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Sahaj Challenge Fund - Round 2 Information Pack



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List of Acronyms

Acronym	Full form
AP	Assessment Panel
CF	Challenge Fund
CHF	Swiss Franc
DAG	Disadvantaged Group
GESI	Gender Equality and Social Inclusion
IFC	International Finance Corporation
MRM	Monitoring and Results Management
MSD	Market System Development
NAMDP	Nepal Agricultural Market Development Programme
NPR	Nepalese Rupee
SDC	Swiss Agency for Development and Cooperation
CF	Challenge Fund
SCF 2	Sahaj Challenge Fund Round 2
TA	Technical Assistance

1. Introduction

The Nepal Agricultural Market Development Programme (NAMDP), also known as Sahaj (Nepali for ‘facilitate’ or ‘make easier’), is designed with three successive phases spanning across a 12-year horizon. Sahaj’s objectives are based on a vision of a thriving and inclusive agriculture sector, aiming to grow employment and income for Nepal’s rural population. NAMDP is a joint initiative of the Government of Nepal and the Government of Switzerland. Funded by Swiss Agency for Development and Cooperation (SDC), the programme focuses on Province Number 1.

NAMDP follows a combination of Market Systems Development (MSD) and Inclusive Markets. While Phase I (March 2016-November 2020) had a clear mandate to bring about change at the level of smallholder farmers, Phase II (December 2020-November 2024) will focus more on investment, growth, and job creation along the entire agricultural value chain, including for exports. There will be a stronger orientation towards trade and investment as a key pull factor for producers to increase their income. The programme will provide financial and technical support towards increased provision of services and access to innovation for agri-businesses in Province Number 1. Phase II will build a portfolio of interventions in the dairy, maize, cardamom, and vegetable sector.

Innovation, with disruptive potential, will take on a more prominent role during Phase II. NAMDP will, among others, connect with existing start-up support mechanisms to incentivise and launch disruptive innovation. To trigger this, NAMDP will use a Challenge Fund (CF) mechanism to increase provision of services and access to innovation in the aforementioned sectors while also leveraging private sector resources. The CF would look at proposals that address the following (covered in further detail under “guiding principle-section 1.2”):

- respond to market constraints.
- are innovative, and additional to what would have happened without Sahaj’s support.
- are inclusive, target women, marginalised groups, and other disadvantaged groups (DAGs).
- will be sustainable after Sahaj’s funding and have the potential to scale up.
- will contribute costs/funds to the proposed solution

1.1. Fund Objective

The objectives of the Sahaj Challenge Fund Round 2 (SCF 2) align fully with the overall programme objectives of NAMDP Phase II. As such, the fund intends to contribute to increasing employment and value-add in the agricultural sectors (dairy, maize, cardamom, and vegetable) of Province 1 in Nepal.

Specifically, round 2 of SCF will be used to solicit innovative ideas to address some of the most challenging problems and obstacles identified in case of dairy sector (please refer section 2 for further details).

Importantly, the fund will aim to address those challenges where disruptive, ‘break-from-the-past’ type innovations are considered key to move the needle in dairy sector which can solve persistent bottlenecks in the private sector functioning in Province 1 and thereby contribute to a higher level of commercialisation and economic value-add in dairy sector.

1.2. Guiding Principles

The SCF 2 is guided by several principles. These are not specific procedures but present an approach that is adopted across the stages and phases of the fund and will also largely guide the assessment of applications.

- *Competitive process*

Given the limited amount of grant resources, grant applications will be assessed and compared to each other. Applications best meeting the pre-established selection criteria will be listed according to their contribution to the objectives of the funding cycle. The merits of each application will be graded, so that objective ranking is possible and eligible applications can be rank ordered.

- *Innovation*

Grants are often aimed at enabling new ideas and new concepts for which the risk linked to uncertainty makes it unattractive to the private sector. Three important considerations must be added:

- What is considered innovative in Province 1, Nepal may have been implemented in other countries (or even other regions of Nepal). The concept of innovation is defined as a product, packaging, business model or service that has not yet been implemented in this form in Province 1.
- The SCF 2 targets innovation for direct, long-term impact. This is only possible if the innovation eventually becomes (financially and socially) self-sustaining. Innovation without realistic expectations of financial sustainability will not be considered by the SCF 2.
- Given the expected nature of the SCF 2 (largely unconditional grant funding), the fund targets disruptive innovation as a priority. This type of innovation has the highest potential from bringing step changes in productivity and value add in a sector, but it is also the hardest to implement and make into a success.

- *Cost sharing*

The SCF 2 intends to leverage private sector funding, not to substitute it entirely. Therefore, the fund proposes co-financing or cost sharing of innovation initiatives. In general, the more established the company, the less 'generous' the support will be. For initiatives or business ideas that are at a very early stage of development, cost sharing by the applying partner may consist of time and/or resources invested in the idea.

- *Scalability*

Innovations will always be assessed on their potential to develop the entire market. Where innovations in products or services do not have any potential to scale up or be replicated, these will not be considered relevant to the SCF 2. In general, service businesses tend to have more limited scalability – a business plan with targets for scaling up is generally required to make the case for scalability.

- *Transparency*

The challenge fund must be completely clear and transparent about its rules and procedures. The evaluation results of proposals will be communicated to applicants.

- *Additionality*

The fund focuses in priority on development and innovation that would not have happened otherwise. It is almost impossible to provide evidence of additionality, but a case can usually be made based on the innovation level and risk factors.

- *Competition*

The SCF 2 intends to limit its distortive effects by only investing where private sector financing is not available and focus on ideas and initiatives that realistically could not be financed commercially.

- *Reciprocity*

The expectation from the winning applicant is to contribute to social and economic impact in return for SCF 2's funding. This means that each funding recipient will be asked to provide information and data about this impact. Non-adherence to this requirement can be a reason to put collaboration on hold, or even abandon a funding project altogether.

- *Impact*

The SCF 2 operates as an 'impact investor', placing funds where it expects to see positive social, environmental, and economic impact. The fund's decisions around impact will be driven by the NAMDP's result chain, log frame and impact targets at all times.

- *Gender Equality and Social Inclusion (GESI)*

GESI is an integral component for creating impact. Given the complexity of promoting or focusing on GESI aspects in private sector operations, SCF 2 may include specific scoring criteria for GESI promotion. As a rule, the SCF 2 will:

- Collect gender disaggregated data on recipient employment and impact of the funded initiatives.
- Include the SCF in any gender reviews or assessments it undertakes as part of its operations.
- Promote GESI-specific design of products or services with its recipients.
- Include GESI criteria during the application process where this is relevant for the SCF 2 topic or cycle.

The SCF 2 will pay special attention to reducing discrimination against traditionally marginalized communities including DAGs. Special emphasis will be given to an understanding of specific barriers faced by these groups, and ways of eliminating these.

- *Green growth, climate change*

The SCF 2 considers the environmental and social impact of all its engagements. For the SCF 2, supporting solutions that actively contribute to green growth or fighting climate change will receive special attention. This may be either in the form of a separate funding round for relevant solutions, or preference during other rounds for solutions that include elements of green growth or fighting climate change.

2. Identified Challenge for Round 2

Milk processors in Province 1 have so far not been able to introduce diversified quality milk products. While Nepal has seen a steady growth (4%¹) rate in milk production in the last few FY Province 1 in particular has witnessed an exponential growth (11%¹). However, dairy processors are yet to match this growth with increased processing capabilities or introducing diversified products. The reluctance of dairy processors to increase processing capacity or adding new products is high initial cost, in terms of procuring machineries, equipment, and technical knowhow.

Producing quality milk products requires processors to adopt increased processing capacity, advanced technology (at different level of processing) and incur higher production costs as multiple levels of processing needs to be carried out (including branding, packaging, and labelling). This implies making relatively risky investments in additional processing capacity. The majority of dairy processors in P1 have limited their product line to conventional dairy products such as ghee, curd, paneer ignoring the need for

¹ As per Statistical Information on Nepalese Agriculture 2076/77 (2019/20) by MoALD

product diversification. While this strategy works during the lean season when the production is low and procurement difficult however due to lack of product diversity, the processors must declare milk holidays² to restricting the procurement of raw milk from producers during flush season³, which risks their relationship with the producers and hampers their ability to procure during lean season³. Additionally, the cost of sourcing milk from distant areas is too high to be deemed sustainable.

Nepal has also been importing many dairy products like powder milk & cream, flavoured milk, flavoured curd, cheese (mozzarella, cream, slice, soft cheese) and other products. In FY19/20, Nepal imported NPR 2.0 billion⁴ of milk products, whereas its exports (such as cheese (dog chew), butter) amounted to NPR 25Mn⁴. Due to the constraints in domestic processing, the dairy sector of Nepal has not been able to play a significant role in import substitution.

Therefore, the programme has envisaged a CF to address above-mentioned systemic constraints by working with private sector. Through a CF mechanism, it seeks to encourage market driven innovative idea from eligible applicants (please refer section 4 for further details). The next section gives non-exhaustive innovation to the identified challenges but welcomes other market driven solutions from applicants that address the constraints.

3. Proposed Idea

Examples of companies that the CF is looking to support are dairy processor and entrepreneurs with new dairy product ideas. The potential partners for this intervention are start-ups, young SMEs or a separate team or division from an existing company that intend to develop a new business line.

Innovative idea in general should support the long-term, sustainable dairy product.

4. Eligibility Criteria

The Sahaj Challenge Fund is intended for disruptive innovations with long-term commercial sustainability, either by new companies (start-ups), young small companies (SMEs) or companies that intend to develop an entirely new business line.

In principle, the fund is limited to private organisations. Government agencies cannot apply as a rule. Industry associations are also not the expected applicants unless a proposal can present a commercially sustainable business model in which they have a value-adding role to play.

4.1. Applicants

Eligible applicants are:

- Existing Nepali dairy companies (including dairy processors) with at least one year of operations in Province 1.
- Individual applications (start-ups, young SMEs) with a business idea for the dairy sector and intending to register as a business within 6 months of the application date.

4.2. Criteria

2 milk holiday – days when milk is not procured from farmers by processors

3 Lean season (March-July) and flush season (August-February)

4 As per Nepal Foreign Trade Statistics Fiscal Year 2019/20 (2076/77) by Department of Customs (MoF)

Private sector, cooperatives, and associations (applicants) must:

- Start-ups that have minimum viable product, and solid business model and are looking to accelerate
- Be financially sustainable (i.e., cashflow positive) or demonstrate a credible business plan/projection towards financial sustainability over the next three to five years
- In case of an existing business, be registered at the company registrar office, tax office and up to date on their registrations and tax duties
- Be able to demonstrate internal procedures and systems to ensure that the grant can be used transparently and efficiently
- Be able to demonstrate their capacity to provide the funds budgeted for their own contribution.
- Operate in the selected or related field for at least 1 year, or have a credible business idea and plan to form a business

5. Private Sector Incentives & Contribution

Developing innovative product implies risk. Sahaj CF aims to reduce risk and encourage innovation. The CF would mainly issue grants to co-finance the costs involved in developing and piloting new Province 1-tailored-business models and ideas, reducing the commercial risk hurdle which would tip investment decision from 'no' to 'go.'

In addition to grants, the fund may provide technical assistance (TA) to support the applicant in the form of access to experts and consultants to develop and refine the product in Province 1. This support will be provided during the first year of partnership and may include the following:

- Financial Planning
- Sales and Marketing
- Restructure Business Model
- Operation Management
- HR Management
- Strategic Management

The applicant can indicate the need for TA. To provide bespoke TA, due diligence shall be performed. Sahaj shall draw on national and international resources and expertise to provide TA support.

5.1. Budget, Funding & Duration

The total budget for round 2 of CF is expected to be approx. NPR 20M. The largest fund awards are not expected to exceed NPR 5M, although exceptions are possible if approved by the SCF 2 Committee.

No fund award shall be less than NPR 500K to manage the administrative workload involved in each individual engagement.

Awards and accompanying support for innovations are generally expected to last for one year. Where necessary, the SCF 2 Committee may decide to continue support for subsequent periods; this will always be assessed on a case-by-case basis.

5.2. Support Modalities

The majority of the SCF 2 support is expected to be provided through grants. Where relevant, the Fund may consider providing technical assistance. In cases where established companies want to embark on a

disruptive innovation, a conditional grant (risk-sharing)⁵ or co-investment (matching grant) may be considered as well.

Due to the nature of disruptive innovation, often times done by new companies, no loan guarantees are expected to be provided, as these would imply repayment obligations soon after the disbursement (bank lending is generally considered less suitable for early-stage business initiatives).

5.3. Cost Sharing

While the nature of the SCF 2 grants is primarily to support disruptive innovation, it is expected that partners (grantees) contribute to the projects and innovations they propose. The overall rate of cost sharing is variable, and a function of the stage of the company or partner SCF 2 chooses to work with. In general, the more established (and cash-positive) a company is, the higher the expectation of cost sharing.

6. Challenge Fund Process and Timeline

Please refer to the CF process and timeline figure which illustrates this section, in the next page, to enrich your understanding.

6.1. Call for Proposals & application

A call for proposal will be issued through various media channels. The call for proposal window (publication until deadline for submission of applications) will be approximately four weeks.

Interested parties can request application documents either from the website or from the project team. These documents consist of an application form, a template to capture the idea or concept, and any other documents or evidence that is required as per the type and status of the applicant.

Once the call is published, the programme team will have an established process and time window in place for questions regarding the applications. The window will close 10 days before the deadline stated in the call for proposals. The team will address and respond to each question received within 1 working day (24 hours).

Interested parties will be asked to submit an application form including a template to capture the idea or concept that addresses the challenge highlighted in section 2, and any other documents or evidence that is required. Applying for the CF is essentially a one step process.

6.2. Assessment of Proposals

Assessment of proposals is expected to be completed within three weeks. After receiving the application, the assessment panel would devote three days to review and bring to the surface any content questions or clarifications that the assessment panel (AP) may need in order to fully understand and evaluate the application.

Any questions or request for clarifications will be forwarded to the applicants on the fourth day. All applicants will be given five days to present the requested information. The assessment panel will then take the remaining five days to evaluate and score the proposals.

⁵ Grant that is provided to the private sector organisation only if an innovation or new product/service or risk that they have taken fails. This reduces pressure on organisations as they are protected in case of failure.

If, for whatever reason, an applicant cannot meet the deadline of requested information, s/he should request an extension. The AP will decide on these requests on a case-by-case basis.

The scored proposals, with recommendations, will be forwarded to the SCF 2 Committee who will make the final decision with regards to awards. The Committee will decide upon awards within seven days.

The criteria of assessment will follow the guiding principles of section 1.2 and the following:

- Applicant’s capabilities and resources.
- Main idea of the proposal (business model, product, packaging, delivery model), its sustainability and innovative elements.
- Potential impact of the proposal as compared to the fund’s targets and objectives.

Proposals that are considered not to have met the minimum (content) requirements for SCF 2 awards will be notified by the project.

6.3. Formalising Partnership

When the SCF 2 Committee has made a funding, the project will contact the applicant to formalise the partnership with their organisation that may include negotiation on cost-sharing, an induction orientation, formulation of workplan, compliance and reporting requirement, and finally the Grant Agreement Signing. This is expected to take two-three weeks.

Figure below illustrates the CF process and timeline:

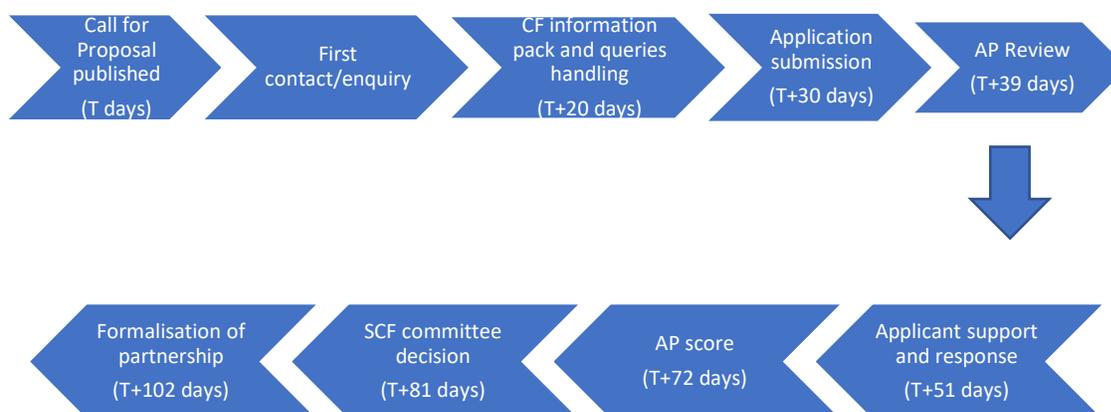


Figure 1: SCF 2 Process and Timeline

Induction orientation: This should cover reporting requirements (including monitoring and results management (MRM)), process to claim awards, commitment to GESI Strategy, Code of conduct, Operational guidelines etc.

6.4. Monitoring

Each proposal/project funded will have customised stipulations and conditions included in the legal agreements. Partners are required to submit monitoring reports throughout the project implementation period to assess progress, project impact and achievement of objectives. Partners must submit reports on a regular basis and are expected to assist evaluators where applicable.

Based on the stipulations in the legal agreement, the project team will monitor the partner's financial status and performance. The project will engage an independent financial auditor to carry out financial audit for the contribution made by the project as and when deemed fit. The payments for the independent financial auditor will be borne by the project and is not part of the award.

7. Frequently Asked Questions

What is the Sahaj Challenge Fund?

It is a mechanism by which NAMDP can engage with private sector organisations to solve persistent bottlenecks which hamper their functioning in the agri-sector. Using various support modalities, the SCF allows NAMDP to assist the organisations to overcome identified systemic constraints or address issues around systemic constraints.

How can I check if my application is aligned with the SCF 2 funding criteria?

Organisations are requested to read and understand the information pack before submitting their application. The information pack gives guideline on how proposals would meet the funding criteria. Also, the project has a dedicated timeframe (6 Jul - 15 Jul 2022) where organisations can ask questions. Details of focal points are shared at the end of this section.

What kind of projects will be funded?

Round 2 of CF will be dedicated towards innovation in dairy sector. Innovative idea can be related to product or packaging. Innovative ideas should support the long-term and sustainable operation. Innovative ideas will have to be implemented in Province 1 and should have an impact and GESI component.

When can I submit the application?

Application can be submitted from the day the SCF 2 publishes the call for proposals. Tentative date when the proposal will be published is 16 June 2022. Tentative last date of application is 15 Jul 2022. Submission of application should be completed by the last date of application. The last date for question and answer to the project team is 15 Jul 2022.

Are there special templates for the application?

Yes, there is only one application, which is available from the official website: <https://www.swisscontact.org/en/projects/namdp> and can be downloaded. You can also get them from the project focal points on request. You are requested to follow the template of the application strictly and if there is any confusion, the focal points will help you. Not following the template may result in disqualification.

Who can submit applications?

- Any organisation operating and registered in Nepal can submit the application to work in Province 1
- Operate in the dairy or related field for at least 1 year, or have a credible business idea and plan to form a business
- Start-ups that have minimum viable product, and solid business model and are looking to accelerate
- Be financially sustainable (i.e., cashflow positive) or demonstrate a credible business plan/projections towards financial sustainability over the next three to five years
- In case of an existing business, be registered at the company registrar and tax office and up to date on their registrations and tax duties
- Be able to demonstrate internal procedures and systems to ensure that the grant can be used transparently and efficiently
- Be able to demonstrate their capacity to provide the funds budgeted for their own contribution.

My project is already in operation, can I apply for upgrading this project or does it have to be a new and innovative idea?

Yes, you can. You can apply to upscale and expand your operation to different areas. In this case, you need to justify that there is evidence that the project is worthy of up-scaling. What is considered innovative in Province 1 may have been implemented in other countries (or even other regions of Nepal). The concept of innovation is defined as a product, packaging, business model, delivery model or service that has not yet been implemented in this form in Province 1. Please refer *guiding principles* of information pack for further information.

How much is the maximum available fund to support my project?

The largest fund awards are not expected to exceed NPR 5M, although exceptions are possible if approved by the SCF 2 Committee. No fund award shall be less than NPR 500K to manage the administrative workload involved in each individual engagement. If TA is required, the fund awards will also include the cost of TA.

Can I use the funds to buy fixed assets such as equipment and machineries?

The fund will finance balance sheet items such as equipment and machineries. However, purchase of property and building/shade/civil construction will not be supported by the project.

How long does it make an investment decision on my application and how will I be notified about it?

The assessment panel will generally take 3 weeks to recommend awards to the SCF 2 Committee and the latter would take an additional week to make the final decision on awards. Then the project team will inform the organisation, regardless of the decision, via email or telephone. Tentatively the applicants will be notified by 3rd Sep 2022.

Do I need to contribute at least 50% of the project cost?

No, but the CF is a competitive process and partners ought to contribute. The overall rate of cost sharing is variable, and a function of the stage of the company or partner SCF 2 chooses to work with. In general, the more established (and cash-positive) a company is, the higher the expectation of cost sharing.

How long should the project duration be? Can I have funding over two years?

The project will be funded initially for one year (i.e., Sep 2022 - Aug 2023). Depending on the proposal and the effectiveness of the partnership, Sahaj and the winning applicant can mutually agree on further support after the first year.

What are the parameters the project will be looking at to reach the final investment decision?

The criteria of assessment will follow the *guiding principles of section 1.2* and the following:

- Applicant's capabilities and resources
- Main idea of the proposal (business model, product, packaging, delivery model), its sustainability and innovative elements
- Potential impact of the proposal as compared to the fund's targets and objectives.

What are the reporting requirements? How often do I need to report the progress?

Partners are required to submit monitoring reports throughout the project implementation period to assess progress, project impact and achievement of objectives. Partners must submit reports on a regular basis and are expected to assist evaluators where applicable. These will be detailed in the Grant Signing Agreement.

Where can I get further assistance if needed?

The following focal points are available to assist you if you need any further help:

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