CDC
Investment works

Research

Insight

Making the most effective use of grants and technical assistance to support financial institutions

Published: 15 June 2020

Report author:
Gareth Davies, Tandem
gareth.davies@tandem-development.com

CDC leads:
Alex Kucharski
akucharski@cdcgroup.com
Machal Karim
mkarim@cdcgroup.com

Practical thinking on investing for development

Insight is a series of practical and digestible lessons on the issues of private sector investment and development. They're based on our experiences, knowledge and research and are aimed at investors, businesses, development professionals, and anyone with an interest in private sector development.

To view the rest of our Insight series visit:
▸ cdcgroup.com/insight

Foreword

The Sustainable Development Goals will not be achieved without broad-based economic growth, which cannot be achieved without well-functioning and inclusive financial institutions. Long-term, flexible capital is critical to strengthening and scaling financial systems in Africa and South Asia, where we invest. That's why investing in financial institutions is one of our priority sectors.

At CDC we have long recognised the critical role a strong and resilient financial sector plays in supporting economic growth and wellbeing. We have backed financial institutions since 1949, when we invested in the forerunners of the Malaysia Building Society and Singapura Finance. Today, investments in financial institutions make up approximately a third of CDC's portfolio. Our recently published financial institutions sector strategy sets out why and how we invest in financial institutions in more detail.

We know that sometimes maximising the development impact of a financial institution requires support beyond the investment capital. Financial institutions in countries where we invest are not always able and willing to take new types of risk, or do not have the capacity to learn how to serve new or more vulnerable client bases. They require multi-dimensional support, both through investment capital and non-commercial instruments such as grants and technical assistance to innovate and pivot as needed, and sustainably scale these products and services in their markets.

The unique nature of financial institutions – and the systemic role they play in economies – influences how technical assistance and grant projects should be designed and delivered. Providing technical assistance and grants to financial institutions requires discipline and structure, along with concrete plans and milestones that ensure effective, efficient and appropriate support.

To optimise impact, protect commercial value and maximise opportunities for success, we want best practice to underpin the identification, selection, management and evaluation of our projects. However, we found limited resources providing insight into technical assistance provision in the financial sector. So, we commissioned Tandem to conduct consultations with industry leaders and review the evidence base for non-commercial support to financial institutions. This report consolidates these lessons and provides guidance to complement our approach to investing in the financial sector. The research helps us understand what we can do better, and what we can adopt from approaches among development finance institutions (DFIs), technical assistance providers, and donor programmes with long-standing experience in this space. We hope that fellow investors and providers of technical assistance and grants also find it valuable for enhancing the development impact and sustainability of their work within the sector.

Sarah Marchand
Director, CDC Plus
CDC Group plc

Machal Karim
Development Impact Executive
CDC Group plc

Acknowledgements:

This Insight was written by Gareth Davies, Jake Lomax, Joanna Ledgerwood and Diane Johnson (Tandem) and Machal Karim and Alex Kucharski (CDC Group). We thank Tori Hellrung, Sarah Marchand, Borja Fernandez and Wasim Tahir (CDC Group) as well as all the stakeholders consulted.

For questions please contact:
akucharski@cdcgroup.com and mkarim@cdcgroup.com

Contents

About this report

This report presents high-level findings from research commissioned by CDC Plus. Our aim is to better understand the opportunities to use technical assistance and grants to facilitate inclusive and sustainable business practice change within financial institutions, at scale.

Executive summary

In 2018, CDC Group established CDC Plus as our technical assistance and support facility. CDC Plus aims to make a lasting difference to the lives of under-served groups by increasing economic opportunity, improving standards of living and creating a more sustainable environment. Using our experience as an investor in emerging markets, we identify and create opportunities that are beyond the scope of returnable capital.

Implementing socially-desirable initiatives such as developing new financial services aimed at under-served populations can be challenging for financial institutions in developing countries. Often financial institutions are unwilling to take the risk or do not have the capacity to undertake such initiatives. Technical assistance and grants can be used to address these challenges and maximise the impact potential – as well as possibly the financial potential – of an investment.

Investments in financial institutions make up approximately one third of CDC's portfolio. We commissioned this research by Tandem to improve our understanding of the opportunities to use technical assistance and grants effectively within the financial sector, with the aim of facilitating inclusive and sustainable business practice change at scale. For the purposes of the research, technical assistance and grants are defined as non-commercial, non-returnable instruments provided to a particular organisation (the 'recipient') in order to induce a change in the organisation's performance, behaviour, or practices.

Our research seeks to answer two primary questions relevant to our own financial sector technical assistance/grant programming and to other DFIs and development actors operating in the same space:

1. What are relevant examples of technical assistance and grants being used to promote change within financial institutions? What type of support was provided, by whom, and what was the intended outcome?
2. What were the results? What explains the difference between success and failure? What are the relevant lessons for CDC and DFIs more broadly?

The research questions were addressed through a combination of literature review and semi-structured key informant interviews. In total, 34 interviews were conducted with a wide range of key informants; nearly 80 documents were reviewed with 41 selected for deeper analysis (see Annex A).

For the first research question, three trends were identified in the use of technical assistance and grants in the financial sector space:

1. **Some donors are adopting a systemic approach to financial sector development**. In line with wider trends in private sector development, donors are increasingly adopting a systemic approach to financial sector programming. This approach takes a holistic look at financial systems, identifying constraints not just on the supply-side (within financial institutions), but also on the demand-side and in the wider ecosystem. Technical assistance and grants may then be targeted at a wide range of different 'market actors', including financial institutions, regulators, government agencies, industry associations, and service providers.
2. **DFIs remain focused on supply-side interventions**. In contrast, DFIs remain largely focused on direct support to financial institutions. For example, according to a 2017 paper by CGAP, 96 per cent of DFI commitments are dedicated to financing or strengthening the supply side in the financial services market.
3. **A slow convergence between donor programming and DFIs.** There are some examples of DFIs and impact investors engaging in market development and 'market shaping' initiatives. Conversely, some donors are moving towards the DFI and impact investing space. For example, FSD-Africa was recently awarded £90 million by the UK Department for International Development (DFID) to scale-up its development capital fund, and DFID's market systems programmes are linking up with DFIs and impact investors to provide a pipeline of potential investees.

For the second research question, seven key findings emerged from the research. These findings are relevant for DFIs and development actors funding and designing financial sector technical assistance /grant projects, as well as for technical assistance service providers and implementers responsible for the implementation and evaluation of projects on the ground.

1. Look beyond the financial institution. Depending on the context, critical barriers to practice change and product innovation can lie outside the financial institution itself. For example, due to the high levels of regulation and supervision in the financial sector, the regulatory landscape was commonly cited as a constraint to financial product innovation. Technical assistance and grant programmes that are able to work at the level of individual financial institutions and also at the wider sector-level are more likely to generate sustainable, transformational impact, particularly in countries with weak or underdeveloped financial sectors. Even if the project does not have the scope to work at a sector-level, understanding beyond-the-firm constraints is still important in order to identify risks and potential barriers to project success.

2. Understand and build financial institution's incentives for change. When selecting potential technical assistance and grant recipients, one of the most critical success factors is the incentive for change within the financial institution. Due to the critical importance of maintaining a reputation for prudential management and the high levels of regulation and supervision, many retail financial institutions are relatively risk averse. This makes it particularly challenging for technical assistance/grant providers to catalyse innovation and change. Different institutions have different incentives for change and innovation, with Tier 1 Banks seen by key informants as the most resistant to change (although there can be a trade-off here between *incentives* for change and the *capacity* for change).

Projects should therefore be prepared to build and reinforce the incentives for practice change, based on a well-reasoned business case. C-suite and CEO buy-in is vital, although given the organisational size and complexity of many financial institutions, buy-in at multiple levels also seems to be important. Use of cost-sharing is a helpful tactic for testing recipient buy-in and incentive alignment, and financial instruments can be useful for buying-down risk[1] during the change or innovation process.

3. Prioritise know-how over money. Although it varies by institution type and stage in the business cycle, there is some evidence that what holds back most practice change is not financial constraints but knowledge and expertise (as well as the organisational structures and processes to put knowledge into action). Consequently, providing non-financial support (e.g. advice and know-how) is generally seen as more effective than just providing grant funding, although combining targeted non-financial and financial support in order to buy-down risk (point 2) can also be effective in catalysing innovation in risk-averse financial institutions. While many Tier 1 Banks in developing countries are highly profitable, Financial Technology companies (FinTechs) and early-stage financial institutions are more likely to suffer from financial constraints, particularly when trying to scale-up successful innovations, again providing a potential justification for financial support.

4. Tailor the support to the financial institution. Financial institutions can be complex organisations, offering a range of different financial services to a range of different clients, and facing a range of different constraints and opportunities. Comprehensive, tailored packages of technical assistance/grant support, based on a detailed understanding of the recipient, are therefore more likely to promote sustained practice change than short-term, standardised support packages. Thought needs to be given to who is best placed to conduct the diagnostic and identify specific needs. For example, if using self-diagnostic tools or conducting joint diagnostics, staff within a financial institution can sometimes overestimate their own ability to absorb support or to manage multiple change processes.

5. Aim for deeper institutional change through longer-term engagement. Given the relative complexity of many financial institutions, promoting a particular practice change is often more effective and sustainable if addressed from a wider institutional perspective, targeting more fundamental organisational change. This requires longer-term engagement that touches on a range of different functions and departments. For example, within the product innovation space, supporting financial institutions to become customer-centric organisations (which may touch on everything from product design, to marketing, to IT) is seen as more effective than narrowly supporting a particular product or technology.

6. Think and act local. Given the complexity of financial systems, and the different levels of financial development seen across emerging markets, when designing and delivering technical assistance and grant projects, having a local presence is advantageous. This allows project teams to build a better understanding of the local market and context (including beyond-the-firm constraints –point 1), maintain good industry networks, and be more responsive and adaptive (point 7). For similar reasons, using local consultants who can navigate the organisational complexity of most financial institutions and build long-term trusted relationships with their counterparts will also typically deliver better results and value for money.

7. Be flexible and adaptive. The organisational complexity of many financial institutions, and the dynamic nature of financial systems, means that being flexible and adaptive when delivering technical assistance/grant projects is viewed as a critical success factor. This means being prepared to change the support package over time as the needs and opportunities within the financial institution change and being responsive to what is and is not working on the ground. This requires projects to invest in a good monitoring and evaluation system that provides regular feedback and useful insights to project teams and the financial institution itself. However, there is a limit to what the financial institutions themselves can be expected to measure (and measure well). Being adaptive also requires flexibility in project work-plans and budgets.

1 'Buying-down risk' refers to the use of financial grant instruments to reduce the losses incurred by the recipient in the case of failure of the innovation or practice change. This might involve, for example, using a cost-share to cover a proportion of the sunk cost of developing a new financial product.

01

Introduction

1.1 Research objectives

Our research sought to answer two primary questions relevant to our own financial sector technical assistance/grant programming and to other DFIs and development actors operating in the same space:

> **Question 1:** What are relevant examples of technical assistance and grants being used to promote change within financial institutions? What type of support was provided, by whom, and what was the intended outcome?
>
> **Question 2:** What results were achieved, and what seems to explain the difference between success and failure? What are the relevant lessons for us and DFIs more broadly?

The focus of the research was exclusively on the application of technical assistance and grants to financial institutions. The research did not examine examples from outside the financial sector and recommendations were developed specifically with financial institutions in mind (although some recommendations may have broader applicability across sectors).

Given the number of financial institutions in our portfolio (~$1.6bn invested in financial institutions across Africa and South Asia which equates to approximately a third of CDC's portfolio), we were eager to understand how to ensure the effectiveness of our financial sector technical assistance/grant projects. We were also keen to understand whether, and how, the unique nature of financial institutions – and the systemic role they play in national and regional economies – changes how technical assistance/grant projects should be designed and delivered. For example, many Tier 1 Banks in developing countries are highly profitable, creating a risk that any technical assistance or grants simply subsidise what the bank would have done anyway, with no real additional development impact. Due to the nature of financial services, and the high level of supervision and regulation, many banks are also relatively risk-averse, creating challenges for development actors wishing to use technical assistance/grants to spur innovation or new business practices. Most financial institutions are large, complex organisations, making it more difficult to find entry-points and support successful change processes.

1.2 Definitions and types of technical assistance and grants

The terms 'technical assistance' and 'grants' have different meanings for different people.[2] For the purpose of this research, we use the terms interchangeably to mean non-returnable, non-commercial instruments provided to a particular organisation (the 'recipient') in order to induce a change in the organisation's performance, behaviour, or practices. These instruments can be non-financial (such as training or the provision of technical expertise) or financial (such as the provision of non-returnable grant funding). They are distinct from 'commercial' instruments such as debt and equity investments (even when these are priced at below-market rates), which are outside the scope of this research.[3] The table below lists some of the different types of instruments commonly used.

~$1.6bn

CDC's investments in financial institutions in Africa and Asia

2 In the investment community, 'grants' typically refer to any form of non-commercial capital provided to an investee. 'Technical assistance' – the provision of non-financial forms of support – is seen as a sub-set of grants. In the donor community, a 'grant' typically refers to financial forms of support, and is distinct from 'technical assistance', which refers to non-financial forms of support.

3 In some instances, the line between commercial investments and non-commercial technical assistance/grant support is not always clear cut. For example, the provision of advisory services by an investor representative on the board of an investee could be seen as a routine element of the commercial investment or a form of add-on technical assistance support.

Examples of technical assistance and grant instruments

Non-financial (technical assistance) instruments	Financial (grant) instruments
Research – conducting and disseminating research to recipients in order to provide insights or build the case for change **Events** – hosting networking or peer-learning events, seminars, or workshops to share insights and build relationships between stakeholders **Brokering linkages** – supporting two or more organisations to develop new (or strengthen existing) relationships **Training** – delivering classroom or on-the-job training to groups of individuals **Coaching and mentoring** – providing on-going and on-demand advice and support to teams or individuals **Technical expertise** – the provision of 'know-how' and technical expertise (for example, providing a credit scoring expert to help a bank develop a credit scoring model for a new digital financial service)	**Non-returnable grants** – providing non-returnable grant funding to the recipient for an agreed purpose, often involving an element of cost-share **Non-commercial risk-guarantees** – using grant-funding to limit the losses of the recipient, for example, providing a guarantee fund of $X to limit Non-Performing Loans (NPLs) to Y per cent for a new credit product (to be distinguished from commercial instruments such as first loss capital) **Subsidies** – subsidising the delivery of a particular product or service (for example by subsidising a fixed percentage of the price of a new product or service for a given time period)

Technical assistance can be relatively 'light-touch' and require only a minimal level of formal engagement with the recipient. Examples include the hosting of events, provision of research, brokering linkages, or one-off training. It can also be more intensive as part of a longer-term engagement, for example embedding a technical team within the financial institution to support the development and roll-out of innovative new financial services.

Grants tend to be more intensive forms of support (in terms of time, level of engagement and level of formalisation), typically requiring a comprehensive grant agreement with the recipient and close monitoring to ensure the funds are used as intended. Grants are also sometimes provided to financial institutions specifically for the purpose of contracting technical assistance providers, so while the support to the recipient is mediated through a grant process, the ultimate form of support is technical assistance.

Technical assistance can be relatively 'light-tough' and require only a minimal level of formal engagement with the recipient. It can also be more intensive as part of a longer-term engagement.

1.3 Report structure

The rest of this report is structured as follows:

- Section 2 provides a brief summary of the research framework, methodology, and limitations (see also Annex B);
- Section 3 provides a brief overview of which development actors are active in using technical assistance and grants in the financial sector and summarises some key trends;
- Section 4 summarises seven key findings from our research;
- Section 5 presents some high-level recommendations and considerations.

02

Research framework and methodology

This section provides a brief overview of the research framework, methodology, and limitations. For a more detailed description of the research methodology, please see Annex B.

2.1 Research framework and methodology

Our research team developed a two-tiered analytical framework to guide the research. This included:

1. **A results framework** for describing the results achieved by a technical assistance/grant intervention;
2. **A process framework** for describing how the intervention was designed and delivered.

Research questions for each step in the analytical framework were developed and used to frame the subsequent data collection and analysis.

The research questions were addressed through a combination of literature review and semi-structured key informant interviews. A total of 34 interviews were conducted. Of these, 16 were conducted with implementers of technical assistance/grant projects and technical assistance service providers, six with DFIs, five with impact investors, and seven with experienced independent consultants.

Of the literature found through searches, 77 documents were included in the database for review. These comprised 36 learning documents, 21 evaluation documents, and 20 case study documents. Of the 77 documents, 41 were found to be of sufficient relevance and detail for further analysis (see Annex A). Following analysis of these documents and interview notes, at the synthesis stage key themes or findings were identified against (and beyond) the analytical framework, and evidence drawn out around each of the findings. A Red-Amber-Green system was used to classify each finding based on the strength of evidence and relevance. Green and amber findings were consolidated into headline findings (presented in Section 4).

2.2 Research limitations

The Research team selected interviewees from across the spectrum of actors in the sector. As such, our evidence base prioritises breadth at the expense of more comprehensive coverage of, for instance, DFIs. The team encountered challenges during the literature review due to a scarcity of good quality information and the unstructured nature of the 'grey' literature, combined with problematic search terms. The team had initially anticipated that a higher number of good quality case studies and evaluations would be found, providing sufficient detail regarding the technical assistance/grant process followed combined with robust evidence of sustainability, scale, wider systemic change, and impact. However, very often monitoring or evaluation findings did not distinguish between technical assistance and underlying investments, and few looked in any detail at the modality of technical assistance in a manner that could inform substantive conclusions. Robust evidence of sustainability beyond the end of the support project, and wider impacts beyond the recipient, was also scarce.

While it is possible that relevant evidence was missed, and that important key informants were not included in the research, our review of the evidence collected revealed a degree of consistency in findings across multiple documentary and key informant sources. This gave us a high degree of confidence that the important findings were captured.

34

semi-structured interviews were conducted as part of this research

77

documents were included in our literature review

03

Overview of development actors using technical assistance and grants in the financial sector

This section provides a brief overview of the development actors using technical assistance and grants in the financial sector. We also explore their motivations for providing such support and summarise some key trends.

3.1 Development actors using technical assistance and grants in the financial sector

Development Finance Institutions (DFIs). Financial institutions make up a significant proportion of the investment portfolio of many DFIs (for example, 25 per cent of CDC's assets under management and 41 per cent of Proparco's investments are with financial institutions).[4] Recent research suggests that technical assistance and/or grants are used extensively by DFIs to complement their investments. According to the independent think tank Consultative Group to Assist the Poor (CGAP), at least 45 per cent of DFI investments have a technical assistance component.[5] The DFIs interviewed for this research estimate that over 80 per cent of technical assistance is used for existing investees. Some DFIs are also starting to explore the use of technical assistance and grants pre-investment to build the investment pipeline ('investment readiness'), and to promote wider market systems development (see below).

Impact fund managers. Many impact fund managers operate technical assistance/grant facilities that provide support to investees (funded either by donors or investors). For example, LeapFrog operates an Impact Lab, a non-profit research and development hub that "awards grant funding to [LeapFrog investees to] support innovative projects that commercial funding may find too risky but are deemed to have the potential to break new ground or have significant impact".[6]

Donors and donor-funded programmes. Many bilateral and multilateral donors and several large foundations (such as the Bill & Melinda Gates Foundation and Omidyar) are funding a range of programmes in the financial sector space, or directly delivering technical assistance/grant programmes themselves. For example, DFID helped to create a number of Financial Sector Deepening (FSD) programmes across Africa and at the continental-level,[7] which now attract funding from a range of donors. Many of these programmes use a range of different technical assistance and grant instruments, typically directed not just at financial institutions but also other actors in the financial system (see below).

45%

According to CGAP, at least 45 per cent of DFI investments have a technical assistance component

4 Source: Proparco website (accessed 17/12/2019).
5 Source: CGAP (forthcoming).
6 Source: LeapFrog website (accessed 17/12/2019).
7 There are currently FSDs in Kenya, Mozambique, Nigeria, Rwanda, South Africa, Tanzania, Uganda, Zambia, as well as FSD-Africa.

Technical assistance service providers. Often DFIs and donor programmes contract specialist providers of technical assistance services to financial institutions. Examples include Bankable Frontier Associates and MicroSave. Some of these providers also offer services on a commercial (or subsidised) basis directly to financial institutions.

3.2 Objectives and motivations for using technical assistance and grants in the financial sector

Donors and foundations are primarily motivated by impact: improving the lives and livelihoods of poor men and women in developing countries. DFIs and impact investors balance these 'impact' objectives with financial objectives. In the financial sector, 'impact' historically has been understood as promoting financial inclusion for under-served populations such as rural households, farmers, micro-enterprises, and women. Recently there has been a recognition that to have real impact on the lives of these target groups, development actors need to think not just in terms of access – for example, the number of bank accounts or e-wallets opened – but also quality and usage – covering factors such as the appropriateness of financial services for target groups, financial literacy of end-users, and actual usage in terms of regularity and frequency of use.[8] Another recent development is the increased focus on strengthening the link between the financial sector and the 'real economy', for example through the deepening of credit markets that provide long-term finance to firms to invest and grow, creating jobs and incomes in the firm and supply chain.[9]

Development actors need to think beyond access to finance and consider the quality and usage of services.

Technical assistance and grants are used by development actors in recognition of the fact that financial institutions in emerging markets are not always willing to take the risk or do not have the capacity to achieve these goals by themselves. For example, a recent study identified several key areas requiring the capacity-building of financial institutions in order to deepen and broaden financial sector development and impact, including:

- using broader data sets and data analytics;
- embedding digital capabilities into core operations;
- designing products, services and customer experiences that are better tailored to the particular needs of women and low-income groups;
- optimising distribution channels;
- market-specific strategy development; and
- managing change.[10]

Use of technical assistance and grants is motivated by the belief that these instruments can be used to overcome 'blockers of change' within recipients and, in some cases, catalyse wider systemic change.

DFIs may be motivated by a similar desire to use technical assistance/grants to further increase the impact of their investments, particularly where there is overlap between social impact and commercial return. For example, using technical assistance/grants to support a financial institution to develop new products to reach under-served markets can generate both *social impact* (through expanded financial inclusion) and *commercial impact* (through customer acquisition and increased revenues). DFIs may also offer such support for compliance or risk management purposes, for example to ensure minimum environmental and social standards in investees.

8 Source: CGAP (2015).
9 In terms of the UN Sustainable Development Goals (SDGs), financial sector interventions can therefore directly and indirectly contribute to SDG1 (no poverty), SDG5 (gender equality), SDG8 (decent work and economic growth), and SDG9 (industry, innovation, and infrastructure).
10 Source: FSDA (2017).

3.3 Key trends

Some donors are adopting a systemic approach to financial sector development. Led by organisations such as FSD-Kenya, and influenced by wider trends in private sector development, donors have increasingly adopted a more systemic approach to financial sector programming. This approach takes a holistic look at financial systems, identifying constraints not just on the supply-side (within financial institutions) but also on the demand-side and in the wider ecosystem, including financial infrastructure, other support services, and rules and regulations. Technical assistance and grants may then be targeted at a wide range of different 'market actors', including financial institutions, regulators, government agencies, industry associations, and service providers.

DFIs remain largely focused on supply-side interventions. In contrast, DFIs remain largely focused on providing direct support to financial institutions. According to CGAP (2017): "DFIs' financial inclusion commitments are heavily concentrated on financing these retail FSPs [financial services providers] (92 per cent), which helps to address FSP's funding constraints. When adding capacity-building grants to FSPs (4 per cent), 96 per cent of DFI commitments are dedicated to financing or strengthening the supply side in the financial services market, and it is uncertain as to what extent other market barriers to financial inclusion are addressed by DFIs' interventions." The same paper identifies a number of potential challenges for DFIs in undertaking market development interventions, including risk appetite, pressure for financial returns, structural rigidities, and lack of on-the-ground presence.

A slow convergence between donor programming and DFIs? There are some examples of DFIs and impact investors engaging in market development and 'market shaping' initiatives – aside from CDC Plus these include IFC, FMO, Triple Jump, Catalyst, and LeapFrog. Conversely, some donors are moving more towards the DFI and impact investing space. DFID in particular is increasingly focusing on the use of donor-funded technical assistance and grants to promote and undertake investment. For example, FSD-Africa was recently awarded £90 million by DFID to scale-up its development capital fund, and market systems programmes are being encouraged to link-up with DFIs and impact investors in order to provide a pipeline of potential investees.

Historically, the lack of institutional capacity to deliver financial services has been seen as the major bottleneck of access to finance for the poor. Therefore, funders have prioritised financial and technical assistance to support the creation and growth of [financial institutions], with the largest share of funding earmarked for supporting portfolio growth... But while this provider-focused, institution-building approach helped increase financial inclusion, it failed to address underlying constraints. Funder support paid too little attention to understanding client needs, fostering enabling regulatory environments, strengthening the market infrastructure—all things needed to create the proper incentives, tools, and control mechanisms to develop diverse, innovative, and transparent financial services markets.

A Market Systems Approach to Financial Inclusion Guidelines for Funders, CGAP (2015)

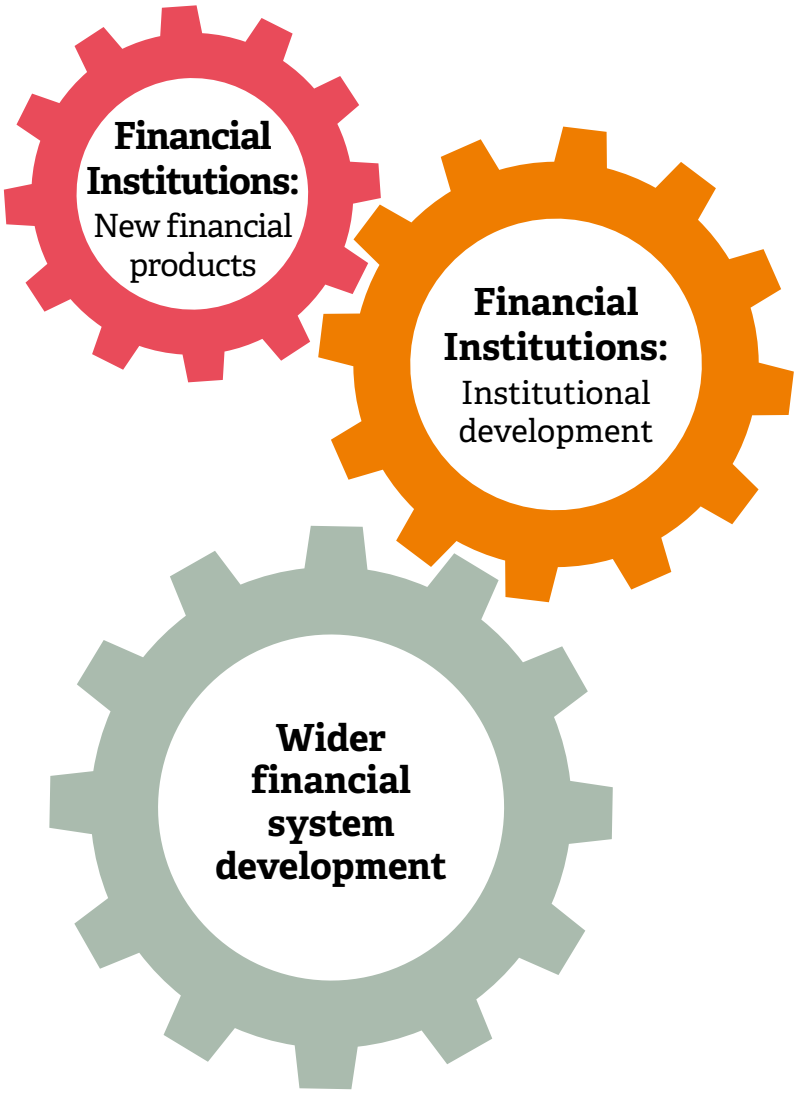
04

Key research findings

This section summarises seven key findings and lessons from the research regarding the most effective use of technical assistance and grants in the financial sector. The findings are roughly ordered sequentially along the intervention cycle – from strategy-setting, to selecting recipients, to designing the package of support, to implementation and monitoring and evaluation – rather than in order of importance. Findings are nuanced according to three basic uses of technical assistance/grants in the financial sector which emerged from the research (see Section 4.3):

- Using technical assistance and grants to directly support financial institutions to develop **new financial products**, reach new markets, or take on new risk;
- Using technical assistance and grants to directly support **institutional development** of financial institutions (e.g. institutional transformation; upgrading core internal processes and systems; Environmental, Social and Governance);
- Using technical assistance and grants to catalyse **wider financial system development** which in turn enables the growth, reach, and stability of financial institutions (e.g. policies and regulations, financial infrastructure, support services such as training and consultancy services).

Common objectives of technical assistance/grants in the financial sector



4.1 *Lesson one:* Look beyond the financial institution

Depending on the context, critical barriers to financial institution practice change and product innovation can lie outside the institution itself. It is often assumed, explicitly or implicitly, that the constraints to practice change lie within the financial institution. However, there is moderate evidence (five key informants and two synthesis papers) and a growing consensus among donors (see Section 3) that important constraints to practice change can exist beyond the financial institution, in the wider 'ecosystem' or 'enabling environment'. For example, in interviews, the regulatory landscape was commonly cited as a constraint to financial product innovation. As a highly regulated sector, uncertainty regarding how a new financial product will be treated by regulators can serve as a major deterrent to financial innovation.

While comprehensive evaluation evidence is not available, *a priori*, development organisations that are able to work at both the financial institution-level and the ecosystem-level have a greater chance of achieving sustainable impact at scale than those organisations that only work at the financial institution-level. This realisation motivated the United Nations Capital Development Fund (UNCDF), for example, to add a regulatory component to its Financial Innovation Challenge Fund under the UNCDF-SHIFT programme.[11]

One DFI we interviewed also pointed to instances where, noticing that several financial sector investees in a given country were being supported individually to address the same environmental and social issues, the DFI was able to achieve greater impact by trying to tackle the issue at an ecosystem-level, for example by working collectively with financial institutions and industry associations to create common environmental and social standards (with the added benefit of creating a more level playing field). One key informant also gave the example of an International Finance Corporation (IFC) project that had achieved transformational impact by promoting interoperability among financial institutions, including beyond IFC's own investees, thereby reducing costs for financial institutions and prices for consumers, promoting uptake of digital payment services (particularly in rural areas with a low density of agents), and spurring digital innovation.

When setting the project strategy, understanding beyond-the-firm constraints is important, even if the technical assistance/grant project does not have the scope to directly address these constraints. The extent to which financial institutions face significant beyond-the-firm constraints obviously depends on the country context and the type of practice change being supported. There are examples of financial institution focused interventions delivering impressive results, such as FSD-Kenya's support to Commercial Bank of Africa (CBA) (see box in Section 4.4). However, this particular example worked because the regulatory environment in Kenya was supportive of digital innovation and because the 'rails' on which the product was built (M-Pesa) were already in place. This will not always be the case. Four key informants believed that understanding the wider enabling environment through a country-level diagnostic is critical, even if the development organisation does not have the scope or remit to address wider beyond-the-firm constraints.

*Our experience on the ground... was that getting market-based solutions to real scale required us to look, think and act beyond the pioneer... **scaling barriers are often not at the level of the firm itself, but in the industry ecosystem around it...***
For example, customer awareness may need to be created, or onerous government regulations streamlined.
In order to truly close the pioneer gap, we need to resolve all the barriers that are critically impeding growth, including the ones in the ecosystem... we need to expand our focus from just building inclusive firms, to building inclusive industries.

Beyond the Pioneer: Getting Inclusive Industries to Scale', Deloitte (2014)

In terms of the three basic uses of technical assistance and grants, our findings most clearly relate to wider systems development (and indeed are the motivation for pursuing a systems development approach). However, as indicated by our second finding, even when an organisation does not have the mandate to address wider systemic constraints, it is still important to consider whether beyond-the-firm constraints may limit the effectiveness and scale of direct support to financial institutions (either on product development or institutional development).

Project example: UNCDF country-level diagnostic

Before entering a new country or market, UNCDF undertakes an exhaustive diagnostic to identify key opportunities and obstacles, after which a country-level strategy is developed. UNCDF currently uses the 'honeycomb' diagnostic tool which looks at 'customers', 'distribution', 'high-volume', 'infrastructure', 'providers', and 'policy and regulations'.

11 For more information see: www.uncdf.org/shift/challenge-fund-facility

4.2 *Lesson two:* Understand and build incentives for change within the financial institution

When selecting potential technical assistance/grants recipients, one of the most critical success factors is the incentive for change within the organisation. Different financial institutions have different incentives for change, with Tier 1 Banks seen as the most resistant to change. One of the strongest areas of consensus among key informants was the vital importance that the incentive to change within the recipient organisation plays in the ultimate success of a technical assistance/grant project. Due to the critical importance of maintaining a reputation for prudential management, and the high levels of regulation and supervision, many retail financial institutions are relatively risk-averse, making it particularly challenging for technical assistance/grant providers to catalyse innovation and change.

Although every financial institution is different, eight key informants were of the view that Tier 1 Banks are often highly resistant to change, making the delivery of successful projects challenging. This was considered particularly so in the case of product innovation, with large banks seen as very conservative with a low risk appetite, in part driven by healthy profits from serving existing clients and from government bond markets. Some exceptions, such as Equity Bank in Kenya, were cited, although it was suggested by several key informants that because Equity had transitioned from a building society to a bank, change and innovation was "already in its DNA".

One key informant believed that for a Tier 1 Bank project to succeed, it was vital to find a 'very talented' champion to make the case to senior management. However, they also acknowledged that such people are hard to find in large organisations were staff turnover is often quite high (which also increases the risk of losing the 'change champion'). Conversely, FinTechs, Mobile Network Operators, smaller banks and Micro-Finance Institutions (MFIs) were commonly seen as more open to change and innovation, more client-centric, and more willing to target newer segments. One DFI gave the example of a project that provided technical assistance and lines of credit to financial institutions in order to expand financial inclusion among underserved segments. The project started with Tier 1 Banks, but these efforts were largely unsuccessful. They now work with Tier 2 and Tier 3 Banks, regulated MFIs, and increasingly with non-regulated credit-only MFIs.

When selecting potential technical assistance/grants recipients, one of the most critical success factors is the incentive for change within the organisation. Different financial institutions have different incentives for change, with Tier 1 Banks seen as the most resistant to change

However, several key informants noted a trade-off between capacities and incentives, as FinTechs and smaller banks tend to have lower reach, lower organisational capacity, and are not always licensed to offer the full range of financial services. One key informant was also of the view that smaller banks and MFIs typically lack the capacity and resources to embark on 'heavy' institutional changes. Working with Tier 1 Banks therefore brings potentially greater scale and impact, but projects may need to invest more time upfront in understanding the bank's willingness to change and in making the case for change – see below.

Technical assistance and grant projects should be prepared to build and demonstrate the case for practice change, based on a well-reasoned business case. Whichever financial institution the project is targeting, given the likely risk-aversion within the financial institution, project teams should be able to make a compelling business case for the change they are advocating – whether the targeting of an underserved client segment or core institutional change – without which the financial institutions will be less likely to undertake the practice change in the first place, or to sustain the practice change post-support.

Technical assistance and grant projects should be prepared to build and demonstrate the case for practice change, based on a well-reasoned business case

One key informant was of the view that developing a strong business case *before* engaging the financial institution is critical. This allows them to get the CEO's attention and "show that you've done your homework' by going into meetings able to talk through the business opportunity in detail (including presenting findings on supply-demand factors, technology factors, and legal and regulatory issues). Another key informant suggested that the most effective technical assistance they provide is working with the financial institution early on to develop and refine the business model. Noting that many financial institutions do not conduct a lot of detailed business case analyses around new products, early on in the engagement the technical assistance provider builds up an initial business case based on transaction and balance sheet analysis, which is then deepened through demand-side research.

When developing a business case is important to consider both revenues and costs. For example, the evaluation of USAID's Development Credit Authority (DCA) project in Ethiopia found that the project built its business case for targeting female-owned businesses on evidence that these businesses tend to have higher repayment rates, but ignored the costs and investments associated with actively targeting this segment. Consequently only 24 women-owned businesses were funded and only 41 per cent of the project's credit line was used, with the evaluators noting a "continued hesitancy... in lending to women-owned businesses" from the financial institution.

In terms of core institutional change, one environmental and social practitioner noted that to achieve genuine and sustained practice change, it is also the case that a strong business case is required. However, although some evidence exists regarding the link between environmental and social factors and long-term financial performance,[12] they also noted that making a compelling and tangible business case is more challenging.

Work with clients that are 'ready': CEOs and MDs must have the capacity and willingness to absorb the services of technical assistance providers. A client's readiness to absorb technical services has a tremendous impact on the effectiveness of technical assistance... CEOs will be more willing to support the findings and create a conducive environment for staff to implement recommendations if they have been engaged in the process from the outset of the project.

'Technical Assistance Delivery to Small Business Banks and MFIs: What Works?', ShoreCap Exchange (2005)

Project example: Women's World Banking (WWB)

To increase financial inclusion for women, WWB spends a significant amount of time building and communicating the business case. While some financial institutions may be mission-driven, ultimately potential investees need to see the women's market as a business opportunity. Sometimes serving more women requires additional investment by the financial institution – this is often a concern and deterrent. WWB also find there is often an unconscious bias that can block women-targeted investment, especially where there is low gender diversity within the financial institution. WWB has therefore developed specific trainings for leadership development for women, and when engaging with senior management WBB makes the business case for both gender diversity internally and for more women clients externally. Ultimately, investees agree to create a more gender diverse management team only when they are convinced they will have better results.

12 See, for example, McKinsey Quarterly (November 2019), "Five Ways ESG Creates Value".

CEO buy-in is vital. Ten key informants and two synthesis papers cited CEO and senior management buy-in in particular as a critical success factor, both when selecting technical assistance/grant recipients and during project delivery. However, given the organisational complexity of many financial institutions, three key informants were of the view that senior-level buy-in is necessary but not sufficient for project success. One gave the example of a product innovation project that ultimately failed because, although there was strong CEO buy-in, the team members from the financial institution with day-to-day responsibility for the project were less convinced about the need for change, fearful about what it would mean for their own careers, and therefore had lower levels of commitment and buy-in. Beyond CEOs and senior managers, these key informants emphasised the need to engage at all levels of the organisation, including middle-management and departments that will either be directly involved in driving the change or have the potential to block or slow-down the change process. Some key informants also mentioned the need to find a champion within the organisation that has been there for a long time, and who intends to stay a long time (losing a champion mid-way through a change project can be highly disruptive).

Use of cost-sharing is an important tactic for testing recipient buy-in and incentive alignment; financial forms of support can also be useful for buying-down risk for the financial institution during the change process. When negotiating the support package, there was strong evidence (ten key informants and one evaluation) that requiring some form of cost-share from the financial institution is critical. Cost-share was viewed as helpful in ensuring the financial institution has some 'skin in the game', testing recipient commitment, and reducing moral hazard. An evaluation of IFC's advisory services (technical assistance) also found evidence that projects with some form of cost-share were more effective than projects with no cost-share, particularly in the case of environmental and social projects.[13] However, the range of cost share reported by key informants varied considerably – from 15 per cent to 95 per cent paid by the recipient, and with different rules regarding in-kind contributions and 'sweat equity', and there was no clear agreement on whether a fixed percentage is required or if a more flexible approach is preferable.

One key informant was of the view that unless the financial institution contributes at least 50 per cent 'the commitment is not there'. Others suggested that even a small cost-share can be sufficient as any kind of spending requires approval and sign-off: "All these institutions have money – it's not about the cost, it's about the process of the conversation of spending money on technical assistance and thinking about how does this fit into our strategy and long-term goals, and what happens after". Similarly, another key informant was of the view that the level of commitment, rather than the percentage amount, was most important: "It's not clear that cost-share is a big contributor [to project success]: some financial institutions gave little cost-share and were very engaged; in other cases banks provided lots of cost-share but the project stalled."

Two key informants also noted that the ability to contribute can vary by institutional type and life-cycle (for example FinTechs and start-ups can find it difficult to contribute to cost-sharing and the grant is sometimes what allows them to 'keep the lights on' while benefiting from the technical assistance), suggesting that some flexibility is needed. Projects can also use financial forms of support in order to buy-down risk during the change process. For example, providing a cost-share that covers some proportion of the one-off sunk cost of innovation, or using non-returnable risk-guarantees to limit the financial institution's loss exposure when piloting a new product, can help to nudge a financial institution into making the change (see also Section 5.3). However, to achieve *sustainable* practice change, the post-grant business case still needs to work (i.e. projects cannot permanently shift incentives of the financial institution through the provision of continuous grant support).

Although strong evidence is not available to nuance these findings by the three basic uses of technical assistance and grants, examples were provided by key informants in both the product development space and institutional development space. Therefore, it seems likely that CEO and wider organisational buy-in is important whenever significant company investment and business practice change is required.

IFC technical assistance projects received "better ratings where the client contributed some or all of the costs of the project, which is an indication of commitment. This effect is particularly pronounced for Environmental and Social Sustainability operations, where projects with no client contributions achieved high ratings in only 44 percent of cases, compared to 70 percent of cases where there was a client contribution.

'Independent Evaluation of IFC's Development Results', Independent Evaluation Group (2009)

13 Source: Independent Evaluation Group (2009).

There is also evidence that cost-share is important in both instances, although none to determine whether the level cost-share should be higher for product development or institutional development. In the case of market development, projects may work with a wide variety of system actors – such as regulators and industry associations – which will have different incentive structures and different abilities to cost-share. In the case of industry associations, for example, a project may need to be more open to contributions in-kind.

4.3 *Lesson three:* Prioritise know-how over money

Although it varies by type of financial institution and stage in the business cycle, there is some evidence that what holds back practice change is not money per se but knowledge and know-how (as well as the organisational structures and processes to put new knowledge into action). Consequently, non-financial support is generally seen as more effective than grant-funding (although a carefully targeted combination of the two can also be effective). The research found moderate evidence (eight key informants, one evaluation, one case study) that what is typically needed to catalyse change is knowledge and know-how, not grant-funding. This relates to the fact that most Tier 1 Banks in particular are relatively profitable, yet often struggle to adapt to new global technologies and innovations, particularly in emerging markets with relatively thin skilled labour markets and supporting ecosystems.

> *We quickly realised that with the new goals of helping financial institutions to expand markets and enter new markets, the grant approach was going to be a waste of money and instead they needed a lot of ground building of institutions... Asking [financial institutions] to do something they haven't done before, don't just give them money – odds are they won't do it, or it won't work. You need to provide the know-how.*
>
> ***Key informant (Technical Assistance provider)***

However, several informants noted that while grant funding alone is often not effective at catalysing real practice change, a carefully targeted combination of financial and non-financial forms of technical assistance and grant support can be effective. For example, to encourage a financial institution to target new customer segments, a project might provide market research insights and expertise combined with targeted financial support to buy-down risk (see Section 5.2). One key informant pointed to an IFC programme which combined technical assistance with grant funding to subsidise lending to female entrepreneurs. In their view, this incentivised the bank to "put in more effort" and actively target female customers, and precipitated a cultural change which would have been difficult to do without the grant-funding.

However, as illustrated by the evaluation of USAID's DCA Ethiopia programme, credit lines to incentivise lending for target groups are unlikely to lead to sustained practice change unless the business model (post-grant) can be proven and internal organisational capacity constraints are addressed.[14] For some financial institutions, particularly FinTechs and early-stage companies, financial constraints may be a real impediment to practice change. Temporary financial support may therefore be justified, for example to allow a FinTech to scale-up a new product innovation and reach break-even.

Sometimes grant funding is provided to a financial institution expressly for the purpose of procuring technical expertise. Several key informants with experience of this arrangement were of the view that it is better for the development actor to procure the technical expertise itself (while allowing the financial institution a role in selecting the consultants, which helps to build trust and ownership) rather than giving a grant to the financial institution to procure the expertise itself: grant funding entails the need for detailed grant agreements, fiduciary due-diligence and oversight, and more 'intense' monitoring and reporting by the grantee.

There is insufficient evidence to nuance these findings by the three basic uses of technical assistance and grants, although all the examples we found of using a combination of technical assistance and grants came from the product development space. A priori, it seems likely that whether grant funding is required in addition to TA will depend on the financial institution-type and lifecycle (for example, small FinTechs and start-ups that are cash constrained), and whether money can be a useful tactic for buying-down perceived risk, rather than differing by objective per se (similarly for market development).

14 It was also acknowledged by several key informants that sometimes financial institutions simply expect a grant, or that grants are sometimes needed as a 'bribe' or to be competitive with other development actors.

Project example: use of Challenge Funds to catalyse innovation in one Financial Sector Deepening programme in Africa

Many development programmes use Challenge Funds as a way of catalysing innovation. In the 'standard' Challenge Fund model, the programme opens a funding window, inviting financial institutions to submit proposals for innovative new products. The winning proposals are selected by a panel which the programme then supports through grant funding (typically a matching grant to ensure the financial institution has some 'skin in the game'). The implicit assumption underlying these Challenge Funds is that many financial institutions know how to innovate, but need to be incentivised to do so through donor funding.

One Financial Sector Deepening programme in Africa has used a wide variety of Challenge Fund models over the last five years, covering a range of financial sectors, using different combinations of financial and non-financial support. Interviews with intervention managers revealed that of the various models they had used, 'standard' Challenge Funds – which awarded grant-funding only to ready-to-go winning proposals – suffered from a lack of high-quality proposals. In the words of one key informant, "financial institutions on their own don't know how to innovate". They also found that even when staff within a financial institution were able to come up with a promising idea, in several instances these staff found it difficult to make the business case and get internal board approval (even with the Challenge Fund promising to cover 50 per cent of the cost).

FinTechs were generally more interested in applying than banks, although in several cases the applications demonstrated a lack of understanding of the underserved target groups the programme was most interested in reaching, the solutions and business models were often not fully developed, and they did not always have the financial resources or systems to scale-up the innovation.

The programme had more success when it combined non-financial support with the financial award, allowing the programme to work with promising applicants to refine their ideas pre-award, and providing advice and expertise during the piloting and testing phase post-award. The programme is also testing a variant of the Challenge Fund model whereby applicants come with problems they want to solve, rather than ready-made solutions. The programme then supports winning applicants, through the application of data insights and Human Centered Design principles, to arrive at testable solutions.

'Standard' Challenge Funds have recorded some successes, most notably Vodacom/M-Pesa, which received a grant under a DFID Challenge Fund. However, as with any standard Challenge Fund, it is hard to ascertain the additionality of the grant – given that the applicant comes up with the idea on their own, and typically provides 50 per cent of the funding, would the innovation have happened anyway? In the case of M-Pesa, it is also necessary to acknowledge the work of another programme, FSD-Kenya, in working with regulators to lay the necessary regulatory foundations.[15] The success of a 'standard' Challenge Fund model may therefore depend in part on the country and sector context – for example, on whether there are any significant beyond-the-firm constraints (see Section 5.1), the ability of financial institutions to generate innovative new ideas, the type of financial institutions the Challenge Fund is trying to reach, and the desired practice change.

15 See: 'FSD Kenya: Ten Years of a Market Systems Approach in the Kenyan Finance Market', Springfield Centre (2016)

4.4 *Lesson four:* Tailor the technical assistance/grant to the financial institution

Comprehensive, tailored packages of technical assistance/grant support, based on a detailed understanding of the recipient financial institution are more likely to promote sustained practice change than standardised support packages. Financial institutions can be complex organisations, offering a range of different financial services to a range of different clients, and facing a range of different constraints and opportunities. In terms of what forms of support are most effective in achieving the desired practice change, there was strong evidence (11 key informants and two synthesis papers) that developing bespoke packages of support, based on a comprehensive diagnostic assessment of the recipient financial institution, produces better results than a 'cookie cutter approach'.

There was widespread scepticism that a single standardised type of technical assistance, such as training, is sufficient by itself to catalyse real change (see also Section 5.5). This view was even held by training providers, who pointed to the need to combine training packages with follow-up mentoring, coaching, and other forms of support in order to drive sustained practice change. Several key informants suggested that 'just-in-time' and practical learning is more effective than theoretical classroom-based training. Coaching, peer-learning, and embedding staff within financial institutions were also seen as effective options. Several key informants also emphasised the need to co-design the support package with the financial institution, helping to build trust and buy-in.

Whilst there was clear consensus on the need for bespoke support, several key informants noted that tailored, one-on-one support can be expensive to develop and deliver, with several organisations therefore investing in some standardised tools and trainings (even if later complimented by other bespoke forms of support).

In terms of how to sequence the package of support, one synthesis paper (ShoreCap, 2005) suggests that the lifecycle of the financial institution has an important bearing on both the sequencing and type of support provided. For example, for younger financial institutions, technical assistance should first focus on strengthening core systems (e.g. management information systems) and ensuring the fundamentals are in place before focusing on 'add-on services' and 'non-essential tasks'. The paper notes the temptation in fast-growing financial institutions to diversify product lines and delivery strategies before it has competence in delivering its core products profitably, "sometimes driven by funding agencies that prefer to fund more interesting areas like product innovation without first establishing that the bank can absorb them".

What technical assistance providers typically do is deliver a training. Training is focused on skills and knowledge, passing along knowledge, teaching how to do things. The theory is that once staff have that information, they know how to do it, they will do it. But this is a flawed assumption! Real change requires a big strategic focus shift. Every aspect of your business gets touched... so requires a wider range of technical assistance.

Key informant (independent consultant /training provider)

Project example: using a combination of technical assistance and grants to catalyse financial innovation

FSD-Kenya's support to Commercial Bank of Africa (CBA) to develop M-Shwari provides a useful illustration of a programme successfully using a variety of technical assistance and grant tools, delivered flexibly and responding over time to the changing needs of the recipient.

M-Shwari is a combined savings and loans product launched through a collaboration between the CBA and Safaricom. M-Shwari aims to deepen and diversify the consumption and income benefits of M-Pesa. M-Shwari was launched in January 2013. By the end of 2014, it boasted 9.2 million savings accounts (7.2 million individual customers) and had disbursed loans to 2.8 million borrowers.

In 2010, after a failed partnership with Equity Bank, Safaricom and CBA entered into a partnership to develop M-Shwari. However, CBA was a commercial bank focused specifically on higher net worth individuals and corporate clients. The partnership with Safaricom required a mass market focus and responsiveness to poorer consumers. A partnership was negotiated, whereby FSD Kenya provided technical assistance to CBA in the following areas:

- **Generic research**: access to FSD Kenya's existing research outputs, such as demand-side surveys of customers using mobile financial services, financial landscapes, and financial access studies;
- **Product development**: applied research to test product concepts and features;
- **Credit risk management**: developing a credit score card based on data from M-Pesa;
- **Product marketing, consumer research and customer education**.

To get CBA thinking about how to design a product catering to the needs of the poor, FSD Kenya gave CBA's Head of New Business Ventures a copy of "Portfolios of the Poor", a book that presents analysis from year-long financial diaries of poor villagers and slum dwellers in various countries. This small gesture significantly influenced the way in which CBA approached the opportunity.

CBA spent March 2011 to June 2012 learning the 'basics' and benefitting from FSD Kenya's generic research and thinking. The applied research and technical assistance from FSD Kenya was then delivered over an intensive period from July to December 2012, with lighter touch support for the product's first few years. The total cost of FSD Kenya's investment in the partnership was approximately USD650,000 (including apportionment of staff costs). In contrast, CBA invested USD14 million. As the scale of its investment indicates, CBA led the process. FSD Kenya staff and contracted advisers were 'embedded' within, and in support of, the CBA team. FSD Kenya-funded research responded iteratively and swiftly to needs defined by CBA, and the methods developed were increasingly incorporated into the CBA research team.

One year after the successful launch of M-Shwari, FSD-Kenya's partnership with CBA entered a second phase. Although the product was hugely successful commercially, the acceptance rate for new credit applicants peaked at around 40 per cent. FSD-Kenya was concerned that more applicants were being rejected than accepted, and that rejections were likely to be from poorer segments.

continued »

With support from FSD Kenya, CBA decided to investigate further, with the objective of pushing out the 'access frontier' to new loan applicants from poorer backgrounds. Over a six-month period, CBA targeted loans to around 100,000 people from the rejected majority. CBA agreed to take the first 4 per cent of losses (the prevailing NPL rate in its main portfolio). FSD Kenya provided a **guarantee fund** against any further losses, to a maximum of KSh30 million (approximately USD 342,000). The target group was segmented and investigated, using a variety of research methods (focus groups, telephone interviews, etc).
The results of the second phase were impressive:

- Only 5 per cent of loans defaulted, much lower than FSD Kenya had expected, calling on only KSh0.5 million (approximately USD 5,700) from FSD Kenya's guarantee fund.
- The learning about poorer groups fed into a further revised scorecard for the whole population, which multiplied the number of variables being used. Using this scorecard halved the NPL rate to 2 per cent, while increasing acceptance rates from 40 per cent to 47 per cent.
- More than 1 million discernibly poorer users were able to access M-Shwari credit products.

Source: 'The Growth of M-Shwari in Kenya – A Market Development Story'; FSD-Kenya /FSD-Africa (2016)

Financial institutions often overestimate their own ability to absorb technical assistance or grants and to manage multiple change processes

Thought needs to be given to who is best placed to conduct the diagnostic of the financial institution and identify the technical assistance needs. Financial institutions often overestimate their own ability to absorb technical assistance or grants and to manage multiple change processes. The ShoreCap (2005) synthesis paper notes that on the financial institution's side, technical assistance and grants are usually handled by a limited number of senior managers who are often already over-stretched, and that the financial institutions themselves are not always best placed to assess how much change they can take on at one time: "The tendency will be for the bank to believe that it can take more on (i.e. the dream), but the reality is that the quality of bank performance suffers as senior managers' attention gets diverted".

Technical assistance and grant providers should therefore be careful when conducting the diagnostic/needs assessment not to overestimate what can be achieved and to end up overburdening the recipient, particularly when using self-diagnostic tools. Another key informant also noted that financial institutions were "often unrealistic about what they could do". Rather than rely too heavily on self-assessment, they therefore hired 'large contractors' to conduct the diagnostics (as well as provide the subsequent technical assistance/grant support), but found that: "contractors would often see a problem based on their own world view, so were not focused on the specific problem or [financial institution] but rather trying to sell their other services (and just altogether had biased views of what was needed in the market)". This is particularly evident with digital financial services where technical assistance providers and/or recipients get 'wowed by the technology' and don't fully consider what is really needed, either for consumers or for the financial institution. This led the development organisation to work with a group of smaller independent consultants or to conduct the diagnostics themselves.

Evidence was obtained on the importance of tailored, comprehensive packages of support in both the product development space and institutional development space. A priori, the finding appears equally applicable to market development, particularly as market development programmes will engage with a wide variety of systems actors, each with their own capacity constraints and incentive structures.

4.5 *Lesson five:* Aim for deeper institutional change through long-term engagement

Promoting a particular practice change within a financial institution is often more effective and sustainable if addressed from a wider institutional perspective (rather than focusing on one narrowly defined practice change). This requires longer-term engagement that can touch on a range of different functions and departments. Linked to the findings above, given the organisational complexity of many financial institutions, there is strong evidence (ten key informants, one evaluation, two synthesis papers) that catalysing lasting practice change – change that becomes embedded within a financial institution's strategy, systems, and processes – requires long-term engagement that goes beyond the delivery of short-term training or technical assistance packages.

On the institutional development side, two experienced environmental and social practitioners regard the common practice of delivering standardised training over the course of two to three months as being largely ineffectual in driving actual change in financial institution's business practices unless followed-up with deeper engagement over a one to three-year time horizon.

On the product innovation side, two key informants were of the view that financial institutions require support for at least two years. The DFID-funded Business Innovation Facility (which provides technical assistance and grants to a variety of businesses including financial institutions) goes further, claiming that supporting businesses to adopt more inclusive business models can take up to ten years in some instances.

In interviews in one financial sector deepening programme, staff acknowledged they had generally underestimated the duration of support required for a financial institution to pilot, test, and scale new product innovations. This was particularly true for FinTechs, many of whom struggled to take innovations to scale, in part due to limited financial resources, and partly due to overstretched management and weaker core business systems and processes.[16] The case of FSDK's support to CBA (see box in Section 4.4) suggest that even when working with large, well-resourced and well-capacitated financial institutions, support can be required over years rather than months (support to CBA lasted from 2011 to 2014).

These findings are echoed in the literature and in evaluations. For example, the 2009 evaluation of IFC's Advisory Services (i.e. technical assistance) found that "IFC has achieved better results in Advisory Service projects that have been carried out in conjunction with other Advisory Service interventions. One-off activities have been less effective." The evaluation recommended that IFC "pursue more programmatic Advisory Services interventions". One synthesis paper (Vivid Economics, 2017) also concluded that "one-off projects are less likely to be successful than sustained engagements that build lasting capacity and that involve sequential interventions at the institutional, organisational, and individual level". Another paper (ShoreCap, 2005) notes that the duration and intensity of support needed will vary by the financial institution's lifecycle and scale of transformation.

Based on the literature search, our research team also found no robust examples of short-term one-off technical assistance/grants instruments, by itself, leading to sustained or substantive practice change in financial institutions. The evidence therefore suggests that the duration and nature of support to financial institutions needs to be commensurate with the complexity and ambition of the business practice changes, which in many cases take several years to come to fruition.[17]

Putting together inclusive businesses require more innovation and perseverance that may be expected, with multiple pilots and reiterations, depended on well-managed and strong partnerships...
They take time to get right, generally assume a ten-year period from inception to scale.

Business Innovation Facility

16 In one case, a FinTech was supported to pilot an innovative financial product targeting the education sector. The pilot showed promising early results, at which point the technical assistance and grant support ended. However, the FinTech proved unable to scale the model without further support, and when the product failed to reach sufficient scale to achieve viability it was dropped by the FinTech.

17 Note that this finding should not be read to imply that long-term financial (grant) support should be provided to FIs (for example to subsidise operations), which carries a high risk of unsustainability.

Within the product innovation space, supporting financial institutions to become more customer-centric is seen as more effective than narrowly supporting a particular product, delivery channel, or technology. Seven key informants noted a strong trend away from a product-led approach to innovation (supporting the financial institution to launch and scale a particular product) to an institutional-led approach whereby financial institutions are supported to become more client-centric organisations. Several key informants noted that financial institutions typically lack the skills and systems required for effective product development, necessitating a more holistic longer-term support package that touches on a range of departments and functions. In the words of one key informant that works with financial institutions to develop financial services for smallholder farmers: "don't start with or try to control the product, instead start with the landscape, consumer intelligence, then provide design support".

Another key informant said the most important thing was to "get financial institutions away from thinking they know how clients behave". In their experience, the main source of information in financial institutions regarding client behaviour is 'anecdotal'. In their view: "the whole exercise of technical assistance is about busting myths – what do clients really do with accounts? – then helping [the financial institution] to create a business case which is dynamic and useable". This involves developing the financial institution's capacity, through technical assistance, in areas like data analytics and Human Centred Design, so it can develop products and business models based on the reality of client behaviour, not assumptions.

Similarly, the IFC's 'Banking on Women' programme starts by working with financial institutions to conduct in-depth market research and focus groups to understand the behaviours of women customers. The financial institution is then supported to turn these insights into a Consumer Value Proposition – a set of solutions that meet the identified needs of women clients and address the factors preventing them from effectively accessing and using financial services. This is then turned into a business case and tested in the market.

In terms of the different uses of technical assistance and grants, almost by definition, institutional development requires an institutional focus (although the additional insight provided in the findings above is that supporting this process requires a longer-term engagement rather than one-off trainings, for example). The move toward customer-centricity suggests that, in the space of product innovation, what is required is also a deeper institution-wide engagement with financial institutions (thereby blurring the lines between 'product innovation' and 'institutional development' objectives). No robust evidence was found regarding market development.

Project example: Accion's user-centric product development programme

"The process starts with design workshops where participants begin by assessing their primary business challenge, and reframes it from a user-centric angle... They then learn how to conduct efficient and useful user research, and use their understanding of their customer's financial behaviours, capabilities, needs, and desires to ideate and prototype a new product concept. They test their initial prototypes with potential users, and iterate based on user testing. Accion helps institutions build multi-disciplinary product development teams that gain institutional buy-in to build a culture of user-centricity, and supports them through every step of the implementation process. Accion provides the tools needed to continually monitor the product and create the regular user feedback loops to identify opportunities for product improvement to ensure that the product is successful in the market."

4.6 *Lesson six:* Think and act local

When designing and delivering technical assistance/grant projects to financial institutions, having a local presence is an advantage. Given the complexity of financial systems, and the different levels of financial system maturity seen across the developing world, there is strong evidence (seven key informants, one evaluation, three synthesis papers) that to effectively understand the wider financial system and institutional context and build relationships with potential financial institution recipients, it is useful for the organisation designing and delivering the project to have a committed 'on-the-ground' presence. This also helps to identify opportunities and risks, and supports an iterative approach to technical assistance design (see Section 4.7).

With regards to market development, CGAP (2017) argues that an on-the-ground presence is critical, which partly explains why some DFIs have found it difficult to adopt a market systems approach: "Some DFIs lack country-level teams that intimately understand market needs and challenges and can more easily build relationships with local stakeholders, which is required for market facilitation. Highly centralised organisations, where decision-making mostly takes place at headquarters, find it more difficult to adapt to a market development approach."

Use of local consultants in the technical assistance/grant delivery teams, where possible, also appears to deliver better results and value for money. Given the organisational complexity and risk-aversion of many financial institutions, using local consultants in the project team, who can navigate the recipient organisation and build long-term trusted relationships with financial institution counterparts, is critical to technical assistance/grant delivery.

Ten key informants supported the view that technical assistance should be delivered by national consultants where possible, including someone on-the-ground long-term to coordinate, monitor, and engage throughout the technical assistance project. This allows for more face-to-face engagement with the financial institution recipient, helping to build trust and identify issues as they arise. This is considered especially important during the early phases of engagement. One key informant claimed that: "the closer the consultants are to the financial institution, the more likely the project is to be successful".

This is supported by evaluation evidence. The independent evaluation of IFC's Advisory Services rated technical assistance projects delivered by a 'local' team leader at 76 per cent, compared to 65 per cent for projects delivered by a team leader based back at headquarters. Some key informants noted that the strength of local technical assistance can vary by region, with one claiming that their experience in Africa had been less positive than in Asia. However, several others noted the strong growth in local technical assistance capacity in Africa in recent years. Given the technical complexity of many aspects of financial institution's practice change, combing national, regional, and international consultants can also be an effective strategy: "the right people to deliver matter, often local and regional experts can be more effective, but being able to bring in international specialists is also highly relevant" (Knowledge 4 Development, 2019).

There is insufficient evidence to nuance these findings by the first uses of technical assistance and grants, but a priori the findings appear to be relevant to both product innovation and institutional development. For projects with a systems development remit, given the need for strong contextual understanding of the whole system, and the need to identify and engage with a wide range of system actors, having an on-the-ground presence and a strong local team seems essential.

4.7 *Lesson seven:* Be flexible and adaptive

When delivering technical assistance/grants to financial institutions, being flexible and adaptive is seen as a critical success factor. Given the organisational complexity of many financial institutions, and the dynamic nature of financial systems, there is moderate evidence (five key informants and two synthesis papers) that flexibility and adaptability among technical assistance/grant providers are key to delivering successful outcomes.

Fundamental to effective TA implementation is continuous trust building with the client. Achieving a high level of trust takes time and is more easily accomplished when there is face-to-face contact. Implementation of TA recommendations is dependent upon senior management believing and trusting the generator of the suggestions.

ShoreCap (2005)

This requires providers to change their package of support over time as they learn more about the constraints and opportunities within the recipient organisation, as the 'blockers' within the recipient change over the project lifecycle, and in response to what is and is not working on the ground.

One key informant suggested technical assistance is best delivered in a series of 'sprints', even if part of a longer-term engagement, in order to allow for regular adaptations. Other programmes use distinct project phases (e.g. pilot-phase, deepening phase, scale-up phase) in order to build-in periodic pause-points and opportunities for reflection and learning. The FSD-Kenya/M-Shwari case is a good example (see box in Section 4.4). However, one paper (Vivid Economics, 2017) cautions that constant changes of direction by project implementation teams does not necessarily produce the best results, with projects requiring a balance between maintaining a clear strategic direction and responding to regular feedback from the ground: "technical assistance providers and donors need to be aware of the tensions that arise between trying to maintain flexibility with the desire for clear strategic direction and results-driven accountability".

Adaptive programming requires technical assistance and grant implementers to invest in a good monitoring and evaluation system (see below) as well as flexibility in terms of project work-plans and budgets (at least at the level of individual financial institution recipients) and the freedom to adapt the technical assistance/grant package as needed.

Being adaptive requires a good Monitoring and Evaluation (M&E) system that regular feedback and useful insights. However, there is a limit to what financial institutions can be expected to measure (and measure well). Although less evidence was found regarding the importance of M&E systems, one key informant and one evaluation were of the view that a good system is critical in enabling flexible and adaptive programming and overall project success. For example, a 2009 independent evaluation of IFC Advisory Services projects rated project outcomes at 79 per cent for projects with 'high quality' M&E and just 61 per cent for projects with 'low quality' M&E.

A key challenge in creating an effective M&E system is the extent to which many development actors rely primarily on financial institution-generated reports. As noted by one key informant, good M&E requires going beyond the recipient by triangulating findings from multiple sources, such as consultants and end-consumers. Three key informants also noted the limited capacities and incentives of recipients to measure the full spectrum of impacts that are of interest to development actors. In the experience of one, financial institutions can be encouraged to measure up to the level of financial inclusion, but not beyond, as they do not see the benefit of doing so and do not have the systems to do so.

This is also the core principle underlying Acumen's Lean Data approach: development actors should only ask businesses to measure what is in the businesses' interests to measure, where possible using low-cost technology solutions.[18] Consequently, one key informant suggested that a proportion of the technical assistance/grant budget should be reserved for M&E, with financial institution-generated reports supplemented with data collection by the technical assistance/grant project staff or independent M&E consultants.

In terms of the three basic uses of technical assistance and grants, the need to be adaptive and flexible appears to be important to all three. A robust, comprehensive M&E system seems less important in the case of institutional change (where feedback from the financial institution itself and consultants may well be sufficient), more important in the case of product innovation (where feedback from end-consumers is also needed, as well as the wider market response for programmes aiming to catalysing wider replication and 'crowding-in'), and more important still in the case of market development (where feedback from across the system, from a variety of different system actors, is required).

[Technical assistance] can unblock processes, build trust, help decision makers priorities, build capacity and strategic focus. However, it will often depend on having the right people at the right time, which can be partly addressed through adaptable designs and rapid response capacity.

Lessons from Donor Support to Technical Assistance Programmes', Knowledge 4 Development (2018)

18 See: https://acumen.org/lean-data/

05

Recommendations

This final section presents some high-level recommendations and considerations for CDC and other funders and implementers of technical assistance and grants programmes targeting financial institutions.

Look beyond the financial institution

Depending on the local context and the project objectives (e.g. new financial products, institutional development, or wider financial system development), beyond-the-firm constraints may act as significant barriers to project success. DFIs with a technical assistance facility (such as CDC /CDC Plus) have the opportunity to directly tackle these wider systemic constraints, although doing so can be resource intensive and may only be an option in priority countries and financial sectors. DFIs should also consider actively collaborating with other development actors such as the World Bank, DFID, and the FSD network in Africa, who may be better placed and better resourced to address critical beyond-the-firm constraints.

Even when working at the firm-level, through their diagnostic and design and approval processes, development actors should still identify and assess to what extent beyond-the-firm constraints pose a significant barrier and risk to project objectives (to inform the go/no-go decision and risk mitigations).

Understand and build the financial institution's incentives for change

Any proposed practice change or innovation should be compatible with the incentives of the recipient organisation. Due to the relative risk-aversion of many financial institutions, technical assistance/grant projects should be prepared to build and reinforce the incentives for practice change based on a well-reasoned business case. This will be especially important where it is the development actor proposing certain practice changes, for example in the areas of gender or environmental and social issues. Building the business case may require the use of some resources prior to the finalisation of a particular technical assistance/grant package. Any business case needs to consider the full costs and revenues of the practice change.

When delivering technical assistance/grants to financial institutions, close engagement with the CEO and senior management throughout the process is critical (equity investors with a seat on the recipient's board will be particularly well placed to do so). Beyond this top-level engagement, providers should engage at all levels of the financial institution, including middle-management and departments that will either be directly involved in driving the change or have the potential to block or slow-down the change process. Funders should consider including a requirement for evidence of clear buy-in from the CEO/ senior management and other relevant teams or departments as part of the technical assistance/grant approval process, as well as a strategy for multi-level engagement and corresponding work-plan activities (throughout the project lifecycle).

Development actors should include a cost-share requirement in all technical assistance/grant projects. However, there is no clear evidence or agreement on what level of cost-share should be required. Rather than setting a fixed percentage, a flexible approach seems to be warranted – particularly when looking to engage smaller, more innovative, or early-stage financial institutions (or market actors such as industry associations through market development interventions) – as long as there is clear evidence of strong commitment and buy-in from the recipient.

Prioritise know-how over money

Development actors should generally avoid providing only financial forms of technical assistance/grant support. Non-financial technical assistance should be prioritised, although the careful combination of targeted financial and non-financial support can be effective, depending on the nature of the incentive and capacity 'blockers' within the recipient.

In developing technical assistance/grant modalities, development actors should avoid creating modalities that pre-emptively restrict the range of instruments available and avoid modalities such as 'standard' Challenge Funds that only provide grant funding to applicants.

Tailor the technical assistance/grant to the financial institution

Development actors should prioritise comprehensive, tailored packages of technical assistance/grant support, based on a detailed understanding of the recipient, over standardised packages (e.g. off-the-shelf training). Technical assistance/grant proposals should demonstrate a strong understanding of the particular opportunities and constraints presented by the recipient (including both capacity and incentive constraints), and a clear matching of the support package to the constraints identified. Thought needs to be given to adsorptive capacity of the recipient, in particular ensuring the project is not trying to do too many things at once or over-burdening the staff of the financial institution (particularly when engaging smaller or early-stage financial institutions).

Aim for deeper institutional change through long-term engagement

To deliver sustained impact, providers should prioritise longer-term engagement with financial institutions over shorter-term or ad-hoc engagements, such as one-off training. Training may still be a valid technical assistance option, but unless it is followed-up with coaching, mentoring, and/or other forms of support, it is unlikely to deliver substantive change.[19] Within the product innovation space, development actors should prioritise supporting financial institutions to become more customer-centric organisations over narrowly supporting a particular product or technology.

19 Training can also be used as a 'winnowing' approach to identify potential partners. For example, UNCDF start off providing market engagement training to a wide cross-section of financial institutions. Within the training, UNCDF holds small competitions to solicit ideas. Based on the competitions a smaller number then receive some initial technical assistance around strategic planning, or specific focus areas. The primary goal is to 'get to know' the financial institutions and to rank them based on how they perform during the short-term engagements. From this, UNCDF narrows down the list down further, only working with financial institutions with the skills, interest and leadership to move forward.

Think and act local

Recognising that financial sector technical assistance/grant projects, particularly wider financial system development projects, are more likely to succeed if delivered by organisations with a strong local presence, large development actors such as CDC should consider how they can leverage their global footprint to maximum effect, and consider developing country-level selection criteria, prioritising those countries (and sectors) where they have stronger on-the-ground networks and presence.

If technical assistance/grant projects are contracted out to technical assistance providers and/or consultants, due weight should be given to local knowledge and local networks. Bidders should be expected to demonstrate a strong previous track-record in the country (and sector) in question, and implementation teams should include a good proportion of national consultants (depending on the country context). In any sizable, long-term engagement with a financial institution, provision should be made for someone in the implementing team to play an on-the-ground coordination role for the duration of the project (although not necessarily full-time).

Be flexible and adaptive

Development actors should avoid creating modalities that unduly restrict the ability of the implementation teams to adapt the package of support over time (including the different technical assistance/grant tools used, the intensity of support, and the ability to respond quickly to changing needs and circumstances). For example, funders should avoid creating Challenge Funds that are only able to provide grant-funding (see also above).

Development actors should also ensure that all projects include a robust M&E system that both provides credible evidence of results achieved, and supports timely decision-making by implementation teams. Recognising that financial institutions only have the incentives and capacities to measure so much, this means complementing recipient-generated reports with other M&E activities delivered by the implementation teams or independent M&E consultants.

Annex A: References

Burjorjee, D.M. & Scola, B. (2015). *A Market Systems Approach to Financial Inclusion: Guidelines for Funders.* Retrieved from CGAP: https://www.cgap.org/sites/default/files/researches/documents/Consensus-Guidelines-A-Market-Systems-Approach-to-Financial-Inclusion-Sept-2015_0.pdf

Ferrand, A. (2019). *A review of options that have been used to structure donor-funded technical assistance facilities to support investments and investment environment.* Helpdesk Report. Knowledge 4 Development. Retrieved from: https://assets.publishing.service.gov.uk/media/5cb893e540f0b649ec1a4c2a/530_Technnical_Assistance_for_Investment.pdf

FSDA. (2017). *Digital and E-learning Solutions for Financial Service Providers in Sub-Saharan Africa: An Overview.* Retrieved from: https://www.microfinancegateway.org/sites/default/files/publication_files/e-learning-research-report-final-version_2.pdf

Gibson, A. (2016). FSD Kenya: Ten Years of a Market Systems Approach in the Kenyan Finance Market. FSDA/FSDK. Retrieved from: https://beamexchange.org/uploads/filer_public/db/6c/db6c1922-b2a9-4f17-bd4f-aad5643dba41/fsd-impact-study_evidence_compressed.pdf

IFC. (2009). *Independent Evaluation of IFC's Development Results 2009: Knowledge for Private Sector Development- Enhancing the Performance of IFC's Advisory Services.* Independent Evaluation Group of the IFC. Retrieved from: http://documents.worldbank.org/curated/en/541211468324864142/pdf/475640BR0IFC1R101Official0Use0Only1.pdf

McKinsey Quarterly. (2019). Five Ways that ESG Creates Value. Retrieved from: https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/five-ways-that-esg-creates-value#

Moretto, L. and Scola, B. (2017). *Development Finance Institutions and Financial Inclusion: From Institution-Building to Market Development*. (Focus Note No 105). Retrieved from CGAP: https://www.cgap.org/sites/default/files/researches/documents/Focus-Note-DFIs-and-Financial-Inclusion-Mar-2017-rev_0.pdf .

ShoreCap Exchange. (2005). *Technical Assistance Delivery to Small Business Banks and MFIs: What Works?* Retrieved from: https://www.findevgateway.org/sites/default/files/mfg-en-paper-technical-assistance-delivery-to-small-business-banks-and-mfis-what-works-jun-2005.pdf

Springfield Centre. (2016). *The Growth of M-Shwari in Kenya – A Market Development Story*. FSD-Kenya /FSD-Africa. Retrieved from: http://www.springfieldcentre.com/wp-content/uploads/2017/02/2017-02-FSD-Kenya-M-Shwari-Case2.pdf

Timmis, H. (2018). *Lessons from donor support to technical assistance programmes*. Helpdesk Report. Knowledge 4 Development. Retrieved from: https://assets.publishing.service.gov.uk/media/5ab0e81140f0b62d854a9bc5/Lessons_from_donor_support_to_technical_assistance_programmes.pdf

Vivid Economics. (2017). *Designing Technical Assistance Programmes: Guidelines for development practitioners.* Retrieved from: https://www.vivideconomics.com/wp-content/uploads/2019/08/171204-Principles-for-Technical-Assistance-1.pdf

Annex B: Detailed research methodology

01

Research objectives and scope

CDC Plus commissioned research to 'better understand the opportunities to use technical assistance and grants to facilitate inclusive and sustainable business practice change within financial institutions, at scale'. The objectives of the research conducted were:

- To better understand how to use technical assistance to unlock broader sector growth and investment opportunities, leverage non-commercial capital to catalyse commercial opportunities, and deliver development impact, sustainably and at scale.
- To better understand best practice (including evidence of success and lessons around failure) of using technical assistance to support financial institutions in a financially viable way towards achieving scale and sustainability.

In order to clearly delineate the scope of the research, we defined several key terms as below:

'Technical assistance and grants'	Non-commercial support delivered to financial institutions with the aim of changing their business practices, including: – Research – Brokering linkages – Coaching and mentoring – Basic grants – Risk guarantees – Events – Training – Advisory services – Returnable grants – Subsidies This excludes the provision of 'commercial' products such as debt, equity, structured risk-sharing, or trade financing.
'Financial institutions'	Actors involved directly or indirectly in the delivery of financial services, including: – Private sector providers of credit, savings, payments, and/or insurance services (e.g. banks, Micro-Finance Institutions (MFIs), Non-Bank Financial Institutions (NBFIs), insurance companies, and Mobile Network Operators (MNOs)); – FinTech companies. For the purpose of this research, this excludes organisations such as central banks, regulators, policymakers, industry associations, think-tanks, and service providers such as financial consultancy firms.
'business practice change'	Changes in the practices (behaviour) of financial institutions resulting from the receipt of technical assistance or grants, including but not limited to: – Developing and launching new financial services or products; – Targeting or increasing prioritisation of specific consumer segments or geographic areas; – Changes and upgrades to core business processes or ways of working such as new delivery channels, increased client-centric practices, improved consumer protection, etc.
'development impacts'	For the purpose of this research, two types of development impact were considered: 1. **More inclusive financial sectors:** increasing the number and improving the range of individuals and businesses that are financially included into the system, and have access to a diverse set of high quality and sustainable products. 2. **Stronger domestic markets for capital:** strengthening the flows and liquidity of capital (local and foreign currency) within domestic markets, while improving the efficiency of capital allocation. 'Sustainability' of impact relates to the continuation of business practice change and development impact beyond the lifetime of the intervention. 'Scale' of impact depends on the operating context. In qualitative terms, it relates to a change that is significant relative to the overall size of the market in question.

Contents

The primary questions the research team sought to answer were:

> **Question 1:** What are relevant examples of technical assistance and grants being used to promote change within financial institutions? What type of support was provided, by whom, and what was the intended outcome?
>
> **Question 2:** What results were achieved, and what seems to explain the difference between success and failure? What are the relevant lessons for us and DFIs more broadly?

The focus of the research was exclusively on the application of technical assistance and grants to financial institutions. The research did not examine examples from outside the financial sector and recommendations were developed specifically with financial institutions in mind (although some recommendations may have broader applicability).

The research encompassed examples of technical assistance and grant interventions delivered by a range of organisations, including:

- Multilateral and bilateral donors,
- Foundations and philanthropic organisations,
- Development Finance Institutions (DFIs),
- Impact (or 'social') investors,
- Implementers of development projects including Non-Governmental Organisations (NGOs) and contractors.

Our review team relied on publicly available literature – including case studies, evaluations, and synthesis papers – supplemented by key informant interviews.

02

Analytical framework and research questions

Our research team developed a two-tiered analytical framework to guide the research. This included:

1. **A results framework** for describing the results achieved by a technical assistance/grant intervention;
2. **A process framework** for describing how the intervention was designed and delivered.

When combined, these two tiers helped to identify useful, practical insights on how best to design and deliver technical assistance and subsidised capital interventions.

The results framework describes, in logical sequence, the results achieved by an intervention. It provides a means to uniformly categorise the different levels of impact achieved by the programmes and interventions under review. These are broadly defined to give wide applicability to the different forms of technical assistance and subsidised capital under review, and the different types of financial institutions targeted. The results framework has four levels:

1. **Recipient business practice change**. This describes the change in the capacities and/or incentives of the recipient organisation triggered by the intervention, and the resulting behaviour or 'business practice' change. For example, this might involve technical assistance delivered to improve a financial institution's product development capabilities and market research, to demonstrate the commercial potential of a particular target group, leading to the design and launch of a new digital financial service.
2. **Sustained business practice change**. If the behaviour change proves successful, and the recipient organisation has the capacity and incentives, the change is sustained beyond the lifetime of the intervention and may be adapted and scaled-up without additional support. In the case of for-profit financial institutions, a condition of sustainability is that the practice change earns a sufficient risk-weighted return relative to alternative actions to justify its continuation post-intervention.

3. **Wider systems change**. The behaviour change may have wider influence in the market, for example by creating a 'demonstration effect' that induces others to launch copy-cat services, increasing scale. If the original recipient was the provider of financial infrastructure or FinTech services, change at this level will also capture the extent to which practice change by the recipient is having a 'ripple effect' through the financial system, thereby impacting a greater number of financial system actors.
4. **Development Impact**. At the final level, the behaviour change leads to developmental impact: more inclusive financial sectors and/or stronger domestic markets for capital (see definitions in Section 1 above). For example, a new financial service introduced with technical assistance support may contribute to improved financial access and usage for women. Impact can flow directly from recipient practice change, but without sustainability, this impact will be short-lived. As the practice change reaches sustainability and scale, the development impact increases over time.

The results framework captures, where possible, relevant contextual factors (e.g. the level of economic development, pervading social/cultural norms, relevant regional or global factors, as well as noting the presence of other development interventions). These additional layers of analysis supported the interpretation of results during the synthesis stage.

The process framework describes the basic steps that need to be performed to design and deliver technical assistance/grant intervention. This framework assisted the team in unpacking 'the how' of each intervention under review. The process steps are described in a linear fashion, but in reality, there is a degree of feedback and back-and-forth between the different stages. Also, programmes and approaches may emphasise some process steps over others.

1. **Strategy-setting**. Interventions need to be designed and delivered within a broader country, sector, and programme and intervention-level strategy. This might include, for example, a process for identifying 'systemic constraints' or 'market failures' in financial markets, in order to determine entry points, or a process for developing sustainability and scaling strategies.
2. **Identifying and selecting recipients**. This includes the ways in which recipients are identified and selected using various selection criteria. This step may be sequenced over time (e.g. identifying 'first movers' to test a new innovation, then 'second movers' to replicate/scale the innovation). Due diligence processes may also be required.
3. **Designing and negotiating the package of support**. Once recipients have been selected, a process is needed for designing and negotiating the package of support. This step incudes the structure and sequence of the package of support to match the recipient's incentive and capacity constraints (or 'blockers') as well as the expectations, requirements, and contributions required of the recipient organisation.
4. **Delivering the package of support**. Once the package of support has been agreed and a final 'go' decision made, several different processes will be at play, such as: the approach to capacity building; how technical assistance providers are identified and managed; the management of grantees (e.g. adherence to grant commitments); the mode of technical assistance delivery; and how delivery is adapted over time. Decisions will be required on whether to scale-up, scale-down, or exit interventions.
5. **Monitoring, Evaluation, and Learning**. A process is required for monitoring and evaluating the results achieved from the package of support. Ideally, lessons regarding what did and didn't work are fed back into the process, for example resulting in a different set of recipients or a modified support package, and informing decisions around scale-up/down/exit.

To guide the research around programmes and interventions, a set of indicative review questions was developed for each step in the results and process frameworks.

03

Research methodology

The research methodology consisted of two inter-related strands: a literature review and key informant interviews (KIIs). Our research team kept a list of all the literature reviewed in an Excel database. For each document selected for further analysis, a standard Word template was used to extract relevant information.

Similarly, an Excel database was used to maintain all KIIs, with the information captured from each interview stored in a standard Microsoft Word template. Both Word templates were structured to capture information and insights against the analytical framework:

1. Mapping results in detail against the results framework (i.e. what was achieved?)
2. Mapping the process followed in detail against the process framework (i.e. how was it achieved?)

In addition, our research team noted relevant contextual factors, operating factors (e.g. type of programme or implementer, resource availability, etc.), and, for the document review, made a subjective judgement of the strength of evidence.

At the synthesis stage, the findings of the two research strands were combined to arrive at lessons and insights regarding how best to use technical assistance and subsidised capital to promote business practice change in financial institutions and, ultimately, to contribute to more inclusive financial sectors, and stronger domestic markets for capital.

Each of these steps is described in more detail below. In practice, there was a degree of iteration and interaction between the different steps, for example, an initial set of KIIs was used to expand the list of documents to review.

04

Literature review

Given the relatively narrow research interest within extremely varied and largely 'grey' literature, combined with the difficulties of search terms due to generic names of the types of institution and sector of interest, we reached the conclusion that a highly structured literature search was unfeasible in the timeframe available.

It was therefore necessary to follow an approach that drew first on the knowledge and networks of our staff, our research team, and Key Informants (KIs) to identify promising projects and documents, and, second on a subjective exercise of document selection from web search results (both academic sources and the wider internet) and targeted online document-gathering from reference lists, specific institutions and networks.

Our research team made a concerted effort to include examples from organisations similar to CDC (e.g. other DFIs) to ensure the relevance of lessons and insights.

The search targeted documents rather than projects. A list of projects was compiled from the list of documents, as well as from KIs and the team's existing knowledge. Additional documents were then sought through project-specific online search.

A time limit was placed on the general search exercise, but this did not preclude the opportunistic addition of projects and documents encountered through the ongoing research.

Search steps	Description
General document searches	Using Google, Google Scholar (and other selected academic search engines: NBER, CORE). Search terms developed iteratively, e.g.: impact of "development finance institutions" credit case studies, "impact investing" finance case studies
KI, CDC staff and team recommendations	Recommendations from KIs, CDC staff and the research team of documents and projects suitable for further investigation were recorded.
Targeted search for documents, databases and other lists of documents	The websites of selected multilateral and bilateral donors; foundations and philanthropic organisations; DFIs; impact (or 'social') investors; implementers of development projects including NGOs and contractors; and relevant networks and member organisations were reviewed for documents or lists/archives of documents.
Selection of documents for review of references	The reference lists were reviewed of those documents that appeared through the three processes above and that appeared relevant.
Project-based searches	Searches were made for documents against each of the recommended projects.

In the steps above, there was subjectivity in deciding which documents to open from the long-list of documents, usually based on their title, or title and short summary. There was also subjectivity in deciding whether to include those documents included in the Literature Database. The process for deciding on inclusion was based on an assessment of the prospects of the document being able to answer the overarching research objectives. In practical terms, this involved finding documents that contained the following information:

- Case studies or other research that provided detail on the processes deployed to promote business practice change in financial institutions by a particular technical assistance, subsidised capital intervention or programme;
- Case studies or other research that provided lessons learned from experience of attempting to promote practice change (informed by experience from across multiple interventions and/or programmes), including best practice guidelines, synthesis cases, and so on.

Less priority was given to:

- impact reports that appeared more for communications or marketing purposes than learning, and provide little or no detail on the technical assistance and grant process;
- documents from outside the finance sector; and
- macro-level studies.

Once a document was selected for inclusion in the database, basic document information was entered into the database, and the document was stored in an archive. This document information included the following:

- Intervention
- Implementer (and type)
- Title
- Publisher
- Author
- Date
- Weblink
- Summary
- Document type [Evaluation/Learning Document/Case Study]

The above information was recorded in the Literature Database. Based on this basic information and a review of the document, exclusion criteria were applied that excluded some of the initial documents in the database from further analysis. For each case study document selected for further analysis, relevant information was extracted into a standardised Document Summary template in Microsoft Word, where information was mapped against each step in the analytical framework.

Projects and interventions that passed the exclusion process were included in the synthesis review (see below), which summarised the project information available in the literature in narrative form based on the research questions.

05

Key informant interviews

The literature review was complemented by a series of Key Informant Interviews (KII) with three key aims:

1. Literature and interview recommendations related to relevant programmes and interventions;
2. Specific insights regarding the results and processes of interventions (to complement the literature review);
3. Insights relating to the research objectives more broadly.

Beyond this preliminary stage, we intended that interviews related to a specific programme or intervention would follow a semi-structured format that closely follows the steps and research questions in the analytical framework (see above). Mirroring the two forms of information 'detail on the processes' and 'lessons learned from experience' discussed above, the interview format in these cases was designed to gather information that practitioners or experts know about specific programmes or interventions of interest.

However, due to the nature of the expertise of the KIIs, relatively few interviews related to specific interventions or programmes. Most of the interviews therefore sought broader insights, drawing on the interviewees full range of experiences across various interventions and programmes.

An initial set of key informants was identified using existing networks and individuals, as well as individuals involved in projects of interest. More were added through contacts from the initial interviewees and from CDC staff. A list of all interviewees (including profile, contact information and date interviewed) was maintained in the KI Database. For each interview, detailed notes were taken, and relevant information inputted to the KII Summary Word template.

06

Synthesis of initial findings

During the synthesis stage, our research team considered the information from the literature review and KIIs. Information was consolidated according to a set of higher-level themes designed to investigate and draw-out more generalisable lessons along the lines of the research objectives.

The synthesis themes are reflected in the findings section. Producing these themes was an iterative process as the research progressed, allowing for a sharpening and expansion of synthesis questions to inform the draft structure of the synthesis report.

Following analysis of these documents and interview notes, at the synthesis stage key themes or findings were identified against (and beyond) the analytical framework, and evidence drawn out around each of the findings. A Red-Amber-Green system was used to classify each finding based on the strength of evidence and relevance. Green and amber findings were consolidated into headline findings.

Strength of evidence rating	Description
Green: strong evidence	Findings supported by a high proportion of key informants and corroborated by multiple credible documentary sources (e.g. evaluations or synthesis papers from independent sources).
Amber: moderate evidence	Findings supported by a high proportion of key informants but without corroboration by credible documentary sources, or supported by a moderate proportion of key informants with some corroboration with documentary sources (including case-studies etc.).
Red: weak evidence	Findings supported by a low proportion of key informants, with limited or no corroboration with documentary sources.

07

Research limitations

There were several limitations to the research identified in advance. These were related to (1) the likely depth of understanding of causal factors in case studies, (2) the limited timeframe, (3) narrow interviewee perspectives on case studies, and (4) limited documentary information:

(1) Between intervention and impact, the factors determining success or failure in indirect interventions (such as those being investigated in this research), with multiple requisite behaviour changes between intervention and impact, are relatively poorly understood. This creates problems for the development of strong theory, and makes establishing causality problematic. When interventions are indirect, there are many possible confounding influences that may determine outcomes.

Our research worked with an evaluation theory of change, breaking down the sequence of behaviour changes, and used novel frameworks for understanding disparate influences in behaviour change, but still causal claims were difficult to make from any identified correlations. This also affected the external validity, as the conditions that affected success in one context may not be sufficiently well-understood to recommend application of the intervention design in another context.

(2) A second limitation concerns the timeframe available for the research, which limited the number of cases that could be analysed in depth. Selection of cases sought to represent a range of contexts, but was narrower than desired.

(3) The researchers were dependent on limited information sources for each case. While experts with excellent case knowledge were sought, there was inevitably a reliance on a narrow perspective on what worked and why, from perhaps only one perspective in some cases, and with associated biases and gaps in knowledge and recollection.

There may also be motivations on the part of the respondents (and research authors in the literature reviewed) to present a certain narrative for personal or institutional reasons that are not fully understood by our research team. To mitigate this, trusted personal connections were sought for interviews wherever possible, where gaps in knowledge could be transparently communicated, and motivations were understood. Where this was not possible, the team sought to quickly build a trusting relationship with respondents based on shared connections and interests, but remained conscious of the various possible motivations and limited knowledge of respondents. Where any concerns existed that could not be addressed directly, these were flagged in the research process and alternative respondents were sought.

(4) There were various other challenges associated with the availability of relevant information, quality of relevant information and accuracy of information, especially with respect to documentary sources. There was little that could be done to manage these risks, except to communicate the situation transparently, maintain clear standards in place for evidence that are used consistently in analysis, and to use the time available for the research responsibly in seeking the best available evidence, switching the direction of effort where deemed necessary.

In the process of conducting the research, the fourth of these limitations was found to be particularly salient. Not only was high quality documentary case study or robust monitoring and evaluation evidence sparse, the interviewees were primarily cross-cutting experts who gave detailed information about their conclusions based on experience, rather than detail on specific case examples. This meant that concerns around the ability to identify causal relationships between specific interventions and observed behaviour changes (set out in (1) above) were superseded by the absence of detailed information about what behaviour changes were part of any given intervention, let alone how this related to intervention design.

As such, the opportunities to learn in detail what works in what context from case studies was limited, and findings were necessarily more general, and more process-related, than foreseen. Beyond this, evidence in evaluation documents that linked particular process-related factors to impact numbers was also limited. Evaluations often did not attempt to distinguish whether impact achieved was attributable to the resources allocated through investment or to resources allocated through technical assistance. In those few instances where this was done, the additional detail that would help learning, such as exactly what comprised the technical assistance, the context in which it was allocated, and so on, was usually absent. The state of case-based learning and evaluations related to technical assistance in financial institutions generally was found to be quite poor. As such, there was little opportunity to provide significant evidence as to what works that could be supported by numbers, or detail on the mechanisms by which impact is achieved through specific cases. The findings were therefore more based on interrogation, assessment and generalisation of lessons learned by others, whether from KIIs or from learning documents, case studies and evaluations.

Other reports in CDC's Insight series:

What is the impact of investing in financial systems?

How can our investments make a difference to people living in poverty?

What we've learnt about the affordability of food: evidence from Zambia

How does an online supermarket in India impact farmers?

Understanding the impact of solar home systems in Nigeria

What's the impact of sustainable faming on smallholder suppliers in Ethiopia?

To view the rest of our Insight series visit cdcgroup.com/insight

For further information:

- **CDC Group plc:**

  123 Victoria Street
  London SW1E 6DE
  United Kingdom

  T: +44 (0)20 7963 4700

  E: enquiries@cdcgroup.com

  cdcgroup.com

This report was commissioned by CDC Plus, which is funded by UK Aid from the UK government.

CDC Investment works

UKaid from the British people

TANDEM