

PROJECT DOCUMENT: POVERTY IMPACT FUND (PIF)

Civil Society Department

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SECTION 1: SUMMARY

Summary description

1. The UK Government is committed to establish a Poverty Impact Fund (PIF) to support innovative and effective civil society organisations (CSOs) to contribute to the achievement of the Millennium Development Goals (MDGs) in poor countries.
2. The PIF will be a demand-led fund with projects focused on service delivery in support of poverty reduction and achieving the most off-track MDGs. Projects will be selected on the basis of demonstrable impact on poverty, clarity of outcomes and value for money.
3. The PIF consists of three separate windows, tailored to different sizes and types of organisation:
 - i. **Innovation Grants:** for small UK-based CSOs (annual turnover < £500,000), encouraging innovative approaches to poverty reduction.
 - ii. **Impact Grants:** for UK-based CSO's working on poverty reduction programmes at a larger scale in one or more poor countries. This window is also available to locally registered NGOs in countries where DFID has a country office.
 - iii. **Investment Grants:** for large UK and globally recognised organisations with strong strategic and policy relevance to DFID. Investment grants enable these organisations to take a programmatic approach to poverty reduction, including in global public goods.
4. This project document covers the Innovation and Impact windows, which the Secretary of State has agreed should be established in 2010-11, serving small and medium sized CSOs. The Investment window will be established at a later stage.
5. The fund will contribute to the Departmental priorities as stated in DFID's Structural Reform Plan. It will support organisations contributing to the achievement of the MDGs, as part of the UK's 'international commitments', as well as contributing to the drive to increase value for money through supporting "innovative and effective smaller British NGOs to deliver results".
6. The total cost of the PIF to DFID is £120m over the next 6 years (10/11 -15/16), with CSOs providing up to £112m in matched funding. The management of this project will be contracted to a Fund Manager, with separate complementary contracts for rigorous independent evaluation and due diligence.
7. In line with the Compact between the UK Government and Civil Society, the design of the Fund is currently under consultation through the DFID website. In response to feedback, design features may be adapted and key recommendations and changes would be submitted to the Secretary of State for approval.
8. An estimated 5% of the PIF will be spent on management costs, with an additional 2.5% of the fund on independent and robust evaluation. This will ensure that appropriate support is provided to organisations that are implementing activities. In line with other DFID central funding schemes, part of the management

costs relate to services directly provided to the programme beneficiaries and these will be charged to programme costs.

9. There are no high probability-high impact risks to the PIF. The main risks to the success of the scheme are that: (i) DFID receives insufficient number of quality proposals which will affect the level of fund disbursement; (ii) CSOs are unable to provide the proposed matched funding levels and so potentially innovative or high impact projects do not go ahead; (iii) projects do not deliver or funds are mis-managed. Options for mitigating these, and other risks, are presented in Section 4.

SECTION 2: PROJECT DETAILS

PROJECT DESCRIPTION

10. The PIF project will provide grants and a mechanism to manage the grants for CSOs contributing to poverty reduction and achievement of the MDGs. The purpose of the project is “to improve the livelihoods of poor people through civil society programmes” contributing to a goal of supporting achievement of the MDGs. The four project outputs are:

- Increased number and diversity of CSOs able to access funding for sustainable poverty reduction projects
- Increased delivery of basic services to poor people
- Increased economic opportunities for poor people
- Lessons learnt and broadly disseminated from PIF projects

11. The PIF will be an application-based fund with a total of £40m per year awarded for projects of up to three years in duration. An 8 week external consultation process on the final design of the Fund is currently underway closing on 22nd september. The description of the Fund provided in this Project Document is therefore preliminary, pending the outcome of the consultation. Key design changes stemming from the consultation would be submitted to the Secretary of State for approval.

12. Successful projects funded under the PIF will have to demonstrate their expected and actual impact on poverty and address the most off-track MDGs; be consistent with national poverty reduction strategies; show a strong understanding of local context; and should include beneficiaries in design and feedback. Complementary work, such as on capacity building, empowerment and advocacy, can be included where it helps to achieve or sustain the poverty impact. Proposals should maximise value for money.

13. The allocation of funds will consider the level of risk entailed in implementing specific types of projects. The Innovation Window will allow for higher risk projects compared to the Impact Window. Appropriate due diligence of participating organisations will be conducted in all cases to check the credibility, performance and track record of organisations applying for funding.

14. The intention of the fund’s design is to maximise effectiveness and allow a broad range of ‘not for profit’ organisations to apply for support. There are, however, clear criteria for types of project excluded from the PIF¹.

15. The Secretary of State has commissioned a review of the DFID Bilateral Aid Programme to ensure that UK aid is targeted where it is needed most and will make the most significant impact. The geographical focus of the PIF will thus be finalised following completion of the Bilateral Aid Review’s work: findings are planned for the autumn.

16. The consultation for the PIF proposes establishing two funding windows immediately, tailored to different types and sizes of organisations:

- Innovation Grants: for small UK-based CSOs (annual average turnover < £500,000), encouraging innovative approaches to poverty reduction.
- Impact Grants: for UK-based CSOs working on poverty reduction programmes at larger scale in one or more poor countries. This window is also available to locally registered NGOs in countries with a DFID office.

17. Investment Grants for large UK and globally recognised organisations with strong strategic and policy relevance to DFID, may be established at a later stage and are not covered in this Project Document.

18. The table below differentiates the Innovation and Impact windows. Much of the content of this table is the focus of the current consultation with civil society.

Poverty Impact Fund		
	Innovation Window	Impact Window
Value (but flexible to demand)	10% of PIF (grants worth £4m agreed annually)	90% of PIF (grants worth £36m agreed annually)
Purpose	Poverty reduction, with innovation encouraged. Can be small scale service delivery, but emphasise learning to allow scaling up	Poverty reduction linked to MDGs. Projects focused on off-track MDGs prioritised.
Risk appetite	Medium – High risk: to encourage potentially higher rewards from ground-breaking work	Low – Medium risk: lower risk for work at greater scale to deliver real benefits for poor people.
Grant size	Up to £250,000. Annual value of grant less than 40% of CSO’s annual income. Max 2 grants per CSO	Min. £250,000 - max £2 million. Annual value of grant less than 40% of CSO’s annual income. Max 3 grants per CSO
Duration	Up to 3 years	Up to 3 years

¹ **What is not eligible:** - Disaster and humanitarian relief projects. Research work. Core support - Funding to governments or for-profit businesses - Religious evangelising and proselytising- Campaigning that takes a partisan political stance. Any element of a project that discriminates between individuals or groups because of their race, ethnicity, gender, sexual orientation, religion or disability - Scholarships - Projects comprised mainly of shipping or transport costs, including shipping used technology, vehicles, books. Land purchase or purchase of buildings. Surgical procedures which don’t have a direct impact on poverty. Child sponsorship

Match funding	At least 25%	At least 50%
Eligibility	'Small' UK-based not for profit organisations, with an average income of less than £500,000 p.a. for the past 2 years.	'Medium' sized UK-based not for profit organisations (but no fixed upper or lower limit). Organisations receiving PPAs excluded. Registered Southern CSOs based in countries with a DFID office
Funding rounds	Two per year	One per year

PROJECT APPRAISAL

Background

19. DFID is responsible for promoting international development and poverty elimination. The central focus of DFID's policy is a commitment to the internationally agreed MDGs and their target to halve the numbers of people living in poverty by 2015. DFID recognises the key role civil society plays in working towards these goals and is keen to provide appropriate support to developmentally sound initiatives.

20. Civil society, by its very nature, consists of a wide range of organisations and their support needs vary. The design of the PIF has sought to address these different needs. Indeed the Government's commitment to establish the £40m Poverty Impact Fund has the objective 'to support innovative and effective British poverty-fighting groups which do not currently qualify for government funding.'

21. Following approval of a preliminary design with the Secretary of State (8 July 2010) and subsequent approval from HMT for a funding announcement, the design proposals are subject to external consultation.

Project approach

Why is DFID doing it this way?

22. DFID's review of civil society (June 2010) highlighted the number of different central funding streams available to CSOs and that these were not as well coordinated as they could be. The review concluded that 'there is evidence that DFID could get better value for money from the central PPAs and challenge funds..., by targeting DFID funding more explicitly by results and being clearer about how DFID will measure impact and performance, DFID can secure savings across the whole portfolio.'

23. The PIF has been developed taking on board the review's recommendations, particularly the need to rationalise central funding streams. The PIF has been conceptualised as an umbrella fund, with different windows tailored to different types and sizes of organisations. Other funds have been adapted as described below:

- Additional Support to CSOs (ASCOS): Following the International Development White Paper (2010), a fund to provide additional support to civil society during the economic downturn was developed. This fund has now been closed, but the highest performing projects under this Fund are being folded into the PIF Impact Window from September 2010.
- Development Innovation Fund (DIF): The DIF, a proposed fund for small-scale innovative projects was closed in June 2010. DFID learnt from the experience of the DIF that it is not economically viable to open central funding to very small organisations based overseas because of the potential costs of due diligence checks.

24. To increase transparency and accountability to all stakeholders, award recommendations will be made by a PIF Board, which will provide advice and guidance to DFID on the development, implementation and review of the PIF. The PIF Board is likely to be comprised of representatives from DFID, another grant maker, a civil society representative as well as lay people selected through an open competition with expertise in key areas, such as monitoring and evaluation and service delivery by civil society.

25. Another innovation is the matched funding element, which is designed to help share risk management between DFID and CSOs and drive improved performance in delivering results. The consultation suggests that applicants contribute matched funding to the tune of 25% for innovation grants (smaller organisations, with perhaps less track record and lower ability to leverage other funds) and 50% for impact grants. There is likely to be mixed feedback on this element from CSOs which will be considered and shared with Secretary of State ahead of finalising the PIF design.

Who are the key stakeholders? How are they being involved in the design?

26. The groups that have most interest in this funding stream are CSOs themselves and the beneficiaries of their projects. We anticipate a high degree of interest in the PIF. Based on experience with other centrally managed funding schemes for civil society, we expect to see in the region of 500 applications per year across the initial two windows.

27. DFID is one of the UK Government Departments that has signed up to the best practice guidance, known as the COMPACT, drawn up to cover relations between the not for profit sector and government. This commits the government to consult with the UK not-for-profit sector on new funding mechanisms or policy changes to existing funds for this sector.

28. DFID has thus launched a consultation on the design of the PIF to engage CSOs in the proposed design before any final decisions are taken. To enable the establishment of the PIF in 2010/11, the consultation period is 8 weeks.

Economic Appraisal

Rationale for intervention

29. There is strong international evidence for public intervention in the provision of basic services, but governments are often unable (and/or unwilling) to provide

these services to all sections of their populations. The poorest groups and those that are geographically or socially marginalised often fail to access public services. One consequence of this is that achievement of a number of the MDGs is off-track in many DFID partner countries.

30. CSOs can play an important role in providing these services. CSOs can reach and provide services to particular marginalised or harder to reach excluded groups that states and donors struggle to serve (such as the disabled, vulnerable children, female headed households and people living with HIV AIDS). CSOs have been critical in immunising populations in urban slums, remote or difficult regions and countries in crisis. CSOs may be able to perform better than governments in providing benefits for the poorest².

31. Currently many CSOs struggle to access DFID central funding for poverty reduction projects because they are too small; they don't meet the specific criteria of existing funding schemes (advocacy, governance, disability, etc.) or their proposals are considered to be 'too high risk'. Yet, by supporting a range of CSOs, DFID could help generate more new ideas that enable the needs of many different populations in different locations to be met.

32. In the absence of this intervention, access to DFID funds by small and medium sized organisations would remain limited, as would their capacity to deliver services and poverty reduction projects. Current funding arrangements would continue but opportunities to develop new ideas and innovative ways of working and the potential to scale these up would not be harnessed. There would thus be slower progress towards achieving the MDGs.

33. Three options for providing support to achieve off track MDGs were considered. These are detailed in the full economic appraisal. Balancing the costs and benefits of each, the choice was made to proceed with a centrally managed PIF.

34. The causal logic of the PIF is detailed in the full economic appraisal as well as the set of assumptions which appear in the logframe (Annex 1).

Incremental Costs

35. The total amount of financing expected to be invested through this project will be £232 m over 5 years (with projects being agreed over 3 years) - £216m through the Impact Window and £16m through the Innovation Window. Of this, DFID will provide £108m through the Impact Window and £12m through the Innovation Window, with the remaining funds being raised by the CSO themselves in the form of matched funding.

36. Real discounted cost (present value) of DFID spend is approximately £95m. This is based on assumptions of a discount rate of 10%³ across the countries that

² Civil Society Review paper for the Development Committee (March 2010). The Committee of Public Accounts (HC 64 – 22 March 2007) has praised civil society groups for this.

³ Changing the discount rate assumed moves the estimated costs and benefits, but won't affect the overall ratio of benefits:costs as the time profile of benefits and costs is identical, i.e. it is assumed that benefits are accrued in the year in which funds are spent.

projects will be located in and inflation at 3% in 2010, falling to 2% in subsequent years (based on Bank of England inflation forecasts).

Incremental Benefits

37. Discounted real benefits are calculated at approximately £203m for the Impact Window and £24m for the Innovation Window. All estimations are speculative at this stage. Numbers are illustrative and should be reviewed after a round of disbursements, when the sector split of projects is clearer and there is a better idea of the success rate of innovative projects. Without knowing which sectors projects will work in, it is very difficult to directly estimate the impacts on poverty and hence the benefits arising from the projects. Assumptions thus need to be made around two key variables: the split of projects between sectors and the ratio between amount of funding to projects in a sector and the resulting benefits.

Impact Window

38. Assumptions on the types of projects that would receive Impact Grants are based on the first set of projects rolled into the Impact Window (from the Additional Support to CS fund), as well as looking at the split of services delivered by CSOs in South Sudan through the Basic Services Fund. For this analysis, the split of projects between sectors is assumed as follows: health (45%), education (25%), food security and agriculture (10%), water and sanitation (10%) and transport/roads (10%). Assumptions have also been made on the cost-benefit of these different types of service, based on a number of sources⁴.

Sector	Proportion of funding	Sectors	Benefit:Cost ratio
Health	45%	Health	1.35:1 ⁵
Education	25%	Education	1.25:1
Food & agriculture	10%	Food & agriculture	1.35:1
Water & sanitation	10%	Water & sanitation	12.00:1
Transport/roads	10%	Transport/roads	1.15:1

Innovation Window

39. Any project that tries an innovative approach to service delivery will inevitably be risky. The Innovation Window is seeking to generate new ideas, letting 'many flowers bloom'. DFID should expect that some of these will be exceptional 'stars', some will be failures and there will be a majority of average performers. The absence of 'stars' would be problematic, since they yield the bulk of the benefits, and the absence of failures would suggest that not enough risks were taken.

40. Evidence from innovation challenge funds suggests what the levels of success and cost-benefit ratio are likely to be. One such is the Financial Deepening Challenge Fund (FDCF), a DFID supported fund which made small grants to companies to try innovative approaches to improving access of the poor to financial services. The results from the FDCF suggest that DFID might expect 20% of the projects to be stars, 50% to be average performers and 30% to be failures

⁴ Estimates derive from IFPRI (2006), World Bank (2002), the World Development Report (2008). Fan et al (2004), Zhang et al (2001) and WHO (2004)

⁵ ie For every £1 invested the estimated approximate economic output is £1.35

(the project review document⁶ suggests that this is also roughly the distribution of results that private equity funds and venture capital projects would expect to achieve):

Innovation Window

Success Level	Probability	Benefit:Cost ratio
High	20%	10:1
Medium	50%	1:1
Low	30%	0:1

Balance of costs and benefits

41. The net present value from DFID spend is £132m, with an overall benefit-cost ratio of 2.4. Overall, there seems to be a strong economic return to the PIF, with the overall rate of return for the Fund estimated at 140%. However, many of the assumptions are based on scant data, and should be used with caution.

42. A key point highlighted by this economic appraisal is that there is little evidence on which to base an analysis of the likely impact of the fund. Nevertheless, based on the assumptions made, the estimated rate of return seems to be positive, even when certain assumptions are changed to a large degree.

43. As the Impact Window represents 90% of the fund, it largely drives the results. The largest factor in determining the return on the Impact Window is the presence of water and sanitation projects, as the assumed rate of return on these is so high. It is reassuring however that the fund shows positive returns even if there are no water and sanitation projects.

44. In contrast, changing the assumed rate of return on the successful ideas in the Innovation Window has relatively little impact. Varying it from 5-15 gives a range of benefit cost ratios for the fund of 2.3-2.5. This is because the innovation window is a small proportion of the overall fund.

45. A key recommendation of the economic appraisal is that the PIF should be set up to generate usable data on costs, benefits and success rates to use in adapting the PIF and designing future civil society appraisals. The logframe and indicators should be designed to assist in this. The fund management and independent evaluation contracts have been designed to respond to this need for robust data for evaluation and management purposes.

46. Given the high level of uncertainty, a re-appraisal should be scheduled for mid-way through the life of the fund to analyse the sectors/countries/project types that CSOs are aiming at, and the success/failure rate of innovative projects.

Social Appraisal

47. The poorest groups and those that are geographically or socially marginalised tend to lose out on public provision of services. As a result, achievement of a number of the MDGs is off-track in many countries. In 2008, 46% of children under

⁶ Irwin & Porteus, 2005, "Financial Deepening Challenge Fund Strategic Project Review", Irwin Grayson Associates

5 in Southern Asia were underweight, in 2007 only one in three rural women in developing regions receive the recommended care during pregnancy and in 2005, 51% of people in sub-Saharan Africa were living on less than \$1.25 a day⁷.

48. The PIF provides an opportunity to target support to underserved populations and regions which receive few services that would help secure their livelihoods and help reduce poverty. The PIF design has clearly thought through the kinds of funds that would best support different types of organisations.

49. The on-going consultation provides an opportunity to finalise the design of the PIF but should not signal the end of a participatory approach to the PIF. It will be critical that the fund manager assesses applications based on the levels of local consultation and evidence of the involvement of local partners (ideally representative local structures) in the design of each project.

50. There is a danger that a 'many flowers bloom' approach, could undermine local attempts at harmonisation and coordination of efforts. The fund design therefore includes criteria for all projects to show how they are aligned to local, regional and national development strategies and support Government's plans on poverty reduction. This will also help to promote sustainability.

51. Equally, to ensure coherence of the fund at local and portfolio levels, the PIF will promote a strong results culture, not only to demonstrate results and cost effectiveness of different approaches, but also lesson learning for wider poverty impact. The real value of the Fund may come from PIF-funded ideas and approaches being taken to scale and mainstreamed.

52. Gender inequality is a key component of underdevelopment and marginalisation. It is therefore a key element of the PIF design that gender is mainstreamed across the windows, ensuring that programme results are clearly sex disaggregated and that plans for how the programme will benefit women and girls are clearly set out. The selection of the Fund Manager will take into account the need for a team that demonstrates sufficient expertise in gender issues to appraise, guide and support applications in proactively mainstreaming gender.

53. Beyond gender, civil society plays an important role in broader issues of inclusion, ensuring that people disadvantaged by race, religion, disability etc are able to participate in development. Applications will need to set out the target groups very clearly, and how particularly disadvantaged groups can be empowered to benefit from PIF programmes.

Institutional Appraisal

54. The Civil Society Review showed that in 2008/09, £515m was spent through civil society centrally or in country or regional programmes, with a further £160m provided through multilateral channels. DFID currently funds around 150 CSOs through central channels to undertake development activities overseas.

⁷ UN MDG Report 2010

55. As a demand-led Fund, applications to the PIF will need to show a good understanding of the local institutional context. Alignment with local, regional and national priorities is a requirement of the Fund. Additionally, projects will need to show a good understanding of local context and how the proposed project responds to the local context and works with local partners. The Fund Manager will need sufficient expertise to assess the strength of the institutional analyses put forward in applications.

56. From an implementation perspective, a single Fund Manager will be contracted to manage the scheme. The Fund Manager will be responsible for the appraisal, performance assessment and all day to day administration of the Fund. The Fund Manager will also act as Secretariat to the PIF Board, which is designed to open up DFID's decision making on competitive funds.

57. The PIF will support organisations of all sizes, smaller organisations primarily from the UK although applicants to the Impact Window can come from countries where DFID has a presence. Some of the smaller organisations may be run on a voluntary basis with limited capacity both in terms of financial management and project experience. It will be a key role for the Fund Manager to make a judgement on the organisations' capacity to carry out the proposed work as part of the assessment of their bids. This will be further assessed through the due diligence check prior to signing any grants.

Political Appraisal

58. The PIF Fund Manager is expected to apply an understanding of political dynamics in developing countries and the forces for and against change. Before approving any PIF grants, applications go through a rigorous appraisal and decision making process, during which the viability and appropriateness of their proposed activities, and also the capacity of the CSO to undertake this work effectively, is assessed. A significant part of this is consideration by the Fund Manager and PIF Board of the political context in which the proposed project would be located.

Environmental Appraisal

59. Projects will focus on poverty reduction, service delivery and the most off-track MDGs; be consistent with national poverty reduction strategies; show a strong understanding of local context; and include beneficiaries in design and feedback. There will be a wide range in the type and value of projects, given the "funding windows" for varying sizes of organisation.

60. This breadth and scope, and the "service delivery" focus, may mean there are projects that have some environmental impact. However, the "local" and "national" contexts of projects will require them to show how they address environmental issues which arise, so that the impact continues to be mitigated in country once the project itself has ended. In addition, some projects are likely to positively address environmental issues e.g. those working against MDG 7 (environmental sustainability) on climate change and food security.

61. Grant recipients will be required to specify how they will assess environmental implications of grant-supported activities. The Fund Manager will be responsible for appraising the impact that each project is likely to have on the local environment. If any project is deemed to have a significant environmental impact, a full assessment will be carried out. If there are concerns, the Fund Manager will ask for clarification and, if necessary, request changes to the project activities before any funding is agreed. For any projects over £1m, an environmental screening note will be developed as per Blue Book requirements.

62. The Fund Manager will be expected to ensure that the implementing partners undertake the activities proposed, adhere to any agreed actions to minimise environmental impact, and ensure that lessons learned from these programmes are disseminated widely. The Fund manager will hold grantees accountable for this in project reporting.

63. It is also the role of the Fund Manager to assess and monitor the cumulative environmental implications of the programme. The Fund Manager will report on this at the project assessment stage and in subsequent reporting.

64. The Fund Manager and grantees will also be required to respond to the emerging emphasis on climate smart development when considering project development.

65. The terms of reference for all three externally managed contracts will include specific provisions on environmental assessment and management, to ensure that funded parties are of a certain level of environmental management capability.

66. The full environmental screening note is available at Annex 2.

Lesson learning

67. In designing the PIF, Civil Society Department has drawn on evidence of best practice in engaging with civil society. The PIF builds on CSD's experience of dealing with organisations of different sizes and lessons learnt from its existing suite of funding schemes.

68. A comprehensive review of the £515m DFID civil society portfolio was produced for the Development Committee (March 2010) and the Investment Committee (June 2010). The review focused on the impact and effectiveness, including cost effectiveness, of DFID support, and sought to identify specific areas for improving value for money across the civil society portfolio. The design of the PIF directly builds on some of the learning from the reports and related discussions.

69. The review recommended better rationalisation of central funding, and the PIF's design should improve clarity for applicants and instil a coordinated framework that sits over several of the central funds.

70. The review also called for better oversight of funded projects, so that underperformance can be tackled and successful delivery rewarded. These lessons and recommendations have been integrated into the PIF framework.

Additionally, a robust independent evaluation has been designed to complement the management of the fund and ensure lessons learning and impact evaluation.

71. Furthermore, the review was supportive of 'innovation' as a criterion, but suggested that this should be applied flexibly (it does not necessarily require that a project is brand new; it may have been tried in another country for example). We have sought to develop the PIF in line with these recommendations, learning from the experiences of previous funding streams.

72. Experience with the Civil Society Challenge Fund has made it clear that different organisations require different funding streams. For example, small and less experienced organisations are often unable to compete for funding on a par with the larger and more experienced CSOs.

73. Matched funding is being proposed as situations have arisen where some organisations and projects have been receiving well over half of their funding from a DFID project grant, with minimal contribution from the organisation itself. Through matched funding the organisations maintain a larger stake in the success or failure of a project.

SECTION 3: IMPLEMENTATION

Management arrangements

74. There will be three externally managed contracts to support the Fund:

- i. An external Fund Manager, as the high levels of administration would be difficult to accommodate in-house.
- ii. Due diligence (assessing each organisation prior to funding) to manage risk
- iii. Independent external evaluation to oversee the development of a results framework, and ensure robust baselines, mid-term and final evaluations

75. The management of the PIF will be contracted to a Fund Manager (through a competitive commercial tender). CSD in DFID will maintain control and responsibility over:

- The purpose of the Fund.
- The size of the Fund and of grant limits.
- The terms of reference of the Fund Manager generally.
- Monitoring the effectiveness of the Fund Manager to deliver the Fund purposes.
- Signing of funding agreements.
- Political correspondence related to the Fund.

76. The PIF Fund Manager contract period will be for 36 months with an option to extend for up to a further 24 months.

77. Decisions on PIF funding will be made by the PIF Board based on assessments and recommendations from the Fund Manager. The PIF Board will

comprise of representatives from DFID and groups such business, academia, NGO networks and other Civil Society donors.

78. The due diligence and evaluation contracts will be selected through competitive tender to ensure value for money.

Timing

79. The project will be officially launched in the autumn, following an 8 week consultation. The SofS will announce the first round of projects (transferred from Additional Support) in mid-September. The first funding round (excluding the Additional Support projects) will be launched in October, with applications assessed and awardees announced in early 2011.

80. The PIF will initially grow its portfolio for three years, with the Additional Support projects and a call for impact grants in years 1 - 3 and two calls for grants for the innovation grants in each of the three years.

81. The Fund Manager will provide an inception report (at month 6) followed by six monthly reports to DFID on the performance of the Contract and the Fund. A full evaluation may be carried out part way through Year 2 to ensure the fund is working effectively and delivering results and good value for money. There will also be a full evaluation at the end of the project.

Funding

82. The PIF will agree grants worth £40 million per year for three years, leading to a total of £120 million being disbursed over the full five-six year life-span of all grants.

83. The split of fund allocation will be 10% (£12m over 3 years) for the Innovation window and 90% (£108m over 3 years) for the Impact window.

84. For the £12m Innovation window, it is estimated that an average project will cost £200,000, suggesting approximately 60 projects in total. If the £12m is distributed evenly over the 3 years, there would be approximately 20 projects receiving £4m of funding between them each year (although due to there only being time for one funding round in 10/11, there may be a need to transfer some of the funding into years two and three.)

85. The outlay of the funding will depend on duration of projects but an early rough estimation is: 10/11 – 650,000; 11/12 – 2,450,000; 12/13 – 3,800,000; 13/14 – 2,500,000; 14/15 – 1,800,000; 15/16 – 800,000.

86. The funding spread for the Impact window is structured slightly differently. For 10/11 it will consist of the 22 strongest projects (£13m worth of grants) agreed through the call for Additional Support to CSOs (ASCOS - December 2009) which will be managed by the ASCOS Fund Manager. There is unlikely to be sufficient time to agree any further funding for Impact projects in 10/11.

87. Therefore the remaining £95.4m will be split over 11/12 (£40m) and 12/13 (£55.4m). We anticipate that these will on average cost £1.8m given the funding limits (considerably more per project than the Additional Support projects enabling larger scope), and so approximately 22 projects in 11/12 and 31 in 12/13.

88. The monetary outlay will be spread across 6 years. An early estimate is: 10/11: £6,300,000 (additional support); 11/12: £6,300,000 (additional support) plus £6,000,000; 12/13: £15,000,000; 13/14: £40,000,000; 14/15: £28,000,000; 15/16: £6,400,000.

89. The awarding of grants will depend on matched funding from the organisations at a proposed level of at least 25% for Innovation funding and 50% for Impact funding. The consultation is asking for views on these matched funding proposals.

How will any future operating and maintenance costs be funded or managed?

90. The grant appraisal process will assess the sustainability of projects and any future requirements or likelihood for on-going funding. Projects would only be selected where they can show a reasonable chance of completing the project within the agreed timeframe without requiring additional or on-going support from DFID.

Is there a need for a procurement strategy or timetable? Who will be responsible for procurement? Are there sufficient safeguards in place for any non-DFID procurement?

91. Procurement of the fund manager, evaluation and due diligence contracts will be conducted by DFID.

92. All procurement within the projects will be the responsibility of the individual agencies, but must be in line with DFID procurement good practice. DFID will provide guidance for CSOs on best practice in procurement as part of improving value for money in DFID's third party procurement.

What are the tendering arrangements for any goods and services?

93. The grant agreements will set out that organisations should source goods and services from suppliers that clearly offer value for money, and whose work place practices meet corporate social responsibility standards. If the organisation is unable to source goods that in total cost above £100,000, DFID has three accredited procurement agents, who should normally be used to source goods. Organisations will be instructed to contact the Fund Manager acting on behalf of DFID who will advise on the process to follow in such instances.

94. The grant agreements will require organisations to establish and maintain an inventory of all items of equipment purchased (above £1000) under the grant. The agreement will set out that the organisation should advise the Fund Manager acting on behalf of DFID when the first of such purchases occurs. An up to date version of the inventory must be supplied to the Fund Manager acting on behalf of DFID not less than annually for review, and accompany submission of the Annual Audited Accounts.

What plans are in place regarding ownership of DFID-funded assets on completion?

95. On completion, ownership of these DFID-funded assets shown on the inventory will be determined by DFID and the Fund Manager.

Accounting and audit

96. Funding for management costs will be provided to the Fund Manager through a standard contract, payment in arrears.

97. Payment of grants will be made by the Fund Manager through a process set out in the Terms of Reference for the Fund Manager.

98. The Fund Manager and all grantees will be required to provide annual audited accounts.

Monitoring and reporting

99. The Fund Manager is required to report to DFID on the performance of the Contract and Fund every six months. The Terms of Reference require the Fund Manager Bidders to develop a quality assurance plan to ensure successful delivery objectives. This must include a set of quantifiable targets for key performance indicators, including, for example, appraisal of proposals and time spent on this, response times to applicants and grantees, and turn-around times for processing of payments (guidelines for these timings are set out in the Terms of Reference).

100. Reporting on the performance of the Fund will include:

- A financial report on the PIF
- An overview of the performance of all PIF projects, including development results, listing key points of interest and any areas of concern
- Recommendations of any remedial actions required for individual projects
- Recommendations for any changes in process or fund criteria

101. PIF funded projects will be up to 3 years in duration. The grant application criteria will emphasise the requirement to demonstrate how performance will be measured, along with intended results to be delivered, including initial baselines to measure against. Grantees will be required to provide annual reports of progress against their logical frameworks and have an external evaluation of their work. Grantees also must provide Project Completion Reports in line with standard DFID practice.

SECTION 4: RISKS

102. Risks to the project, their impact, and their mitigation, are detailed below. There are no high probability risks. The one high impact risk concerns the misuse of funds for political or illegal activities. Given the due diligence that will be in place, the probability of this is likely to be low.

Low Probability High Impact Risk No: 7	Medium Probability High Impact	High Probability High Impact
Low Probability Medium Impact Risk Nos 2 5b 6 9	Medium Probability Medium Impact Risk Nos: 3, 8	High Probability Medium Impact
Low Probability Low Impact Risk Nos: 1 5a	Medium Probability Low Impact Risk Nos: 4, 10	High Probability Low Impact

Risks arising from fund design

Nature of risk	Judgement	Monitoring	Mitigation
1 Criticism of DFID expressed by organisations unable to access the Fund due to eligibility criteria.	Probability: Low. Impact: Low	DFID records of complaints	Clear statement of the rationale for the Fund and how it fits within DFID's overall support for civil society.
2 Criticism of DFID for spending aid money on small-scale, localised projects.	Probability: Low Impact: medium	Projects report low impact or low success	DFID establish strong positive lines for the value of supporting small organisations and defensive lines for the PIF. Review reasons for low impact or low successes.
3 Negative feedback on the proposed matched funding requirements of the fund.	Probability: Medium Impact: medium	Consultation feedback and on-going monitoring by fund manager and DFID	DFID establish strong lines on rationale for matched funding to share risks and improve outcomes for poor people

Risks arising from grant-giving

Nature of risk	Judgement	Monitoring	Mitigation
4 Dissatisfaction expressed by failed applicants resulting in criticism of the scheme	Probability: medium. Impact: low	Recording of all complaints by Fund Manager.	Clear procedures and full advance explanation of appraisal criteria. Rigorous appraisal procedure, with quality

Nature of risk	Judgement	Monitoring	Mitigation
		DFID informed.	assurance. Clear feedback on failed applications. With Fund Manager, consider additional feedback support for small organisations applying for Innovation window, to build their capacity.
5 Inappropriate use of grant money by grant holder.	Probability: Low Impact: Low if correctable (a). Medium if not (b).	Reports from grant holders. Risk assessment attached to grant holder.	* Adequate due diligence assessment carried out * Clear guidelines on use of funds. * Clear guidelines for financial reporting. * Careful monitoring of reports. * Risk management strategy that includes possibility of visits to grant holders.
6 Insufficient quality applications – particularly if matched funding levels are deemed to high for many CSOs	Probability: Low Impact: Medium	Fund Manager sifting process records – money awarded.	* Promotion of the fund * Review of the design criteria after one year
7 Illegal or politically sensitive use of grant money by grant holder.	Probability: Low Impact: High	Reports from grant holders. Risk assessment attached to grant holder.	* Adequate due diligence assessment * Clear guidelines on use of funds. * Careful monitoring of reports. * Environmental scanning * Risk management strategy that includes possibility of visits to grant holders.
8 CSOs unable to provide matched funding they anticipated in their proposal	Probability: Medium for some, Impact: Medium	Reports from grant holders	* Develop clear guidelines with Fund Manager on how to manage matched funding * Implement guidelines consistently

Risks around project success

Nature of risk	Judgement	Monitoring	Mitigation
9 Projects awarded money don't deliver	Probability: low Impact: medium	Reports from grant holders.	<ul style="list-style-type: none"> * Robust project appraisal processes * Implement guidance on closing non performing projects early * Appropriately set risk appetite for 2 funding windows, ensuring higher risk appetite for innovation grants is balanced by sufficient returns
10 Lessons from innovative projects are not learnt/applied	Probability: medium Impact: Low	Reports from grant holders	<ul style="list-style-type: none"> * Ensure capacity for knowledge generation and lesson learning assessed at proposal stage * Consider joint lesson learning events amongst PIF funded CSOs * Link PIF awards to relevant policy and technical sections of DFID