

## CASE STUDY: Contributing to Systems Change

Insights from the IAP Challenge Fund



The goal of the IAP Challenge Fund is to maximize long-term positive social and environmental impact for people living in poverty, by providing catalytic grants to businesses to establish innovative and inclusive business models. IAP tries to select inclusive business ideas that, once proven technically sustainable and commercially viable, have the potential to be scaled to continue generating benefits for larger numbers of people living in poverty. Impact at scale should be able to sustain itself and continue to grow over time. Besides gaining access to additional financial investments, systems change will also be required, so that large numbers of people can structurally exit poverty and social exclusion.

Systems change is about addressing structural barriers that prevent systems from functioning for all. Structural barriers can be found in the ways in which systems are governed, supply and demand dynamics, availability of finance and support services, and people's attitudes and behaviours. The inclusive and innovative private sector initiatives that IAP invests in are all about creating opportunities to improve the lives of people living in poverty, with a specific focus on agri-food, energy,

and water systems in four different country contexts (Cambodia, Ethiopia, Uganda, and Zambia).

By partnering with businesses that address systemic barriers, the Innovations Against Poverty programme has helped unlock key bottlenecks and paved the way for scaling business opportunities. This positive demonstration effect may stimulate responses from other actors, such as replication and crowding in.

Some development practitioners consider broader systemic change out of the scope of a challenge fund instrument such as IAP, given the size of the fund, the broad geographical and sectoral spread, the limited level of maturity of the businesses, and the limited depth of support (time and capacity) normally available from the fund management team. However, the IAP team has noted that over the longer term, some contributions to systems changes can be observed, and lessons can be distilled for the development of new strategies for challenge funds. Innovative and inclusive investments in small and growing businesses can contribute to systems change, even if this is not planned nor specifically supported by the project.

### The Six Dimensions of Systems Change

SNV uses a simple framework for understanding and analysing systems change. The six dimensions in the framework help frame our assessment of systems change achieved under the IAP programme.



### Influencing policies and regulations

#### *Oats for all in Ethiopia*

Oats-based food products, which are gluten-free and an excellent source of important vitamins, minerals, fibre, and antioxidants, are widely consumed globally. They can play an important role in addressing the issues of food security and nutrition.



In Ethiopia, although oats have been grown for thousands of years, it was mainly seen as an animal food crop. It was claimed that human consumption of oats would lead to infertility. Government extension services discouraged oats production and human consumption. Led by CEO and founder, Ms Alem Greiling, Nutridense Agroprocessing PLC pioneered the popularisation of oats-based products across Ethiopia in 2016. Since then, the company has been working in collaboration with the Ethiopian Institute for Agricultural Research (EIAR) on introducing an improved variety that provides better yields and nutrition.

#### *Formalizing land ownership in rural Zambia*

MEDEEM is a Zambian company that applies a private sector approach to formalizing land rights. MEDEEM provides farmers with accurate measurements, using the latest land survey technologies, of their tillable land and issues parcel certificates (*ParcelCert*®) which are signed by the traditional leadership and are freehold. This land can then be transferred from generation to generation. MEDEEM brings this process of land registration directly to farmers at a cost they can afford.

MEDEEM pays special attention to securing land rights for women, thereby trying to address the issues of insecure ownership to land and challenges in accessing credit. A farmer with a legally recognized parcel certificate is more bankable once the land is secured. Lenders can assess the risk associated with the farmer's loan profile from the precise location and size of land indicated on the certificate. Knowing the exact size of the land also enables farmers to estimate more accurately the proper quantities of seed and fertilizer for optimal crop production.



MEDEEM also conducts land surveys in newly settled areas and issues *Occupancy Licenses* that are signed by the District Council. These are valid for a shorter period of time (30 years). The process of convincing the various levels of government, as well as traditional leaders, to endorse MEDEEM's customary land rights documentation service took some time, but by now over 40,000 parcel certificates have been registered and the company is expanding to more parts of the country.

### Increasing private sector resource flows

The IAP grants act as catalytic financing to get innovative products or services to the market, and prove that these can be profitable for the companies while creating benefits for people living in poverty. IAP grantees are asked to make a 51% co-investment. In the two most recent funding rounds, own contributions were valued at

at EUR 12 million in contrast to the IAP grants disbursed at EUR 6.3 million.

With the initial proof-of-concept secured, companies can scale the sales of their products or services and reach more people living in poverty. This requires additional financing. We have seen that the demonstration effect of successful innovations, as well as the results of IAP's efforts at improving internal systems, procedures, and legal requirements, is convincing funders to invest. Over the project period, an additional EUR 32 million in financing was mobilised by the IAP companies themselves (50% debt, 29% equity, and 21% grants).

### Kick-starting new practices and markets

Several IAP grantees brought new products to the local market. In Zambia, 260 Brands is selling soya-based beverages using locally sourced soya beans from smallholder farmers. The other soya milk available on the Zambia market is imported and only found on shelves of hypermarkets for the middle to high income earners.

In Ethiopia, Melkam Endale Dairy Processing is marketing whey juice. Whey is a byproduct of milk processing that normally is discarded. It is, however, highly nutritious. The flavoured whey juices, packaged in small containers, are the first whey-based product on the Ethiopian market. In doing so they also had to influence policies, as during the product development process Melkam learned whey products could not be registered in the country. So the company invested its own resources to support a standard by the Ethiopian Standard Agency (ESA) and in July 2023, the Whey Product Standard was released by the ESA for any business that wants to engage in whey production.

Other healthy food items specifically targeting the low-income market are



produced by Yellow Star in Uganda, as well as Nutridense and Truluv in Ethiopia. Their focus is mostly on producing and marketing fortified cereal-based products for both rural and urban low-and middle-income consumers, sourcing the raw ingredients from smallholder farmers.

### Influencing practices and attitudes

Smallholder farmers tend to be risk-averse and take a short-term outlook on minimizing production costs. Smallholder farmers often look for immediate financial returns, even if this means they are not maximizing yields and income. This attitude has a negative effect on soil fertility in the long term, as longer-term investments and practices are rarely the norm. Smallholder farmers often struggle at the start of the growing season to buy the required inputs. When it comes to selecting seed and fertilizer, farmers do not always know about the various products available and are unable to make a well-informed cost-benefit analysis.

Several IAP-supported investees (Solar Green Energy, HUSK and East West Seeds in Cambodia, Mukusu Motors in Uganda, Mesafint and Jemma in Ethiopia, and Afriseed in Zambia) have shown how it is possible to successfully change smallholder farming practices and attitudes. Increasing smallholder adoption levels of higher priced organic fertilizer, improved seeds, and farm mechanization, involvement in seed multiplication, and access to solar-driven

irrigation means that the economic rationale behind these practices result in higher yields, longer-term reduced production costs, better quality produce, better prices, and higher incomes. A solid awareness raising campaign, demonstration events, champion farmers, and an effective last-mile distribution system are all key success factors to reach these level of increased adoption.



### Conclusion

The Innovations Against Poverty programme may not have a conscious generation of systems change at the fore of its goals, due to the limited size of the fund, and the broad spread across geographies and sectors. Nevertheless, contributions to positive systems changes, can be observed. These demonstrated positive results point to the influence that successful inclusive businesses can generate in their respective contexts. When businesses are supported to take necessary risks, it can initiate a change in the wider market system.



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