



**Guidelines for Submitting Project Proposals under  
ECONOMIC  
AND  
INFRASTRUCTURE WINDOWS**

**INFORMATION HANDBOOK**



## **1. Introduction**

SAARC Development Fund (SDF) was established in April 2010 to serve as the umbrella financial institution for SAARC projects and programs which are in fulfillment of the objectives of the SAARC Charter. As per Article 4 of SDF Charter defined in Volume I : Legal Documents, SDF has three funding windows viz. Social Window , Economic Window and Infrastructure Window. At present the Social Window is operational while these policy guidelines have been framed for Economic and Infrastructure Windows.

## **2. Focus sector under Economic and Infrastructure Windows**

Under Economic and Infrastructure Windows, SDF will focus on financing projects pertaining to the following sectors:

### **Economic Window:**

- a) Trade
- b) Agriculture and allied value additions
- c) Industry / Manufacturing
- d) Micro Irrigation
- e) Any other sectors as approved by the Board

### **Infrastructure Window:**

- a) Renewable energy,
- b) Water harvesting,
- c) Forestry,
- d) Tourism
- e) Climate change, and
- f) ICT
- g) Any other sectors as approved by the Board

### 3. Basic Eligibility Criteria for Project or Program financing

#### Targeted entities:

- a) The Fund shall finance government bodies, municipal corporations, SPVs, SEOs and private sector corporate bodies. The SDF shall finance both public sector as well as private sector entities;
- b) To start with, SDF will fund only corporate entities established under the relevant statutes of Member States;
- c) No assistance is envisaged to sole-proprietorships, partnership firms (even Limited Liability Partnerships), Trusts and NGOs;

The eligible projects under SDF consist of the following:

- a) Projects involving all SAARC Member States;
- b) Projects involving more than one but not all SAARC Member States.
- c) Projects located in one SAARC Member States of significant economic interest for three or more SAARC Member States; and
- d) Projects with significant focus on poverty alleviation as envisaged under the Social, Economic & Infrastructure Windows.

**High Priority Areas:** Highlighted this portion. The SDF shall assign high priority to those projects which:

- a) Promote cooperation between or among Member States;
- b) Have strong potential for facilitating mobilization of domestic and foreign capital.
- c) Are commercially viable, and operationally sustainable;
- d) Source and utilize raw materials, equipment and other productive inputs within the SAARC region.
- e) Create and promote intra -SAARC trade.
- f) Promote backward, forward and spatial linkages in economies of SAARC Member States.
- g) Develop and promote indigenous and appropriate technologies and skills.
- h) Promote majority ownership and management by SAARC nationals.
- i) Promote the role of women in trade and overall development.
- j) Comply with international acceptable environmental protection standards.
- k) Create and expand employment opportunities and other social benefits.
- l) Are export-oriented, local resources based and regional in nature

### 4. Products to be offered

- a) As per Article 5(3) of the Charter, the Fund shall primarily finance long term priority regional programs and projects.
- b) As per Section 7 of Bye-laws, the Fund shall carry out its operations in furtherance of its purpose and functions as set out in the Charter in the following ways:

- i. by making or participating in direct loans;
- ii. by guaranteeing in whole or in part, loans for economic development and serving other objectives of the Fund, participated in by the Fund.
- iii. by facilitating access to domestic and international capital markets by institutions or enterprise through the provision of guarantees, where other means of financing are not appropriate, and through financial advice and other forms of assistance.
- iv. by deploying other resources, in accordance with the agreements determining their use,
- v. by managing its idle funds in a prudent and beneficial manner;
- vi. by or through such other financial instruments, as the Governing Council may decide.

**Funding of MSME in SAARC Member States** : Extending Line of Credit to the Banks/ Financial Institutions/ etc under MSME Program for funding MSME clusters in the SAARC Member States.

5. **Defining Direct Benefit:** Direct benefit going to more than one Member State may be defined to include cross border Trade & Commerce, Infrastructure, Projects resulting in significant value of exports on continuous basis between more than one Member State like in the case of Manufacture and supply of intermediary products to other Member State, Equity investment from one Member State into another by public or private sector companies (FDI) or any other criteria as decided by the Board, considering the unique needs of any project/s.

#### 6. **Exposure Cap:**

- a) **Project Ceiling:** SDF will consider the projects (equity 25% minimum, loan 75% maximum) having maximum project cost upto US\$ 20.00 million (minimum – US\$ 2.00 million) with the SDF's contribution of maximum 75% of the total project cost and maximum loan period as 7 Years includes 2 years of grace period also;
- b) Pricing (in USD) of the SDF funding E&I windows will be near to the opportunity cost of the funding / weighted average rate of at least 3 member states;
- c) SDF will restrict its Line of Credit facilities to US \$ 10 million per Bank/FI for MSME credit.
- d) SDF will balance its country exposure in such a way no country will account for more than 50% of its investments.

#### 7. **Funding Mechanism/Disbursement Procedure**

**Disbursement:** The term “disbursement” refers to the withdrawal of proceeds from the SDF financed grant or loan account.

The procedure for withdrawing the loan proceeds for the purpose of carrying out a project will be governed as per the *SDF Credit Manual - Book 3 : Disbursement Procedures*, which is reproduced below:

The disbursement methods selected during project approval are based on project characteristics, the categories of expenditures to be financed and the capacity of the executing agency to manage project resources. Disbursements are made using one or, a combination of the methods outlined below:

**a. Reimbursement**

The SDF may reimburse the borrower for the expenditures eligible for financing that are in compliance with the loan agreement.

**b. Reimbursement Guarantee**

In this disbursement method, the SDF provides an irrevocable undertaking to reimburse a commercial bank for payments made or to be made to a supplier against a letter of credit.

**c. Special (Designated) Account**

In this disbursement method, the SDF will make an advance disbursement from the loan account to special account. However, before the SDF authorizes establishments of a special account, the borrower must have adequate administrative capability, internal controls, and accounting and auditing procedures to ensure effective use of these special accounts.

**d. Direct Payment**

In this disbursement method, at the borrower's request, the SDF may agree to pay designated agency/suppliers directly for eligible expenditures.

## **8. Terms and Conditions for Project Financing**

**a. Project financing through Direct Loans:**

This shall be various financing/ credit facilities offered by SDF. Need based medium term / long term loans will be extended to borrowers to meet diverse needs of the clients. The products will have to be tailored to meet specific requirements of the clients.

**b. Security and documentation:**

All the loans shall be secured. Security creation and legal documentation shall be made as agreed with the consortium/syndication, on a case to case basis, also considering the unique legal requirements in each SAARC Member State.

**c. Preparation of security documents.**

After obtaining clearance on title from CEO, the following documents should be prepared by SDF Legal department, viz.

- a) Board Resolution to be passed by the Company;
- b) Declaration and Undertaking (in case of equitable mortgage);
- c) Memorandum of Entry (in case of equitable mortgage);
- d) Indenture of Mortgage (in case of mortgage other than equitable mortgage).

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9. **Financing Terms and Conditions.** Certain considerations that must be taken into account by the Fund when determining the terms of its financings- specifically:

- (a) The amount of any equity investment shall not exceed such percentage of the equity capital of the entity or enterprise concerned.
- (b) SDF will conduct "DUE DILIGENCE" every time before the disbursement of loan or loan in tranches.
- (c) Disbursements will be made as per terms of sanction approved by the SDF Board for the project.
- (d) Borrower to carry out the activities of the Project and confirm to the specified mutually agreed objectives, outputs, milestones, and targets as detailed in Sanction Letter of SDF and the Co-Funder.
- (e) Borrowers shall be required to open such Special (Designated) accounts as a 'No lien' account so that existing bankers do not have lien on monies lying in such designated accounts.
- (f) For term loans sanctioned to projects under joint finance / consortium arrangement, the terms and conditions, including interest rate, stipulated by the lead institution /other banks will normally be followed. Terms and conditions under joint financing arrangements will be determined based on what the market will bear for specific types of risk/tenor at the time a facility is being syndicated.
- (g) Borrower to submit a Utilization Certificate and Statement of Accounts duly audited and certified by a Chartered Accountant of the respective agencies from the respective Member State for the expenditure incurred on the Project and for the fiscal year (ending 31st March/or/31st December/or 30th June/or 30<sup>th</sup> September as the case may be) to SDF within a month of closure of the accounts for the respective financial year, in the format as provided as by SDF.
- (h) To submit regular progress reports, Utilization Certificates & Statement of Expenditures to SDF as per the milestones/ at the completion of each stage of the project and participate in the meetings organized by SDF to review the progress of the Project, as and when called for before the disbursement of next tranche of loan as the case may be.
- (i) Borrower to permit a member of SDF or an individual or agency nominated by SDF, access to the premises, with advanced notice and during regular business hours, where the Project is being/shall be carried out and provide all information and produce or make available the concerned records for inspection and monitoring of the Project activity.
- (j) Borrower to obtain all of the necessary requisite approvals, clearance certificates, permissions, and licenses from the Government/local authorities for conducting its operations in connection with the Project.
- (k) Borrower will have no right, power or authority to create any obligation or duty, express or implied, on behalf of the SDF.
- (l) Borrower to duly acknowledge the funding support of the SAARC Development Fund publishing or presenting the details of the Project including

in all electronic and print media, website materials, presentations, publications, etc.

- (m) Borrower to display the name of SAARC development Fund on all the Movable and Immovable Fixed Assets created out of the funds disbursed by SDF. The borrower should also display “Our Financers - SAARC Development Fund” at the main gate of the premises built out of the funds disbursed by SDF.
- (n) The undertakings relating to (i) environmental and social aspects of the Project, (ii) procurement of goods and services required for the Project (if applicable) and (iii) integrity will be governed by SDF Charter & Bye Laws.
- (o) Signing of the Legal Agreements will take place: (a) after the Financing has been approved; and (b) all required signing authorizations are received.
- (p) For each proposed Project, the Fund requires that the Project meet the following conditions:
  - a) The Project has clearly defined development objectives consistent with this credit policy and credit manuals of SDF that will permit appropriate evaluation of the Project’s impact.
  - b) The Project should have specific productive activities necessary to meet the defined objectives.
  - c) Alternative sources of finance, in particular private capital, are available for the Project on terms and conditions that the Fund considers reasonable.
  - d) The Project is in compliance with the requirements of the various terms and conditions as specified by SDF.
- (q) Benchmark Financial Norms related to the project proposals will be applicable.
- (r) Computation of Interest Charged: The interest charge shall be computed on the basis of 360-days a year having Twelve Months of 30 days each.
- (s) **Repayment and Prepayment:**
  - i. The Borrower shall pay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule to the Loan Agreement.
  - ii. After giving not less than 30 days’ written notice to SDF, the Borrower shall have the right to repay in advance of maturity, as of a date acceptable to SDF (provided, that the Borrower shall have paid all amounts due under the Loan Agreement as of such date):
  - iii. all of the principal amount of the Loan then outstanding; or
  - iv. all of the principal amount of any one or more maturities of the Loan. Notification for the prepayment from the borrower is required for internal fund management.

If SDF shall at any time receive from the Borrower any amount which is

  - i. less than the full amount then due and payable to SDF in accordance with paragraph (a) of this Section; or

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- ii. less than the full amount repayable to SDF in accordance with paragraph (b) of this Section, SDF shall have the right to allocate and apply the amount so received in any manner at its sole discretion.
- (t) **Promoter's Contribution:**
- i. Only interest free unsecured loans are to be taken as part of promoter's contribution.
  - ii. If Promoter's Contribution (PC) is brought in by way of internal cash accruals, the audited accounts of the company / firm, prima facie, should corroborate availability of adequate / surplus internal accruals for investment in the project being financed by SDF
  - iii. Promoters are required to bring in their entire contribution before SDF disbursement
  - iv. In case of Consortium lending, where the Lead Bank/Financier is not SDF, the the norms of lending as decided by the lead funder or the consortium of lenders will apply subject to condition that SDF interest is not compromised.
  - v. During the grace period, the borrower shall be liable to service interest. Principal repayments shall commence only after the grace period is over.

#### Undertaking from the Borrowers -

- (a) The Borrower to undertake that they are under no contractual restrictions or legal disqualifications or other obligations which will prohibit the recipients from accepting these Conditions;
- (b) To undertake that he has all the requisite skill and expertise to carry out the obligations envisaged herein;
- (c) He has the requisite corporate authority to accept these Conditions;
- (d) He has agreed that the he shall be liable for any and all breaches of these Conditions, by him or his company respectively and that in case of such breach, the SDF Fund may reconsider its financial support for the project.

#### 10. Currency of Loans:

- (a) The Fund shall finance in international currencies, mainly in USD.
- (b) Repayment will have to be made in the currency in which borrowing is made.
- (c) The exchange rate risk/hedging cost shall have to be borne by the borrowers.

#### 11. Pricing for Project financing:

- (a) Pricing of the SDF funding E&I windows will be near to the opportunity cost of the funding / weighted average rate of at least 3 member states.



- (b) For term loans sanctioned to projects under joint finance / consortium arrangement, the terms and conditions, including interest rate, stipulated by the lead institution /other banks shall normally be considered. This provision would be reviewed by SDF once it commences with sole lending operations.
- (c) Terms and conditions under joint financing arrangements will be determined based on what the market will bear for specific types of risk/tenor at the time a facility is being syndicated.
- (d) SDF will broadly follow the terms and conditions of the lead institution.

Various Fees (as per market standards) applicable to all loans are as follows:-

<b>Fees &amp; Charges</b>
<b>Appraisal Fee</b> (Fees towards Project appraisal including Credit Appraisal, Risk Analysis and Legal study)
<b>Up-front Fee</b> (To be collected at the time of 1 <sup>st</sup> Disbursement)
<b>Documentation Fee</b> (For executing the various loan documents including cost incurred on paying the Stamp Duty for while executing the various loan documents)
<b>Commitment Fee</b> (For ensuring the disbursement of the sanctioned limits)
<b>Prepayment Charges</b> (in case if the borrower prepay the part-loan of the entire loan before the maturity date)
<b>Late payment charges</b> (To be taken if the borrower fails to repay the EMIs or the loan component on time as stipulated in the sanction letter)

## 12. Fair Practices:

Borrower shall adopt transparent approach with respect to submission of various documents related to the project proposal and furnishing any other information/document to SDF and the co-funder during the currency of the loan/loan tenor.

## 13. Follow-up and Monitoring:

Borrower will be liable for the regular follow-up and monitoring which comprises –

- (a) Proper utilization of assistance /end-use of funds;
- (b) To ensure implementation within cost and time originally estimated
- (c) Compliance with terms and conditions of sanction;
- (d) That securities offered / charged / documentation are in order;
- (e) Inform SDF & the co-funder about , detection of warning signals, such as deterioration in credit quality / financial.
- (f) Performance of the account, changes in management structure, reconstitution,
- (g) Death or resignation of a key person, and other causes of concern leading to possible failure of the firm.

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- (h) To anticipate problems and reorient policies / procedures.
  - (i) To carry out evaluation of operations of the unit.
  - (j) To utilize the feedback for project appraisal and policy formulation.
  - (k) To ensure viable operations of the unit.

#### **14. Changes in Project**

SDF must be consulted in the event of any major changes in the project activity and development proposed under the approved Project, particularly those affecting the achievement of Project's objectives adversely.

#### **15. No Rescheduling of the Financing.**

Consistent with its status as an international financial institution, the Fund does not: (a) reschedule debt payments, or participate in debt rescheduling agreements, involving amounts owed to it under Financing; or (b) reschedule Non-sovereign-backed Financing where the beneficiary's inability to service its debt is due to a foreign exchange shortage in the beneficiary's country.

#### **16. Confidentiality**

All applicants must sign a Non-Disclosure and Conflict of Interest Agreement with the SAARC Development Fund (SDF), Secretariat for the SAARC Development Fund Board. All information provided throughout the proposal process will be kept in strict confidence; however, neither the SDF Board nor SDF Secretariat will sign Non-Disclosure Agreements with any applicants.

#### **17. Dispute Resolution.**

In the event of any disputes that arises between the lender (SDF) and the borrower, the settlement proceedings will be executed where the parties to the loan / guarantee will attempt in good faith to resolve such dispute and if the dispute cannot be otherwise resolved, the parties shall consider resolving of dispute through arbitration under the provisions of SAARC Arbitration Council.

#### **18. Disclaimer**

The SAARC Development Fund accept no liability, financial or otherwise, except as set out in these terms and conditions, or otherwise agreed in writing, for expenditure or liability arising from:

- (a) Any costs incurred or loss or liability suffered by the Borrowers or any third party in relation to SDF or as a result of their own research and/or commercial activities.
- (b) Any lost expectation of profits by Borrower or any third party;
- (c) Any failure by Borrower or any third party to understand their rights in relation to Intellectual Property; and
- (d) Any other benefit the Borrower or any third party may expect to gain by participating in SDF E&I Window.