

PD-AY-477

Loan and Grant Agreements

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SPECIAL DEVELOPMENT FUND (SDF) AGREEMENT

BETWEEN THE

ISLAMIC REPUBLIC OF PAKISTAN

AND

UNITED STATES OF AMERICA

DATED: September 29, 1988

(CONFORMED COPY)

SPECIAL DEVELOPMENT FUND (SDF) AGREEMENT

BETWEEN THE

ISLAMIC REPUBLIC OF PAKISTAN,

AND

UNITED STATES OF AMERICA

WHEREAS, the President of the Islamic Republic of Pakistan (hereinafter referred to as the "Grantee") and the United States of America, acting through the Agency for International Development ("A.I.D."), on September 29, 1968, entered into a Program Grant Agreement entitled "Balance of Payments Support and Special Development Fund", and;

WHEREAS, pursuant to that Program Agreement, the Grantee agreed to undertake the necessary policy and procedural steps to establish a Special Development Fund to support the strengthening of non-governmental and community based organizations, and;

WHEREAS, the Program Agreement, prior to any disbursement of U.S. Dollars thereunder, requires an agreement providing for establishment of the Special Development Fund to be entered into between the Grantee and A.I.D.;

NOW, THEREFORE, the Grantee and A.I.D. agree as follows:

I. SUMMARY SDF DESCRIPTION

The objectives of the Special Development Fund (SDF) are to institutionalize an indigenous merit-based grant making capacity outside the GOP and its PC-1/ADP/Ministerial process, to strengthen the programming and monitoring capabilities of Non-Governmental Organizations (NGOs) and community administrative units, and to support specific women in development and community participatory development activities in the social sector. The GOP during the course of the program and, as soon as possible after making the initial local currency deposit into the special account as set forth later in this Agreement, will issue a decree forming or enabling formation of a private sector implementation company (private company) and appointment of a Board of Directors dedicated to support of NGOs and to carry out the purposes of the Special Development Fund Agreement. A.I.D. will undertake a grant in the amount of U.S. dollars thirty million to Pakistan conditional upon execution of this Special Development Fund Agreement (SDF Agreement) including the Grantee's (1) agreeing to transfer 520 million Pakistan rupees to the Fund in five annual installments as prescribed in Section III C.2.a. of this Agreement and (2) deposit of the initial installment of Pakistan rupees 50 million.

A private company will be formed to manage the Fund. A Board of Directors of this private company will be responsible for furnishing policy direction and will consist of ten private sector notables and

three government representatives. The private company will solicit, review, select and monitor grantees. The private company, subject to grant-by-grant prior approval by the Board of Directors, will have autonomy to make grants to NGO's in general accordance with the provisions of Section III of this Agreement. The purpose of the support provided through SDF is to make funds available for the above described entities and activities which at present have relatively low priority and/or are too small or remote to have access to the normal government budgetary process. The SDF program constitutes a significant policy initiative. The establishment of the Fund will be a precedent setting commitment to decentralized development financing and will assure greater allocation of local resources to NGOs and community administrative units for WID and community participatory development activities in the social sector.

It is understood that not less than Pakistan Rupees 520 million will be devoted to the uses as set forth in this SDF Agreement. Although the Grantee may include this SDF activity within a broader program, the Grantee agrees to maintain a special account within that broader program which is maintained and allocated solely for activities consistent with this SDF Agreement.

II. BACKGROUND

A. The NGO Community

For purposes of the program, NGOs are those various indigenous institutions outside of public administration that contribute to development research, program preparation and service delivery at the intermediate and local level. This definition includes all non-profit voluntary agencies providing development services and established outside the government. This definition also includes a wide variety of agencies and institutions such as cooperatives, professional and special interest organizations, service and social clubs, research institutes, and charitable and neighborhood groups found throughout the country. Formal registration with A.I.D. is not a prerequisite to being included as an NGO.

B. Absorptive Capacity of the NGO Community

Despite its considerable potential, the absorptive capacity of Pakistan's NGO community remains limited. Early grants under the SDF, therefore, will focus primarily on strengthening indigenous NGOs as well as supporting specific project activities. Such strengthening grants may be used to finance a wide range of activities including training, infrastructure, recurrent costs, selective commodities and technical assistance.

In addition, SDF may be used to support an NGO Resource Center which will serve to (a) identify training and technical assistance requirements of indigenous NGOs, (b) provide, on a fee, membership or cost basis, required training and technical assistance, (c) provide a forum for exchange of views and experiences between NGOs, (d) provide a data base to NGOs re donor programs and financing availability, technical assistance resources, and in-country and ex-Pakistan training, and (e) provide a library of literature, reports and similar materials relevant to NGOs.

To further address this acknowledged deficiency in absorptive capacity, the Implementing Organization will be expected directly to involve itself in NGO strengthening through provision of technical assistance (on a cost reimbursable basis) relevant to proposal writing, budgeting, cost accountability, monitoring, etc.

Where available, intermediary offices or organizations may be utilized as the mechanism of grant coordination. Opportunities for using such intermediary organizations exist in the Punjab (through the Ministry of Social Welfare in support of social welfare agencies), in Sind and Baluchistan (through the highly trained Commissioner/Deputy Commissioner Civil Service in support of Union Councils and village committees) and through some overbranching NGOs such as Sind Rural Workers Cooperative Organization, APWA and Behbud.

While recognizing the important NGO strengthening function of the SDF, it is also expected that the SDF will fund specific projects of organizations requiring strengthening in order to promote the organizational sense of development participation and to stimulate its NGO constituency. The project grant activity, a collateral strengthening grant or provision of technical assistance will address the deficit areas.

C. Absorptive Capacity of the Community-based Administrative Units

Pakistan's civil administration and elected local bodies provide ample opportunities to work with local government/community-based administrative units. Below the Provincial and Divisional levels, there are approximately 86 District Councils with varying capacities and experience in development administration. The District Councils, in turn, are comprised of approximately 4,106 Union Councils, with each Union Council providing services for approximately 3-10 villages. These Union Councils have had access to modest development funding and have greatly varying capacities to deliver development benefits. Within each village, there may be a village committee which, although not a part of the formal administrative structure, may be capable of responsible utilization of modest funding. Villages frequently consist of 3-4 wards. Although experimentation with ward-based support is possible, it would appear that ward level development programming is inappropriate for the SDF.

1. District Council: Until quite recently, District Councils played a major role in implementing community development related projects through funds made available to them through the Provincial Annual Development Plan. The 1985 decision to provide development funds to members of the Provincial and National Assemblies diminished somewhat the importance of the District Council as a provider of development benefits. With the dissolution of the National Assembly, that program has been discontinued. The Deputy Commissioner or Chairman, District Council may be the appropriate point of SDF administrative contact for programming at this level.

2. Union Councils: The Provincial Annual Development Plans provide for very modest block allocations for Union Councils for community development work. The Provincial Local Government and Rural Development Department (LG&RD) oversees funding in monitoring. The execution of small sub-projects is undertaken by a Project Committee, determined by the Union Council. Modest technical assistance, if required, is provided by the Departmental engineers and sub-engineers. In almost all instances, the sub-projects are modest, e.g. small gravity flow drinking water supply schemes, hand pump schemes, rough roads, smaller causeways. The Deputy or Assistant Commissioner or Chairman, Union Council may be the appropriate point of SDF administrative contact for programming at this level.

3. Village Committees: Within many villages, there are village-based community organizations (Islahi Committees, Falahi Tanzeems, Behrud Committees, small cooperatives, etc.) which are formed by local residents to implement small-scale development activities. These organizations may or may not be registered. These organizations solicit periodic contributions from villagers to undertake small activities such as construction or improvement of katcha roads, pavement of local streets, installation of small pipelines, lining of water courses, repair and maintenance of water courses and drains etc.

Depending on level of sophistication and accountability, village-based organizations may be candidates for direct financing by SDF or for financing through local administration (Assistant Commissioner or Deputy Commissioner).

The innumerable Village Committees, more than 4,000 Union Councils and 86 District Councils provide both an opportunity and a challenge. The existence of a highly developed administrative/elected local body structure provides important access points for funding of grass-root initiatives. The greatly varying levels of financial and implementation experience, capacity and responsibility, however, require the greatest circumspection in selection and monitoring of grants to such community-based organizations. Technical assistance in support of potential grantees may prove important. In addition, the sheer number of potential applications for grant support from such organizations suggests

a need for careful allocation of SDF assets, lest the NGO component unduly suffer. It may be appropriate to start a grants program for community based administrative units on a pilot basis to better assess effectiveness of this grant mechanism and to establish criteria to limit demand upon the Fund.

III. PROGRAM DESCRIPTION

A. Program Goal and Purpose:

The goal of the SDF Program is to improve the quality of life of neglected segments of the Pakistani population. The primary purposes are to: (1) strengthen the contribution of NGOs and community-based administrative units to improving the status of women, and to community participatory development in the social sector; (2) institutionalize an indigenous merit-based grant-making capacity in Pakistan; and (3) promote institutional reform through decentralized programming for social sectors which historically have had limited access to the benefits of the Government's central development financing.

B. Achievements:

Expected achievements under the SDF Program include:

1. Creation of one indigenous grant-making entity to support social sector programming outside the budgetary/PC-1/Ministerial approval process.
2. Increased funding for social sector activities.
3. Increased utilization of decentralized development programming for the social sector.
4. Increased NGO and community-based demand for continued decentralized development programming.
5. Strengthened and increased NGO and community-based activity in the social sector.

C. Operation of the SDF Program

1. Fund Activities

The Fund, through its implementing organization, will provide grants and technical assistance to NGOs and community-based administrative units to (1) strengthen and professionalize the NGO and/or administrative unit, and (2) support meritorious project proposals in the areas of WID and community-based participatory development in the social sector. Projects are to be demand-driven and, therefore, cannot be

specified at this time. The experience of other donors, confirmed in a 1986 USAID-funded ICRW study of potential NGO/WID interventions, suggests a considerable range of NGOs and projects which could become grant candidates.

Based on experience with disbursement demand and fund raising capacity, the Board of Directors may eventually consider converting all or part of the SDF to an endowment or, alternatively, endow one or more NGOs to further the SDF mandate.

2. Structure and Administration of the Fund

a. Rupee Funding

The Grantee will provide, over the life of the activity, not less than Rs.520 million, in annual installments, to finance the activities of the SDF. The first installment of Rs. 50 million shall be deposited in a special SDF designated account at National Bank of Pakistan (or other designated commercial bank) within 90 days of the signing of this agreement. A second installment of Rs. 50 million will be deposited within 240 days. Four subsequent annual installments of Rs.105 million each shall be made on the anniversary date of the signing of this agreement. Any interest or profit earned on funds deposited in this account shall be considered part of the principal of the fund and be used for the same purposes as the funds deposited by the Grantee.

d. Policy Board (Board of Directors)

The Fund shall be under the general direction of a Policy Board (Board of Directors) comprised of high level representatives from the GOP and the private sector community. The Board will, among other things, provide periodic policy direction to the Implementing Organization (private company), approve the selection criteria and process of selection of grantees, approve periodic (e.g. annual) releases of funds to the private company for grant making, approve all grants to be made by the private company and ensure accountability of the private company.

c. Implementing Organization

The Fund is to be managed by a non-governmental body dedicated to NGO support. A private company will be formed to manage the Fund.

Functions of the Private Company

The functions of the private company will fall into the following basic categories:

(a) Development of selection criteria, selection process and grant-making instruments for approval by the Board of Directors. A.I.D. is prepared, upon request, to assist the Implementing Organization. AID Handbook 13 grants, as well as other grant models (e.g. Ford Foundation, BCCI Foundation, MAF and the Aga Khan Foundation) may be used as guidance for these purposes.

(b) Grant-Making: To include solicitation of grant proposals, receiving grant proposals, processing and reviewing grant proposals, selecting grantees, disbursing advances and other funds to grantees, monitoring grantees and reporting to the Board of Directors.

(c) Technical Assistance: To include providing, directly or through subcontract, assistance to potential and actual grantees, e.g. proposal writing, organizational registration, development of financial/monitoring capacity and support for specific projects.

(d) Fund Raising and Publicity for SDF.

(e) Special Reports: To include providing, directly or through subcontract, reports in response to requests of the Board of Directors, e.g. sector assessments, activity areas, tracking of number and gender of beneficiaries.

d. Accountability

The rupees will be utilized exclusively for SDF activities, including costs of SDF administration. Accountability will be achieved through (a) Grantee oversight and (b) the private company's monitoring of grantee financial reports and activities, to include periodic audits of grantee records as required. There will be an annual financial audit of the Special Development Fund by an independent local public accountant (selected by the Board of Directors and financed from the SDF). The resultant annual audit report will be provided to the Board of Directors and to the Grantee. The grantee proposal format will require that conflicts of interest (institutional, familial and financial) be fully disclosed.

An annual report of SDF activities shall be furnished to the Grantee.

3. A.I.D. and Grantee Responsibilities:

The SDF program constitutes a significant policy change. The establishment of this Fund is a precedent setting GOP commitment to decentralize development financing. By making these funds available to NGOs and community administrative units outside the established PC-1/ADP/Ministerial approval process, the Grantee is forgoing much of its traditional control of development activities.

The Grantee and A.I.D. will each establish a negative list of prohibited activities under SDF. The A.I.D. list will include all A.I.D. prohibited assistance areas as communicated to the Grantee by A.I.D. Program Implementation Letter.

The Grantee shall take those steps necessary to assure that, in accordance with Section IIIC.2.d. above, the annual audit report and an annual report of SDF activities is furnished to A.I.D.

The Grantee shall be responsible for monitoring the activities of the SDF.

4. Selection of Grantees:

a. Eligibility of non-Pakistani PVOs:

U.S. PVOs are not precluded from applying to the SDF for the rupee funding of a proposed project. As required by the Government of Pakistan a U.S. PVO and its proposed project will require approval by the Government of Pakistan. Other foreign-based PVOs will not be eligible to receive funding from the Rs. 520 million dedicated to this program.

b. Eligibility of Indigenous NGOs and Community-Based

Administrative Units:

The eligibility criteria for indigenous NGOs and community-based administrative units will be developed by the private company for approval of its Board.

c. Selection Process:

The selection process shall be developed by the private company for approval of the Board of Directors. A number of institutional models will be reviewed and technical assistance provided, as needed. Factors to be considered include:

i. The selection committee is to be drawn from officers and staff of the private company.

ii. The selection process must provide for full disclosure of potential or actual conflicts of interest, and address this concern.

iii. All selection committee deliberations and decisions are to be documented in writing.

d. Selection Criteria:

The organization will develop selection criteria for the approval of the Board. A balance is sought to be struck between objective and subjective criteria.

D. Fund Inputs

1. Technical Assistance/Training

Technical assistance will be required to help develop an indigenous private organization with the requisite conceptual orientation to administer a social sector grants program and address WID concerns. Developing these capacities may require short-term expatriate technical assistance which, subject to availability of funds, may be provided by

A.I.D. from other funding sources. The private company may also require program management, financial management, accounting, monitoring and marketing skills which will be hired or contracted by the company from within Pakistan. The skills are generally available within Pakistan but, if necessary, limited short-term technical assistance and out of country training may be necessary to supplement indigenous capacity.

Although it is impossible to determine in advance what additional technical assistance requirement may be needed to strengthen NGOs and community administrative units and to support specific grant activities, it is expected that the company will provide technical assistance through its own resources or obtain these resources by contract.

In limited cases, U.S. and third country training may be required for these purposes and may be procured as described above. The A.I.D. Project Design and Implementation Fund (391-0470) and Development Support Training Project (391-0474) on a funds available basis, may, in an appropriate case, be used to fund dollar costs required for such TA/training assistance.

IN WITNESS WHEREOF, the Grantee and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

FOR AND ON BEHALF OF THE PRESIDENT
OF THE ISLAMIC REPUBLIC OF PAKISTAN

BY: sd/-
NAME: Izharul Haque
TITLE: Secretary
Economic Affairs Division

UNITED STATES OF AMERICA

BY: sd/-
NAME: Robert B. Oakley
TITLE: Ambassador of the
United States of America