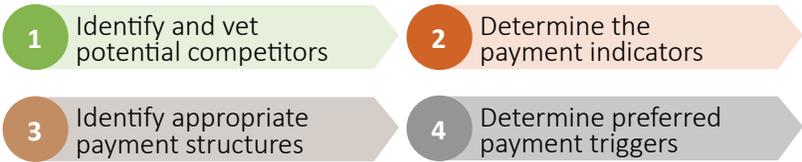


This brief provides a high-level overview of Structuring Prizes, the third phase of AgResults’ Pay-for-Results prize competition design process. For step-by-step instructions and detailed guidance on all five phases of design, check out [AgResults’ Pay-for-Results Prize Competition Toolkit](#).

IMPACTFUL DESIGN AT A GLANCE: STRUCTURING PRIZES

The third stage of prize design is prize structuring, where designers create the set of parameters and rules that determines who competes, how to win the prize, and the implementation timeline. Designers structure prizes by identifying potential competitors and then choosing payment indicators, structures, and triggers to create an effective and motivating prize. AgResults has pinpointed four steps to structure prizes to drive long-term market change:



In this phase, designers must guard against creating perverse incentives that might undermine success.

Terms to Know

- Competitor:** A private sector actor that has a vested interest in working with smallholder farmers and competes for and receives the prize.
- Prize:** A monetary award paid to a competitor if/when their verified results show they have achieved the prescribed criteria.
- Prize Structure:** The set of parameters and rules that determine who competes, the timeline, and what they need to do to win a prize.
- Indicator:** An objective and measurable proxy that serves as the basis for prize payment.
- Trigger:** An event, calendar milestone, or situation that prompts an evaluation of competitor results.

Step 1 Identify and Vet Potential Competitors

After developing a Theory of Change and identifying at what point in the value chain a prize will intervene, designers identify possible private sector competitors. Projects can be competitor-agnostic, but depending on the parameters, designers should understand which actors are better suited to participate than others. Potential competitors should display at least one of these ‘ideal’ traits:

- Have **existing relationships with beneficiaries** and understand their needs.
- Have **self-sustaining operations**, either self-funded or through established access to finance.
- Want to **enter or expand in the market** but need incentives to overcome current constraints.
- Could collect or share **high-quality data** of activities or sales suitable for prize verification.

Designers can gauge how closely competitors align with these four criteria by engaging technical and industry experts as well as competitors. It’s also useful to assess the relevant policy and enabling environment to ensure it allows for legitimate and fair competition.



Step 2 Determine the Payment Indicators

After identifying viable competitors, designers develop payment indicators to measure competitor performance and determine prize payments. A ‘payment indicator’ is an outcome or result that the competition can measure to decide which competitors qualify for a prize.

Payment indicators vary depending on the project’s aims and the actions it incentivizes. AgResults has used various payment indicators, such as the number of inputs/technologies sold, the development and registration of a new vaccine, or reductions in greenhouse gas emissions.

Characteristics of Effective Indicators

Payment indicators help or hinder competition success. ‘Good’ payment indicators are directly linked to program goals and desirable outcomes for target populations. Alternatively, ‘poor’ payment indicators may create perverse incentives, encouraging competitors to advance undesirable or unrelated outcomes.

AgResults recommends that selected indicators are:

- **Directly tied to an output** that the competitor can achieve.
- **Directly linked to the intended outcomes** with minimum potential for gaming.
- Achievable in the **intended project timeframe**.
- **Objective, measurable, and verifiable** by independent parties.

Designers should consult with subject matter experts and with competitors to determine their willingness to be measured against these indicators.

Evaluation Indicators vs. Payment Indicators



In contrast to payment indicators, evaluation (non-payment) indicators are not directly linked to competitor actions but can help measure program outcomes and overall impact.

Step 3 Identify Appropriate Payment Structures

Next, designers determine the payment structure, which resolves the conditions for how competitors will share the total prize – paid on a per-unit basis, proportionally, as a grand prize, based on performance thresholds, or as an advance market commitment (AMC). When choosing the payment structure, designers consider the behaviors and results that it encourages or inhibits and how those impact program goals. Payment structures can be combined within a single project, but there are no firm rules for how and when to combine them. Designers should create a prize whose structure aligns with the achievement of the program’s objectives — for instance, product innovation and adoption.

AgResults recommends using one or more of these payment structures:

- **Proportional:** Competitors vie for a pre-determined prize pool based proportionally on to what extent they achieve the prescribed outcomes. The most successful competitors receive a larger percentage of the prize pool compared to less successful competitors. For instance, a competitor who sells 26% of the products receives 26% of the \$1M prize purse.
- **Per-unit:** Competitors receive a prize based on the number of units sold or delivered (e.g., competitors receive \$1 for each product they have sold).
- **Threshold:** Competitors receive a lump sum or per-unit prize for surpassing a specific indicator threshold. For example, a competitor might receive a per-unit prize of \$10 for every unit sold if they sell more than 1,000 units. The competitor that sells 1,000 units receives a prize of \$100,000 while the competitor that sells less than 1,000 units receives no prize.



- **Grand prize:** One or more competitors receive the full prize upon reaching a successful outcome. For example, the competitor that sells the most products receives \$1M, the competitor with the second highest sales receives \$500,000, and third place gets \$250,000.
- **Advance Market Commitment (AMC):** Competitors receive a purchase guarantee at a specified price/volume when they develop a product or solution (e.g., competitors are guaranteed a purchase agreement of \$1M for 1,000,000 units of a product if they develop it).

Step 4 Determine Preferred Payment Triggers

After choosing and testing a payment structure, designers determine the payment trigger(s), which is an event, calendar milestone, or situation that prompts designers to evaluate competitor results and decide if and how to disburse awards. Payment triggers shape the type of competitors that participate, their willingness to innovate, and the speed with which competitors achieve scale. AgResults has applied four types of payment triggers to its competitions:

- **Endline:** Endline payments are made at the end of the program and may vary in size based on the degree of success. Competitor progress is assessed against payment indicators when the competition wraps up, and prizes are paid accordingly.
- **Scheduled:** Scheduled payments are made to competitors with qualifying performances at each interval (e.g., annually).
- **Gateway:** Often starting small and increasing at each gate, gateway payments are sequentially ordered and based on achievement gates that competitors must ‘unlock’ to progress.
- **Milestone:** Milestone payments are made as competitors achieve performance targets—not always sequentially—which enables them to address different targets as they prefer.

Mitigating Perverse Incentives during Prize Structuring

When selecting indicators, structures, and triggers, program designers must consider how certain decisions can create perverse incentives. Perverse incentives can unintentionally motivate actors to work toward undesirable results that clash with program designers’ intentions. Selecting inappropriate indicators, structures, and triggers might create scenarios that encourage unsustainable or exploitative behavior, invite gaming, or create long-term market distortions. For example, an indicator that counts ‘women farmers’ could motivate some men farmers to sign up their wives but not allow them decision power. To avoid this perverse incentive, the competition could build in safeguards to check that participating women are properly involved in activities and decisions, such as inclusive training and spot checks. Designers should ensure that the chosen indicators neither exclude or benefit certain actors nor create these kinds of perverse incentives.

Wrap-Up

Strategically identifying competitors and developing payment indicators, structures, and triggers enable designers to craft a prize structure with high potential to drive sustainable market systems change that benefit program beneficiaries. Designers may need to revisit initial assumptions during this process to ensure the approach will drive desired outcomes and guard against perverse incentives. When designed and implemented effectively, prize competitions can mitigate competitor risks and encourage private sector actors to develop new business models or reach previously untapped markets.

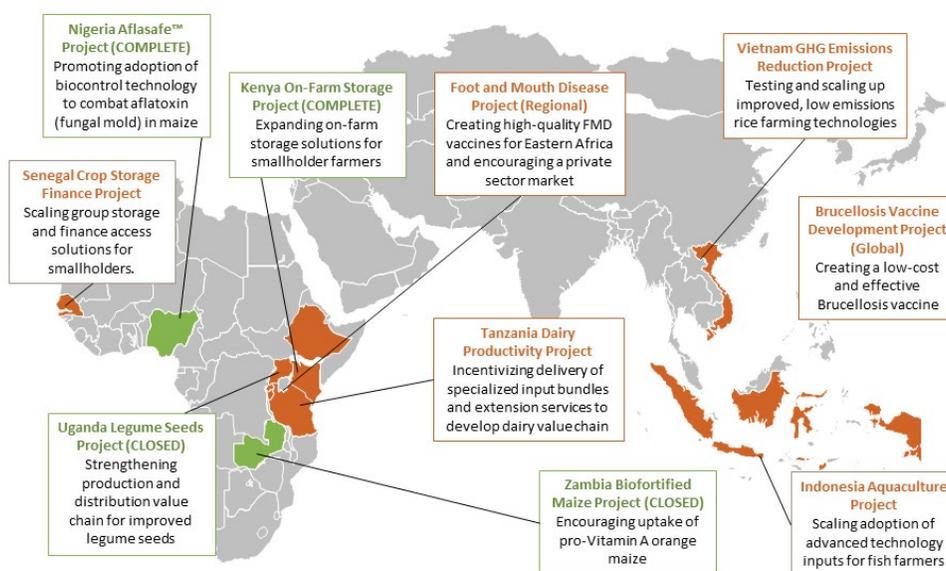
Want to learn more? For step-by-step instructions and detailed guidance on all five phases of design, check out [AgResults’ Pay-for-Results Prize Competition Toolkit](#).

About AgResults

AgResults is a \$152 million collaborative program between the governments of Australia, Canada, the United Kingdom, the United States, and the Bill & Melinda Gates Foundation that funds agricultural Pay-for-Results prize competitions. Since 2013, AgResults has designed and implemented these competitions to incentivize the private sector to overcome specific market barriers and solve food security challenges — particularly for people living in poverty. AgResults competitions fall into one of two categories: 1) prizes that incentivize the Research and Development (R&D) of a new solution or product to address a market failure; and 2) prizes that encourage the development of innovative delivery models and encourage smallholder farmers to adopt an existing product or service at scale.

For more information on AgResults' approach, as well as its current portfolio and suite of learning products, please visit <https://agresults.org/>

Our Portfolio



Our Impact



For more information, check out Learning Library on the AgResults website: <http://www.agresults.org/learning>



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info@agresults.org