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Photography & Icons: Photos from Bidhaa Sasa, Clara Yoon, Letshego Financial Services Mozambique, Mastercard Foundation Fund for Rural Prosperity, Rwanda Trading Company, and Great Lakes Coffee Uganda. Icons made by Becris, Darius Dan, eucalyp, Freepik, Good Ware, Smashicons, and srip from Flaticon.

About MEDA

Since 1953, MEDA has been implementing effective market-driven programs globally. MEDA combines innovative private-sector solutions with a commitment to the advancement and empowerment of excluded, low-income, and disadvantaged communities (including women and youth) with core expertise in market systems, financial services, and investment. MEDA partners with local private, public, and civil society actors, strengthening individuals, institutions, communities, and ecosystems, and thereby contributing to sustainable and inclusive systemic change.

About INNOVATE

INNOVATE – Adoption of Agricultural Innovations through Non-Traditional Financial Services, is a three-year initiative implemented by MEDA and funded by the International Development Research Centre (IDRC). MEDA and its partners are assessing the potential of non-traditional finance to enable large-scale adoption of agricultural innovations among women and men smallholder farmers.

Learn more: www.meda.org/innovate

About IDRC

The International Development Research Centre (IDRC) funds research in developing countries to promote growth, reduce poverty, and drive large-scale positive change. A Crown corporation, it supports leading thinkers who advance knowledge and solve practical development problems. IDRC provides the resources, advice, and training they need to implement and share their solutions with those who need them most. In short, IDRC increases opportunities — and makes a real difference in people’s lives.

About Mastercard Foundation

The Mastercard Foundation seeks a world where everyone has the opportunity to learn and prosper. Through its Young Africa Works strategy and Canadian Elev program, the Foundation works with partners to ensure that millions of young people, especially young women, access quality education, financial services, and dignified work. Mastercard Foundation was established in 2006 through the generosity of Mastercard when it became a public company. The Foundation is independent with its own Board of Directors and CEO. For more information and to sign up for the Foundation’s newsletter, please visit www.mastercardfdn.org. Follow the Foundation on Twitter at @MastercardFdn.

About the Mastercard Foundation Fund for Rural Prosperity

The Mastercard Foundation Fund for Rural Prosperity is a seven-year initiative set up to find, support and learn from innovative ideas that expand financial inclusion to smallholder farmers and other economically disadvantaged people living in rural Sub-Saharan Africa.

Since its launch, the FRP has awarded over US$ 42 million to its portfolio of 38 participating companies across 15 countries to improve access to appropriate savings, credit, and insurance products and services.

Learn more: www.frp.org

This work was carried out with the aid of a grant from the International Development Research Centre (IDRC), Ottawa, Canada. The views expressed herein do not necessarily represent those of MEDA, IDRC, or their respective Boards of Governors, or the Mastercard Foundation and its partners.
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Foreword

The Innovative Agri-Finance Challenge Fund Playbook is a collaborative effort by two fund managers to assist challenge fund managers, implementers, technical assistance providers, donors and other stakeholders in managing challenge funds effectively and improving their future design and implementation.

This playbook explores key features, guiding principles, lessons learned, and key recommendations from the experiences of the MEDA INNOVATE (hereinafter INNOVATE) initiative, and the Mastercard Foundation Fund for Rural Prosperity (hereinafter the FRP). These two funds seek to address constraints to financial inclusion challenges in the developing world, specifically among rural and smallholder farming populations. MEDA INNOVATE is funded by the International Development Research Centre (IDRC) and the FRP is an initiative of the Mastercard Foundation.

We hope that by sharing our experiences and insights, all the above stakeholders and other interested parties will apply the lessons and recommendations in implementation of future challenge funds.

Clara Yoon
Kevin Genga

Introduction

Challenge funds have proven their effectiveness in global development for stimulating innovation, encouraging managed risk-taking, and leveraging the capabilities of the private sector. However, donors and fund managers frequently analyze and question the mechanism’s effectiveness, ensuring that sustainability, replication, and scale-up continue beyond the lifetime of the grant funding. Effective design and management of challenge funds can help contribute to success.

You will find practical insights and guidance in the Innovative Agri-Finance Challenge Fund Playbook, which focuses on three key themes: innovation, managing for success, and sustainable impact. In doing so, the playbook discusses key features and guiding principles used in the design and management of two challenge funds, MEDA’s INNOVATE initiative and Mastercard Foundation Fund for Rural Prosperity.

The playbook shares lessons and makes the following recommendations for improving the impact of challenge funds:

- Foster attitudinal change towards risk investment
- Stimulate the ecosystem beyond the supported enterprises
- Allocate sufficient time to achieve significant results
- Shift reliance on donor funding to dependence on commercial viability
- Build learning into the fund design to capture lessons from the funded models
**MEDEA**

**INNOVATE at a Glance**

### 7 Innovations / Models Tested or Analyzed

**Tested:**
1. Revolving Loan Fund (Peru)
2. Non-Conventional Collateral Registry (Bolivia)
3. Bundling (Malawi, Nepal, Bangladesh)
4. Digital Wallet (Kenya)
5. Ag Tools on Credit & Group Liability (Kenya)

**Analyzed:**
1. Warehouse Receipt Financing (Pakistan)
2. VSLAs + Farmer Field Schools Model for Improved Ag Investment and Household Nutrition Outcomes / Diet Diversity (Rwanda)

### 20+ Unique Ag Innovations

- Drip Irrigation
- Drying Canvas
- Fertilizer
- Improved Seeds
- Grain Silos
- Hermetic Storage Bags
- Improved Seeds
- IPM
- Thai Jar
- Mini Tiller
- Sunflower Pump
- Plastic House
- Plastic Pond
- Hail Net
- Sprayers
- Sprinkler
- Water Tanks

### 3 Regions, 8 Countries

- Bangladesh
- Nepal
- Pakistan
- Kenya
- Rwanda
- Malawi
- Peru
- Bolivia

### US$ 539,281
Mobilized for Ag Innovation

### 12 Events with Partners + Key Stakeholders

(Online / In-Person)

- MEDA: 9
- CARE: 1 (Islamabad)
- PMN: 1 (Dhaka)
- Global Canopy: 1 (Lima)

### 4,219 Smallholder Farmers Adopted Ag Innovations via NTF Product/Service

- 30% Men (1,248)
- 70% Women (2,971)

### 3 New or Improved Finance Products Developed / Tested

- Wholesale Ag Loan
  - Muktinath Bikas Bank Limited (Nepal)
- Ag Loan
  - Bank Asia (Bangladesh)
- Weather-Based Insurance
  - Green Delta Insurance (Bangladesh)

### 8 competition phases held (innovation and scaling focused)

### Participants working in 15 countries** in Sub-Saharan Africa

### Over 3m customers reached through financial products and services

### Over 2m customers benefiting from financial literacy training/capacity building

### > US$ 42m committed to the portfolio

### Fund management teams and partners working across Africa

### > US$ 71m leveraged from participants

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*Data as of April 2020

** Data as of Dec 2019

** Burkina Faso, Burundi, Côte d’Ivoire, Democratic Republic of Congo, Ethiopia, Ghana, Kenya, Malawi, Mali, Mozambique, Rwanda, Sierra Leone, Tanzania, Uganda, Zambia
Key Concepts and Definitions

Defining a Challenge Fund

Challenge funds provide grants or concessional loans to projects and businesses with the potential to solve a defined development challenge. They are mostly used as a risk-sharing mechanism to induce specific market changes and to meet specific objectives such as improving financial inclusion, tackling specific health problems, or addressing climate change issues. Two key elements of a challenge fund are:

1. **Clearly defined challenge**: The challenge fund sets out to address specific objectives or needs where innovation is required to develop scalable and replicable solutions. In the case of INNOVATE and the FRP, the challenge was extending financial services to underserved rural populations and smallholder farmers.

2. **Risk-sharing mechanism**: The financial support is meant to encourage investment in sectors with high risk, whether perceived or actual, such as the agricultural sector. INNOVATE and the FRP triggered investments by agribusinesses and traditional and non-traditional financial service providers to develop products targeting smallholder farmer households. The ultimate aim is to demonstrate to others the potential gains and market opportunities in the sector.

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1 Chilver, A., van Diermen, P., and Jones, W., 2006, *Using Enterprise Challenge Funds to Promote a More Enabling Environment for Business: Challenges and Opportunities*.
The Evolution of MEDA INNOVATE and the Mastercard Foundation Fund for Rural Prosperity

MEDA INNOVATE and the FRP set out to address unique but related rural finance constraints. Below is a summary of the challenge leading to the design, development, and implementation of each fund:

<table>
<thead>
<tr>
<th>MEDA INNOVATE</th>
<th>MASTERCARD FOUNDATION FUND FOR RURAL PROSPERITY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The Challenge</strong></td>
<td><strong>How can non-traditional finance (NTF) be used as an effective vehicle to incentivize large-scale adoption of agricultural innovation by women and men smallholder farmers in Sub-Saharan Africa, Asia, and South America?</strong></td>
</tr>
<tr>
<td><strong>Eligibility</strong></td>
<td><strong>How can agribusinesses, financial service providers, and financial technology firms (fintechs) be incentivized to develop and scale innovative business models that promote increased access to financial services for at least 1 million rural people in Sub-Saharan Africa?</strong></td>
</tr>
<tr>
<td>• Proposed product, service, or model must fit the needs of farmers and unique contexts in an innovative array of single or multi-party financing such as in-kind credit, collateral substitutes, insurance, guarantees, leasing, etc.</td>
<td>• Surface new and existing financial and non-financial services and products to address the varying needs of the rural population beyond agricultural activities.</td>
</tr>
<tr>
<td>• Products, services or delivery channels that go beyond standard lending and savings to actively engage with farmers, investors, and entrepreneurs and that – offering a broader range of bundled services (financial and non-financial).</td>
<td>• Potential to resolve key constraints such as access to markets for producers and promote attitude change towards risk investment and delivery of sustainable financial solutions.</td>
</tr>
<tr>
<td>• Two categories of funding were available to either (i) pilot a NTF product/service focused on rapid testing and learning OR (ii) document through a case study an ongoing or completed initiative related to NTF.</td>
<td>• Potential to help stakeholders understand how financial services work for different segments of rural and agricultural households.</td>
</tr>
<tr>
<td></td>
<td>• Demonstrate what it would take for financial service providers (FSPs) to build verifiable models, products, and services to include the rural poor.</td>
</tr>
</tbody>
</table>

Like other challenge funds, INNOVATE and the FRP have evolved over time. The donors and fund managers used an iterative process to adapt these instruments to optimize development outcomes.

In doing this, the two funds incorporated the below approaches:

- **Previous challenge fund experiences/lessons informed instrument design.** Both organizations introduced new and improved ways of managing their challenge funds by working with different types of partners, supporting diverse projects and ideas, and integrating adaptive management into processes and overall oversight.

- **The FRP opted to tie grant advancements to project milestones.** INNOVATE did the same for a portion of the portfolio based on the contract value and complexity of the project. This encourages innovation and fosters commitment by the organizations receiving funds.

- **Both challenge funds required ‘skin in the game’ contributions from the participating businesses.** While the matched contribution types and proportions vary, the goal was to foster commitment, sustainability and mitigate moral hazards among those receiving funds.
**MEDA INNOVATE**

In 2016, MEDA held regional roundtables to engage agricultural finance stakeholders and experts to address the question, “which financial services can catalyze agricultural transformation among target market segments (smallholder farmers)?” The initial research undertaken by MEDA and the discussions and themes generated from the roundtables, contributed to the design of **INNOVATE - Adoption of Agricultural Innovations through Non-Traditional Finance**. This was a three-year research initiative (2017-2020) funded by the International Development Research Centre (IDRC). Using a challenge fund approach, INNOVATE set out to explore the potential of non-traditional finance in fostering the adoption of agricultural innovation by women and men smallholder farmers in South Asia, South America, and East Africa.

The awarded companies, INGOs, financial service providers, and research organizations conducted case study research or pilots. The case studies had smaller grants and timeframes than the pilot studies. Both studied new or existing products, services or models with the potential of catalyzing adoption of innovations to improve productivity, income, and the overall well-being of smallholder farming households.

**MASTERCARD FOUNDATION FUND FOR RURAL PROSPERITY**

Through previous work, KPMG International Development Advisory Services and Nathan Associates developed consensus that financial services could provide new pathways out of poverty for more than 70% of the total Sub-Saharan Africa population. Additionally, it was apparent that financial services had potential to prevent more people from falling into the poverty trap by increasing their ability to improve agricultural productivity, boost income, and ultimately improve their resilience.

The FRP was set up in 2014 to support and scale innovative and sustainable business ideas (by agribusinesses, conventional financial service providers and fintechs) that deliver financial services to rural communities. Through this support, the FRP contributes to building markets by transforming of rural financial services, and reduces market distortion and inefficiencies.

**Common Design Elements and Considerations**

INNOVATE and the FRP identified key considerations and principles that are useful to integrate into the design phase of a challenge fund:

**The Challenge**

The funder of the initiative identifies a specific development challenge that will be alleviated from using a challenge fund mechanism. Both challenge funds address a lack of financing solutions and agricultural innovations among rural populations and sought to:

- **Address financing challenges within the agriculture sector** by supporting solutions that improve smallholder farmer livelihoods
- **Embrace innovation and technology** as potential solutions or enablers
- **Provide evidence of scalability and sustainability** of proposed solutions
- **Provide evidence of additionality** (i.e. the proposed solution could not have been implemented without the funding support)
- **Identify and target geographic locations** of interest
Private Sector Partnerships

The funder and fund manager seek to catalyze the private sector to develop market-based solutions and address development/market challenges. As light-touch instruments, the approach builds on the expertise of the private sector, while ensuring value for money in implementation. Ideally, the financial support also promotes sustainability, and commercial viability beyond the life of the challenge fund. The FRP chose to work with private sector players to better achieve sustainability with the developed interventions. INNOVATE worked with both private sector players and international NGOs, who then partnered with private sector.

Competition Type

The fund manager determines the best process to attract diverse, innovative, and committed participants. Typically, challenge funds run open competitions by inviting interested and eligible organizations to submit a proposal; this ensures a transparent and fair selection process. In some cases, fund managers directly invite participants, particularly when the potential participant field is narrow, or the challenge is specific to eligible entities that are best placed to address the challenge. Both challenge funds ran open competitions.

Portfolio Diversity

The fund manager considers the kind of portfolio that will contribute to achieving the goals of the challenge fund. This could depend on the challenge fund focus and the geographical locations of interest. The FRP has 55% of its projects based in East Africa, despite deliberate marketing efforts to market competitions equitably. In retrospect, this is not surprising given the levels of mobile technological advancement and the maturity of financial services markets when compared to other parts of Sub-Saharan Africa. INNOVATE intentionally included projects across different continents to encourage portfolio diversity. In addition, INNOVATE promoted inclusion of new partners even when their experience was less than that of the usual donor recipients. However, including projects across many countries in a portfolio can stretch administrative resources and oversight challenges. It can also provide broad results and lessons rather than deeper ones, which have a bearing on the potential to realize systemic or policy changes.

Additionality

At the selection stage, the fund manager identifies whether providing financial support will catalyze further investment by the potentially awarded businesses. Evidence shows that grant funds can spur businesses to make investments faster or in more innovative ways than they otherwise would. Cunningham et al. (2013) suggest that grant funding can help influence lasting change. In practice, this is difficult to assess since participating businesses have a clear incentive to indicate they would not make the investment without receiving co-funding. The FRP included additionality as a selection criterion and projects were expected to show whether their project could proceed with or without funding support at the time.
Matching Funds

The fund manager clearly states the minimum matching fund contribution, if any, for potential business partners. This refers to the funding recipient’s own level of investment in the project, effectively their “skin in the game”. It is important for funded entities to contribute a proportion of the total required investment because this fosters commitment on the part of the funded institutions. By December 2019, both challenge fund portfolio projects contributed a minimum of 30% of the total project funding requirement. The FRP projects crowded-in funding in excess of US$ 71 million.

Learning Agenda

The fund manager prioritizes learning early on and integrates required processes throughout challenge fund activities. Learning agendas can help fill knowledge gaps, generate new evidence to apply to projects, and help guide performance management. USAID recommends using a generative research approach where fund designers develop a learning agenda at the design phase. Alternatively, fund managers can use evaluative research, which reveals common trends, themes, or insights across the portfolio during implementation. The fund stakeholders can use the information to analyze how the challenge fund (as a whole or certain initiatives) may or may not be catalyzing change at an ecosystem level.

Early on INNOVATE and the FRP established learning agendas that capture and integrate themes that emerge from the projects. INNOVATE’s learning series focused on customer centricity, smallholder products and services, decision-making, and policy regulatory transformation. The FRP learning agenda focuses on customer experience, business model profitability and sustainability, insights on digitisation initiatives, and business partnerships.
The experiences of INNOVATE and the FRP provide valuable information for fund managers on innovation, managing for success, and impact and sustainability.

**Innovation**

Challenge funds enable funded organizations to engage in creative problem-solving. They also allow these organizations to spread the risk of testing and validating new or improved business models, service delivery models, technologies, and approaches to address market and development challenges.

Both funds demonstrate that challenge funds can produce cutting edge ideas that increase access to and adoption of financial services for rural people. The proposals that the challenge funds received illustrate the range of innovation possible. These include transformative projects in production and cultivation, post-production/cultivation handling and processing, use of improved inputs and technologies, adoption of ICT, new business practices and models, supply chain transactions and efficiency, inclusion and equitable opportunities, shifts in societal, gender or community norms, and revenue generation for market actors.

Among the innovative business models coming out of both challenge funds are a digital marketplace platform, a solar powered agency banking technology, expansion of a product catalogue, and a mobile agri-wallet.

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The criteria used to assess applicants included:

- **The potential for the proposed idea** to change access to financial services for smallholder farmers in the target regions.

- **The intervention itself**: Is it new to the financial services sector, new to the country, new to the continent? Or is the innovation reaching new or underserved customer segments in ways that are affordable and accessible?

- **Scaling methodology**: How does the proposed solution intend to reach financially underserved markets at scale?

- **Innovation principles and practices**, such as being ‘agile’ or ‘lean’, guided partner selection.
Twiga Foods, Kenya

The FRP supported Twiga Foods to develop and introduce a mobile application for ordering fresh produce. Vendors use the application to order stock and can access credit to order more stock. This linkage improves sales and farmer incomes. The platform is being upgraded to deliver credit scoring data.

The Pilot

To develop and introduce a digital marketplace platform linking fruit and vegetable farmers and vendors.

The Business Model

Twiga Foods is an agricultural fintech company. The company ensures vendors can access quality products at competitive prices, leveraging an efficient sourcing and delivery model. Twiga Foods also provides credit services to its vendors. The company:

- Specializes in linking farmers and vendors through a digital marketplace.
- Enrolls farmers and digitally pays for the produce collected within 24 hours.
- Operates produce collection centres and packing houses where the produce is processed, graded and dispatched across more than 60 sales routes.
- Ensures more than 8,000 vendors conveniently receive quality products at their business locations.
- Supports transparent and efficient delivery of farm produce to the vendors.

Watch this video to learn more about Twiga Foods
AGENCY BANKING

Letshego Financial Services, Mozambique

The FRP-supported innovation, LetsGo Blue Box, is a solar-powered agency banking technology that leverages biometric authentication in order to onboard customers. It provides simple cash in and cash out solutions for rural customers in Mozambique. When the technology was funded, it was new in a market faced with high financial exclusion rates. The project intends to expand its innovative offering to include credit services.

The Pilot

To support financial inclusion of rural communities in Mozambique through agency banking.

The Business Model

Letshego Mozambique is a subsidiary of Letshego Holdings Limited. The company seeks to be a leading inclusive finance bank serving over 4 million customers by 2021. For Letshego:

- It deploys an agency banking model enabling biometric authentication and onboarding of customers, and verification of customer transactions. It also provides simple savings and loan solutions.

- It uses a biometric approach to promote greater financial inclusion among less formal rural customers that can carry out transactions without Identity cards, a phone, or Personal Identification Numbers.

- LetsGo Blue box uses solar power to charge machines making it possible to perform financial services in off-grid locations.

- The technology rollout empowers rural agents to embrace the LetsGo Blue Box through an incentive sharing model.

Click to learn more about Letshego’s project
CATALOGUE EXPANSION

Bidhaa Sasa, Kenya

Using an experiment-driven approach, the INNOVATE research challenge grant enabled the company to test agricultural products so it could learn which products customers wanted and could afford. At the end of the project, the company added five agricultural products to their catalogue.

The Pilot

To expand a last-mile product catalogue for home goods to include agricultural tools.

The Business Model

Bidhaa Sasa is a last-mile distribution and finance company operating in Western Kenya. The company serves rural ‘last mile’ customers, who are mostly women. Bidhaa Sasa’s culture is learning and experiment-oriented, and inspired by the Lean Startup methodology. The company:

- Specializes in offering affordable, accessible products (~$60-100) on credit
- Uses a direct sales-style distribution and finance model centered on women’s groups
- Offers products with high potential to improve women’s quality of life at home or on the farm
- Allows clients to pay for products on a payment plan via M-PESA (no need for collateral or a bank account)
- Enables clients to buy the product in a group of at least five; the product acts as collateral and members act as co-guarantors

Download Bidhaa Sasa’s case study for in-depth lessons and findings
MOBILE WALLET

Dodore, Kenya

The FRP supported the development of an innovative mobile wallet. It enables farmers to save, to earmark savings for specific agricultural purposes, to receive pre-payment for their crops, and to access credit. Dodore also participated in the INNOVATE portfolio and conducted research in partnership with the University of Nairobi on the Agri-Wallet to further analyze the effectiveness and impact of the product with a control group of 100 potato and tomato producers.

The Pilot

To develop and scale the digital wallet, called the Agri-Wallet, to reach 37,000 smallholder farmers.

The Business Model

Dodore Kenya Limited is a fintech company financing actors in the agri-food supply chain through a digital wallet to mitigate risks and promote transparency across the supply chain.

- Farmers access simple and affordable agri-finance
- Farmers are linked to off-taking services
- Farmers receive training to save and borrow from Agri-Wallet for their agribusiness

Download this case study to learn more about the Agri-Wallet and findings from the INNOVATE-funded study.
Managing for Success

Adaptive Management

When supporting private sector partners, fund managers should be aware that the challenge fund initiative is not the only priority of the participating companies. To achieve agreed upon milestones and to gather and disseminate useful lessons from each project, fund managers must support participants and allow justifiable pivots. Partners may need to shift milestones when, for example, there are significant changes in personnel or in market conditions.

An example of adaptability is the INNOVATE hypothesis testing form, which looked to reduce the reporting burden for its challenge fund partners. This reporting framework encouraged partners to reflect on their learning throughout the project lifecycle. It also eliminated the cumbersome and lengthy reports associated with many funding initiatives.

The FRP has also accommodated a number of pivots from participants implementing key projects, such as permitting adjusted business models or project operation countries. For example, due to changes in coffee regulations in Tanzania, the Rwanda Trading Company (RTC) changed their project implementation country to Rwanda.

Future challenge funds should be sufficiently accommodating to unforeseen disruptions in regional and global markets. The COVID-19 crisis presents one such situation for challenge fund partners. Fund managers should analyze the evolving environments in which their partner organizations are operating. This will allow joint actions to mitigate the potential impact of disruptions.
Customer Centric Project Management

At its core, customer centricity is an approach that puts the customer (in this case, the partner businesses in the challenge fund) at the centre of all business decisions, processes, and actions. This approach is a key driver of innovation that fund managers should take in order to better support funded partners. Customer centricity is also relevant for managing and achieving the overarching goals of challenge funds. Both challenge funds have been responsive to customer needs in, for example, the disbursement of funds, feedback loops, and building trust.

Disbursement of Funds

The FRP tied its participant disbursements to achieving interim milestones, which are tracked through regular bi-annual reporting. However, when it realised that the report reviews and finalisation process were delaying disbursements, the FRP delinked the two processes by instituting lighter reporting requirements. As a result, it reduced turnaround time without compromising accountability.

INNOVATE disbursed funds based on certain milestones or on a reimbursement basis. Because donors and fund managers have different reporting requirements and processes, MEDA learned that sharing the requirements upfront and providing clear tutorials helped partners and resulted in faster financial reporting and disbursement.

Feedback Loops & Building Trust

Both challenge funds incorporated customer centric principles and practices early on and encouraged partners to adopt this throughout project implementation. To ensure success, fund managers need to actively engage with clients and partners and be available to troubleshoot or respond to issues. This means using communication tools, tactics and strategies that ensure feedback loops are in place and regular check-ins are scheduled.

This approach not only ensures regular reporting on progress or financial expenditure, but also helps the stakeholders to build trust and better support partner organizations.

As-Needed vs. Embedded Technical Assistance

In the design of challenge funds, technical assistance (TA) may be embedded upfront, be provided on an as-needed basis, or not at all. Since challenge funds are generally meant to be light-touch instruments, fund managers must be realistic about the kind of TA they can offer and its achievable impact.

- INNOVATE provided technical assistance on an as-needed basis, and in doing so, considered a range of factors, such as the support required and requested by partners and the skills and availability of the roster of experts and consultants. CIDRE IFD, a microfinance institution in Bolivia developed an application to enable loan officers to register and track non-conventional collateral (documents, livestock, machinery etc.). Early in the project, MEDA worked with CIDRE to adopt a lean and agile approach adapted from best practices used in software and application development. CIDRE used the information and feedback to design a plan to develop and test a minimum viable product (MVP), rather than spending a lot of time and effort on developing a fully developed registry system. The MVP was the first of its kind in Bolivia.

Download this case study for more in-depth lessons and results from CIDRE’s pilot experience
• The FRP participants had TA components built into their project budget. This meant that the fund manager had limited control or role in the provision of TA to projects, except that related to financial reporting. However, as the projects have evolved, it is increasingly evident that some financial markets have capable TA experts to support the projects while some lack the required expertise.

In future, challenge funds can build in structures to ensure quality TA support whether provided upfront or as needed. In doing this, the fund manager should recognize some partners may not have in-house expertise and that sourcing relevant experts must be done in a transparent and cost-effective manner. If TA is considered to be a critical offering by the challenge fund, specific budget should be itemized for its provision while ensuring there are no conflicts of interest.

Balancing Success and Failure Through Iteration and Learning

With innovation comes setbacks. Success is not guaranteed, even with a combination of robust systems, feedback loops, monitoring, and partners. ‘Failure’ in the context of a challenge fund initiative has different implications than it does compared, for example, to poor business performance that affects a private equity investment. When such project setbacks do happen, the challenge fund can still gain valuable learning and insight. With this knowledge gained, new tools and thinking, the fund can evolve its existing operations and future challenge funds to better support its portfolio.

The FRP supports practical problem-solving among participating businesses because most paths to success and achieving impact are not linear. Even the most innovative models face market and resource challenges, or constraints linked to lack of supportive regulations or infrastructure. It is critical to continue documenting and sharing insights on the participant and their beneficiary journeys and communicating stories, results and learnings to all stakeholders. This information supports the evolution of current programmes and the development of future ones.

Because of the learning and research focus of INNOVATE, MEDA anticipated that some project design and implementation would diverge. INNOVATE supported partners, when they needed to pivot, while keeping in place the overall goals of the project. For example, I-DEV International initially planned to test and experiment with a Pay As You Go (PAYG) model, mobile money, and solar-powered drip irrigation systems in Peru, a market where all these innovations were very new, especially among rural smallholder communities. A few months into the project, it became clear it was not feasible to keep going with the original design. There was enough room in the budget and timeline to shift to developing and testing a financial mechanism that was more familiar to the targeted farmers and to an agricultural innovation (locally available drip irrigation systems) that was more affordable.

Download this case study to learn more about I-DEV’s experience and learnings
Impact and Sustainability

As a development tool and approach, challenge funds aim to stimulate innovation and create development impact while also catalyzing initiatives that will be sustainable or replicable. However, challenge funds also face criticism. Some debate their limitations and whether they are effective in generating innovations that truly contribute to transformational systemic change.\(^2\) Another common criticism is that challenge funds tend to focus “heavily on expanding the size and scale of innovative activities with high pro-poor potential, without clearly understanding the wider behavioural impacts on the market system following the introduction of such an innovation.”\(^3\) Below are some key examples and lessons from the FRP and INNOVATE around impact and sustainability.

Impact

To assess progress against their objectives and mandates, both challenge funds carry out ongoing portfolio impact analysis at three levels: the smallholder farmer, the private business or organization, and the ecosystem level.

---

Smallholder Farmer Level Impact

The impact included increased access to and use of financial products and services; increased access to and use of agricultural innovations; and behavioural change in agricultural activities or household decision making.

- Through its learning agenda, INNOVATE observed that measuring impact at the household farmer level must go beyond traditionally collected metrics like income or whether a farmer has a bank account or access to a loan product. INNOVATE also learned that having credit alone is not enough. Having quality inputs, information, services and trusted relationships are also critical and valuable for farmers.

- The FRP intentionally tied the individual project measurement indicators to key themes; the impact on customers, the impact on the business models, experience with digital technology and data analytics, and lessons on business partnerships. This enabled the FRP to understand that potential changes in customer behaviour leads to the adoption and use of the developed products and services. In addition, the FRP is conducting impact studies across select portfolio businesses and will share the resulting insights through its website and other communication channels.

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\(^3\) Ibid.
Private Business or Organization Level Impact

The impact on funded organizations included an improved understanding of customers; change or improvement in a product or service offering; and an improved approach to product development.

Both challenge funds received proposals and business cases that have validated their business models and solutions to varying levels of success. For more, see the examples in the annex.

Ecosystem Level Impact

The impact on ecosystems include the uptake of project results, research and findings; and replication of business models within the industry.

Measuring specific ecosystem impact and change is not only difficult to do but takes significant time as well. Despite incorporating impact on the ecosystem in the project log frames, it is evident that learning whether it occurs may take longer than the time allotted to the project, and perhaps longer than the lifespan of the challenge fund. However, the two programs determined that multi-stakeholder involvement, especially that of regulators, could be the difference between making a successful ecosystem impact or not. The cases of the CIDRE pilot in Bolivia and Futurelink Technologies in Uganda, which are described in the annex, illustrate this.

Sustainability

Both challenge funds were keen to support sustainable businesses and business models. Relevant lessons learned by the two funds include the following:

- Fund managers need to understand that not all projects will achieve success in reaching scale and influencing replication.
- Fund managers must define a challenge fund exit plan/strategy at the onset of the fund, and encourage partners to either identify other funding opportunities (grants, debt, equity) or work towards commercial viability according to their business’ strategy and plans for scale and growth.
- Having matching funds contributed by the participating businesses provides some level of assurance that projects will be able to sustain their initiatives beyond the life of the challenge funds.
- Fund managers must examine and collect data throughout implementation and during the close-out phase of each project. They should understand how partners will use the results, lessons, and insights in ongoing or future plans. INNOVATE conducted a close-out survey with each partner to understand whether they thought the learning/project goal was achieved and how the lessons and results will be used moving forward. The FRP is in the process of documenting the impact and results of its portfolio and continues to see evolving business models in search of sustainability.
Challenge funds will continue to play an important role in catalyzing innovation and growth in developing markets. However, fund managers and donors alike want to ensure that the funds will be effective in solving the identified development problems. In other words, they want to know how the investment realizes the intended impact. The *Innovative Agri-Finance Challenge Fund Playbook* has identified some practices used by INNOVATE and the FRP to enable sustainable and inclusive development and achieve greater impact. By adopting them, fund managers and donors can improve the effectiveness of their challenge funds.

**Foster attitudinal change towards risk investment**

When INNOVATE and the FRP focused on addressing a lack of appropriate financial products and services within the agricultural and rural markets, the initiatives resulted in service providers and innovators paying more attention to a largely underserved agricultural market segment. As the achievements of the two funds through their participating partners are highlighted, the ecosystem is attracting additional funders, investors and private organizations to develop and provide complementary solutions to this segment. We attribute this to behavioral changes and perceptions by stakeholders towards this important sector. We urge other players to continue documenting and disseminating their insights and knowledge as this crowds in additional investments.

**Stimulate ecosystem development beyond the funded enterprises**

INNOVATE and the FRP supported 10 and 38 initiatives, respectively, knowing that these entities alone cannot spur ecosystem changes. Fund managers play an important role in not only supporting funded projects, but making connections among partners and generating lessons and insights useful
for future challenge funds. In addition, the fund managers learned that prioritizing intentional engagements with ecosystem actors including regulators, policymakers, bankers, and research organizations, can accelerate the improvement of the business environment and achieve the desired impact on supply and demand markets.

**Allocate sufficient time to achieve significant results**

It is important for fund managers and donors to align timelines with the effort and coordination required to achieve the desired impacts. INNOVATE and the FRP are three- and seven-year-long initiatives, respectively. Both challenge funds have ambitious goals to foster investment and innovation in financial and non-financial services for smallholder farmers for more prosperous and resilient lives. Further research and analysis is needed to assess appropriate timelines to sufficiently design, test, prove, replicate and scale innovative business models, and achieve the necessary participation of regulators, government agencies, civil society, or other key actors in the process. Filling this research gap can help donors and fund managers appropriately design and build in sufficient time for not only testing innovations and business models, but coordination required to contribute to systemic change.

**Shift reliance on donor funding to dependence on commercial viability**

One of the greatest critiques of challenge funds is that some organizations may become dependent on donor funding. It is in the interest of funders to have organizations use grant funds to test and refine specific business models in order to support commercially viable entities that will attract alternative funding sources. In designing challenge funds and other instruments, fund managers need to work with applicants to put in place sustainability plans so as to mitigate the risk of donor/grant funding reliance. Fund managers should establish an exit strategy for all funded organizations. The strategy can include linking participating organizations to sustainable commercial funding vehicles in the long term. In this regard, the FRP is actively seeking partnerships with complementing peers, potential funders and capacity building organizations and linking these with portfolio participants for collaborations and onward-funding possibilities.

**Build learning into the fund design to capture lessons from the funded models**

Fund managers who continuously assess and learn from the funded business models will generate insights that inform modifications in the design and identify the adjustments to be made to business models. Fund managers can use the insights to inform and contribute to ecosystem discussions. INNOVATE and the FRP, for example, have used their learning agendas to disseminate insights around rural financing models, products, and services.

**On the spectrum of development finance capital, challenge funds can incentivize the private sector by sharing risk and fast-tracking innovation to tackle complex challenges in higher-risk sectors or underserved markets. The experiences of INNOVATE and the FRP alike demonstrate the opportunities to learn and improve how challenge funds are designed, managed and how success is measured. As donor priorities and development challenges evolve, utilizing challenge funds as risk-sharing development tools requires critical reflection and analysis. Fund managers are uniquely positioned to learn throughout design and implementation to improve efficacy and value for money — while achieving the impact and results for sustainable development and inclusive growth among rural or underserved market segments.**
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**Annex: Examples of Three-Tiered Levels of Impact**

**Farmers**

- The *Finserve project* in the FRP portfolio seeks to scale rural financial inclusion in Kenya using the *Equitel* Mobile Virtual Network Operator. Using an Equitel Subscriber Identity Module (SIM), Finserve is delivering a composite of services, including banking, financial literacy, an agricultural capacity-building platform and microinsurance. To date, the FRP-supported project has on-boarded more than 480,000 rural customers who actively access banking services such as savings and credit facilities from the convenience of their phones and at remote agent locations. Additionally, customers access a microinsurance cover, Riziki cover, which compensates beneficiaries between US$ 4-25 per night when they are admitted to hospital; improving the resilience of households to health-related shocks.

- *iDE Nepal* in partnership with Muktinath Bikas Bank in the INNOVATE portfolio seeks to increase the incomes of rural households through investment in climate-smart agriculture technologies in vegetable production. The project, which focuses on women and marginalized groups, and offers a service bundle that combines agricultural loans; crop insurance products to stimulate commercial vegetable production; access to technology and inputs through community agents; and extension services/technical support. The pilot supported 1,104 clients (832 women, 182 men) to access and use loans to purchase different agricultural technologies (improved seeds, drip irrigation, greenhouses etc). The participating farmers realized a three-fold increase in their average annual vegetable income (up to US$ 800) and increased their use of improved agricultural technologies from an average of 1.8 to 3.3 at the end of the pilot. Learn more about the pilot, the final results and impact [here](#).
Institutions

- **Easy Solar** in Sierra Leone, a Pay as You Go (PAYG) company in the FRP portfolio, which finances solar products to off-grid customers, had to innovate its classic PAYG product after realising that the high down-payment excluded the poor, and limited the penetration of mobile money payments among remote and dispersed customers. To rectify this, Easy Solar introduced the sale of an entry-level solar lamp on a rent-to-own payment plan in an effort to build customer relations and density.

- Agronomy Technology Limited (ATL) in the INNOVATE portfolio analyzed a non-traditional finance model in Malawi, called Chithumba. The case study findings demonstrated the need to segment and customize Good Agricultural Practices (GAP) training for farmers. Chithumba offers a bundled service that includes inputs on loan, GAP training and advisory services, and marketing services. A key learning from the partner revealed:

  “This [challenge fund] grant provided a fantastic opportunity to step back from the implementation of the model and to focus on ‘understanding’ our clients’ needs and behaviour. It allowed us to confront those needs with actual behaviour. The Chithumba model was built based on the assumption that stated preferences would translate into action if ‘unlocked’, but this study revealed that there are more barriers than anticipated to drive adoption and achieve the targeted outcomes.”

Ecosystem

- MEDA’s CIDRE pilot experience reveals that even though the pilot was intended to have a wider impact on the ecosystem and industry, external factors such as political changes and crises can affect such plans. CIDRE aimed to develop and test the registry system first within its operations, then to hand it over to a public bank, BDP (Banco de Desarrollo Productivo). BDP focuses on rural development and manages sector-specific trusts (grains, livestock etc.) It is mandated to implement a non-conventional collateral registration scheme. But in 2019, Bolivia underwent a political crisis and transition, which prevented CIDRE from getting the buy-in and handing over the registry system.

- Some projects are reporting incidences of cooperation and co-implementation with regulators such as **FutureLink Technologies in Uganda**. This fintech develops core-banking systems for the microfinance industry. Through FRP support, FutureLink developed a shared agent and mobile banking solution for the Savings and credit co-operative (Sacco) sector. To implement the project, FutureLink gained support from the Sacco Regulatory Authorities in Uganda. The project has so far signed agreements with over 270 savings societies in Uganda; a clear demonstration of ecosystem development. The project has on-boarded more than 100,000 new users, who have transacted more than US$ 6.2 million through the channel.
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