

Introduction to the UNNATI Challenge Fund (UCF) and Value Chain window (VCW)

What is the UCF?

The Government of Denmark is funding the UNNATI programme. UNNATI is being implemented by various partners such as the United Nations Capital Development Fund (UNCDF), Ministry of Agricultural Development, Department of Local Infrastructure and Agricultural Roads (Ministry of Federal Affairs and Local Development), District Technical Offices and District Development Committees, Nepal Rastra Bank, International Labour Organization, and Nepal Business Forum. The Value Chain Commercialisation component is implemented by ORGUT as a Management Contractor. The objective of the UNNATI programme is the *Promotion of sustainable, inclusive growth that reduces poverty and raises living standards*. The key priority is to strengthen market-based growth with a focus on reducing poverty and improving living standards and will have a strong focus on agriculture development.

The Programme mainly focuses on the eastern development region, targeting primarily 7 districts: Ilam, Paanchthar, Terhathum, Bhojpur, Dhankuta, Taplejung and Sankhwasabha.

Given the nature of value chain development and value chain financing, the challenge fund will consider projects with a regional or national scope as long as it can be demonstrated that the project also benefits the target group in the seven selected districts.

The four Value Chains supported by the Value Chain component are: Orthodox Tea, Ginger, Large Cardamom and Dairy. The key objective of VCW is to tap the business opportunities by solving the following binding constraints identified within four value chains.

Orthodox Tea Value Chain

- The majority of tea farmers are small farmers using conventional production technology. The cost of production is high but the productivity and quality of green leaf is lower than in India. The major binding constraints are; limited access to quality production inputs including suitable clone, inadequate technical knowledge and access to technology, insufficient skilled tea technicians and conventional production technology.
- Low production, poor quality and high cost of processing, packaging and marketing has been observed due to lack of advance technology, factory running below capacity, frequent load shedding, high repairing cost of machines, out of date and/or mismatch of machines, high expert hiring cost, labour shortage and frequent labour and political strike.
- Despite increasing global demand of orthodox tea, larger volume of Nepalese orthodox tea does not meet international quality standards. Good Manufacturing Practices (GMP) for food contact materials, hygiene of foodstuffs (HACCP), MRLs, microbial contamination checks, and organic production and labelling, fair trade are essential to compete in the global tea market.
- The orthodox tea value chain has been characterized by unfair benefit sharing and minimal trust among the key value chain actors such as field labour, small farmers/producers and processors and marketers. While labourers are worried about working conditions, farmers are concerned with the lower prices offered by factories. Factories on the other hand are concerned about poor quantity and nature of the tea leaves supplied.
- Non-tariff barrier at the Indian border increase cost and are time consuming CFL/FPA test.
- Limited market promotional activities at domestic and global market. No joint effort to promote national brand.

Dairy Value Chain

- Low productivity (less than 5 lit/cow/day) and high production cost (approx. Rs. 20/lit) of raw milk has been observed due to insufficient skills and knowledge and limited availability of quality inputs and services such as, improved breed, liquid nitrogen, quality semen, feed, fodder, forage and veterinary services.

- Poor quality of milk due to general lack of cleanliness, unhygienic animal keeping, milking practices, handling, storage and distribution of fresh milk in collection and chilling centres.
- Dairies do not collect evening milk leading to milk spoilage and adulteration.
- In remote hilly areas, there is a milk production surplus but because of very limited access to fresh milk market and unavailability of collection and chilling centre and dairy processing units, the surplus cannot be sold.
- The demand for storable dairy products such as Hard Cheese (Chhurpi) is high in USA and other developed countries for dog food however quality is poor and supply is not consistent.

Ginger Value Chain

- The productivity is low (less than 15 MT/Ha) and the production cost is high (approx. NPR. 25/kg). Major constraints leading to lower productivity include: gradual degradation in quality of seed, mishandling of mother rhizome (Bruni) on farm, unavailability of quality seeds and other production inputs, traditional methods of ginger farming, lack of expertise / knowledge of improved production technology, rhizome rot disease.
- There is a need to adopt appropriate production technology to decrease production cost, increase productivity and improve quality of marketable ginger.
- The value added activities in ginger is limited or absent. Farmers and traders sell fresh ginger without cleaning and grading. Ginger processing plant is not available in EDR.
- About 85% ginger is exported to India in fresh form. In order to increase market diversification, it is necessary to explore overseas markets, buyers' requirement, product quality standards, SPS requirements, organic product etc.

Cardamom Value Chain

- The productivity of Large Cardamom is low (less than 1.2 MT/Ha). Major constraints leading to lower productivity include: unavailability of appropriate sapling and quality production inputs, epidemic disease, poor orchard management, lack of expertise / knowledge with improved production and organic fertilizers, rhizome rot disease.
- There is a need to adopt appropriate production technology to decrease production cost, increase productivity and improve quality of marketable ginger.
- The value added activities in Cardamom is absent except for drying. Farmers use traditional fuel consuming dryers (almost 90%). Proper harvesting, tail cutting, draying with improved dryer, grading and packaging system need to be adopted at farm level.
- Almost all Cardamom export to India via Birtamod includes minimum value addition at trading level. Nepalese traders/exporters need to explore overseas markets, buyers' requirement, product quality standards, SPS requirements, organic product etc.

These areas of intervention will be approached through grants for the following activities. See examples below.

- Market research needed to identify and open new markets
- Market access and distribution strategies to support sustainable entry into new markets
- Production and operating systems and technology improvements needed to improve efficiency, including purchase of equipment and construction of infrastructure
- Improving quality and quantity of inputs through activities focusing at training and facilitating upstream VC actors, whilst creating improved vertical linkages.
- Supply chain improvements
- Distribution systems for production inputs
- Quality and standards systems necessary for access to new markets

Innovations supported by the Fund must lead to direct, sustained benefit for the business and its employees and for other actors within the value chains. All projects are intended to positively impact the livelihood of the communities in which the businesses operate either directly or indirectly through increased employment and greater opportunities for income generation. Priority

will be given to projects that improve the linkages between actors within the value chains (and not only provide benefit to one particular farmer or MSME.)

How does the Value Chain Window (VCW) of the challenge fund work?

The VCW is designed to provide incentives for value chain actors to expand and broaden their operation. The VCW provides matching grants through a competitive bidding process where the qualifying applications are selected. The VCW is not intended to crowd out private sector investments but rather to leverage private investments through the provision of a risk sharing mechanism for innovation and expansion of selected value chains. Grants are targeted towards new ideas, products, business models, improved quality, etc.

The VCW is looking at projects with a potential to be replicated throughout Nepal to meet market demands and filling market gaps. The VCW support seeks to ensure a commercial return for the applicant as well as a positive impact for value chain actors. The VCW will pay special attention to reducing discrimination of women and traditionally marginalized groups.

The VCW will support matching grants through an open competitive process with public solicitation of applications. Only the best proposals and applicants with the relevant skills and experience will be selected.

The present call invites expression of interest (EoI) for the following calls:

Orthodox Tea

Code	Subject	Description	Targeted bidders
T 1	Improvement of quality of tea through improved production techniques of green leaf and improved processing	Tea factories build strong customer relations with farmers by providing training and services as well as improve technology and capacity at factory level	The call is mainly aiming at large and medium size tea factories, but smaller factories may also bid
T 2	Improved production, processing and marketing of tea by small tea factories	Based on an assessment by an independent consultant, small factories may apply for support in improvement and upgrading of their processing facilities	Individual existing or prospective small tea factories
T 3	Improved and increased access to international markets	Any proposal for exploration of new markets, product development and/or promotion, etc.	Associations of or individual tea exporters

Dairy

Code	Subject	Description	Targeted bidders
D 2	Improved farmers income from commercial dairy production	Proposals that address the problem of seasonal supply fluctuations, loss of quality in the collection process and production and marketing of value added products	Established and prospective new dairy industrial entrepreneurs as well as dairy producer cooperatives
D 4	Improving the availability of Semen and Liquid Nitrogen for AI	Any proposal for improvement of production (sourcing) and distribution of semen and LN to public and private inseminators	Interested and related private sector entrepreneurs or Public sector units

D 5	Production of value added storable dairy products in remote areas	Proposals addressing processing, storage and marketing of storable dairy products, like chhurpi, cheese, paneer, etc. through technology transfer and/or upgrading of equipment and facilities	Individual factory owners, exporters, entrepreneurs or farmers support organizations
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Ginger

Code	Subject	Description	Targeted bidders
G 2	Reduction of post harvest losses at farm level due to inadequate handling and storage	Proposals for collective storage at district level (small warehouses and collection centers)	Farmer groups/cooperatives
G 3	Improving ginger production through distribution and use of quality inputs	Proposals for availability, promotion and distribution of quality inputs	Entrepreneurs for supply and/or distribution of production related inputs (pesticides, fertilizer, etc.)
G 4	Processing, value addition and additional market opportunities	Any proposal that addresses these issues; hardware only in combination with software	Private entrepreneurs or consortiums

Large Cardamom

Code	Subject	Description	Targeted bidders
C 2a	Improving large cardamom production through distribution and use of quality inputs	Proposals for availability, promotion and distribution of quality inputs	Entrepreneurs for supply and/or distribution of production inputs (saplings, pesticides, fertilizer, etc.)
C 2b	Improvement of product quality through on-farm use of improved dryers	Proposals for manufacturing and/or distribution (marketing) of appropriate cardamom dryers	Private entrepreneurs or farmers service organizations at regional or district level
C 3	Value addition and international marketing	Research into value addition, international markets and setting up marketing links and/or infrastructure	Entrepreneurs and exporters of cardamom or other commodities

What does the VCW offer to grantees?

The VCW acts as a co-investor, providing **matching grants** to give innovative ideas and key businesses in the selected value chains a chance to expand their business operations.

The Challenge Fund will finance a share of the project's cost (through a performance based grant) while the other part of the project's costs will be financed by the applicants to ensure commercial viability of the project.

The VCW will award matching grants with the following characteristics.

The cost sharing rate is the share of the project costs that the VCW may cover. The remaining percentage of the project costs is to be covered by the applicant.

All amount in USD	Grant
Minimum grant amount	USD 15,000
Maximum grant amount	USD 300,000
Maximum grant funding for one institution and/or one group	USD 300,000
Cost sharing rate by the VCW for hardware	Up to 50%
Cost sharing rate by the VCW for software (training, technical assistance, etc.)	Up to 90%

The cost sharing rate will be decided by the fund based on the rate proposed by the applicant and depending upon the innovation and impact factors (i.e. the more innovative and/or larger impact will receive will be allocated a higher cost sharing rate by the UCF).

In-kind contributions

In-kind contributions by the grantee to cover their share of the project's costs are allowed to a maximum of 25% of the grantee's total contribution of the proposed project. In-kind contributions must be planned and integrated into the budget annexed to the grant agreement.

In-kind contributions include office space, equipment, staff-time, etc., and can be counted as cost share. A share of this costs can be attributed to the project and a rationale to explain that share will be required from the applicant. A reasonable and fair monetary value must be imputed by the applicant to this contribution so that it can be properly recognized.

If the valuation of in-kind contribution is inappropriate or not supported by evidence, the valuation will left to the fund's team judgement.

Other contributions

The UCF does not consider pre-existing contributions and pre-existing capital expenditures older than 6 months before the submission of the concept note. If applicants wish to include pre-existing expenses as contribution to their costs share, they need to demonstrate this with verifiable evidence. Evidence must show the costs incurred, the date of the expenditures and how they directly relate to the proposal. The UCF reserves the right to accept or rejects such contributions.

The UCF may consider as a contribution from the applicant other funding provided by a third parties such as other companies, funds, NGOs, etc. to a maximum of 25% of the applicant's total contribution. In their grant applications, applicants should distinguish between co-funding that is already committed and co-funding that is only anticipated.

A minimum of 25% of the applicant's total contribution must be in cash or in investment in the project.

Expenses for construction are permitted up to a maximum of 75% of the total value of the project proposal budget.

Planning

The VCW operates in Nepal from Early 2016 to July 2018.

All sponsored activities must be completed by July 2018

There is no deadline to submit concept notes for this call. The call will remain open until the end of the programme or until all funds have been allocated (whichever is first). However, the fund is limited and the VCW will follow a *first-come first-served principle*. Interested organisations are therefore advised to apply as soon as possible. The VCW is open to both regional and national proposals.

Who is eligible to apply?

The VCW is open to all registered businesses operating in the selected value chains. These typically includes:

- input supply firms (equipment, agro chemicals, packaging);
- Production companies and associations
- Farmers groups, farmer cooperatives, aggregators and trading companies, export houses;
- agribusiness service providers (transport, mechanised farm services, training, information, business development services);
- Traders, processors, manufacturers and wholesalers.

All applicants must:

- Be legally registered and up to date on their registrations and tax duties if applicable (Farmers' groups must be registered with DADO/DLSO);
- Operate in the selected value chains for at least 1 year;
- Be financially sustainable or demonstrate a credible business plan towards financial sustainability for the next two years;
- Be able to demonstrate internal procedures and systems to ensure that the grant can be used transparently and efficiently (including opening a dedicated bank account for the project);
- Be able to demonstrate their capacity to provide the funds budgeted for their own contribution.
- In case of individual application, the applicant must be registered in Nepal for at least 1 year, in case of a consortium, the lead applicant has to be registered in Nepal for at least 1 year.

Not eligible for grants:

- Operation and trading capital
- Land acquisition
- Building construction is eligible only in combination with a software component
- Procurement of second hand or used equipment
- Duplication of grants: if the applicant is receiving or implementing the same or similar project using grants from other donors
- Other items specified in the announcement

Documents to be provided

Documents to be submitted at the concept note stage	Documents to be submitted at the proposal stage *	Documents to be submitted at the agreement stage
<ul style="list-style-type: none"> - Declaration of registration with the relevant authorities - Consortium declaration if relevant - Copy of valid Nepali registration certificate 	<ul style="list-style-type: none"> - Financial statements - Last audit reports (up to 3) - Implementation team CVs 	<ul style="list-style-type: none"> - Evidence of available funds for cost sharing (at least 50% of the expected cash contribution) - Declaration of tax payment for last fiscal year (if required by regulations) - Internal procurement code of the grantee if existing

*According to national regulations

Process

The application follows a 2-step process. First, interested applicants should submit a concept note fulfilling the requirements of the application package. If the application is shortlisted, the applicant will be required to write a full proposal describing the concept in more details.

Both the concept note and proposal will be assessed in full transparency based on a pre-defined scorecard.

The main areas of evaluation of the scorecard are:

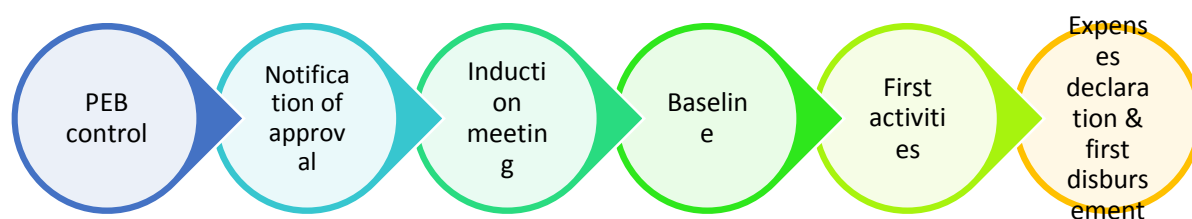
1. Applicant's capabilities and resources;
2. The key idea of the proposal (business model, product, delivery model), its sustainability and innovative aspect;
3. The potential impact of the proposal as compared to the UCF's targets and objectives.

Simplified process chain



After the Call for Expression of interest (also called request for applications) is published, eligible organisations are invited to submit a concept note.

The concept notes are screened for eligibility by the fund management team; Eligible concept notes are invited to submit a full proposal. If proposals are complete and eligible, they are sent to an independent experts' assessment panel for evaluation and scoring.



Qualifying proposals will be forwarded to the Project Executive Board (PEB) for approval. If the applicant's proposal is approved, a grant agreement will be signed between the applicant and the fund describing the project, its activities, timeline, deliverables and milestones, and budget.

After notification of approval, selected applicants will receive an induction meeting to explain the reporting requirements and administrative process.

Applicants are requested to submit the document in a sealed envelope mentioning the full address of applicants to the following address:

UNNATI – Value Chain Window
Call for EoI for [write in the relevant code presented in the table above]
United Nations Capital Development Fund (UNCDF),

UN House Pulchowk, Lalitpur

OR

UNNATI - Access to Finance (A2F) project office
Barghachi Path Biratnagar 3, house number 93

Request for clarification or full information package can be made by email to:

UCFDKT@gmail.com

Or

Could be made available from the UNNATI districts offices in UNNATI targeted districts

Definition of terms used

Applicant: Institution that submits an application in response to a request for proposals (RFA).

Application package: It refers to the documents provided to the applicant in order to present the fund, explain its key features and modalities. The application package also includes all templates to be filled in for a concept note submission or proposal submission.

Agreement (also referred to as “Grant Agreement”): A binding contract that describes the allocation of funds and defines the roles and responsibilities of the Grantee and the Fund. The agreement follows a Performance Based Agreement (PB) format.

Application: A written document conforming to the requirements of this manual, which outlines in detail the activity(s) being proposed by an applicant for funding.

Assessment panel: An independent group of experts selected by the fund to review and evaluate proposals from applicants based on the selection guideline and scorecard.

Concept note: The concept note is a summary description of the key idea of the applicant. It describes the main activities, expected outputs and includes a simplified budget.

Consortium: A group of applicants comprising at least one financial institution. The consortium partners or members will provide a signed document stating their intention to submit a joint application.

Consortium leader: A consortium application must be submitted by a consortium leader. The consortium leader represents the consortium partners to the fund. The consortium leader is responsible for project implementation by its partners and is responsible for distribution and accountability of the funds within the consortium. The consortium leader must be a financial institution and is designated in the consortium agreement letter.

Cost sharing: The project budget and expected expenses will be covered partly by the fund and partly by the grantee. Cost sharing consists of an allocation of the project expected costs between the fund and the applicant. The fund will commit to financing a given percentage of a project and the applicant will finance the rest. The share to be covered by each party and how it will be financed is defined in the grant agreement. A grant agreement may include different cost sharing rates for different activities.

Currency: All monetary amounts in this manual are labelled in US Dollars. However, all PBAs and expenses monitoring will be labelled in NPR.

Deliverables/milestones: Key programmatic targets that must be met (fully or partly) to qualify for a disbursement of the next tranche of funds.

Financial institutions: In this manual, the term financial institutions or FIs refers to Class A, B, C and D institutions, non-bank financial institutions licensed by the NRB (NBFI) and insurance companies and registered cooperatives (incl. multipurpose cooperatives providing financial services to their members).

Full proposal or proposal: The (full) proposal describes in details the project for which financing is sought according to the provided template. It also includes a detailed budget and costs sharing proposition, consortium agreement if required, all required supporting documents, and the profile of key staff in charge of the project’s implementation.

Grant: Financial assistance awarded to a grantee or consortium that provides funding to accomplish a defined objective. .

Grant Agreement Modification: A change to a grant agreement, in cost, duration, and/or scope. The fund’s approval is required for all modifications to an activity. Modifications must be approved in writing and the grant agreement must be amended with signatures of the grantee(s), fund manager and assessment panel.

Grantee: Financial institution, private sector actors (related to Tea, Ginger, Dairy and Cardamom value chains) and other service providers **The fund’s teams, or Implementation teams:** UNCDF and /or Orgut staff dedicated to the UNNATI programme.

The fund’s manager: UNCDF in charge of managing the fund.

Implementation Plan: The document submitted as part of a potential grantee’s application. The implementation plan specifies the applicant’s goals and objectives as well as the proposed activities that will be conducted using the grant. It forms the primary source of information for evaluating the prospective grantee’s full application. The implementation plan is annexed to the grant agreement.

In-Kind contribution: A share of the grantee cost sharing or contribution may be provided in-kind subject to the fund's approval. In-kind contributions include, for example, (parts of) building rent or dedicated staff salary. In-kind contribution will be evaluated by the fund and translated into an equivalent monetary value. This value cannot exceed 25% of the grantee total contribution.

For instance: for a proposal with a total budget of USD 100,000 including with USD 60,000 grant contribution by the fund and USD 40,000 contributed by the applicant, the maximum in-kind contribution from the applicant is $40,000 \times 25\% = 10,000$. The applicant would therefore contribute 10,000 in-kind and 30,000 in cash and/or investment in the proposed project.

Project Executive Board (PEB): the PEB is the supervision and management of the fund.

Performance Based Agreement: PBA are a type of grant agreement to be signed between the fund and the grantee. Under a PBA, achievement of the specific milestones or deliverables is a prerequisite to the disbursement of the next tranche of grant funding.

UNNATI Challenge Fund: The UCF is composed of three windows: expanding access to finance (EFFW), value chain (VCW) and market Infrastructure (MIW).

Windows: It refers to the three main areas of funding.

Evaluation scorecard

Concept notes and proposals will be reviewed based on the following grid and criteria.

Topic	Criteria
Applicants	Applicants has sufficient capability and expertise
	Applicant has sufficient human and financial resources
Key idea of the proposal or concept note	The project proposes innovative solutions
	The project meets a market need in the value chain
	The project is considered feasible
	The project demonstrates a potential for financial, commercial and technical sustainability
Impact	Match with VCW targets
	Match with the UCF scope
	Expected impact
The projects includes a focus on women or marginalised groups and addresses possible environmental and social impacts	
TOTAL	

1. Concept note template VCW

If your bid is from a consortium, please make sure that the consortium agreement is signed by all organisations involved.

If you bid with a consortium (multiple partners) please fill in the information for each partner in the table below.

If you apply individually, please fill in only column 1 (consortium leader).

Please indicate the call for EOI reference code (as provided in the information package. For example: G2, D5, C3...):

<i>Applicant(s) contact details</i>	Consortium leader	Partner 1	Partner 2	Partner ...
Institution's name and address				
Type of organisation Private business, multipurpose cooperative, Limited company, farmers' group, etc.)				
Contact person				
Position				
Telephone				
Email				
Project team leader (If different from contact person)				
Position				

<i>Applicant(s) description</i>	Consortium leader	Partner 1	Partner 2	Partner ...
Main business sector				
Proposed value chain				
Products and services offered				
Major shareholders (if applicable)				
Name of business owner (if applicable)				
Year established				
Country of registration				
Last 3 years audited accounts are available (Yes/No)				
Number of employees at end 2015 (Full time)				
Name of board members/ committee (if applicable)				

<i>Performances 2014-15 (in NPR)</i>	Consortium leader
Paid up Capital	
Total investment in the business	
Liabilities	
Fixed assets	
Gross Turnover	
Income	
Net Profit	

✓ How does your project serve women, and other marginalised groups? (15 lines maximum)

✓ What is the potential for replication of your project in other areas? (15 lines maximum)

✓ Who are the parties involved in the project and what are their roles? (15 lines maximum)

✓ Objectives (15 lines maximum)

(What are the main objectives of the project? 3 objectives maximum, with 2 to 3 lines to explain each objective and how it meets the UCF objectives. Please describe realistic objectives that your project can achieve. If these objectives are too broad, you may encounter difficulties to reach your milestones and constrain your funding from the UCF.)

- ...

- ...

- ...

✓ Implementation and activities

*List the main 4 to 6 activities and colour the cells to indicate the implementation duration
Please fill in the plan in Windows Excel.*

Activities	Year 1 Quarter 1	Year 1 Quarter 2	Year 1 Quarter 3	Year 1 Quarter 4	Year 2 Quarter 1	Year 2 Quarter 2	Year 2 Quarter 3	Year 2 Quarter 4

✓ **Budget Summary (all costs in NPR)**

The total percentage should be 100%. The UCF will apply cost sharing according to its guidelines for the total budget.

<i>Activities based budgeting</i>	Total cost (in NPR)	Share for the Consortium leader (in %)	Share for the Partner 1 (In %)	Share for the Partner 2 (in %)	Partner ...
Activity 1				
Activity 2				
Activity 3					
Activity 4				
...				
TOTAL				

Requested cost sharing from the VCW: in NPR and in % of the total cost presented in the table above:

...

Documents to be submitted at the concept note stage	Documents to be submitted at the proposal stage	Documents to be submitted at the agreement stage
<ul style="list-style-type: none"> - Declaration of registration with the relevant authorities - Consortium declaration if relevant - Copy of valid Nepali registration certificate 	<ul style="list-style-type: none"> - Financial statements* - Last audit reports (up to 3 years maximum)* - Implementation team CVs - Signed board commitment letter (if applicable) 	<ul style="list-style-type: none"> - Declaration of tax payment for last fiscal year*

*if required by national regulations

Name

Date

Signature with stamp