Measuring Results in Challenge Funds

Practical Guidelines
for Implementing the DCED Standard

By Adam Kessler
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The Donor Committee for Enterprise Development

Preface

*The **Donor Committee for Enterprise Development (DCED)** is the long-standing forum for donors, foundations and UN agencies working in private sector development (PSD), who share their practical experience and identify innovations and formulate guidance on effective practice. For more information on the DCED, see www.Enterprise-Development.org*

*The Committee has been actively working on results measurement for some years, under the guidance of the **Results Measurement Working Group** (RM WG), leading to the articulation of the **DCED's Standard for Results Measurement**. The Standard initially found most enthusiastic application in programmes that make markets work for the poor (M4P) and the RM WG has been keen to see it also applied in other contexts.*

*That process is gathering momentum. The Working Group for **PSD in Conflict-Affected Environments** has published Practical Guidelines for Implementing the DCED Standard in CAEs; the **Business Environment** Working Group has similarly published Practical Guidance on measuring donor-supported business environment results, using the approach codified in the Standard. Other applications are in the works.*

*Several Challenge Funds have started to use the DCED Standard in their work, and this synthesis of their experience is therefore a logical next step for DCED. As many DCED members are becoming more active in **partnering with the private sector** for PSD, a DCED Task Force is being formed at the time of writing.*

Acknowledgements

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***Much of the advice in these guidelines is drawn from innovative challenge funds and organisations working to strengthen their results measurement**. In particular, I would like to mention the African Enterprise Challenge Fund (AECF), Enterprise Challenge Fund (ECF), Food Retail Industry Challenge Fund (FRICH), Business Innovation Facility (BIF), and Vietnam Challenge Fund. I also received valuable input from representatives of ITAD, Triple Line, IRIS, and MarketShare Associates.*

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I. Introduction

Private sector growth has the potential to create jobs, raise incomes, and lift people out of poverty. Recognising this, donors are increasingly using **challenge funds** to support innovative business models or projects with a potentially high pro-poor impact.

This paper provides guidance for results measurement in challenge funds using the **DCED Standard**, an eight-part framework for measuring and managing results. Many of the recommendations are also applicable to other forms of partnership with the private sector, such as loan facilities or business support services. It could also be relevant for businesses that are interested in measuring the results of their work. These guidelines open by presenting the DCED Standard and introducing challenge funds. They then examine each of the eight elements of the Standard, providing practical advice on how to implement them in a challenge fund.

There is currently little available guidance on results measurement in challenge funds. This report draws on the experiences of several funds using the DCED Standard, as well as others that take a similar approach. We welcome further input from practitioners and look forwards to deepening the guidance contained here.

a) Introduction to the DCED Standard

The DCED Standard provides a practical framework for private sector development programmes to monitor their progress towards objectives. This enables them to better measure, manage, and demonstrate results. The Standard was first developed in 2008, and has been gradually refined in collaboration with private sector development programmes in the field. It includes eight elements:[1]

1. **Articulating the results chain.**[2] Results chains visually represents how project activities are expected to lead to outputs, outcomes and impact, showing the anticipated causal links and relationships between them. They clearly demonstrate what the project is doing and what changes are expected.
2. **Defining indicators of change.** An indicator specifies what you will measure in order to see whether change has occurred. Indicators are specified for each step in the results chains.
3. **Measuring attributable change**. Once the indicators have been defined, they are regularly monitored to see what has changed and to help projects manage accordingly. Once a change is observed, you need to estimate what can be attributed to your project. For example, an increase in jobs may be due to your project – or because of the wider economic environment. Estimating attributable changes helps a project identify which interventions are working and which are not.
4. **Capturing wider changes in the system or market.** Many private sector development programmes aim to affect entire market systems. Monitoring these changes helps projects identify what is working and revise implementation strategies to maximize results.
5. **Tracking costs and impact**. In order to assess the success of the project it is necessary to know how much was spent as well as what was achieved.
6. **Reporting costs and results.** Findings are communicated clearly to funders, local stakeholders, and to the wider development community where possible.

[1] These guidelines are downloadable from https://www.enterprise-development.org/measuring-results-the-dced-standard/implementing-the-dced-standard

[2] Results chains are also known by a variety of other names, such as logic model, impact logic, or causal chain.

7. **Managing the system for results measurement**. For a monitoring and results measurement system to be effective, it must be adequately resourced and integrated into all aspects of project management, informing the implementation and guiding the strategy.

This guideline assumes a basic knowledge of the above framework. If you have not encountered the DCED Standard before, review the comprehensive guidance available online.[3]

b) Introduction to challenge funds

A challenge fund provides grants or concessional loans to projects proposed by businesses which have the potential to solve a defined development issue.[4] Funding is awarded through an open competition, based on pre-defined criteria such as the potential for commercial viability, expected development outcomes, and an assessment of whether the challenge fund subsidy is necessary for that project to proceed. The business is typically required to match the donor funding, from private investors or internal resources.

Challenge funds are used to address a wide range of development issues, including health, civil society, environment, and private sector development. This guide concentrates on private sector development challenge funds – often called 'Enterprise Challenge Funds' – which finance businesses in order to raise incomes, provide employment, and increase access to markets for the poor. Many lessons contained in this guide are relevant for other forms of private public partnerships.

Despite the significant funding provided to challenge funds, there is currently little evidence to show whether they achieve the anticipated development impacts. Heinrich (2013) finds that publically available results from challenge funds are generally anecdotal, and frequently focus on positive stories without critically examining the impact.[5] Similarly, a study by the Netherlands Ministry of Foreign Affairs notes the 'sparse' evidence on the performance of public-private partnerships.[6] In particular, there is little available information on whether challenge funds can create longer-term or systemic change. This lack of evidence poses a risk to challenge funds, which must demonstrate impact to justify their funding. Moreover, it inhibits the ability of challenge funds to learn from their experiences, and share this learning with others to improve their performance.

Several modern challenge funds are working to improve their results measurement, in order to increase the evidence base and improve the quality of their work. For example, the African Enterprise Challenge Fund (AECF) and Enterprise Challenge Fund (ECF) use the framework of the DCED Standard, while the Food Retail Industry Challenge Fund (FRICH), Business Innovation Facility (BIF), and the Vietnam Challenge Fund are investing in results measurement, among others. However, there are currently no standards for results measurement in challenge funds, or guidelines to best practice. This paper aims to addresses this gap by suggesting ways in which the DCED Standard can be used in challenge funds. It is hoped that it will contribute to strengthening our understanding of how to effectively work with the private sector.

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[3] See https://www.enterprise-development.org/measuring-results-the-dced-standard

[4] Chilver, A., van Diermen, P., and Jones, W., 2006, *Using Enterprise Challenge Funds to Promote a More Enabling Environment for Business: Challenges and Opportunities*

[5] Heinrich, M., 2013, *Donor Partnerships with Business for Private Sector Development: What can we Learn from Experience*, Donor Committee for Enterprise Development

[6] APE., 2013, *Public-Private Partnerships in Developing Countries – A systematic literature review*, Ministry of Foreign Affairs of the Netherlands

II. Overview of Results Measurement in Challenge Funds

a. Developing a 'right touch' results measurement system

Many challenge funds use a 'light touch' management and measurement system, which relies primarily on self-reported results from businesses.[7] A light touch system reduces cost for both the fund manager and the business. However, Callan and Davies (2013) note that this may be a "false economy" if the challenge fund cannot learn from experience or demonstrate its impact.[8]

Fund managers must find a practical balance by investing in a results measurement system which measures beyond outputs, validates self-reported results from businesses, and captures change in the wider market. The DCED Standard can provide a framework to keep the system practical and cost-effective, by preventing fund managers from reinventing the wheel or measuring unnecessary indicators. Three key ways to reduce the cost of the results measurement system are:

- **Develop a clear results measurement system**. Make results measurement responsibilities clear from the beginning. Key requirements, such as reporting against indicators and hosting site visits, should be specified in the contract with the grantee. This ensures that the business understands the challenge fund's expectations, and is contractually required to deliver. It is worth investing extra resources to develop an effective results measurement system at the beginning of the challenge fund, as changes require additional time to understand and use. However, no results measurement system will be perfect straight away. If changes are required, they can be piloted with a small number of capable or interested businesses. Once the revised system is working well, it can be rolled out to other businesses in the portfolio, and integrated into future funding rounds.
- **Make results measurement useful for the business**. Businesses are often interested in results measurement, for three reasons. Firstly, businesses are frequently keen to learn new ways of keeping track of their activities and outputs. Secondly, monitoring the results of their work helps to strengthen their own value chains, improving their understanding of their customers and suppliers.[9] For example, understanding the extent to which customers benefit from their products can inform pricing and marketing decisions. Finally, demonstrating the impact of the business can help build relationships with the government, attract further funding and influence the business enabling environment. Challenge funds should consistently emphasise the importance of results measurement for the business, and customise the system to make it as useful as possible. This will improve buy-in from the company, and so increase the reliability of the results reported.
- **Take a portfolio approach**. The success of a challenge fund depends on the portfolio, not any individual project. It is expected that some business ideas will fail, and lessons can be learnt from failures as well as successes.[10] Similarly, the challenge fund can monitor some projects in more depth than others. Faced with resource limitations, it may be more effective to prioritise monitoring of more expensive, successful, or innovative business projects. As the challenge fund

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[7] Heinrich, M., 2013, *Donor Partnerships with Business for Private Sector Development: What can we Learn from Experience*, Donor Committee for Enterprise Development

[8] Callan, M, and Davies, R., 2013, *When business meets aid: analysing public-private partnerships for international development*, Development Policy Centre

[9] WBCSD, 2013, *Measuring socio-economic impact: A guide for businesses*

[10] Ruffer, T and Wach, E., 2013, *Review of M4P Evaluation Methods and Approaches*, ITAD

cannot identify the most successful or innovative projects straight away, they could monitor everything to a minimum standard, and select the most interesting or successful projects for more detailed analysis. This means that not all projects within the challenge fund will comply with the DCED Standard, which should be agreed with the donor and transparently reflected in the reporting. The following table gives an example of how this prioritisation may look like in practice. However, each challenge fund will need to find its own flexible balance between what is practical and what is ideal, so this suggestion will need to be improved and adapted for each context.

Example prioritisation in a challenge fund:

Starting point for all projects. After eighteen months, all projects are assessed and moved into category B or A.	• Results chain developed linking grant funding and ultimate impact. • Small baseline conducted after project starts but before any changes have occurred. • Indicators developed and monitored with small sample sizes.
Category B: Projects with a low size, strategic importance, potential benefits or innovation	• Indicators monitored to assess attributable changes for enterprise and beneficiaries. (e.g. profits, yields) • Businesses self-report and visited to validate reports. • Beneficiary level data verified by checking with a small number during field visit.
Category A: Projects with a high size, strategic importance, potential benefits, innovation, or potential to change market system.	All 'category B' monitoring, and: • Indicators monitored to assess attributable change in impact indicators (such as income, other benefits for household) • Rigorous studies (mixed methods, larger samples) to validate findings and collect information from direct beneficiaries. • Systemic change assessed by talking with different players, looking at market trends, and linking to project activities. • Further case studies examine aspects of project (e.g. gender)
Closed projects: Projects which closed because they were not financially successful.	If a grantee is not financially successful, monitoring could usefully extract lessons for the challenge fund and other inclusive businesses in the region. This is likely to be based around a case study which analyses the factors contributing to the closure of the project.

b. Characteristics of challenge funds

The diversity of challenge funds, and lack of established best practice, mean that this guide cannot provide definite answers for all scenarios. It gives firm guidance where possible, and highlights key issues where not. Practitioners can use the guidance contained here to inform the development and implementation of customised results measurement systems.

In order to help practitioners adapt advice contained here, some key characteristics of challenge funds are described in the following table, alongside the implications for results measurement:

Characteristic of challenge fund	**Implications for results measurement**
What is the objective of the	Challenge funds should tailor their results measurement system to their objectives. One that aims to increase income and employment will have a very

challenge fund?	different results measurement system to one that aims to reduce emissions of carbon dioxide. Whether the challenge fund aims to facilitate market-wide changes, and the type of change envisioned, will also affect measurement aims.
What type of company does the challenge fund work with?	Smaller companies may have less capacity for results measurement. However, smaller companies are typically more dependent on the grant than large ones, and so have a greater incentive to demonstrate results to the fund manager. Social enterprises or brand-conscious businesses may be particularly interested in measuring outcome and impact.
How focused is the challenge fund?	A geographically and sectorally focused challenge fund will find it easier to facilitate, assess, and attribute market-wide changes. It is also more practical to aggregate common indicators to understand the results of the fund. However, focused challenge funds may find it harder to monitor the impact of individual projects, given the likely overlaps in objectives and target populations between grantees.
How much money does the challenge fund disburse?	In most challenge funds, a percentage of the total budget is allocated to management and results measurement. However, the administration cost primarily varies by the number of grants disbursed, not the size of each one. Consequently, challenge funds that give small amounts of funding to a large number of grantees will have fewer resources available for results measurement than those that disburse more money to fewer companies. Similarly, a business receiving a small grant will find results measurement requirements proportionately more costly than one receiving a large grant.

1 Articulating the Results Chains

"To a business, the results chain makes perfect sense." – Mark Thomas, Nathan Associates

A results chain is a visual tool which maps the activities conducted by the business, and shows how these are expected to lead to positive development outcomes. It is analogous to business tools such as a business outcome map, which shows how activities lead to business improvements.[11]

> *Money doesn't buy happiness*
>
> Financial sustainability is no guarantee that the project is having a positive pro-poor impact. For example, the business might profit by:
>
> - Supplying to or purchasing from wealthier citizens.
> - Supplying services which have negative, longer-term effects. For example, a business might displace existing farmers when they purchase land for a factory.
> - Working primarily with intermediaries who do not pass on additional income to the poor.
> - Displacing competitors who do not have a subsidised loan, but not offering a substantially improved service.
>
> By illustrating the links between the business activities and development outcomes, developing the results chain should show why the challenge fund expects the project to be beneficial for the poor.

Results chains have three main benefits. Firstly, they clarify the objectives and logic of the project, showing why the fund manager believes that each grant will have a positive impact, and which assumptions this relies on. Secondly, they show what the business hopes to achieve out of the partnership (such as increased profit and turnover), what the fund manager expects (development outcomes, systemic change), and the linkages between the two. This helps establish a joint understanding of the project between the fund manager and the business. Finally, results chains provide the basis for results measurement, by clarifying what needs to be measured in order to see to what extent the project is achieving its expected results.

This section first provides examples of results chains and then gives advice on how to use results chains in challenge funds. It assumes the readers are familiar with the concept, and so does not provide general guidance or principles. If you have not worked with results chains before, download the DCED Guide to Results Chains for further explanation.

1.1 Example results chains

1.1.1 Beneficiary as supplier

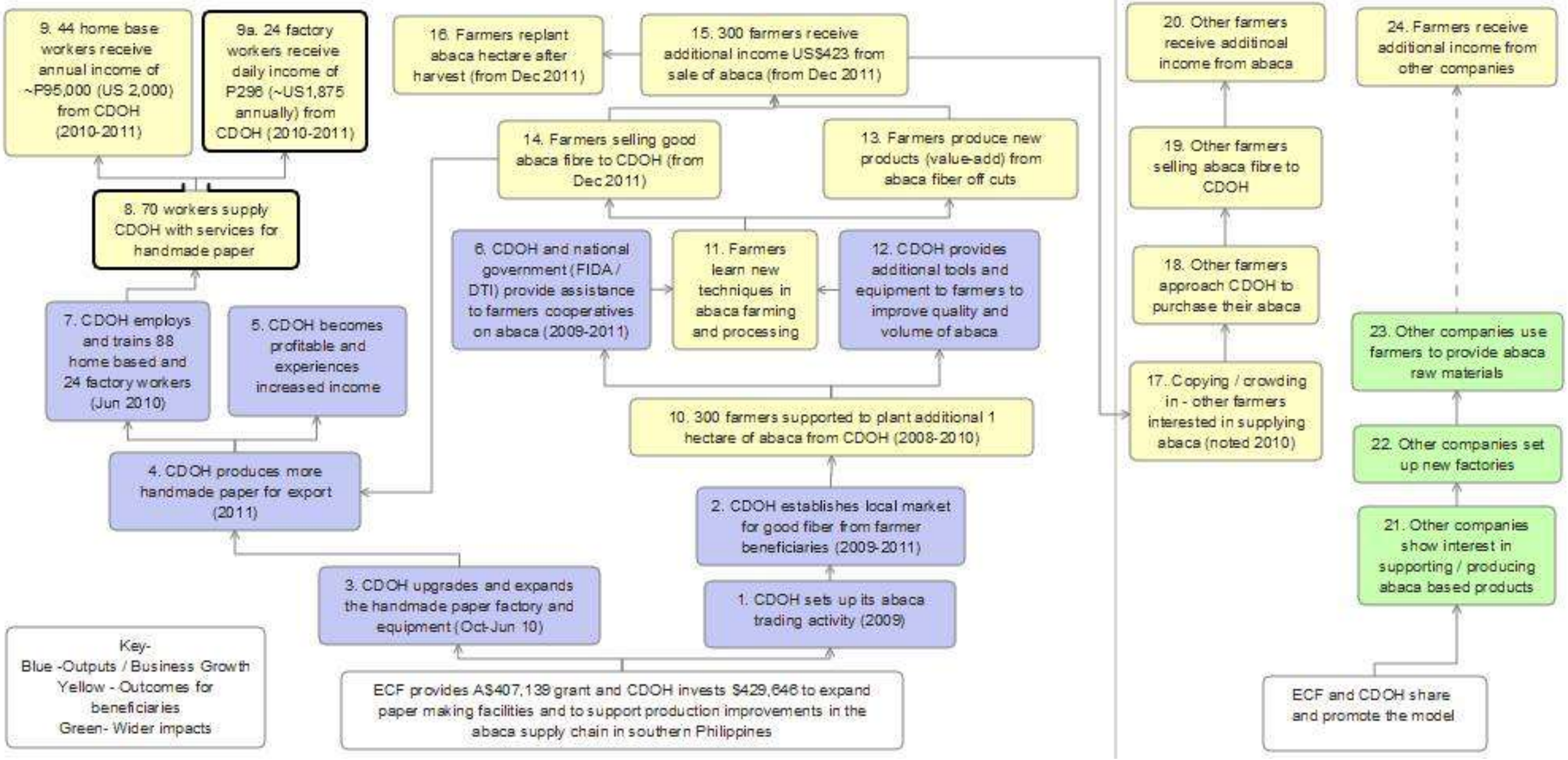
Challenge funds frequently finance businesses where the beneficiary is expected to profit by supplying the company with a product. For example, farmers may sell directly to a business, or may sell to intermediaries in the value chain. In the below example from ECF, the business buys abaca fibre directly from farmers. It expects to benefit directly employed workers (shown on the left), farmers selling abaca fibre (in the middle), and anticipates wider systemic impacts (on the right.)

[11] WBCSD, 2013, *Measuring socio-economic impact: A guide for businesses*.

Cagayan de Oro Handmade Paper Crafts - Philippines
June 2012

Direct impacts

Indirect impacts

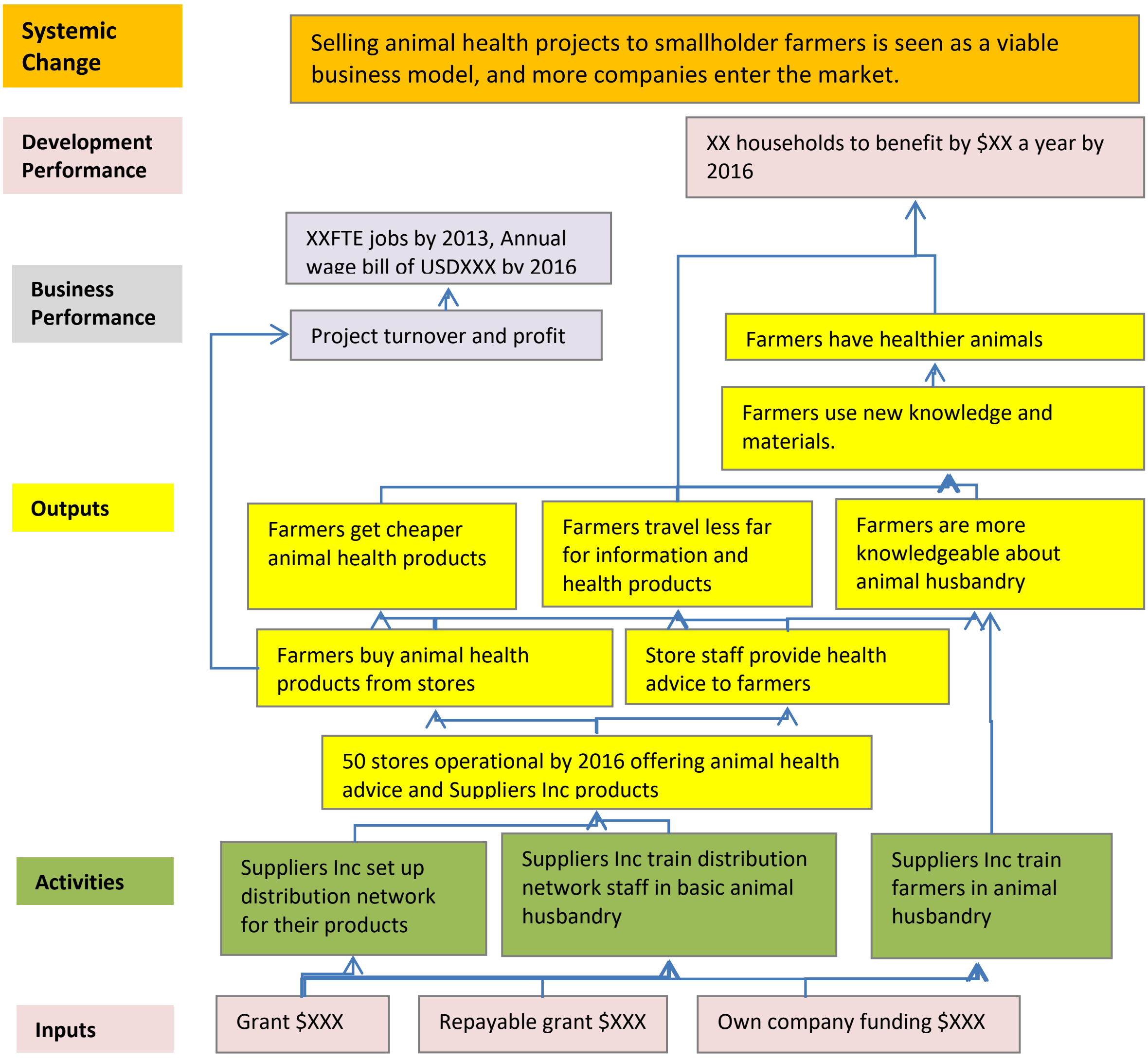


1.1.2 Beneficiary as customer

In other businesses, the beneficiary is expected to profit from purchasing from the company. This may require a more complex results chain, as there are multiple ways in which the customer may benefit. These may include:

- **Increased access**. Challenge funds may increase access to key inputs, such as improved seed, fertiliser, or financial services, which the consumer can use to increase their income.
- **Better quality produce**. For example, a pesticide company may develop a new type of pesticide, which enables customers to grow a higher yield of rice.
- **Lower costs**. For example, a solar lighting company may market a solar lamp that saves the customer money on kerosene and charcoal.

In the below example from AECF, a company ('Suppliers Inc') supplies animal health products to a rural community, and expects this to increase incomes for farmers and create jobs directly. Anticipated systemic change is shown at the top of the results chain.[12]



[12] The name of the company has been changed, and all figures removed to protect confidentiality. It has also been slightly simplified for the purposes of illustration.

1.2 How to use results chains in challenge funds

- **Develop results chains early**. Develop results chains early in order to inform the design of the project results measurement system. One approach is to develop results chains for each project before the contract has been signed, but after funding has been awarded. This allows indicators to be derived based on the results chain and included in the contract. With sufficient resources, it may be valuable to develop results chains for short-listed applicants before funding is awarded. This would allow results chains to inform investment decisions, for example by suggesting that a profitable business is unlikely to deliver pro-poor outcomes. However, it also entails additional costs during the competition stage, and so may not always be practical.
- **Keep it simple**. The results chain should be kept clear and logical so that it is easy to understand how activities lead to expected changes in business and beneficiary behaviour. The DCED Standard says that the results chain should express 'key changes' in the project. In practice, this requires a certain amount of judgement; the example results chains in the previous section will give an indication. As a rough guide, if you can't print it out in an easily readable size on a single page of A4, then it is probably too big.
- **Results chains are the responsibility of the fund manager**. The person who manages the grant should manage the development of the results chains, to ensure that they can use the collected information to inform project oversight. While a results measurement specialist can support this process by providing training or quality assurance, they should not have overall responsibility for the results chains. Some challenge funds go further and ask the business to develop and manage the results chain; see the experience of FRICH, below.

Requiring businesses to develop results chains – the experience of FRICH

The Food Retail Industry Challenge Fund (FRICH) requires grantees to develop and own the results chain. This encourages the business to think about the outcomes of their work, improves ownership of the results measurement system, and improves the prospect for the emergence of a sustainable business model.

FRICH work primarily with large UK retailers, who have the time and capacity for results chain development. The DCED does not recommend this approach for all challenge funds, as it may not be practical for smaller grantees with less time or resources. However, it is a valuable model and we encourage other challenge funds to experiment with ways to further involve the business in results measurement.

- **Involve the business during the development and revision of results chains**. In all cases, the results chains must be developed in collaboration with key stakeholders from the business. This typically would include the project manager, CEO, and field staff. Businesses typically enjoy discussing the logic of their project, and find it helpful in sequencing their activities and thinking through expected behavioural changes from their customers and suppliers.
- **Focus on key changes in beneficiary behaviour**. The results chains must specify expected intermediate changes in the attitudes and behaviour of the ultimate beneficiaries, not just that of the business. These links and assumptions should be supported by background information, which justifies the expectation that the business will lead to benefits for its suppliers or customers. This information will typically be gathered during the competition stage, and inform the decision to award the grant. These links and assumptions should also be checked through

regular field trips, which must involve discussions with the end beneficiaries to validate these assumptions and check that they are realistic.

- **Keep results chains flexible**. Companies adapt their business plan over time, which can render the original results chain outdated. The challenge fund must schedule in regular revisions to the results chain (at least annually), and allow businesses the flexibility to change activities within the scope of the project objectives. Use the results chain discussion to establish whether changes in strategy have affected the outcomes. For example, if a business switches suppliers from smallholder to commercial farmers, it may no longer have a pro-poor impact.

2 Defining Indicators of Change

"The question is not how many indicators you have, but how good they are." –Wafa Hafiz, consultant

An indicator shows what change you expect to see at each level in the results chain, and so what you will measure in order to check whether the anticipated outputs and outcomes have occurred. If you are unfamiliar with indicators, download the [DCED Guide to Developing Indicators].

2.1 Project specific indicators

The DCED Standard requires every output and outcome in each project results chain to have an indicator. For example:

Results Chain	Indicator for Each Level
Farmers increase income	Income from additional crop sold.
Farmers sell additional crop	Amount of additional crop sold by farmer.
Reduced loss from crop pests	Amount of yield lost due to crop pests.
Farmers use organic fruit fly bait correctly	Number of farmers using bait. Ways that farmers use bait (qualitative).
Farmers purchase organic fruit fly bait	Amount of fruit fly bait sold. Number of farmers purchasing fruit fly.
Business provides training on using organic fruit fly bait	Numbers of farmers trained.

Indicators linked to a well-designed results chain provide valuable information for both the grantee and fund manager. The process of defining them based on the results chain clearly shows the business why they are relevant to the project, and so why they need to be monitored.

Many of the indicators are directly relevant to business performance, especially at the lower and middle levels. In the above example, from the Enterprise Challenge Fund, the business aimed to increase crop yield by introducing a new type of fruit fly bait. Monitoring revealed that, although the farmers attended the training and understood how to use the bait, they were not purchasing or using it. Further investigation showed that farmers were concerned that, if the bait did not work as promised, they would be left with unmanageable debt. This monitoring helped the business to identify and address these issues. The challenge fund should thus encourage the grantee to regularly monitor key indicators and use the information to manage their business. While some grantees will do this anyway, others – especially smaller, less experienced businesses – will benefit from the support of the fund manager.

At a higher level in the results chain, indicators show the extent to which assumptions about how the business benefits poor people are holding true. This helps the challenge fund manager learn what types of businesses and business models are more likely to result in significant impacts, and can inform future fund management. In many cases, though not all, this information is also relevant for the business. In the above example, monitoring the effect of the bait on income will help with pricing, marketing, and accessing further finance. However, businesses will often not have the capacity or interest to monitor high level indicators, as discussed further in chapter three, Measuring Changes in Indicators.

Measuring changes throughout the results chain also helps demonstrate that the observed changes are likely due to the project. They build a 'credible story' that links project activities with outputs, intermediate outcomes, and final outcomes. This is discussed further in the DCED Guide to Attribution.

Results Measurement – An Alien Concept?

It can be challenging to engage businesses in results measurement. The Business Innovation Fund (BIF) gives relatively small amounts of technical support to each business, and so cannot easily enforce reporting against indicators. Consequently, it strives to make results measurement useful for the business, in order to encourage reporting.

Photo credit - Caroline Ashley

This starts with a half-day introductory workshop, during which indicators are agreed and baseline information collected. Simple, participatory methodologies are used to structure the session. For example, at the beginning of each workshop grantees are asked to draw what an alien would see if they visited the project after three years – a visual way to clarify the planned impact. (Pictured above). This impact becomes the end-point of a basic results chain, developed using pieces of card pinned on wall. The results chain takes just twenty minutes to make, but encourages the grantee to think about the desired outputs and outcomes of the programme.

The results chain becomes the basis for developing grantee-specific indicators. It ensures that the indicators are closely tied to the logic of the project, and shows the grantee why they are worth measuring. It provides the opportunity for BIF to suggest indicators and ways of measuring them. For example, if a seed supplier wants to measure the number of farmers they reach, they will typically need to design a way of tracking their customers. BIF suggests ways in which this can be done, and reasons why it is important.

2.1.1 Managing indicators

Challenge funds often have limited capacity for additional measurement, and so must base their results measurement system on a continuing assessment of what is possible. This section proposes three strategies to ensure that you are not trying to measure too much. See chapter three below for advice on how to simplify the monitoring of each indicator.

- **Understand what the company can provide**. Define the indicators in collaboration with the grantee, in order to understand what information they can provide. This will avoid a 'wish-list' of indicators, and allow you to carefully consider what additional monitoring is needed. Be aware that the company will not be able to spend significant amounts of time collecting additional information, beyond what is in their interests to measure.

- **Reduce number of indicators**. If necessary, cut the number of indicators that you wish to measure. Pick one good indicator for each step in the results chain, rather than several. While the DCED Standard requires every step in the results chain to have an indicator, this may not be practical in all cases, If you are not measuring steps in the results chain, then draft a brief note to explain why not. If you are not measuring a change, then you cannot claim it as an observed impact of the project.
- **Gather qualitative information**. Indicators typically gather quantitative information, which is an essential part of a results measurement system. However, challenge funds must also gather qualitative information, which tell the story of why indicators are changing. In the above example of a company selling a new type of fruit fly bait, you would explore how farmers use the bait, the extent to which they are satisfied, and whether they believe it is effective.

2.2 Common indicators

In addition to project-level indicators, all challenge funds should define a small set of common indicators, which all (or most) projects use. This allows results to be aggregated, compared, and reported against. Challenge funds are recommended to only use a small number of common indicators, as they can be complicated and time-consuming to measure.

2.2.1 Common outcome indicators

The DCED Standard recommends the use of three common indicators; scale, net income, and additional jobs created.[13] While these are applicable to a variety of private sector development programmes, they may not be relevant for all challenge funds, which often have a wide range of expected benefits.

Consequently, common outcome indicators should be carefully selected based on the purpose of the challenge fund, and measure a factor which the challenge fund expects to influence and change.

In a diverse challenge fund, not all projects may be able to report against all common indicators. For example, challenge funds might wish to measure additional income for households participating in the projects. However, a business that provides a banking service, allowing people without access to formal banking service to save money through their mobile phone, may be unable to track the additional net income that results. It may be too complex to track the numerous links between financial services and income, or a change in income may not be a primary benefit. In this case, it is important to accept these limitations, and find alternative indicators that better track whether the project is beneficial.

[13] DCED, 2017, *The DCED Standard for Measuring Achievements in Private Sector Development, Version VIII*

Is GIIN a Tonic?

The Global Impact Investing Network (GIIN) has developed a set of common indicators, known as IRIS, designed to measure social, environmental, and financial performance, evaluate deals, and increase the credibility of the impact investing industry.. They aim to create a common language for reporting social and environmental performance, enabling fair comparisons between different projects, benchmarking performance, and communicating impact. Almost all are output indicators, measuring the direct results of the business.

The DCED Standard and the IRIS indicators are complementary. The DCED Standard provides a framework for the development of a results measurement system, while the IRIS catalogue provides well-defined and widely-established indicators.

Challenge fund managers can use IRIS to ensure that they are consistent with other impact investors, and as a source of inspiration when selecting indicators. They are particularly useful for setting common indicators, as each indicator has a clear definition designed to allow for aggregation. The use of the IRIS indicators may also help the business attract other impact investment capital.

More information on the IRIS indicators can be found online at http://iris.thegiin.org.

2.2.2 Common financial indicators

Key financial indicators, such as profit and turnover of the project supported, are a crucial measure of success. By indicating whether the project is financially viable, they help understand whether the project is likely to be sustained or replicated.

Measuring profit and turnover is relatively simple if the grantee is a new start up, or the grant is funding the whole business, as profit and turnover can be derived straight from the company accounts. It is important to use a standard, uniform measure of profitability to enable comparisons within the portfolio. For example, AECF measures profit using EBITDA; earnings before interest, tax and depreciation.

It is more complex if the grant is funding just one part or project of a larger business. In this case, it is possible to require businesses to develop a separate profit and loss account for the project on their accounting system, so that they can develop expenditure and revenue lines which are specific to the challenge fund project.

This can be challenging for the business, and it may require them to invest in specialised accounting software and a professional accountant. AECF finds that smaller businesses are typically eager to acquire these skills. ECF paired one of their partners with an Australian Business Volunteer, who was able to improve reporting on the grant while also boosting overall financial management capability.

2.2.3 The challenge of aggregation

'Aggregation' is the technique of combining data on one indicator from several projects, in order to provide an overall understanding of a portfolio. For example, if ten projects in a portfolio each create 20 jobs, an aggregated indicator would show that the portfolio created 200 jobs. Aggregation is a valuable but challenging technique, and requires a significant investment in time and rigour in order to provide meaningful analysis. In particular:

- **Clearly and consistently define indicators**. If indicators are given different definitions in different contexts, then it will not be meaningful to aggregate them. For example, suppose that one company considers short term, seasonal agricultural labour to be a 'job', while another company counts only full time jobs. A comparison between the jobs created by these two companies will not tell you anything useful; any genuine difference in job-creation will be masked by the difference in definitions. Consequently, it is vital to ensure that indicators are consistently defined, and this is clearly communicated to the companies or staff who measure them. The IRIS indicators (described above) contain standardised definitions of indicators, designed to promote comparison between businesses.
- **Consider context when making comparisons**. The more similar projects are, the more meaningful it is to aggregate indicators. For example, a flower business in Kenya may be much more financially successful than one in Sierra Leone, as there is already a thriving flower industry in Kenya. However, a moderately profitable project in Sierra Leone may represent a better investment than a very profitable one in Kenya, given the difficulties of conducting business in that environment. Consequently, when aggregating and making comparisons it is essential to take context into account.
- **Avoid overlap**. A geographically concentrated portfolio may have significant overlap between different projects. In this case, the overlap should be removed to avoid double-counting. For example, if one project supplied fertiliser to 200 farmers, and another project purchased maize from the same farmers, a simple aggregation of the two projects would conclude that the portfolio reached 400 farmers. In reality, however, it would just have been 200 farmers.

2.3 Making projections

Projections should be made for key quantitative indicators throughout the lifetime of the grant, and even beyond if beneficiary level impact is expected after the full grant has been disbursed.

If these projections are made during the application stage, they can also be used to select winning proposals. For example, businesses might be asked to predict the number of households reached, or their impact on income. In this case, businesses tend to give extremely optimistic projections, in the hope of securing funding. (They are much like NGOs or consulting firms in that respect.) The fund manager will need to discuss with businesses carefully before using projections as a basis for awarding funding, and often revise them down before they can become realistic targets.

Projections also enable the fund manager to hold the business accountable for deliverables, and assess project progress. In some challenge funds, funding is disbursed when the grantee meets agreed targets. In this case, it would be particularly important to independently verify reported results.

Be aware that business projects frequently change during implementation. Consequently, early projections can soon become outdated. The results measurement system should include opportunities to revise projections at least annually.

2.4 Indicators of sustainability

The primary indicator of sustainability in a challenge fund is the commercial viability of the business. If it is profitable or likely to be so without the support of the challenge fund, then the project is likely to be sustained. This information should be supplemented by qualitative information that explores:

- Do key decision makers in the company back the continuation of the project?
- Does the company have a clear plan for the continuation or expansion of the project?
- Is the company able to access finance for the continuation or expansion of the project?
- Is the company investing further resources into the project, without public support?
- Are there any risks to the business model in the near future?
- Does the business model have any long-term adverse effects?
- Are all actors along the supply chain of the company profitable, and willing to continue interacting with the company? For example, a business which supplies fertiliser to farmers is only sustainable if the farmers benefits from the use of the fertiliser. Similarly, a business which purchases from smallholder farmers is only sustainable if the farmers wish to continue working with the company. In many companies, consequently, a high 'development impact' can indicate sustainability.

As well as assessing financial sustainability, it would be valuable to assess the sustainability of the development outcomes, by exploring:

- Does the business model have any long-term adverse effects?
- Do the continuation plans of the company involve any changes to the business model that might affect the benefit for the customers/suppliers? For example, there might be a change in planned levels of employment, or a reduced focus on working directly with small-scale farmers.

3 Measuring Attributable Change

"Tracking results can help you, the management, to stay focused and adapt quickly." – Innovation Against Poverty, Guidance for Applicants, Sida 2013.

Measuring changes in indicators allows you to monitor progress, report on successes, and improve less effective areas. This section first describes how responsibility for measuring indicators must be agreed between the fund manager and the business. It then suggests ways for the fund manager to cost-effectively gather information, and collect baseline data.

Additional information can be found in the relevant DCED Guide to Measuring Changes in Indicators together with the DCED Guide to Good Research Practices, and various other resources.

3.1 Working with the business to measure indicators

Challenge funds must divide up responsibility for measuring indicators between the fund manager and the business. Roughly speaking, the business should report on indicators that they collect as part of their everyday work, and which do not require extensive additional data collection. These are typically activities and outputs, although a small number of businesses may also track outcomes. The fund manager should lead on additional data collection, in particular related to development or systemic impact.

The Last Hard Number

AECF have developed the useful concept of the 'last hard number', to help them measure their indicators. The last hard number is the furthest point up the results chain that the business is able to measure, without recording any additional data. Once you know this, you will know what additional information the fund manager needs to collect in order to assess progress against higher level outcomes.

For example, an outgrower scheme is likely to be able to tell you how many farmers it worked with, how much money it paid to each, and often what the farmers' costs are. This means that the 'last hard number' is actually extremely close to the net benefit per household. Additional surveys should concentrate on establishing the farmers' opportunity cost; the amount which they could have earned if they had not joined the outgrower scheme.

A supplier project, by contrast, may know how much produce it sold – but not how many people bought it, how they used it, or what benefit they derived from it. This means that their 'last hard number' is some distance from the final development impact, and more primary or secondary research is likely to be needed.

3.2 Self-reported information

The results measurement system starts with information reported by grantees. Businesses typically regularly report on:

- Activities against work plan.
- Outputs produced.
- Business performance indicators (e.g. profit, turnover).

- Finances (amount spent, budget vs. actual).
- Lessons learned.

The below table suggests common indicators that different types of company are able to easily report against.

Type of business	**Indicators that they can often easily report against**
Outgrower scheme – contracting farmers to provide produce at a fixed price	• How many farmers they work with. • How much produce they bought, and how much they paid. • If the business also provides inputs (such as fertiliser or pesticide) then they will also know how much they charged the farmer for this service.
Supplier of new improved seed	• Quantity of seed sold. • Likely improvement in yield (based on secondary research) • Cost of seed to farmers.
Financial service provider (e.g. mobile money).	• Number of service users. • Number of active users • Volume/quantity of use (e.g. number of transactions). • Cost of service to users

However, there are a number of limitations in self-reported information. Firstly, it can be difficult to gather, as companies may see reporting as an additional burden. Moreover, reporting may not be entirely accurate. This is particularly true if future grant disbursements rely on past performance, as the company has an incentive to present a positive view. Consequently, challenge funds which disburse based on agreed milestones must take particular care to verify the results reported by grantees.

To address these issues, challenge funds can:

- **Use simple, clear and consistent reporting templates**. This helps the business get used to an unfamiliar requirement. Minimising the use of development jargon makes reporting more accessible to the business, which improves quality and compliance. For example, asking about 'systemic change' is unlikely to get a good response. The reporting requirements should be written into contractual agreements, so that the company is aware from the beginning of what will be expected from them.
- **Support the grantee**. If businesses are required to report on indicators at higher levels in the results chain (such as the net increase in income), then they will need a lot of support. In practice, it is likely to be a joint effort between the business and the fund manager. One useful approach is to develop a clear model linking the indicators that the business supplies (the 'last hard number', above) with the final outcomes, using clear assumptions and calculation to show how the business' indicators translate into outcomes. Moreover, the fund manager should work closely with the grantee to ensure that common indicators, such as jobs created, are measured consistently to enable comparison between different businesses.
- **Incentivise good reporting**. There are a number of ways to incentivise good reporting. Most obviously, make disbursements conditional on the reception of high-quality reports. After the grant has been exhausted, there will be no financial incentive for the company, but reporting

may be still required to show long term impact. In this case, reduce the frequency of reporting, and consider offering publicity to companies with strong development impacts.

- **Build a good relationship**. The business should feel able to report failures as well as successes. A good personal relationship with the grantee, whereby they feel comfortable discussing and learning from their experiences, is essential.

> *Assessing business interest in results measurement*
>
> All challenge funds should consider how much the company cares about results measurement. In some cases – particularly social enterprises or brand-conscious businesses – the company may take a great interest, be eager to learn and willing to put their own resources into results measurement. In other cases, the management will not see it as a concern. This must be taken into account by the challenge fund – perhaps by asking enthusiastic companies to take on more results measurement responsibilities or prioritising impact assessment for those companies.

3.3 Primary data collection

3.3.1 Business visits

The fund manager should visit the business on a regular basis, in order to review key results measurement documents such as the results chain and indicators, collect additional information against indicators, and check that self-reported information is accurate. It can also be an opportunity to offer technical assistance to the business, or build their capacity in reporting.

Site visits (along with other results measurement activities) can come at a considerable cost in staff time and resources to the business. Try to minimise this by keeping site visits short – it is not recommended to spend more than two days directly with the grantee, although this varies with the type of project, size of grant, and regularity of visiting. One useful way to minimise the burden for the business is for the challenge fund to assign a single staff member to manage all contact with the grantee, and go on each site visit. This builds up a relationship between this staff member and the grantee, and ensures that the business does not need to repeat information for new visitors.

In order to reduce the cost to the grantee, emphasise that it is not necessary for the CEO of the business to spend all their time with you, although they would typically be needed for key discussions. Junior staff can take at least some of the responsibility, and field visits can be managed primarily by extension workers.

3.3.2 Field visits

In order to assess the outcomes and impact of the project, the fund manager will typically need to visit the field and speak with primary beneficiaries and other partners. This can verify information from grantee reports, and collect additional information which the business is not able to provide.

An effective field visit can use a relatively small sample size. Speaking with 10-20 people is enough to get an indication of the progress of the project. This can be supplemented by occasional larger studies (see below), especially for priority projects. The minimum sample size will however vary by project; for example, a more heterogeneous group will need a larger sample size. One way to conduct these surveys is to partner with a local research firm, who can make staff available at a relatively low cost on a flexible basis. Alternatively, hire and train in-house staff who speak the language and can travel out to the field.

Be aware of the biases inherent in field research. Try not just to visit customers and suppliers suggested by the business, which is likely to select the best cases. Instead select randomly, or visit a central place (such as a village market) where you can find people to interview. The staff of the business will normally be needed to make introductions and show you round, but ask them not to join the interviews, as they will inhibit the respondent from speaking freely. For the same reason, it is better to travel with local, junior staff rather than senior managers. Finally, ensure you speak with a mix of old, young, male and female respondents.

Making Results Measurement Useful for the Business

Fund managers should ensure that additional data collection is useful to the business. There will not be a complete overlap, but the business will benefit from better understanding their customers and suppliers. Consequently, invite the business to input into terms of reference, questionnaires, and survey design, share information with them, and provide examples of how other businesses have used this to improve their business. For example, AECF asks companies to input into any studies and surveys which are being conducted. One company asked AECF to include questions about the willingness of their suppliers to pay through mobile phone – gathering valuable information to inform their business model.

3.4 Additional surveys and studies

Additional studies will usually need to be carried out if the project aims to fully understand the impact. They can survey larger numbers of beneficiaries than is possible during brief field visits, and gather information on the higher levels of the results chain. Additional studies are typically primarily managed by the fund manager, unless the business is particularly interested in establishing their impact. However, businesses should input into the design, as detailed in the above box.

Surveys can be outsourced to external consultants, or conducted in-house. The advantage of the former is that it can ensure extra rigour, especially if the subject requires specialist expertise. For example, ECF commissioned the Micro-insurance Learning and Knowledge Centre to study the benefits of a micro-insurance product they funded.[14] The Business Innovation Facility are partnering with the Institute of Development Studies, who designed a case study methodology to be conducted by MBA students from the Said Business School of Oxford University, for eight of the most interesting companies.

In-house studies can reduce costs and ensures that results are understood and used by the fund manager. Even if outsourced, the fund manager will need resources in order to ensure that the methodology and design are appropriate, closely supervise the research and understand and check the quality of the final product.

[14] Budzyna, L and Chandani, T., 2013, *"Doing the Math" – Loan protection insurance in Cambodia*, Microinsurance Learning and Knowledge Centre

3.5 Collecting baseline information

Any indicator that aims to demonstrate change needs to have a baseline, which shows the situation at the beginning of the intervention and allows comparisons to be made to the situation at the end.

The business can provide baseline information on indicators which they subsequently report against. For other indicators, the fund manager will have to conduct separate data collection. This is often difficult to do at the beginning of the project, as the company may not have selected their intervention area or customers/suppliers. Consequently, investing in a large baseline survey at the outset can be ineffective, as a change in the business can render the information irrelevant.[15] Moreover, conducting a large baseline for every grantee may be prohibitively expensive – and you will not know which grantees merit closer monitoring until some time has elapsed. While there is no perfect solution, a challenge fund can adopt the following options:

- **Plan the baseline in advance**. Aim to conduct the baseline after the target group has been identified, but before changes are expected to occur. This can be challenging, especially in an agricultural project where timings are affected by the season and so may be inflexible. Consequently, consider developing the terms of reference, advertising, and contracting consultants (or arranging internal resources) for the baseline before the exact date has been selected. This will give you the flexibility to quickly conduct the baseline once the company has chosen its customers or suppliers.
- **Conduct a small initial baseline**. An initial sample of 10-20 people can be enough to gather basic baseline data in the majority of projects. Although this will not provide statistical rigour, it will provide key information on the indicators, and limits the waste of resources, should the business plan change. It will also provide crucial initial information to see how successful the project is, which can be followed up by larger studies at a later date.
- **Expand the baseline as necessary**. For those companies that show evidence of strong development impacts, a more rigorous study can then be planned and conducted. Successful companies usually expand so baseline information can be gathered from new suppliers or customers that are part of the expansion plan. Impact can be assessed after these people can be expected to have benefited.

3.6 Gender disaggregated indicators

The DCED Standard requires key indicators to be disaggregated by gender, a proxy for the project's impact on gender equality.

In a challenge fund, the starting point must always be the information that is already collected by the company. Consequently, the first step will be to meet with the company to discuss what data they already collect, and what they can easily share with you. For example:

- **Employment**. Businesses can typically provide gender-disaggregated data on their direct employees.
- **Contracted suppliers**. If a business contracts small farmers to supply them with produce, they will typically be able to provide gender-disaggregated data on their suppliers, as they will have information on the person who they signed the contract with.

[15] Ruffer, T and Wach, E., 2013, *Review of M4P Evaluation Methods and Approaches*, ITAD

- **Purchasers**. A business is unlikely to be able to provide gender disaggregated data on their purchasers. For example, a seed seller would not know if the purchasers were male or female.

If the business cannot report on gender indicators, then the fund manager should collect this information on field visits, additional surveys or from secondary sources. If it is not possible, then write a brief note explaining which indicators are not disaggregated by gender, and why.

Use the opportunity to highlight the business case for monitoring gender. One study by ECF into women's economic empowerment noted that "highlighting industry inefficiency and underuse of 50% of potential customers or suppliers tended to resonate with otherwise sceptical companies."[16] This prompts grantees to consider their impact on gender, which could have wider benefits beyond the project alone. Gender disaggregated data can demonstrate to companies their gender imbalance, which might prompt them to consider changes.

Gender disaggregated indicators – like any indicator – will not carry much information without qualitative information. For example, if 70% of purchasers of improved seed are female, this may indicate that more women benefit from the project – or simply that women are more likely to do the shopping. Another common limitation is that gender-disaggregated indicators tend to focus on the economic status of participants, which is just one aspect of women's economic empowerment.

Although the DCED Standard does not require projects to monitor beyond disaggregated indicators, it is good practice which has the potential to substantially improve programmes. It is also a key focus for many donors. For more resources on monitoring gender in private sector development, consult the DCED's Resources on Measuring Women's Economic Empowerment, and the Enterprise Challenge Fund's paper on Women's Economic Empowerment – Practice and Policy Implications.

3.7 Estimating Attributable Change

Wherever a project is implemented, many changes will occur over time. Some of these changes may be unrelated to the project, and would have happened regardless of whether the project was ever funded. Other changes occur as a result of the project, and these changes can be **attributed** to the project.

Challenge funds need to address two key issues of attribution:[17]

- **Input Additionality:** This is the question of whether the grantee would have made the investment without funding from the challenge fund. For example, the grantee might have been able to access commercial funding, or put more of their own resources into the project. In other words, are the financial inputs provided 'additional' to existing sources of funding?
- **Project-level attribution:** This is the question of whether the observed benefits would have occurred without the project. For example, an increase in income for farmers may be due to a

[16] Nethercott, K., Jago-Bassingthwaighte, M., and Jupp, A., 2013, *Women's Economic Empowerment – Practice and Policy Implications from the Enterprise Challenge Fund*, Coffey International

[17] Multiple terminology is used discuss attributions. Some use 'additionality' to refer to attribution more generally, others break additionality down into multiple components. For a useful discussion, see Heinrich (2013).

change in crop prices, rainfall, or economic growth – not necessarily related to the business. How do you know to what extent the observed outcomes were due to the grantee?

These two questions will not necessarily have the same answer. It is possible to have a project with high additionality, but low project-level attribution. This means that the project would not have been implemented without challenge funding – but didn't really help anyone. By contrast, a project may have low additionality but high project-level attribution; it did not need challenge funding to proceed, but did make a real difference to the lives of its participants.

Consequently, it is essential for challenge funds to address both issues in order to be confident that their work is having the desired impact. Addressing attribution will typically be the primary responsibility of the fund manager, although businesses will provide essential information to inform the assessment.

Input additionality is typically assessed ex ante, before the intervention is started, and based on a strong knowledge of the context and local business environment. Consequently, it is lies outside the scope of these guidelines, which focus on ex post assessment, during and after the intervention has started. This DCED hopes to address additionality in a proposed separate guidance note.

Assessing project level attribution is not fundamentally different in challenge funds than other private sector development interventions. Indeed, because challenge funds intervene directly in the market and have a clearly identifiable set of beneficiaries, change may be easier to attribute than in other private sector development programmes. More information on assessing project-level attribution, including both quantitative and qualitative methods, is available in the DCED Guide to Attribution and the second chapter of the DCED Guide to Research Practices.

Evaluations of challenge funds will also seek to establish the contribution that the challenge fund has made to higher level change in the broader market systems. One approach for impact evaluation of private sector development programmes is to combine project level evaluation (a ‘bottom-up’ approach) with a sector-wide assessment of the broader changes caused, linking the two with a clear theory of change (GEMS Results Measurement Handbook, ITAD 2013).

Attribution in practice

Attribution is often assessed by examining appropriate control groups, to measure the difference in results between those who participated in the intervention and those who did not.

In challenge funds, it is often complex to find appropriate control groups. This is because those who participate in the intervention are generally qualitatively different from those who don’t. For example, farmers who purchase improved seed may be more wealthy, enterprising or educated than those who don’t. Similarly, companies may select the most hard-working farmers to supply them with produce. Consequently, differences between the two groups may not be due to the intervention.

One potential approach is to compare participants who entered the programme in different years – on the assumption that they are broadly equivalent to start with. For example, you could compare farmers who joined in year one, with those who joined in year two. If combined with a ‘difference-in-difference’ methodology, this may enable a valid assessment of attribution. It may not be perfect, as for example variations in weather between the seasons will affect yields; nonetheless, it may be the most practical method.

Alternatively, programmes may conduct in-depth case studies which follow the same people over a period of time. If conducted rigorously, these can often disentangle the factors leading to changes in their circumstances, and so will point to the impact of the programme.

Overall, there are many methods for assessing attribution, as described further in the documents cited above. There is no one perfect method, and the DCED Standard does not require complete certainty. Instead, it requires that programmes tell a story that would convince a reasonable (but sceptical) outsider. Carefully considering the methods used, and tracing attribution through different stages in the results chain, will help you to do this.

4 Capturing Wider Changes in the System or Market

"This is the hard part!" – Buddhika Samarasinghe, Nathan Associates

Systemic change refers to the impact of the challenge fund on the systems that the businesses work in, such as markets, government, or civil society. Systemic change can have a greater impact than direct assistance, as it will benefit people who have had no contact with the programme. It is more likely to be sustainable, because it depends on multiple actors in the system, rather than individual companies.

There is little consensus on whether challenge funds are an effective mechanism for facilitating systemic change.[18] A lack of evidence on this issue points to the importance of newer challenge funds effectively assessing their contribution.

One emerging lesson is that systemic change is more achievable if the challenge fund portfolio is concentrated geographically and thematically.[19] Several successful businesses in the same sector or area are more likely to encourage new entrants, or encourage an increase in private finance. As a consequence, significant systemic change is likely to be caused by the portfolio as a whole, rather than a single project.

The DCED has published a guide to assessing systemic change, available here.

4.1 Defining systemic change

Systemic change is discussed more often than it is defined. It is crucial that each fund manager clearly understands exactly what they mean by 'systemic change', in order to be able to assess the extent to which it occurs or not.

For example, AECF have defined six categories of systemic change, provided in full in Annex B. These guide project managers when conducting site visits, suggesting what they should look for and what questions they should ask. This categorisation is also used to code and analyse the qualitative information that AECF receives, which shows the most common types systemic change across the portfolio.

The design and objectives of the challenge fund affects the type of systemic change that is expected. For example, FRICH develops linkages between UK retailers and small-scale farmers in Africa. Since it works with purchasers with significant market share, one key potential systemic change is the replication of innovation within the grantee. This means that the grantees better appreciate the value of working with small-scale African farmers, and expand the model to other parts of their business. This would not be a priority for challenge funds working with small local businesses, who might be more interested in the replication of the business model by other companies.

[18] See *Elliot, D., 2013, Exploding the Myth of Challenge Funds – a start at least…, Springfield Centre* and *Chilver, A., van Diermen, P., and Jones, W., 2006, Using Enterprise Challenge Funds to Promote a More Enabling Environment for Business: Challenges and Opportunities* for two perspectives on this.

[19] Poulton, C., 2009, *An Assessment of Alternative Mechanisms for Leveraging Private Sector Involvement in Poorly Functioning Value Chains*, FAO

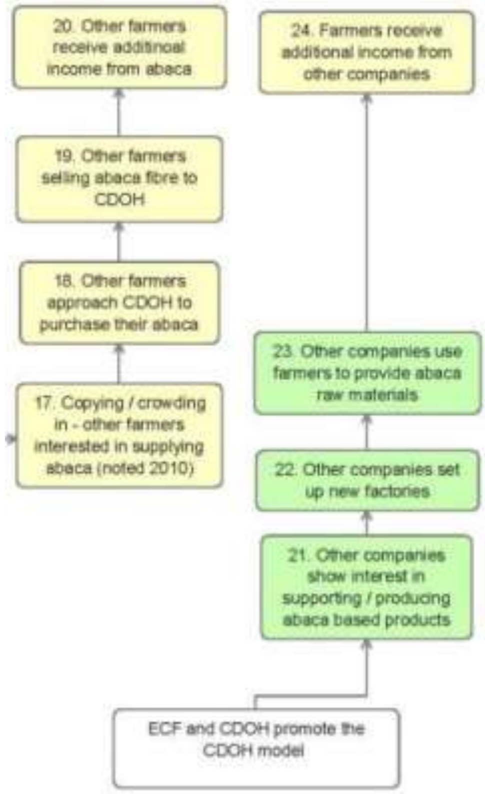
Systemic change should be viewed broadly, as a successful business may inspire change not just within the sector, but in other sectors or countries. For example, a company that successfully engaged with consumers at the bottom of the pyramid might encourage other companies to do the same, even if they were not in the same sector or location. Consequently, challenge funds should look for unexpected changes, and revisit their definitions in the light of experience.

4.2 Assessing systemic change

4.2.1 Understand the market system

A strong assessment of systemic change will require some knowledge of the market, both before and after the intervention. This may require additional information gathering by the challenge fund, potentially as part of the grant award process. The challenge fund will also need to clearly define what type of change is expected from each project, and the expected trajectory of change. This can best be done by including it in the results chain.

For example, ECF includes systemic change on the side of the results chains. The example on the right shows the expected systemic change from project that sources abaca (a fibre derived from bananas) from smallholder farmers. It shows how ECF expects copying by farmers interested in supplying abaca, and copying by companies interested in producing abaca based goods. To see how this links to the full results chain, see the example in Section 1.1.



4.2.2 Tips for assessing systemic change

- **Plan for long-term monitoring**. The time needed to observe systemic change varies depending on the type. For example, local copying by farmers or companies of newly introduced practices can be observed relatively quickly, perhaps after a year or two. However, new businesses are likely to take two to three years to enter the sector, as they must observe the success of the grantee, raise capital, etc. In a shorter space of time it should be possible to see early signs of change. For example, three years may be too soon to assess actual changes in the legal or regulatory environment. However, early signs of change might include government officials drafting new legislation, showing increased openness to discussion, or inviting more businesses to comment on proposed changes.
- **Consult the business, but do not ask them to measure systemic change**. Discuss systemic change with the grantee, using accessible language. Simple questions like 'has any other company shown interest in or contacted you about your business model', 'what new competition do you have', 'what companies do you buy from or sell to', and 'what regulations are causing problems for your business?' will help gather relevant information. Explain why systemic change is important for the challenge fund, and businesses will generally be happy to discuss it, or suggest key informants. However, it is not part of their core business, and so

grantees are unlikely to conduct data collection or credibly report against systemic change indicators.

- **Take an investigative approach.** The fund manager must adopt a flexible approach to measurement. Accepting that systemic change cannot be fully predicted in advance, a certain amount of detective work is required to establish what has changed in the market system following the intervention.
- **Interview different stakeholders**. Speak with multiple informants to triangulate information and better understand the market system. The choice of interviewees will depend on the systemic change expected, and this should be outlined in the results measurement plan. For example:
  - **Business Environment Reform**: Interview partners from local and national government, business associations and other businesses.
  - **Copying by businesses**: Meet with other businesses, business associations, and potentially financial institutions.
  - **Copying by farmers**: Interview the farmers concerned, local authorities, and CSOs or NGOs that support farmers in that area.
- **Use qualitative information.** Numbers will not show the full story. For example, the fact that three companies set up similar businesses to a grantee does not show that there has been a change in the market. Qualitative information will help demonstrate this change, for example by exploring why competitors set up businesses, whether they found it easy to obtain loans, and whether they were influenced by the example of the grantee.
- **Consider attribution.** Systemic change is always due to multiple factors, and it is necessary to show that the challenge fund contributed to any observed change. The below table suggests questions which might be useful in assessing attribution.[20]

Type of systemic change	**Questions to help assess attribution**
Companies copying grantee business model	• Does the business model of other companies have similar features to the grantee business model? Is it likely that other companies knew about the grantee's project? • How did the grantee (or fund manager)'s promotion or other activities influence other companies?
Changes to the business environment	• Were changes likely to have been caused, at least partly, by grantee activities? For example, if the government improved regulations in a grantee's industry, what did the grantee do that might have encouraged the government to change the regulations? • What were the reasons for observed changes? Ask the grantee and other respondents why they think specific changes have happened.
Farmers copying behaviour changes of beneficiaries	• Are other farmers' behaviours are very similar to the beneficiaries' behaviours? • Were farmers likely to have seen or known about the beneficiaries' behaviour changes? How?

`[20] Adapted from AECF M&E manual

5 Tracking Costs and Impact

The DCED Standard requires development programmes to measure costs, as well as results. Consequently, challenge funds should track the size of each grant, as well as costs associated with allocating and managing the funding.

6 Reporting Costs and Results

The DCED Standard requires development programmes to report their results, internally and preferably externally. This is particularly important if the challenge fund aims to influence governments and the wider development community.

6.1 Acknowledge contributions

Challenge funds typically require matching funding for every project. They should report the ration of challenge funding to matching finance (often known as 'leverage').

This raises interesting questions around attribution. Challenge funds are not the only funder of the projects, so they cannot claim full 'attribution' for the results. However, they may believe that their funding played a catalytic role; if they had not taken some of the risk, the project would never have happened, or would not have happened at the same scale or timeframe. (This is the claim of 'additionality', discussed above.)

In practice, challenge funds should be careful in their reporting to give a transparent and honest account of their role. They should clearly state that they contribute to results, rather than implying that they were the only funder. They should also acknowledge the contributions of other development programmes, where relevant, and explain why they believe that their funding is additional to existing sources of finance.

6.2 Responsible reporting

Results measurement information may be commercially sensitive. In particular, companies may not wish to share business performance indicators, such as profit and turnover. Consequently, information should not be shared externally without permission. Key indicators such as profit and turnover may be aggregated to give an overview of the portfolio without revealing information about any one company.

7 Managing the System for Results Measurement

7.1 Human and financial resources

"The biggest change was realising that results measurement is not the role of an M&E advisor, it's the role of the country manager." – Amanda Jupp, Enterprise Challenge Fund

Challenge funds typically have limited resources for results measurement and management. However, saving money on results measurement staff and activities may be a false economy if the challenge fund cannot learn from experience or demonstrate its impact.[21]

Consequently, it is recommended that the fund manager develops in-house results measurement capacity, including full-time, trained staff. Investing in capacity building saves money in the long run, as it reduces dependence on external consultants. The results measurement team should include:

- One staff member with primary responsibility for each grantee, who can conduct site visits, coordinate results measurement activities and outsource as necessary. Current experience indicates that one full time staff member is able to manage between five and ten grantees. Their role will not just be results measurement, but also include other oversight of the grantee.
- Local data collection officers, who speak the local language (where possible) and can gather data cost-effectively. This role could be contracted out to a local research firm, if managed carefully by internal challenge fund staff.
- A central results measurement team with the technical knowledge to develop and provide guidance, manage the results measurement system, quality check reports, and provide training. However, the team can be small, and support project managers rather than conduct the results measurement themselves. This ensures that the project manager can effectively use results measurement information to oversee the grantee.

ECF's experience with mentors

The Enterprise Challenge Fund hired a 'mentor'; a consultant with experience in the DCED Standard, who could work long-term with the challenge fund to build and maintain a DCED-complaint results measurement system. This helped quickly establish a stable results measurement system – which is vital to maintain the buy-in of the business and challenge fund staff.

7.2 Using results in challenge funds

The fund manager does not have management responsibilities over the business, and so results management information will not directly feed back into running the business. To be compliant with the DCED Standard, the fund manager must show that results are used to learn and improve the programme. The below list suggests some ways in which this could happen:

- **Disbursements**. If grants are provided over time, the fund manager can withhold disbursements if activities have not been conducted, outputs not produced, or outcomes not achieved according to the contract.

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[21] Callan, M, and Davies, R., 2013, *When business meets aid: analysing public-private partnerships for international development*, Development Policy Centre

- **Determining future funding**. In some challenge funds, the fund manager can provide additional funding to high-performing grantees. This should be based on an assessment of results to date, the additionality of further funding, and the risks of crowding out unsubsidised businesses.
- **Assist businesses**. Results measurement should be useful for the business. The fund manager should stress these synergies and work with businesses to help improve their work. However, the fund manager typically has limited power; they can provide suggestions or advice, but not require the business to take action, unless it relates to a contractual obligation.
- **Improving fund management**. Information on results enables improvements to be made to fund management. For example, if the fund manager finds that businesses with a diverse network of linkages tend to perform better than those without, then it might provide additional assistance in building these crucial linkages. Similarly, information from early rounds can be analysed to identify factors in the business and business models that contribute to success. This analysis can inform subsequent rounds of funding, such as what businesses are eligible, how marketing is done, and the criteria for approval.
- **Learning.** Learning can be shared with policy makers, financial institutions and the wider development and business community to show what works in enterprise development, how market systems can change and how barriers can be overcome. For example, the results measurement system in the Business Innovation Fund links to the Practitioner Hub for Inclusive Business, which aims to provide a space for practitioners to connect, share experiences and gain new insights to help their inclusive business ventures grow.[22]
- **Advocacy**. Challenge funds are in a good position to advocate for improvement to the market system to governments, donors, and other market actors.[23] By bringing together donors and the business community, the fund manager builds a rich knowledge of the constraints facing businesses in the region, and can use the examples of grantees to build the advocacy case.

It is essential to institutionalise the results measurement system, and ensure that the information collected is used in the above manner. Three important ways to do this are:

- **Develop a results culture**. Results measurement will not work without a strong interest in results, which must be driven from the top. Senior management should encourage a culture of honest enquiry, where staff can critique the information they receive and report failures as well as successes. Similarly, project managers should develop an open relationship with their grantees, accepting and learning from the challenges that they face.
- **Make roles and responsibilities clear**. Make the roles and responsibilities clear for both the business and the fund manager, so both are aware of what results measurement tasks are expected of them.
- **Systematise the use of information**. Ensure that information collected during monitoring visits and other studies is fed back to businesses, so that they can use it in their work. For example, the fund manager may meet with the business after each field visit to review the results chain, discuss what they have found at each key step, and whether there is room for improvement. Within the fund manager, there should be time and space to discuss the results achieved and adapt plans accordingly.

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[22] See https://beamexchange.org/practice/programme-index/35/

[23] Chilver, A., van Diermen, P., and Jones, W., 2006, *Using Enterprise Challenge Funds to Promote a More Enabling Environment for Business: Challenges and Opportunities*

Annex A: Useful References

Select the blue hyperlinks in the text below to download the relevant resource.

Overviews of challenge funds

Callan, M and Davies, R., 2013, *When business meets aid: analysing public-private partnerships for international development*, Development Policy Centre.

Heinrich, M., 2013, *Donor Partnerships with Business for Private Sector Development: What can we learn from experience?* Donor Committee for Enterprise Development.

Specific challenge funds

Enterprise Challenge Fund. Their website contains a number of useful files on measuring the results of challenge funds. In particular, select 'Publications and Reports', which contains research and reviews, including a report on their experience with the DCED Standard.

Information on the DCED Standard

The DCED Standard Website contains extensive guidance, case studies, and links to further support.

Other useful resources

Iris Indicators. The IRIS indicators are a catalogue of performance metrics that leading impact investors use to measure social, environmental, and financial success, evaluate deals, and grow the credibility of the impact investing industry. They are discussed in more detail in the Defining Indicators section above.

Jackson, E., 2013, *interrogating the theory of change: evaluating impact investing where it matters most*, Journal of Sustainable Finance & Investment, 3:2, 95-110.

Nethercott, K., Jago-Bassingthwaighte, M., and Jupp, A., 2013, *Women's Economic Empowerment – Practice and Policy Implications from the Enterprise Challenge Fund*, Coffey International

The Inclusive Business Action Network has a number of valuable resources for practitioners in challenge funds, including an impact network and a library on measuring impact and results.

Ruffer, T and Wach, E., 2013, *Review of M4P Evaluation Methods and Approaches*, ITAD. This paper reviews evaluation of systemic change, including an example from the Enterprise Challenge Fund.

The World Business Council for Sustainable Development (WBCSD), 2013, *Measuring socio-economic impact: A guide for business.* The WBCSD has developed a guide for businesses who wish to measure and manage their impact on society. It proposes a monitoring system similar to the DCED Standard, based on a results chain and indicators.

Annex B: Systemic Change Definitions from AECF[24]

Type of Systemic Change	Example
Copying by other businesses. Other businesses see the benefits of the grantee's business model, and so copy the idea.	The challenge fund provides seed finance to support an outgrower scheme, which purchases tomatoes from poor smallholder farmers. This is a financial success, and other companies copy the business model and begin to work with smallholder tomato farmers.
Crowding-in. Other businesses are encouraged into the space created by the grantee. The distinction between this and the previous category is that other businesses don't copy the business model, but offer supplementary services which are only viable because of the AECF grantee.	The challenge fund provides a grant to a seed supplier to set up shops in rural areas. A financial service provider, not funded by the challenge fund, works with the seed supplier to provide microfinance to farmers who wish to buy the seed.
Copying successful practice. People who are not working with the project copy the behaviours or technologies that the project introduced. While the previous two categories refer to behaviour change in businesses, this refers to behaviour change among farmers and others.	The challenge fund provides a grant to an outgrower scheme, which teaches sustainable farming techniques to participating farmers. Other nearby farmers copy these techniques and thus improve their yield.
Business Regulatory Environment. All projects work within a regulatory environment, principally defined by the government. They must follow laws and regulations, and work with government officials to gain permission to work, export, etc. Many companies seek to improve the regulatory environment, to make it easier for them to do business.	The challenge fund provides a grant to a number of livestock businesses, which imports vaccines. Regulations for importing vaccines are time-consuming and cumbersome to follow, and government officials regularly ask for bribes. The businesses join to advocate to the government, contributing to a change in the regulations.
Factor and other market systems. Changes in factor market systems are changes that the project causes in the main factor market systems of land, labour and capital, but also include ancillary markets such as information.	In an above example, financial services organizations provided financial services to customers of a seed supplier. This is 'crowding in', as described above. However, if those organizations also begin to provide financial services to other people and businesses unrelated to the grantee, this indicates a change in the financial market system, as there is improved access to finance.
Innovation The grantee introduces additional innovations - building on and improving the project / business model. These are innovations which were not in the original business plan, but which the business developed as a result of the AECF-funded project.	The challenge fund provides funding to a pesticide company to develop a new type of organic pesticide for a certain pest. Although the original design did not work, it led to the creation of a new type of pesticide effective against a different pest.

[24] Categorisation taken from AECF. All examples are imaginary and developed by the author.