SAARC DEVELOPMENT FUND (SDF)

SOCIAL WINDOW STRATEGY PAPER

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Executive Summary

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This Social Window Strategy Paper outlines the way forward for refining the Social Window program and ways to raise funds. One of the primary objectives of this strategy paper is to improve and sharpen the focus of the Social Window funding based on the experience since 2010. A key aim of this paper is to make a conscious policy move towards funding of social enterprises which are sustainable, scalable and which have the potential to be able to access formal finance from financial markets and financial institutions. It also outlines a roadmap for the mobilization of funds for the social window projects funded by the SDF Secretariat. Another key feature of this strategy paper is to diversify the nature of implementing agencies as well as to simplify the procedures and processes for efficient project delivery.

Social Window Strategy Paper

1. Background:

The SAARC Development Fund has been in operations since the year 2010. In terms of Article 4 of the SDF Charter the Fund began its operations by activating the Social Window from its inception in 2010. This Strategy paper attempts to put together the future strategy for the Social Window keeping in view the various experiences and lessons learnt by the Fund in funding Social Window projects. Some of the aims of this strategy paper are as follows :

   i.   To improve and sharpen the processes and procedures in the Operations of the Social Window of the Fund.
   ii. A need to move towards funding of Social Enterprises[1].
   iii. A requirement to focus on Implementing Agencies (IAs). While SDF has been mostly working with Implementing Agencies (IAs) which are Government agencies (who have their own challenges in terms of human resources and processes) there is also a need to diversify to other IAs.
   iv. A need to rethink / review the requirement of Lead Implementing Agencies (LIAs) keeping in view the technical expertise of the IAs themselves which can be augmented by the technical expertise of consultants where neccessary.
   v.   There is a requirement to frame a policy roadmap for mobilization of funds for the Social Window projects of the Fund for the future.

2. Objectives:

The primary objective of Social Window strategy paper is to carry out regional projects successfully as per the objectives of the SDF charter and provide the way forward for specific project implementation issues experienced so far. The Strategy Paper also aims to clarify ambiguities and ensure transparency and accountability in the processes involved from the selection of projects to the successful completion of projects. It also attempts to bring in the elements of Social Enterprises with a clear cut objective of making them scalable, sustainable as well as in a position to graduate to more formal sources of financing over a period of time.

3. Strategy:

1. **Criterion and mechanism for funding**:
    1.1. The primary focus areas of Social Window funding will be the as per the SDF Charter;
    1.2. The salient features of SDF funded projects will be:
      1.2.1. Sustainable;
      1.2.2. Relevance;

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[1] While there is no universally accepted definition of Social Enterprises, a Social Enterprises can be broadly understood as / considered as a diverse range of business ventures that apply innovative, market driven solutions to make a positive contribution to society. They are motivated by social goals such as provision of quality services to local communities and operate as self-sustaining profit making businesses which use their profits to achieve social outcomes rather than private reward. We may accept this as a formal definition of 'social enterprises' in the SAARC Development Fund Secretariat.

1.2.3. Innovation;
1.2.4. Replicable;
1.2.5. Efficiency and Effectiveness;
1.2.6. Demonstrative;
1.2.7. Adaptable; and
1.2.8. Scalable.
1.2.9. Having the requisite features of a social enterprise[2]

1.3. USD would be the functional currency for Social Window Projects;

1.4. Projects having investment possibilities from formal sources of finance over a reasonable period of time (preferably within the project funding period of SDF) will get preference of funding from SDF;

1.5. (a). In all SDF Social Window projects the implementing agencies / proponents / entities will be required to contribute a minimum of 10% and up to 49% of the total project budget as contribution (in the form of direct funds). In case the implementing agency is a Government / Government entity then this contribution may not be insisted upon.
(b). Contribution in the form of land, building or other fixed assets may also be made by the implementing agencies / proponents / entities or respective Governments in addition to (a) above;

1.6. Ensure transparency and accountability in selection of projects;

1.7. No conflict of interest (if applicable);

2. Project Screening and Selection Mechanism:

Step 1 Steps for screening and selection of SDF projects by the Social Window Division / Unit

Guiding Principle:

The SDF Board will consider the projects originating from SAARC member countries and SAARC mechanism/agencies. *(SAARC mechanism understood as the whole array of SAARC fora/meetings i.e. Ministerial, Secretary Level, Technical level, Expert level, Governing Bodies of Regional center meetings and also the SAARC Secretariat). However all the projects will have to necessarily fulfill the criterion for social projects under the SDF rules, regulations and guidelines as well as the screening process as described in this document.* The SDF Board will also consider projects from all eligible implementing agencies (IAs)/ proponents / entities working in the SAARC region who *fulfill the criterion for social projects under the SDF rules, regulations and guidelines as well as the screening process as described in this document.*

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[2] A Social Enterprises can be broadly understood as / considered as a diverse range of business ventures that apply innovative, market driven solutions to make a positive contribution to society. They are motivated by social goals such as provision of quality services to local communities and operate as self-sustaining profit making businesses which use their profits to achieve social outcomes rather than private reward.

Step 1.1 Screening with respect to SDF statutes:

SDF Secretariat will review proposals to see if the proposals meet the following criteria:

i). The SDF Objectives (SDF Charter);
ii). Project Eligibility Criteria (Article 5 of SDF Charter); and
iii). Project focus areas mentioned for Social Window (Clause 2 of Article 4 of SDF Charter).

Step 1.2 Screening with respect to Eligible implementing agencies (IAs) / proponents / entities hereinafter jointly referred to as Implementing Agencies (IAs). Project Proposals for funding may be submitted by:

i). Governmental Organizations of Member States preferably with a commitment of co-funding / financing ;
ii). Not for Profit Non-Government Organizations registered in any of the SAARC Member States having experience of working continuously for minimum of 5 years in the relevant field preferably with a commitment of co-funding / financing ;
iii). International Organizations* with a commitment to provide technical assistance preferably with a commitment to co finance the SDF funded projects; and
iv). Private Sector Agencies registered in any of the SAARC Member States having experience of working continuously for minimum of 5 years in the relevant field with a firm commitment to co finance the SDF funded projects.

Subject to Governing Council approval.

1.3 The Social Window Division / Unit of the SDF Secretariat will also examine the project for the following :

i). Technical and financial viability of the project;
ii). Socio-economic and environment benefits;
iii). Management strength, track-record of the proponent;
iv). Meeting the criterion mentioned in para 1 (Criterion and Mechanism for Funding)
    above.

1.4 The Social Window Division / Unit of the SDF Secretariat, if it so feels necessary, will engage consultants (with the specific domain knowledge of the project area) to assist in evaluating and examining a social window project proposal. The engagement of such a consultant shall be within the overall guidelines laid out in the SDF Secretariat, for engaging a consultant, from time to time.

1.5 If the Social Window Division / Unit of the SDF Secretariat finds that the project does not satisfy the above laid out criterion it can reject the project proposal and communicate the same to the IA. The SDF Secretariat will keep the Board of SDF informed of such projects (that are rejected by the Social Window Division / Unit of the Secretariat) in the subsequent Board meeting. If the Social Window Division / Unit of the SDF Secretariat finds that the project fulfills the criterion laid out in Step 1 above it will recommend the same to the in-house screening committee of the SDF Secretariat.

Step 2. Screening by in-house screening committee of SDF Secretariat:

2.1 If the proposal meets the eligibility criteria under Step 1 above, the proposal will be screened by the in-house Screening Committee comprising Program Officers, Assistant Director- SW, Assistant Director, M&E, Director-SW & Administration & Finance, Director-Economic and Infrastructure Windows and Chief Executive Officer (CEO) of SDF.

2.2 The SDF screening committee will also examine the project in detail with respect to the criterion laid out in Step 1above.

2.3 The in-house screening committee of the SDF Secretariat, if it so feels necessary, will engage consultants (with the specific domain knowledge of the project area) to assist in evaluating and examining a social window project proposal. The engagement of such a consultant shall be within the overall guidelines laid out in the SDF Secretariat, for engaging a consultant, from time to time.

2.4 If the in-house screening committee of the SDF Secretariat finds that the project does not satisfy the above laid out criterion it can reject the project proposal and communicate the same to the IA. The SDF Secretariat will keep the Board of SDF informed of such projects (that are rejected by the in-house screening committee of the SDF Secretariat) in the subsequent Board meeting. If the in-house screening committee of the SDF Secretariat finds that the project fulfills the criterion laid out in Step 1 above it will recommend the same to the Board of Directors of SDF. The proposal to the Board, in this case, should include explicitly proposals for engagement of any consultant / appraising agency, if the same is required for the final project proposal stage (including participation in the Focus Group Discussions - FGDs) and / or implementation of the project.

Step 3. Submission of Project Proposal to the Board for their 'in-principle' approval :

3.1 SDF Secretariat shall submit the project proposal to the Board of Directors for their 'In-Principle' approval. This 'in-principle' approval will also include approvals for any consultant / appraising agency, if the same is required for the final project proposal stage (including participation in the Focus Group Discussions - FGDs) and / or implementation of the project.
3.2 The Board decides whether or not to fund the project. If the Board decides to reject the project proposal, the SDF Secretariat will communicate the same to the IA. The SDF Secretariat will keep a record of such projects (that are rejected by the Board) If the Board approves the project proposal the 'in-principle' approval is communicated to the IA and the process proceeds to Step 4 below.

Step 4. Seek concurrence of Member States:
Upon receiving 'In-Principle' approval of the project, the SDF Secretariat will seek concurrence of Member States with regard to :

i). Participation in the project;

ii). No objection to the project being funded by SDF;

If within 60 days SDF does not receive concurrence for participation in the project, of at least 3 Member State/s, SDF will consider the project as closed and inform the IA, member states and the Board of the same.

If within 60 days SDF does not receive any communication from a Member State, SDF will assume that the respective member state will not participate in the project but has no objection to the project funding from SDF.

In case any member state conveys its objection to the project being funded by SDF within 60 days, SDF will consider the project as closed and inform the IA, member states and the Board of the same.

The period of 60 days, as specified above, may be considered for extension by the SDF Board, on a case to case basis.

In case the project, does not involve the engagement of a consultant / appraising agency the process will proceed to Step 6 directly, provided that at least 3 Member States have given their concurrence for participating in the project and no Member State has objected to the project being funded by SDF.

In case the project does involve the engagement of a consultant / appraising agency the process will proceed to Step 5, provided that at least 3 Member States have given their concurrence for participating in the project and no Member State has objected to the project being funded by SDF.

Step 5. Consultant / Appraising Agency
In case the project involves the engagement of a consultant / appraising agency, for the final project proposal stage (including participation in the Focus Group Discussions - FGDs) and/or implementation of the project, the SDF Secretariat will forward the entire project proposal to the consultant / appraising agency for the assessment. The consultant / appraising agency will prepare a detailed assessment report stating clearly the viability or otherwise of the project.

If the assessment report of the consultant / appraising agency finds the project proposal unviable, then the same will be communicated to the IA as well keep the Member States and the Board of SDF informed.

If the assessment report of the consultant / appraising agency finds the project proposal viable, then the process proceeds to Step 6 below.

Step 6. Focus Group Discussion of the project:
SDF Secretariat will conduct a Focus Group Discussion (FGD) for the project to discuss the details (including scope, deliverables [log frame – output, outcome and impact], budget, time lines, details of project implementation process and activities involved) with the Implementing Agency/ies as well as Member States. The SDF Secretariat may also involve / engage a consultant / appraising agency for the FGD discussions.

Step 6. Submission of project proposal to SDF Board for Final Approval:
6.1. After the FGD, SDF Secretariat shall submit the combined project proposal to SDF Board of Directors for the final approval.

4. Mode of Funding:

    2.1. Grant plus a capital contribution / co-founding* of a minimum of 10% upto 49% (of the total budget cost) from local stakeholders / community contribution / implementing agency / respective Government;

    2.2. Co-funding from International organizations;

    2.3. Loans (interest free or with interest)

    2.4. Combination of any above.

* capital contribution / co-funding from the implementing agency will be necessary in all the above modes of funding. In case the implementing agency is the Government / Government agency this will not be insisted upon.

5. Mobilization of Funds for Social Window

SDF will mobile funds for the Social Window projects from the following sources:

i). SDF will solicit funds from the voluntary contributions from various countries in line with the provisions of Article 7 of the SDF Charter.

ii). Solicit funds from other countries, multilateral organizations and international social funds / development banks (such as KFW, FMO, DFID, Bill & Melinda Gates Foundation) in line with the provisions of Article 7 of the SDF Charter. These funds may be (a) project specific or (b) towards the general corpus of funds with SDF.

iii). SDF will raise funds from the financial markets in the Member States by issuing instruments such as Social Bonds, which may require the comfort / guarantee of member states in line with the provisions of Article 7 of the SDF Charter. These funds may be (a) project specific or (b) towards the general corpus of funds with SDF.

iv). Augment the equity contribution by Member States. Equity contribution funds may be used only as a last resort for funding Social Window projects, and in case the same are used there would be requirement to augment the equity capital by Member States from time to time to maintain the Capital Structure of the SDF in line with Article 3 of the SDF Charter.

v). Funds channelized through the Corporate Social Responsibility (CSR) obligations of corporates in member countries as per the application national laws.

6. Project Fund Disbursement:

Disbursement of funds under a social window project will be done after ensuring the following:

i). PFA and Log Frame have been signed;

ii). A separate Project Bank Account has been opened;

iii). The work plan (activity wise and budget wise) for the funds requested for disbursement has been submitted to SDF;

iv). All the reporting requirements of SDF, as specified by SDF from time to time (such as quarterly reports, activity plans and annual audit reports), have been fulfilled;

v). There is no idle funds / unutilized funds as well as interest accrued on SDF project funds remaining with the implementing agency;

vi). Compliance with any other direction given by SDF for the project, from time to time, if any.

Any exchange rate fluctuations and the risk thereof will be borne by the implementing agency for usage of the funds as well as refund of the funds (for unutilized funds / idle funds). SDF will budget

and account for all funds in USD only. Project funds will be routed through the approved Government procedures and channels of SAARC Member States.

7. Project Implementation: The project implementation shall be closely monitored and reviewed by the Social Window Division / Unit on a continuous basis by way of collecting periodic progress reports and scrutiny of the same. The reporting mechanism as well as reports will be standardized and rationalized and reviewed periodically, as and when necessary. Regular project visits will be undertaken by the Social Window Division / Unit to ensure timely and proper implementation of the project. There will be periodical capacity building exercises of the staff in the Social Window Division / Unit to upgrade their skills.

8. Funding of Second Phase of Existing Projects
The funding of the second phase of an existing project may be approved by the SDF Board only after the successful completion of the first phase of the project in terms of :

i). Achievement of financial Sustainability by the first phase of the project;
ii). Satisfactory achievement of the project logical framework indicators (output, outcome and impact);
ii). Satisfactory impact assessment (by way of financial and social audits and monitoring and evaluation processes) through internal or external audit and internal or external monitoring and evaluation processes or a combination of both;
ii). Favorable recommendation of the SDF Secretariat.

9. Time Frame for Project Commencement:
The actual commencement of project should be within 6 months of final approval given by the SDF Board and subject to the fulfillment of the following conditions:

i). Project Financing Agreement (PFA) has been signed;
ii). A separate Project Bank Account has been opened;
iii). Work plan (activity wise and budget item wise) has been submitted to SDF;
iv). The first disbursement request has been submitted to SDF;

The disbursement for the project will commence only after completion of above mentioned requirements have been completed by more than two countries. Unless more than two countries start implementing the project within six months of the approval, the entire project will be treated as cancelled. However a grace period of three months may be granted considering the overall progress. For calculating the project period the Project commencement date will be deemed to be the date of signing of at least 3 PFAs for the implementation of the project in at least 3 countries.

10. Project Monitoring and Evaluation: Project monitoring and evaluation will be done by the internal M&E Division on a periodic basis. The SDF will also conduct monitoring and evaluation exercises through outside agencies which are found to be having the requisite expertise and experience, from time to time depending on the necessity for the same. The M&E process will be both offsite and onsite. The M&E exercise will be done based on the periodical reporting by the implementing agencies / lead implementing agencies (offsite) as well as through a process to evaluate the output, outcome and impact parameters of each project (onsite).

11. Audit: Social and Financial audit of the Social Window projects will be done by the internal Audit Division on a periodic basis. The SDF will also conduct social and financial audits through outside agencies which are found to be having the requisite expertise and experience, from time to time depending on the necessity for the same. The audit process will be both offsite and onsite. The audit exercise will be done based on the periodical reporting by the implementing agencies / lead implementing agencies (offsite) as well as through a process of financial and social audits to evaluate the compliance with the Project Financing Agreement and to measure project performance in terms of output, outcome and impact parameters of each project (onsite).

Auditing of project accounts will be done by the firms appointed by SDF in the respective Member States. SDF will maintain a panel of auditing firms in respective Member States to be appointed to audit SDF funded projects. The cost of auditing will be maintained as 'common activities budget' for each project. In case the implementing agency is a Government / Government agency then the audit by the respective Government audit agency would be acceptable to the SDF (provided that the audit report can specifically and separately cover the SDF funded project within the time frames stipulated by SDF), however SDF can also arrange to conduct separate audits (both internal and external) of such projects.