



CHALLENGE FUNDS

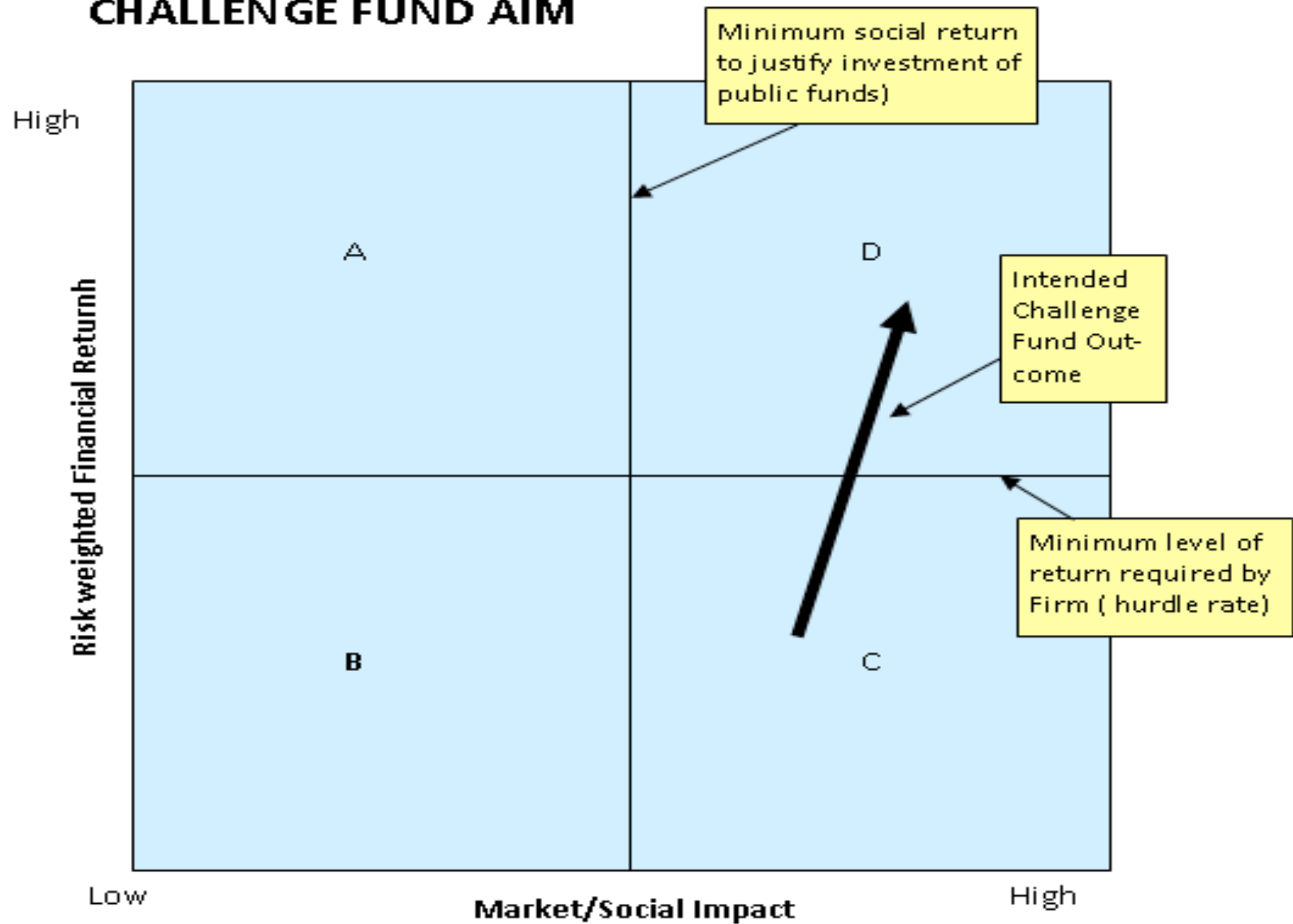
NATHAN • EME

Nathan Associates Inc. **Emerging Market Economics**

RATIONALE

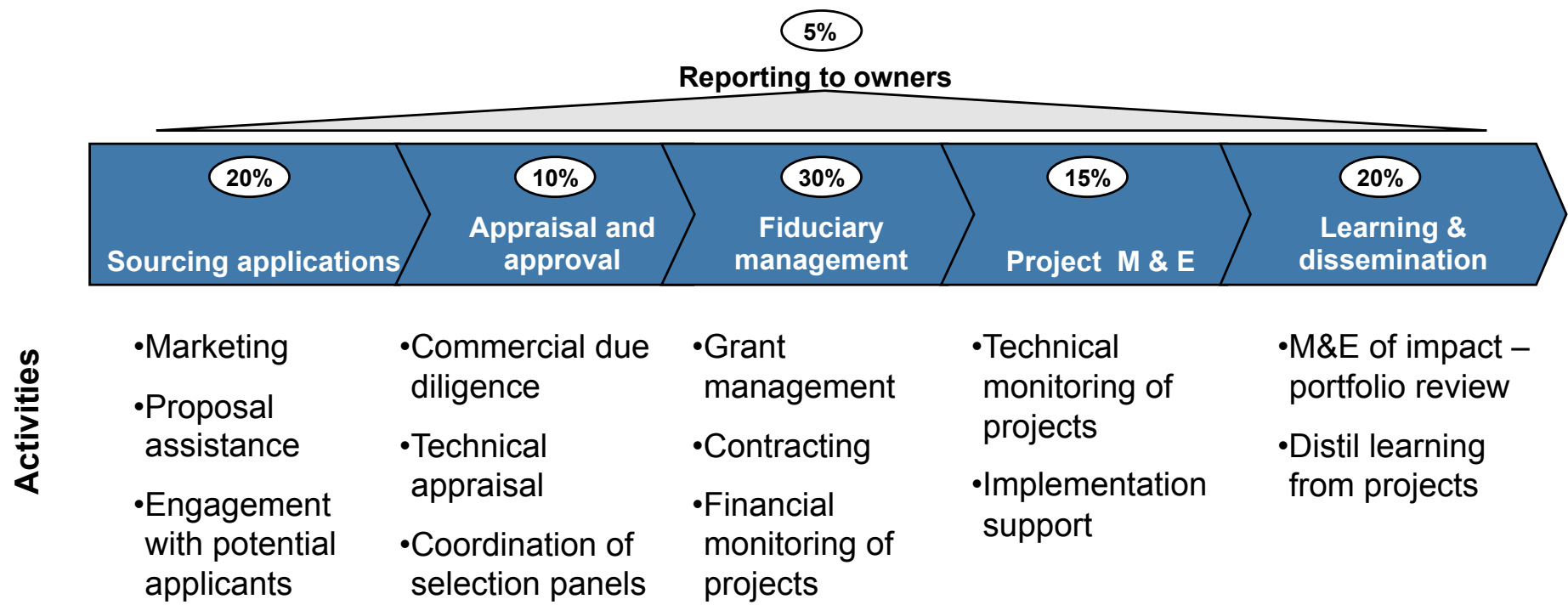
- Individual creativity and energy find answers to private needs for goods and services. The same creativity and energy can also be enlisted to find solutions to public and development needs.
- Harness the strengths of the private sector – the ability to generate and test new ideas, rapidly abandon them if they do not work and scale up those that do.
- Align Business and Development objectives

CHALLENGE FUND AIM



CHARACTERISTICS

- Open, transparent competitive processes
- Additionality
- Sharing Risk
- Innovation
- Poverty reduction-social returns
- Sustainable
- 'Light touch'



Challenge fund management process

Key learning:

1. Sector expertise necessary
2. Marketing must be precisely targeted and highly pro-active
3. Fund Manager must be private sector friendly
4. Governance - Split roles of manager and decision maker essential
5. Multiple rounds

SUCCESS FACTORS

- The consortia/partnerships have proved useful to the businesses;
- There has been support and engagement from senior management;
- Some flexibility has been allowed in the implementation of the project, including the innovations involved;
- Recipients have not been donor funded before;
- There has been real competition for the funds available;
- The private partner has truly shared in the risk involved in the project.

PROS

- Stimulate innovation by the private sector - with social benefits
- Less risky than PSD programmes
- Open and responsive - no attempt to pick winners – rather “start races” – can move CSR to core business model
- Can achieve ‘systemic change’
- Operate in real time basis – no big studies to second guess market requirements
- Market distortions minimised (once-off, time bound, business plan-linked project finance)
- Leverage private investment (1:4)
- Light touch, efficient instruments

CONS

- Response may be very diverse lessening impact;
- If private sector is weak – capacity to implement causes failures
- Management costs can in fact be quite high, especially in relation to smaller funds
- Systemic change is not a necessary outcome

1st generation CFs: key examples

Purpose and history

<p>Development Marketplace (1998-present*) World Bank \$34m [*awards still being made]</p>	<p>Started as an internal competition for World Bank staff teams to put forward ideas for development projects. Evolved into Global Competition (DM 2000) for anyone interested in development issues. Followed by 6 country DMs (2001/2). Started first sector-specific global competitions in 2005. Has invested in more than 800 projects in more than 60 countries. Pool of funding set for each challenge. Awards range from \$40k-\$200k. Recipients include NGOs, academic institutions, firms, government agencies, donors.</p>
<p>Pro-Poor Innovation Challenge (2000-present) CGAP \$3m</p>	<p>Gives grants of up to \$50k through a global competition to innovative MFIs that demonstrate a commitment to sustainably reaching clients excluded from mainstream microfin because of econ, geographic or cultural factors. Recipients need not be for-profit organisations. Focus on smaller institutions below conventional donor radar screen.</p>
<p>FDCF (2001-2006) DFID \$32m</p>	<p>Competitive grant facility to promote partnerships with the priv sector to harness its resources to develop and implement innovative and commercially viable fin services that improve access to fin services for the poor and lead to high levels of pro-poor economic growth. Intended to change the behaviour of private companies. Firms required to make matching contributions.</p>
<p>BLCF (2001-2006) DFID %34m</p>	<p>Competitive grant facility to support demand-led business linkages from private sector co.s that deliver growth and poverty reduction. Firms required to make matching contributions. Applications came from various sectors. Window for EE projects opened during course of programme.</p>
<p>Centre for Financial Services Innovation (2003-present) ShoreBank/Ford Foundation</p>	<p>An affiliate of ShoreBank, capitalised by Ford Foundation. Aimed at financial services industry in US. Provides funding for innovative solutions focused on low-income individuals. Counsels and supports projects in addition to providing core funding. 2005 round chose 4 non-profit projects and 1 for-profit investment, with additional for-profit investments to come.</p>
<p>Grand Challenges in Global Health (2003-2006) Bill & Melinda Gates Foundation \$450m</p>	<p>Gates Foundation identified 14 grand challenges (e.g. finding a vaccine for malaria), the solutions to which would transform public health in developing countries. Scientists and researchers were invited to submit research applications to draw from the pool. 43 awards already made in 33 countries with an average contribution of +/- \$10m. Administered by Foundation for the National Institutes of Health, the Wellcome Trust, and the Canadian Institute of Health Research.</p>