter staff. UNCDF uses tools such as Teamworks and Dropbox to share information with external partners. Teamworks is a web-based collaborative platform, which facilitates knowledge sharing for projects that have many external partners. Several FIPA projects also have knowledge management components, with the preparation of knowledge products as a key result. The eventual adoption of Celoxisis is expected to enhance coordination amongst staff, and improve time management and planning between thematic and regional programs. Nonetheless, UNCDF should take steps to harmonize its knowledge management tools. The use of knowledge maps and the recruitment of a knowledge management expert are steps in the right direction. Implementing the knowledge management policy, including more attention to thematic areas and developing a procedures manual are expected to strengthen UNCDF's knowledge management function.

Good Practice Highlight

Facilitating Knowledge Sharing

FIPA retreats, which bring together technical staff from around the world, include both training and knowledge management modules. Lessons learned are shared across regions and thematic areas, strengthening a common ground among staff on vision and approach and contributing to more effective management of the complexity of the country/global themes matrix. In 2011, all staff were trained in MIX GOLD analytics during the annual retreat. In 2012, a day was devoted to the theme of mobile money. Outside speakers are included to address timely topics. All FIPA staff are required to attend, providing the opportunity for the intense sharing of experiences throughout FIPA.

- **Appropriate instruments (4.0/5.0).** UNCDF's flexible grant instrument puts it in a unique position to support the building of inclusive financial sectors. UNCDF also has access to loan instruments and guarantees, allowing it to tailor its support to partners based on market needs and the availability of financing locally. The MAP diagnostic tool is expected to further enhance UNCDF's ability to measure additionality and better inform the type of instruments UNCDF uses at the country level. In addition, UNCDF responds rapidly to concerns raised by reviews and analysis to investigate concerns about maintaining the right mix of flexible instruments that attract --and not crowd out commercial investors. The MicroLead Expansion Programme analysis is an example of this. UNCDF has shown capacity to be especially sensitive to the fact that concessionally-priced debt may crowd out commercial investors. However, its grant funding for mature institutions that are able to raise capital elsewhere raises concerns.

Recommendations

Over the years, UNCDF has established a solid base of good practice, whose oversight and execution lie with seasoned and competent professionals. Many of its strengths are reference points for peer institutions: its flagging system, the use of MIX GOLD Premium for tracking performance, and its flexible use of grants. UNCDF has continued to work to break new ground, venturing into timely global thematic areas and developing and piloting MAP to support national level stakeholders to meet the challenge of better evidence-based policy making. UNCDF's strengths and comparative advantages allow it to act as a facilitator on behalf of larger donors (such as foundations) making small grants to help catalyze markets and to offer its infrastructure to other funders who are not as well positioned to facilitate at the local market level. Global thematic programs represent an untapped opportunity to strengthen UNCDF's work further. Knowledge exchange and transfer from the global learning from these programs enhance UNCDF's country level operations, and could potentially serve this function at the global level for any stakeholder. These new global programmes, while timely and innovative, do risk diluting UNCDF's capacity and undermining its strategy. Care must be taken to ensure that the organization balances growth of global programs with its ability to manage and support an increasingly complex matrix structure.

The following suggestions emerge from the SmartAid review:

- **Balance growth of global thematic programs with country-level operations.** The dual programming model of global thematic programs and country level programs is extremely powerful, as it allows for access to global learning with on the ground tools to deliver at the country level. However, the number of countries in which UNCDF operates and the range of thematic initiatives heighten the complexities of ensuring coherence. UNCDF should carefully analyze its growth, taking into account the capacity, in particular that of Country Technical Advisors, who have double reporting and coordination roles. UNCDF should analyze its existing reporting and operational incentives to ensure that CTAs are not overstretched and to improve alignment of global and country operations.

- **Grants should rarely, if ever, be used for refinancing loan portfolios.** Grant resources are extremely precious and should be used diligently to ensure they are not distorting incentives, but rather support market building initiatives that cannot be financed any other way. Even in LDCs, DFIs and other investors increasingly have capital to lend to Greenfield institutions or existing MFIs. In light of these developments and the large number of private and public investors, the use of grants should be limited to capacity building with only exceptional use for refinancing. In this regard, UNCDF should consider 1) putting in place a mechanism at the project identification stage that captures data on grants that are intended to finance loan portfolios, and, 2) require a more thorough analysis for any grant that appears to support refinancing portfolios.

- **Improve knowledge generation and dissemination from the global thematic initiatives.** Several of UNCDF's global thematic programs have been operational for many years and have a plethora of experience which should be better exploited and leveraged. YouthStart has already begun to share its learning globally through a web-based platform and community of practice and this type of knowledge exchange should be extended to all of UNCDF's global initiatives. Case studies, research, social media, and webinars are just a few of the potential platforms that UNCDF should consider as it extends the knowledge it is generating to both its own country programs as well as the industry at large.

- **Strengthen internal quality assurance and learning from internal reviews.** UNCDF shows positive trends in this direction. As UNCDF's programming has become more complex, quality assurance functions need to be continually monitored to prevent deterioration. Growth presents new opportunities and new challenges. Continue to align the quality assurance and learning functions with the growth of the organization. The recent introduction of an internal portfolio review, with all Country Technical Advisors and Regional Technical Advisors scoring their projects, is a step in this direction. Given the significant investment made in the recent external review, build on this experience to develop an internal process that helps to capture trends and lessons early in the learning process. An internal review process should also be accompanied by a refresh of roles and responsibilities for quality assurance, which should be overseen at high levels to ensure that growth continues to be commensurate with quality.

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.

	Points	Range
★★★★★	90–100	Very Good
★★★★½	80–89	
★★★★☆	70–79	Good
★★★½☆	60–69	
★★★☆☆	50–59	Partially Adequate
★★½☆☆	40–49	
★★☆☆☆	30–39	Weak
★½☆☆☆	20–29	
★☆☆☆☆	10–19	Inadequate
½☆☆☆☆	0–9	

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 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. 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.

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 CooperaciónInternacionalpara el Desarrollo (AECID), AgenceFrançaise 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 GesellschaftfürInternationaleZusammenarbeit (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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