A SYSTEMIC APPROACH TO FINANCIAL INCLUSION

2022

A Training Companion for Funders

CGAP

TABLE OF CONTENTS

TOPIC 1: WHY WE NEED A NEW APPROACH

Why we need a different approach

Aid under scrutiny

Regardless of good intentions and good people, the track record of development is mixed. There has been progress, for sure, but the number of people living in extreme poverty remains unacceptably high, inequality within countries is rising and climate change is putting past achievements at risk, affecting the poor and vulnerable most. Foreign aid has been criticized for not being effective or even counterproductive.

What about Financial Inclusion?

Impressive gains have been made toward increasing access to finance for low-income people since CGAP published the Good Practice Guidelines for Funders of Microfinance in 2006. We have seen major progress in terms of achieving sustainability and scale of financial services with the introduction of new products, development of innovative business models, technology-enabled delivery channels, and the engagement of a much broader range of private and public actors.

Over time, policy makers, practitioners and funders have shifted their focus from microfinance, the provision of financial services to the poor by specialized service providers, to financial inclusion, a state where both individuals and businesses have opportunities to access, and the ability to use a diverse range of appropriate financial services that are responsibly and sustainably provided by formal financial institutions.

However, there is still substantial variation in the diversity, quality, and use of financial services available in the market, with 1.7 billion adults remaining without access (Global Findex 2017). Poor and low-income people—particularly women, youth, and those living in rural areas—are the most excluded and must depend on less reliable and often more costly informal mechanisms to manage their financial needs.

Why we need a different approach

Different terminologies, similar concepts

The systemic approach aims for more sustainable results, at scale. It has been developed over time by a range of practitioners, from various fields, starting in the early 2000s in business development services and agriculture, and applied in financial sector development in the mid-2000s.

2000	2005	2008	2013	2015
Business development services, Agriculture	Financial Sector Deepening Trusts, FSDs	Springfield Center Operational Guide for M4P	World Bank New Microfinance Handbook	CGAP funder guidelines

Funders initially focused on filling gaps, bringing “missing ingredients” to the economies they wished to support: capital, know-how, good governance. Financial inclusion programs prioritized support to the creation and growth of financial service providers (FSPs), and then, as this provider-focused approach failed to address broader constraints, such as restrictive regulations, lack of market data or inadequate technologies, they broadened their focus to support institutions beyond FSPs, such as regulators, credit bureaus, training centers. However, these institution-focused approaches often provided only short-term fixes to much more complex constraints.

The systemic approach was born out of the recognition that institutions do not operate in a vacuum, but in systems, and that systems are complex and unpredictable. Systems are much more than the sum of their parts: they are made of the complex and ever evolving interactions of individuals and institutions. Changing individual parts of a system, like an institution or a rule, often provides only limited and/or short-term solutions. Instead, the systemic approach aims to change the system’s equilibrium, the interactions among its various parts.

Systemic change: a change in the underlying dynamics of a system, that affects the scale and sustainability of the system and makes it more inclusive.

The systemic approach also implies a different role for funders: they need to facilitate systemic change, which requires understanding the dynamics of the system, and then playing a temporary role to nudge the whole system towards a new equilibrium which works better for the target group.

Moving towards the systemic approach: developing systems that work for poor people

Give a person a fish	Show a person how to fish	Making fishing markets work
Relief	Direct delivery, technical fixes	Systems development

How to change a system: Think of a ping pong ball in a glass bowl. If you are not satisfied with where the ball settles, you can move the ball somewhere else. But when you let go of it, the ball will just roll back to where it was before, where the equilibrium is. Changing the system requires changing where the equilibrium settles.—Adapted from Owen Barder, Center for Global Development

Why we need a different approach

Different terminologies, similar concepts, continued

All these approaches recognize the complexity of the problems we are trying to solve and the need to consider the system in which individual elements operate.

- Market Development
- Market Systems Development
- Making Markets Work for the Poor: M4P
- Facilitative Approach
- Systems Development
- Systemic Approach

For me, market systems development is the only approach, that we should strive for; but I think it can be applied to a varying degree. —Elisabeth Montgomery, SIDA

We believe this approach is a very important one that will help us to get there for scale and sustainability.— Lindsay Wallace, Mastercard Foundation

Check the BEAM Evidence map, which lists resources that describe the impact and effectiveness of programs that use the market systems approach.*

*https://beamexchange.org/resources/evidence-map

TOPIC 2: IDENTIFYING ROOT CAUSES

Programs adopting a systemic approach aim to make a system work for all.
The first step is to understand how this system is working, and why it works the way it does.

Root causes

Beyond symptoms, understanding root causes

Weak regulation, lack of information, inadequate services, and so on, might prevent a system from working for all. But those are just symptoms which are relatively easy to identify, or the tip of the iceberg. We want to get to what lies beneath: the root causes of underperformance and exclusion.

Root causes are often linked to the system dynamics that drive market actors' decision-making and behaviors: incentives, capacities and relationships.

Root causes might also be contextual and difficult to influence. For instance, population density impacts how easy it is for providers to reach clients. Socio-cultural norms affect how clients can interact with providers. Economic development affects opportunities and needs for financial services.

Funding, or the lack thereof, is very seldom a root cause of underperformance.

What is visible (symptoms): Poor regulation, lack of information, inadequate services, etc.

What lies beneath (root causes): Contextual factors and underlying dynamics such as incentives, relationships and capacities

Incentives, relationships and capacities

INCENTIVES (the will): Analyze the interests that drive actors' behavior: self-or group-interest? Material, social or purpose-oriented incentives?

CAPACITIES (the skills): Analyze the capacities that enable actors' behavior: technical skills (know what and know how), personal skills (know who, network), managerial and strategic skills, financial capacity.

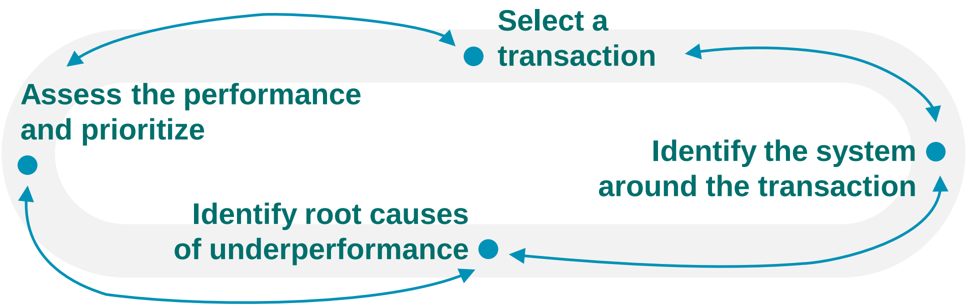
RELATIONSHIPS (the political economy): Analyze power and influence in the system. It is not about getting to know politicians, or endorsing a political arrangement, but about understanding the complex human and institutional relationships: the levels of trust, the formal and informal communication and influence channels, the type of relations (competitive, collaborative)

Example of social incentives

A USAID program incentivized rural banks to work with local communities by promoting pilot banks' actions in local newspapers, web videos, thereby attracting other family-owned banks who wanted to improve their own image in the community. —CGAP 2017, Market Facilitation to Advance Financial Inclusion

Identifying root causes

Identifying root causes is an iterative process going back and forth analyzing and testing



Select a transaction

- Select the transaction you aim to improve in the financial system, based on its relevance for your program's development outcome(s). That will require an understanding of the needs of your target group and the constraints that financial services could help remove.
- Clearly define this transaction. The weather index based insurance market for farmers will be very different from the life insurance market for urban workers.
- Analyze how supply and demand are transacting and the constraints they face.

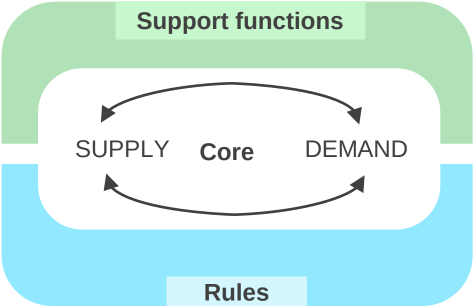
Identify the system around this transaction

List all support functions and rules needed for supply to meet demand. The performance of a market is driven by mechanisms that shape the terms of the core transactions:

- rules that govern how transactions happen, set who can participate and under what conditions;
- support functions that shape, support, inform & enable transactions.

The better the support functions and rules, the greater the number and value of transactions at the core. Use a graphical representation of the system (Tool 1).

Map players to functions: identify the organizations or individuals who provide the various functions and those who pay for these functions. Use the "Who Does/Who Pays" matrix (Tool 2).



Identifying root causes, continued

Assess the performance of the system and prioritize

Analyze the performance of each function and the system overall: are functions/rules adequately performed, and paid for, in relation to your program objective? Do they work for your target group?

Consider the interconnected systems around support functions and rules (see next slide).

Prioritize. Determine where the program can focus its efforts to the greatest effect. Consider:

- Value-added: Would it happen without an intervention? What could impact the most people? Is anyone else working to address the constraint already?
- Sequencing: Do some constraints need to be unlocked before others? What could create momentum for further change?
- Bundling: Do any need to be tackled concurrently? Is it efficient to bundle some?
- Feasibility: Which are feasible to work on (drivers of change, favourable political economy, funder/implementer capacity)?

These priority constraints become your intervention areas.

Identify root causes

Once we know what is not working, we keep analyzing: why aren't market actors providing solutions to overcome these constraints? Keep asking "why?", to uncover incentives, relationships, capacity issues.

Adding this "why?" question automatically changes our objectives. Instead of trying to directly solve the issue, we now ask how we can help the system provide a solution – enhancing our chances to generate sustainable change.

Tools like the "keep asking why?" (Tool 3) and the "political economy matrix" (Tool 4) can be used to find answers to these questions.

Action research

What appears to be a logical step-by-step analysis is in practice a rather messy process. The diagnostic is an iterative process: going back and forth - analyzing and testing.

- We'll never have perfect knowledge. Trial and error will help identify root causes.
- The situation can rapidly evolve. No political economy is static. Diagnostic is not a one-off task, done at the start of a program. Up-to-date information is required throughout the life of a program in order to guide actions.

What is not working in the system?

Why is the system not providing solutions?

How can we help the system provide solutions

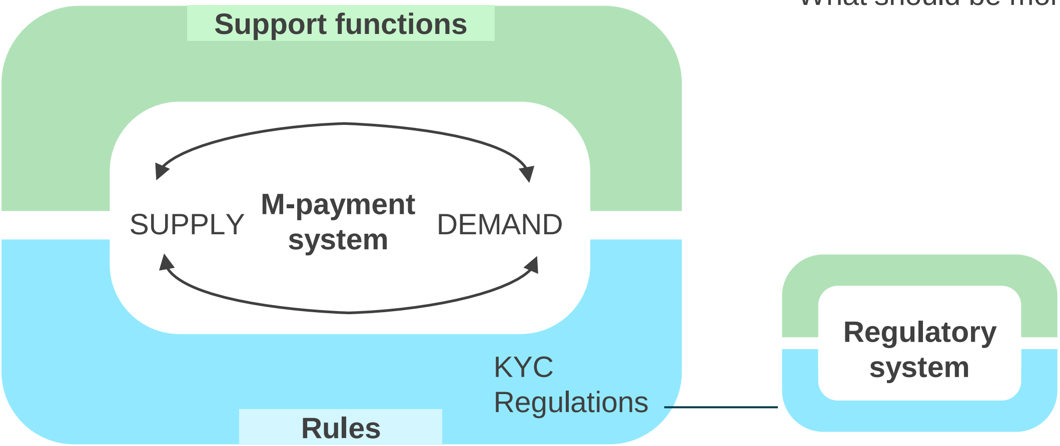
Identifying root causes, continued

Root causes might be in interconnected systems

When constraints are due to under-performing supporting functions and rules, it is useful to treat them as separate systems that are connected to the primary system.

Analyzing these interconnected systems requires going through the same process as for the primary system:

- Defining the core with precision
- Mapping support functions and rules
- Analyzing performance
- Identifying and prioritizing key constraints
- Asking why



Interconnected System: the regulatory system is interconnected to the primary system of e-payment services

Prepare for action

Analysis should feed into strategy. Determine key drivers and stakeholders to trigger change.

- What is the opportunity for change? A window of opportunity (e.g. new governments, changes of leadership, crises and scandals, elections)? A disruptive innovation?
- Who and what influences this change (negatively of positively)? Which individuals, groups, institutions? Which policies, practices, norms, beliefs? Is the context blocking change (political, social, economic or environmental)?
- Who could you partner with?
- What should be monitored?

What is not working in the system?

Why is the system not providing solutions?

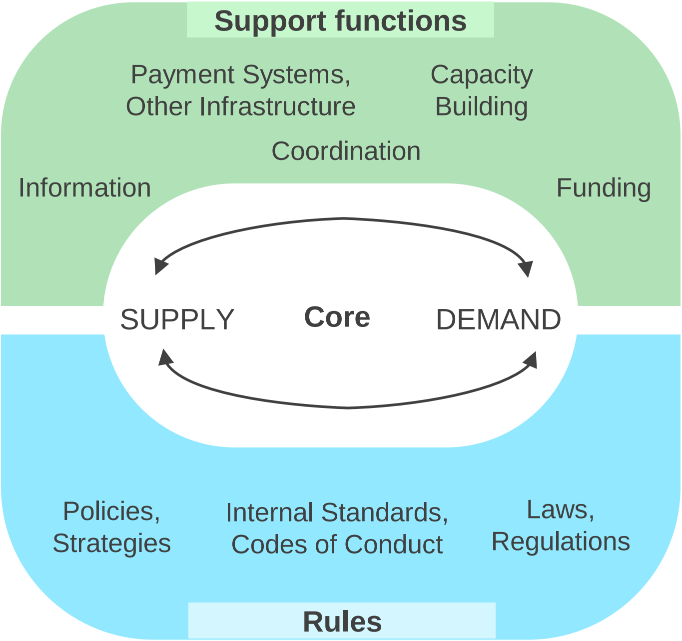
How can we help the system provide solutions

Tool #1: Market system mapping, a graphical representation

Purpose of this tool: Map the support functions and rules that affect transactions at the core of a system.

When to use it?

In the program design phase: after you selected the market your intervention aims to support, this tool helps understand how the system around this market is structured.



The tool

A simplified graphical representation of a financial system.

SUPPORT FUNCTIONS: a range of functions that support, shape, inform & enable transactions. In a financial system, they include: information, coordination, skills and capacity building, payment systems and other infrastructure, funding, etc.

CORE FUNCTIONS: the exchange between demand and supply in a market system. For example, in financial services markets, the core function describes the demand for a financial service (e.g., credit, savings, insurance, money transfers) and its supply by the different providers present in the market.

RULES: formal and informal rules, at local, national and international levels, that govern how transactions happen, set who can participate, and under what conditions. In the financial system, they include:

- Policies and strategies, such as national financial inclusion strategies, financial sector policies, financial education strategies.
- Regulations, such as banking laws, e-money regulations, customer due diligence and money laundering regulations, customer protection act.
- Industry standards and codes of conducts, such as international anti-money laundering standards, national codes of conduct issued by an industry association.

Tool #1: Market system mapping, a graphical representation

Tips and clarifications

Each system is unique, so be specific. Systems differ depending on the financial service at the center. For instance, the system around weather insurance for farmers requires support functions that differ from those needed for life insurance for urban workers. Systems are also shaped by wider contextual factors. These factors and their importance differ from one country to another and can even vary at a subnational level. Systems representations provided in this note are only illustrative and not specific enough. Clearer boundaries should be set, starting with the transaction at the core.

Poor people may participate on either side of the core transaction. Poor women and men can participate in the core of the system, as producers, workers or customers. On the demand-side: as customers of a good or service, e.g. vocational training, health services, education. On the supply-side: as workers or producers, e.g. selling their labor or their output. In some cases, the poor might be both producers and customers, e.g. small-scale seed producers selling to poor farmers. In formal financial services markets, the poor are usually on the demand side.

Be specific when mapping functions. The support functions listed in our example are only illustrative and not specific enough. When mapping a system, be specific about each function, what it is supposed to do and for whom, potentially isolating any differences among sub-segments, for instance rural population. For example, distinguish between the function "information on conditions of financial services" and "information on trustworthiness of providers", which are both information functions aimed at improving the participation of clients in the financial services market.

Don't try to map every support function and rule, but map those necessary for the system to work efficiently. Focus on functions that are significant for the target group's participation in the system. Map not only functions that are present today, but those that would be necessary for the system to work efficiently for the target group.

Tool #1: Market system mapping, a graphical representation

Tips and clarifications, continued

Map functions, not yet players. Functions are delivered by different types of players: private sector, public sector, industry organizations, civil society.

- Formal rules are established by regulators (ministry of finance, ministry of telecommunication, central bank, competition commission, etc.), industry associations, or global standard setting bodies (Basel Committee on Bank Supervision, Financial Action Task Force, Committee on Payment and Settlement Services, etc.).
- Potential providers of support functions include industry associations (banking association, MFI association, consumers organizations, …), training centers, credit bureaus, consulting firms, national statistics office, banks, payment platforms, switches, media.

When analyzing a system, start mapping functions before you move into identifying players, using the Who Does/Who Pays matrix (Tool 2).

Tool #1: Market system mapping, a graphical representation

Agent Network Management: Process of recruitment, training, management and oversight of agents. Includes ensuring appropriate liquidity and providing quality customer service and client education.

Aggregation: Platforms to enable corporate or government clients to transact with individuals regardless of their chosen e-payment providers i.e. salary payments

Consumer Protection Laws: Form of government regulation which aims to protect the rights of consumers; i.e. a government may require businesses to disclose detailed information about e-payment products including fee structures.

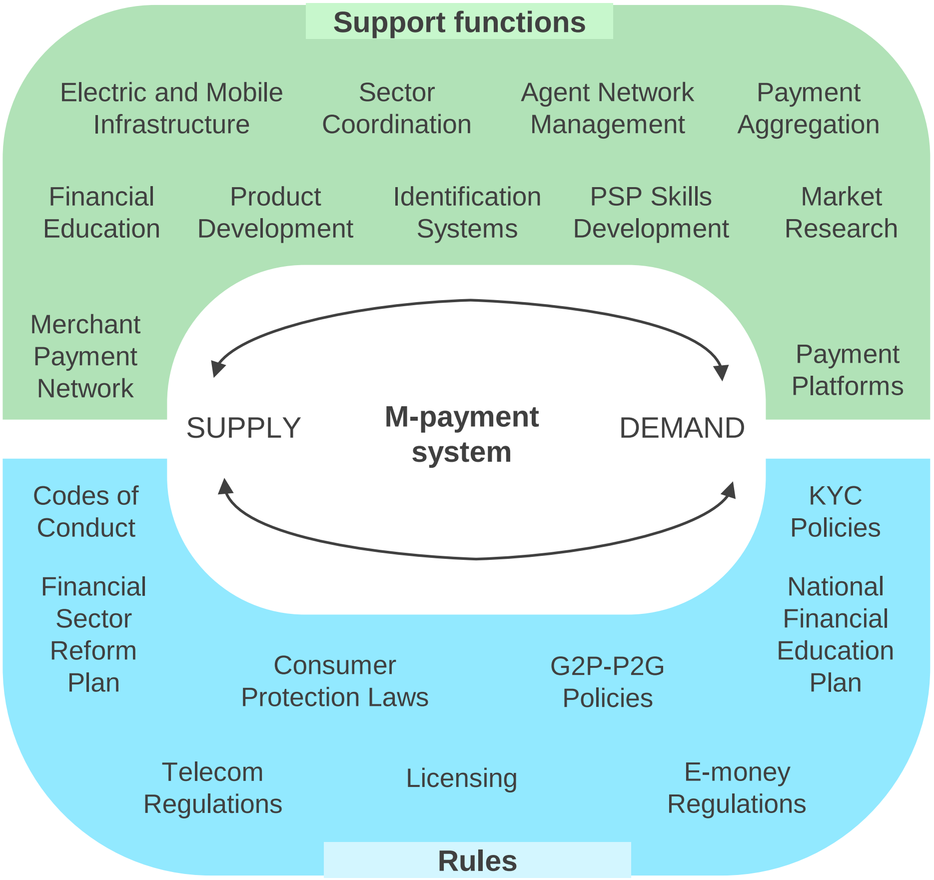
Financial Education: Efforts to increase the knowledge, understanding, skills, attitudes and behaviour among customers to access and effectively utilise financial products and services.

PSP (Payment Service Provider) Skills Development: Skills-building for financial service providers in the area of e-payments.

G2P (Government to People) Policies: Policies regarding the transfer of money from government agencies to citizens for social benefits, salaries or subsidy payments.

Industry Standards: Established standard, norm or requirement in the area of e-payments i.e. charging x % margin per e-payment transaction.

Example of an m-payment system (illustrative)



Tool #1: Market system mapping, a graphical representation

Informal norms: Risk Appetite - acceptance of experimentation and willingness to up-front funding on products/ services that may deliver success in the medium to long-term; Trust - belief in the reliability or ability of someone/something; i.e. consumers' willingness to believe that e-payments are 'real' and that transacting digitally provides the same service as transacting with a person within a bricks/mortar structure.

Licensing: Laws and process allowing organisations to provide digital financial services.

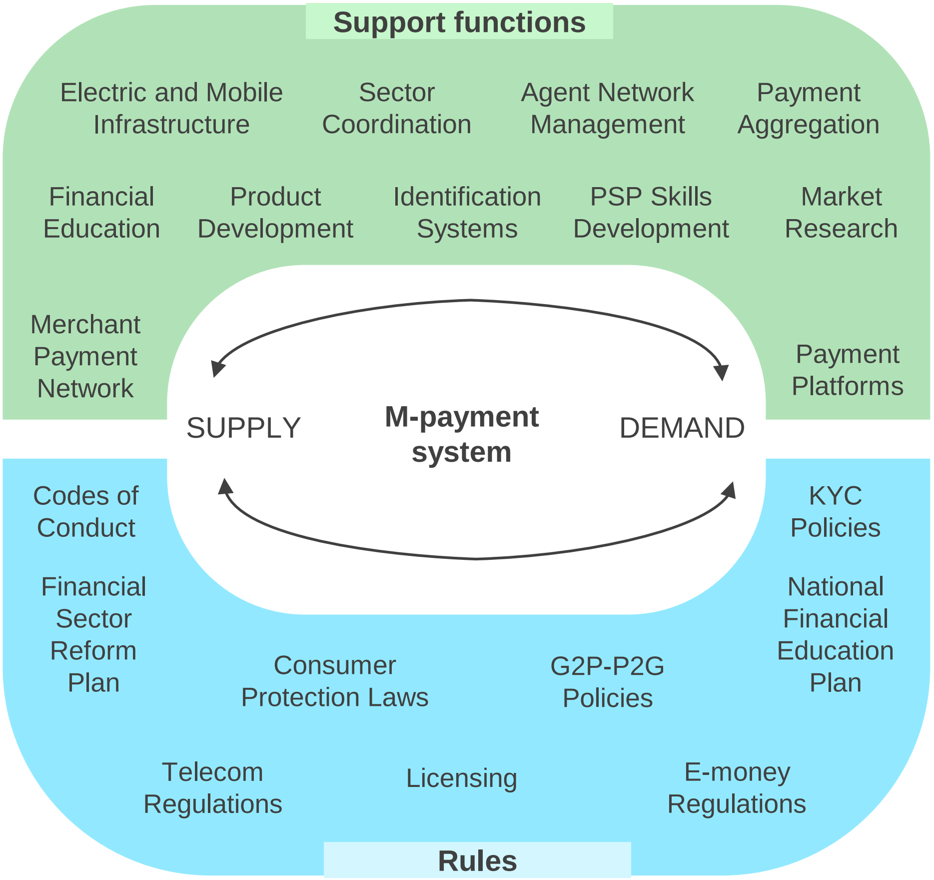
Market Research Information: Information availability, depth and sharing i.e. customer habits, preferences, willingness to pay; use trends providers profile; access and profitability opportunities.

Product Development support: Services to research, design and test new products.

Regulations: Range of regulations that facilitate m-payments including; Agent banking i.e. allowing banking services to be provided to customers through agents rather than a teller/cashier; Know Your Customer i.e. requirement of verification of client identification and address. E-money regulations (i.e. wallet size and size of transactions)

Sector Coordination: Co-ordination between different types of providers; industry bodies (i.e. Bankers Association and other stakeholders (i.e. government, consumer groups).

Example of an m-payment system (illustrative)



Tool #2: Who Does/Who Pays Matrix

Purpose of this tool

- Take stock of the current situation
- Identify key constraints to a well functioning system

When to use it?

In the program design phase, after you have identified the key functions in the system and want to analyze how they perform.

The tool

A matrix summarizing the answers to four key questions.

1. What are the key functions and rules? List all functions and rules that are key for the transaction at the core to perform for your target group.

2. Who does? Who are the players that perform these functions or set the rules? There can be several players performing the same function.

3. Who pays? Who are the players paying for the functions and rules settings? There can be several players paying for the same function.

4. How are they performing? Performance can be adequate or inadequate, in relation to your program objective.

	Functions/Rules	Who does?	Who pays?	Performance?
CORE				
SUPPORT FUNCTIONS				
RULES				

Tool #2: Who Does/Who Pays Matrix

Tips and clarifications

Who are they players? Players may be private, public or civil society, large or small, formal or informal market actors. In the financial system:

- Actors performing support functions often include: industry associations (banks, microfinance institutions, etc.), consumers associations, training centers, credit bureaus, consulting firms and consultants, audit and rating firms, academic institutions, national statistics office, banks and investors - who refinance other financial service providers, payment platforms, switches, media.
- Rules can be set by: Governments, regulators and supervisors (Ministry of Finance, Central Bank, Ministry of Telecommunications, Ministry of Education, competition commission, etc.); Industry associations; Global standard setting bodies (Basel Committee on Bank Supervision, Financial Action Task Force, Committee on Payment and Settlement Services, etc.). Informal, unwritten rules are also to be considered.

Depending on the stage of program design, ‘who’ can be a type of market player (e.g. regulators or training centers) rather than a specific player (e.g. the Ministry of Finance and the Ministry of Telecommunications, or Bankers Training Center X).

Development agencies and facilitators are only temporary players. You might include development agencies and facilitators in the current picture, as this could be an accurate reflection of who is doing and paying in the system at present. However, as they are not long term market actors, their presence might signify that the function is not performed (or paid for) in a sustainable way.

Functions can be performed (and paid for) by several players. Players can perform (and pay for) several functions. Systems result of the interplay of market actors performing and paying for functions. Therefore, it is important to assess not only the role of each player but also the way they interact and how that influences the function. Who does what depends on the incentives, capacity and relationships of different actors, but is also very much influenced by contextual factors. For example, what is considered a “public service” differs significantly from one country to another and evolves over time.

- EXAMPLES: financial education can be performed by financial service providers, schools and universities, training centers, NGOs. Players such as industry associations often provide multiple functions, for example coordination, advocacy, training or research.

Tool #2: Who Does/Who Pays Matrix

Tips and clarifications, continued

Underperformance has many faces. We use the term "performance" in a broad sense to mean "works for our target group". The performance can be inadequate for different reasons:

- Nobody performs the function, the function is absent – although it is needed.
- The player(s) performing or paying for the function do(es) not have the capacity or the willingness to improve or remain involved on the long term.
- The function is performed sustainably, but in a way that represents constraints for the target group. These constraints can take different forms along all dimensions of financial inclusion, e.g. they restrict access, usage or quality of financial services.

Keep focused on your target group. A good way to avoid getting lost in analysis is to focus on the functions that particularly disadvantage your target group. You need to have a clear picture of who your target group is, what development outcome you want to reach, and how their participation in the financial system might contribute to reaching that outcome.

Outsourcing is risky. When you outsource diagnostic activities, you often miss out on detailed insights (you usually only get a summary) and risk never properly understanding the system you're working in. When you undertake the diagnostic process in-house, fully or partially, you avoid this risk. You also establish relationships with market players and may identify opportunities for collaboration.

Tool #3: Keep Asking Why

Purpose of this tool: Get to the root causes of constraints.

When to use it?

During program design, after you identify the functions that would help overcome the key constraints, and now want to understand why these functions are not performing well – getting to the root causes of underperformance.

The tool

First, define the priority constraint, then ask why solutions haven't yet emerged autonomously, within the system, to solve this problem. And keep asking why to get to incentives, relationships, capacities issues.

> **By repeating 'why' five times, the nature of the problem as well as its solution become clear**
> —Taiichi Ohno, Inventor of the Toyota Production System

Tool #3: Keep Asking Why

Tips and clarifications

Be open minded. Avoid that preconceived ideas limit your understanding of a situation. Experts might believe they understand situations as they worked on similar issues in other countries. Yet, incentives/relationships/capacities significantly differ in each context. Make sure the analysis challenges pre-existing ideas and considers different perspectives. Check the evidence leading to the root causes.

It is never possible to have a complete understanding of a system. Certainty is an illusion! However, a degree of understanding of what makes up a system and how different parts of a system interact can give us sufficient confidence to develop and test initial ideas.

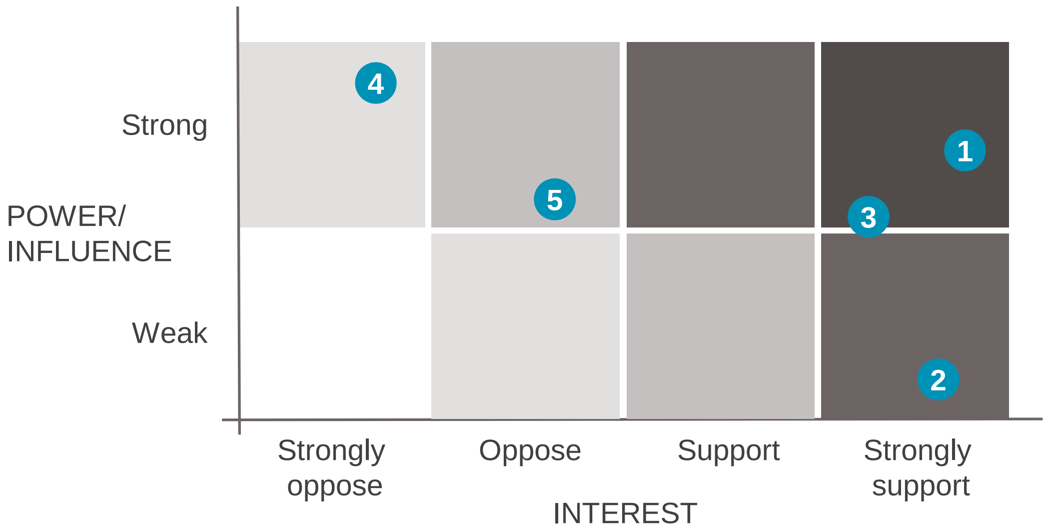
Triangulate information. Incentives, relationships, and even capacities aren't obvious: they are rarely written down. Triangulate information from several sources. Compare what people claim and what they actually do.

Tool #4: Political Economy Matrix

Purpose of this tool: Clarify the drivers of change by evaluating the influence and interest of key stakeholders to make change happen (or block change).

When to use it?

Throughout program life. During the initial situation assessment: to assess the feasibility of change and to develop an engagement strategy. During program implementation: to monitor changes in the system. At the end of the program: to assess changes and how the program contributed to change.



The tool

A matrix positioning key stakeholders based on their interest and influence/power to make a given change happen.

Stakeholders' positions regarding change:

Stakeholder	Connection to the change process	Influence	Interest
1	Add role or relationship, how they might benefit from the change	Strong	Strongly support
2		Weak	Strongly support
3		Medium	Strongly support
4		Strong	Strongly oppose
5		Medium	Oppose

Tool #4: Political Economy Matrix

Tips and clarifications

Start by identifying all key stakeholders. List stakeholders who: i) can/should contribute to/influence the change process, directly or indirectly, ii) will be impacted by the change you are trying to trigger. They can be individuals, groups/communities, public or private institutions. They can be regulators, private sector, associations, civil society, media, international standard setting bodies, value chain participants, etc. Consider both local market system actors, and external influence (e.g. funders, foreign influence).

Consider all types of influences. Influence can be positive (support the change) or negative (oppose the change), visible (observable decision-making mechanisms), invisible (norms, beliefs, ideology, social), hidden (shaping behind the scene).

Update. Understanding the political economy is valuable all throughout the program life. As the political economy is rarely static, interest and influence assessments are not a one-time activity, but should be monitored and updated over time.

Source of information. This type of analysis requires qualitative information. Official, written information should be complemented by less information and a solid understanding of informal norms, the stakeholders' relationships at the individual and institutional levels. Much of this information should be drawn from existing knowledge and experience of field staff, meetings and conversations with stakeholders, one to one and possibly group discussions. Identifying appropriate informants is a decisive step in the process and important to triangulate different views. There is no absolute truth in political economy analysis – but making sure to include various institutions, with different interest at stake, different histories, will help ensure that multiple perspectives are gathered.

Be open minded – aim for objectivity. It is not easy to analyze the political economy of a context in which you are embedded. Having someone from outside the system support the process is useful. Yet remaining involved in the analysis is key for learning, so full outsourcing is not recommended. Including analysts with diverse skill sets and networks will also minimize unintended bias. In the digital finance sector for instance, bias can happen if all team members are financial sector specialists (missing the TelCos perspective), or all active advocates of the digitization (missing a risk focused perspective).

Tool #4: Political Economy Matrix

Tips and clarifications

Going further. Process mapping can be a useful tool to further analyze relationships among stakeholders, identify bottlenecks and opportunities to improve processes, as it illustrates the network of flows of decision-making, resources, or information.

Determine stakeholder engagement strategy. Beyond understanding the drivers of change, the political economy matrix is also useful to plan interventions and select partners. For instance, you'll want to closely manage the top right square, as they are the most important set of stakeholders (high influence and high interest); and you might want to work with the top left square, to understand why they oppose the change – and possibly change their mind about it.

TOPIC 3: DESIGNING FOR SYSTEMIC CHANGE

What would need to change for the system to work better for your target group? Systemic programs need a vision that answers this question and articulate how their interventions will trigger these changes.

Designing for Systemic Change

Setting a vision

Programs need to have a future vision of how the system could work better, without continued external support. Based on your analysis of market actors' incentives, capacity and relationships, you identify who might be best placed to perform and pay for missing market functions in the future, or improve the way functions are performed . This "exit strategy" becomes the entry point for your intervention. Use the Who Will Do/Who Will Pay tool (Tool 5).

"If you don't know where you are going, any road will get you there."
—Cheshire Cat, Alice in Wonderland

Hypothesis based planning

This vision and how to get there can be articulated in a Theory of Change (ToC) (Tool 6). A ToC explains why a desired change is expected to happen in a particular context: it provides the narrative about why and how the program's interventions will trigger the changes that will lead to our expected outcomes. It can be used to design and communicate a vision for a program, and it serves as the basis for measuring results.

Aim for systemic change

The systemic approach recommends that systemic change outcomes be a key level in the ToC, to enable change that is sustainable and at scale.

SCALE: change that benefits a significant number of people, in relation to a given context.

INCLUSIVE: change that benefits poor and low-income people, as well as small businesses

DYNAMICS: change that influences the incentives, relationships and capacity of market actors so that the system overall works better for all.

SUSTAINABILITY: change that results in systems that adapt to evolving environment, withstand shocks and innovate, long after the withdrawal of external support.

Systemic change:

A change in the underlying dynamics of a system, that affects the scale and sustainability of the system and makes it more inclusive.

Designing for Systemic Change

Articulating systemic change

Systemic change is about nudging a whole system towards a new equilibrium, which works better for the target group.

This means that market actors beyond those directly involved in a funder’s intervention (referred to here as “partners”) adopt new behaviours that collectively lead to improved participation of low-income populations in financial services markets.

Whereas conventional programs tend to rely on the demonstration effect to influence and crowd-in actors, programs with a systemic change ambition should deliberately plan, monitor and sometimes take action for change to spread.

The AAER framework (Tool 7) helps think through what needs to happen for a change in the system to lead to systemic change: from the initial innovation at the partner(s) level (Adopt) to the crowding-in and diffusion of this innovation (Expand, Respond and Adapt).

Tool #5: Who Will Do/ Who Will Pay Matrix

Purpose of this tool

- Define a vision of how the system should function once the intervention is over, by clarifying which actors would be better placed to perform/pay for the functions needed for the system to work better.
- Highlight which market actors would have to change their behaviour, which becomes the basis of your intervention strategy.

When to use it?

- You have analyzed what works and what doesn't in a system and need to identify a future vision.
- You can also use it to check the sustainability of a vision.
- You can use the matrix for discussions with your experts on the ground, with partners or with other funders to develop a joint vision or gather different perspectives.

The tool

A matrix listing all functions in a system and who performs and pays for them, comparing the current picture to the future vision.

Think about actors' relationships, capacity and incentives when developing the vision.

Vision: How do we envisage the system X years from now?

		CURRENT PICTURE		VISION	
	Functions/Rules	Who does?	Who pays?	Who does?	Who pays?
CORE					
SUPPORT FUNCTIONS					
RULES					

Tool #5: Who Will Do/ Who Will Pay Matrix

Tips and clarifications

Use your eyes and ears in the market. Information about relationships, incentives and capacity of different actors is rarely accessible in reports. It requires judgment of informed facilitators and other informants who see behind the scenes and know the local context well. Make sure you ask for this kind of information if you outsource diagnostics to external consultants. Also make sure to constitute a team that brings this local knowledge and is trusted by market actors; technical expertise along is not sufficient.

Be clear about the timeframe for your vision. You might develop an intermediate vision (e.g. how do you envisage the system in 5 years) and a long term vision (e.g. in 10 years).

Also check the tips and clarifications for the “Who Does/Who Pays” matrix (Tool 2).

Tool #6: Theory of Change (ToC)

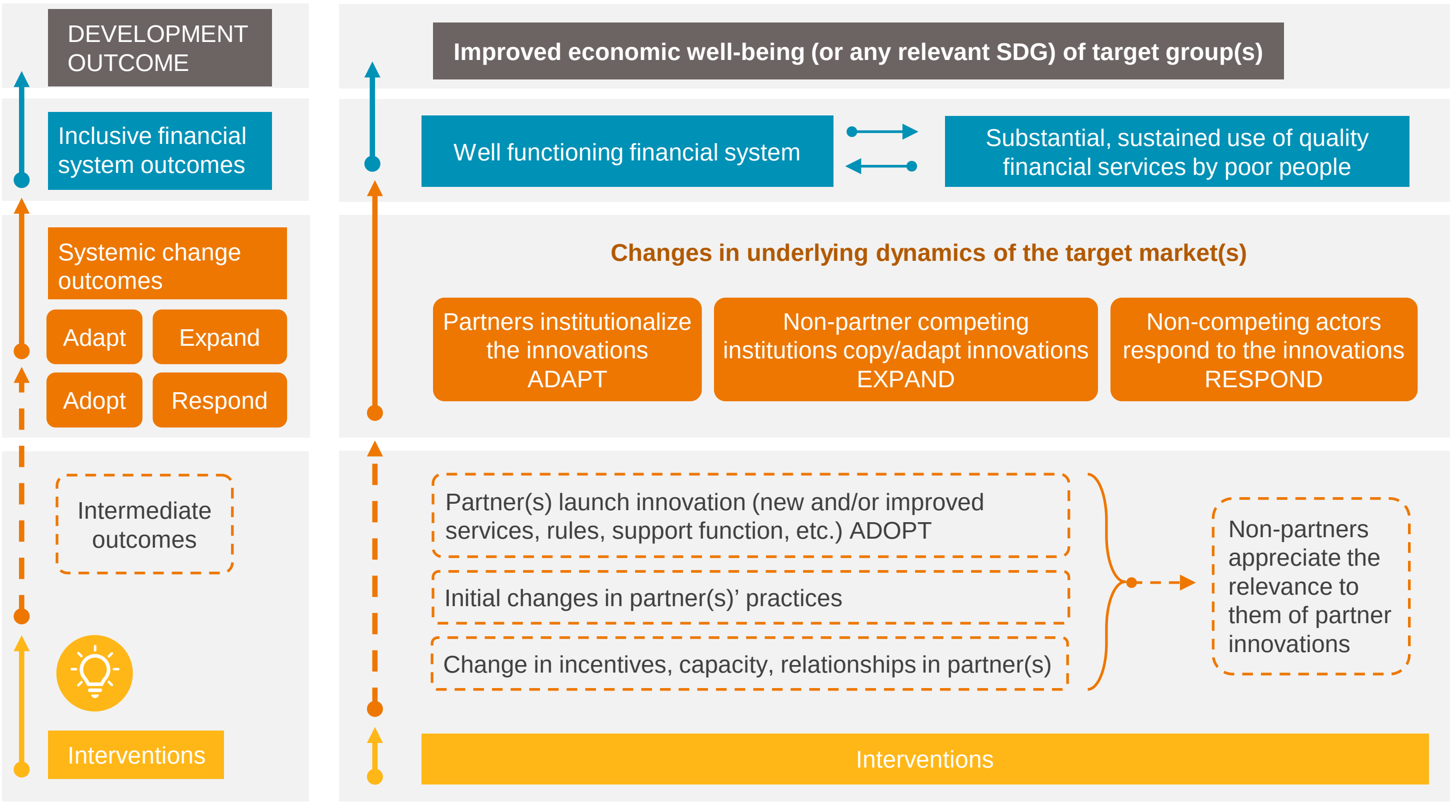
Purpose of this tool: Provide a way to help us navigate complexity, as it forces us to think through and be explicit about how we expect change to happen.

When to use it?

It is useful to start designing a ToC early in program design, as it helps focus further analysis and hints to "missing links" in the logic of a program early on. The ToC also serves as a management tool, to monitor whether change is going in the direction you expected, and as a communication tool, that helps explain and communicate what your program is about. Finally, the ToC is the basis for measuring results.

The tool

A graphical representation of your program narrative. A ToC defines pathways from interventions to different levels of expected outcomes, including an explanation of hypotheses between the different levels and assumptions about external factors that support or hinder progress.



Tool #6: Theory of Change (ToC)

CGAP recommends that the ToC for a financial inclusion program includes four levels:

- Development outcomes: usually, financial inclusion is seen as a means towards a higher development outcome, e.g. one of the SDGs.
- Inclusive financial system outcomes: outcomes related to financial inclusion (e.g. outcomes related to the quality, access and use of financial services) and outcomes related to the functioning of the financial system.
- Systemic change outcomes: changes in the underlying system dynamics that will help achieve the financial inclusion targets; they include intermediate outcomes, that capture necessary steps towards changing the underlying system dynamics. Intermediate outcomes are more closely related to your program and usually take place within the program duration.
- Interventions, that should bring about these changes in the system.

The ToC should explicit contribution hypothesis and underlying assumptions:

- Contribution hypotheses explain the logic behind the progression from one level of the ToC to the next.
- Assumptions express external factors on which this progression relies. Assumptions can also be formulated as risks. If there is a high risk that some critical assumptions won't be given, you might need to mitigate for those risks (e.g. adapt your intervention, include a plan B, address the risk through a separate intervention, coordinate with partners who might address risk, etc.).

Tool #6: Theory of Change (ToC)

Tips and clarifications

The ToC is a living document. Throughout the implementation of a program, the ToC helps compare expectations with reality and prompts to rethink the strategy when change does not happen as expected (which is the rule, rather than the exception). ToCs, including the assumptions and contribution hypotheses, should be reviewed periodically as the program advances. They should be adapted, along with the interventions themselves, if evidence suggests that the hypotheses are not viable.

Build your ToC from the top to the bottom. Think first about the development outcomes you want to achieve; don't start with your interventions. Interventions will be set only once partners have been selected, as they need to be tailored to their specific needs. The higher the level in the ToC, the longer the timeframe to achieve outcomes, and the more indirect the program influence.

Be clear about the scope of your ToC. ToCs can be developed for a program or an intervention. Sometimes, ToCs are also used to map the expected development of an entire sector. It helps avoid confusion if you clarify the scope of your ToC from the start.

Funders and implementing partners should have a joint ToC. Think about developing a ToC together with your implementing partners (or with your funders, if you are an implementer) and agree on a process to review and make revisions.

Make it specific and measurable. Avoid being too vague in your ToC. The ToC doesn't have to be right (we know that we are working in unpredictable contexts), but it has to be specific enough so that you know if you are on the right track or not. Also, the ToC is the basis for measuring results, which means that its components need to be measurable.

Tool #7: AAER Framework

Purpose of this tool: Articulate and monitor systemic change.

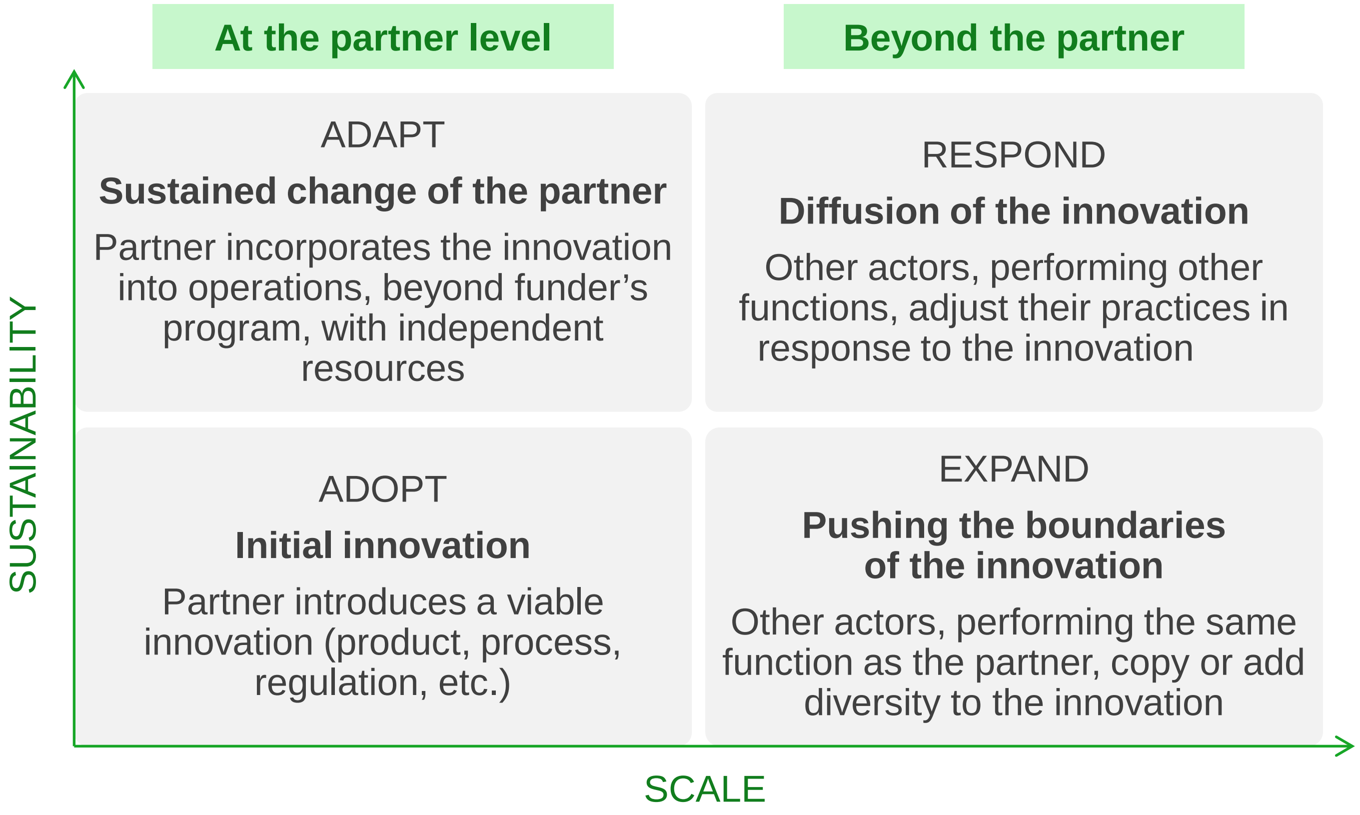
When to use it?

- When designing an intervention, AAER helps to think through all steps that are needed for an intervention to trigger systemic change.
- When implementing an intervention, it helps reflect on the type of support that is needed.
- When measuring the results of an intervention, it helps identify the results to look out for.

The tool

The AAER framework, developed by the Springfield Center, makes you think about all the changes needed to reach your financial system outcomes, within and beyond your partners: AAER as Adopt, Adapt, Expand and Respond.

ADOPT: A program usually starts working with one or a few market actors to trigger the initial change in the system, the “innovation”. We refer to these actors as "partners" rather than "beneficiaries" or "fund recipients". We use the term “innovation” to designate the initial change at the partner level. It does not have to be “new” in an absolute sense, innovation simply designates a practice new to your specific system: a new policy, an improved training facility, a new source of information, etc. But to be sustainable, this innovation, materialized by a new practice, should be rooted in changes in the incentives/capacity/relationships of the partners. This is the Adopt phase.



GRAPHIC: Adapted from the Springfield Center, initially developed in 2011 through collaboration with Katalyst.

Tool #7: AAER Framework

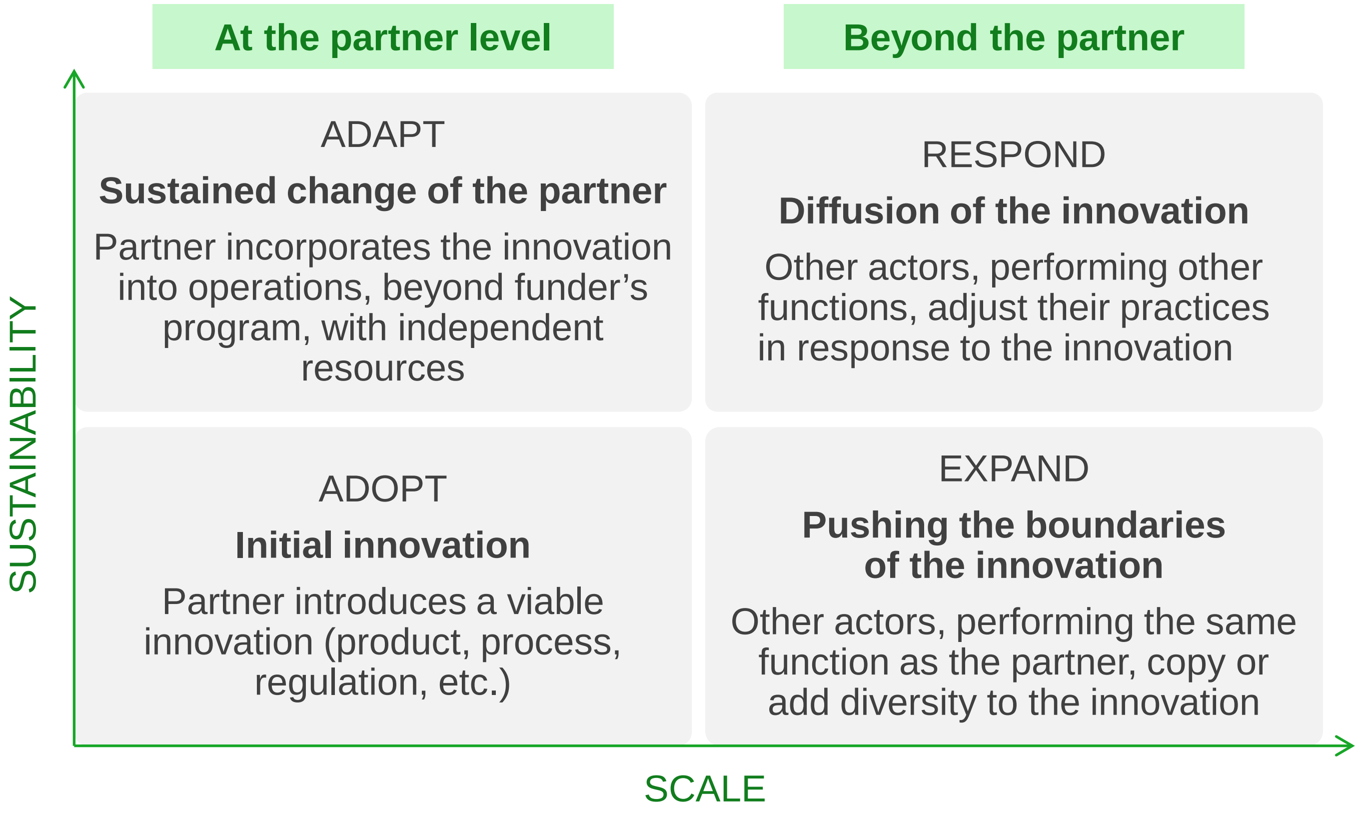
The tool, continued

ADAPT: This innovation should then become fully incorporated into the partner's practices and strategy – beyond funder's support. This is the Adapt phase.

We only consider change systemic if market actors beyond the partner(s) adopt a new behaviour or respond to the innovation.

The EXPAND phase is about crowding-in actors who perform the same function as the partners - sometimes referred to as "competing market actor": they copy, scale-up, add diversity to the innovation.

The RESPOND phase is about getting market actors, beyond partners and beyond those performing the same functions as the partners, to adapt their own practices, in response to the innovation.



GRAPHIC: Adapted from the Springfield Center, initially developed in 2011 through collaboration with Katalyst.

Tool #7: AAER Framework

Tips and clarifications

Change can start at any level of the financial system. Change doesn't necessarily start with a provider launching an innovative product, it can start with any market actor changing its behaviour. For example, if the innovation (Adopt) is a new financial service, the partner is likely to be a financial service provider, and "competing market actors" would be other financial service providers. If the innovation is the introduction of a new regulation, the partner is likely to be a ministry, and other actors performing the same function could be other public authorities, with the "noncompeting actors" responding to the innovation being for instance the financial service providers changing their practices to comply with the new regulation, or the consumer association communicating about the new regulation.

Think about changes needed at each step in the matrix. Typically, change is most intense at the Adopt stage where a facilitator nudges a market actor to adopt a new behaviour. The AAER framework helps to think beyond this initial intervention. For each step, think about the various behaviour changes that need to take place, and whether market actors have the will and the skill to change. Your answers to these questions translate into potential interventions. If the scope of necessary interventions is too large for your program, think about other development actors you might partner with.

Don't take the demonstration effect for granted. The AAER framework helps think through what needs to happen from the initial innovation throughout the scale-up phase.

Change is not linear. The progression between the different phases in the framework is not linear or sequential. Per definition, adopt happens before the other phases, but expand, adapt and respond can happen in parallel.

Integrate AAER into your ToC. The AAER framework can be integrated into the Theory of Change. Usually, the Adopt and Adapt phase are can be seen as intermediate outcomes, while the Expand and Respond phase are likely to take longer and can be mapped to the "systemic change" level – but that depends on your program timeframe.

There are many ways to use the AAER Framework. You can start from scratch and use it for brainstorming, or apply it to a program that has already been designed to check that the logical flow is not missing any steps. The AAER framework can also be used to tell the story of change that happened in a market system.

TOPIC 4: FACILITATING SYSTEMIC CHANGE

Applying a systemic approach to financial inclusion requires a high degree of humility. It means recognizing that the systems we want to influence evolve with or without us and that at best, we can nudge the trajectory of change towards a state that is more inclusive and works better for our target group. Facilitation is about triggering, accelerating and influencing those trajectories of change.

Facilitating systemic change

What is facilitation?

Facilitation is an art rather than a science which aims to nudge market actors towards more inclusive behaviors, leaving behind more inclusive financial systems that continue to adapt and are resilient to shocks.

A facilitator constantly looks for drivers of change and builds on them to change actors' behaviors. Facilitation affects the whole program cycle:

- how we assess the situation,
- how we set a vision,
- how we design a strategy, and
- how we implement this strategy.

From the start, facilitation requires having a solid understanding of why market actors act the way they do, and do not implement solutions to constraints themselves. It requires a comprehensive vision of how the system will perform better in a way that is sustainable and doesn't rely on external support. It requires strategies which aim to trigger behavior change among different market actors so that change is systemic.

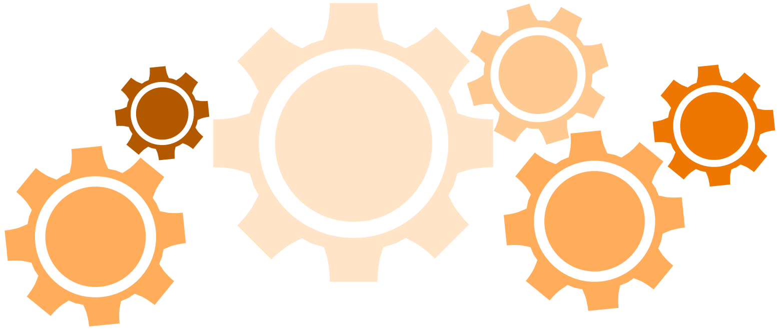
Other chapters in this training companion covered the diagnostic and strategic aspects of systemic programs. This chapter will focus on using a facilitative approach when implementing a program.

Facilitation is about working with market actors to catalyze the desired change process.

Working with market actors: Facilitators stay in the background and support solutions owned by market actors.

A desired change process: Facilitators have a clear vision for the systemic change they wish to catalyze.

Catalyzing: Rather than directly solving issues, facilitation is about incentivizing and enabling market actors to perform needed functions.



Facilitating systemic change

Facilitating the initial innovation (Adopt phase)

Implementation is about working with market actors towards your program outcomes. Facilitators will directly work with one or a few market actors to trigger the initial change, the innovation. We refer to these actors as "partners" rather than "beneficiaries" or "fund recipients", to highlight that the facilitator/partner relationship is not just about financial support. The relationship between a facilitator and a market actor should be at eye level.

Innovation: We use the term "innovation" to designate the initial change at the partner level. It does not have to be a highly technological innovation, new frontier in the financial inclusion sector. Innovation simply designates a practice new to your specific system.

Select partners for a purpose. clarify the change you aim to trigger in the market, in terms of incentives, relationships, capacities before you select partners. Facilitators partner with market actors for achieving a specific purpose, e.g. testing an innovation or launching a new process. The scope of the partnership should be in line with this purpose and not cover your entire strategy. Partners don't necessarily have to even agree with the facilitator's overall theory of change or vision for the future market, as long as they share an interest in testing the innovation. However, partners should be aware that you partner with them for triggering systemic change and what you expect from them to make that happen (e.g. sharing information from pilots).

Use the Will/Skill matrix (Tool 8). When selecting a partner, consider the following:

- Does the partner have the ability (skills) to change?
- Does the partner have the incentives (will) to change?

Think through all steps in AAER when selecting partners. Beyond the skills and will of the partner, also think about how your selection might influence the likelihood of the innovation being copied by others. How will this partnership influence other market actors: their incentives, their capacity, the relationship between them? How will it be seen by others? How will it influence the competitive landscape?

- Partnering with market leaders might seem the best choice for reaching scale quickly, but will others be able to copy?
- Partnering with a small player might be more feasible, but will the innovation be visible to others? Will more dominant market players change their behavior?

Facilitating systemic change

Approach partners with a win-win offer. Once potential partners are identified, facilitators formulate an offer based on the needs of the partner. The facilitator and a partner negotiate a partnership that is based on shared interests and requires contributions (financial, but also commitment, time, access to information, etc.) from both parties. When formulating an offer, think about the following:

- How do you know and monitor that the partner owns, and is committed to, the change process?
- What do you expect from the partner (e.g. knowledge sharing)?
- Offer enough support to catalyze the desired change but be careful not to provide too much support, which would make it difficult for other actors to replicate.

Activities come last. Activities or interventions need to match the needs of partners. For the same targeted change, facilitators can end up with different interventions, depending on the partners they select. Hence, design activities to match partners' needs - only after a partner is selected. Ideally, a systemic program should not be designed from scratch as a grant or an equity program for instance – as it might not be what the partner needs.

Don't bind yourself to a partner. Facilitators should also be careful not to bind themselves to a partner and keep the flexibility to change partners if a partnership does not work.

Facilitating scaling-up (Expand, Respond)

Direct partners are not the only market actors a facilitator wants to influence. For change to be systemic, market actors beyond the partners of a specific intervention need to change their behavior.

Plan and monitor change beyond actors. Getting from an initial innovation to systemic change does not happen automatically, it requires certain pre-conditions to be in place. The ToC should identify these pre-conditions and the pathway to making sure they are in place. These conditions include:

- The initial innovation and its results are visible to other market actors;
- They are relevant to them;
- Other market actors have access to the information they need (know how/know what) about the innovation;
- They have the capacity to adapt their own behaviors/practices to this innovation.

Facilitating systemic change

Facilitating scaling-up (Expand, Respond), continued

Potentially intervene. These phases are supposedly less intense in terms of interventions. At a minimum, information about the innovation and its results should be visible by others. But in immature markets, getting the pre-conditions listed above in place often requires additional action from the facilitator: from low intensity interventions, such as knowledge sharing, convening/networking, advocacy, to additional programs, providing capacity building, funding, or research to new partners.

Adaptive management

Facilitating change means deal with uncertainty and unpredictability. It requires adaptive management: the art of experimenting, learning and adapting programs. As we cannot know everything upfront, we learn as we implement.

- Adaptive management might require to start implementing while we are still assessing the situation, to gather more information.
- Adaptive management usually requires testing several options at the same time.
- And it might require to adapt, add or stop interventions, may be even change partners.

The facilitation toolbox includes many tools - funding is just one of them. There is nothing new in this toolbox compared to more conventional approaches. It's the way we use these tools that makes the difference.

It ain't what you do, it's the way that you do it,

It ain't what you bring, it's the way that you bring it,

It ain't what you do, but the time that you do it,

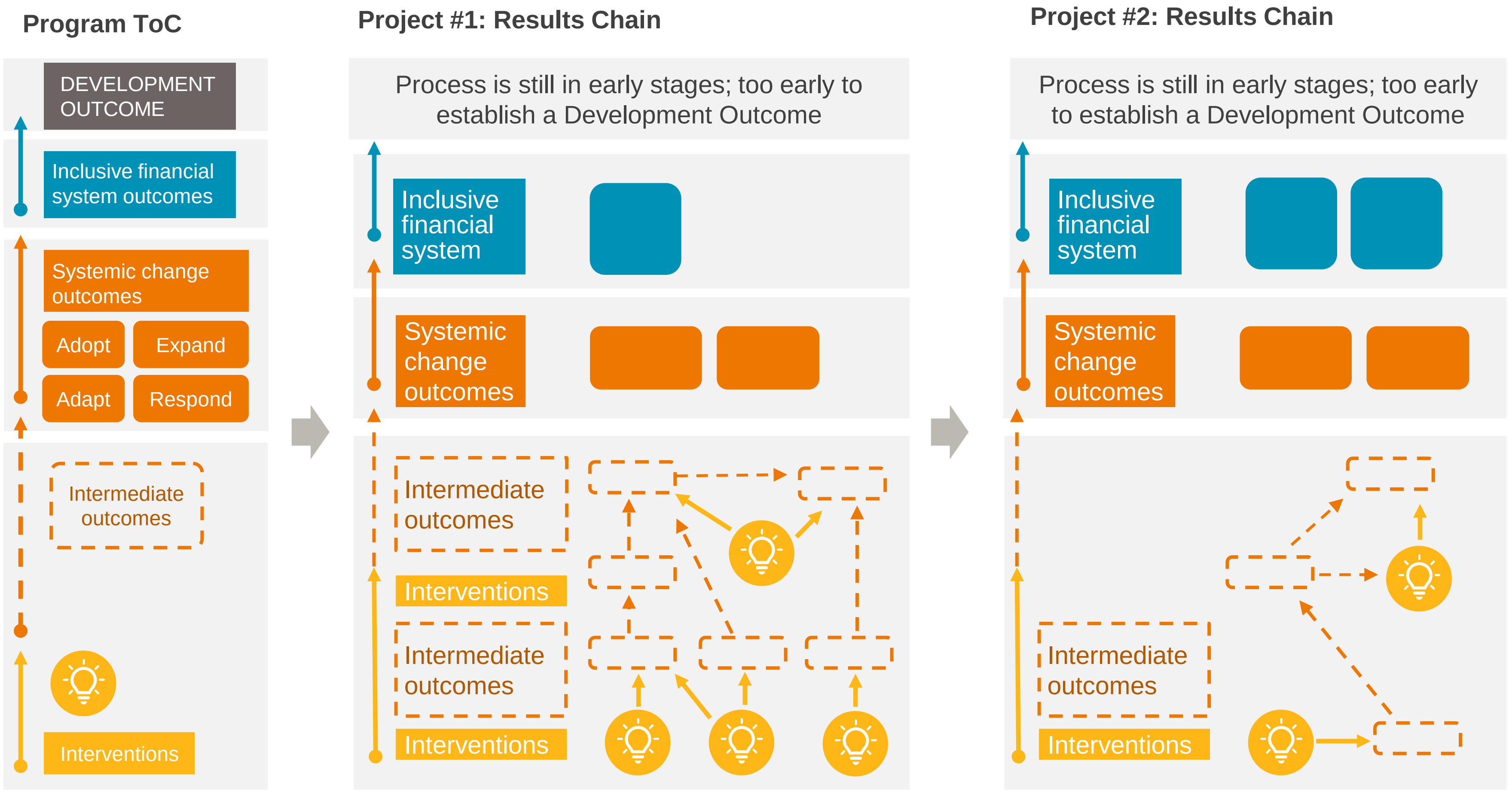
...That's what gets results!

—Ella Fitzgerald

Facilitating systemic change

Detailed results chains

Adaptive management means that as we are analyzing the system and then experimenting and learning, we become more specific in terms of program design. From the overall program ToC, we design more detailed result chains, that are contextual and partner specific, and include the interventions.



Facilitating systemic change

Characteristics of a facilitator

Facilitation is a balancing act that requires a high level of engagement, while staying neutral and without becoming part of the system.

Key characteristics of successful facilitation:

- **Strategic**: Seeks out leverage points to catalyze impact
- **Informed**: Analytical capabilities and political economy skills
- **Adaptable**: Takes calculated risks, carefully monitors results, learns from success and failure
- **Entrepreneurial**: pro-active in identifying opportunities, able to formulate win-win offers to potential partners.
- **Committed**: although not a permanent actor, long term commitment.
- **Credible**: be and be seen as capable, independent and trustworthy in the eyes of market actors, so that their role is accepted.

Different types of organizations (trust, NGO, company, development agency, …) as well as individuals can act as facilitators, as long as they have the key characteristics of successful facilitation. Individual and team skills are more important than the type of organization.

Funders can act as a facilitator themselves; they can fully outsource facilitation to an implementing partner; or they share facilitation roles with implementing partners.

Tool #8: Will/Skill Matrix

Purpose of this tool

- Identify potential partners among a set of options,
- Matching facilitation tools to a partner's needs.

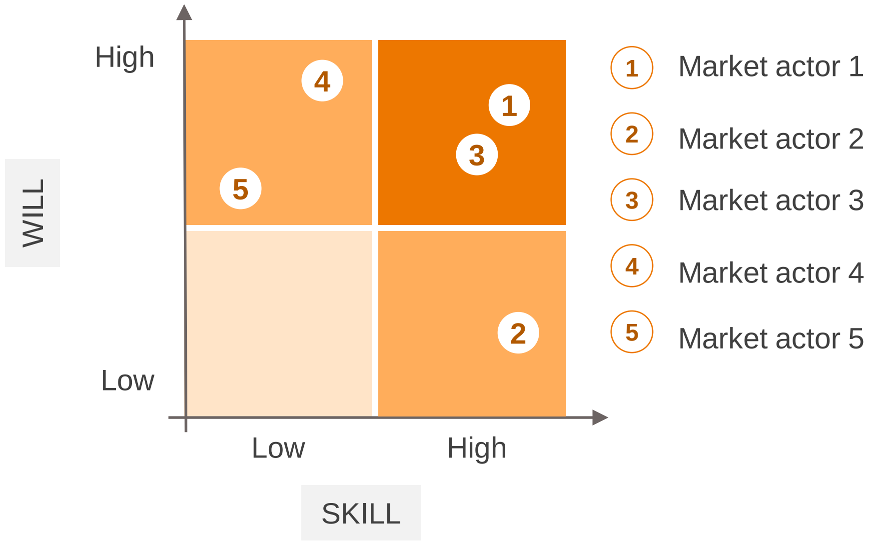
When to use it?

- To identify potential partners, once a vision for change has been designed and it is clear where in the system a facilitator will intervene,
- To identify interventions needed to nudge the selected partners towards the desired change.

The tool

A two-dimensional matrix, mapping actors according to their will (incentives) and skills (capacity) to change.

The Will/Skill Matrix: Mapping Potential Partners



Graphic source: Springfield Centre M4P Operational Guide

For example, in the case of an intervention that wants to improve the support function "financial education", it would map all actors that perform (or potentially could perform) the function based on their will (incentives) and skill (capacity) to do so.

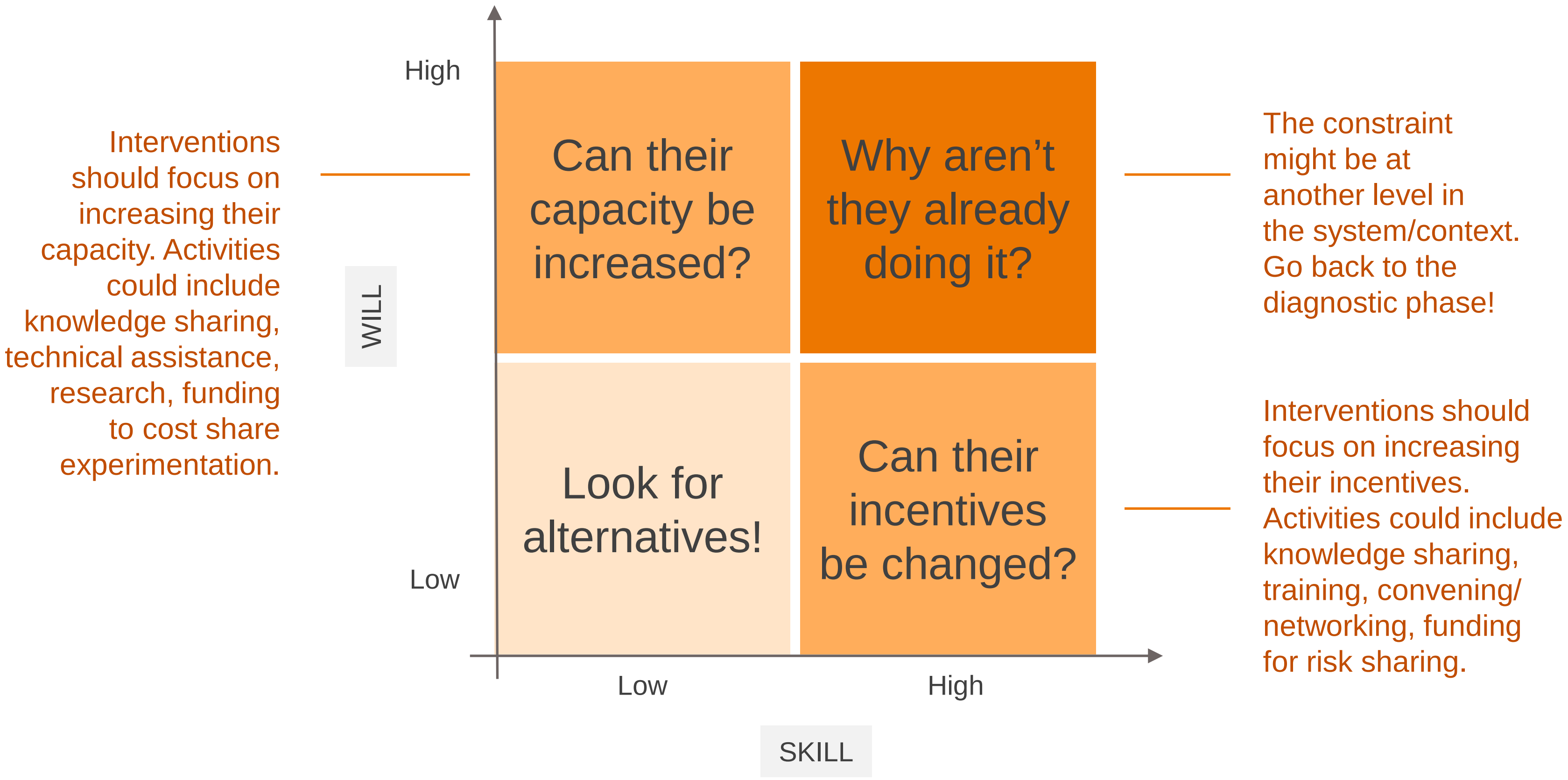
It can be used to decide which type of market actor to partner with (e.g. financial service providers, consumer associations, media or others), but also which specific actor (e.g. choice between different media outlets).

Tool #8: Will/Skill Matrix

The tool, continued

The matrix is also useful to identify the type of interventions/activities. Facilitation tools need to match the needs of partners. It makes better sense to think about specific tools and activities after a partner is identified and to identify a partner after the expected systemic change and intermediate outcomes are defined).

The will/skill matrix: planning interventions



Tool #8: Will/Skill Matrix

Tips and clarifications

Don't forget the will: select market actors not only based on their ability (skills) to change, but also their incentives (will) to change. The will is often more important than the skills or the market position, to embark on a change process. Raising awareness or convincing a partner that a new behavior, an innovation is worthwhile adopting or testing is often the first step and essential for how an intervention will proceed.

Cast the net wide to identify potential partners. Who should you list in this matrix? All actors that can trigger the change you are targeting. Facilitators proactively look for such actors. Don’t wait for market actors to come knocking on your door. Look beyond the obvious choices such as partners you have already worked with in the past. During the diagnostic phase, facilitators have already engaged with a broad range of stakeholders and can build on this early engagement. Attending or hosting industry events, but also informal networking can generate ideas. More formal selection mechanisms such an open Call for Expression of Interest can be used and have the advantage of opening participation to all market actors, which is especially important in a competitive market landscape.

TOPIC 5: WHAT IT TAKES TO ADOPT THIS APPROACH

Programs that aim for systemic change are far from development as usual. They focus on facilitating change in market actors' behaviors, while recognizing that they are working in systems which are complex and evolving. They require specific processes and culture.

What it takes to adopt a systemic approach

Flexibility and adaptability

The systemic approach is based on the recognition that we don't know everything, we don't control everything. The precise pathways to impact are hard to anticipate: the strongest theory of change will still rely on assumptions, which might turn to be false.

We need to experiment to see what will work, and adapt our program as relevant. The systemic approach, including adaptive management, calls for flexibility, adaptability and enhanced monitoring.

We cannot predict in detail whether or how interventions will work, but we can measure the effects of what we do, and adjust the interventions accordingly. This approach to complexity is not only possible, but the only approach which is likely to be successful. —Center for Global Development

Adaptable strategies, tactics, partnerships: experiment, test multiple options simultaneously or sequentially, learn and adapt/ stop/scale-up.

Flexibility frameworks: precise yet flexible planning and budgeting tools.

Solid monitoring systems, with short feedback loops. Constantly monitor the results, to adapt the strategy as needed.

What it takes to adopt a systemic approach

Accepting and learning from failure

Through experimentation, we try many things, recognizing that some won't work out as planned. The systemic approach calls for a culture that embraces risks and failure as learning opportunities.

- TAKE RISK: Funders should not just allow for, but actively encourage experimentation.
- LEARN FROM FAILURE: Embrace failure as a learning opportunity. Systems, processes and culture should be in place to encourage experimentation and yet keep failure under control.

Fail small: The Museum of Failure, in Sweden, stresses that "Even the biggest most competent companies fail. The trick is to create an organizational culture that accepts failure, so that you can fail small, rather than failing big."

A new perspective on accountability

Conventional accountability in development programs tends to center on achieving predefined targets. When applying a systemic approach, the scope for quantitative predefined indicators is limited. However, financial inclusion programs still need to be accountable. The approach calls for a new, broader perspective on how funders are accountable to their constituencies, and implementers to their funders.

Longer term view. Addressing root causes requires a longer term view than addressing symptoms - but triggers more sustainable changes.

New indicators. Aiming at changing behaviors and incentives requires a new measurement framework that reflects qualitative outcomes. Accountability can no longer rely only on rigid results frameworks based on quantitative indicators.

Contribution: Facilitating, rather than directly intervening, means net impact will be difficult to attribute. The impact narrative should be created based on contribution rather than attribution.

Rewarding behavior. Beyond results indicators, funders and implementers should be accountable in terms of program management. For example, implementers should be accountable for designing projects based on thorough diagnostics & ambition; monitoring progress, learning and effectively managing risks and reacting quickly when results are disappointing; proposing program adaptation based on clear evidence; regularly informing the funder.

What it takes to adopt a systemic approach

The ability to work with facilitators

Funders might wish to outsource facilitation to a program implementer, a facilitator. It requires enabling procurement processes and increased collaboration.

- Procurement processes: enable the selection of facilitators, rather than just industry experts, and recognize facilitation costs as program costs rather than overheads; build learning into the project cycle (for instance, an inception phase at the beginning of a new program allows for thorough analysis and informs the theory of change).
- Collaboration funder/ implementer: based on regular communication and open dialogue - not only standardized reporting.

Measurement systems

On their route to flexibility, adaptability, learning, and being accountable for systemic change, funders often stumble over their measurement systems. Traditional monitoring focuses on the intervention and its partners, based exclusively on predefined results framework indicators, and structured surveys conducted at infrequent intervals. Instead, programs that apply a systemic approach need enhanced monitoring that:

- Measures changes in behaviors: the approach is about nudging market actors into doing things differently - changing incentives, capacity, practices, and relationships between actors. These outcomes are highly context-specific and not easily susceptible to quantitative indicators. They require different indicators and different type of data. Use Systemic change indicators. (Tool 10)
- Monitors beyond partners: Some outcomes relate to program partners, while others reach beyond, affecting a wider range of actors. The measurement system should help identify change in non-partner institutions, including in interconnected systems and contextual factors.
- Monitors beyond expected outcomes: system complexity and unpredictability mean that monitoring should look out for unexpected changes. Use Measurement questions (Tool 9).
- Uses flexible frameworks. Adaptive management dictates that all measurement frameworks (objectives, indicators, targets) should be seen as hypotheses rather than blueprints. Funders and program units must be prepared and enabled to change them.
- Provides quick feedback. Adaptive management is geared to action. We need to know which actions are showing prospects for scale, sustainability and social value before it is too late to course-correct; data collection needs to be ‘quick and dirty’ more than ‘slow and clean’.

Tool #9: Measurement Questions

Purpose of this tool: Set the scope and focus of monitoring and evaluation, to ensure measurement captures useful information.

When to use it? During program design, and when monitoring results.

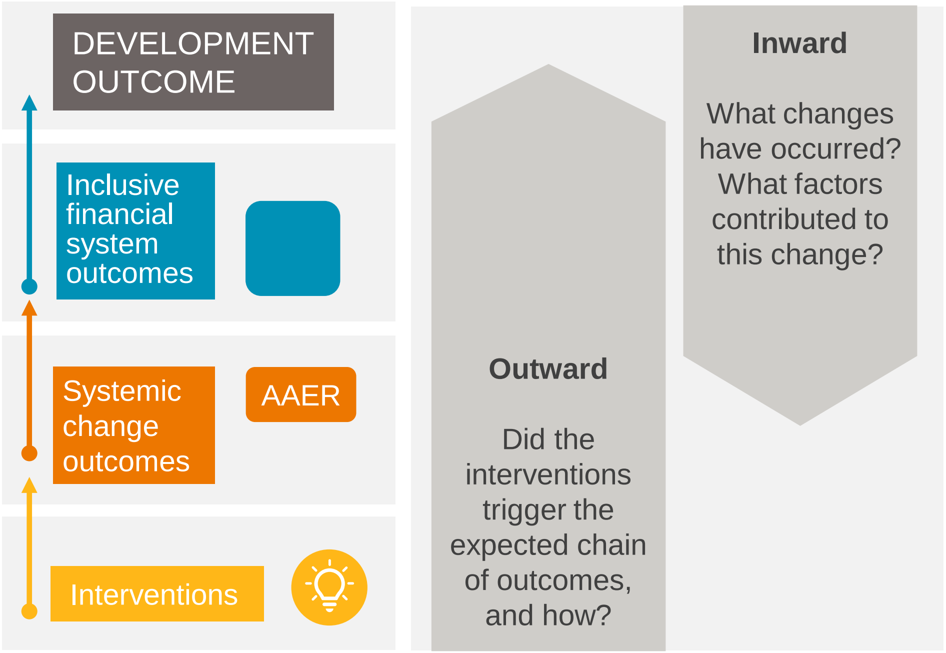
The tool

Measurement questions cover both accountability and learning (prove and improve) questions. They usually include generic questions, especially those related to OECD-DAC criteria, and complement these with specific questions relating to the program theory of change.

They are organized following the different levels of the theory of change:

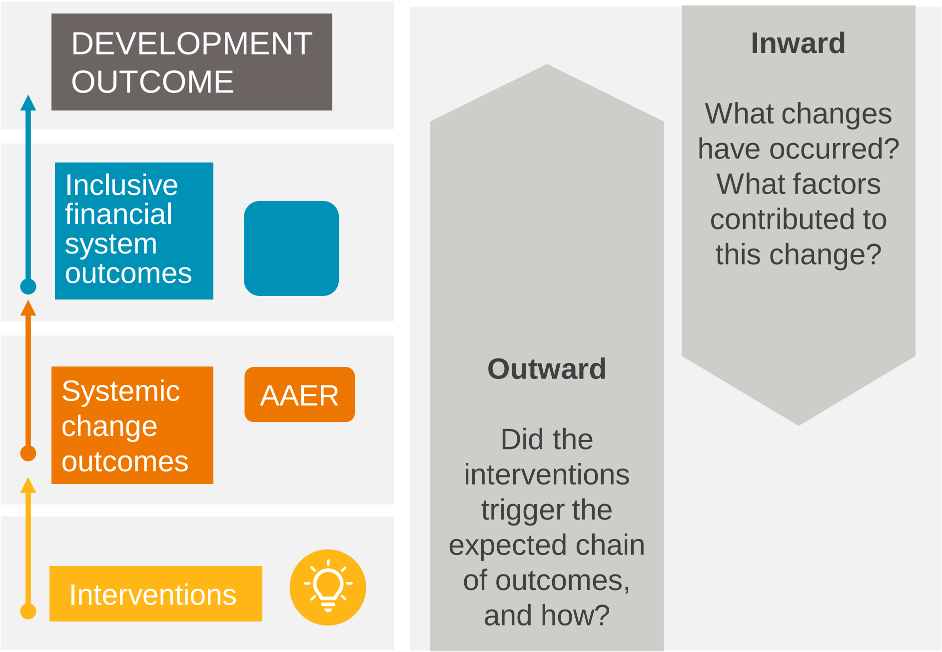
- Interventions: question resources provided, timing, scope and relevance of activities.
- Outcomes: question the achievement of expected outcomes but also changes that have taken place in the environment beyond the planned outcomes.
- Hypothesis and assumptions underlying the theory of change: question their validity.
- Wider system: monitoring what is happening in other markets that may affect the program.

Generic Measurement Questions



Tool #9: Measurement Questions

Generic Measurement Questions



Outward: from interventions to financial inclusion (and in some cases to development outcomes)

- Have the interventions been delivered efficiently, to the intended beneficiaries, and of sufficient scale and quality?
- To what extent and in what ways have the partners' awareness, attitudes, knowledge, and capacity been affected by the program interventions?
- To what extent and in what ways have the partners' practices been affected by the program interventions?
- Have the changes in the partners' practices supported by the program enabled the partners to produce new and/or improved products, services, regulation, etc. of the right quality?
- To what extent have program interventions and/or exposure to partner innovations promoted an appreciation among non-partners of the relevance for them of the innovations?
- To what extent and how have the intermediate outcomes of the program, including unplanned outcomes, led to partners adapting their innovations and non-partners expanding, and responding to, them?
- To what extent and how has the early systemic change progressed and matured in the form of a well-functioning financial system?
- To what extent and how has the development of the financial system promoted financial inclusion (substantial, sustained use of right quality financial services by poor people)?
- To what extent and how has financial inclusion promoted development outcomes (such as improved economic well-being)?

Inward: from financial inclusion to systemic change

- To what extent has there been substantial, sustained use of right-quality financial services by poor people; what have been the drivers and obstacles?
- To what extent and in what forms has there been development of a well-functioning financial system and what have been the drivers and obstacles?
- To what extent and in what forms has there been systemic change and what have been the drivers and obstacles?

Tool #9: Measurement Questions

Tips and clarifications

Avoid intervention centricity. Most indicators are about what the interventions deliver and what effects they have had. But that reduces our chances of really understanding the dynamics of the system – what is influencing what, and therefore where the program should focus. To avoid this intervention centricity, measurement questions should take two perspectives:

- “Outward,” starting from the interventions: What effects have the interventions had? Outward questions usually cover the bottom of the ToC up to the inclusive financial system level. Strategically planned evaluation could bring them up to the development outcome level, for selected projects.
- “Inward:” changes identified in the system, without initial reference to the interventions: What changed? How have these changes come about? What are the main factors that have contributed to them? Inward questions are mostly relevant for the middle section of the ToC. Not relevant for the bottom of the ToC, as contribution should be quite straightforward there, easily mapped; and often not relevant for at the top either, as the development outcome level, there are so many potential factors at work that in most cases it would be unrealistic for a typical program measurement strategy to apply inward questions such as: What has led to improvements in economic well-being?

Clarify how these questions will be answered. A measurement strategy then plans how these questions will be answered. The measurement strategy creates the links between all measurement frameworks and processes, making sure they work as cohesive instruments rather than a set of stand-alone tools. It defines what is to be measured, how, when, by whom and at what cost.

Tool #10: Indicators for Systemic Change

Purpose of this tool: Help measure systemic change.

When to use it? Program design, management, monitoring and evaluation.

The tool

Results frameworks typically place a lot of emphasis on "snapshot" inclusion indicators linked to access and usage (e.g. number of customers, % of youth/women, number of products offered, % of people with an active account). However, this type of outcome occurs only towards the end of the program or even after – and mostly relates to upper levels of theory of change.

For effective monitoring, different information is needed to monitor progress at the lower levels of the theory of change, especially for systemic change outcomes. At these levels, programs should monitor changes in incentives, capacities and relationships. They are often qualitative indicators, tailored to the change we are trying to initiate.

Monitoring the Adopt phase (initial innovation):

- Indicators that measure changes in incentives/relationships/capacity of partner(s) For instance: increased participation in industry events, public declarations, partner(s)' role in governance reflects increased interest, increased dialogue with other relevant actors.
- Indicators that measure changes in partner(s)' practices. For instance: budgets and strategy in place for the innovation, engaging with relevant actors to launch innovation, changes in organizational set-up, recruitments and training relating to innovation.
- Indicators that track if the innovation is in place. For instance: innovation launched, proven viability of the model/process, all stakeholders satisfied.

Tool #10: Indicators for Systemic Change

The tool, continued

Monitoring the Adapt phase (innovation incorporated in partner(s)' operations):

Indicators that the partners keep improving the initial innovation, with independent resources. For instance: Partner's use of users/ consumers feedback, Partner(s)' investment in human capacity building to pursue the innovation, Extent and scope of partners' continuous improvement and scaling-up of the innovation, Partner(s)' ability to respond to shock while continuing the innovation.

Monitoring the Expand and Respond phases (scaling-up and diffusion of the innovation)

- Indicators that the innovation is visible. Examples: information pieces, discussions in industry events.
- Indicators that measure changes in incentives/awareness of market actors beyond the partners. For instance: participations in industry events, partners/facilitator contacted by other market actors, other actors poaching partner's staff.
- Indicators that track if other market actors are expanding (change in behaviors) Examples: competing actors develop/ adopt similar practices, acquire technology similar to partners'
- Indicators that track if other market actors are responding (change in behaviors): non-competing actors adjust their practices.

Tool #10: Indicators for Systemic Change

Tips and Clarifications

Monitor changes in incentives/capacities/relationships as milestones towards your expected financial system outcomes. Changes in dynamics (incentives/capacities/relationships) are necessary steps towards a change in the system (new/improved service/rule/support function). Monitoring them is essential to enable adaptive management, as they can flag a need to correct the course of the programs. Is the partner moving towards adopting the innovation? Are market actors beyond the partner looking at the innovation, appreciating its relevance to them, starting to change their own practices? If not, the program should be adapted.

Use changes in incentives/capacities/relationships as proxies to assess the sustainability of the innovation. Changes in these dynamics are also evidence that the innovation is rooted into the system and likely to be sustainable: rather than a change triggered by external factors, such as funding, innovations rooted in the system's internal dynamics are more likely to be sustainable.

Avoid death by indicators. It is easy to get carried away and end up with too many indicators. Once you have a list of indicators, subject each indicator to a so-what test. If it is not clear how the indicator results would help either prove that your program is contributing to systemic change or help improve the program, then throw it out.

Use scoring sheets to make qualitative information comparable across interventions. To measure changes in awareness and behaviors, we often need to rely on qualitative information. Introducing scores can help to compare results across interventions or make results easier to analyze. For example, instead of defining quantitative targets, a program can define scores from "no progress" to "progress exceeds expectations" and specify what that might look like in a specific situation. Traffic light systems (green, orange, red) can also help.

Clearly define the indicators. Make sure to develop Indicator Profiles that clearly define each indicator, its definitions, the data source, the scoring methodology if any, cost implications, baselines, targets, who has responsibilities for collecting the data.

Tool #11: Facilitator Assessment

Purpose of this tool

- Assess whether an organization is well-equipped to be a facilitator.
- It can be applied to funders or implementing partners.

When to use it?

- When making decisions about project implementation models, e.g. whether facilitation should be outsourced to a partner or can be done internally,
- When selecting implementing partners.

The tool

The tool “Facilitator Assessment” is a framework for assessing organizations along six key characteristics that are needed to be a good facilitator:

(1) strategy

(2) entrepreneurial

(3) informed

(4) credible

(5) committed

(6) adaptable

Discuss each assessment question as you evaluate the organization

1. STRATEGY ASSESSMENT QUESTIONS
Using hypothesis-based planning tools: • Does the organization use program narratives that clarify the pathway from the interventions to the various levels of change, including contribution hypothesis and assumptions – such as the ToC? Consider common practices, processes, templates, support/training and quality checks. • Do staff have experience using it? Are they trained and assessed on adopting this approach?
Aiming for systemic change: • Does the organization have defined process/common practices to identify root causes? Are previous experiences convincing? • Does the organization use a consistent definition of systemic change? • Do processes require and support the articulation of systemic change in the intervention logic, i.e. clearly identifying the incentives, relationships, capacities issues that need to change, at all levels of the system, for the expected change to happen in terms of financial inclusion? Consider processes, templates, support/training and quality checks. • Do staff have previous and convincing experience articulating systemic change?
Analytical skills: • Because they receive so much information, market facilitators must be skilled at consolidating information into a coherent understanding of the system, clear strategy, succinct reports and notes. Are processes in place? Do staff have experience in analyzing and communicating intangible information in a meaningful way?

Tool #11: Facilitator Assessment

2. ENTREPRENEURIAL ASSESSMENT QUESTIONS
Experience in building partnerships: • Do staff have a track record of pro-actively identifying opportunities and formulating offers that encourage ownership by partners? • Have staff been successfully in bringing market actors together to form new relationships and stimulating market activity, locally or abroad? • Do staff tend to consider market actors as beneficiaries or potential partners (at eye level)? • Does the organization encourage networking, relationship building (e.g. time and budget to go to industry events, meet individuals, take over ad hoc tasks)? • Do staff have experience navigating the local political economy?
Diverse skillsets and points of view: • Is the team diverse enough to tackle the issue using several points of view (including business skills, financial inclusion skills, communication skills, etc.)?
Creative problem-solving: • Are processes, training, performance assessments encouraging/preventing creative problem-solving? Consider processes in place to brainstorm, provide ideas going against dominant opinions. • Is there a systematic approach to the identification and monitoring of risks?

3. INFORMED ASSESSMENT QUESTIONS
Local knowledge: • Does the team already have in-depth local knowledge, incl. understanding of the incentives/capacity/relationships of system actors? • Does the team already have regular access to good informants, to update this knowledge? • Are processes in place to store and share this information, including intangible information? • Are processes and systems in place to update the information, keep track of changes in incentives, capacity and relationships of market actors?
Monitoring systems: • Do processes, systems and staff organization enable enhanced monitoring? Is the system adequately resourced and managed? • Do program, measurement and evaluation staff collaborate? • Is there a system in place and experience to monitor changes in incentives/relationships/capacities, within and beyond the partners? Will these processes work for this specific intervention? • What about monitoring the context (beyond the intervention), as well as contribution hypothesis and assumptions underpinning the ToC?

Tool #11: Facilitator Assessment

4. CREDIBLE ASSESSMENT QUESTIONS
Neutrality: • Is the organization connected to any market actor, directly or indirectly? Do staff have existing or pre-existing connections to market actor important for this program, that might lead to market actors questioning their neutrality? • Do processes check staff/consultant independence, before recruitment and on-going?
Trust and credibility: • Do market actors trust the organization and individual staff? • Do they respect their financial system expertise? Facilitators should have financial system expertise to gain credibility and provide useful advice to market actors.

5. COMMITTED ASSESSMENT QUESTIONS
Long term commitment: • Is the organization committed and able to take long term view (status, funding sources, …), without ambition to become a market actor? • Is the organization committed to facilitation? E.g. are facilitation costs recognized as program rather than overhead costs?
Humility: • Is the organization willing and able to stay in the background, letting market actors get the credit for success? Do the organization and its staff position themselves as a neutral player, a change agent rather than a market actor?

Tool #11: Facilitator Assessment

6. ADAPTABLE ASSESSMENT QUESTIONS
Learning institution: • Does the monitoring system (indicators, frequency, processes, staff in charge, etc.) enable useful and rapid feedback to inform programing? • Are program managers responsible for setting up systems to learn what is / is not working towards achieving the program's goals, and incorporating this learning into program design? • How is the organization using program knowledge to build organizational knowledge? Conducting regular portfolio reviews to learn and feed into institutional and program strategy? • Does the culture embrace failures as a source of learning? Is the team able to discuss past failures and how they learned from them?
Flexibility: • Do staff have flexibility in the use of funding/facilitation instruments? • Can the organization work with all types of market actors? Private/public, formal/informal, institutions/individuals, Check procurement processes. • Can staff resist disbursement pressure – and select activities that make sense for the program rather than for the organization action plan?

ADAPTABLE ASSESSMENT QUESTIONS
Adaptability: • Are the ToCs and results chains presented and understood as hypotheses and not as blueprints? Can they be changed during the program life when relevant? • Do the organization's culture and processes encourage testing (including multiple testing at the same time) and adapting? Consider: safe space for discussion, for data to be digested, program review meeting frequency, go/no go discussions (not always exciting but essential). • Does the organization have a relevant track record for adapting/stopping interventions/managing risks? • Will the organization be able to get involved in systems interconnected to the primary system, during program implementation?

ADDITIONNAL RESOURCES & GLOSSARY

Additional resources

Systemic approach: Guidelines

The Springfield Center, 2015 - The Operational Guide for Making Markets Work for the Poor.
www.springfieldcentre.com/the-operational-guide-for-making-markets-work-for-the-poor-2nd-edition/

CGAP. 2015. Funder Guidelines: A Systemic Approach to Financial Inclusion.
www.cgap.org/publications/new-funder-guidelines-market-systems-approach-financial-inclusion

USAID 2015. The Facilitation Approach at USAID: A Discussion Paper.

The Springfield Centre. 2016. Systems and Systemic Change – Clarity in Concept.
www.springfieldcentre.com/wp-content/uploads/2016/04/Systemic-and-Systemic-Change-clarification-of-concept-V2-BT-260416.pdf

ILO – The Lab. 2016. The Science in Adaptive Management.
www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---ifp_seed/documents/briefingnote/wcms_537422.pdf

Adam Smith International. 2016. Getting to Scale.
https://beamexchange.org/resources/785/

Systemic approach: Specific topics

Monitoring and measuring results:

CGAP. 2017. Measuring Market Development.
A handbook for funders and implementers of financial inclusion programs.
www.cgap.org/publications/measuring-market-development

USAID. 2014. Evaluating Systems and Systemic Change for Inclusive Market Development
www.microlinks.org/library/evaluating-systems-and-systemic-change-inclusive-market-development

Data: CGAP. 2017. Drowning in Data, Searching for Information: The Role of Funders.
www.cgap.org/sites/default/files/Brief-Drowning-in-Data-Sep-2017.pdf

DFIs: CGAP. 2017. Development Finance Institutions and Financial Inclusion.
www.cgap.org/publications/development-finance-institutions-and-financial-inclusion

Capacity building programs: CGAP. 2014. Facilitating the Market for Capacity Building.
www.cgap.org/publications/facilitating-market-capacity-building-services

Additional resources

Systemic approach: Lessons learned and case studies

CGAP. 2017. USAID Philippines: Market Facilitation to Advance Financial Inclusion.
www.cgap.org/publications/market-facilitation-advance-financial-inclusion

FSD Africa. 2016. FSD Kenya: Ten Years of a Market Systems Approach in the Kenyan Finance Market.
www.fsdafrica.org/how-we-work/expertise/case-studies/fsd-kenya-ten-years-of-a-market-systems-approach-in-the-kenyan-finance-market/

FSD Africa. 2016. The Art of Market Facilitation:
Learning from the Financial Sector Deepening Network
www.fsdafrica.org/knowledge-hub/documents/the-art-of-market-facilitation-learning-from-the-financial-sector-deepening-network/

Community of Practice

BEAM Exchange. A space to share knowledge about the role of market systems in reducing poverty.
https://beamexchange.org/

Glossary

Adaptive management: structured, iterative process of decision making based on experimentation to deal with uncertainty

Crowding-In: crowding-in occurs when market actors that are not directly involved in a funder's intervention adopt a new behavior as the result of that intervention. Crowding-in can happen spontaneously or might be stimulated by a funder's intervention, e.g., by making lessons learned from a pilot project publicly available.

Facilitation: playing a temporary role to incentivize and enable market actors to more effectively perform the functions that are required for the system to work for all – thereby catalyzing the desired change process.

Facilitator: a role that can be assumed by different kinds of organizations depending on their capacity and perceived independence. Funders can also act as facilitators either directly or through national coordinating bodies, or can fund individuals or organizations to do market facilitation on their behalf. Facilitators can focus on a single country market (such as members of the FSD network in Africa), or address a global market (such as CGAP, Better than Cash Alliance, or GSMA).

FSP: Financial Service Providers

Innovation: We use the term "innovation" to designate the initial change at the partner level. It does not have to be a highly technological innovation, new frontier in the financial inclusion sector. Innovation simply designates a practice new to your specific system: a new policy, an improved training facility, a new source of information, etc.

Market: a medium for exchange, for transactions between demand and supply.

Market actor / player: any organization or individual that performs a function in a market system. Market actors can be private- or public-sector organizations. The main types of market actors in financial services markets include clients, FSPs, technical service providers, policy makers, regulators, and supervisors.

MSD: Market System Development

M4P: Making Markets Work for the Poor

Partner: We refer to market actors working with the facilitator as "partners" rather than "beneficiaries" or "fund recipients", to highlight that the facilitator/partner relationship is not just about financial support. The relationship between a facilitator and a market actor should be at eye level.

Glossary

System (or market system): the interaction of multiple market actors performing multiple functions, including a core function (such as the demand and supply of financial services), support functions, and rules and norms.

Systemic change: a change in the underlying dynamics of a system, that affects the scale and sustainability of the system and makes it more inclusive.

Support functions: a range of functions that falls outside of the core of a market system, but that significantly affects the strength or weakness of that market. They support, shape, inform, and enable transactions between demand and supply actors.

Rules: formal and informal rules, at local, national and international levels, that govern how transactions happen, set who can participate, and under what conditions.

Thank you

To learn more, please visit
www.cgap.org

CGAP

The Government of the Grand Duchy of Luxembourg
mastercard foundation
IFAD Investing in rural people
AFD
Global Affairs Canada
CDC Investment works

Federal Ministry for Economic Cooperation and Development
UKaid from the British people
npm platform for inclusive finance
Agenzia Italiana per la Cooperazione allo Sviluppo
USAID From the American People
UNCDF Microfinance • Capital Development

KOICA Korea International Cooperation Agency
UNDP
Bill & Melinda Gates foundation
Sida
MetLife Foundation
Norad

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra
Swiss Agency for Development and Cooperation SDC
ON Omidyar Network™
cdp cassa depositi e prestiti
Australian Government Department of Foreign Affairs and Trade
Ministry of Foreign Affairs of the Netherlands
giz

Udenrigsministeriet Ministry of Foreign Affairs of Denmark
IDB Inter-American Development Bank
Michael & Susan Dell Foundation
The World Bank IBRD • IDA | World Bank Group
Italian Development Cooperation Ministry of Foreign Affairs and International Cooperation

FOMIN Fondo Multilateral de Inversiones Miembro del Grupo BID
KfW
IFC International Finance Corporation
FMO Entrepreneurial Development Bank
European Investment Bank
Citi Foundation
citi