# Challenge Funds

## Collaboration with the private sector

To encourage the private sectors' contribution to development and poverty alleviation, Challenge Funds invite companies to compete for support for good ideas in the same way that researchers apply for funds from a research foundation. Project proposals are measured against each other in an evaluation process based on predetermined and fixed criteria.

### WHAT IS A CHALLENGE FUND?

A challenge fund is a financing mechanism to allocate funds for specific purposes using competition among organisations as lead principle. A challenge fund invites companies, organisations or institutions working in a targeted field to submit their proposals.

Challenge funds are often set up to meet specific objectives – such as extending financial services to people in poverty; finding solutions to a specific health problem in developing countries; as a means of triggering investment to certain high-risk markets; to stimulate innovation for effective use of water resources, etc. The scope of using challenge funds for creative problem-solving in development is very wide and holds considerable potential.

### HOW IT WORKS

Proposals are assessed against transparent and pre-determined criteria. The challenge fund awards grants to projects that best meet the objectives of the fund.

Challenge funds are defined in time, for example they can operate for 3 years with a specific number of challenge rounds. The challenge fund might not only provide outright grants, but also other forms of contributions, such as technical support. Another model of support, used by for example the African Enterprise Challenge Fund (AECF) is repayable loans, meaning that a loan is due to be repaid only if a project is commercially successful, otherwise it is written off.

All business oriented challenge funds apply a cost-sharing formula. Cost-sharing is applied as it creates commitment by the applicant as well as risk-sharing. Also, it provides leverage of donor funding.

EXAMPLES OF SIDA-SUPPORTED CHALLENGE FUNDS

**Innovations Against Poverty**

The Innovations Against Poverty fund provides matching grants (maximum 50 %) to entrepreneurs or companies with innovative products, services, systems or business models that serve and create opportunities for and benefit people living in poverty.

Examples of projects that have received support include new types of battery chargers, rural renewable energy, municipal sanitation, safe drinking water and agribusiness advisory services.

IAP is open for applicants from all over the world and also has a special window for the Middle East and North African region.

**The Africa Enterprise Challenge Fund**

The Africa Enterprise Challenge Fund (AECF) supports profitable ways of raising rural incomes by developing markets for products and services that meet the needs of rural areas in Sub-Saharan Africa.

Sida supports two windows within AECF; one working with agri-business and one focusing on agri-business in post-conflict countries.

**Seed Alliance**

Seed Alliance is a challenge fund aimed at Internet development and digital innovation. This fund supports initiatives that utilize new technologies to make pro-poor projects more effective and inclusive. The main focus of the fund is; openness, inclusion, rights and access.

**Powering Agriculture**

The agricultural sector is the most important source of income for many people living in low-income countries, but lack of access to reliable, clean energy is a major barrier to its development. Powering Agriculture is a grand challenge for development that encourages innovative technological and financing solutions for providing reliable and clean energy to the agricultural sector in low-income countries.

CONTACT
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