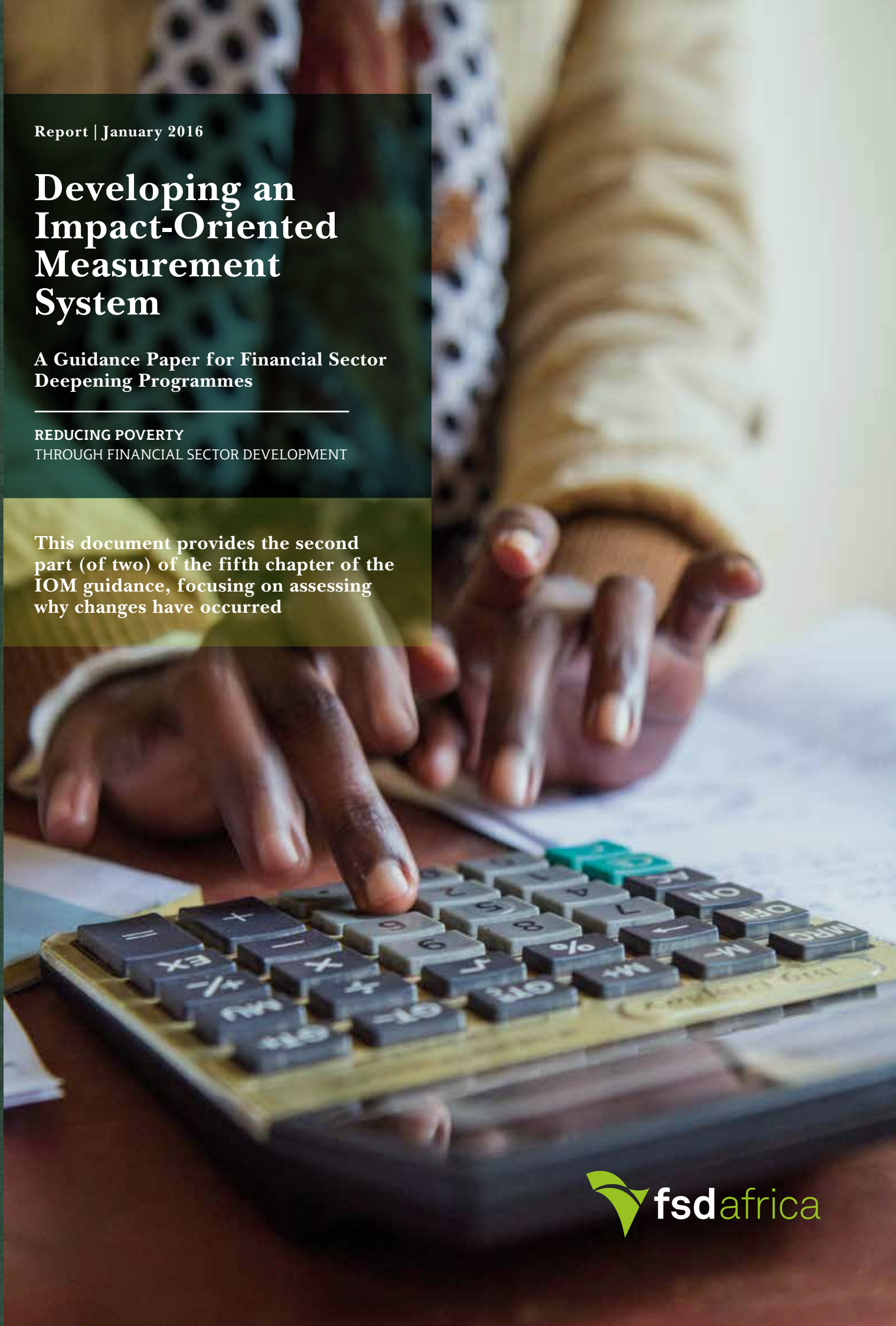

Report | January 2016

# Developing an Impact-Oriented Measurement System

## A Guidance Paper for Financial Sector Deepening Programmes

**REDUCING POVERTY**
THROUGH FINANCIAL SECTOR DEVELOPMENT

**This document provides the second part (of two) of the fifth chapter of the IOM guidance, focusing on assessing why changes have occurred**

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# IOM – Chapter 5: Measuring Change – Why it happened (Stage 2b)

## Stage 1: Clarity of purpose

**Step 1:** Setting out an evalaution Programme ToC

**Step 2:** Developing impact measurement questions

## Stage 2a: Measuring change – what happened?

**Step 3:** Developing indicators

**Step 4:** Data collection methods and sources

## Stage 2b: Measuring change – why it happened?

**Step 5:** Assessing causality and contribution

**Step 6:** The research agenda

## Stage 3: Bringing it all together

**Step 7:** Developing a credible narrative

Implementing the IOM (Chapter 7)

Chapter 5, Measuring change, covers Stage 2 of the process of implementing the IOM guidance: This stage is split into two sub Stages –2a, and 2b.

This section focuses on Stage 2b, providing guidance to FSDs on assessing as to why the changes they are observing (see Stage 2a) have occurred, and to what extent FSD programmes have contributed to these changes.

**Stage 2b is broken into two steps:**

**Step 5 – Assessing causality and contribution:** This provides the tools for an FSD to interrogate and build an evidence base for how and why changes have occurred.

**Step 6 – The research agenda:** This outlines certain activities exploring causal relationships in the financial sector that are likely to be beyond an FSD's core measurement system, and may also require partnerships with other FSDs, and global institutions.

## 5.3 Assessing causality (Step 5)

### 5.3.1 Overview

- The previous sections have focused on *what happened*. But for impact evaluation a description of what has happened is not enough. There is a need to explain *how and why* the changes have happened, and to what extent the FSD played a causal or contributory role. Step 5 therefore focuses on how to build an FSD's evidence base for causality – that is, exploring the mechanisms by which FSD interventions affect change.
- Causality can be established by assessing the linkages between FSD interventions and the observed change (bottom-up) and/or by assessing other pathways linking changes in the financial sector to a range of influencing factors (top-down).
- This section discusses different approaches to demonstrating causality. Methods range in terms of the rigour and investment required, internal and external validity, use of qualitative and quantitative methods, etc.
- Causality methods available to FSDs range from using existing results chains and FSD monitoring data to carrying out additional stand-alone studies. These methods do not have to be undertaken for every intervention and/or for all impact pathways but they do provide an opportunity for an FSD to step back and assess the level of their contribution.
- This paper does not contain in-depth information about how to use each of these methods, but the information provided should be sufficient for FSDs to understand their options and to make an informed decision as to a) the direction they want to pursue for measuring causality within the programme and projects; and b) where external help may be useful.
- A separate technical note is provided for further information on specific methods.

### 5.3.2 Causality in FSD programmes and projects

**There are a number of challenges in assessing causality for an FSD programme, and its various interventions.** At the programme level, FSDs are attempting to influence a system that has many interdependent parts, as well as numerous non-FSD players/factors that contribute to change. As previously described (Table 2), due to their function as market facilitators, identifying linear relationships between an FSD intervention and an observed change is challenging.

It is relatively easier to focus on causality between specific links in the programme, as underpinned by an FSD's projects or a group of projects. However, there are challenges even with this. FSD programmes work through partners rather than delivering direct impacts themselves, and thus cannot take full credit for the observed change. Projects also tend to work in combination with other factors (e.g. other policies, technological changes, stakeholder behaviour etc.), and as they purposely seek to facilitate spill-overs (e.g. demonstration effects) in the market, the distinction between what the project has influenced ('treated) and what it has not ('untreated') is often not clear.

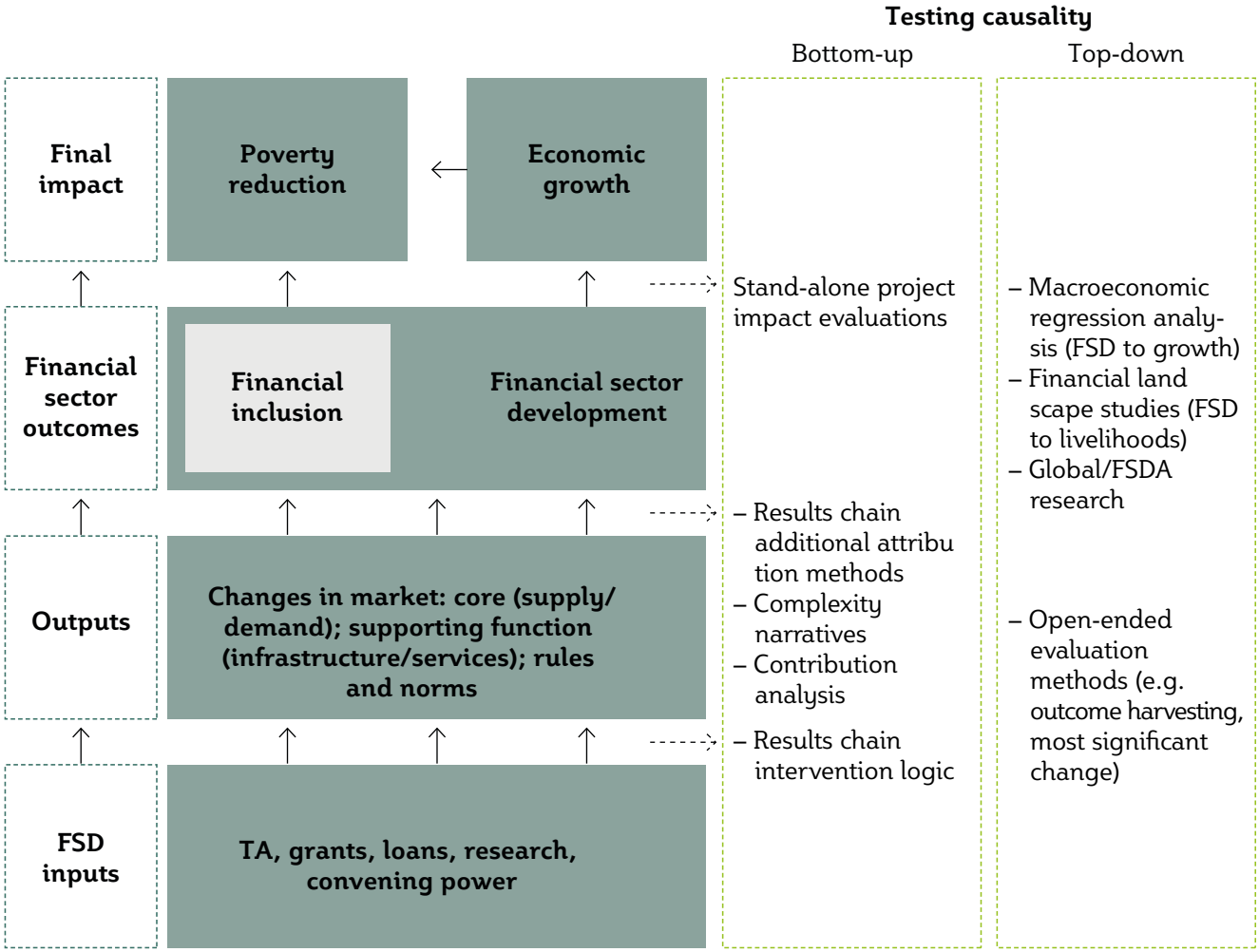
**Given these difficulties, there needs to a realistic approach to assessing how far an FSD can show attribution to a particular causal pathway (see Box 3).** This framework therefore adopts the DCED Standard's approach to this issue. We advocate applying pragmatic evidence-based judgement, and – in order to understand causality – applying those resources that are appropriate to the pathway being tested. The aim for the FSD should be to ***'convince a reasonable but sceptical observer'.***[73]

Measurement of causality should be driven by the **impact measurement questions (see step 2, Section 4.2),** which call for testing the cause-and-effect relationships within the ToC, i.e. not all of the causal links necessarily need to be explicitly tested. **Causality analysis will occur at different times:**

- Causality of the FSD programme as a whole should be assessed systematically during the planned impact evaluation – most likely at the end of each strategy phase, and possibly also at the mid-point of the phase (see Step 7). Taking a theory-based approach, the impact evaluation for the FSD programme will be informed by the evidence that is collected through specific assessments of causality.
- Evidence of causality for projects, and specific links in the ToC, can be captured throughout the programme implementation period. This includes assessing the causality within each of the projects the FSD supports – with light-touch methods being used regularly and more robust methods at a mid-point or at the end of the project.

73 DCED Standard

**Figure 16 Analysing causality in FSDs**



### 5.3.3 Principles of measuring causality for FSDs

**The fundamental challenge of measuring causality is moving beyond simply showing change (in the market or in the lives of end-users for example) from the start to the end of the programme, and actually substantiating the extent to which the programme contributed and/or was solely responsible for these observed changes.** Here we set out some general principles that FSDs can use to determine when and how to assess their interventions.[74] The following section then briefly outlines some core methods to use for specific FSD interventions and the overall FSD programme, as well as for testing pathways towards the 'higher-levels' of their programme ToC (outcomes and impact).

By taking the following steps, FSDs will be better positioned to measure causality within their overall programme (and supported projects):

- Develop a **robust causal model** that underpins the intervention, and that can be tested. In other words, is there an evaluable ToC/results chain (see Step 1) and has this been updated over the course of the programme, to ensure it remains relevant?

**Tip:** Facilitated discussions with informed observers about the results chain can be a powerful tool for causality assessment and often the first point of analysis (before any study or research is initiated) to check if the logic is working in practice.

- Develop a **clear implementation plan to measure causal effects** to a sufficient and appropriate level of validity. Given that not all interventions can be measured the same way, different types of validity may be considered.
- **Triangulate sources and methods.** No one source of data or even method is likely to be sufficient to establish causality for complex pathways. Triangulation allows an FSD to build up 'enough' evidence to make a plausible judgement for if, and why, an intervention(s) achieved (or did not achieve) its impact.
- **Be open to findings and look for the unexpected.** Reflecting the complexity and unpredictability of markets, FSD programme teams need to be humble and aware of their limits in terms of their understanding and influence. Therefore FSDs need to pay special attention to assessing if there are any surprising patterns in the data, or if there are unexpected factors at work.

**Tip:** To deal with unpredictability ask open-ended questions and seek multiple perspectives from well informed observers (e.g. market actors) or review reports/ studies commissioned by others.

- **Be open to failure.** This includes both deciding to research interventions that have failed (to understand why), as well as reporting honestly on those that have failed.[75]

**Discussion point:** FSDs noted that failure is part of the market facilitation process – programmes have to take risks, and therefore sometimes fail – but they struggle to report on this. It was agreed that detailing examples of failure in annual reports can often form an important source of learning, as well as credibly showing how the programme is seeking additionality, and to be taking risks.

- Ensure **quality of data collection.** Most of this has been covered above, but one additional point that can be made is that when FSDs use survey approaches to test specific pathways, there is a particular need to have a robust sampling strategy, strong research instruments, and close supervision of field personnel.[76]
- **Be transparent** about the strengths and weaknesses of methods used, including any threats to validity and any trade-offs that were made (e.g. sampling strategy, resources used, types of approach etc.)
- Allocate **resources appropriately** in order to understand the causal pathway of interest (see Box 25).

74. Creevey et al. (2010).
75. This may also include examining why certain investments were not made, or investigating the users/customers that did not choose to take-up a product, etc.
76. For help thinking about sampling sizes, see, http://www.enterprise-development.org/page/calculator.

**Box 25 How to allocate resources to measure causality?**

As the 2014 DFID Evaluation Policy states, 'there is potentially a boundless need for evidence to support decision-making'. **Therefore, where further evidence is needed, there is a need to prioritise.**

Some form of causality analysis should be undertaken for all pathways in the programme ToC, and to assess if individual intervention results chains are working as expected. **However, how resource intensive this analysis is will vary in terms of what methods are being used.** For example, using existing monitoring data to test a results chain for a relatively simple intervention (underpinned by a simple cause and effect theory) might be adequate. But for other cases you may need to go beyond this – from an interview to test important assumptions, to large scale surveys. These present an important opportunity for the programme to step back and reflect in more depth on how change processes have occurred.

**There are a number of criteria that can be used, often in parallel, when analysing the level of resources to be devoted to exploring causal pathways.** These include:

- the complexity of the causal pathway, in particular how many non-FSD contributory factors are likely to be present (the more complex the pathway, the more advisable it is to undertake analysis beyond simply monitoring the results chain);
- the importance of the pathway to the overall programme ToC;
- the size, cost and significance of the FSD intervention (some FSDs have 'flagship' projects);
- the gap in understanding regarding the causal pathway. Some pathways will be well known, with significant past experience or global evidence suggesting it will be operating (thus no need for additional FSD analysis); and
- the potential for impact (at outcome level on the financial sector, or on livelihoods).

The table below highlights the different implications for measurement of 'important' and 'less important' interventions.

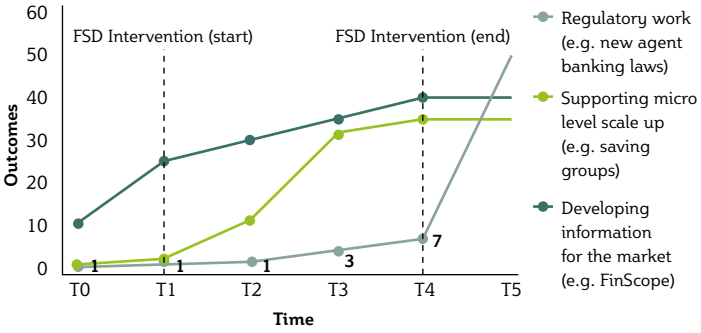
| Intervention Category | Measurement Requirements |
|---|---|
| **Category 1:** Interventions deemed 'less important' based on an *ad hoc* criteria | Small baseline conducted before any changes have occurred<br>Partners self-report results to validate results chain<br>Few (if any) additional methods are used to assess causality. Methods may include rapid data collection methods, such as interviews with key actors and FSD staff. |
| **Category 2:** Interventions deemed 'more important' based on an *ad hoc* criteria | 'Category 1' plus:<br>Additional baseline data collected<br>Pathways verified through a triangulation of data sources<br>Causality (particularly at outcome level) measured using rigorous methods |

*Source: Table adapted from FSDMoç results management handbook*

- **Identify the appropriate timing of measurement.** As we noted in section 5.1.6 above and illustrated in Figure 15, it is difficult to identify the most appropriate time for FSDs to undertake measurements. This will depend on the type of intervention (and pathway) in question. On the one hand, the longer the measurement period after the intervention, the more difficult it is to isolate the intervention's impact. On the other hand, take-off trajectories may be very different. Therefore, understanding pre-intervention trends (not just a static baseline) may also be important (see Box 18). As shown in Figure 17 an FSD needs to try to assess if the intervention is 'riding the crest of a wave' (and thus there is a need to be careful not to overestimate impact), or 'putting in building blocks for future' (and thus there is a risk of underestimating the overall impact).[77]

77. See Boulton and Johnson (2013).

**Figure 17 Timing of impact**




### 5.3.4 Methods for examining causality

#### 5.3.4.1 Examining the causality of FSD interventions (bottom-up)

A bottom-up approach to examining causality focuses on developing evidence to test how an FSD's programme ToC (or results chain) is operating. Examining how FSD interventions are causing observed changes in the market and leading to outcomes related to financial sector development and financial inclusion will be the main focus of any FSD programme-level impact evaluation.

#### 5.3.4.2 Examining causality at sectoral level (top-down approach)

The bottom-up view should be triangulated with a top-down view. This sectoral-level/ top-down perspective focuses on the more 'removed' pathways that affect the structures, dynamics and changes of the financial system, and subsequent impact on livelihoods, rather than the direct impact of FSD interventions. The 'removed' pathways, for example, could include indirect influences, or other market players or forces.

**Tip:** Top-down analysis is likely to be undertaken more infrequently than bottom-up analysis, and involves focusing on the impact/outcome part of the ToC.

Many of the causal methods described in this chapter (and in the technical note) can apply to both the top-down and bottom-up approaches. For a top-down approach, rather than focus on FSD inputs, the methodologies should be used to focus on the change that is of interest – for example, the changes in usage of financial services, and what causes have led to that change. For FSDs, these top-down analyses will be at a market or end-user level (Box 26). As noted earlier, some of these studies could be commissioned and coordinated by FSDA, particularly if a cross-country approach is taken. There is also global evidence, for example, of financial sector development leading to economic growth (through cross-country regression analysis) that can provide some comfort to FSDs that important pathways are present. Some of these pathways, particularly those related to economic growth and livelihoods, may form part of a broader research agenda (see Step 6).

**Box 26 Top-down pathways of interest and evaluation approaches**

**Financial sector development and institutions:** Financial sector development in one country can be compared with other peer countries (i.e. with similar structural characteristics), with the difference in performance being attributed to the types of policies and institutions (using regression analysis). Rather than compare across countries, Beck (2014b) recommends using a synthetic benchmark that compares a country in a given year to a benchmark derived from multi-dimensional cross-country comparisons. This synthetic benchmark (financial depth frontier) is determined by country variables, such as (i) the structural characteristics of the socio-economic environment in which financial institutions and markets operate and which impose a limit on their development, and (ii) long-term policy variables that either foster or limit financial deepening. The gap between the actual level of financial development and the structural depth line can be related to different policies. The structural depth line is defined as the level of financial development predicted by structural country characteristics that are not directly related to policies and/or the financial sector.

**Financial sector development and economic growth.** Many studies have looked at this link through large cross-country regression analysis (Beck 2014a). Individual country studies could also be undertaken using various econometric techniques, but this is likely to form part of an overall research agenda rather than being a common FSD measurement tool.

**Financial sector development and livelihoods:** One method that is being used by FSDK takes changes in livelihoods (tracked through quantitative and qualitative surveys) in four regions in Kenya and then focuses on the linkages between these and local financial sector development (through supply- and demand-side surveys of these local financial markets). This analysis is not primarily focused on capturing the direct impact of FSD programme but can explore questions that stem from key knowledge gaps – for example around people's financial behaviour and use of financial services to enhance (or not) their livelihoods. See FSDK website, at www.fsdkenya.org (forthcoming).

**Financial inclusion and livelihoods:** One option is to use existing surveys, such as FinScope/ FinAccess, that are designed to measure financial access and some other elements of financial inclusion and explore whether these could be: (a) adapted or have added to them asset- or consumption-based modules; (b) linked to national surveys, such as household budget surveys, that provide much more comprehensive asset- and consumption-based data related to poverty; or (c) some combination of these approaches. FSDK, for example, is also aiming to look at using supply-side research and data to improve insights into the influence that the financial sector might have on poverty. See additional technical note on linking FinScope/FinAccess to poverty surveys.

**Longitudinal studies (with households/enterprises).** This would involve tracking households and/or enterprises over time using a range of methods, to assess how their usage of financial services has changed, and how this was affected by changes in the financial sector.

### 5.3.5 Methodologies for measuring causality

There are a range of methodologies for demonstrating causality (Table 26). FSD programmes can select the methodologies to use based on the characteristics or combination of characteristics that best respond to the causal link to be tested and that are feasible to implement with the resources allocated. The following characteristics can help determine which approach the FSD should choose:

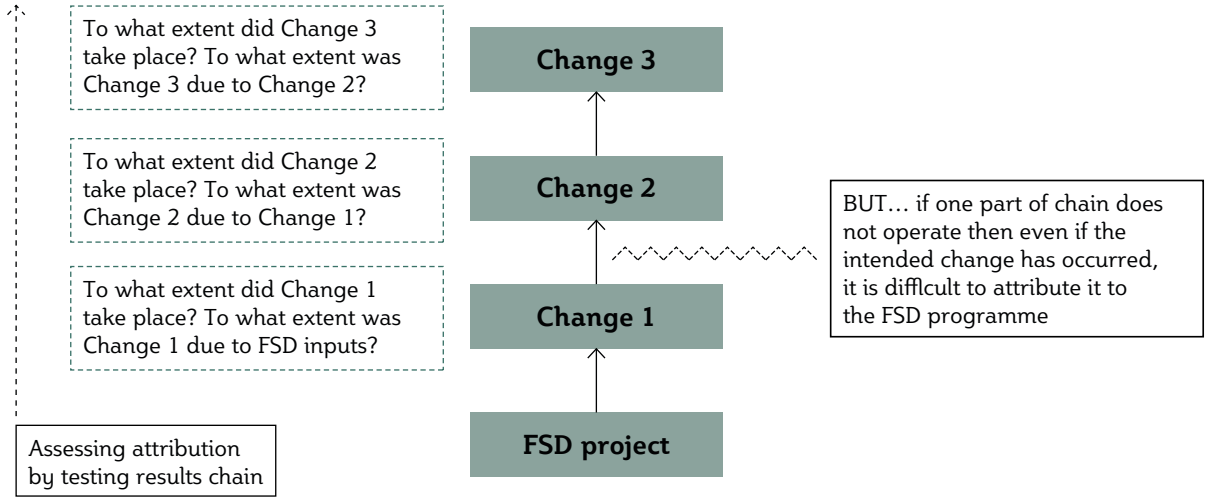
1. **Primary focus: causal demonstration** – the methodology helps collect data that support the causal link(s) articulated by the ToC; **constructing a counterfactual** – this involves striving to prove the causal link by demonstrating what would have happened in the absence of the intervention; **causal explanation** – the methodology collects information on how and why the intervention worked (or did not work) the way it did; **contextual description** – the methodology collects information not just on the intervention but on the contextual factors in which the intervention was implemented.
2. **Type of data: quantitative** approaches to measuring causality measure changes numerically and in some cases they measure the extent to which these changes are attributable to the intervention. **Qualitative** approaches capture qualitative evidence that cannot be presented simply with numbers. These approaches can capture insights into causality and explain how and why changes occurred, but they are generally not considered to be as rigorous as quantitative methods. Whichever approach is used, all types of intervention assessments are likely to rely on a mix of both qualitative and quantitative data – *there is no story without numbers and no numbers without a story. (Jim Tanburn of DCED)*

3. **Timing:** Some methods require that data collection and study design begins before the intervention is implemented (**prospective**). On the other hand, **retrospective** studies collect data after the intervention.
4. **Impact measurement questions (top-down and bottom-up):** consider what research questions you want to answer. Keep in mind that most of these methodologies can explore both top-down and bottom-up impact measurement questions. Table 27 provides a few example questions which each of the methodologies would be well-positioned to address.

A full list of methods is set out in a separate note. These are briefly summarised in Table 26 and Table 27. There are basically two main approaches that can be pursued – theory-based or quantitative (statistical) approaches. These both seek to measure the counterfactual of what would have happened without the FSD intervention, although they take different approaches to testing for causality:

**Theory-based approaches:** The rigour of these approaches as regards determining causality is derived from the use of quality evidence and logical thinking and testing rather than other rigorous approaches such as comparing actual results against a counterfactual. This can include **testing the results chains with monitoring data** – see Figure 18 – to provide an indication of causality. This indication can be strengthened using relatively light-touch methods to assess if the pathways linking these observed changes are still operating as predicted or as intended. This can include key informant interviews with partners, and other market actors (and other observers), examining relevant trends in sector data, and small-scale questionnaires. Effort should be made in the above methods to assess if (and which) other non-FSD factors have contributed to these changes. The key point is that even if there is a significant change, but the mechanism put in place by the FSD intervention linking these changes is not plausible, then these changes cannot be attributed to the programme.[78] Other more systematic approaches to testing the theory, such as outcome mapping/contribution analysis/most significant change, can also be used for more in-depth exploration, as explained in the additional guidance note on this subject.

**Figure 18 Using a results chain for attribution**




*Source: DCED (2013)*

**Tip:** It may make sense for both analytic and practical reasons to attempt to measure the causality of a group of interventions. There are likely to be points in the programme ToC which are critical for changing market systems but which occur across a series of interventions. For example, FSDs are likely to have a number of interventions focused on developing market information (through studies, research, forums etc.), and it may be possible to apply causality methods to measure how these have informed the enabling environment, and through which mechanisms (e.g. new information, change of attitude etc.).

78. More specifically, if the pathway(s) linking the intervention to the change is/are not in its/their intended state, it becomes evident that other influencing (external to the FSD intervention) factors have affected the change as well. This is not to say that the FSD intervention is no longer valid or that it can no longer be credited, but it does indicate that the intervention is nested within a broader system of influence that needs to be acknowledged in order to identify opportunities for FSD impact and improvements.

**Quantitative (statistical) approaches:** in all countries where FSDs operate the financial sector has been relatively undeveloped prior to an FSD's establishment (hence the rationale for their existence), and therefore we would expect the sector to expand over time, even without FSD interventions (i.e. the counterfactual). Separating this counterfactual trend requires additional analysis, beyond that provided by the monitoring data.

There are a number of potential approaches to assessing a counterfactual. Whilst the theory-based methods presented above attempt to provide some description of the counterfactual, undertaking traditional methods will require significant surveys and/or statistical expertise and thus are likely to only be used for testing particular important pathways of interest, or when conducting one-off evaluation activities on a particular project or intervention (usually done by a contracted third party). Experimental and quasi-experimental design constructs a counterfactual using quantitative data, usually survey data. Non-experimental methods, while based on actual data, establish statistically significant relationships among variables, but do not statistically prove a causal relationship. Again, fuller descriptions are provided in an additional technical note which outlines methods for undertaking causality analysis (www.fsdafrica.org/knowledge-hub).

**Table 26 Approaches to examining causality with example questions**

| Approach | Description | Example Bottom-up Question | Example Top-down Question | Data Sources, Tools |
|---|---|---|---|---|
| Experimental | Statistical analysis based on a randomly assigned treatment and control group to fully attribute change to intervention. | Did the intervention cause the observed change? | Was the observed change caused by the intervention or other causal variables? | Survey data (longitudinal). |
| Quasi-experimental | Statistical analysis to construct a plausible counterfactual without assigning treatment and control groups. Aims to fully attribute change to intervention. | Did the intervention cause the observed change? | n/a. | Survey data, supply-side data (longitudinal, cross-section). |
| Quantitative non-experimental | Using data to demonstrate a change or difference among segments of a population or between/among points in time. They may show statistically significant correlations, but not causation. | Does financial depth increase after the introduction of pro-financial inclusion policies? | What are statistically significant predictors of reduction in poverty (or other outcome)? | Survey data, supply-side data (longitudinal, cross-section). |
| Results chain/ monitoring data/ light-touch | Triangulating project/ programme monitoring data that show change with 'light-touch' qualitative information that support a causal relationship. | Was there a change in outcomes from the beginning to the end of programme implementation? Is there evidence that these changes were because of the programme? | n/a. | Monitoring data, key informant interviews, observations, FGDs. |
| Case studies | A narrative that explores and explains what happened and why with regard to an intervention. | How has the agent banking model unfolded in the country since the introduction of the new agent banking regulation? | What were the factors that contributed to the success of agent banking in the country and how did they contribute? | Surveys, key informant interviews, observations, focus groups, expert panel, document review. |

| Approach | Description | Example Bottom-up Question | Example Top-down Question | Data Sources, Tools |
|---|---|---|---|---|
| Contribution analysis | Puts together evidence for why the observed results have occurred and the role played by the intervention and other internal and external factors. | To what extent did the new agent banking regulation contribute to the observed increases in financial inclusion? Why did it work (or not work)? | What were the main causes of changes in financial inclusion in the last X years? How did the different factors interact with each other to generate the observed change? | Surveys, key informant interviews, observations, focus groups, expert panel, document review. |
| Process tracing | Tests specific hypotheses about causal links. Traces the evolution of given cases over time within the context(s) in which they occur, documenting and explaining the processes by which, and the conditions under which, certain outcomes are obtained. | Did the creation of new village savings and loan associations lead to improved use of formal financial services and improved livelihoods? How did it work? What were the key success factors? | Did the multiple factors we believe contributed to improved use of formal financial services actually contribute in the way we think they did? | Key informant interviews, observations, focus groups, expert panel, document review. |
| Outcome mapping | Similar to a ToC, outcome mapping produces a 'map' of the main changes (or outcomes) that were achieved and the relationships among them. | What intermediate changes did the programme generate (for example policy change, and increased capacity of financial service providers and improved market information)? | What were all of the pre-conditions that made improved financial inclusion possible? How were those pre-conditions (outcomes) generated by the programme and others (outside of the programme)? | Key informant interviews, observations, focus groups, expert panel, document review. |
| Outcome harvesting | A participatory approach to identifying the main outcomes of the intervention and working backwards to understand the intervention's contribution to them. | n/a.[79] (Used to explore changes without focusing on FSD interventions.) | What were the main causes of changes in financial inclusion in the last X years? | Key informant interviews, observations, focus groups, expert panel, document review. |
| Most significant change | A participatory approach to documenting, from the beneficiaries' perspective, the most important outcomes of the intervention. | n/a. (Used to explore changes without focusing on FSD interventions.) | What were the most important outcomes for beneficiaries? What were the main causes of these outcomes? | Key informant interviews, observations, focus groups, expert panel, document review. |
| Complexity narratives | A structured approach to investigating the 'back-story' of an intervention and the contribution of the intervention. | To what extent did the intervention contribute to the observed outcomes? | What were the main outcomes and what were the causes? | Key informant interviews, observations, focus groups, expert panel, document review. |

79 These can be used to explore interventions but their use for an FSD is in providing a non-FSD intervention focus.

**Table 27 Summary of approaches to examining causality**

| Approach | Approach to causality | | | | Timing | | Level of FSD testing | | | Type of data used | | Type of change | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Causal demonstration | Construct a counterfactual | Causal explanation | Contextual description | Retrospective | Prospective | Individual project | Group of projects | Overall programme | Quantitative | Qualitative | Systemic | From micro intervention | From macro/meso intervention |
| Experimental | **XX** | **XX** | | | | **XX** | X | | | **XX** | | | **XX** | |
| Quasi-experimental | **XX** | **XX** | | | X | X | X | | | **XX** | | | **XX** | |
| Quantitative non-experimental | X | X | X | X | X | X | X | X | X | X | X | | X | X |
| Results chain/ monitoring data/ light-touch | X | | X | | X | X | X | X | X | X | X | X | X | **XX** |
| Case studies | X | | **XX** | **XX** | X | X | X | X | X | X | X | **XX** | X | **XX** |
| Contribution analysis | **XX** | | **XX** | **XX** | **XX** | X | | X | X | X | X | **XX** | X | **XX** |
| Process tracing | **XX** | | **XX** | **XX** | **XX** | X | X | X | X | X | **XX** | **XX** | X | **XX** |
| Outcome mapping | X | | X | **XX** | X | **XX** | X | X | X | X | **XX** | **XX** | X | **XX** |
| Outcome harvesting | X | | **XX** | X | **XX** | X | X | X | X | X | **XX** | **XX** | X | **XX** |
| Most significant change | X | | X | X | **XX** | X | X | X | X | X | **XX** | **XX** | X | **XX** |
| Complexity narratives | X | | **XX** | **XX** | **XX** | X | X | X | X | X | **XX** | **XX** | X | **XX** |

**XX** indicates a relatively stronger focus

**Box 27 Step 5 Checklist**

- Decide what criteria to use while choosing when (and how often) to undertake deeper analysis on causality for projects/ specific causal pathways
- Not all causal analysis needs to involve complex and expensive studies
- Have you considered key bottom-up and top-down impact pathways which might need extra analysis?
- Consider the principles for applying causality methods. Are these being applied when considering the FSD's impact?
- Note how different causality methods meet different types of evidence needs; which one fits your objectives? (see technical note on methods for undertaking causality analysis)
- Consider if you need external expertise for specific studies/ research. Can project managers explain the type of causality technique being used, and transparently present how the FSD is claiming its contribution?
- Do not leave all causal analysis till the end of the programme. Taking up (at least) one or more themes/ links for causal analysis on an annual basis can: a) build internal capacity; b) help check its usefulness with funders and others; and c) strengthen analysis in the annual report

## 5.4 The research agenda (Step 6)

### 5.4.1 Overview

The research agenda is not strictly a linear IOM step like those discussed above. The consultative process also included the development of a research agenda (for FSDs, and FSDA) **that will create a better understanding of the causal relationships between certain kinds of financial sector interventions and the results or impacts that they are expected to generate.** This is also important for generating evidence for top-down measurement. This section therefore covers:

- why FSDs are involved with research;
- what research FSDs might undertake;
- how FSDs can contribute to the global research agenda on financial sector development; and
- the respective contributions of FSDs and FSDA.

### 5.4.2 Why FSDs are involved with research

FSDs' primary focus is on facilitating market development so that financial markets work better for poor households and small businesses. FSD programmes conduct research as well as use research conducted by others to improve their own performance. **Rooted in a practical context and seen as an independent voice (by the public and private sector), research that is conducted or facilitated by FSDs is also valued by other stakeholders within and outside the country.** FSD research efforts start by asking three basic questions: (a) What is the knowledge gap that this research is trying to address? (b) Who will potentially use this knowledge? and (c) How will they use it? FSDs' long-term engagement with FinScope research confirms that the same research can be used for multiple stakeholders and objectives. However, FinScope research also confirms that almost as much effort is needed to distil and disseminate tailored messages from the research to the appropriate stakeholders, as is needed for the primary research. In addition, FSDs have come to appreciate that many users in both public and private sectors do not fully understand how to use research to improve decision-making. It is also evident that FSDs face competing demands for research and have to find effective ways to establish their research priorities.

**Discussion point:** During the consultation several people questioned whether FSDs should be "doing" research or should be facilitating local researchers. As noted, FSDs have an 'independent' function that makes their research credible and their research focus on poverty reduction differs from that of private sector actors. However, where possible, FSDs have an important role in helping market actors unlock their existing data as well as improving the skills and capabilities of the private and public sectors to analyse and exploit existing data.

### 5.4.3 What research FSDs might undertake

The research agenda can meet very different and overlapping requirements of the FSD programmes in relation to improving their own effectiveness, as well as contributing to global knowledge and learning:

- research for FSD project/ programme evaluation;
- contributing to global knowledge and learning;
- research that informs FSD's strategy and design of specific interventions/ projects; and
- research for market facilitation and development.

***Research for supporting FSD project/ programme evaluation***

As described in Section 5.3 (measuring causal relationships) research can play a significant role in helping to understand the impact of the programme from a top-down perspective. **Research is another source of evidence for assessing an FSD's impact, providing in-depth exploration of specific issues, using robust methodologies.** Monitoring systems and bottom-up analysis will be insufficient to develop the contribution narrative: research can therefore help to fill specific gaps in the IOM. It can also contribute to better understanding of causal chains, enabling FSDs to improve their effectiveness and communications in the future. Given the extensive literature on the relationship between financial sector development, growth and poverty reduction **FSDs can largely rely on this to obtain comfort regarding the links between financial sector development and the final impact (or goal) of poverty reduction.** However, individual FSDs may also want to undertake impact evaluations of specific links, as per Step 5, when they deem it appropriate. As noted in Box 26 above, the use of financial landscape studies and/or the connecting of FinScope data to national poverty data are two FSD-specific approaches that are currently being explored to assess these links.

**Tip:** Top-down analysis does not necessarily need to take the form of in-depth research. As described in Step 3, FSDs can track the evolution of the sector from secondary data. Furthermore, while research is well suited to examining complex links in the financial sector, and within households and enterprises, it could also be used to augment bottom-up analysis – for example, through comparative research comparing how similar FSD projects (for example, with saving groups) have caused change.

Some FSDs are also supporting country-specific research: e.g. using FinScope to assess the poverty profiles of those who are financially included and excluded (see below) and assessing the poverty impacts of specific FSD interventions/ projects, such as savings groups.

***Contribute to global knowledge and learning***
There are areas within the input to outcome parts of the causal chain in which FSD research aimed at improving effectiveness can contribute significantly to the global research agenda. This is because even today the literature is not always very clear about the mechanisms through which financial inclusion/ financial sector development directly contributes to lower poverty and inequality. Thus, FSD research at the output and outcome stages of the causal chain can be useful in clarifying these mechanisms.

By the same token, FSDs often undertake or commission research to confirm contribution to the ToC at the outcome to impact for end-user level (at the end of the causal chain). This research could be for a variety of reasons, from supporting the 'proving' impact agenda with national stakeholders to 'improving' their understanding of the mechanisms though which outputs lead to impacts for end-users. Such work may in itself be useful for the global research agenda, or it may need only a small adjustment to fulfil that wider purpose. Box 26 provides two examples of research into the links between: (i) financial sector development and economic growth; and (ii) financial inclusion and poverty.

***Research that informs FSDs' strategies and design of specific interventions/ projects***
FSDs need to know what does and does not work. What are the areas of high potential impact, such as mobile money or insurance? Why are customers not opening accounts even when they are in physical proximity to FSPs? Why are they not using these accounts, despite having them? Over time it should be a core function of FSPs to segment markets, assess customer behaviour and customer take-up, and/or to design and pilot-test new financial products. However, in the early stages of the market development, FSPs may lack the skills and/ or the resources to undertake high quality market research and analyse all the customer data that they have already collected but have not really analysed or applied. FSD programmes are also interested in research to design interventions/ projects at meso or macro levels (e.g. how the current arrangements for deposit insurance and credit registry are working) before considering what kind of technical and financial support they should provide.

***Research for market facilitation and development***
This includes data and research that FSDs produce for the market. For example, research to improve market information or to understand contexts and markets, using evidence to influence policy-makers and market actors, and move markets, such as market-wide research on levels of activity/ inactivity of mobile money agents (Box 23).

**Tip:** It is important to not only think about the type and quality of the research but also about the investments an FSD is willing to make in high quality communications and presentation (e.g. dashboarding, web-design) to ensure effective dissemination/ use of the research.

During the IOM consultation, it was asked whether FSDs should be 'doing' research, or if they should be facilitating local researchers. There is significant existing data and information already. However, on the other hand, FSDs are uniquely positioned to act as 'independent' researchers in the financial sector (e.g. FinScope). Therefore, each FSD's research agenda has to be context- specific, on a country-by-country basis. **Each FSD needs to decide what areas of research are required within their overall country strategy and how it should be conducted; just as they decide, for example, what kind of capacity building they need to do for financial institutions, or what projects they should fund in the area of digital finance.**

**Tip:** In making decisions about their research agenda, FSDs can discuss with their funders the possible benefits of the research from a global perspective, especially where two possible pieces of research have equal merit from a national point of view.

### 5.4.4 The role of FSDs and FSD Africa

FSDs will normally be the appropriate organisations to undertake or commission research that is specific to the countries in which they are working, but **FSDA can play an important role in at least three ways:**

- by undertaking or commissioning studies that have to cover more than one country (including cross-country studies) and focus on gaps in the measurement of FSDs' ToCs;
- alternatively, by helping to liaise with two or more FSDs that wish to work together to undertake or commission such studies themselves (e.g. on links between financial sector outcomes and poverty reduction); and
- by supporting the FSDs 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).

It will be useful for FSDA and the FSDs to come to a specific understanding of how these roles will be fulfilled, through periodic discussion at network meetings and/or around discussions of specific research opportunities.

### 5.4.5 Examples of possible research areas

For illustrative purposes, some examples of possible areas for research that came up during consultation are given in Table 28 below. Each FSD will decide their own priorities based on ongoing research and the key evidence gaps that they have identified. Further discussions are needed before any of these topics are selected for joint research by the wider FSD network.

**Table 28 Examples of possible research topics**

| Research category | Research topics |
|---|---|
| **Financial sector development and impact on economic growth** | – Changes in indicators for financial sector development and its potential contribution to economic growth<br>– Net income changes of people and households in different market segments that are attributable to changes in the financial sector |
| **Contribution of financial inclusion to poverty reduction** | – Changes in demand for larger volumes of and more sophisticated financial products (primarily from businesses) and the FSPs' corresponding suite of product offerings (this could include watching how businesses grow, including whether net job creation results, and, if so, how much)<br>– Changes in quality of access to financial services and whether – and if so, how – that contributes to the improved ability of individuals and/or households to achieve socio-economic goals (country-specific)<br>– Longitudinal studies to track how different types of poor households are managing changes in the availability of financial services (country-specific)<br>– Changes in financial behaviours, including household economics and resource allocation<br>– Basic research documenting whether what is going on in specific products or market segment (e.g. M-Shwari) also has value for a global audience (although there may be less value in FSDs doing this) |
| **Improving the take-up of financial services** | – To what extent and how does financial inclusion help poor people live the lives that they value?<br>– How payments, mobile usage, savings and wage payments can facilitate credit<br>– Why people do not use accounts, or use them in very limited ways (analysis of account inactivity and drop outs)<br>– Why FSPs do not undertake big data mining to understand and nudge customer behaviour<br>– Issues around disclosure of information and how these alter customer behaviour<br>– Research into how FSPs apply research and other information to develop their own products<br>– How can remittance payments be used as collateral for credit<br>– Why consumers do not activate insurance policies that are bundled with seed purchases |
| **Improving the effectiveness of FSDs** | – Changes in the financial sector that are attributable to FSD programmes<br>– Level and quality of adaptability of FSDs to (a) changes in market conditions, and (b) evidence of flaws in the ToC<br>– What causes some change management processes to succeed and others to fail?<br>– The merits of different ways of delivering financial sector training<br>– Changes in perceptions of the role of the FSD as a key market facilitator, and the level of its contribution<br>– Procedures, frameworks and tools in place that facilitate real-time learning to ensure that FSD programming remains relevant and on target to contribute to its desired impact |

**Box 28 Step 6 checklist**

- FSD programme-led research may have multiple uses. It is useful to confirm 'what is the knowledge gap that this research is trying to address, who will primarily use this knowledge, and do they have the capacity to use it effectively?' before initiating any research
- FSDs should set out which causal links in their ToC they want to explore with in-depth research, and if this will be undertaken by the FSD, or rely on global research
- With growing demand for research and evaluation, FSD programme should develop clear criteria for prioritising research and evaluation efforts
- Is it clear who has the responsibility for knowledge management, learning and communications within the FSD programme and how they can leverage this for its core function of market facilitation?
- Do you have a clear communication strategy for using research as a market facilitator?
- It may be useful to set aside a budget for research, evaluation and learning in each theme/ project, and across the overall programme
- Different stakeholders have very different needs and may find short tailored notes more useful than lengthy research reports. Leverage the FSD's own website and other channels (other websites such as a central bank's, and industry events) to disseminate key research findings

# Annex F Narrative analysis for the period (quarter/ half-year)

A number of methods can be used by FSDs to pick up signals from the market that are not easily captured in pre-defined indicators. Ideally these are not just shared amongst the team (to both triangulate evidence and improve programming) but also a record is kept to aid measurement. Table 43 notes a few of these, with some of their pros and cons. The template below the table suggests the types of issues that can be explored.

**Table 43 Beyond monitoring methods**

| Method | Summary | Pros | Cons |
|---|---|---|---|
| Market scanning by FSD staff (written) | Project staff record observations in template | – Leverages staff's understanding of market<br>– Written record | – Difficult to incentivise staff to do additional reporting |
| Market scanning by FSD staff (video) | Project staff record observations in videos (i.e. M&E officer interviews them each quarter) | – Leverages staff's understanding of market<br>– Potentially more buy-in | – Labour-intensive to analyse video recordings |
| FGDs with market actors | Bring together a group of senior market actors (periodically) to discuss trends in the market | – Non-FSD perspectives<br>– Relatively non-labour-intensive (if FSDs have contacts) | – Difficult to arrange (unless there are existing fora to leverage) |
| Media analysis | Collect and analyse financial sector media reports | – Leverage data already collected<br>– Broad sector perspective | – Labour-intensive to analyse<br>– May not be directly relevant |

## Narrative analysis for the period (quarter/ half-year – illustrative template)

This template is an illustrative of a example of a tool FSD can use to monitor changes that are not adequately captured by the set of traditional quantitative indicators. This checklist is an extension of the key indicators FSDs will typically use to measure progress in their projects and other interventions. An important source of information for this narrative analysis will be FSD staff, who can provide a narrative each quarter on what changes they are seeing in different characteristics of the system and then discuss and triangulate this with other FSD staff.

| Area of focus | Description | Examples | Sources of data |
|---|---|---|---|
| **Qualitative indicators** | Measuring outcomes that are in the ToC (programme or theme) but are not easily captured by quantitative indicators or project result chains | Market players see value in continuing to offer new service and/or have plans to upgrade or roll it out to new market segments<br>There is a 'change driver' – an institution or set of entrepreneurs driving the market change process. For example, a new player enters the market (with or without FSD support) with an improved business model to reach increasing numbers of poor people, and this in turn increases competition<br>There are changing relationships – including competitive dynamics – amongst different market players (e.g. financial institutions and MNOs)<br>Improved flows in learning and transfer of information (e.g. new fora or institutions that facilitate information-sharing)<br>There have been changes in the overall business environment (e.g. financial inclusion regulation and policy) which enable more pro-poor businesses | Field observations<br>Narratives from FSD staff<br>Surveys<br>Media monitoring<br>FGDs<br>Key informant interviews |
| **Learning questions** | Capturing key lessons learned and insights that have been prioritised as learning areas that can contribute to the sector or to the programme strategy | What are the main constraints in the market?<br>What are the drivers of change in the market? | |
| **Reviewing the ToC** | Testing the assumptions, including the causal links, within the ToC. (Note collecting these data does not constitute an evaluation, but will help provide valuable information and insights for the evaluations) | Have the assumptions held true? (Review the specific assumptions of interest that were developed with the ToC)<br>Have the causal links held true? (Review the specific causal links of interest within the ToC)<br>Were there any unanticipated results or factors? Or anything that surprised you? | |

# Notes

## About this guidance 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, Celina Lee 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 January 2016, 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 that 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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