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Ms Elizabeth Littlefield, CEO
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1818 H Street, NW
Washington, DC 20433
USA

Berne, 03.08.2009

Management Response to SDC's SmartAid for Microfinance Index 2009 Report

Dear Ms Littlefield,

It is my great pleasure to respond to SDC's SmartAid for Microfinance Index 2009 report for which I would like to express my sincere appreciation. Your staff has elaborated the report with dedication, care and expertise as well as in excellent collaboration with SDC. We also had a constructive discussion with your delegation lead by Ms Alexia Latortue on June 30 in our premises.

I highly appreciate CGAP's mission to support donors and investors to improve their transparency and effectiveness in building inclusive financial sectors and maximising access to finance for poor women and men, households, small farmers and businesses. I also acknowledge the leading role CGAP is playing in microfinance to put the Paris Declaration on Aid Effectiveness into practice.

Concerning the report I agree to a large extent with its assessment and recommendations. In general terms it attests SDC strategic clarity, appropriate staff capacity, knowledge management and instruments but certain weaknesses in accountability for results. A similar picture presented us already a CGAP initiated peer review in 2003. Since then SDC has undertaken targeted action towards improvement, as reflected in the report. However, the current report shows a comparatively less favourable assessment than in 2003 which provokes some astonishment.

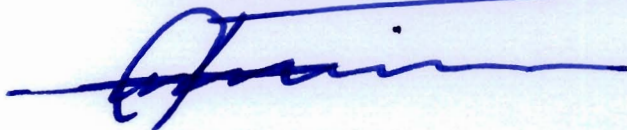
Your specific suggestions are thoughtful and useful for SDC too. I will make sure that they will be taken into consideration in the ongoing comprehensive reorganisation and institutional change process of SDC which aims at improving effectiveness and efficiency of SDC's work in partner countries. More detailed information how I intend to handle the report's specific suggestions as well as some observations to the applied methodology which I perceive as slightly biased in favour of large institutions are given in the enclosure.

Nevertheless, I assure you that I have no objection to publicise this report according to the foreseen procedures.

I thank you again for the extraordinary work you have undertaken to provide as such a high quality assessment with regard to SDC's performance in microfinance. I am looking forward to a future fruitful collaboration with CGAP.

Yours sincerely,

Swiss Agency for Development and Cooperation



Martin Dahinden
Director General

cc: Ms Alexia Latortue, Senior Microfinance Specialist, SmartAid Review Board
Ms Heather Clark, SmartAid Review Board
Ms Ruth Goodwin-Groen, SmartAid Review Board
Mr Richard Rosenberg, SmartAid Review Board CGAP
Ms Mayada El-Zoghbi, CGAP
Ms Barbara Gähwiler, CGAP
Ms Isabelle Dauner, Intercooperation
SDC: VOE, BZJ, PER, TSP, RMM, PFH, KOR, DPG, MTD, COR

Enclosure: SDC's SmartAid Index report 2009: Detailed comments with regard to the report's specific suggestions as well as observations to the applied rating methodology

SDC's SmartAid Index report 2009: Detailed comments with regard to the report's specific suggestions as well as observations to the applied rating methodology

To quality assurance:

SDC's management board (the Directorate) has decided in early June this year to strengthen the quality assurance function, as this requires adaptation in view of our current decentralisation process. SDC strongly believes that the operational line management has to assume the responsibility for quality assurance for all interventions and throughout the 'moments forts' of the project management cycle. The thematic networks, in this case the Employment and Income network, have the task to elaborate and put at disposal for line management minimum quality standards (guidelines, manuals, good practice, others) and advice upon request. The Director assures that networks have the backing for this task.

To update policy and PCM regularly and check compliance systematically:

In June the Directorate has instructed Division heads responsible for thematic Focal Points and networks to review SDC's guiding documents (policies, strategies, implementation guidelines, manuals) to reduce the number of relevant documents in use that will ease the practical application for the operational staff. This process will include both SDC's financial policy and the newly elaborated PCM manual, both will be declared as guiding documents including minimum quality standards. CGAP's advice to assure regular update of those documents in close collaboration with operational staff to ensure its usefulness as living document is well taken.

To training:

SDC sees the need to continue offering thematic training both introductory courses for junior staff and advanced courses to update senior staff with latest developments in this dynamic field. Gladly SDC accepts CGAP's offer to assist in this task upon requirement.

To carry out a portfolio review:

SDC has regular reviews and external evaluations of all its projects and also its overall portfolio in its priority countries. A few years ago, SDC carried out a broader review of its financial sector development (FSD) portfolio. Since then SDC's portfolio in microfinance at project level has diminished. Therefore, for the time being, SDC does not see the effort justified to conduct an in-depth portfolio review. However, SDC recognises the need to look closer at quality assurance of credit funds in non-FSD projects.

To the methodology applied by the SmartAid index:

SDC takes the liberty to share some observations on the methodology applied. SDC appreciates that it looks at management systems and does not actually evaluate the quality of programmes on-the-ground. Nevertheless, somehow SDC feels that this standardised methodology has its bias towards larger organisations, particularly development finance institutions, with comprehensive regulations, but has its limitations to assess adequately a rather small decentralised operating agency like SDC.

More specifically, the rating's limitation on written documentation, without substantial discussion with an agency's staff, is susceptible to a certain methodological fixation on very specific instruments (e.g. overall portfolio reviews, contractual arrangements that anticipate project development upon signature etc.) that may not be the only (if not the best) instruments for a small and decentralised agency.

The cost efficiency argument for limiting the rating on written documentation is likely not valid for a very decentralised agency like SDC that has different institutional ways of collaborating with local partners adjusted to country-specific conditions.

Furthermore, it would have been beneficial for SDC to take the 2003 peer review (which included interviews with management and as staff!) as benchmark to track more easily progress made since. Even more so, that - despite concerted action taken since 2003 - SDC's 2009 rating score is comparatively less favourable and as such hardly matching with the actual written report that is more constructive.