Intervention tactics

04

Buying down risk

Cost-sharing is used by programmes to help buy-down the risk of a market actor trying a new innovation. This tactic is useful when a potential partner understands the benefits and risks of a new venture, and just require a small safety net to increase their confidence throughout implementation.

The Microlinks Wiki on buying down risk to develop win-win relationships offers further guidance on when buying down risk is appropriate.

VCD Wiki: Value chain selection
Online guide to USAID's approach to selecting value chains.

Cost-sharing can involve:

- Directly subsidising some of your partner market actors' costs or the innovation itself;
- Using subsidies on the customer side, such as through vouchers or coupons, to increase demand for your partner market actor's service;
- Working with an "indirect" market service provider in subsidising their service to your partner market actor;
- Using challenge funds or other forms of competitive process that guarantees awardees a subsidy in exchange for testing innovations. These should be employed carefully and with a high degree of certainty as to the market failure that the challenge fund is meant to address.

Enterprise Challenge Fund: mid-term review

A review of ECF's work to overcome market failures and stimulate private sector investment.

Cost-sharing can be risky as it may distort market behaviour without leading to behaviour change in the long term. The size of the cost-share should also be carefully calculated; it should not be high enough that potential competitors could never crowd-in on the innovation. Otherwise, the programme will have to work in other ways on reducing the cost or barriers to entry for the competition. Likewise, they should not be used to cover operational costs that do not involve any new risk on the business's part.

Good practice in cost-sharing:

- Avoid utilising standardised cost-sharing modalities – the cost-share agreement should always be based on the actual risk.
- Understand or "right-size" your processes ahead of time to ensure that you can move as fast as the private sector does, or at least this can allow you to set expectations.
- Ensure that whatever offer you are making as a programme is not too good to turn down; you want the partner to be motivated by the change, not by the potential short-term gain from your offer.
- Avoid fixing a series of organisation-specific problems, one after another, rather than problems you see across many organisations/across the sector

The BEAM How To! develop strong partnership agreements includes examples of how to structure agreements in ways that are less cumbersome for potential partners.

Managing partnerships with the private sector for inclusive growth includes further guidance on how to 'right size' your offer.