

# SmartAid for Microfinance Index 2009: Submission Guide

A Technical Guide

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Above all, we wish to thank the agencies that took part in the SmartAid pilot—without them, this Guide would not be possible.

This Technical Guide is available for download from the CGAP Web site ([www.cgap.org](http://www.cgap.org)).

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## *Foreword*

This SmartAid Technical Guide distills learning from many years of CGAP's work in aid effectiveness to measure what funders need to support microfinance effectively. The Guide draws from CGAP's interactions with a broad range of donors and investors—through peer reviews and our ongoing microfinance work together.

The premise behind the SmartAid for Microfinance Index is simple: funders with strong internal systems are better equipped to support microfinance effectively. SmartAid's indicators focus on core management systems, including staffing, accountability, and knowledge management mechanisms. But having the right systems is just one aspect of effectiveness. For this reason, SmartAid cannot be taken as a measure of portfolio performance.

The premise may be simple, but what we are trying to achieve is not. Notwithstanding their good intentions, most funding agencies face conflicting pulls and mismatched incentives that mean that doing the right thing is often quite difficult.

Seven brave funders piloted SmartAid in 2007 and helped us to refine the indicators. They and the many other funders who have since volunteered to receive an objective external assessment of their funding of microfinance using the SmartAid methodology, are to be congratulated for their impressive commitment to transparency.

Funding agencies interested in participating in future rounds of SmartAid can send inquiries to Alexia Latortue ([alatortue@worldbank.org](mailto:alatortue@worldbank.org)) and Barbara Gähwiler ([bgahwiler@worldbank.org](mailto:bgahwiler@worldbank.org)). Funders can also use this Guide to conduct self-assessments. We welcome your questions or comments.

Elizabeth Littlefield  
Chief Executive Officer  
CGAP

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## *I. Background*

In 2006, heads of 29 major development institutions endorsed the creation of an index that would measure and rate the way microfinance funders work.<sup>1</sup> SmartAid is CGAP's effort to fulfill that commitment.

SmartAid measures whether funding agencies are set up to support microfinance effectively. It is the first index of its kind that promotes transparent external assessments of funders' management systems. SmartAid helps funders understand how their internal management systems, policies, procedures, and incentives affect their work in microfinance. The process includes opportunities for in-depth discussions and advisory services for technical staff and senior management. By participating in SmartAid, funders demonstrate a strong commitment to transparency and accountability. SmartAid can also help funders understand where they stand relative to other microfinance donors and investors. This provides opportunities to collaborate with other organizations and to identify areas of common interest and comparative advantage.

SmartAid builds on the aid effectiveness work undertaken by CGAP and its members starting in 2002 with the Microfinance Donor Peer Reviews and the country-level reviews. CGAP developed SmartAid in close collaboration with its members; academic advisers, including the Center for Global Development; and microfinance experts. The hypothesis behind SmartAid is that effective policies and practices are a necessary, although not sufficient, condition for successful programs and investments. SmartAid focuses on the quality of funders' systems and does not evaluate the on-the-ground performance of funders' microfinance portfolios. Specific tools to determine the quality of programs exist (e.g., portfolio reviews).

Seven funders—Asian Development Bank, CIDA, FMO, GTZ, KfW, Sida, and UNCDF—participated in the 2007 pilot round of SmartAid. These funders found the exercise valuable on several fronts. Specifically, they said that SmartAid helped facilitate internal reflection and spark dialogue among

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<sup>1</sup> See [www.cgap.org/betteraid\\_meeting/compact](http://www.cgap.org/betteraid_meeting/compact) for more information.

staff; focused management attention on key strengths and weaknesses; and aided strategic planning and implementation. In the spirit of sharing experiences and mutual learning, six of these funders have agreed to publicly disclose their results. The intent of SmartAid is not to judge or criticize, but rather to create momentum for improvement so that microfinance lives up to its promise of deepening financial systems and helping to improve poor people's lives.

For more information on SmartAid, the pilot round, and individual agency reports, visit [www.cgap.org/funders](http://www.cgap.org/funders).

## *II. SmartAid Methodology*

### **SmartAid for Microfinance Index 2009**

SmartAid builds on a framework of five elements of effectiveness developed over two years (2002–2004) through 17 Microfinance Donor Peer Reviews facilitated by CGAP. These elements are as follows:

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

SmartAid 2009 includes nine indicators that are simple and clear and that, taken collectively, present a comprehensive picture of what funders need to support microfinance effectively. Indicators are worth between 10 and 15 points each, for a total maximum of 100 points. Different weights were assigned to the five elements of effectiveness, giving due prominence to those that make the most difference. Accountability for results is a powerful element and accounts for 40 percent of the total score, followed by staff capacity (25 percent), strategic clarity (15 percent), and knowledge management and appropriate instruments (10 percent each).

**SmartAid for Microfinance Index 2009 Indicators**

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

SmartAid is based on funders' self-reported documentation. Scores are determined by a review board of four persons who have extensive microfinance expertise and broad experience working with a range of funding agencies. Each review board member independently scores agencies against all indicators; final scores are determined by consensus. CGAP provides participating funders with this score, and a report that details strengths and weaknesses, highlights examples of good practice, and suggests improvements.

*III. SmartAid 2009 Indicators*

The rationale and relevance of the nine indicators are explained in this section. The explanation of each indicator is followed by a detailed listing of what SmartAid looks for in funders' policies and practices, as well as specific examples of documents a funder might submit to demonstrate the state of practice within its agency.

**1. Funder has a policy and strategy that addresses microfinance, is in line with good practice, and is based on its capabilities and constraints.**

A coherent vision improves quality at every level of an agency. A policy document articulates principles, guidelines, and standards that set a clear and binding common approach for reaching a funder's vision. In addition to

laying out funders' visions and goals for microfinance, policy documents can also link microfinance and the funder's overall development mission.

Strong policies and a clear vision are mutually reinforcing. Funders with sound policies that adhere to international standards embrace a financial systems development approach rather than an emphasis on credit as an input or resource transfer. A policy does not dictate one way to support microfinance; rather it provides support to diverse approaches and priorities within a framework of basic good practice principles.

A funder's strategy for microfinance brings into focus its policy. Strategies for microfinance may be agency-wide or at the regional or country level. Reflecting on internal capabilities and constraints can help funders formulate their strategies for supporting microfinance. A consideration of the broader funding landscape and where they can add value in relation to other donors and investors is also useful given the growing number of microfinance funders and the increasing pace of change in the sector. Not every funder needs to—or can—tackle all gaps and challenges to building inclusive financial systems.

Finally, senior management's strong support of policies and a clear signal that these policies are meant to be followed greatly increases the likelihood that the policies will be internalized by staff, applied in their everyday work, and thus translated into results on the ground.

SmartAid looks for the following:

- Policies that are in line with **good practices**. The major tenets of good practices in microfinance are codified in *Good Practice Guidelines for Funders of Microfinance* and other documents.
- Policies that are officially **endorsed**. Endorsement by the highest relevant level in the hierarchy of a funder's organization is best.
- Policies that are **accessible** to staff. Policies that are communicated broadly to staff have the greatest impact. Broad communication can be achieved by posting the policy on the institution's Web site/intranet and making new staff aware of it by referring to it in orientation sessions.
- Policies that are **binding**. Funders take different approaches with regard to their policies, from mandating staff's compliance with the policy to encouraging staff to implement the policy, to viewing it primarily as an informative document. SmartAid considers mandatory compliance to be the highest standard.
- Policies that are **up to date**. Given how quickly microfinance is evolving, most policies probably become outdated sooner rather than later. Up-to-date policies take current issues into account and reflect the impact of new actors (e.g., socially responsible investors) and

new developments (e.g., technological advances) on the institution. Periodically reviewing policies helps to determine whether they are still relevant or merit updating.

- Policies that are **user friendly**. Policies that are centered on the needs of operational staff and that include clear operational guidance that can be used throughout the project or investment cycle (e.g., what to do, what not to do, checklists, etc.) are more likely to be consulted by staff during project or investment design and implementation.
- Strategies that are based on realistic analyses of **internal strengths and weaknesses**, as well as **external opportunities and threats**.
- Strategies that demonstrate an awareness of the **broader funding landscape** for microfinance and articulate the funder's role within it.

Suggested documentation for submission are as follows:

- Policy for microfinance—can be part of a broader financial sector development or private sector development policy.
- Funder's definition of microfinance.
- Endorsement of the policy—letter from management, intranet printout, minutes of board meeting, etc.
- Evidence of accessibility—intranet printout, dissemination plan, agenda of orientation for new staff, etc.
- Funder's strategy for microfinance—can be part of overall policy or country/regional strategies.
- Evidence of the analysis described above can be gleaned from evaluation reports, project documents, presentations, and other internal documents.

## **2. Funder has designated microfinance specialist(s) who are responsible for technical quality assurance throughout the project or investment cycle.**

Experience from the Microfinance Donor Peer Reviews, portfolio reviews, and country-level reviews strongly suggests that funders perform best when all project teams include microfinance specialists or, at the very least, when all microfinance programs are reviewed by microfinance specialists.

The best performing funders are those where all programs are originated by specialists who are well suited to ensure quality programming. When generalists design programs, quality can be ensured if microfinance specialists are mandated to provide inputs and technical review throughout the project or investment cycle. In such cases, specialists' technical advice that is binding carries more weight.

Key decision points for quality assurance in the project or investment cycle include project design (before approval) and monitoring and evaluation. Quality reviews that come early enough so that the microfinance specialist can influence the development of the project are the most effective; ideally, a specialist is included in the design team from the earliest phases. Review before approval is especially important for microfinance components of nonfinancial projects because they are often designed by staff who do not have microfinance expertise. Ensuring strong technical inputs throughout the project or investment cycle is one way to counteract approval and disbursement pressure that is prevalent in many funding agencies.

The number of specialists and where they are located may vary depending on the structure of the funding agency. In the best scenario, the number of specialists and the skills and experience they offer are consistent with the type of interventions supported, the size of the overall portfolio, and the extent of microfinance expertise throughout the agency.

SmartAid looks for the following:

- Quality assurance processes that **require appropriate specialist participation in project design and review** of all programs with microfinance, whether standalone or component. Specialists are defined as professionals who have a minimum of five years of microfinance experience. Substantial, previous, direct experience in successfully setting up, managing, or overseeing microfinance providers and/or programs is most valuable. This experience can include work at one or more levels of the financial system.
- Technical advice that is **binding**. Mandating that technical advice is taken into account is the highest standard.
- Quality assurance that is provided by staff who are **formally designated** to do this job. Responsibility for providing early inputs into project design or technical review—rather than portfolio management—can be formalized in terms of reference of staff or in the description of a specific unit or group.
- Funders that maintain specialists **in-house**. Specialists can be based in headquarters or regions, but they must cover all operations. In some cases (e.g., where an agency has a very small portfolio, etc.), external experts can provide technical inputs or review.
- Funders that have a **number and skill mix of specialists** designated for technical review that is commensurate with the microfinance portfolio, the extent of microfinance expertise beyond the specialist team, and the funders' strategic directions.

Suggested documentation for submission are as follows:

- List of persons who are part of the designated microfinance specialist team/focal point and their curricula vitae (CVs)/short biographies and job descriptions, including comments on the balance between project management and advisory responsibilities.
- List and CVs/short biographies of staff working more than 50 percent of their time on microfinance.
- Project or investment cycle policies and procedures (visuals and explanations, if possible) highlighting key decision points and decision makers, levels of approval, and whether a process for monitoring compliance is in place. Evidence should indicate at which stages technical expertise in project design or technical review becomes involved, whether that review is advisory or binding, and where projects originate (i.e., in what departments).
- Strategy for microfinance—can be part of the overall policy or country/regional strategies.

### **3. Funder invests in microfinance or access to finance human resources.**

The trend in most funding agencies is to hire development generalists rather than specialists. As a result, staff often work on multiple sectors and may be assigned to manage programs in sectors where they have no previous experience. In some funding agencies, microfinance—like other sectors—is managed by staff with little or no specific expertise in the sector. Beyond the operational or transaction staff, (micro)finance expertise is particularly thin—this is often the case in evaluation departments, for example.

While not all funders can ensure that all staff working on microfinance are specialists, a minimum level of technical capacity is required, even to outsource the responsibility to consultants. Equipped with knowledge of microfinance good practice principles, staff responsible for parts of the project or investment cycle are better prepared to ask the right questions, select qualified consultants, and interpret performance reports.

Some options for enhancing microfinance staff capacity include hiring more and stronger specialist staff, recruiting national microfinance specialists in-country who are appropriate to the type of program or investment, using a cadre of expert consultants for technical troubleshooting, and establishing lists of prequalified technical service providers and consultants in different areas of microfinance, including local or regional consultants.

Sound selection criteria for contracting consultants are typically weighted toward the firm or individual's success in conducting work similar to that for

which they are being considered, not on knowledge of the funders' procedures and policies.

SmartAid looks for the following:

- Funders that have at least **minimal microfinance knowledge throughout** relevant departments. The highest standard is institutions that, as a matter of policy, hire specialists to manage their microfinance operations, including standalone projects and components. Although financial sector knowledge counts for a lot, it does not substitute for microfinance-specific knowledge.
- Staffing that includes specialists working **full-time or at least 50 percent** of their time on microfinance programs.
- **On-going training and skills-building** opportunities for staff. The frequency and subjects of these opportunities depend on the microfinance skills base of the funder and the type of programs it supports. Increasingly, more specific specializations within microfinance are called for (e.g., savings, policy work, etc.). Prioritizing training topics that match the funder's strategy and the content of its portfolio is most effective. Opportunities can be provided internally or externally (e.g., through staff exchanges). For funders with few specialists and a lower skills base, a mandatory training requirement is desirable.
- **Outsourcing that enhances internal capacity.** Most development institutions at some point or another need to access expertise not available in-house. In such cases, funders require the procurement flexibility, budget, and network to contract the best possible resources that match external skills to project or investment tasks in a timely manner.

Suggested documentation for submission are as follows:

- Description of the systematic internal training offered, including frequency of training events and lists of participants.
- Evidence of participation in external training programs and exchange programs or secondments.
- Policy or standard practice of training requirement for staff responsible for microfinance, whether new to the institution or new to managing microfinance programming if they have no previous microfinance experience.
- List and CVs/short biographies of staff working more than 50 percent of their time on microfinance.
- Contracting/procurement rules (including selection criteria) with regard to selecting individuals and firms, including those with special-

ized microfinance/financial sector expertise. This includes evidence of unrestricted ability to hire the most suitable consultants, whatever their nationality.

- Budgets for hiring external consultants (firms and/or individuals).
- CVs/short biographies or key qualifications of consultants or firms that are used extensively (i.e., 50 percent of time or on retainer for numerous assignments) or prequalified/short-listed under framework contracts.

#### **4. Funder has a system that flags all microfinance programs and components.**

Funders' relevant policies and processes, including those that relate to technical quality assurance, are applied only to microfinance activities that are systematically identified as such. Sometimes, agencies have “invisible” microfinance activities (e.g., activities that originate in nonfinancial sector departments) or microfinance components of larger projects. Funders that have appropriate systems to track all microfinance programming are best positioned.

SmartAid looks for the following:

- Funders that have **clear guidelines on how to code** microfinance projects.
- Funders that **periodically review compliance** with coding guidelines and check that all relevant projects and components are being systematically identified.
- Systems that cover **the whole agency**, not just microfinance or financial sector departments. This means that both standalone programs and components of financial and nonfinancial sector programs are included.
- Systems that can easily produce **updated lists** of the microfinance/financial sector portfolio. The highest standard is for institutions to have lists that can be automatically generated at any time. Manual lists can also work; the key is for the data to be accurate.

Suggested documentation for submission are as follows:

- Read-only access to database listing microfinance activities, full print-outs, or manually prepared lists.
- Evidence of coding system and description/instructions of how microfinance should be coded and who is assigned to do the coding.
- Evidence of dissemination/training on use of codes beyond microfinance/financial sector departments. This is especially important for agencies that have components originating from numerous departments.

## 5. Funder tracks and reports on performance indicators for microfinance programs and components.

Tracking performance is a critical element of effective management. Programs that are required to report regularly on their performance are likely to perform better. The more transparent the results, the more likely funders are to learn from successes and failures and to take corrective actions when needed. Funders can be guided by performance against measurable objectives to decide whether to continue, replicate, or terminate a program.

Although there are agreed-upon indicators for retail-level work, these do not yet exist for interventions at the market infrastructure and policy levels. Nonetheless, funders can define a process for evaluating performance at these two levels, including the use of qualitative indicators.

Regional or some sort of centralized monitoring improves effectiveness. When performance reporting for retail microfinance is limited to the country level only, incentives for good performance are more likely to be weak—particularly with programs that channel indirect support to retail providers (through networks or local wholesale facilities, for example).

SmartAid looks for the following:

- Requirement of **mandatory performance tracking and reporting on performance**, with reports provided to staff responsible for monitoring the program and to managers.
- Reporting systems that collect information such as the **Minimum Financial Performance Indicators for Retail Financial Institutions**. Industry standard definitions and calculations allow performance to be compared within the agency as well as with industry benchmarks.
- Funders that make efforts to track performance at the **market infrastructure and policy levels**. Such tracking may include qualitative and quantitative information.
- Tracking and performance systems that take into account **social performance/responsible finance indicators** or qualitative proxies that go beyond purely financial indicators.
- Tracking and performance systems that go beyond outputs to measuring **outcomes**, to the extent possible.
- Tracking and reporting systems that include both **directly funded and indirectly funded projects**.
- Tracking and reporting systems that include both **standalone projects and microfinance components of broader projects**.
- Reporting at **regular intervals**, at minimum annually, with semi-annually or quarterly intervals being considerably better.
- Performance information that is **accessible internally** to agency staff, not just to project or country staff.

- Funders that promote **accountability and public disclosure** by making some aggregated performance information available to external stakeholders. Some disclosure in annual reports, Web sites, etc., is desirable, within the agency's disclosure policies and guidelines, respecting confidentiality as necessary. Funders also can encourage the retail-level institutions they fund to report to the Microfinance Information Exchange (MIX) or other public information platforms.

Suggested documentation for submission are as follows:

- Read-only access to database listing microfinance activities, full print-outs, or manually prepared lists with performance information.
- Policy or standard practice that tracking and reporting on performance is mandatory for all types of programs.
- List of microfinance-specific indicators tracked and frequency of reporting.
- Policy or standard practice that social performance is tracked in addition to financial performance.
- Description of where performance reports are housed and how they are disseminated within the agency.
- Evidence of sharing of performance information with external stakeholders (e.g., Web sites, annual reports, industry platforms, etc.).

#### **6. Funder uses performance-based contracts in its microfinance programs and components.**

Performance-based contracts (sometimes also called agreements or covenants) are excellent tools to define clear expectations and govern the relationship between a funder and its partner. Relationships with all kinds of partners (apexes, microfinance institutions, technical implementers, etc.) can be spelled out in these contracts. Performance-based contracts typically include minimum performance targets, a monitoring plan, and consequences for noncompliance, including suspension or termination of funding. Minimum performance targets are especially important; failure to meet them should have material consequences.

The nature of the minimum targets, monitoring plan, and sanctions for noncompliance will differ depending on the type of program or investment. The effectiveness of performance-based contracts depends on funders' political will and ability to enforce them, including withholding payments or even terminating the contracts of nonperforming programs or partners. For good performance, funders can provide bonuses or other positive incentives.

SmartAid looks for the following:

- The systematic use of performance-based contracts as a **matter of policy or standard practice** with implementers of all kinds, for both standalone projects and components.
- Performance-based contracts that, at least, include minimum **performance targets, a monitoring plan, and consequences for noncompliance.**
- Clear **designation of staff** responsible for monitoring the performance-based contracts.

Suggested documentation for submission are as follows:

- Policy or procedure requiring the use of performance-based contracts.
- Template for performance-based contracts.
- Indication of the percentage of projects or investments that are subject to performance-based contracts.

#### 7. Funder regularly conducts portfolio reviews.

Evaluations of individual microfinance programs are key to accountability, generating lessons learned and influencing program implementation (when they are conducted mid-term). Such evaluations, however, do not always influence future agency operations.

Assessments that go beyond disconnected evaluations of individual projects and review a cross-section of the portfolio with similar characteristics, such as thematic (e.g., greenfields) or regional reviews of funders' microfinance portfolios can yield more meaningful learning. Understanding what worked well, what did not, and why can inform future program designs and strategic reorientations and thus improve performance.

Reviews can include various time spans. Those that take a longer term perspective can also cover learning from terminated projects. These assessments can be carried out as internal or external evaluations.

SmartAid looks for the following:

- Comprehensive reviews that are done **regularly** (between every three to five years, as appropriate).
- Assessments/reviews that, at minimum, check **performance, achievements of targets, and compliance with good practice principles.** This includes both financial and social performance as benchmarked against the institution's objectives.
- Reviews that touch on the **quality of the funder's work.** Although many factors influence results, funders should reflect on whether their own inputs (advice, design, etc.) made an effective and appropriate contribution.

- Assessments that, once completed, are shared within the agency and trigger **discussions** and a **management response** around the results.
- Assessments that include both **standalone projects and components**.

Suggested documentation for submission are as follows:

- Policy or standard practice that requires portfolio reviews to be conducted systematically.
- List of all portfolio reviews of microfinance/financial access work in the past 15 years.
- Full reports of portfolio reviews conducted in the past five years.
- Evidence of dissemination of portfolio reviews and discussions held (e.g., staff meetings, management committee meetings, etc.).
- Evidence of how portfolio review results are used, including actions taken and plans for changes resulting from reviews.

#### **8. Funder has systems and resources for active knowledge management for microfinance.**

Knowledge management includes identifying, creating, disseminating, and using knowledge. It entails practices used to capture and learn from one's own—and others'—experiences. Actively managing knowledge above all reflects an organizational value and requires strong support from senior management to become an ingrained cultural norm within a funding agency. Ensuring opportunities for exchange among staff based in headquarters and in country/regional offices facilitates the sharing of institutional knowledge and diverse experiences. Effective knowledge management requires appropriate tools, mechanisms, and incentives.

SmartAid looks for the following:

- Funders that include knowledge management in **staff job descriptions**. Not all staff need this included in their job descriptions, but at least a few staff should be responsible and accountable for knowledge management.
- Policies or institutional culture that makes key project documents **available on shared platforms** for easy access internally (e.g., consultant reports, appraisal reports, evaluation reports, back-to-office memos, etc.).
- Opportunities for **face-to-face interactions** among staff of different levels, locations (headquarters and field), etc.
- **Budgets** to support knowledge management. Budgets can include funding to participate in internal events and in others' learning events and conferences and to support Web sites, newsletters, resource centers, communities of practice, collaboration platforms, etc.

Suggested documentation for submission are as follows:

- Agency-wide policy or statement of practice on knowledge management (e.g., position paper on importance of knowledge management, notes from management, etc.).
- Templates of job descriptions, including core knowledge management tasks to be performed by different categories of staff (e.g., microfinance specialists, program managers, investment officers, etc.).
- Access to intranet pages showing types of documents available on shared platforms. If this is not possible, printouts of key pages would suffice.
- List of mechanisms available for knowledge management (and used for microfinance/access to finance sector).
- List of regular internal meetings held (e.g., weekly meetings of specialists, regional meetings, meetings of specialists and generalists that cover microfinance, etc.).
- Budget line item for maintaining knowledge management systems.

### **9. Funder has appropriate instrument(s) to support the development of local financial markets.**

Funders play an important role in developing vibrant local funding markets and pro-poor financial systems. They can help crowd-in mainstream investors and local capital. Conversely, they risk crowding-out commercial and local funders and hampering deposit mobilization. A good understanding of individual markets helps funders match their instruments to fill specific gaps and optimize their contributions. Although a range of instruments is needed to build inclusive financial markets, not every funder needs to have a broad palette. The suitability of the instrument(s) for the activities supported by a funder is what matters, not the number of instruments.

Governments are natural partners when funders work on the policy environment and the regulatory and supervisory framework. For work on other levels, however, it is harder to do good microfinance if funders must channel all or almost all support through governments. Funders whose primary instrument is large loans to governments often have a comparative disadvantage with regard to supporting retail microfinance. Experience has shown that governments are usually not suited to be directly involved in the delivery of credit services or the management of credit programs.

Funders that are able to work with a range of private actors are well suited to support microfinance, especially at the retail and market infrastructure levels. Given that microfinance is increasingly being integrated into formal financial systems, development institutions that are able to fund for-

profit private actors are also needed. Working effectively with private actors requires internal processes that are sufficiently flexible and fast.

Channeling funding through minority components of multisector programs can harm performance. A perceived trade-off between supporting sustainable financial services and meeting specific objectives for a target group may lead funders to neglect sustainability. As a result, components often decapitalize quickly because of high costs, subsidized interest rates that do not cover costs, and poor collection rates. In the absence of sustainability, credit services may cease when a program is completed.

SmartAid looks for the following:

- Funders that have instruments that **fit their strategy** for microfinance.
- Instrument(s) that can be used **directly with private actors**, especially for support at the retail and market infrastructure levels.
- **Little microfinance programming through credit components** of larger, nonfinancial sector programs.
- Funders that are able to work with **for-profit actors**.

Suggested documentation for submission are as follows:

- Detailed description of the use, terms, and conditions for each instrument (e.g., grant, debt, equity, guarantee) available.
- Guidance/rules pertaining to the use of instruments with private actors (both nonprofit and for-profit).
- Policy or operational guidance on credit components, and an indication of the percentage (volumes) of the microfinance portfolio that is invested in credit components.
- Private sector development policy or strategy.
- Strategy for microfinance—can be part of overall policy or country/regional strategies.

### *Required Documents Checklist*

Because funders are organized and operate differently, it is impossible to list specific documentation that should be submitted by all agencies. Rather, each funder should consider the evidence available and how the evidence supports what each indicator seeks to measure. The funder should then determine which of the documents or information best describes its practices or procedures.

However, the 2007 SmartAid pilot round did identify certain core documents that the review board needed to better understand how a funder works. These core documents are often helpful for scoring several indicators, as well as for providing the broader context within which the funder operates. Thus, the following documents are required for a submission to be considered complete.

- **Short written summary** that provides a “roadmap” to the overall submission and background on the state of practice for each indicator. This summary ideally should list documents provided for each indicator and explain the links between different documents. If no documentation is available for an indicator, the summary can be used to describe practice within the funding agency. It should note how thoroughly current policy and practice is implemented, as well as any limitations or exceptions. This information can be provided either on a form prepared for this purpose or in a simple computer document.
- Funder’s **definition of microfinance**, if it exists. CGAP defines microfinance as the provision of a range of diverse financial services (credit, savings, insurance, payments, etc.) to poor and low-income individuals. What is labeled as microfinance varies among donors and investors and across countries. As microfinance is integrated into formal financial systems, the line between what is microfinance versus access to finance or SME finance can be blurry. Understanding a funder’s specific definition of microfinance is helpful.
- Document that includes the institution’s **policy for microfinance** (can be part of a broader financial sector development or private sector development policy).
- List of persons who are part of the **designated microfinance specialist team/focal point**, their CVs/short biographies, and job descriptions,

including comments on the balance between project management and advisory responsibilities.

- List and CVs/ short biographies of **staff working more than 50 percent of their time on microfinance**.
- **Project or investment cycle policies and procedures** (visuals and explanations, if possible), highlighting key decision points and decision makers, levels of approval, and whether a process for monitoring compliance is in place. Evidence should indicate at which stages technical expertise or review in project design is included, whether that review is advisory or binding, and where projects originate (e.g., what departments).
- Read-only access to electronic database (or if that is not possible, a full printout) **listing all active microfinance programs and components**. If such a database does not exist, a funder may submit a manually created list, with an explanation of how it has been compiled and any limitations or shortcomings of the system. In either case, submit a statement on how long the system has been functional, how often it is updated, and by whom.
- Information on **funders' institutional characteristics and portfolio**. A template for providing this information can be obtained from CGAP. Please contact [cgapbetteraid@worldbank.org](mailto:cgapbetteraid@worldbank.org).

The following are suggestions of additional documentation funders may submit by indicator. Relevant core documents are also repeated under each relevant indicator. In thinking about which documents to submit, the following tips may be helpful:

- More documentation is not necessarily better. If a suggested document does not provide “evidence” of the current policy or practice, it need not be included.
- Documents that show a policy or standard practice are preferred to sample documents (i.e., a template of a standard performance-based contract is preferred to a performance-based contract for a specific project). Sampling presents some challenges because (i) it is difficult to know the extent to which the sample is representative of the whole and (ii) samples take more time to collect and review.
- However, for some indicators, a sampling of project documents is helpful. In such cases, the review board will randomly select a small sample of projects from the portfolio information provided as part of the initial submission and will ask the agency to submit specific project documents for that sample. CGAP will also ask the funder to indicate how consistently the illustrated practice is applied.

Following is a summary of additional documentation for submission, organized by indicator.

**1. Funder has a policy and strategy that addresses microfinance, is in line with good practice, and is based on its capabilities and constraints.**

Suggested documentation for submission:

- Policy for microfinance—can be part of a broader financial sector development or private sector development policy.
- Funder’s definition of microfinance.
- Endorsement of the policy—letter from management, intranet printout, minutes of board meeting, etc.
- Evidence of accessibility—intranet printout, dissemination plan, agenda of new staff orientation, etc.
- Funder’s strategy for microfinance—can be part of overall policy or country/regional strategies.
- Evidence of an analysis of internal strengths and weaknesses and external opportunities and threats in evaluation reports, project documents, presentations, and other internal documents.

**2. Funder has designated microfinance specialist(s) who are responsible for technical quality assurance throughout the project or investment cycle.**

Suggested documentation for submission:

- List of persons who are part of the designated microfinance specialist team/focal point and their CVs/short biographies and job descriptions, including comments on the balance between project management and advisory responsibilities.
- List and CVs/short biographies of staff working more than 50 percent of their time on microfinance.
- Project or investment cycle policies and procedures (visuals and explanations, if possible), highlighting key decision points and decision makers, levels of approval, and whether a process for monitoring compliance is in place. Evidence should indicate at which stages technical expertise in project design or technical review is included, whether that review is advisory or binding, and where projects originate (i.e., what departments).
- Strategy for microfinance—can be part of overall policy or country/regional strategies.

### **3. Funder invests in microfinance or access to finance human resources.**

Suggested documentation for submission:

- Description of systematic internal training offered, including frequency of training events and lists of participants.
- Evidence of participation in external training programs and exchange programs or secondments.
- Policy or standard practice of training requirement for staff responsible for microfinance, whether new to the institution or new to managing microfinance programming if they have no previous microfinance experience.
- List and CVs/short biographies of staff working more than 50 percent of their time on microfinance.
- Contracting/procurement rules (including selection criteria) with regard to selecting individuals and firms, including those with specialized microfinance/financial sector expertise. This includes evidence of unrestricted ability to hire the most suitable consultants, whatever their nationality.
- Budgets for hiring external consultants (firms and/or individuals).
- CVs/short biographies or key qualifications of consultants or firms that are used extensively (i.e., 50 percent of time or on retainer for numerous assignments or prequalified/short-listed under framework contracts).

### **4. Funder has a system that flags all microfinance programs and components.**

Suggested documentation for submission:

- Read-only access to database listing microfinance activities, full printouts, or manually prepared lists.
- Evidence of coding system, description or instructions of how microfinance-related work should be coded, and who is assigned to do the coding.
- Evidence of dissemination or training on use of codes beyond microfinance/financial sector departments. This is especially important for agencies that have components originating from numerous departments.

### **5. Funder tracks and reports on performance indicators for microfinance programs and components.**

Suggested documentation for submission:

- Read-only access to database listing microfinance activities, full printouts, or manually prepared lists with performance information.
- Policy or standard practice that tracking performance and reporting on performance is mandatory for all types of programs.
- List of microfinance-specific indicators tracked, with frequency of reporting noted.
- Policy or standard practice that social performance is tracked in addition to financial performance.
- Description of where performance reports are housed and how they are disseminated within the agency.
- Evidence that performance information is shared with external stakeholders (i.e., external Web sites, annual reports, industry platforms, etc.).

### **6. Funder uses performance-based contracts in its microfinance programs and components.**

Suggested documentation for submission:

- Policy or procedure requiring the use of performance-based contracts.
- Template for performance-based contracts.
- Indication of the percentage of projects or investments that are subject to performance-based contracts.

### **7. Funder regularly conducts portfolio reviews.**

Suggested documentation for submission:

- Policy or standard practice of requirement for systematically undertaking portfolio reviews.
- List of all portfolio reviews of microfinance/financial access work in the past 15 years.
- Full reports of portfolio reviews conducted in the past 5 years.
- Evidence that portfolio reviews have been disseminated and discussions have been held (e.g., minutes of [or notes from] staff meetings, management committee meetings, etc.).
- Evidence of how portfolio review results are used, including actions taken and plans for changes resulting from reviews.

**8. Funder has systems and resources for active knowledge management for microfinance.**

Suggested documentation for submission:

- Agency-wide policy or statement of practice on knowledge management (e.g., position paper on importance of knowledge management, notes from management, etc.).
- Templates of job descriptions, including core knowledge management tasks to be performed by different categories of staff (e.g., microfinance specialists, program managers, investment officers, etc.).
- Access to intranet pages showing types of documents available on shared platforms. If not possible, printouts of key pages.
- List of mechanisms available for knowledge management (and used for microfinance/access to finance sector).
- List of regular internal meetings held (e.g., weekly meetings among specialists, regional meetings, meetings between specialists and generalists that cover microfinance, etc.).
- Budget line item for maintaining knowledge management systems.

**9. Funder has appropriate instrument(s) to support the development of local financial markets.**

Suggested documentation for submission:

- Detailed description of the use, terms, and conditions for each instrument (e.g., grant, debt, equity, guarantee) available.
- Guidance or rules on the use of instruments with private actors (both nonprofit and for-profit).
- Policy or operational guidance on credit components, and an indication of the percentage (volumes) of the microfinance portfolio that is invested in credit components.
- Private sector development policy or strategy.
- Strategy for microfinance—can be part of overall policy or country/regional strategies.

