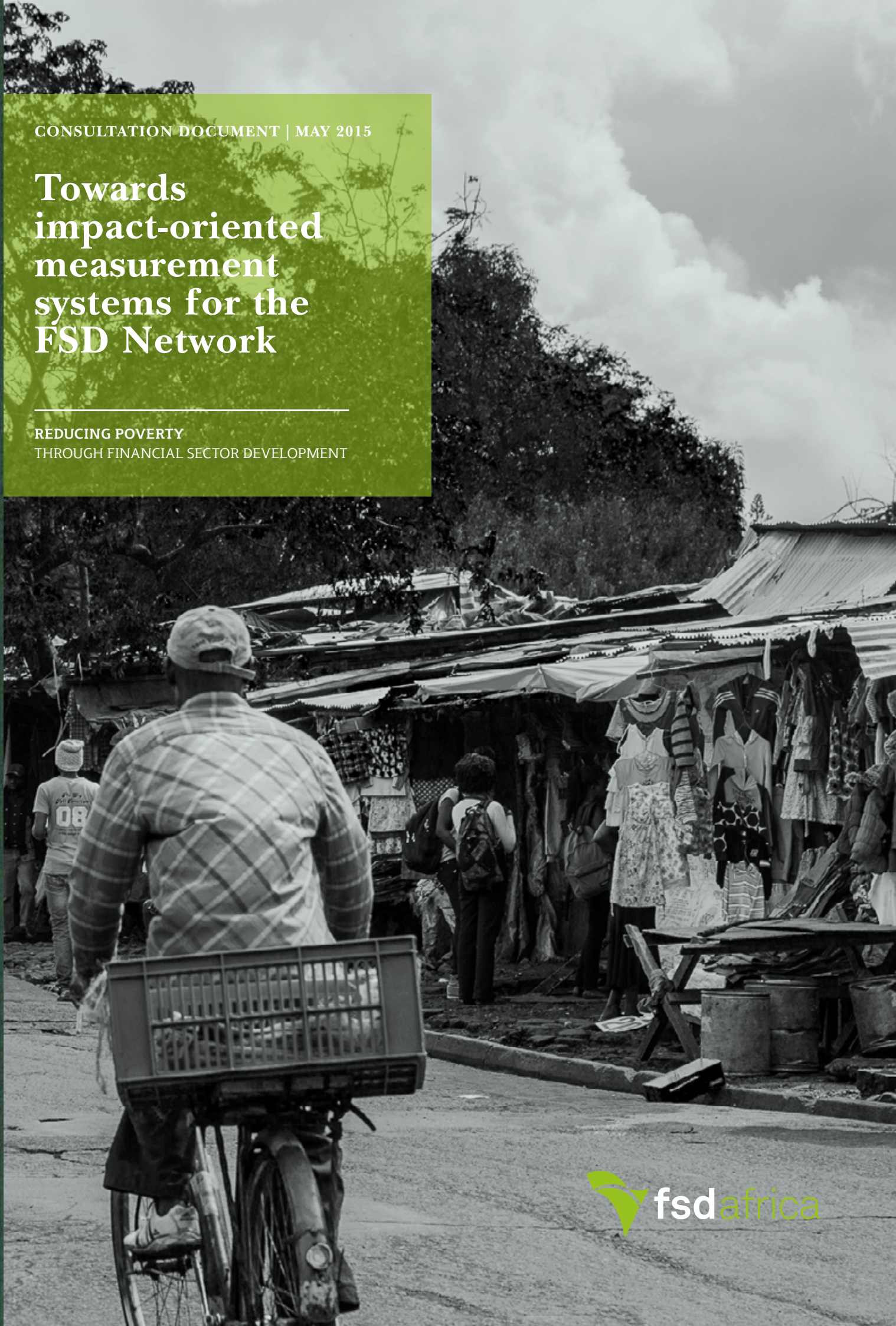
CONSULTATION DOCUMENT | MAY 2015

Towards impact-oriented measurement systems for the FSD Network

REDUCING POVERTY
THROUGH FINANCIAL SECTOR DEVELOPMENT



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Key points

01

FSDs face increasing pressure to show results while implementing complex, multi-faceted, market-development programmes. Monitoring and evaluation practices have to keep pace with this changing context and respond robustly to more demanding expectations, particularly the need to measure medium-term market system outcomes and longer-term impacts on poverty reduction.

02

Impact-oriented measurement (IOM) aims to find the 'sweet spot' between monitoring and evaluation. This entails cycles of implementation and reflection to improve programme adaptation and build a robust evidence base to measure what is causing change in the financial sector.

03

IOM has two key objectives. First, to understand how FSD investments have contributed to observed changes in the financial sector, and how these changes have improved the livelihoods of the poor. Second, to track and improve the performance of FSD investments, by improving the evidence base on what works and what does not.

04

The change FSDs seek and the instruments they use to achieve such change have profound implications for results measurement. FSDs promote the sustainable, pro-poor development of complex financial markets. To do this they facilitate market actors and deploy multiple means of support, ranging from funding to research, while continually adapting to market changes.

05

An FSD's Theory of Change (ToC), informed by regular market analysis that sets out the systemic constraints to financial sector development, is the bedrock of the measurement system. It guides the programmes and the funder to articulate both the expected market change process and which impacts and causal pathways to generate evidence on.

06

The term 'impact' is often used to refer to long-term changes at the end of a results chain, such as improved livelihoods or poverty reduction. We need to change the way we think about impact. A core focus of an individual FSD should be on how and why financial sector change occurs at every step of the ToC.

07

As market development programmes, FSDs' measurement lens needs to be recalibrated, moving beyond a focus on end numbers (e.g. level of financial access) to how the underlying structures, behaviours and incentives of the market have changed, or are changing, to support these outcomes.

08

Project-based measurement can become too focused on the specific interventions and fail to capture wider (and unexpected) changes in the financial sector. IOM augments this approach by offering a new framework that captures observed changes in the wider market system. We call these two approaches 'bottom-up' and 'top-down' measurement.

1 Introduction

This note sets out an approach for measuring the impact of financial sector deepening (FSD) programmes. The note has been primarily prepared for the benefit of FSD programme directors and members of FSD programme governing bodies/investment committees, but the core messages may also be of interest to others engaged in market development programmes, particularly in the financial sector.[1]

The approach set out in this note is referred to as an impact-oriented measurement (IOM) framework. The objectives of IOM are two-fold:

- to help assess how FSD investments of time, money and influence have contributed to observed changes in the financial sector, and how this has contributed to improved livelihoods of the poor; and
- to improve the performance of FSD contributions, through improving their evidence base on what works and what does not.

The context for this work is the increasing emphasis on transparency, accountability and value for money in relation to donor funded programmes. Specifically, there is a desire to establish the *extent to which* the modality of an FSD programme works (given the increasing use of market development instruments by funders), and, where possible, to establish *how* it works (i.e. to identify and test the various pathways to change).

This guidance has been prepared by a core OPM team, which was able to draw on extensive documents from FSDs, FSDA and the global literature. The team also visited the FSDs and FSD Africa (FSDA) for bilateral discussions and facilitated two workshops in Nairobi (October 2014 and March 2015). The OPM team benefited from inputs from CGAP throughout the consultation process. Detailed background papers were circulated for the two workshops, which were attended by all the FSDs and FSDA as well as CGAP, DFID and other funders. The October workshop also resulted in the setting up of four reference groups and led to the development of additional papers (see below).

This document builds on existing FSD measurement systems to offer robust approaches aimed at measuring impact, providing a platform for peer learning and experimentation in measurement, and building a coherent approach to reporting results across FSD programmes. Implementing the IOM will therefore have important benefits for the following stakeholders:

- **FSD programmes**[2]: clear (and timely) information and learning that allows them to *improve the performance* and impact of their investments, and to *demonstrate accountability* to their funders;
- **Funders**: robust *evidence* as to the impact of their funding on the provision of financial services and improvement of livelihoods, as well as *learning* regarding the effectiveness of the FSD modality; and
- **Policy-makers, regulators and providers of financial services**: clear and timely evidence regarding changes in financial markets.

"Impact-oriented measurement is both about proving impact and improving measurement and decision-making"

In addition to this briefing paper, a full guidance document, with practical steps for IOM implementation, has been provided to FSD programmes. Additional resource papers and databases will also be housed on the FSDA website, covering topics such as assessing the quality of access; the evidence base for causal links between the financial sector and poverty reduction; and tracking financial sector development.

1. For a description of FSDA Africa and links to the FSD network in Africa, see www.fsdafrica.org/about-fsd-africa/.

2. Attention has been given to ensuring that this framework is consistent with ongoing efforts by FSD programmes to improve their measurement approaches.

1.1 Defining impact evaluation for FSDs

A broad definition of impact evaluation (IE) is used throughout this framework, with a focus on identifying and testing links between the causes and effects of interventions as well as tracking wider changes in the financial sector.[3] The guidance is methodologically agnostic on how these results are assessed, as long as they are tested robustly. The IOM is concerned with 'impact' in regard to a range of variables, not just the end objective of improved livelihoods for the poor. This may include how FSD programmes have an impact on developing the overall financial sector; how they promote improved access, usage and quality of financial services; and/or how they contribute to economic growth. As the title *IOM* suggests, the approach is broader than solely assessing impact through a one-off exercise: this document seeks to provide an approach to continuous measurement.[4]

The readiness of an FSD programme for IE can be assessed in two ways:[5]

- **In theory**: is it is theoretically possible to evaluate the impact of the programme, given its theory of change?
- **In practice**: is it practically possible to evaluate the impact of the programme, given the availability of relevant data (as collected through an FSD IOM system)?

3. IOM guidance uses an adapted version of the Organisation for Economic Co-operation and Development (OECD) definition of impact: 'positive and negative, primary and secondary *medium* to long-term effects produced by a development intervention, directly or indirectly, intended or unintended'.
4. To that end it builds on principles espoused by the Donor Committee for Enterprise Development (DCED) Standard for Results Measurement, with a need to balance (a) improved information for managers of programmes, to enable them to make real time decisions, with (b) a robust measurement approach that provides evidence to funders as to the effectiveness of the programme. However, while the framework is broader than traditional IE, in that it focuses on overall measurement by FSD programmes, it does seek to maintain a focus on the evaluation of 'impact' and how FSD programmes can provide a convincing narrative regarding causal relationships in the financial sector.
5. Davies, R. (2013) *Planning Evaluability Assessments: A Synthesis of the Literature with Recommendations*. DFID Working Paper 40.

2 Foundational principles for IOM

The characteristics of FSD programmes, in terms of the change they seek (i.e. development of financial markets), as well as how they try to achieve this change (i.e. through facilitation approaches), have some profound implications for measurement. These are summarised in **Table 1**.

Table 1: The measurement challenges of FSDs

Characteristic	Measurement implication
Stimulate change through working with partners	– There is a need to assess both how FSD programmes have influenced their partners as well as the role of their partners' influence on the changes in the financial sector – Some FSD projects may not have direct impacts on 'financial inclusion': a focus is therefore needed on the market dynamics that produce such outcomes
Focus on systemic change not just direct provision	– Measurement frameworks need to focus on how the behaviour, structures and dynamics of the sector have changed, not just on how financial inclusion has changed – Changes facilitated by FSD programmes occur outside specific FSD projects, so monitoring requires measurement beyond individual FSD partners
Adapting to market opportunities	– FSD programmes may change their approach or invest in new areas, and thus measurement frameworks need to evolve as new understanding is gained and investments made – FSD programmes need to leverage new opportunities quickly and therefore need timely approaches to assessing evidence
Influencing complex market interactions	– It is very difficult to attribute changes in the overall financial sector to FSD programmes directly through stand-alone studies. A range of qualitative and quantitative evidence is required. – There is a need to identify unintended and unexpected influences and impacts – Limited knowledge of all the dynamics in the sector will make it necessary to rely on the perceptions of market actors. Small interventions can have significant consequences. Measurement frameworks therefore need to be careful about being driven solely by size of investment.

These characteristics have helped determine five foundational principles underpinning IOM:

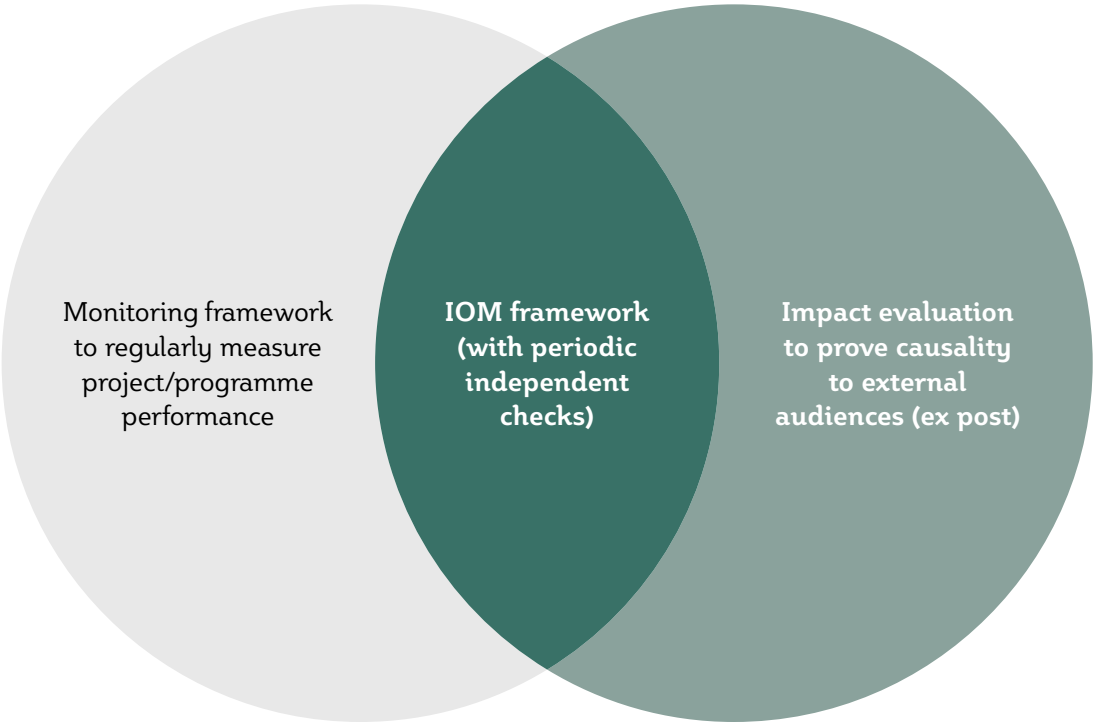
- aligning monitoring with measuring impact (the 'sweet spot');
- using the FSD theory of change (ToC) as a strategic framework for planning and IE;
- focusing on FSD programmes' primary interest in terms of measurement and of assessing changes in inclusive financial markets;
- identifying and measuring systemic change; and
- measuring impact from the perspective of both the FSD programme ('bottom-up') and the sector/market system ('top-down').

2.1 Aligning monitoring with measuring impact (the sweet spot)

IOM occurs at the intersection between concepts of monitoring and evaluation (M&E), both of which have been shown to fail in dynamic and complex programmes when implemented in isolation. Evaluators often complain about poor monitoring data and fail to understand complex programmes. Evaluations can also come too late (in terms of programme implementation) and too infrequently to give useful management information.[6]

A central proposal of the proposed IOM system, as illustrated in **Figure 1**, is to bridge the gap between monitoring and evaluation by finding the sweet spot that aligns an FSD programme's monitoring system with the objectives of IE. In other words, the system enables FSD programmes to adapt their planning and monitoring to become more evaluable, or more ready for a reliable, credible assessment of their impact, as well as providing useful data for programme management decisions. The IOM focuses on establishing an appropriate measurement system at the *start* of a funding cycle /evaluation period (normally three to five years), and the collection of evidence to test this throughout the implementation period.

Figure 1: The sweet spot (between monitoring and IE)



6. Adam Kessler and Jim Tanburn (2014) 'Why Evaluations Fail: The Importance of Good Monitoring', DCED, August 2014. In addition, at a practical level, as FSD programmes aim to adapt to changes in the market environment and engage in multiple projects, it is prohibitively expensive to assess all projects through stand-alone IE measures. Therefore pragmatic approaches are needed to strategically establish and use routine monitoring systems to develop the evidence base of IE.

2.2 ToC – a strategic framework for planning and IE

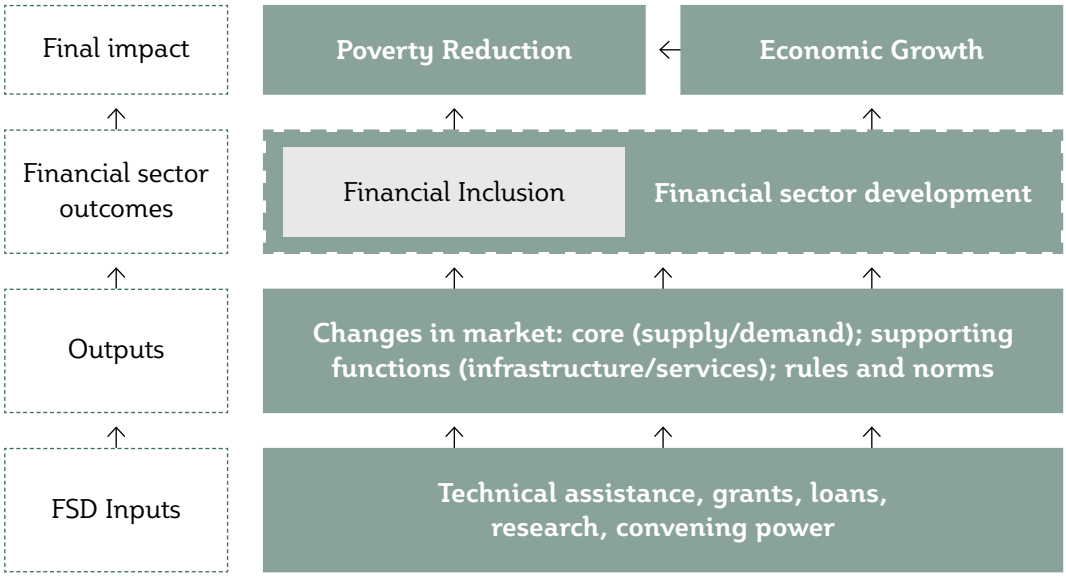
The strategy should be underpinned by a ToC that is informed by market analysis and that sets out the systemic constraints to achieving pro-poor outcomes in the financial sector.[7] It is the evaluation of this strategy, and its underlying ToC, that will define the focus of an IE:[8] that is, how FSD programme inputs lead to changes in the market system (at the macro, meso, and micro levels) – the outputs[9] – and how those in turn promote financial sector development, and subsequent outcomes and impacts on livelihoods (see **Figure 2**).

Using this ToC, a theory-based IE (TBE) provides the framework – or evaluation design – for measuring the impact of FSD programmes. **The basis of TBE is that *causal inference* can stem from the identification and/or confirmation of causal processes or 'chains' and the supporting factors at work, rather than from a specific counterfactual (such as, for example, another financial sector that can be compared).**[11] A TBE essentially has two parts: [12]

- **a conceptual framework** that sets out the programme theory, such as a ToC (together with a more detailed ToC for each of the core FSD themes (such as enabling environment, digital money, small and medium-sized enterprise (SME) finance) and results chains for each of the project/intervention funded by an FSD programme); and
- **an empirical approach** that investigates how FSD programmes have actually caused the intended or observed outcomes (some outcomes may be observed that had not been intended). This requires a strong evidence base that is aligned with the theory, with a range of methods used to assess the causality from the evidence base.

The IOM provides guidance on both these aspects, and offers an approach – contribution analysis (see section 3.3.1) – that FSD programmes, as well as independent evaluators, can use to test the overall impact at the end of a particular strategy period.

Figure 2 A generic FSD ToC[10]



7. This may include a broad focus on the sector, or specific areas, such as mobile money, or rural finance.
8. This does not imply that assessment of impact will only occur at the end of the strategy period. FSD programmes will need to build in periodic checks to assess progress towards intended impacts.
9. As set out in the Department for International Development (DFID) logframe (see **Figure 4**).
10. Note, this figure is only illustrative: the various pathways are more complex in reality, with, for example, potential effects from financial inclusion on growth as well as directly on livelihoods/poverty reduction. Theme-based ToCs and project results chains are likely to provide more detailed causal pathways that can be tested, for measurement purposes.
11. Stern et al. (2012) 'Broadening the Range of designs and methods for impact evaluations', DFID April 2012
12. Coryn, C., Noakes, L., Westine, C. and D. Schroter (2011) 'A Systematic Review of Theory-Driven Evaluation Practice From 1990 to 2009'. American Journal of Evaluation 32(2) 199–226

2.3 The primary measurement interest for FSD programmes is in assessing changes in inclusive financial markets

Typically, the term 'impact' is used to refer to long-term changes at the end of a results chain – in this case improved livelihoods/poverty reduction. However, FSD programmes have long and complex intervention logics, and there are a number of important financial sector areas that come before this final impact in which contribution can be assessed.[13] To that end, we need to change the way we think about impact.

It is important, therefore, for an FSD programme first to identify the impact(s) in which they are particularly interested – in other words, where in the ToC hierarchy the collection of evidence should be focused. Second, a core focus of an individual FSD programme is likely to be on *how* and *why* financial sector change occurs at every level of the ToC in which an FSD is interested.

The assessment of how changes in financial inclusion/overall sector lead to growth, poverty reduction and livelihoods can also draw on the FSD network in Africa by sharing research and emerging findings, as well as by making better use of global evidence. Examples of impacts that an FSD may define as the impact(s) that are of interest for their IOM system are:

- overall **financial sector development**;
- **financial inclusion**: whether the financial sector is providing and successfully delivering appropriate (quality) and affordable financial products and services, and if these are being used by poor people and micro and small enterprises;
- **market development**: a focus on how financial sector outcomes were achieved through the making markets work for the poor (M4P) approach, and if they offer prospects of sustainable access at scale (see below); and
- **improved livelihoods**: (a) the *direct* effects financial services have on the livelihoods of the poor (e.g. reduced vulnerability to shocks, increased incomes and increased employment); (b) the *indirect* effect of financial sector development and subsequent economic growth on improved livelihoods.[14] Evidence as to the causal pathways for this impact is likely to be largely generated outside of a specific FSD programme's IOM system.

"Impact for FSDs is largely about how and why financial systems change."

13. As noted above, some impacts, such as poverty reduction, may be better assessed using research generated outside an individual FSD programme.
14. A separate paper provides an in-depth discussion of the links between the financial sector and economic growth.

2.4 Measuring systemic change

A core objective of FSD programmes is to transform the sector or system in a way that is sustainable and resilient for large numbers of poor people and small businesses, i.e. assessing whether **systemic change** has occurred. In the context of IOM, systemic change is defined as '*a transformation in the structure or dynamics of a system. The systemic change in which FSD programmes are interested is change that leads to impacts on large numbers of poor people, either in their material conditions or in their behaviour.*'[15]

This moves the measurement lens to focus not only on end numbers (e.g. the level of financial access) but also on how the underlying structures of the market have changed to support these outcomes. Currently, FSD programmes are arguably better at measuring how many people they have impacted (through numbers of accounts, for example), rather than how the underlying dynamics of the system have changed to facilitate this, and to what extent financial sector outcomes are sustainable and resilient.

Systemic change is not in itself the final objective of FSD programmes: rather it is a means of achieving sustainable and appropriate benefits for the poor. **Therefore this IOM framework argues that FSD programmes need to measure both what systemic changes have occurred and how they have occurred.**[16]

2.5 Measuring impact from the perspective of both the FSD programme and the sector/market system

Perhaps the easiest way to measure the impact of an FSD programme would be to assess and aggregate its various FSD interventions. Such an assessment would analyse the extent to which the FSD intervention has led to market level change, and then the extent to which this change has led to an improvement in programme outcomes and impacts. We refer to this as a **'bottom-up' approach**, in that it attempts to track changes from the bottom of the ToC (FSD inputs) to the final impacts at the top (see **Figure 2** above).[17]

However, there are potentially significant problems with using such an approach on its own. These relate mainly to the difficultly of making connections between specific FSD interventions and changes in the broader financial sector, given the multitudes of other influences in regard to sector changes—in other words FSDs face the risk of 'self-importance bias'.

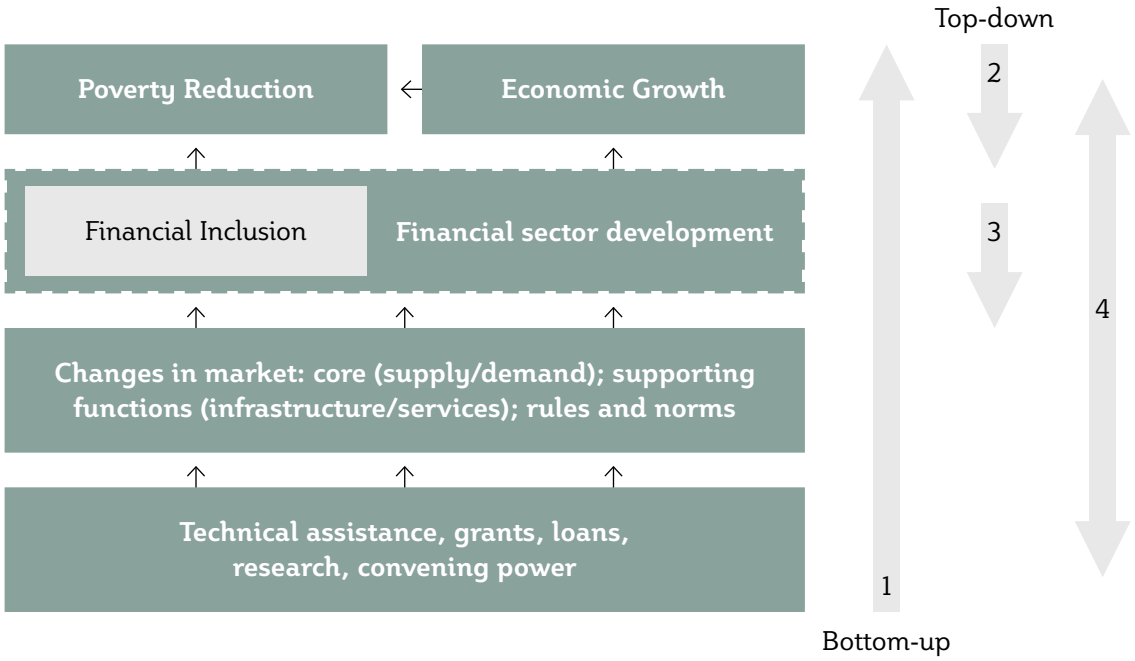
As a result of the problems inherent in using a bottom-up approach on its own, we argue that such an approach should be *augmented* (**not** replaced) by other approaches. These include:

- **A 'top-down' evaluation approach**[18]: in contrast to the FSD intervention-focused bottom-up approach this approach would analyse how key changes in indicators at impact level ('livelihoods', depicted by arrow 2 in **Figure 3** below) or outcome level ('financial sector', arrow 3 below) were caused by changes in market dynamics (not by specific interventions).[19] This top-down assessment is not synonymous with high-level impact research—as conducted, for example, by FSDA. There can be some overlap in relation to 'what explains changes in poverty, and where does financial inclusion come in this', but, as illustrated in **Figure 3** below, this is only one part of top-down assessment and it tends to cover only one part/level of the ToC.
- **A top-down monitoring approach – 'sector tracking'**: the IOM guidance also encourages monitoring changes in general at this level – this is referred to as sector tracking. This process is less focused on the causal drivers of change – although it provides some of the evidence base for assessing such drivers (for example, through the use of FinScope-type surveys) – rather, it helps an FSD programme to understand what changes are happening at the sectoral level from a non-FSD intervention perspective. This then helps FSD programmes to draw links between different types of interventions, as well as to identify unexpected changes in the market.

"FSDs want systemic change impacting positively on large numbers of poor people."

15. Adapted from, Ruffer, T. and Wach, E. (2013) 'Review of M4P Evaluation Methods and Approaches'. DFID and Itad, April 2013
16. The overall guidance paper provides more detailed guidance in this regard
17. This is largely the approach of the DCED Standard that is used for a number of private sector development programmes.
18. Again, top-down is in reference to the ToC outlined in **Figure 3**.
19. This non-FSD perspective does not necessarily need to be confined to just the final parts of a ToC and could be applied to output levels as well (for example, an FSD programme could examine all the key causes behind a policy change, without focusing specifically on the role of the FSD intervention in this area). However, the phrase top-down is used in relation to changes in a programme's outcomes and impacts.

Figure 3 A two-directional approach to impact measurement



1. FSD programmes measuring direct results of investments/interventions (from inputs, to outputs, to outcomes, to impacts)
2. Based on changes in households and/or the economy, FSD programmes can assess the range of key factors that contribute to this change (helped by FSDA-coordinated research)
3. Based on changes in levels of financial sector development and financial inclusion, FSD programmes can assess the range of key factors that contribute to this change
4. Provide an overall contribution narrative of FSD impact by triangulating the two perspectives of evidence - assessing to what extent changes in impact that are of interest were contributed to by FSD programme's interventions.

Table 2 Advantages and disadvantages of bottom-up and top-down approaches

	Advantages	Disadvantages
Bottom-up	– Clear link with projects, and aligned with logframe and annual reports – Real-time information relating to understanding performance and contribution – Partly reliant on monitoring data, avoiding costly large-scale (programme level) surveys	– The extent to which one can aggregate indicators (being project focused) may be limited, missing synergies across projects – Risk of self-importance bias linking changes in the overall system to relatively small projects – Risks of failing to capture the results of systemic changes, such as replications and adaptation in the market – Limitations in regard to understanding all the key factors that influence sector change and livelihoods when it is necessary to attribute them to FSD projects
Top-down	– Focuses directly on how things have changed at the outcome and impact level that is of interest – Helps FSD programmes identify unexpected outcomes and impacts (because it is not primarily focused on *expected* project impacts)[20] – Looks at all contributory factors, including non-FSD programme influences	– Assessment of programme's contribution is limited (thus reducing accountability), and potentially very expensive if attempted – Survey approaches that try to measure the whole programme from baseline to end-point may become obsolete given the dynamic nature of FSD programmes – Linking FSD interventions to broader change is difficult

Source: Adapted from Ruffer, T. and Wach, E. (2013) 'Review of M4P Evaluation Methods and Approaches'. DFID and Itad, April 2013

As shown in **Figure 3** above and reinforced by **Table 2**, the robustness of evidence collected through bottom-up and top-down approaches is weakened as they progress along the ToC. **In order to develop an overall FSD programme contribution narrative the IOM therefore recommends a combination of both approaches, to maximise their usefulness, with a synthesis of both at the point where they meet.**[21] Used in relation to the overall programme ToC, this approach can also be applied to FSD themes or flagship projects.

The overall IOM logic therefore is:

- What have been the key outcomes and impacts targeted by the programme?
- What were the determinants of those changes?
- To what extent were those determinants influenced by the programme's interventions?

The use of top-down and bottom-up approaches is further illustrated in Annex A, using a hypothetical example of interventions to address the enabling environment to promote financial inclusion. The Annex shows what a ToC for such interventions might look like, what elements of the ToC would be covered by top-down and bottom-up assessments, and what impact measurement questions and types of measurement methods might be used to evaluate the impacts of the interventions (issues that are covered in Section 3 below).

20. In this sense a top-down approach is likely to use a more inductive evaluation approach when compared to bottom-up measurement.
21. There are other examples of such a framework in practice, both in market development programmes (see Growth and employment in states (GEMS) and ITAD 2012), and in other complex evaluations (see the OECD budget support methodology).

2.6 A checklist for FSD programme managers and their governing bodies

The various steps for putting the IOM into practice are explained in the next section. However, in establishing and operating an IOM system, directors of FSDs and their governing or supervisory committees might from time to time find it useful to ask the following over-arching questions:

- Is there a clear ToC in place for the programme that allows the development of impact measurement questions (i.e. through a TBE)?
- Are the ToC[22] and logframe consistent with one another, and are the links showing how the ToC expands beyond the logframe, credible and coherent?
- Is the monitoring system set up to aid evaluation? Are there processes to:
  - ensure clear definition of the systemic change that the FSD programme is trying to bring about, and indicators to track this change?
  - ensure that the IOM framework is embedded within normal FSD programme processes, and that the responsibilities of the implementation team and the M&E team are clearly articulated (i.e. not just seen as the responsibility of the M&E team)?
  - identify sector changes beyond the monitoring of specific FSD projects?
  - alert you to outcomes that indicate that your interventions are not operating as anticipated, and assist you to adjust your strategy and/or your ToC?
- Do you have an agreed plan with funders regarding the arrangement for FSD evaluation and whether/when the logframe should be reviewed?
- Do you also have a process in place to learn about what works and what does not work in *measuring* your impact?
- Do the principles and guidance contained in the IOM help FSD programme directors to better manage their programmes? If not, what should change in the IOM guidance to ensure that this happens?

"Programmes and their funders should agree steps early on to implement IOM."

22. Both for the overall programme and any specific themes an FSD programme focuses on, e.g. agri-business or MSME finance.

3 Putting the IOM into practice

This section outlines the steps that need to be taken at the various stages of implementation of the IOM, as summarised in **Table 3**, and elaborated upon in the full IOM guidance.

Table 3 Outline of the IOM framework guidance

Stage	Steps	Timeline
Stage 1: Clarity of Purpose	*1.* Ensuring the FSD programme theory of change (ToC) is evaluable	Start of the strategy period
	2. Developing impact measurement questions	
Stage 2a: Measuring change: What happened?	*3.* Developing indicators including a focus on systemic change	Throughout implementation
	4. Data collection methods and sources	
Stage 2b: Measuring change: Why it happened	*5.* Assessing causality and contribution *6.* Use of research	
Stage 3: Bringing it all together	*7.* Articulating a credible narrative	End of Strategy (with periodic checks over the programme strategy cycle)
Implementing the IOM	Embedded throughout measurement practices	

3.1 Clarity of purpose (Stage 1)

This stage focuses on establishing the IOM at the start of the evaluation period, most likely to coincide with a new strategy period for an FSD.

3.1.1 Ensuring the ToC is evaluable (step 1)

Most FSD programmes already have a developed programme ToC (implicit or explicit) for strategy purposes. The first step, then, is to check the evaluability of the programme ToC, followed by any ToCs developed for themes in which an FSD programme may be particularly interested. Evaluability criteria include assessing if the ToC is **clear, relevant, plausible, testable, and adequate contextualised.**[23]

It is also important to ensure that there are appropriate identification of causal pathways to test, with programme and thematic ToCs linked to individual project results chains. It should be recognised that market facilitation entails an active and iterative feedback between analysis, action and reflection, and that, over time, the understanding and articulation of the ToC will change. Periodic reviews will be needed to identify and record the change(s) so that all the FSD programme team members and their partners have a shared vision of what the FSD programme is attempting to achieve, and so that the external evaluators can work with up-to-date and relevant ToCs.

It is important that differences, and connections, between ToCs, logframes and results chains are clearly understood. For multi-project programmes such as FSDs, these tools fulfil different functions. The **programme logframe** is a standard requirement for development funding: FSD programmes are required by funders to develop and report on a logframe using a set matrix template. The primary use of a logframe is therefore as an accountability tool. A ToC is typically seen as an expansion of the logframe, articulating why the series of results is expected to occur and focusing on not just the 'boxes' of a traditional log fame but also the 'arrows connecting the boxes'. ToCs look at the assumptions, risks and external factors that are of importance in relation to achieving results. The term **results chain** is used to describe a more detailed causal pathway focused on an individual intervention or projects. Results chain should be consistent with the overall ToC, and, from a measurement perspective, provide much of the evidence base ('the results') which is used to test the overall programme.

3.1.2 Developing impact measurement questions (step 2)

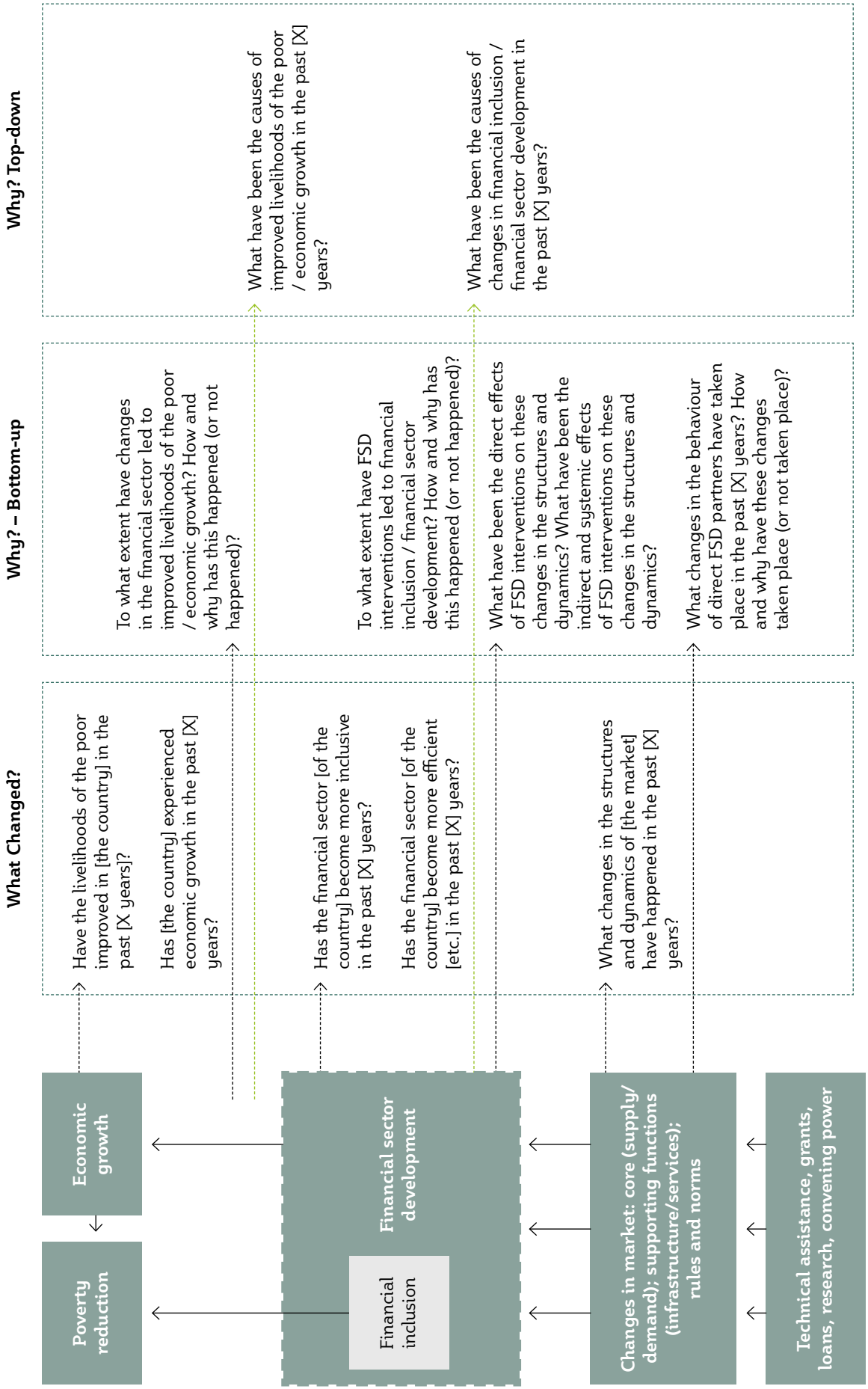
The second task is to develop impact measurement questions. For the purpose of IOM, questions that assess the overall impact of the programme, rather than the impact of individual projects, should be the focus here. However, much of the advice on this subject can also be applied to the development of evaluation questions for specific projects, which help to boost the evidence base for testing the programme ToC. Questions should be developed through a combination of the programme ToC and stakeholder (especially funders) objectives for IE. FSD programmes (and their funders) should consider:

- At what level of your ToC do you want to assess impact?
- Which impact pathways are the most critical to success?
- Are you interested in the relative impact of different types of interventions?
- Are you interested in cross-cutting themes (e.g. gender or youth)?
- What about the identification of unintended consequences?

Figure 4 illustrates how questions can be both (a) bottom-up – by asking to what extent changes in the lower level of the ToC (with a focus on FSD interventions) have led to changes in the higher level, and how and why this has happened (or not happened); and (b) top-down – by asking about the causes of changes at the higher level (without a direct focus on the FSD programme).

23. These criteria and general questions are adapted from Davies, R. (2013) Planning Evaluability Assessments: A Synthesis of the Literature with Recommendations. DFID Working Paper 40. We have not included Davies' criteria of 'valid and reliable', because these criteria are more about indicators, which we discuss in Stage 2, or 'consistent' and 'agreed', because these criteria are more about organisational arrangements.

Figure 4: Impact measurement questions for FSDs



3.2 Measuring change (Stage 2)

This stage focuses on identifying indicators and collecting evidence to measure change. This provides real-time information that enables FSD programmes to adapt their investments, as well as forming a robust evidence base that can be used to develop credible narratives regarding the impact of their contributions.

3.2.1 Identifying indicators and sources of evidence (steps 3 and 4)

Identifying impact-oriented indicators follows on from the measurement questions set out above. Monitoring indicators seek to clarify *what* happened (often quantitative and often those identified in donors' log frames or results frameworks). IOM seeks to build on this to measure and document *why* the change happened (often qualitative measurements). IOM focuses on those indicators that are most relevant for assessing the outcomes of financial market change, paying specific attention to systemic change measurement and outcomes at the financial sector level, as opposed to indicators aimed at measuring direct changes in the market or those for managing the performance of projects that are already part of existing practices.

Focusing on systemic change moves the focus of a monitoring system away from direct beneficiaries or direct acts of facilitation and seeks to understand the broader transformation taking place in the sector. Characteristics used to define systemic change include sustainability, scale and resilience (ability to respond to shocks and adapt models/processes to changes in the market). Three mechanisms of systemic change that an FSD programme can consider are:

- the effects of the project on the partner and their immediate sphere of influence;
- the effects that their partners have on the financial system, by demonstrating expansion and attracting replication (or championing reforms at the macro/meso level) through their networks and others participating in the wider system; and
- particularly relevant for FSDs are the effects that changing the rules and structures of the system can have on the incentives of system actors. This may be triggered by FSD programme partner successes as well as directly by FSD programme-facilitated activities/projects (dialogue, research, advisory, convening and advocacy activities).

There are a range of indicators that can be used to measure these mechanism of systemic change, from **buy-in indicators**, which measure the degree to which FSD partners' have taken ownership of new ideas, to **broader market expansion** indicators, which look at changes across an industry or sub-sector. For example, are the underlying processes and formal and informal rules (incentives) changing the risks and costs experienced by the financial services providers and users in such a way as to allow them to provide/use these services on a larger scale. This would also help assess if the initial pilots/ innovations are being scaled up?Tracking these trends helps to assess not only the current achievement of outcomes but the likely prospects of achieving scale and sustainability of the outcomes in the future.

As shown in **Figure 5**, indicators can be divided into those that are useful for bottom-up measurement, linked to an FSD intervention results chain, and top-down indicators, which are more useful when identifying broad sector changes, such as financial inclusion, and the development of the financial sector or sub-markets. The latter changes may or may not be related to FSD interventions.

FSD programmes undertake measurement for two specific purposes – to track the performance of the programme and to track the performance of the sector. Therefore, the value of evidence gathering goes beyond the use of that evidence for FSD programme accountability in regard to funders. For example, there is a range of indicators that can be (relatively) easily tracked to see how the financial sector is changing (or not). **This tracking of the shifting needle can be very powerful when it is drawn on in dialogue with policy-makers** to stimulate market actors, and to identify opportunities for further FSD work. Such analysis also provides evidence for the top-down analysis of causality.

FSD programmes have access to a variety of data sources that they can use – data collected by partner financial institutions, business associations, regulators and others. In addition, they can draw on international data such as Findex Global Financial Development Database, MIX market and Finclusion lab. FSD progammes also commission Finscope and other studies, which generate data for the wider market. FSD programmes should start by looking at what data are already available before assessing whether new data need to be collected.

3.2.2 Assessing causality and contribution (step 5)

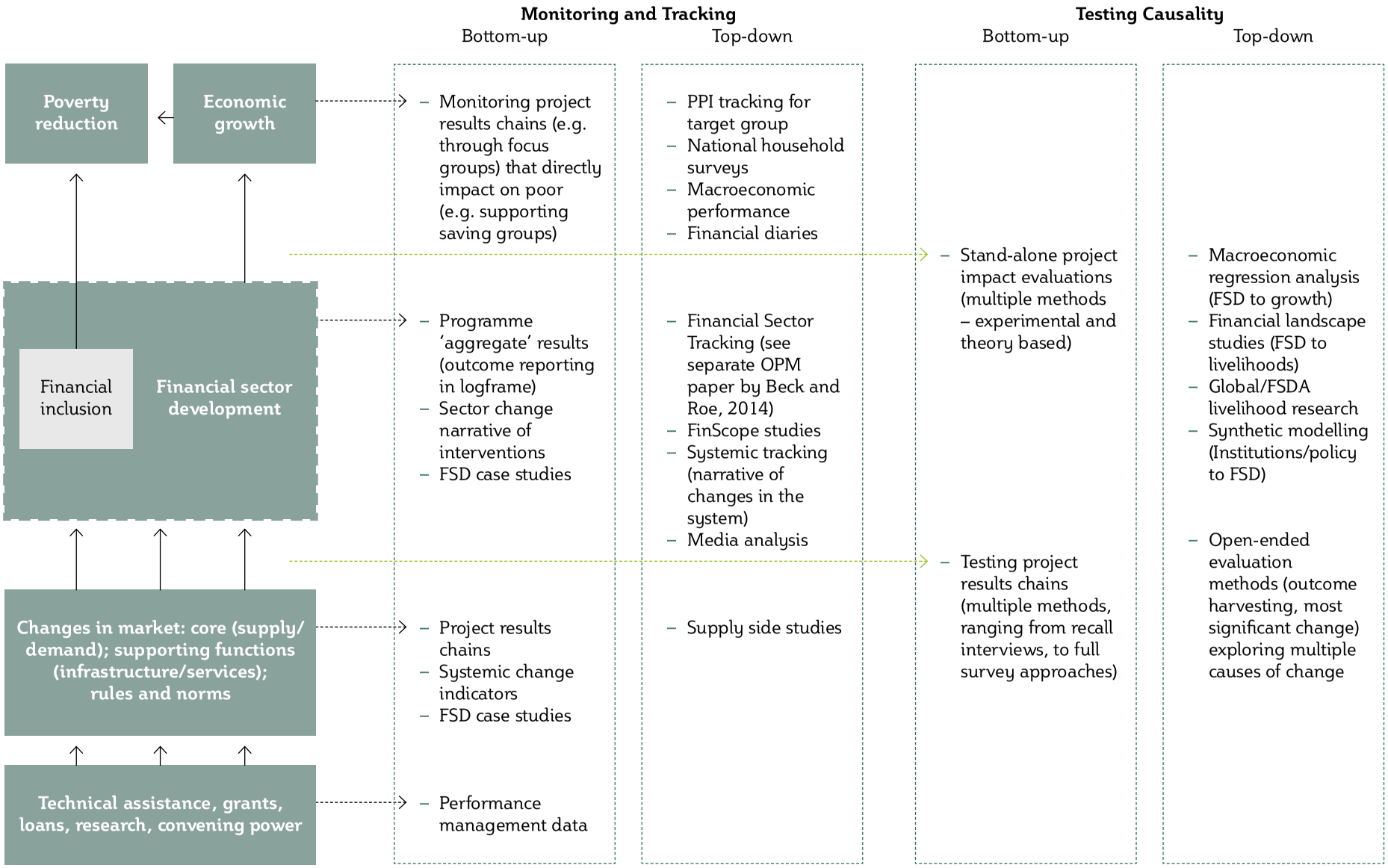
The previous steps involve collecting evidence of observed changes in relation to both FSD interventions and broader sector changes. What remains to be addressed is the attribution problem: i.e. to what extent FSD programme inputs have contributed to the change. In all countries where FSD programmes operate the financial sector has been relatively underdeveloped prior to the establishment of the FSD programme (hence the rationale for the programme), and therefore we would expect the sector to develop over time, even without FSD programme interventions (i.e. the counterfactual). FSD programmes risk over- or under-estimating the extent to which the change they are observing can be credited to their programmes. This step helps FSD programmes to explore in more depth what is causing observed changes for specific pathways beyond what is evident from the monitoring data. Again, FSD programmes can focus this analysis on project contributions (bottom-up) or on specific links in the higher part of the programme's ToC (top-down). **Figure 5** illustrates how measurement and indicators help to build a narrative around causality.

Given the challenges involved in assessing causality and contribution for dynamic, and broad programmes (where multiple actors and factors are contributing), the IOM adopts the DCED Standard's approach, advocating a pragmatic evidence-based judgement. The aim is for FSD programmes to be able to '*convince a reasonable but sceptical observer*' as to the contribution of an FSD programme to an observed change.[24]

A range of methods can be used to assess causality, from light-touch testing of an intervention's results chain and monitoring data, to stand-alone techniques (e.g. surveys and TBE methods) that may require significant resources. FSD programmes will need to prioritise which causal links to select for detailed enquiry. These choices will depend on the type of impact measurement question being tested, the complexity of the causal pathway being interrogated and its importance in helping answer an FSD programme's impact measurement questions.

24. See DCED Standard; although this is not to say that very specific pathways or projects cannot be tested using robust attribution methods. FSD programmes will have to consider issues of proportionality, e.g. the balance between resources allocated for implementation and for measurement.

Figure 5 Testing the programme ToC



3.2.3 Research agenda (step 6)

Whilst this step is not strictly a linear one (unlike the preceding steps), the IOM also advocates establishing a research agenda to explore specific causal relationships in the financial sector. This agenda can be designed to meet three requirements: (a) providing research to support FSD programmes to carry out their work better (understanding contexts and markets, the poor and their behaviour, etc.) and using evidence to influence policy-makers and market actors and move markets; (b) providing research to support the design of programmes/interventions; and (c) providing research to support global evidence regarding impact/effectiveness—particularly useful in relation to a FSD programme's final impact: the impact of financial sector development on poverty reduction.

FSD programmes will normally be the appropriate institutions to undertake or commission studies that are specific to the countries in which they are working, but FSDA can also play an important role in at least three ways: (a) by undertaking or commissioning studies that need to be undertaken in relation to more than one country; (b) by helping to liaise with two or more FSD programmes that wish to work together to undertake or commission studies themselves; and (c) by supporting the FSD programmes in knowledge management, as an information exchange as well as a disseminator of the results of research (within the FSD community and in the wider world).

3.3 Bringing it together (Stage 3)

This stage of the IOM focuses on how FSD programmes can test and synthesise their impact evidence at periodic points in their programme cycle, from annual reports to value for money analyses and final assessments of the evaluation period. This stage also focuses on the practical implementation of the IOM, including: common FSD programme activities within which to embed the IOM, investment in results management and the role of an independent evaluator.

3.3.1 Articulating a credible narrative (step 7)

The objective at this stage is to bring together all the bottom-up and top-down evidence in order to articulate a narrative that would '*convince a reasonable but sceptical observer*' about an FSD programme's contribution to a specific change being measured (e.g. financial inclusion). This analysis (step 7) can occur at different times, and at different levels of robustness, ranging from an annual light-touch review of the impact evidence alongside the updating of the programme logframe and annual report, to a full testing and verification by an independent evaluator at the programme end.

As noted earlier, the proposed IOM system uses a theory-based approach to assess the range of evidence in order to test the overall theory of the programme. It specifically recommends using a 'contribution analysis'

Figure 6 Testing points in the ToC

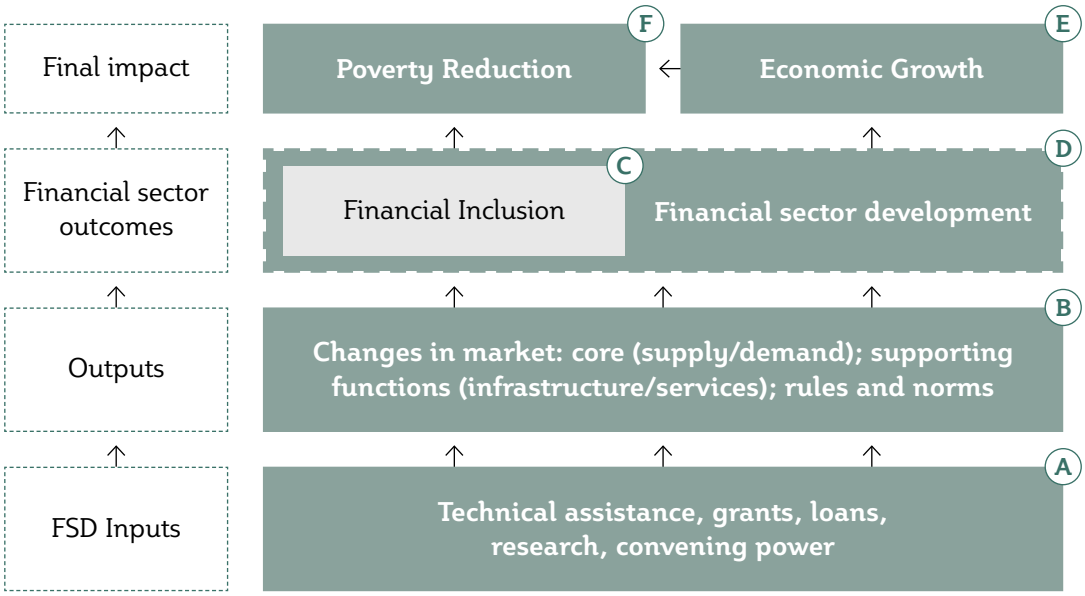


Table 4

Observed changes in the ToC

Source of Evidence \ Testing Point	A	B	C	D	E	F
Results chain	●●●	●	●●	●		
Market actor interviews		●		●		
Landscape studies			●		●●●	
Global/FSDA research		●		●		

Causality in the ToC

Source of Evidence \ Pathway	A→B	B→C-D	D→C	C→F	D→E	E→F
Monitoring data connected to results chains	●	●●●	●			
Market actor interviews		●	●			
Landscape studies				●●●		
Global/FSDA research		●		●	●●	●●●

Strength of evidence ●●● Strong ●● Medium ● Weak

at this synthesis stage.[25] The underlying principle is the need to triangulate and judge the strength of evidence collected in the steps above to test specific causal paths of interest (based on the impact measurement questions). See **Figure 6** for an indicative example.

The preceding table may appear daunting, but it presents a summary of what FSD programmes and their evaluators should look at in order to document change processes and the extent of change. The evidence table can be used to make judgements about a programme's causal links, with the relative extent of an FSD programme's contribution to those links being articulated (for example, 'a second order contribution'). A summary of these causal claims can then be used by FSD programmes to provide a variety of stakeholders with a succinct and credible narrative as to the impact of the programme.[26]

25. The general steps are taken from Mayne (2001) 'Addressing Attribution through Contribution Analysis: Using Performance Measures Sensibly', as well as, Delahais and Toulemond (2012) 'Applying contribution analysis: Lessons from five years of practice'.
26. The evidence tables, and their underlying data, would provide the full evidence base upon which this summary was based, thus ensuring appropriate robustness. The succinct narrative would also become an important communication tool for FSD programmes who have, so far, been struggling to balance explaining the complex nature of their work with trying to robustly make claims regarding the contribution of their impact.

3.3.2 Embedding IOM in FSD operations

To mainstream IOM, FSD programmes can identify the various windows of opportunity in the project/programme planning, implementation and review processes, when impact orientation can be embedded as a part of core internal processes. These include:

- **Development and periodic revision of the overall FSD strategy**: the programme ToC is set out in the overall FSD strategy (normally for a three- to five-year period). A key strategic opportunity to test the evaluability of the ToC is when the overall FSD strategy is being developed or revised (step 1). However the process of development and agreement of impact measurement questions (step 2) can take place at any stage (and should be periodically reviewed and updated). In fact, without agreement on what levels and types of impact the FSD is interested in, it is very hard to integrate the IOM into the existing monitoring system.
- **Finalisation and periodic review of the logframe**: while the programme logframe can provide information about the overall outcomes, on its own it may be unable to help prioritise which impact measurement questions and evidence the programme should focus on. Market development programmes should use results measurement for more than just reporting to funders: to adapt to changing markets, to scale up what works, and to play down or discard what does not work. This means that market facilitators need to monitor much more than just accountability indicators in the logframe, and need to build partnerships with policy-makers, business associations and others to identify which data can help track and move markets. Some of this analysis used for market facilitation can also help in tracking changes and establishing causality.
- **Approval and review of specific projects/investments**: IOM can and should inform the way FSD programmes make their investment decisions. FSD programmes can adapt the documentation, such as project appraisal reviews (PARs), that they present to their decision-making bodies to capture not only the expected output and outcome measures, but also the wider systemic changes they expect to see and the indicators proposed to capture these. As well as reviewing the performance of projects, FSD programmes can leverage their regular monthly and/or quarterly meetings for measurement purposes. For example, wider changes in the market system based on tacit staff knowledge could be documented and periodically analysed to discuss implications for systemic change.
- **Annual review**: FSD programmes normally submit an annual report to funders and often have an annual review discussion. The annual review process can also provide a useful opportunity to take up a specific programme theme for a detailed IOM analysis – to confirm evaluation questions, to identify existing sources of evidence and build on insights of FSD staff and partners, as well as to identify possible follow-up work/specific studies for the following year to strengthen the impact orientation of the existing monitoring arrangements. The annual review provides a particular opportunity for providing a more in-depth narrative on the types of systemic change an FSD programme is assessing.
- **Programme (impact) evaluations** (e.g. mid-term review and end-term review): see Section 3.3.3.
- **Specific impact assessment study**: FSD programmes also commission specific studies based on identified needs (for example, for a flagship project) and such studies can provide useful evidence for confirming some of the claims relating to achievements and causal chains.

"IOM's principles and methods can be embedded throughout an FSD's programme cycle."

3.3.3 Appointment of an independent evaluator

This guidance focuses on integrating results measurement in the entire programme cycle – scoping, programme design, implementation and review. However, dedicated results measurement capacity within the FSD programme, and closer joined-up working amongst the FSD programme implementation and M&E team, is still key to fulfilling various expectations. In addition to internal capacity, the IOM guidance provides three potential scenarios for FSD programmes to inject greater expertise and independence into their IOM approach. These scenarios, which are not mutually exclusive and have potential overlaps, are:

a. rely on the IOM system to produce evidence, with the process of implementing the IOM tested by an independent body;

b. a broad/concurrent partnership between the FSD and an independent organisation(s) to assess the impacts of the programme, and make changes to programme design and monitoring systems to make it more evaluable, using both monitoring data and specifically commissioned impact research; and

c. periodic external IEs to assess if the programme is delivering expected results (e.g. at the mid-point and end-point of the strategy), but using the evidence collected through the IOM.

Each of these approaches has strengths and weaknesses in relation to specific interests, such as: the ability to support real-time learning; the degree of focus on impact; independence; human and financial resources required from the FSD programme; and additional data collection/analysis required. This guidance recommends option b) for most FSDs. Regarding the specific interests listed above, option b) scores lower on independence but more than compensates through the stronger ownership of, and usefulness of, the results measurement process for FSD programmes and funders. Fortunately, this option is increasingly being implemented by many funders to facilitate learning from market development programmes. FSD programmes should initiate a proactive dialogue with their governing body (which includes funders) to finalise these arrangements. To ensure independence, a sub-committee could be formed by the FSD programme governing body which is responsible for the recruitment and oversight of this evaluator/knowledge partner. The FSD programme team should work closely with this committee in defining the scope of the external evaluators (IE questions and terms of reference) and the nature of the arrangement (long-term, periodic engagement) so that the evaluators can guide and quality assure the IOM process and the impact results/communication.

"Careful implementation of IOM can strengthen the quality of independent impact evaluation."

4 Conclusion and next steps

Two workshops (October 2014 and March 2015) and other consultations with FSDA, DFID, DCED, the Consultative Group to Assist the Poor (CGAP) and all the FSD programmes have contributed to the development of this IOM guidance. Based on feedback received on this consultation document and the detailed IOM guidance paper, the detailed guidance will be finalised by the Oxford Policy Management (OPM) team in July 2015.

FSDA in consultation with FSD network will coordinate and support the implementation of this guidance by interested FSDs. This is likely to include a combination of training, knowledge management, technical assistance and research. The aim is to achieve a more robust, coherent and systematic approach to FSD monitoring and results measurement. This will allow the FSD network to better understand its impact on poverty reduction and financial sector development and to pursue what works and learn from what does not.

Annex A Bottom-up/top-down examples

Given the potential for confusion, this Annex provides a further illustration of the use of the top-down and bottom-up approaches described in Section 2.5 of the note.

Table A.1: Top-down and bottom-up overview

		Description	Objective	Example
Top-down	**Monitoring approach (sector tracking)**	Tracking changes in livelihoods, economic growth[27], financial sector	– Identifying changes in the financial sector beyond those captured (or thought about) in FSD interventions/frameworks – Helps improve programme design, and provides an evidence base to confirm if expected changes are occurring	Is efficiency of the formal financial sector improving?
	Evaluation approach	Assessing what has caused changes in livelihoods, economic growth, financial sector	– Assesses the causes of changes in the financial sector from a non-FSD programme perspective – Provides an in-depth focus on specific complex pathways found towards the top of the ToC[28]	What has caused the changes in the efficiency of the financial sector?
Bottom-up	**Monitoring approach**	Tracking the performance of FSD projects	– Provides information to help improve project performance – Provides record of key achievements	Have FSD programme partners improved their efficiency?
	Evaluation approach	Assessing if a project's intervention led to observed outcomes	– Provides evidence as to whether or not an FSD programme's specific interventions worked, and why	To what extent have FSD interventions (e.g. expanding agency banking) contributed to changes in the efficiency of FSD programme partners?

This is further illustrated based on the hypothetical example shown in **Figure A.1**, which depicts interventions that address the enabling environment in order to promote financial inclusion. The figure shows what a ToC for such interventions might look like and what elements of the ToC the top-down and bottom-up assessments would cover. The table that follows the figure suggests what impact measurement questions and types of measurement methods might be used to evaluate the impacts of the interventions.

27. As noted above, the examination of the links between the financial sector and livelihoods/economic growth may be assisted by research coordinated by FSDA, rather than being explored separately by each FSD programme.

28. This recognises that linking FSD interventions directly to these broad changes can be difficult.

Figure A.1: Enabling environment theme

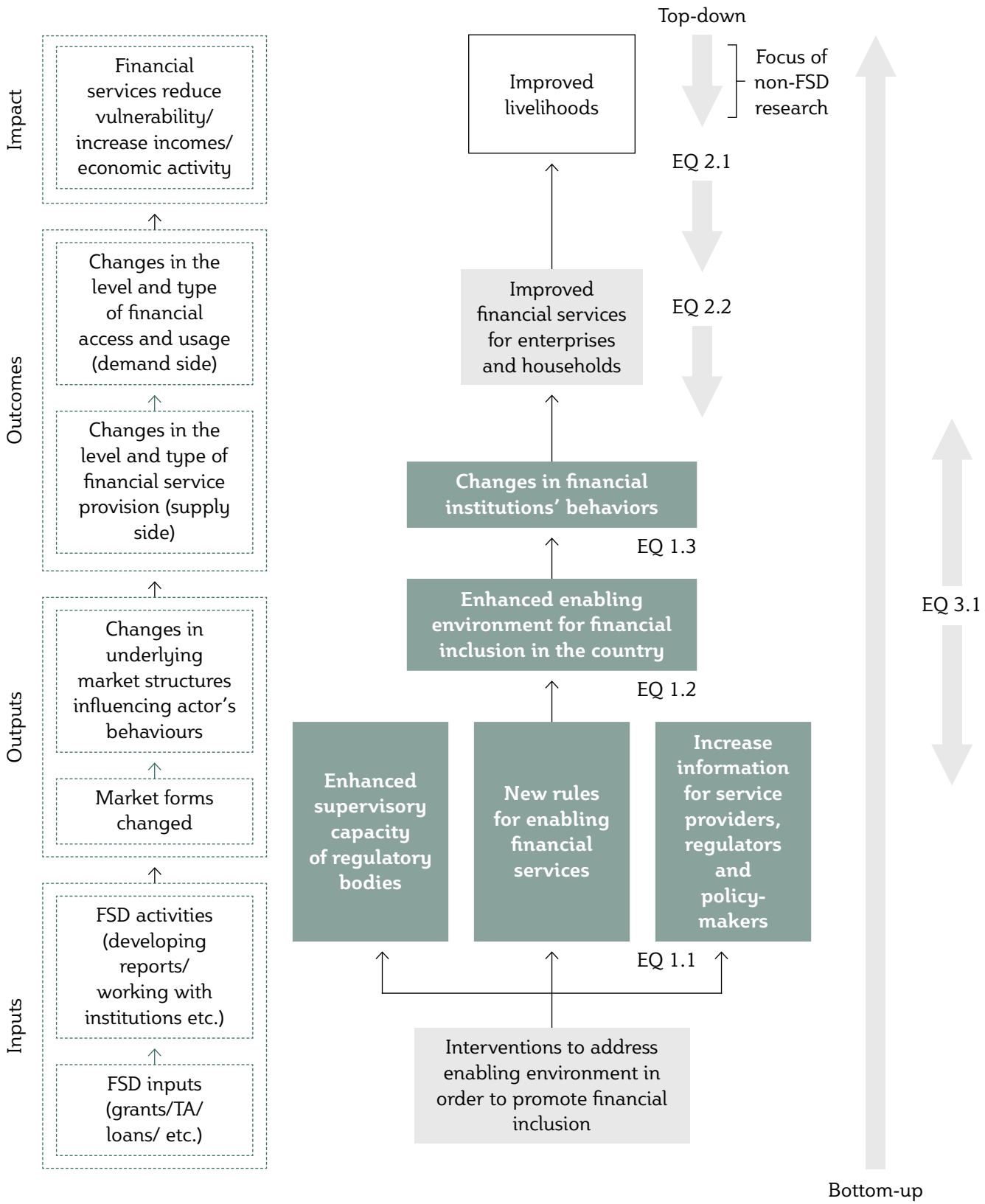


Table A.2

Type of evaluative approach	Impact measurement questions	Types of measurement methods
Bottom-up: from intervention to market system change (and outcomes)[29]	– EQ 1.1 What have been the direct outputs from FSD programme interventions?	– Intervention monitoring data – Key informant interviews and focus group discussions
	– EQ1.2 What changes have occurred in the enabling environment for financial inclusion?	– Intervention monitoring data – Enabling environment surveys – Key informant interviews and focus group discussions – Case studies – Political economy analysis
	– EQ1.2 To what extent can these changes be attributed to FSD?	
	– EQ1.2 What have been the other causal factors?	
	– EQ1.3 To what extent have these enabling market changes led to improvements in the inclusiveness of the system? (i.e. through changing institutions' behaviour etc.)	– Key informant interviews and focus group discussions – Supply side studies
Top-down: Changes in financial outcomes (behaviour of financial institutions and level and appropriateness of financial services)	– EQ 2.1. How have the level and composition of financial services changed (in the relevant sector/time period, given the enabling environment changes)?	– Demand side studies – Supply side studies
	– EQ 2.2 What market system changes led to the changes in financial inclusion?	– Key informant interviews and focus group discussions – Supply side studies – Case study approaches – Outcome harvesting – Most significant change
	– EQ 2.2 What have been the causes of any changes in the enabling environment?	
Credible Narrative: Linking market changes (and outcomes of those) to FSD's interventions	– EQ 3.1 To what extent can the market level changes observed in the top-down analysis be attributed to FSD interventions?	– Findings from Steps 1 and 2 – Synthesis and triangulation – Contribution analysis

29. It is more likely that direct outcomes, in terms of provision and usage of financial services, will be captured for micro level projects rather than those operating at macro level, given that the results chains are longer and more diffuse in the latter case. Moreover, even for micro projects, while it is important to measure those directly impacted (for example, those who invest in savings groups), how the underlying dynamics of informal finance markets have changed should also be considered (hence top-down analysis is still relevant).

About this consultation document

This assignment was commissioned by FSD Africa to facilitate peer learning among the nine FSDs in Africa, help them adopt more robust approaches, and develop a crisper message across the FSDs in regard to both measuring and reporting their results. This assignment has been facilitated by an OPM core team (Sukhwinder Arora, Sarah Keen, Ian Robinson, Robert Stone and Richard Williams). The OPM team was supported by a panel of experts including Thorsten Beck, Susan Johnson and Alan Roe. The OPM team has also greatly benefited from frequent consultations with and guidance from FSDs, FSDA and CGAP teams. Contributions, especially from Mark Napier, Joe Huxley, Mayada El-Zoghbi, Karina Nielsen and Krisana Pieper are greatly acknowledged.

Once this core assignment is completed by OPM in July 2015, FSD Africa seeks to work with DFID and the FSD Network in Africa to support its implementation and periodically review and update the guidance.

About FSD Africa

Financial Sector Deepening Africa (FSD Africa) is a non-profit company, funded by the UK's Department for International Development, which promotes financial sector development across sub-Saharan Africa.

FSD Africa operates as a catalyst for change, working with partners to build financial markets that are robust, efficient and, above all, inclusive. It uses funding, research and technical expertise to identify market failures and strengthen the capacity of its partners to improve access to financial services and drive economic growth.

FSD Africa is also a regional platform. It fosters collaboration, best practice transfer, economies of scale and coherence between development agencies, donors, financial institutions, practitioners and government entities with a role in financial market development in sub-Saharan Africa. In particular, FSD Africa provides strategic and operational support to the FSD Network.

FSD Africa believes strong and responsive financial markets will be central to Africa's emerging growth story and the prosperity of its people.

About the FSD Network

Today, the FSD Network:

- Comprises two regional FSDs – FSD Africa based in Kenya (est. 2013) and FinMark Trust based in South Africa (est. 2002) – as well as seven national FSDs, in Kenya (est. 2005), Moçambique (est. 2014), Nigeria (est. 2007), Rwanda (est. 2011), Tanzania (est. 2005), Uganda (est. 2014) and Zambia (est. 2013);
- Is a world-leading proponent of the 'making markets work for the poor' approach;
- Specialises in inclusive financial sector development, through interventions such as SME finance, agriculture finance, housing finance, savings groups and digital financial services. A number of FSDs are starting to explore financial sector development for growth, through capital market development interventions such as secondary stock exchange development, capacity building and skills development;
- Represents a collective investment of $450+ million by DFID, the Bill & Melinda Gates Foundation, SIDA, DANIDA, Foreign Affairs, Trade and Development Canada, Royal Netherlands Embassy and the World Bank;
- Spends $55+ million per year, predominantly through grant instruments; and
- Employs over 100 full-time staff across sub-Saharan Africa and uses a wide range of specialist consultants.

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