MODULE 6 Monitoring and Evaluation

Monitoring and evaluation practices are relevant to a number of stakeholders involved in development interventions. These include the implementing agency, beneficiaries, stakeholders, donors and counterparts. Overall, Monitoring and Evaluation are indispensable project management functions used to:

a) **Enhance the accountability** of the implementing agency in the use of donor and public funds.

b) **Improve efficiency and effectiveness** by providing information about project results that allow project managers to correct or optimize the implementation strategy. In a nutshell, M&E helps the implementing agency tackle the following questions:

  1. Are we doing things right? Is the achievement of outputs time- and resource-efficient? How can outputs be improved?

  2. Are we doing the right thing? Are activities appropriate to reach the set objectives? How can the initiative's strategy be improved?

  3. Are assumptions valid? What changes in the strategy are required to mitigate risks?

  4. Thus, M&E practices serve as a management tool that supports the implementing agency in decision-making on time and resource allocations, prioritization of activities, as well as on the design of strategies to increase outreach and impact.

  5. Prove the impact of the approach. Based on rigorous M&E information, the effectiveness of the methodology in contributing to long-lasting and pro-poor results can be attested. Recommendations on the application of the methodology can be drawn and feed into policy development. For the implementing agency M&E represents an opportunity to share results and lessons learned. Donors and counterparts that are concerned with decisions on policy priorities and funds allocation will need to learn about the development impact of a cluster initiative and its relevance vis-à-vis other private sector development approaches.

1.   Differentiating between Monitoring and Evaluation

Although concerned with the same dimensions of performance, monitoring and evaluation are not overlapping but complement each other. **Monitoring** refers to the ongoing collection, analysis and use of information about progress of project implementation and the results being achieved. It is an integral part of project management for it supports effective and timely decision-making to steer project activities and improve performance (For further details on the logical framework in the context of cluster development initiatives see Box 2).

Evaluation is a periodic assessment of progress and the main reasons for success or failure (see Box 1 for further details). Monitoring provides essential data for the evaluation of projects. However, additional information is usually collected to better understand all factors that contributed to a project's success or explain why implementation was not successful. Thus, evaluation supports **learning** by stakeholders and helps to replicate successes and to prevent repetition of mistakes.

More specifically, evaluation is an assessment of a project's or program's:

- *Relevance* (e.g. given the organization's mandate, the country's policies or strategies or the beneficiaries' needs);
- *Efficiency* of how much resources were needed to generate results;
- *Effectiveness* (whether the outcomes were attained);
- *Impact* (on the beneficiaries); and
- *Sustainability* (whether the benefits will be sustained after the project).

Evaluations are usually run with the support of external expertise at fixed intervals, which usually are set as mid-term and final. Ex-post evaluations, a few months after project completion, are also possible, provided that the required funds are available. However, evaluations need to be planned from the very onset of a cluster initiative, to make sure that a baseline is established and that reporting procedures and tools are in place which will allow gathering and analyzing information at the set intervals.

Box 1: Assessing impact

The core task of evaluation is to assess the **additionality** of a cluster initiative which means (i) proving change and (ii) proving that this is attributable to the initiative.

Thus evaluation seeks to (see graph below):

- Draw a comparison of the cluster *before and after* the initiative;
- Assess change *with and without* the initiative, which implies isolating the influence of external factors such as the spontaneous evolution of cluster stakeholders, other development projects, or external macroeconomic factors.
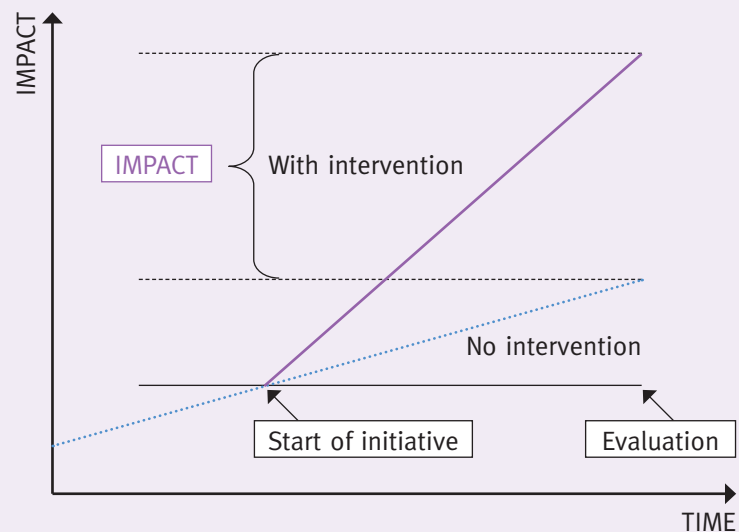

Fig. 1: Proving and attributing change

Box 2: The Logical Framework in the context of cluster development initiatives

The **Logical Framework** is a prominent tool for project planning, management and monitoring, which was developed for the US Agency for International Development (USAID) in 1969 and since then adopted by many bilateral and multilateral donor organizations as well as NGOs. It presents the logical structure of projects and summarizes linkages between impact, outcomes and activities. It also identifies key assumptions and provides indicators for monitoring and evaluation as well as means of verification for those indicators. Under the structure of the Logical Framework:

- the technical assistance provided under the cluster initiative is reflected in activities and outputs

- joint actions represent outcomes

- a performing cluster is the initiative expected impact

- pro-poor opportunities and benefits are longer term development objectives.

In greater detail, the levels of the results chain shall be understood as follows:

1. **Activities and outputs** are the elements of an intervention that fall under the direct control of the implementing agency. Activities are implemented by a Cluster Development Agent and associated experts and fall under three main categories: *facilitation, advice and capacity building*.

2. **Outcomes** represent changes in the behavior and operations of cluster stakeholders. They are facilitated by the cluster initiative but depend on decisions taken by the beneficiaries. As a whole, outcomes correspond to joint actions, i.e. activities that are collaboratively designed and executed by cluster stakeholders aimed at increasing collective efficiency. They fall under three categories: *inter-firm collaboration, improved market for support services and business friendly policy initiatives*.

3. **Impact** refers to a change in the performance of cluster stakeholders. In short it indicates improvements in business performance that derives from the concerted efforts of cluster stakeholders and would have otherwise been out or their reach. Cluster performance entails three dimensions: *economic, environmental and social*.

4. **Development objective** is the long term impact to which the initiative aims to contribute. This corresponds to pro-poor impact i.e. improvements in the capabilities of beneficiaries, including the poor, who participate in or reap the benefit from cluster production activities. The beneficiaries on whom a cluster initiative can reasonably expect to produce an effect are: cluster entrepreneurs, local suppliers and farmers, workers and job-seekers, consumers and service clients. In line with Amartya Sen's capability approach, pro-poor impact includes *improvements in economic, human and organizational capabilities*.
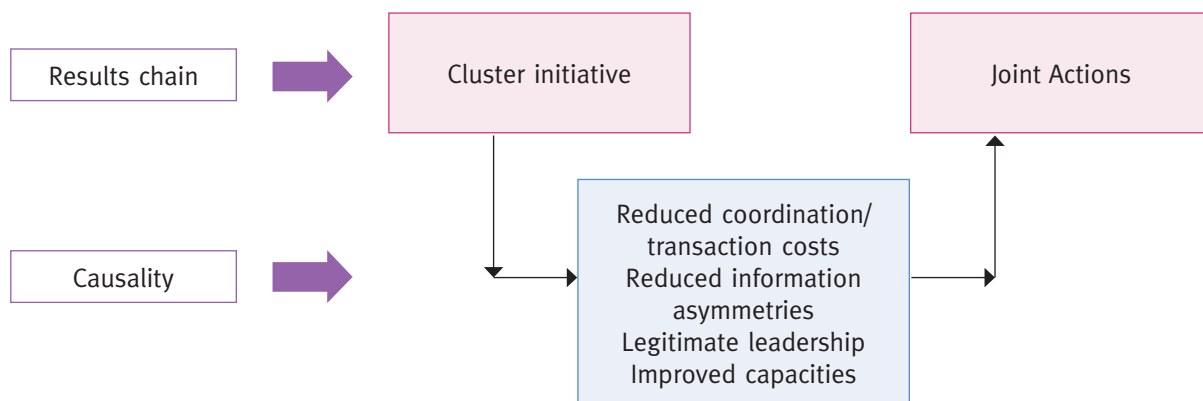
2.   The internal logic of the results chain in detail: understanding change

The internal logic of a cluster initiative refers to relationships and dynamics that explain the shift from one level of results to the following along the results chain.

Level 1: From cluster development activities to joint actions

Cluster initiatives provide two main streams of support. On the one hand, the Cluster Development Agent exercises a facilitation/brokering and handholding function that is aimed to drive down transaction and coordination costs and overcome the information asymmetries that are implied in collective actions. S/he does so by introducing practices of multi-stakeholders consultations, supporting firms in the formulation of joint business strategies, disseminating information, brokering linkages with support institutions and managing conflicts. The Cluster Development Agent also supports entrepreneurs or business membership organizations in assuming effective and legitimate leadership and representation functions, which facilitates policy advocacy and engagement in public-private dialogue.

On the other hand, cluster initiatives provide support in the form of training and institutional capacity building. These are geared towards the creation of skills and capacities that allow cluster stakeholders to effectively purse and reach collectively identified goals. The transmission channels through which cluster development initiatives lead to joint actions are summarized in the blue box below.

| Results chain	→	Cluster initiative		Joint Actions
Causality	→		Reduced coordination/ transaction costs Reduced information asymmetries Legitimate leadership Improved capacities	

Level 2: From joint actions to cluster performance

Joint actions produce manifold changes: these refer to the behavior of enterprises (from a go-it-alone to joint business strategies), the institutional context (customization of support services) and the policy framework (private sector tuned initiatives). The combined effect of these forces is an increase in the efficiency of business operations.

Since the level of efficiency that can be collectively achieved by the cluster stakeholders, through coordinated efforts, is higher than the efficiency levels that are at reach for isolated firms, joint actions can trigger improvements in cluster performance.
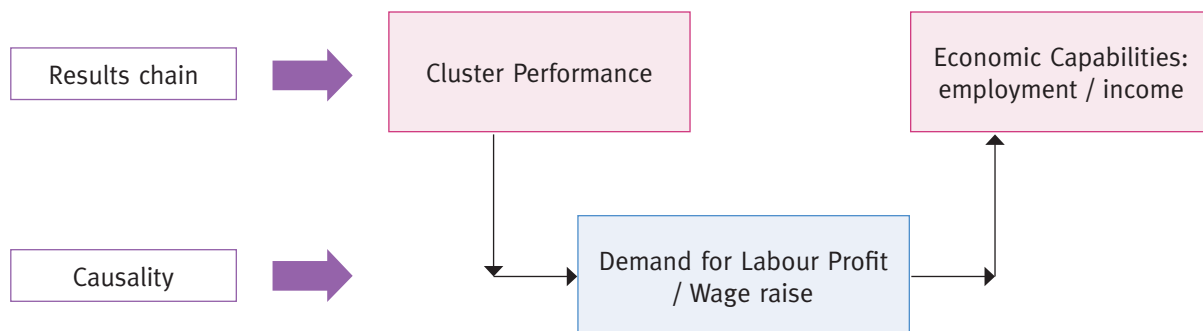
Efficiency gains include lower costs on production inputs and equipment, higher productivity, shorter production time and higher volumes, higher margins on products, lower costs for registration and business transactions. They also have a qualitative dimension that relates to improved product quality, access to new markets, access to finance and support schemes, value addition, reorganization of production layout, improved accounting systems, adherence to international standards and so forth.

This illustrative (and not exhaustive) listing of factors contributes to improve business performance in economic, environmental and social aspects. The economic aspect corresponds to returns, profits and re-investments. The environmental aspects are reflected in more efficient use of energy and environmental resources (water, raw material) and reduced waste and pollution. The social component refers mainly to better working conditions, stronger community-business ties and enhanced gender equality at the workplace.
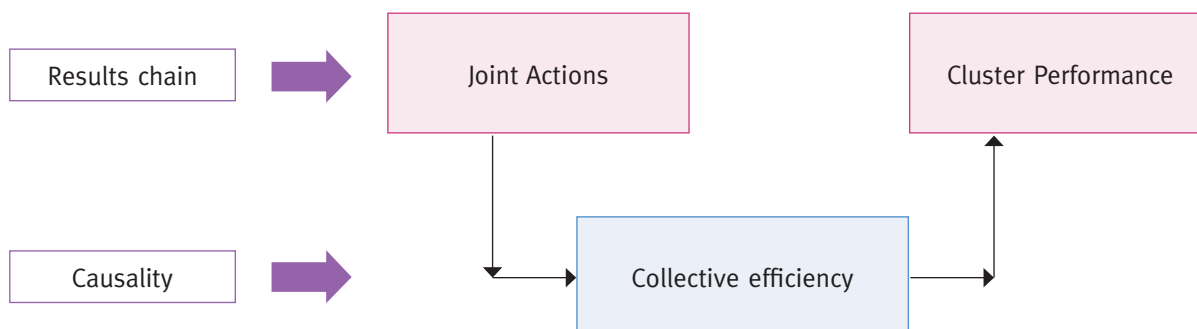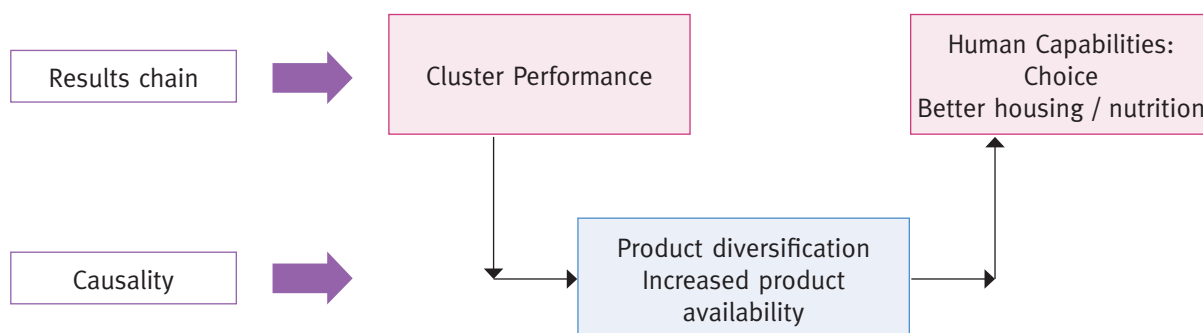
Level 3: From cluster performance to pro-poor impact

The logic linking cluster performance to pro-poor impact relies on the literature on private sector development and poverty reduction. This literature argues that dynamic firms generate, in the first place, new and better employment opportunities. When firms returns increase, wages and salaries can be raised, while a higher demand for production factors, including labor, is likely to produce new employment. In economic sectors that are more prone to competition and decline, firms with increasing returns are able to undertake investments in innovation that can increases and resilience, thus retaining jobs also in the wake of shifting market trends.

Results chain	→	Cluster Performance		Economic Capabilities: employment / income
Causality	→		Demand for Labour Profit / Wage raise	

The opportunities that can be generated by a thriving private sector include the production of new goods and services, which increases the choice for local consumers. Clusters that cater to poor consumers can also have a greater impact on human capabilities, for instance, when the availability and quality of affordable housing and nutrition is improved for low-income consumers.

Results chain	→	Cluster Performance		Human Capabilities: Choice Better housing / nutrition
Causality	→		Product diversification Increased product availability	

Protective capabilities can also be enhanced as a result of improved environmental performance of cluster firms, i.e. reduced pollution and exposure to hazardous production processes.

Results chain	➡	Cluster Performance		Protective Capabilities: Safer environment
Causality	➡		Reduced pollution / waste – Improved safety at work	
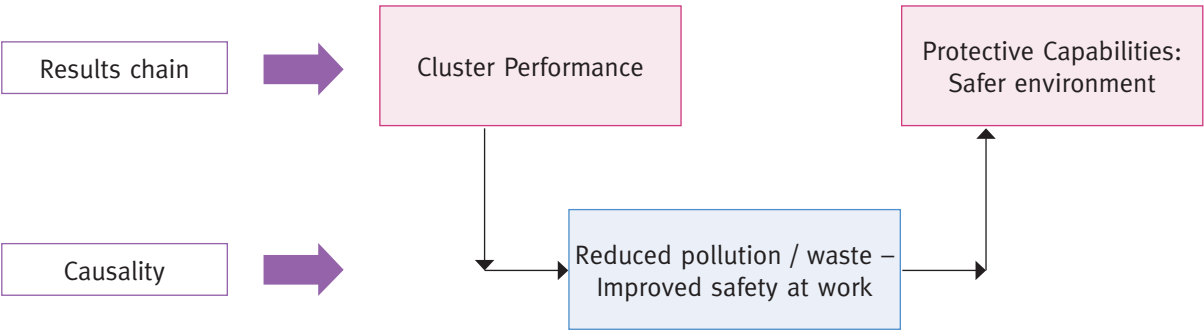
Participation in private sector activities can foster self-esteem and enhance dignity where it allows poor self-employed and workers to productively deploy their skills and assets and thus contributes to their empowerment. As a consequence, poor stakeholders will be able to voice their needs with greater confidence, identify leaders and participate in advocacy and decision-making processes, with an impact on their organizational capabilities.

Results chain	➡	Cluster Performance		Organizational Capabilities: Voice Participation
Causality	➡		Inclusion in productive activities Self-esteem	
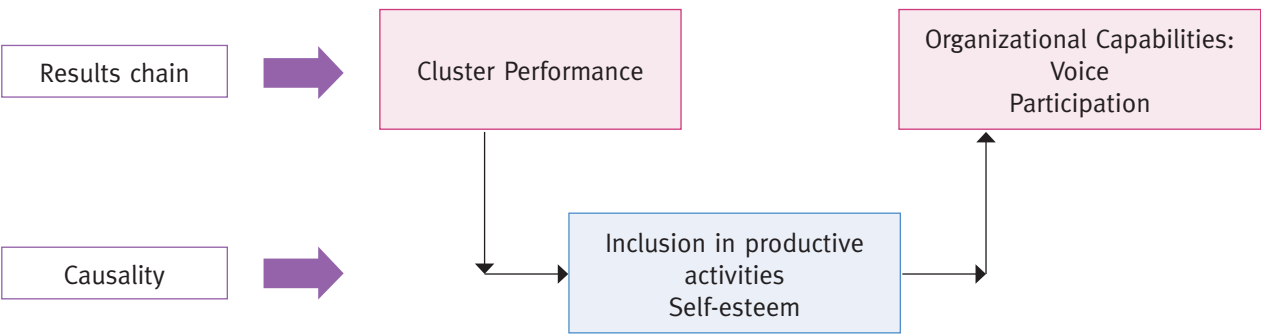
3.   The internal logic of the results chain in detail: understanding change

A cluster initiative that "does things right" may still fail to produce the expected results, if it does not take into consideration external factors that can undermine its effectiveness. These external factors, assumptions and risks, affect the shift from one level of causality to the following. Therefore, both assumptions and risks need to be monitored throughout the initiative in order to make sure that this is progressing in the right direction.

Assumptions refer to external conditions that need to be in place to ensure that (1) planned activities will produce expected results; (2) the cause effect relationship between the different levels of results will occur as expected. They can thus be understood as a set of "if-then" relationships, which need to hold true for project results to unfold (Fig.2). In other words, the context in which the project is implemented is vital in determining if activities lead to outputs, outputs lead to outcomes and outcomes contribute to impacts. The structure of the logical framework illustrates the role of assumptions in the results chain.

Risks are changes in the context of implementation that may adversely affect activities and results. The analysis of risks is relevant for it allows introducing mitigation strategies to ensure that the expected effect will unfold.

Assumptions and risk become more complex as we move up from cluster performance to pro-poor impact. This is because, as for all private sector development initiatives, there is no automatic 'trickle-down' effect of the immediate benefits from cluster development to pro-poor impact. At this level of the causal model, it is thus relevant to be particularly aware of the assumptions that underpin causality. Only when these assumptions are monitored and proven to hold true, a cluster initiative can reasonably expect to generate a pro-poor impact.

Fig. 2: Reflecting assumptions and risks
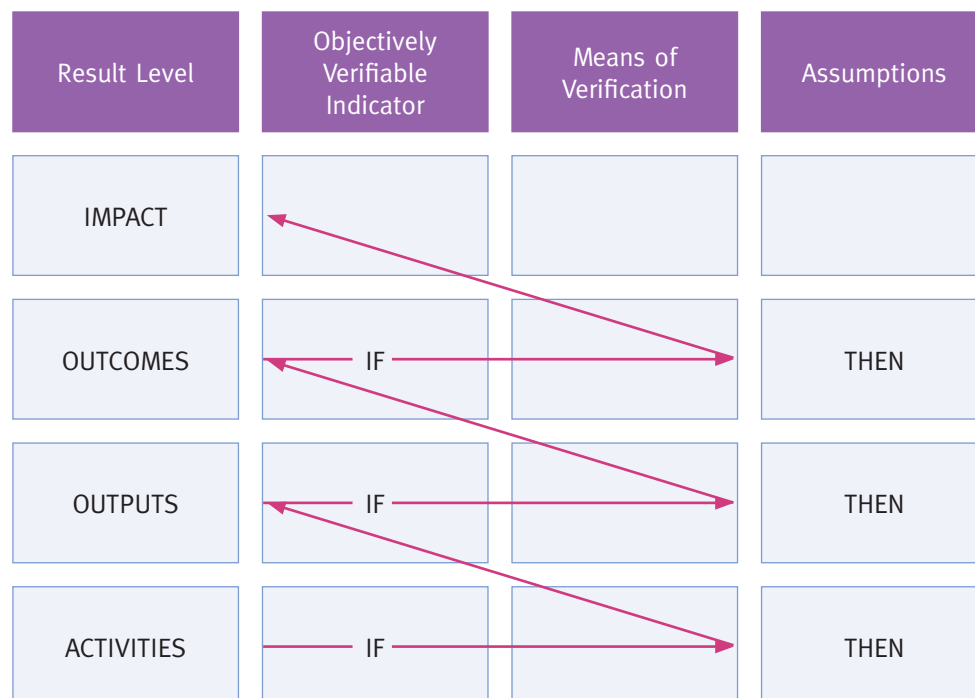
4.   The Attribution Gap

The discussion on assumptions and risks indicates that, as we move from cluster development activities towards pro-poor impact, the degree of control exerted by the implementing agency over results decreases progressively. While the implementing agency has full control over the delivery of activities and the achievement of outputs, the number of external factors that might influence the attainment of change increases greatly at the impact level. An attribution gap thus separates the intervention from outcomes and impacts. Box 3 describes the risks of time-lags jeopardizing pro-poor gains of an intervention and possible considerations to counter them.

The attribution gap raises a number of questions, which include how to account for change in an environment that is affected by multiple external factors, how to isolate the change that is produced by the initiative from change that could be triggered by other factors, how to deal with the time lag that separate activities from the achievement of impact. In a nutshell, addressing attribution means to define if and how much a cluster initiative has caused expected effects in the target cluster.

As we move from cluster development activities towards pro-poor impact, isolating the change produced by the project from that generated by other factors thus becomes increasingly complex. Evaluation methodologies allow determining causality with a fair degree of confidence up to the level of impact (i.e. cluster performance). However, the achievement of the long term development objective (i.e. pro-poor growth) is subject to a plethora of external factors. Ascertaining causality is thus less of a clear-cut process.

The attribution gap has practical implications on evaluation practices. It means that rigorous evaluation should entail the analysis of a counterfactual in order to establish whether the positive change that is observed on the beneficiaries is due to the cluster initiative and not to other factors that may be at work at the same time.

Box 3: Addressing the risk of time-lags in generating pro-poor gains.

While in the long term the development of a competitive private sector is expected to contribute to poverty reduction, there is a risk that in the short term the poor are excluded from the growth process. This may be due to three different sets of factors:

- "Trade offs" between private sector growth and poverty reduction, as when firms increase their returns and profit by shifting to more capital intensive production (growth) but, in so doing, shrink the labour force (reducing employment and thus exposing workers and their household to poverty).

- "Capabilities constraints" whereby a thriving private sector generates opportunities yet the poor are unable to take advantage of the same due to low levels of education, poor health conditions or discrimination and the like.

- "Exclusion" from access to services and other forms of support. In this case the bottleneck to the participation of the poor rests in the institutional and policy framework that is biased against vulnerable groups.

It is thus relevant to be particularly aware of the assumptions that underpin causality in cluster development initiatives. Only when these assumptions are monitored and proven to hold true, a cluster initiative can reasonably expect to generate the intended impact.
Various safeguards and mitigation strategies can help ensure that the cluster development initiative has a pro-poor impact. These include:

- following a pro-poor impact based cluster selection process;

- following a capability approach, focused at eliminating capability constraints that hinder the participation of the poor in the cluster economic activities; and

- following a right-based approach focused at promoting inclusion of minorities and particularly vulnerable groups that may have been marginalized from participating in economic activities in the cluster.

5.   Monitoring and Evaluation Practical Implications

The **management cycle** of Monitoring and Evaluation activities for a cluster initiative starts with the drawing of a **results chain**. This outlines how cluster development activities are expected to impact on cluster performance and how this contributes to pro-poor growth. The results chain will also make explicit the assumptions upholding result achievements.

Based on this logic, **indicators** are defined. They are derived from the result chain and are specific to the initiative at stake, with the exception of a few CORE indicators that are tracked across all cluster initiatives. Whenever possible, indicators will be disaggregated by gender. Sustainability indicators are also included to assess the likelihood of impact lasting beyond the initiative's life span.

A **system for measuring change**, an M&E system, is then developed. Reporting periods and formats are standard elements of the assessment. In contrast, the choice of methodologies for baseline collection, results evaluation and attribution is determined by the size and nature of the initiative. Smaller projects will use simpler methodologies, while large interventions need more substantial tools in order to provide convincing evidence of impact. Overall, credit should be given to other contributors to change.

In order to assess and improve the efficiency of an initiative, results must also be related to the costs of achieving them. Thus, an **accounting system** needs to be in place to track costs and produce reports.

Finally, a cluster initiative needs to **report on change** in key indicators at least annually, so that they can be (a) communicated to relevant stakeholders and (b) analyzed and used to adjust planned activities.

Each of the above requirements will need to be customized on the specific activities and expected results of a cluster initiative. The **graph below** illustrates which activities need to be carried out at which point in time. More information on each of these requirements is provided in the Monitoring Guidelines and Tools, which guides practitioners step by step through the process of adapting the Monitoring Framework for pro-poor cluster initiatives to a particular project.

Graph 3: A step-by step approach to operationalizing
the Cluster Development Monitoring Framework to your intervention

Monitoring

1. Clarify project objectives and fine-tune causal chain
2. Identify possible Risks and implicit Assumptions (R&A)
3. Identify key project stakeholders and corresponding information needs
4. Select KPIs to measure results

5. After a work plan and corresponding results are defined, confirm KPIs and select data collection methods
6. Determine frequencies for data collection
7. Assess R&As and identify suitable contingency plans
8. Determine responsibilities for data collection, analysis and reporting
9. Finalize Monitoring Plan
10. Collect baseline data
11. Set realistic target values for outcome and impact indicators based on baseline

12. Revise work plan
13. Fine-tune indicators to measure progress on expected outputs, outcomes and impacts
14. Monitoring plan is operational and resourced
15. Continuously monitor results and R&As
16. Regularly report on results and take follow-up action (adjust work plan/ monitoring Framework)

Assess achievements and lessons learned

Provide monitoring data for evaluation purposes

Accountability and Learning: Consult evaluation and final reports of similar projects

Project Identification → Cluster Selection → Cluster Diagnostic (and short-term actions) → Cluster Vision Building → Medium and Short-Term Actions by cluster stakeholders → Cluster Governance Structure → Exit / Cluster Sustainability

Accountability and Learning: Consult evaluation and final reports of similar projects

- Budget for evaluation
- Identify evaluation periods
- Identify evaluation criteria
- identify evaluation methods

MID-TERM EVALUATION

Prepare Terms of Reference (ToR) for evaluator

- Team recruited
- Data collection & and analysis
- Conclusion and recommendations
- Reporting and Follow-up decisions

Evaluation