# Improving systemic competitiveness of financial markets

**Assessing progress towards systemic change within the financial sector**

NATHAN
Trusted for Excellence

**Business Finance for the Poor in Bangladesh (BFP-B)**

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# Glossary

| | |
|---|---|
| BFP-B | Business Finance for the Poor, Bangladesh |
| AAER | Adopt Adapt Expand Respond |
| CIB | Credit Information Bureau |
| IIBR | Influence, Institutionalize, Broaden and Respond |
| TOC | Theory of Change |
| MRA | Microcredit regulatory authority |
| NFIS | National Financial Inclusion Strategy |
| FSP | Financial Service Providers |
| MSE | Micro small enterprise |

# 1. INTRODUCTION

BFP-B as a project is designed to couple social and economic objectives through a making markets work better for the poor (M4P) approach to increase access to finance for MSEs, especially those that are currently underserved by the formal financial sector. The programme aims to deliver sustained change in how market systems for finance work in Bangladesh for the benefit of MSE financing. To achieve this it has operated across the financial systems in various sub-sectors, such as banking, MFI and insurance sector; it has also tried to promote increase usage of DFS and MFS platforms; used challenge fund to incentivize private sector partner to pilot innovative business models; it, through its policy component, has worked with regulators to facilitate private sector conducive regulatory reforms.

This short note outlines the theoretical framework that was used to capture experience of working with various private sector firms and regulators of the financial sector to assess how far its facilitation and support has helped to deliver system wide change within the financial sector. It is recognised that it may be premature to capture with complete certainty programme's impact in these systemic terms; as such the framework entails scenario analysis to provide potential systemic change outcomes, extrapolate impact and outline pathways, as opposed to only concentrating on realized impact.

The paper draws on existing literature to develop an overarching multi-level framework that will deploy different tools to assess changes at various level of the financial market systems. It is still too early to assess impact on systemic change(s), firstly because some of the project challenge fund interventions are less than 1-2 years old; secondly for policy recommendations the impact at the market level and MSE level is likely to come in the 3-5 year future and not immediately after recommendations are translated in governments guidelines, which is expected to be soon. In this paper we will therefore use systemic change tools and processes to assess BFP-B's progress, not realized impact, and trend towards systemic change.

# 2. LITERATURE REVIEW

Successful development is based on interactions between strong states (institution in the broad sense) and strong markets, but developing countries typically suffer from weak states and weak markets, i.e. both state and market failure. Successful development is to find an appropriate balance between intervention, i.e. formulation and implementation of targeted policies designed to stimulate and shape sectoral development, and market forces (Altenburg et. al., 1998). A stable macro-economic framework and an enabling environment are necessary but not sufficient conditions for competitiveness and growth; dynamic development is not the result of isolated policies, but of the way numerous factors and policies interact inside a national or territorial system (Meyer-Stamer, 2008).

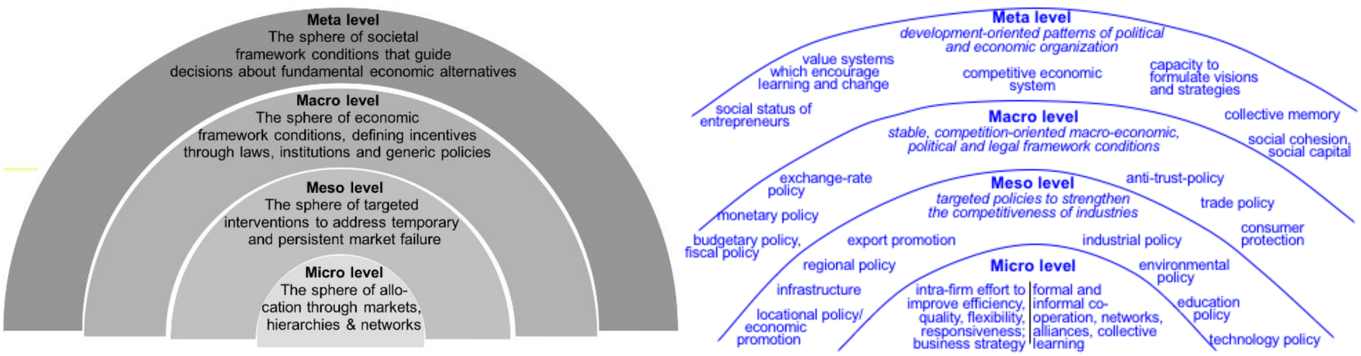
This realisation gave rise to the concept of 'systemic competitiveness'. Systemic competitiveness is characterized by recognizing that the success, primarily in terms of industrial development, was not only achieved by a production function at the micro level or through stable macroeconomic conditions; but also as there are government measures and policies that encourage competitiveness in companies or organizations through a combination of an environment that incentivises social, judicial, political, and macroeconomic stability, including the adaptation of sociocultural elements that fosters or promotes social competitiveness (Pacheco, 2017; Meyer-Stamer, 2008).

The Systemic Competitiveness concept recognizes that differences in sectoral performance cannot be linked causally to isolated "key factors", such as successful macro policy or technology transfer or even crowding-in or scaling-up of successful business models. Such factors are embedded in a given system, and they work well because a number of other social, political and economic factors support them (Meyer-Stamer, 2005).

**System** in the aforesaid context means a pattern of actors, institutions, organisations and policies which are inter-linked through complex feedback mechanisms and which, taken together, create a coherent entity (Nelson, 1992; Meyer-Stamer, 2005) . This could imply the whole economy (e.g. economic system of Bangladesh) or it can be more specific (e.g. rural financial system of Bangladesh).

Markets are complex systems. They consist of many interconnected actors that adapt their strategy according to their perception of success guided by culture and context. The following figure summarises the basic structure of the System Competitiveness framework by looking at key elements and policies at four levels.

**Figure 1: The Systemic Competitiveness framework**




Source: Mesopartner

The most competitive market systems or economies have: i) at the meta level, basic structures of legal, political and economic organization, the social capacity for organization and integration, and the capability of the actors to achieve strategic interaction; ii) a macro regulatory framework that requires the enterprises to be more efficient; iii) a structured meso level where the State and the social actors develop specific support policies, promote the establishment of structures, create space for constructive dialogue/engagement and coordinate the learning processes; iv) at the micro level, a large number of enterprises, many of them interlinked in mutual assistance networks, which aim to achieve simultaneously efficiency, quality, flexibility and speed of response to consumer needs (Esser, et al., 1996).

For the purpose of this study, we are interested in the micro, meso and macro level, as meta-level is assumed to be given and falls outside the scope of the project mandate. Too often project simply work at micro-level interventions or at macro-level overarching policy or regulatory reforms. One of the key elements is the '**meso**' level; the defining criterion for a meso interventions is its selectivity. Fiscal policy, monetary policy, exchange rate policy and trade policy are generic policies. They affect all economic actors in the same way, and they are thus elements of the macro-level. **Meso-policies**, by contrast, are selective, they specifically target limited groups of economic actors (Meyer-Stamer, 2005). *Markets often fail, and meso-policies try to remedy market failure through targeted policy reforms; they usually operate at a sub-sector level.* Successful intervention to bring about systemic change and enhance systemic competiveness requires operation at all three levels.

The present research used the aforesaid framework as the overarching paradigm and primarily focused on the macro-meso-micro level and their dynamic interactions in relation to systemic competitiveness of the financial sector (the 'system'). The key focus was to explore whether BFP-B work has contributed towards enhancing or improving the systemic competitiveness of the financial sector. The following table (not exhaustive) shows various actors operating in different level of the financial system.

**Table 1: Actors at different level of systemic competitiveness framework**

| | GOVERNMENT | NON-GOVERNMENT |
|---|---|---|
| **MACRO** | Central Bank, Ministry of Finance | FBCCI |
| **MESO** | MRA, IDRA | CDF, INAFI |

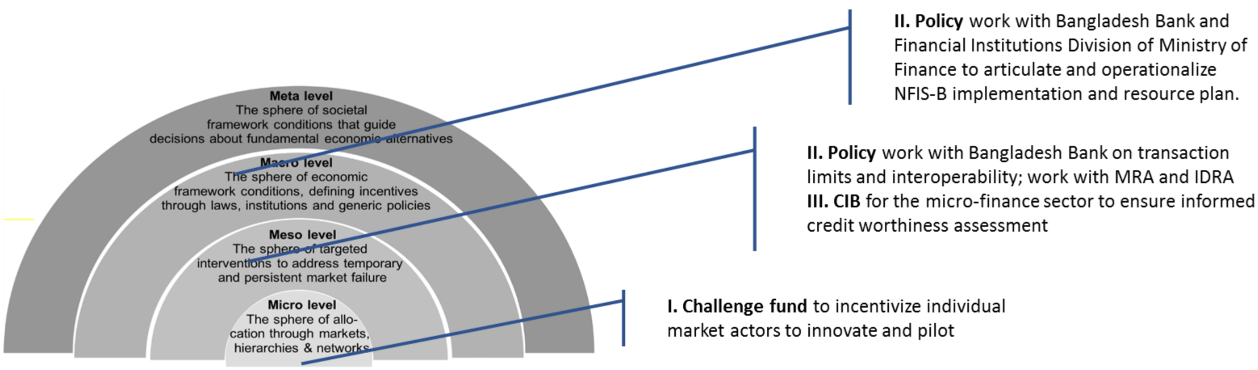
| | | |
|---|---|---|
| **MICRO** | State owned Commercial Bank | Banks, MFIs, Fintech, Insurance companies |

# 3. SYSTEMIC COMPETITIVENESS & BFP-B

BFP-B has three components: I) **Challenge Fund** promotes and stimulate the development of innovative products and services that increased allocation to resources to underserved customer categories and product lines ; II) **Policy component** activities circulate around generating evidence and recommendations to build the case for regulatory change, improving sector coordination and building consensus between regulators and market actors to facilitate adoption of recommendations for policy change, that create conducive regulatory environment for financial inclusion and access to finance of MSEs; III) **Microfinance CIB**, to facilitate creation of credit information bureau for the micro-finance industry and build creditworthiness of borrowers through building up a credit history and stable financial flows.

The following diagram situates the three components of BFP-B within the systemic competitiveness framework

*Figure 2*: **Systemic competitiveness and BFP-B activities**




BFP-B has 36 challenge fund initiatives which are targeted at private actors with financial solutions and it has used this tool to promote innovative and inclusive business models in the financial and interlinked markets. Work around these models have in some instances led to identification of binding constraints at the policy level and regulatory framework. By design BFP-B has undertaken demand driven deep dive research studies and in consultation with regulators and market actors, prioritized selective and targeted policy reform agenda (Policy Component Progress & Assessment Report, 2019). As outlined in the figure above (also see annex 2), most of the policy recommendations are meso-level and specific to a potential binding constraint in the sector; e.g. lack of interoperability among MFS providers limits competition and encourages monopoly/oligopoly market structure - addressed through recommendation 4 (annex 2). However, in other cases such as recommendation 1 and 2 (Annex 2) on NFIS, it forms a macro-level policy framework that outlines the overarching strategy for financial inclusion in Bangladesh and is incorporated/aligned with the 7$^{th}$ Five year plan of Bangladesh Government. The present research primarily focuses on the meso-level policy changes.

Similarly work around CIB is crucial and is likely to be a game-changer in relation to how the micro-finance sub-sector operates. It will allow MFIs to check credit worthiness of their prospective clients, reduce risk of default by excluding high risk clients, and diminish the prospect of increase indebtedness. Overall CIB is likely to significantly enhance the efficiency and effectiveness of the micro-finance sub-sector. Because of its selectivity, and nature of actors involved (see Table 1), this is a meso-level change. While CIB may not be fully operational soon by end of the project phase, the initial foundation and infrastructure will be in place, as such the assessment tried to explore how CIB interact with other interventions and policy level works; however quantitative estimation may not be possible.

The research design (under section 4 and Annex 1) illustrates how various tools were used to assess the degree to which BFP-B has been able to enhance systemic competitiveness of the financial sector and the interlinked markets, outlining the evolution of the overall system across the macro-meso-micro level. It is worth keeping in mind that while the assessment relates to the overall project theory of change, it will go beyond that and will be asking question at a broader meta level, to assess contribution towards systemic competitiveness and not just attributable change.

# 4. RESEARCH DESIGN

## 4.1. Scope and questions

BFP-B M&E system is strongly aligned with key elements of the DCED standard and as such each interventions in challenge fund component has results chain with associated MRM plan. Similarly for the policy component, there is TOC and results chain (Policy Theory of Change, 2019). BFP-B has also developed an engagement and advocacy framework (Policy Advocacy Framework, 2019). These tools primarily focus on immediate impact (as in results chain in challenge fund) or behavioural shift among key stakeholders (advocacy framework), but they do not look in to progress towards systemic change or improving overall systemic competitiveness of financial sector.

The present research is not an impact assessment of challenge fund or policy interventions in isolation. By design, as discussed before, BFP-B interventions are structured as 'packages' including several different types of activity to deliver a set of related outcomes. As the systemic competitiveness framework outlines, the various activities at micro-meso-macro level are likely to interact in myriad ways to generate systemic outcomes.

The key broad questions the research looked in to are: **I) *"To what extent emergent systemic outcomes, if at all, are produced by BFP-B's 'packages' of interventions*[1] *and what processes are responsible for these outcomes?"*** In addition, the research looked in to: **II) *"To what extent do various components of an intervention generate conditions which may contribute for results?"*** [2] Overall, feeding into the main question whether BFP-B interventions have fast-tracked/hastened the normal trajectory of systemic change? And how much of the progress or trend towards systemic change is sustainable?

The specific questions that it tried to address are:

- ✓ How has these interventions effected the existing systems 5 sub sectors within the financial sector?
- ✓ Assess the level of interaction between various interventions and how it has pushed the existing system?
- ✓ What are lessons learnt that can inform donors about approaches to working with private sector?
- ✓ What are some of the key factors to keep in mind in designing future project?

In order to assess this an interdisciplinary systemic competitiveness conceptual framework was used; in-addition novel mixing of various tools was used to assess the various level systemic competitiveness.

Analysis was dis-aggregated by type of sub-sector i.e. I) FSPs: NBFI & Bank; II) MFI; III) Insurance; IV) DFS/Fintech; V) Capital Market (Alternative and traditional). We are aware that in all sub-sector meaningful systemic change may not have happened, but we tried to collate evidence and footprint of BFP-B presence accordingly.

The detailed methodology section is available in Annex 1.

[1] We did not include all interventions, but a subset; the process is discussed in the following methodology section

[2] The questions are adapted from *CEDIL (2019). Call for Proposals: Programme of Work 1: Understanding Complex Interventions. DFID*; CEDIL was established in January 2017 under a 5-year grant from the UK government's Department for International Development (DFID), CEDIL is administered through the London School of Hygiene and Tropical Medicine (LSHTM) and hosted at the London International Development Centre (LIDC). Retrieved from : https://cedilprogramme.org/

# 5. ANALYSIS AND FINDINGS

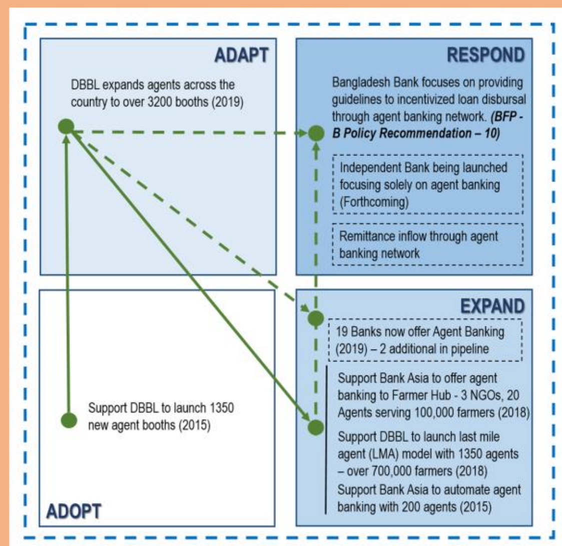
## 5.1. Meso level systemic change

In this section we look at progress towards systemic change at the intervention level using AAER/IIBR framework (See Annex 1). We used the selected intervention identified using criteria in table 5 of Annex 1; The intervention covers the five broad categories of financial sector, I) FSPs: NBFI & Bank; II) MFI; III) Insurance; IV) DFS/Fintech; V) Capital Market (Alternative and traditional).

# AGENT BANKING (FSP)

**Introduction:** Setting up full-fledged formal branches in every area is not cost effective for the banks. Customer numbers and the volume of transaction do not always justify such ventures, which leaves many rural people unbanked. BFP-B played a pivotal role in expanding agent banking network across the country, when it partnered with DBBL back in 2015.

**Figure 3: Systemic Change (Agent Banking)**

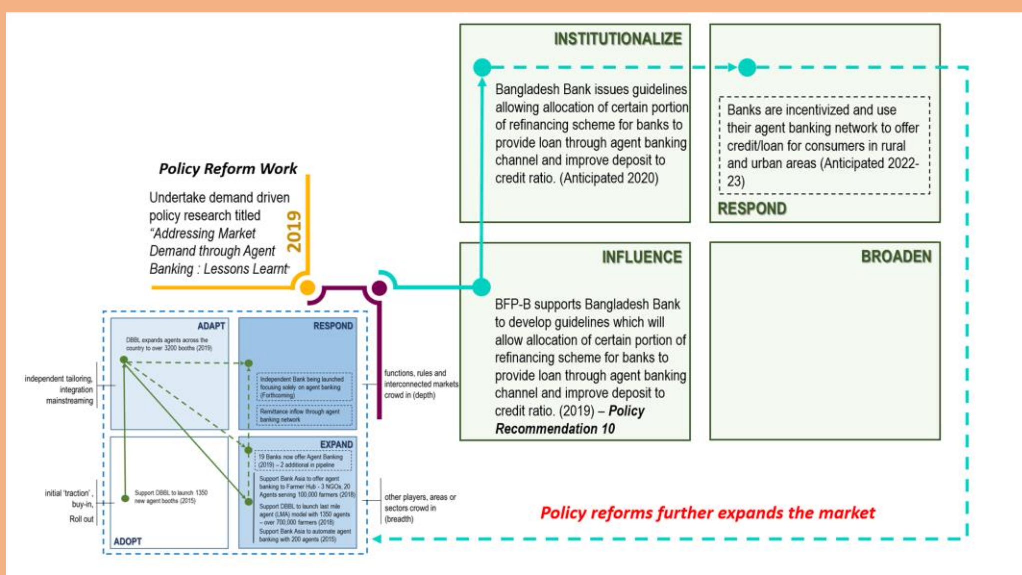



In the adjacent box we see the AAER framework for Agent Banking. Initially BFB-B worked with DBBL to develop 1350 agents booths in 2015-16 (Adopt); back then DBBL had roughly 1500 booths, which now stands at over 3300. Following success of this intervention, BFP-B further partnered with DBBL to make agent banking more inclusive through Last mile agent (in 1350 booths). These agents were responsible for promoting banking service and provide financial literacy to prospective clients. The model was as success; their original target of 250,000 has been overshot and has already reached over 700,000 clients (Expand).

BFP-B also worked with Bank Asia with innovative models around automation and farmer hub. These tried to reduce transaction cost through leveraging existing network and using IT to reduce processing and KYC cost (Expand). Success of such innovations has contributed towards a systemic change in the market. When BFP-B started there were 2 banks engaged in agent banking, now it stands at 19 banks.

We have already stared observing some 'response' level changes; remittance flow has increased through agent banking network, according to KII, the value of transaction is around BDT 50 billion (till 2019). In addition BFB-P started working in policy space (See below).

**Figure 4: AAER and IIBR (Agent Banking)**

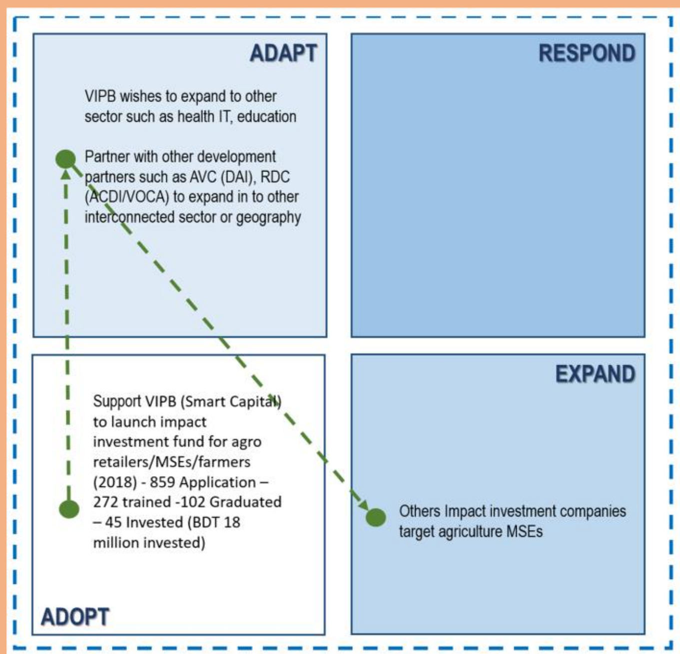



So far agent banking has been mostly used for savings/deposit. DBBL is reluctant to use agent banking for credit disbursal but Bank Asia is more interested and has so far disbursed credit to over 3000 MSEs with BFP-B contribution. BFP-B has also commissioned policy research and influenced Bangladesh Bank to formulate guideline that will incentivize banks to offer credit through their agent network. Once this guideline is issued (forthcoming in Feb 2020) i.e. institutionalized, this will create 'response' in the financial market (in IIBR) and expand the credit market through agent banking network (AAER)- see backward arrow above. For detailed on policy level impact see: Policy Advocacy Framework (2019).

# IMPACT INVESTMENT (CAPITAL MARKET)

**Introduction**: Rural smallholder farmers and agro MSEs often lack the access to formal financing that suits their repayment capability. Formal finances available in the market, such as micro-finance, is of short term and do not suit the repayment capability of the farmers/MSEs. In 2018, BFP-B partnered with VIPB along with the consortium members to promote a comprehensive program to invest impact fund into agricultural farming along with provision of agricultural information, technology and access to the input and output markets. Impact investment is relatively new in Bangladesh and BFP-B played a catalytic role in joining forces. According to VIPB, it's a long term business model as they need to invest for at least 4 years before expecting any return. While it is still too early for having meaningful progress towards systemic change, BFP-B contribution did support VIPB to secure additional collaboration with other corporate and donor agencies. The following diagram showcases how BFP-B envisages this intervention to evolve after the project comes to close.

**Figure 5: Systemic change Impact Investment (Capital Market)**

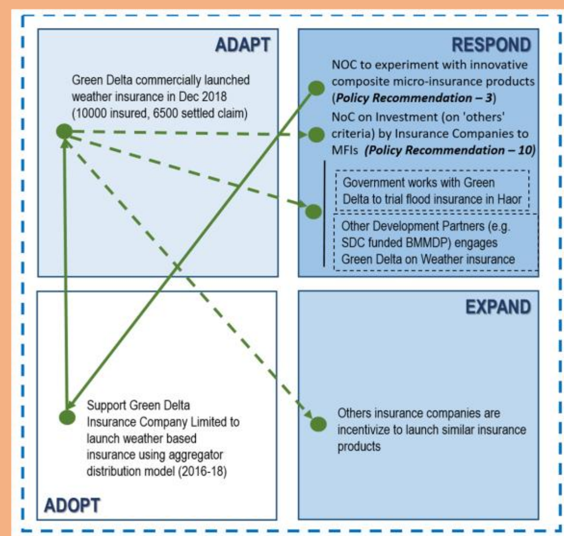



KII suggests that VIPB is a BDT 400 crore fund; through this intervention BDT 1.8 crore in investment to 45 MSEs (agro). However 272 received training at bootcamp and 102 MSEs graduated. In terms of outreach this intervention is not significant but as a proof of concept this can be systemic change in the finance market. It can offer much needed financial choice for agro MSEs. Although there are other accelerator programs, like YGAP, Kaizen, Impress group, Better stories, BYLC, they refrain from actively targeting agriculture sector.

# CROP INSURANCE (INSURANCE/MFI)

**Introduction:** Insurance companies in Bangladesh do not have any products dedicated for crop insurance. Green Delta Insurance Company (GDIC) developed an Index-based insurance targeting agricultural cultivation. BFP-B partnered with GDIC, the sole insurance company in Bangladesh offering agro insurance, in 2016 to promote agriculture weather based insurance product using aggregator or distribution partner model.

**Figure 6: Systemic Change Insurance through aggregator model**

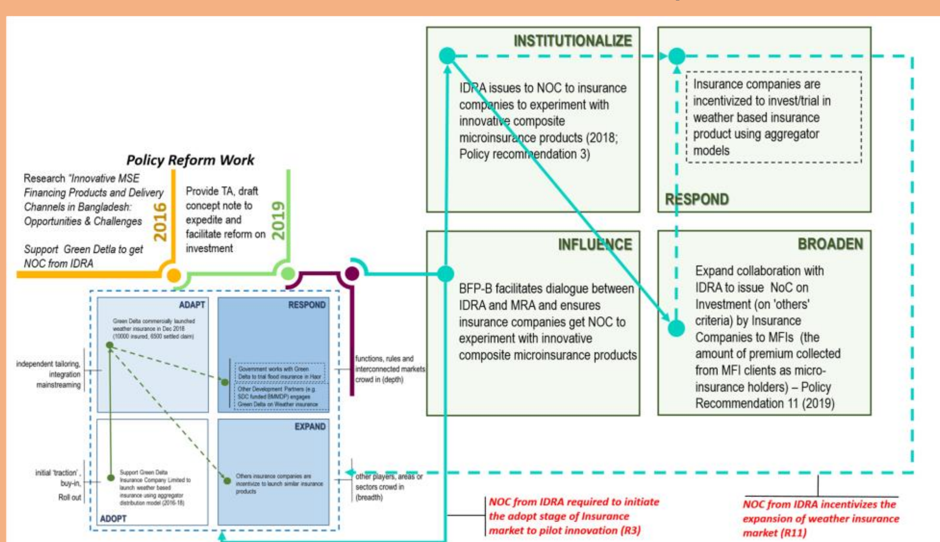



The model entailed GDIC working with farmer hub or other distribution partner or aggregators organizations, such as MFIs. Unfortunately government stipulated that, no other agencies other than insurance companies can sell insurance product. Therefore BFP-B had to work with MRA and IDRA, the MFI and insurance regulatory authority respectively, to expedite NOC guideline process (recommendation 3) which would allow this pilot scheme to continue. BFP-B not only achieved the policy objective (receiving NOC), the intervention reached 10,000 farmers with 6500 settlement claims. GDIC has commercially launched the product in Dec 2018 (Adapt).

Other donors projects and government has started collaborating with GDIC on crop insurance and other variations such as flood insurance (Response) . BFP-B has further worked with IDRA (see below) to further initiate policy reforms in support of such intervention. It is envisaged other insurance companies will enter the agro sector in view of this (Expand).

BFP-B commissioned demand driven research "*Innovative MSE Financing Products and Delivery Channels in Bangladesh: Opportunities & Challenges*" and recommended IDRA should give insurance companies NOC to experiment with innovative composite microinsurance products. Although this launched the intervention discussed above, very quickly it was realized that another bottleneck for expansion was that policy or guideline did not exist that would allow insurance companies to invest its premium in MFI businesses

**Figure 7: AAER and IIBR (Insurance MFI)**

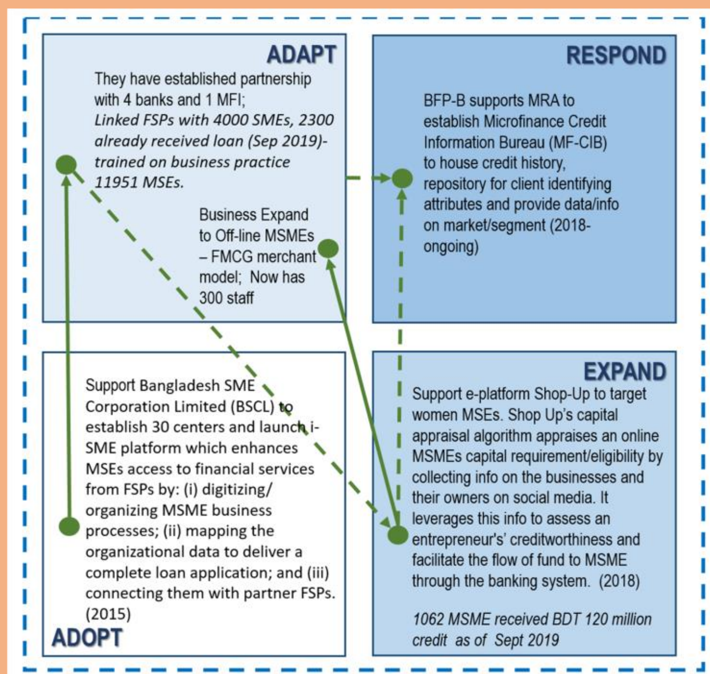



BFP-B 'broaden' its collaboration with IDRA and MRA and after series of consultations and facilitation, IDRA is now poised to issue NoC on 'Investment (on 'others' criteria) by Insurance Companies to MFI'. Once approved it will incentivize insurance companies to collaborate with MFIs and expand crop insurance. For detailed on policy level impact see: Policy Advocacy Framework (2019). While this was not a direct outcome of the challenge fund initiative, the experience informed in the decision making. As outlined in conclusion, this kind of outcome should not be left to chance but rather cultivated and organically fostered through creation of community of practice, synergy team etc.

## FINTECH FOR CLIENT ACQUISITION (FINTECH)

**Introduction**: Rural smallholder farmers and agro MSEs often lack the access to formal financing because they lack the preparedness and financial literacy to comply with bank requirements and thus are either discouraged from applying for loan or get rejected. MSEs lack the internal readiness which would allow banks the necessary confidence to evaluate and extend financial products to the MSEs. In 2015, BFP-B partnered with Bangladesh SME Corporation Limited (BSCL), a subsidiary of DataSoft Systems Bangladesh Limited. With BFP-B support the company launched a semi-autmated ERP platform for MSEs. The i-SME platform enhances MSEs access to financial services from FSPs by: (i) digitizing/ organizing MSME business processes; (ii) mapping the organizational data to deliver a complete loan application; and (iii) connecting them with partner FSPs. It's a long term business model, and BSCL does not anticipate quick win. They have already linked FSPs with 4000 SMEs, 2300 already received loan (Sep 2019)- trained nearly 12000. According BSCL, Data is the new oil, info of SME transaction can be leveraged later (Adapt) – for saving or financial product – credit rating – create access to venture capital funds etc.

**Figure 8: Systemic change Fintech for client acquisition**



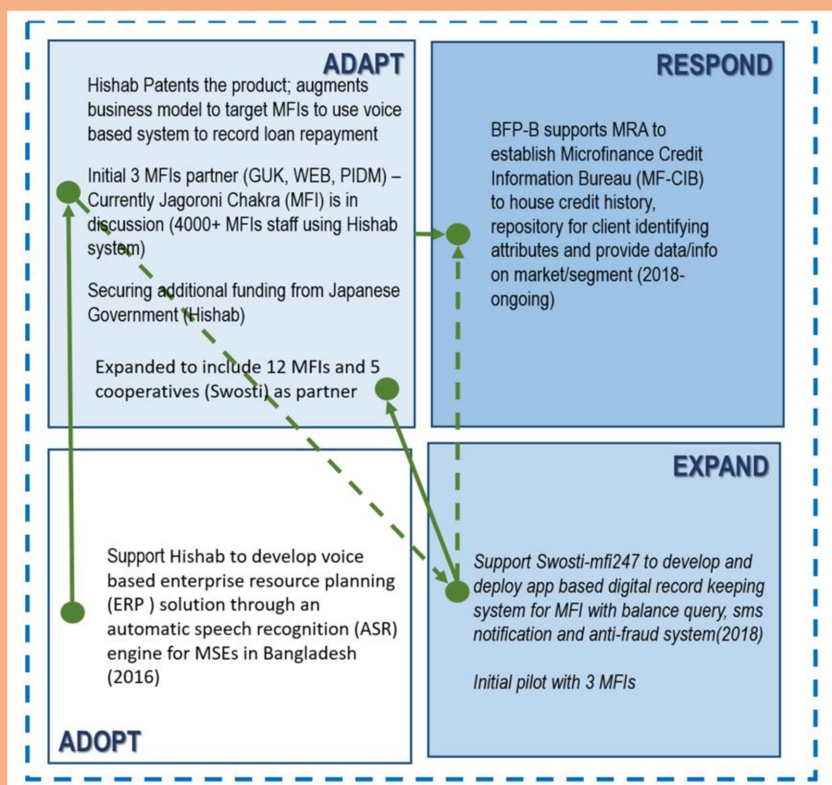

As further expansion into the area of credit rating (alternative), BFP-B partnered with Shop-UP and their e-platform to target women MSEs. Shop Up's capital appraisal algorithm appraises an online MSMEs capital requirement/eligibility by collecting info on the businesses and their owners on social media. It leverages this info to assess an entrepreneur's' creditworthiness and facilitate the flow of fund to MSME through the banking system. According to Shop-Up, BFP-B funding gave credibility and it acted as a catalyst resulting in additional investment from other sources (e.g. Gates Foundation). They were start-up when BFP-B funded them and since then has become a 300 staff company. They have also adapted and are shifting to offline MSE support as well and envisage that will be their major source of revenue in future. Due to the platform already over 1000 MSEs received credit valued at BDT 120 million.

BFP-B is supporting MRA to establish MF-CIB, a credit insurance bureau for MFI clients. According MFI, such credit information bureau will be a game changer. It will help build trust among MFI and Clients, increase credit flow to clients who have capacity and good credit score and even increase uptake of DFS in transaction and payment, as it will be easier to improve credit score. According KII, prior to BFP-B support it was not clear who was driving MF-CIB but now it has been clearly communicated that with BFP-B support, MRA will drive it. BFP-B's current work with fintech in this space will complements its work and support around MF-CIB.

## FINTECH FOR MFI EFFICIENCY (FINTECH/MFI)

**Introduction**: MFI if they wish to compete with Banks and other FSPs, they must reduce their cot of transaction and improve efficiency. To this end BFP-B partnered with Hishab, an innovative Fintech provider to support their development of voice based enterprise resource planning (ERP ) solution through an automatic speech recognition (ASR) engine for MSEs in Bangladesh. The partnership began in 2016 and initially it was supposed to target MSEs directly, since the model has been augmented and Hishab has partnered with 3 MFIs to use their patented voice based recognition system to record repayment from client. This significantly brings down transaction cost, delay in record update and even reduces incidence of theft and corruptions at the field level. Hishab has already adapted the model away from directly targeting MSEs to targeting MFIs and its partnership has increased from 3 MFI to almost 4 covering 4000 MFI agents. They have also secured funding from Japanese government recently.

**Figure 9: Systemic change Fintech and MFI**




As part of the 'expand' component, BFP-B partnered with Swosti-mfi 247 in 2018, to promote a digital record keeping platform targeting MFIs. Originally Swosti model involved partnership with 3 pilot MFI, since then it has expanded and the company has partnered with 12 MFIs and 5 cooperatives. In the long run such models increases MFI efficiency and thus incentivizing them to reduce cost of capital and compete with other FSPs. BFP-B support to Fintech in this space is to allow MFIs/cooperatives to become more efficient and competitive.

In addition, such data platforms can support and complement MF-CIB initialise by creating large database of client identifying information, transaction history, loan repayment history in a digital format. Either MF-CIB can draw on this info or they can act as additional info source for other FSPs to leverage (notwithstanding privacy and data protection concern).

## 5.2. Systemic change in Agent Banking

This section illustrates how BFP-B work has triggered progress towards systemic change in the market. While many of the challenge fund work are still not matured (22 out of 36 i.e. 61% are at the adopt stage), it is difficult to show case wider market change as a result of BFP-B at such an early stage. We can take the example of agent banking which is one of the star intervention of the project and has made significant contribution to the overall outreach. We compare BFP-B intervention in the agent banking space against the overall market trend.

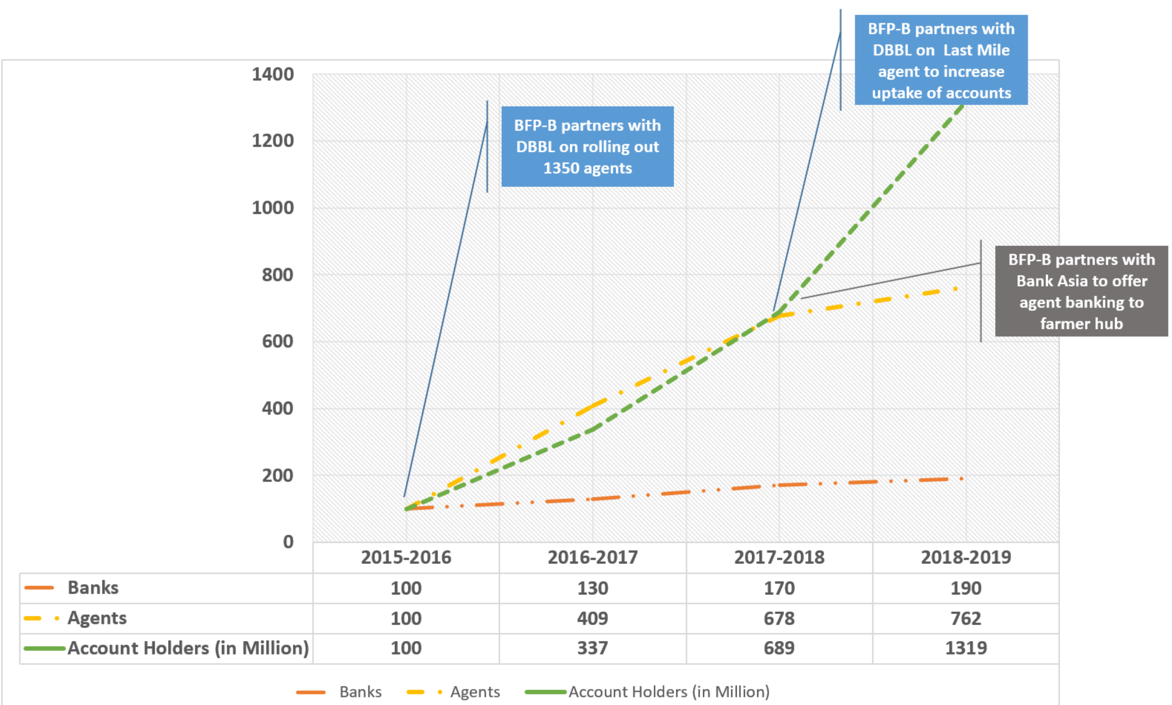
Although officially sanctioned by Bangladesh Bank in late. 2013, agent banking has only recently started to take off in Bangladesh in late 2016. The following table drawing on annual and quarter report shows the agent banking trend in the country[3].

**Table 2: Agent Banking in Bangladesh (Trend)**

| *Year* | *Banks* | *Agents* | *Account Holders (in Million)* |
|---|---|---|---|
| *2015-2016* | 10 | 789 | 0.26 |
| *2016-2017* | 13 | 3224 | 0.87 |
| *2017-2018* | 17 | 5351 | 1.78 |
| *2018-2019* | 19 | 6013 | 3.41 |

Using 2015 as base year (i.e. 100) the following figure overlays key BFP-B intervention against this growth trajectory.

**Figure 10: BFP Support and agent banking growth in Bangladesh**




From the above figure we see that BFP-B work with DBBL to increase access to agent banking played a critical role. Also we see around 2018 there is a shift away from access (with agent number growth stabilising) to usage

[3] Source: https://www.bb.org.bd/pub/annual/anreport/ar1718/full_2017_2018.pdf (and previous years)

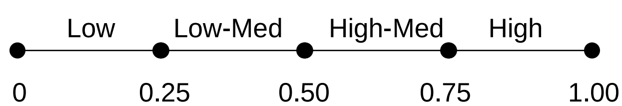
(increasing number of account holders). This is also the time with BFP-B started collaborating with DBBL with their last mile agent model and Bank Asia to promote agents among farmer hubs. In total BFP-B work with agent banking system created attributable impact on around 0.85 million[4] individuals, which is around 25% of the total number of agent banking account holder. This suggest that BFP-B work was able to trigger broader changes or at least contributed to broader changes in the agent banking eco-system. Unfortunately, other interventions have not reached similar level of scale or depth of impact to assess or undertake similar contribution analysis.

Now that we have covered the meso level, the next section looks at the macro-level using quantitative scale-sustainability matrix.

### 5.3. Scale and Sustainability index (Systemic Change Index)

Sustainability and scale fall out of how the programme operates through a facilitative manner rather than being objectives that are 'bought' or 'delivered'. Thus by facilitating systemic change, sustainability and scale are necessarily achieved (Hitchins et al, 2011). Therefore measuring scale and sustainability is key to measuring progress towards systemic change.

In order to measure the degree of scale and sustainability achieved, in this paper we use a ratio scale (See section 4). However, reporting was carried out in ordinal scale[5] based on a four-point classification system [Low (L), Low-Medium (L-M), High-Medium (H-M) and High (H)][6]. The classification was done based on an index which ranges from 0 to 1, with 0 being the lowest and 1 the highest possible systemic change. The following diagram shows the different classifications with their corresponding interval ranges. So for instance, a score of 0.42 would be classified as Low-Medium, whereas a score of 0.69 would be classified as High-Medium.




As discussed in Annex 1, in order to develop the scale and sustainability index, In line with Table 3, we have computed separately the two index under three different scenarios.

**Table 3: Scale and Sustainability Index**

| | Scenario | Description | Intervention Scale Index (R) | Degree of Scale | Intervention Sustainability Index | Degree of Sustainability | Overall Level of Systemic change |
|---|---|---|---|---|---|---|---|
| I | Realized (Feb 2020) | This captures the realized outreach that has been reached. These are from various challenged fund interventions, where evidence already exists in terms of usage at the beneficiary level. | 14% | Low | 0.47 | Low-Med | Low |
| II | Projected (+3 years) | This captures the projected outreach estimated from individual challenge fund interventions; the figures are taken from "Measurement and Projections" worksheet of Intervention Guide. | 22% | Low | 0.47 | Low-Med | Low |

[4] The figure are based on internal monitoring data of BFP-B and their impact assessments

[5] An ordinal scale allows for ranking order (1st, 2nd, 3rd, etc.) by which data can be sorted, but does not allow for relative degree of difference between them.

[6] This classification system has been adapted from the World Bank's classification of income groups used in the World Development Indicators. Each of the categories have been assigned numbers in increasing order of scale [Low =1, Low-Med=2, High-Med=3, High=4]

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| III | Policy and Projected (+5 years) | This captures the projected outreach estimated from individual challenge fund as well as outreach estimation from policy interventions (recommendations); these will take substantial time to realize. | 0.89 | High | 0.56 | High-Med | High-Med |

The detailed estimation are provided in the annex and the systemic change template. The final column shows overall systemic change, which is a function of scale and sustainability index.

$$Systemic\ Change = Roundown \left\{ \frac{Scale\ Index + Sustainability\ Index}{2} \right\}$$

So Low-Medium (2) in Scale and Low (1) in Sustainability yields,

$$Systemic\ Change = Roundown\ \frac{2+1}{2} = Roundown\ 1.5 = 1\ (Low)$$

This is depicted in the following tables:

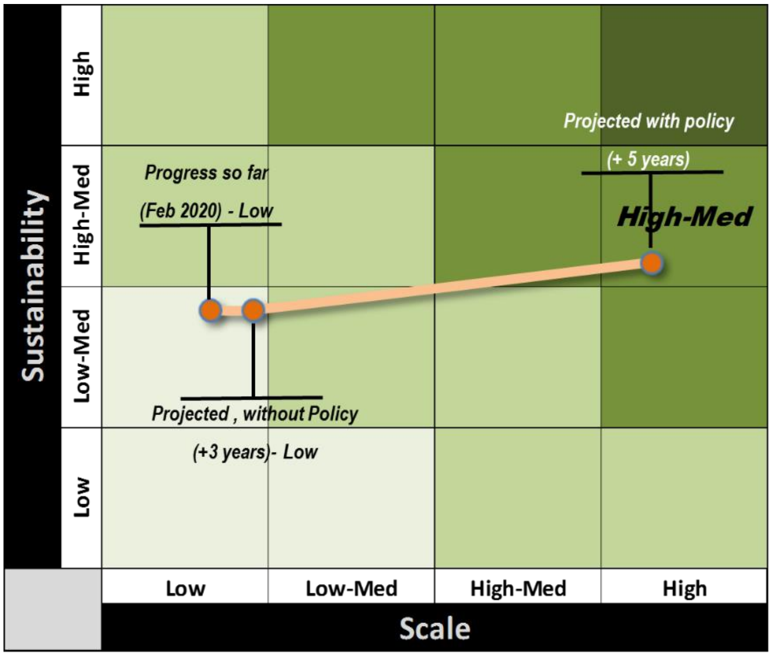
Table 4: Systemic change classification

| | | | | | |
|---|---|---|---|---|---|
| High | 4 | 2 | 3 | 3 | 4 |
| High-Med | 3 | 2 | 2 | 3 | 3 |
| Low-Med | 2 | 1 | 2 | 2 | 3 |
| Low | 1 | 1 | 1 | 2 | 2 |
| | | 1 | 2 | 3 | 4 |
| | | Low | Low-Med | High-Med | High |

| | | | | |
|---|---|---|---|---|
| High | L-M | H-M | H-M | H |
| High-Med | L-M | L-M | H-M | H-M |
| Low-Med | L | L-M | L-M | H-M |
| Low | L | L | L-M | L-M |
| | Low | Low-Med | High-Med | High |

The following figure graphically represents the aforesaid table 4 to depict BFP-B achievement under different scenarios.

Figure 11: Systemic Change (Aggregated Level)




From above figure and table, it is clear that at the current stage there has not been significant progress towards systemic change but in due time and particularly when impact of policy level changes start gaining traction, then BFP-B would have contributed to significant systemic change. While policy initiatives take significant time to reach institutionalized level (IIBR), around 32 months (Policy Advocacy Framework, 2019), they can trigger paradigmatic shift in the market systems, as outline in some of the markets in section 5.1[7]. According previous assessment on policy, ***it was estimated that without BFP-B support its takes roughly 4 years before regulations are amended; as opposed to this BFP-B policies took an estimated 32 months or less than 3 years from study conceptualization to guideline issuance*** (Policy Advocacy Framework, 2019). Obviously BFP-B policy impact cannot be just reduced length but rather addressing systemic regulator constraints that effect the overall functioning of the market. For instance NFIS development was committed under the Maya Declaration in *2012* but only BFP-B started activity facilitating the process (starting early 2016) did progress started to be made. Similarly work around MF-CIB, which was heavily supported by BFP-B, according to KII undertaken during the policy advocacy framework study, suggest there will be significant impact once it is launched and can bring about a transformative change in the Micro-finance sector.

In terms of outreach impact, we need to bear in mind that by systemic change we are taking the entire population of MSEs in Bangladesh as sector boundary i.e. 7.9 million firms. It should therefore not be surprising that a time bound market system project cannot immediately bring about shift in the entire market. Furthermore policy level changes not only take time to achieve but their impact gradually percolates downward to the markets. Similarly much of the challenge fund interventions are at the early stage (22 out of 36 i.e. 61% are at the adopt stage). Hence it at this stage such level of systemic change is anticipated. In above diagram systemic change becomes more sustainable in the long run as 'institutionalized' policy level changes gains traction.

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[7] The paper Policy Advocacy Framework (2019) discusses in detail the overall impacts from all the policy changes and the aforesaid scenario analysis (III) uses data/impact figure estimated in that study.

# 6. CONCLUSION

This paper outlined the framework and tools needed to assess the progress towards systemic change made by BFP-B. It discusses the multi-stage mixed method design that the research used to assess the project contribution towards enhancing financial market system competitiveness. Some of the key learnings from the study are:

- To maximize impact and leverage resources, there needs to be greater synergy between policy and challenge fund components. It might be more effective to systematically and intentionally design mechanisms and project processes which would ensure that learning from challenge fund interventions feed in to policy activity design either as use case or exemplars.
- Policy projects must have longer time horizon; typically 1.5 year goes in to start-up and approval (3 years not enough for policy reform). Sufficient time must be given, to champion the recommendations and get it approved
- Regulators have cumbersome decision making and regulatory process (multiple committees and board approval) requiring multiple rounds of feedback, which takes time and creates delays.
- A single phase project (5 years) targeting such ambitious areas such as financial inclusion, policy reform, credit bureau etc., significantly limits the ability to leverage the existing investment, just when they start yielding impact. For instance it is very difficult for BFP-B to take advantage of Phase III approach discussed in Figure 14 (annex 1), i.e. using light touch to leverage institutionalized policy recommendations. Specific examples could be, if BFP-B had another 2-3 years:
    - ➢ it could have leveraged the Agent Banking Regulation (Recommendation 10) to support banks to significantly spread credit through their already expanded agent banking network;
    - ➢ it could leverage recommendation on insurance companies' ability to invest in MFI (recommendation 11) to support insurance distributor/aggregator model to expand and meaningfully increase uptake of micro-insurance;
    - ➢ BFP-B was also poised to take advantage of upcoming MF-CIB and number of its Fintech innovations around customer acquisition and credit scoring.

  Hence we see numerous concrete cases where, if BFP-B was extended, it could have leveraged existing investment with light touch approach and achieve significant systemic change.
- It may have been rational to discuss whether to follow a broad approach, or narrow project focus to a selection of key financial sub-sector; instead of targeting across the five major categories I) FSPs: NBFI & Bank; II) MFI; III) Insurance; IV) DFS/Fintech; V) Capital Market. It may have been possible, given the budget and time constraint, to pick 1-2 sub-sectors and then target both challenge fund and policy component (e.g. FSP and MFI). While to some extent this did happen organically, as shown by different level of maturity in the meso level systemic changes (Section 5.1), it might have been more effective if it was intentionally pursued. Obviously it would have limited the breadth of BFP-B impact across the financial sector but might have increased depth of impact.

The present exercise was an early sign, showcasing some of the leading indication of systemic change and system competitiveness. The study will help the donors and policy makers to better understand the effectiveness and redesign the intervention approaches for future initiatives.

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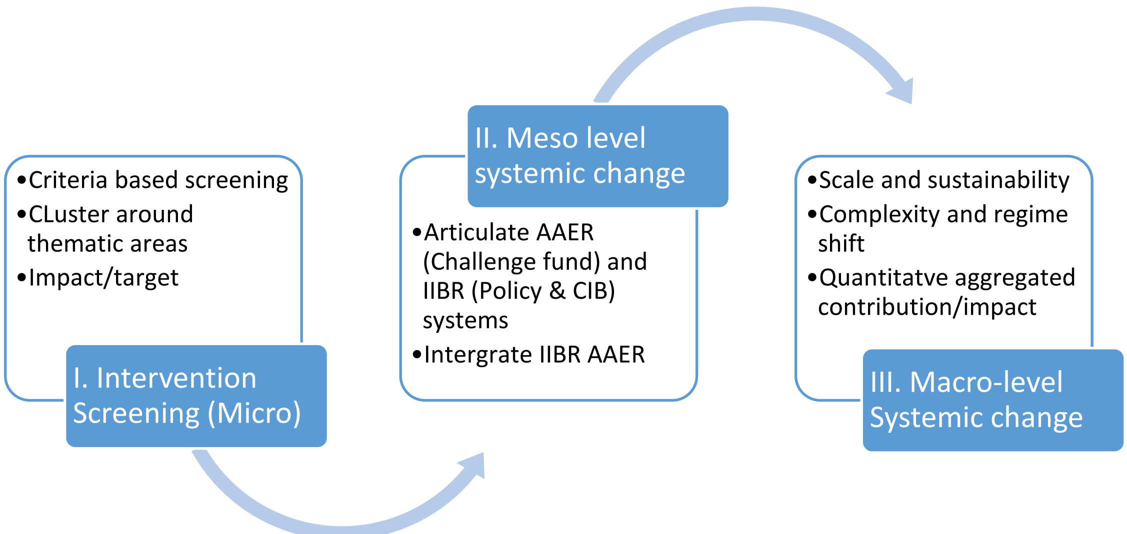
# ANNEX 1: METHODOLOGY

It is worth noting that not all interventions are at the same level of maturity and as such it would not be sensible or realistic to include all of them as part of the research. The research followed a three-stage process, as outlined below:

Figure 12: Steps in research process




I. Intervention Screening: As discussed previously not all interventions have reached maturity and may not have created micro-level changes in the financial systems. Some of the interventions may have failed to take-off, while others may have just started or launched. Finally, some interventions may focus on testing innovative business models with little scope for wider adoption and replication, (namely the innovation is inherent to the company and replication will take considerable time) thus limiting its systemic impact potential. In view of this it is important to use pre-set subjective and objective criteria to screen interventions. The following table shows the criteria used for the intervention selection; (the calculations for the interventions are provided in the annex):

Table 5: Intervention screening criteria[8]

| Criteria/ Formula | | Methodology | Type |
|---|---|---|---|
| $Cr_1$ | Level of systemic change achieved<br><br>*Use AAER Systemic Change tracker in IG* | • Qualitative- based on strength of evidence<br>• Assign 1-3 for Adopt Stage<br>• Assign 4-7 for Adapt Stage<br>• Assign 8-10 for Expand/Respond Stage | To Assess **Systemic change** as composite<br><br>**Score Range : 1-10** |

[8] The tool is based on the Quality Management Tool developed by DFAT funded AIP-PRISMA (Indonesia); it is one of the largest MSD project, with the proposed total budget of AUD 95 million over five years

| | | | |
|---|---|---|---|
| $Cr_2$ | Usage Outreach achieved as a percentage of targeted projection<br><br>$Scale\ Achieved = \frac{Realized\ Outreach}{Projected\ Outreach}$ | • Sort all intervention Highest to lowest in descending order<br>• From Rank order, assign highest ranked intervention 10 and then subsequent interventions in the order are given 9,8...1 (Only top 10 interventions are selected) | To Assess **Scale** Dimension<br><br>**Score Range : 1-10** |
| $Cr_3$ | Ranking based on Effectiveness of DFID VfM framework $/outreach<br><br>$Effectiveness = \frac{Realized\ Outreach}{Investment\ \$\ by\ project}$ | • Sort all intervention Highest to lowest in descending order<br>• From Rank order, assign highest ranked (most effective) intervention 10 and then subsequent interventions in the order are given 9,8...1 (Only top 10 interventions are selected) | To Assess **Sustainability** Dimension<br><br>**Score Range : 1-10** |
| $Cr_4$ | Ranking based on achieved outreach<br><br>*Contribution to portfolio achievement* | • Sort all intervention Highest to lowest in descending order<br>• From Rank order, assign highest ranked intervention 10 and then subsequent interventions in the order are given 9,8...1 (Only top 10 interventions are selected) | To Assess **Scale** Dimension<br><br>**Score Range : 1-10** |
| $Cr_5$ | Ranking based on cost sharing (in %)<br><br>*BFP-B Investment as % of total: Partner Investment as % of total* | • Sort all intervention Highest to lowest in descending order; highest goes to interventions with largest private sector contribution as %<br>• From Rank order, assign highest ranked intervention 10 and then subsequent interventions in the order are given 9,8...1 (Only top 10 interventions are selected) | To Assess **Sustainability** Dimension<br><br>**Score Range : 1-10** |

Based on the aforesaid criteria the interventions were ranked using following procedures:

- Create composite Intervention Score per intervention $CSI_i = \sum_{c=1}^{5} Cr_i$ **[Score Range : 1-50]**[9]
- Sort all intervention Highest to lowest in descending order; highest goes to interventions with largest $CSI$ score
- Based on this 12 interventions (Out of 36) were selected for round two of the study (AAER analysis) – detailed analysis in annex 5.

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II. Meso Level change: At this level we used the Adopt-Adapt-Expand-Respond (AAER) framework to capture progress towards systemic change for the selected challenge fund intervention (prioritised in previous section). The basic elements of the AAER framework is given below:

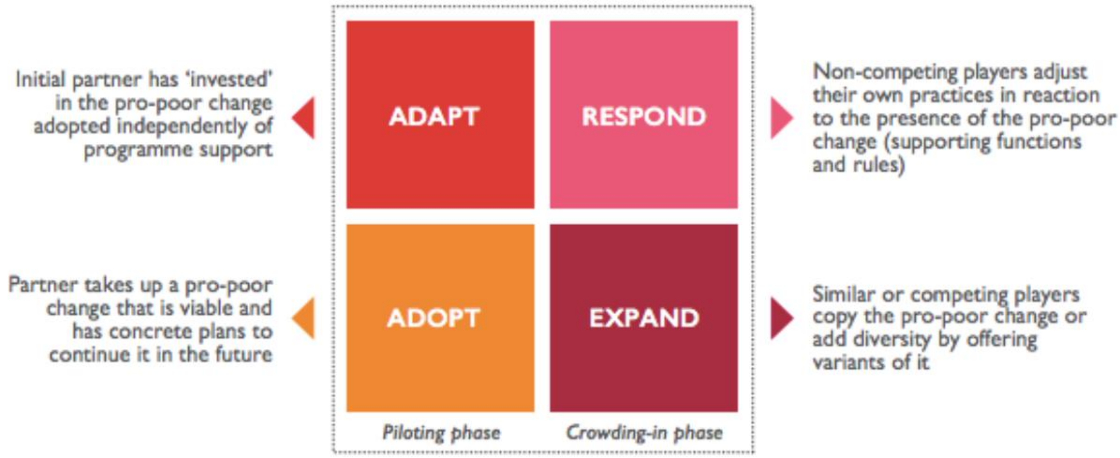
- **Adopt:** This is the first step of systemic change where a market partner buys into a new way of working.
- **Adapt:** This looks at independent and autonomous tailoring by the partner – whether the market player really 'owns' and continues the innovation in some form or another.

[9] Some intervention may not be in the top 10 rank and so score zero or N/A for all indicators except $Cr_1$

- **Expansion:** 'Expand' looks at crowding-in of other major players, when the initial innovation becomes mainstream or a norm (lagging indicator).
- **Respond:** This looks into increasing depth, resilience of the market system and response from interconnected market players (lagging indicator).

For detailed on the AAER framework see The Operational Guide for the Making Markets Work for the Poor (2015). See annex 3 for potential questions in relation to different segment of AAER.

Figure 13 : AAER Framework




The AAER framework, while well suited and widely used to capture systemic change in MSD intervention(s), particularly those using challenge fund, has difficulty in capturing policy and meso-level initiatives, for reasons discussed below:

- ➔ '*Adoption*' by regulatory institutions is often more resource intensive than a typical MSD interventions where a private sector partner essentially signs a contract with the project. To have organizations such as MRA or Bangladesh Bank (BB) to come in to formal arrangement with a project is itself a significant milestone requiring significant resources and time involvement, which is not fully captured by 'adopt' in the AAER framework. ***Influencing*** such regulatory institutions, which play a significant/central role in the market systems, requires high investments (time/HR/financial). Organizations have to build credibility, experience, undertake research, form coalition, engage in advocacy and develop use cases, which can be used to influence such organizations.
- ➔ Typically, '*Adaptation*' has meant autonomous changes particularly in terms of additional investment. However, in case of policy reforms, particularly when one is dealing with public organizations, "***institutionalization***" or "mainstreaming" may indicate better evidence of sustainability than 'adaptation'. For instance, BFP-B supported MRA to develop guidelines on Microenterprise lending, an important sign of sustainability is if it is published in any official minutes or notifications; this is a strong evidence of sustainability but may not entail adaptation according to the original guideline.
- ➔ Similarly, in the AAER-framework, "*Expansion*" signifies other actors than the project's partners, particularly other private actors, crowding into innovations in the market system. However, in policy interventions, actors or partners are chosen precisely because of their market centrality/regulatory capacity and therefore are unlikely to have competing actors in the market system. Hence the notion of "expansion" may not apply, although some level of "scaling" or "***broadening***" may be possible

through the same institution (e.g. Bangladesh Bank worked on NFIS and then other department of the bank started working on interoperability). It may also entail complementary regulators autonomously initiating new reforms (e.g. Telecom regulators on MFS/DFS). Alternatively, 'broadening' can look at subsidiary / inter-connecting regulations to ensure that they are adjusted to meet / enhance the primary legislation being targeted (e.g. Recommendation 3 and 11, dealing with collaboration between MFI and insurance companies).

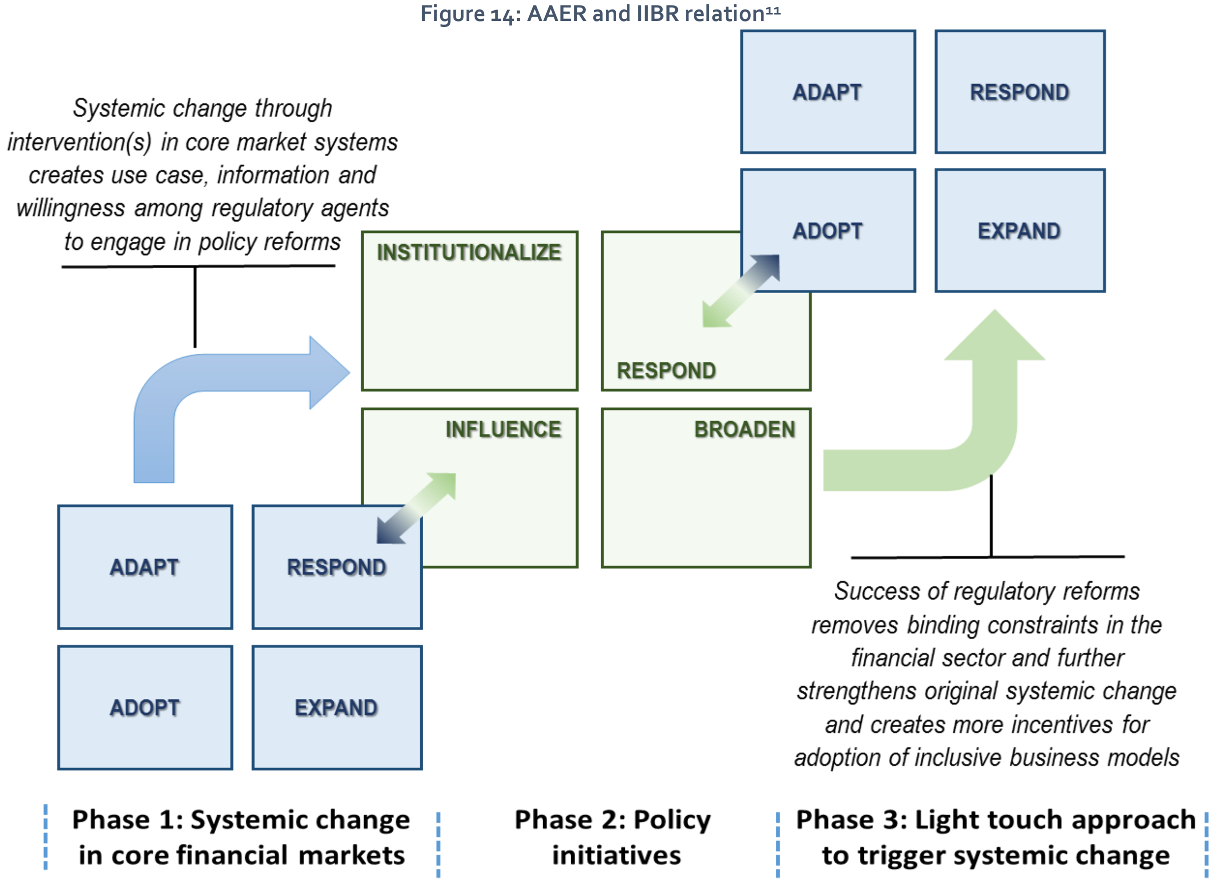
- The term '*Response*' in the AAER model refers to other actors responding to the changes triggered by project activities. 'Response' is also relevant for policy interventions; however, one likely difference is that the actors in the '**respond**' box of policy interventions will mostly be core MSD actors i.e. for BFP-B will include bank, MFIs, Fintech companies etc. 'Response' shows how work outside the core MSD market ('meso' level regulatory reform) has impacted core MSD work or actors (feedback loop back to financial markets/actors).

Based on the discussion above, the following figure shows the different stages of an anchoring initiative: It includes 4 stages namely ***Influence, Institutionalize, Broaden and Respond (IIBR)***[10]***.***

As Kupper and Jalil (2018) mentions, activities in the core market system play a key role in the development of regulatory initiatives. Core market interventions (such as through challenge fund) often create use cases and impetus for regulatory interventions, i.e. policy interventions cannot be created in void. This implies there is a strong inter-relationship between systemic change, as captured by AAER, and policy initiatives, as captured by the proposed IIBR framework. Policy initiatives may use prior MSD interventions and then reinforce systemic changes. This is depicted in following diagram.

[10] The framework was developed by Jalil and Kupper (2018), for Katalyst project. Please refer to design document http://katalyst.com.bd/wp-content/uploads/2018/03/180313_Measuring-Anchoring-Interventions_Muaz-Jalil-and-Markus-Kupper.pdf

Figure 14: AAER and IIBR relation[11]




Therefore in assessing meso-level change we looked in to AAER and IIBR in an integrative manner to assess how they interact across the various levels; first assessing AAER level changes and then how it may create use-cases for IIBR level changes, which create feedback-loop to the original market (AAER). The degree to which these systems are aligned and self-reinforcing, the greater the likelihood of systemic competitiveness. We may be able to forecast Phase 3 (figure 4) but it is unlikely and may be too early to have evidence for changes at second level AAER (Phase 3). See annex 3 for potential questions in relation to different segment of IIBR.

In this paper, we used AAER and IIBR jointly, where applicable, to develop the overall meso-level progress towards systemic change.

III. Macro level measurement: Objectives of systemic change are defined consistently as sustainable, large-scale change (Taylor, 2016). Thus, scale and sustainability are important dimensions of systemic change. At macro-level we used the scale-sustainable/systemic change matrix to plot the degree to which the project has achieved scale and sustainable change i.e. degree to which there has been increase in systemic competitiveness. The key component of the matrix is outlined below:

[11] Source: Kupper and Jalil (2018)

**Table 6: Scale and Sustainability/ Systemic change Matrix[12]**

| Indicator | Definition |
|---|---|
| **Scale Index** | Ratio between number of people reached through interventions (aggregated usage outreach) and relevant *financial sector boundary, which gives us a percentage value;* the financial market boundary in this study is considered to be 7.9 million, which is total number of MSEs in Bangladesh[13] since this is the target group for BFP-B.<br>$Scale\ Index_r = \frac{Aggregated\ Usage\ Outreach_r}{Sector\ Boundary}$, where 'r' is realized or achieved as opposed to 'p' for projected, which will also be computed<br>If the $Scale\ Index_r$ ≤ 25%, then it is 'Low'; $25\% < Scale\ Index_r \leq 50$ then it is 'Low Medium'; $50\% < Scale\ Index_r \leq 75\%$ then it is High Medium; $75\% < Scale\ Index_r$ then it is high |
| **Sustainability Index** | This draws on the sustainability indicators in the intervention selection criteria ($Cr_1, Cr_3$ & $Cr_5$). It ranks individuals interventions across the selected indicator values on a scale of 1 (low) – 4 (high), using percentile rank i.e. whether the indicator values fall within the interquartile range (it gets 1 if the indicator value for an intervention falls within 1st quartile and 4 if it is in the 4th quartile of all the ranges of values for that indicator). For instance in case of $Cr_5$, measuring partner contribution, 4th quartile (i.e. top 25% interventions) are where partner contribution is 65% or above; hence any intervention with more than 65% partner contribution gets the score 4 under $Cr_{5\ Rank}$ (NB: $Cr_5$ is the indicator value for that criteria i.e. in %, where as $Cr_{5\ Rank}$ is the rank value i.e. between 1 to 4). After aggregating the rank for three indicator across three criteria $\sum_{i=1,3,5} Cr_{i\ Rank}$ for each intervention (j), we then estimate for each intervention percentile rank of this aggregate across all interventions, this is in the individual sustainability index per intervention. Average of individual sustainability index gives us the overall sustainability index. When it comes to sustainability of the portfolio, we give equal weightage to all intervention.<br>$Sustainability\ Index = \frac{\left\{\sum_{j=1}^{36} Percentile\ Rank_j \sum_{i=1,3,5} Cr_{i\ Rank}\right\}}{Number\ of\ Intervention}$, there are 36 challenge fund interventions.<br>For policy interventions, we use the table (Priority of Regulators) from Findings of Assessing Progress of Implementing Policy Recommendations (2019), to estimate sustainability index. See Annex 5 for detailed analysis |

The graphic below illustrates the scale and sustainability indices, where the x-axis represents the scale index and the y-axis represents the sustainability index. Systemic change is a function of the two indexes.

[12] Adapted from systemic change measurement frameworks in Katalyst's phase 3, presented in the DCED Global Seminar, Bangkok, 14th of March 2016; Source: https://www.enterprise-development.org/wp-content/uploads/BKK2016_Katalyst.pdf

[13] Source: Study on Future Direction of SMEs in Bangladesh, Government of the People's Republic of Bangladesh Ministry of Planning Division

**Figure 15: Macro-level scale sustainability matrix**

| | | Scale | | | |
|---|---|---|---|---|---|
| | | Low | Low-Med | High-Med | High |
| Sustainability | High | L-M | H-M | H-M | H |
| | High-Med | L-M | L-M | H-M | H-M |
| | Low-Med | L | L-M | L-M | H-M |
| | Low | L | L | L-M | L-M |

We used realised outreach as well as future projections to see the progress towards systemic change, including estimation (where possible) for policy level interventions and interventions projections. We show cased three figures:

**Table 7: Macro level progress towards Systemic Change**

| Phase (Time) | Description |
|---|---|
| **Realized (Feb 2020)** | This captures the realized outreach that has been reached. These are from various challenged fund interventions, where evidence already exists in terms of usage at the beneficiary level. |
| **Projected (+3 years)** | This captures the projected outreach estimated from individual challenge fund interventions; the figures are taken from "Measurement and Projections" worksheet of Intervention Guide. |
| **Policy and Projected (+5 years)** | This captures the projected outreach estimated from individual challenge fund as well as outreach estimation from policy interventions (recommendations); these will take substantial time to realize. |

## ANNEX 2: KEY POLICY RECOMMENDATIONS (MESO AND MACRO LEVEL)

| Recommendations | | Regulators |
|---|---|---|
| **R1** | Introduce NFIS Bangladesh | Bangladesh Bank |
| **R2** | NFIS Implementation Plan with M & E Framework and Resource Plan | Bangladesh Bank |
| **R3** | Be flexible in allowing NOC to experiment with innovative composite micro-insurance products | MRA & IDRA |
| **R4** | Operational guideline on B2B transactions and P2P transaction limits | Bangladesh Bank |
| **R5** | Interoperability Guideline | Bangladesh Bank |
| **R6** | Develop guideline on Microenterprise Lending for MFIs | MRA |
| **R7** | Develop MFS guidelines for MFIs | MRA |
| **R8** | Develop guideline for cluster and value chain financing for MFIs | MRA |
| **R9** | Operational definition of MSEs based on turnover | Bangladesh Bank |
| **R10** | Allocate a certain portion of refinancing scheme for banks to provide loan through agent banking channel | Bangladesh Bank |
| **R11** | NoC on Investment (on 'others' criteria) by Insurance Companies to MFI | MRA & IDRA |

# ANNEX 3: AAER POTENTIAL QUESTIONS[14]

| Stage | Indicator |
|---|---|
| **Adapt** | Extent of benefit to partner<br>- Changes in costs, revenues, and/or margins.<br>- Number of first-time/repeat customers.<br>- Other commercial benefits (developing a new customer base, identifying and targeting a new market segment, brand recognition, etc.)<br>- Fulfillment of public mandate.<br>Partner buy-in:<br>- Partner's share of financial and non-financial (e.g. roles, division of labour) costs of pilot.<br>- Partner's willingness to assume all recurrent costs by pilot end.<br>Satisfaction:<br>- Partner's satisfaction with results/utilization of learning from pilot.<br>- Target group's satisfaction with (and benefits derived from) new/better product or service introduced. |
| **Adapt** | Independent investments and improvements:<br>- Partner's financial investment and forward budgeting/planning in the change(s) after programme support ends.<br>- Experimentation / refinement / tailoring of product/service.<br>- Partner 'roll-out' of piloting in new areas and/or markets.<br>Mainstreaming of innovation within market player:<br>- Partner dedicates staff to upholding change (e.g. amends job descriptions, team responsibilities).<br>- Location of driving force for innovation within the company (e.g. CSR department, senior management, or project to revenue budget etc).<br>- Budgets, business plans, strategy, and other institutional documents accommodate change adopted.<br>Benefit flows to the poor are sustained:<br>- Target group continues to benefit after programme support to the partner ends. |
| **Expand** | Competitors or similar organisations 'crowd-in':<br>- Commercial players – number of competitors that copy or improve upon the changes pilot phase partners have made. (% of total in market).<br>- Involvement of 'scale agents' (a player that can influence other players).<br>· Competition or collaboration in the system (depends on their nature):<br>- Level of competition.<br>- Extent to which new players (i.e. late adopters) face barriers 'to entry'.<br>- Level of collaboration between players (e.g. effectiveness of representative organisations, joint ventures, adherence to rules/regulations etc). |

[14] Source: adapted from UNCDF (2016). MRM Manual (Draft).

| | |
|---|---|
| **Respond** | · <u>Market reaction:</u><br>- New types of market player take on new roles or responsibilities, or add new functions as a reaction to the gradual mainstreaming of the model introduced.<br>- Pro-poor and pro-growth government and sector/industry body responses.<br>- Change in attitudes and norms about how to do business.<br>- In case of policy interventions, response may include response from private sectors such as taking up the instructions in the policy guideline or lunching products in line with the policy (DFS).<br><u>· Changes in the business environment</u>:<br>- Fundamental changes in mindset from business and policy-makers.<br>- Changes in regulations, rules, and policy related to the innovation.<br>- Ability of system to cope with shocks: Evidence that change can withstand, or has withstood adverse events (e.g. negative responses, economic downturns, drought/flood). |

## ANNEX 4: IIBR POTENTIAL QUESTIONS[15]

<table>
<tr><th>Stage</th><th>Indicator/Questions</th></tr>
<tr><td>Pre-Condition activities</td><td>Selection<br>- How was the anchoring agent /partner selected?<br>- What evidence do we have to justify that the anchoring agent is indeed a key market actor?<ul><li>the level of influence the partner has over key stakeholders</li><li>incentives of a partner to take on experiences of the project</li><li>willingness to collaborate with the project</li><li>the capacities of a partner to absorb the learning</li><li>potential outreach to service providers, enterprises, target beneficiaries</li></ul>- Can we develop a timeline showing what relevant activities were previously undertaken that enabled this anchoring initiative (process tracing)<br>- What can be anchored?<br>Knowledge<br>- Were there any relevant research or studies carried out relevant to anchoring initiatives<br>- Do we have evidence to suggest that the research played a role in the anchoring activities<br>Experience<br>- Are there previous intervention(s) relevant to the initiative<br>- Did we partner with the anchoring agent before or were there any prior unsuccessful attempts? If so why?<br>Credibility<br>- Did the project undertake activities that enhanced its credibility in dealing with anchoring agents?<br>- What is the reputation of the project in relation to anchoring activities?</td></tr>
<tr><td>Influence</td><td>Extent of benefit to partner<br>- Greater prestige and authority (government).<br>- Improve operational efficiency in delivery of service<br>- Fulfillment of public mandate.<br>- Who are the drivers of change? Is there a political leadership?<br>Partner buy-in:</td></tr>
</table>

[15] Source : Kupper, M. & Jalil, M, M (2018). *M&E Framework for Anchoring Interventions Experience from Katalyst Project*. Technical Note. Katalyst

| | |
|---|---|
| | - Partner's willingness to pilot an initiative by making financial and non-financial (e.g. roles, division of labour)contributions .<br>- Cost sharing in the initiative<br>- Partner's willingness to assume all recurrent costs for mainstreaming<br><u>Satisfaction:</u><br>- Partner's satisfaction with results/utilization of learning from pilot.<br>- Willingness to mainstream anchoring activities |
| **Institutionalize** | <u>Mainstreaming of innovation within market player:</u><br>- Partner dedicates staff to upholding change (e.g. amends job descriptions, team responsibilities).<br>- Location of driving force for innovation within the organization (e.g. project to revenue budget etc).<br>- Budgets, annual plans, strategy, and other institutional documents accommodate change adopted.<br>- Gadget notification or other memos published, officiating the change<br><u>Independent investments and improvements:</u><br>- Partner 'roll-out' activities across the organization (e.g. training conducted across different levels of organization and not just master trainer)<br>- Partner's financial investment and forward budgeting/planning in the change(s) after programme support ends.<br>- Integration with organizational management / refinement / tailoring of the initiative. |
| **Broaden** | <u>Similar initiative undertaken or deepened:</u><br>- Other units of the organization applies similar approach<br>- Similar framework or module are developed for other activities<br>- Further development leveraging anchoring initiative is launched (e.g. new modules which strengthens new manual)<br><u>Similar organisations 'crowd-in':</u><br>- Other government units copy model or try to initiate similar projects. |
| **Respond** | · <u>Market reaction:</u><br>- Core sector market player, typically private sector, take on new roles or responsibilities, or add new functions as a reaction to the gradual mainstreaming of the initiative in the anchoring institution<br>- Change in attitudes and norms about how to do business.<br>- Increase uptake by private sector of inclusive business models<br><u>· Changes in the business environment</u>:<br>- Fundamental changes in mindset from business<br>- Changes in the supporting functions and core market transaction of a market system<br>- Did it improve state-business relationship; trust between government and the private sector is a key determinant of State-Business relations. |

# ANNEX 5: SCALE AND SUSTAINABILITY/SYSTEMIC CHANGE MATRIX

**Challenge Fund Matrix**

| Intervention Title[16] | Intervention Scale Index (R)[17] | Degree of Scale | Intervention Scale Index (P)[18] | Degree of Scale | Intervention Sustainability Index[19] | Degree of Sustainability |
|---|---|---|---|---|---|---|
| Bkash (Tradeplus) | - | Low | 0.00 | Low | 0.03 | Low |
| Bkash (Save and Grow) | - | Low | 0.00 | Low | 0.39 | Low-Med |
| BSCL (I-SME) | 0.00 | Low | 0.00 | Low | 0.83 | High |
| Bank Asia (Diganta) | 0.00 | Low | 0.00 | Low | 0.86 | High |
| DBBL Agent banking | 0.03 | Low | 0.00 | Low | 0.97 | High |
| Yound Consultant (BLED) | 0.00 | Low | 0.00 | Low | 0.31 | Low-Med |
| Shurjomukhi (CMDSS) | - | Low | 0.00 | Low | 0.39 | Low-Med |
| Pi Strategy (SMILE) | - | Low | 0.00 | Low | 0.31 | Low-Med |
| Hishab | 0.01 | Low | 0.01 | Low | 0.97 | High |
| BD Venture | - | Low | 0.00 | Low | 0.39 | Low-Med |
| Pragati-Inafi | 0.00 | Low | 0.01 | Low | 0.53 | High-Med |
| Truvalu | 0.00 | Low | 0.00 | Low | 0.53 | High-Med |
| Green Delta (GDIC) | 0.00 | Low | 0.00 | Low | 0.61 | High-Med |
| SSD Tech | - | Low | 0.00 | Low | 0.19 | Low |
| Aamra Technologies Limited | - | Low | 0.00 | Low | 0.19 | Low |
| ACACIA | 0.00 | Low | 0.00 | Low | 0.61 | High-Med |
| Bank Asia- growing together | 0.01 | Low | 0.01 | Low | 0.86 | High |
| IPDC orjon | 0.00 | Low | 0.00 | Low | 0.61 | High-Med |
| CVCFL | 0.00 | Low | 0.00 | Low | 0.61 | High-Med |
| VIPB | 0.00 | Low | 0.00 | Low | 0.61 | High-Med |
| Bkash- Business Access | - | Low | 0.00 | Low | 0.19 | Low |
| DBBL- LMA | 0.08 | Low | 0.13 | Low | 0.86 | High |
| RFID-Shurjomukhi | 0.00 | Low | 0.00 | Low | 0.39 | Low-Med |
| S11-Shetu | 0.00 | Low | 0.00 | Low | 0.61 | High-Med |
| Shopup | 0.00 | Low | 0.00 | Low | 0.86 | High |
| Swosti | 0.01 | Low | 0.04 | Low | 0.78 | High |
| BRAC- (Cattle shit) | - | Low | 0.00 | Low | 0.08 | Low |
| CRAB | - | Low | 0.00 | Low | 0.53 | High-Med |

[16] Color coded interventions were selected for meso-level (AAER) analysis
[17] This is outreach as of Q4, 2019; the index divides for each intervention outreach by sector boundary
[18] Projections are taken from individual intervention guide document (which are update regularly).
[19] This based on intervention screening criteria 1,3 and 5.

| | | | | | | |
|---|---|---|---|---|---|---|
| D-Money | - | Low | 0.00 | Low | 0.08 | Low |
| Sheba xyz | 0.00 | Low | 0.00 | Low | 0.78 | High |
| BRAC data | - | Low | 0.00 | Low | 0.19 | Low |
| Dhaka Stock Exchange (DSE) | - | Low | 0.00 | Low | 0.08 | Low |
| Pragati Insurance | - | Low | 0.00 | Low | 0.08 | Low |
| IPDC-Retailer Finance | - | Low | 0.00 | Low | 0.31 | Low-Med |
| Chaldal | - | Low | 0.00 | Low | 0.39 | Low-Med |
| Bank Asia (Data) | - | Low | 0.00 | Low | 0.03 | Low |
| **Challenge Fund Total** | **14%**[20] | **Low** | **22%**[21] | **Low** | **0.47**[22] | **Low-Med** |

[20] The overall figure is not an average of individual scale index but rather portfolio aggregated outreach by sector boundary; overlap is not considered

[21] Same approach is used for realized and projected (portfolio projected outreach by sector boundary)

[22] Unlike scale index, in this case the sustainability index is computed by averaging individual intervention sustainability index i.e. $Sustainability\ index_{porfolio} = \frac{\sum_{intervention=1}^{36} Sustainability\ Index_i}{\#\ of\ interventions}$

**Policy Intervention Matrix**

| Policy Recommendations | Intervention Scale Index (P)[23] | Degree of Scale | Intervention Sustainability Index[24] | Degree of Sustainability |
|---|---|---|---|---|
| Recommendation 1: Introduce NFIS Bangladesh | | | 0.75 | High-Med |
| Recommendation 2: NFIS Implementation Plan with M & E Framework and Resource Plan | | | 0.75 | High-Med |
| Recommendation 3: NOC to experiment with innovative composite micro-insurance products | 0.01 | Low | 1.00 | High |
| Recommendation 4: Guidelines for B2B transactions and P2P transaction limits | 0.89 | High | 0.50 | Low-Med |
| Recommendation 5 : Interoperability Guideline | 0.88 | High | 0.75 | High-Med |
| Recommendation 6 : Guideline on Microenterprise Lending for MFIs (Definition of ME) | 0.36 | Low-Med | 0.63 | High-Med |
| Recommendation 7: Develop MFS guidelines for MFIs | | | 0.25 | Low |
| Recommendation 8: Develop guideline for cluster and value chain financing for MFIs | | | 0.25 | Low |
| Recommendation 9 : Operational definition of MSEs based on turnover | 0.06 | Low | 1.00 | High |
| Recommendation 10 : Allocate a certain portion of refinancing scheme for banks to provide loan through agent banking channel | 0.12 | Low | 0.63 | High-Med |
| Recommendation 11 : NoC on Investment (on 'others' criteria) by Insurance Companies to MFIs | 0.23 | Low | 0.63 | High-Med |
| **Policy Total** | **0.89[25]** | **High** | **0.65[26]** | **High-Med** |

**For BFP-B level indicator value we use following formula:**

$$\textbf{\textit{Scale Index}}_{\boldsymbol{BFP-B}} = \frac{Max\left\{Aggregated\ Usage\ outreach_{Challenge\ Fund}\middle|Aggregated\ Usage\ outreach_{policy}\right\}}{Sector\ Boundary}$$

In the above case we are assuming that policy impact in long run will completely overlap challenge fund impact.

$$\textbf{\textit{Sustainability Index}}_{\boldsymbol{BFP-B}} = \frac{\{Sustainability\ Index\ _{Challenge\ Fund} + Sustainability\ Index\ _{policy}\}}{2}$$

[23] All policy impact are projections (long term) and are drawn from the study Policy Advocacy Framework (2019). Findings of Assessing Progress of Implementing Policy Recommendations for BFP-B by Consiglieri Private Limited

[24] Draws on Policy Advocacy Framework (2019) study to develop the index. It draws on policy priority (for regulators) and 'BFP-B commitment to implement' to develop an aggregate index for each recommendations. It's a qualitative indicator using findings from the policy study

[25] Similar to challenge fund it is total policy outreach by sector boundary (7.9 million firms)

[26] Average of individual sustainability index