
GRANT NUMBER 0063-NEP (SF)

GRANT AGREEMENT
(Special Operations)
(Commercial Agriculture Development Project)

between

NEPAL

and

ASIAN DEVELOPMENT BANK

DATED 23 FEBRUARY 2007

GAS:NEP 34308

**GRANT AGREEMENT
(Special Operations)**

GRANT AGREEMENT dated 23 February 2007 between Nepal (the "Recipient") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) the Recipient has applied to ADB for a grant for the purposes of the Project described in Schedule 1 to this Grant Agreement; and

(B) ADB has agreed to provide a grant to the Recipient from ADB's Special Funds resources (the "Grant") upon the terms and conditions hereinafter set forth and in the Project Agreement of even date herewith between ADB and Commercial Agriculture Alliance (hereinafter called "CAA");

NOW THEREFORE the parties agree as follows:

ARTICLE I

Grant Regulations; Definitions

Section 1.01. All provisions of the Special Operations Grant Regulations of ADB, dated 7 February 2005 (the "Grant Regulations"), are hereby made applicable to this Grant Agreement with the same force and effect as if they were fully set forth herein.

Section 1.02. The definitions set forth in the Grant Regulations are applicable to this Grant Agreement unless the context requires otherwise. In addition, the following terms have the following meanings:

(a) "Agro Enterprise Center" means the technical wing of FNCCI which deals with agribusiness development and promotion in Nepal;

(b) "Board" means the Board of Directors of CAA;

(c) "CAA" means the Commercial Agriculture Alliance, which has been incorporated under the Companies Ordinance and further described in paragraphs 7 – 14 of Schedule 4 to this Grant Agreement;

(d) "CAF" means the Commercial Agriculture Fund, which is a cost-sharing grant facility to be provided under the Project and made available to CAA General Members and the DDC to strengthen market chain activities, and to develop linkages within the market chain;

(e) “commercial agricultural stakeholders” means the producers, traders, or processors, which engaged in agriculture-based production, trading or processing within the Project Area for at least two years;

(f) “Companies Ordinance” means the Companies Ordinance of the Recipient, as may be amended from time to time;

(g) “Component” means each component of the Project as described in paragraph 2 of Schedule 1 to this Grant Agreement;

(h) “Consulting Guidelines” means ADB’s “Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers” dated April 2006, as amended from time to time;

(i) “DDC” means the District Development Committee located within the Project Area and formed under the Local Governance Act, 2055 (1999) of the Recipient, as may be amended from time to time;

(j) “DOA” means the Department of Agriculture within MOAC or any legal successor thereto acceptable to ADB;

(k) “FNCCI” means Federation of Nepalese Chambers of Commerce and Industries;

(l) “Gender Action Plan” means the Gender Action Plan as set out in Appendix 14 of the RRP;

(m) “General Manager” means the individual assuming the role of the chief executive officer in CAA;

(n) “General Member” means the commercial agricultural stakeholders that fulfill the criteria set out under section 13(2) of the Memorandum and name appear under the register of members maintained by CAA;

(o) “Goods” means equipment and materials to be financed out of the grant proceeds, and including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding consulting services;

(p) “immediate family members” means parents, spouse or children;

(q) “Memorandum” means the Memorandum of Association of CAA, as may be amended from time to time;

(r) “Ministry of Finance” means the Ministry of Finance of the Recipient or any legal successor thereto acceptable to ADB;

(s) “Ministry of Industries, Commerce and Supplies” means the Ministry of Industries, Commerce and Supplies of the Recipient or any legal successor thereto acceptable to ADB;

(t) “Ministry of Local Development” means the Ministry of Local Development of the Recipient or any legal successor thereto acceptable to ADB;

(u) “Ministry of Women, Children and Social Welfare” means the Ministry of Women, Children and Social Welfare of the Recipient or any legal successor thereto acceptable to ADB;

(v) “MOAC” means the Ministry of Agriculture and Cooperatives of the Recipient;

(w) “National Planning Commission” means the National Planning Commission of the Recipient or any legal successor thereto acceptable to ADB;

(x) “NGO” means the non-governmental organization registered under the Recipient’s Association Registration Act, 2034 (1997), as may be amended from time to time or other subsequent relevant legislation of the Recipient;

(y) “PMU” means the Project Management Unit as further described in paragraphs 3 and 4 of Schedule 4 to this Grant Agreement;

(z) “Procurement Guidelines” means ADB’s “Procurement Guidelines” dated April 2006, as amended from time to time;

(aa) “Procurement Plan” means the procurement plan for the Project dated 17 October 2006 and agreed between the Recipient and ADB, as updated from time to time in accordance with Procurement Guidelines, Consulting Guidelines, and other arrangements agreed with ADB;

(bb) “Project Agreement” means the Project Agreement to be entered into between ADB and CAA to implement Component 1 of the Project;

(cc) “Project Area” means the eleven districts within the eastern development region of the Recipient’s territory, namely Siraha, Saptari, Sunsari, Morang, Jhapa, Udayapur, Dhankuta, Terahatum, Panchthar, Ilam, and Taplejung;

(dd) “Project Executing Agency” for the purposes of, and within the meaning of, the Grant Regulations means MOAC or any legal successor thereto acceptable to ADB, which shall be responsible for the carrying out of the Project;

(ee) “PSC” means the Project Steering Committee as further described in paragraphs 5 and 6 of Schedule 4 to this Grant Agreement;

(ff) “RRP” means the Report and Recommendation of the President of ADB to the Board of Directors of ADB for the Grant;

(gg) “semi-commercial agricultural stakeholders” means the agricultural stakeholders who are above the subsistence agricultural stakeholders level (as defined in Section 1.02(hh) below) but have not reached the level of commercial agricultural stakeholders (as defined in Section 1.02(e) above);

(hh) "subsistence agricultural stakeholders" means both (i) the producers with small areas of land but produce only for their own family needs and have no meaningful surplus for sale; and (ii) the landless people who participate in the agriculture related activities; and

(ii) "Works" means the civil works to be financed out of the grant proceeds, including services such as drilling or mapping, and project related services that are provided as part of a single responsibility or turnkey contract, but excluding consulting services.

ARTICLE II

The Grant

Section 2.01. ADB agrees to make available to the Recipient from ADB's Special Funds resources on terms and conditions set forth in this Agreement an amount of eighteen million dollars (\$18,000,000).

ARTICLE III

Use of Proceeds of the Grant

Section 3.01. (a) The Recipient shall cause the proceeds of the Grant to be applied to the financing of expenditures on the Project in accordance with the provisions of this Grant Agreement and the Project Agreement.

(b) The Recipient shall make a portion of the proceeds of the Grant equivalent to ten million two hundred thousand dollars (US\$ 10,200,000) available to CAA for Component 1 of the Project upon terms and conditions satisfactory to ADB and shall cause CAA to apply such proceeds to the financing of expenditures on the Project in accordance with the provisions of this Grant Agreement and the Project Agreement.

Section 3.02. The Goods, Works, and consulting services and other items of expenditure to be financed out of the proceeds of the Grant and the allocation of amounts of the Grant among different categories of such Goods, Works, and consulting services and other items of expenditure shall be in accordance with the provisions of Schedule 2 to this Grant Agreement, as such Schedule may be amended from time to time by agreement between the Recipient and ADB.

Section 3.03. Except as ADB may otherwise agree, all Goods, Works, and consulting services to be financed out of the proceeds of the Grant shall be procured in accordance with the provisions of Schedule 3 to this Grant Agreement.

Section 3.04. Withdrawals from the Grant Account in respect of Goods, Works, and consulting services shall be made only on account of expenditures relating to

- (a) Goods which are produced in and supplied from and services which are supplied from such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement, and
- (b) Goods, Works, and consulting services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. The Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 30 June 2013 or such other date as may from time to time be agreed between the Recipient and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Project and operation of the Project facilities, the Recipient shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Grant Agreement.

Section 4.02. (a) The Recipient shall (i) maintain, or cause to be maintained, and shall cause CAA to maintain separate accounts for the Project; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as available but in any event not later than 6 months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Grant proceeds and compliance with the financial covenants of this Grant Agreement as well as on the use of the procedures for imprest account/statement of expenditures), all in the English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) The Recipient shall enable ADB, upon ADB's request, to discuss the Recipient's and CAA's financial statements for the Project and its financial affairs related to the Project from time to time with the Recipient's and CAA's auditors, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Recipient unless the Recipient shall otherwise agree.

Section 4.03. The Recipient shall enable ADB's representatives to inspect the Project, the Goods financed out of the proceeds of the Grant, and any relevant records and documents.

ARTICLE V
Effectiveness

Section 5.01. The following are specified as additional conditions to the effectiveness of this Grant Agreement for the purposes of Section 9.01(e) of the Grant Regulations:

- (a) the establishment of the Project Steering Committee;
- (b) the appointment of the Project manager who shall head the PMU; and
- (c) the appointment of the General Manager and company secretary of CAA.

Section 5.02. A date ninety (90) days after the date of this Grant Agreement is specified for the effectiveness of the Grant Agreement for the purposes of Section 9.04 of the Grant Regulations.

ARTICLE VI
Delegation of Authority

Section 6.01. The Recipient hereby designates CAA as its agent for Component 1, for the purposes of taking any action or entering into any agreement required or permitted under Sections 3.02 and 3.05 of this Grant Agreement and under Sections 5.01, 5.02, 5.03 and 5.04 of the Grant Regulations.

Section 6.02. Any action taken or any agreement entered into by CAA pursuant to the authority conferred under Section 6.01 of this Grant Agreement shall be fully binding on the Recipient and shall have the same force and effect as if taken by the Recipient.

Section 6.03. The authority conferred on CAA under Section 6.01 of this Grant Agreement may be revoked or modified by agreement between the Recipient and ADB.

ARTICLE VII
Miscellaneous

Section 7.01. The Secretary of the Ministry of Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 11.02 of the Grant Regulations.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the Grant Regulations:

For the Recipient

Secretary
Ministry of Finance
Singha Durbar,
Kathmandu, Nepal

Cable Address:

ARTHA KATHMANDU

Telex Number:

NP2249 ARTHA

Facsimile Number:

977-1-4259891

For ADB

Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

Cable Address:

ASIANBANK
MANILA

Telex Numbers:


29066 ADB PH (RCA)
42205 ADB PM (ITT)
63587 ADB PN (ETPI)

Facsimile Numbers:

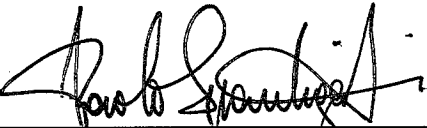
(632) 636-2444
(632) 636-2391.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Grant Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

NEPAL

By 
MADHAV P. GHIMIRE
Authorized Representative

ASIAN DEVELOPMENT BANK

By 
PAOLO SPANTIGATI
Officer-in-Charge
Nepal Resident Mission

SCHEDULE 1

Description of the Project

1. The overall objective of the Project is to reduce poverty within the Project Area through equitable and sustainable commercialization of agriculture. The outcome of the Project will be improved efficiency of the production, processing and marketing of high value crops within the Project Area.

2. The Project consists of the following components:

Component 1: Commercial Agriculture Investment and Management

Provide support to the operations of the CAA within the Project period and establish the CAF as cost-sharing grant facility to be utilized by (i) the DDC for eligible community-based market infrastructure investments; and (ii) by the General Member of CAA for non-infrastructure investments.

Component 2: Inclusive Development of Stakeholders

(a) Development of Subsistence Agricultural Stakeholders

- Provide support to the small producers through (i) identification of high value crop products and marketing points; (ii) vocational training; (iii) capacity building on market awareness; (iv) group formation; and (v) facilitation on the networking of farmers' groups with other agricultural stakeholders.
- Provide support to the landless people through skill-based training.

(b) Enhancement of Semi-Commercial Agricultural Stakeholders

Provide necessary assistance to allow the semi-commercial agricultural stakeholders to move upwards to fully commercial status and to develop their eligibility for CAA membership.

(c) Promotion of Social Inclusiveness among Commercial Agricultural Stakeholders

Provide awareness training to the commercial agricultural stakeholders on (i) social issues; (ii) gender issues; and (iii) environmental issues and responsibility.

Component 3: Market Information Dissemination

Establish integrated market information system with multiple users to address the current imbalance in market information sharing and enhance transparency within the agriculture value chain.

Component 4: Project Partners Capacity Enhancement

Build the capacity of the Project partners including NGOs, DOA staff and CAA district branch staff to address the specific needs of each of the Project partners in order to be able to contribute significantly to the Project.

Component 5: Project Implementation Support

3. The Project is expected to be completed by 31 December 2012.

SCHEDULE 2
Allocation and Withdrawal of Grant Proceeds

General

1. The table attached to this Schedule sets forth the Categories of Goods, Works, services and other items to be financed out of the proceeds of the Grant and the allocation of amounts of the Grant to each such Category (hereinafter called the Table). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table and reference to "Subcategory" or "Subcategories" in this Schedule is to a Subcategory or Subcategories of a Category.)

Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories and Subcategories listed in the Table shall be financed out of the proceeds of the Grant on the basis of the percentages set forth in the Table.

Reallocation

3. Notwithstanding the allocation of Grant proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Grant allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Recipient, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Grant which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Grant then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Recipient reallocate such excess amount to any other Category.

Disbursement Procedures

4. Except as ADB may otherwise agree, the Grant proceeds for financing of all Goods, Works and consulting services shall be disbursed in accordance with ADB's "Loan Disbursement Handbook" dated January 2001 (ADB's Loan Disbursement Handbook), as amended from time to time.

Imprest Accounts; Statement of Expenditures

5. (a) Except as ADB may otherwise agree, the Recipient shall establish immediately after the Effective Date, two imprest accounts at Nepal Rastra Bank for the PMU and CAA. The imprest accounts shall be established, managed, replenished and liquidated by PMU and CAA respectively, in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Recipient and ADB. The currency to be used under both imprest accounts shall be United States Dollar. The initial cumulative amount to be deposited into the imprest accounts shall not exceed the lower of (i) the estimated expenditure for the first six months of Project implementation; or (ii) the equivalent of ten (10) percent of the Grant amount.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures, in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Recipient and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed the equivalent of \$50,000.

TABLE

ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS (Commercial Agriculture Development Project)				
CATEGORY				ASIAN DEVELOPMENT BANK FINANCING
Number	Item	Amount Allocated US\$		Percentage of Total Expenditure*)
		Category	Subcategory	
1	Commercial Agriculture Fund	8,000,000		100
2	Vehicles and Equipment	414,000		100
2A	Vehicles and Motorcycles		232,000	100
2B	Office Equipment and Furniture		182,000	100
3	Consulting Services	2,545,000		100
4	NGO Contracted Services	2,961,000		100
5	Training and Workshops	1,225,000		100
6	Surveys, Monitoring and Evaluation	111,000		100
7	Market Information and Dissemination	294,000		100
8	Commercial Agriculture Alliance Management, Operation, and Auditing	2,169,000		100
9	Unallocated	281,000		
	Total	18,000,000		

* excluding local taxes and duties, which shall be borne by the Recipient.

SCHEDULE 3

Procurement of Goods and Works, and Consulting Services

A. General

1. All Goods and Works, and consulting services, to be financed out of the proceeds of the Grant shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. All terms used and not otherwise defined in this Grant Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

B. Procurement for Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:

International Competitive Bidding
Limited International Bidding
Financial Intermediary
Shopping

The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Recipient may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

4. Domestic Preference. The Recipient may grant a margin of preference in the evaluation of bids under international competitive bidding in accordance with paragraphs 2.55(a) and 2.56 of the Procurement Guidelines for domestically manufactured Goods and paragraphs 2.55(b) and 2.56 of the Procurement Guidelines for domestic Works.

C. Selection of Consulting Services

5. Quality- and Cost-Based Selection. Except as ADB may otherwise agree, and except as set forth in the paragraph below, the Recipient shall apply quality- and cost-based selection for selecting and engaging consulting services.

6. The Recipient shall also apply the following method for selecting and engaging the specified consulting services, in accordance with, among other things, the procedures set forth in the Procurement Plan:

Least-Cost Selection for (i) training and workshops, and (ii) studies, surveys and monitoring.
--

7. Individual Consultants. The Recipient shall recruit individual consultants for the team leader and deputy team leader positions in accordance with ADB's procedures for recruiting individual consultants.

D. Industrial or Intellectual Property Rights

8. (a) The Recipient shall ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Recipient shall ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

9. The Recipient shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

E. ADB's Review of Procurement Decisions

10. All contracts procured under international competitive bidding procedures and contracts for consulting services shall be subject to prior review by ADB, unless otherwise agreed between the Recipient and ADB and set forth in the Procurement Plan.

SCHEDULE 4

Execution of Project and Operation of Project Facilities; Financial Matters

Project Executing Agency

1. The Ministry of Agriculture and Cooperatives (MOAC) shall be the Project Executing Agency and responsible for overall Project coordination and monitoring.

Project Implementing Agencies

2. The Commercial Agriculture Alliance (CAA) shall be responsible for the implementation of Component 1, and the Department of Agriculture (DOA) shall be responsible for the implementation of Components 2, 3, 4 and 5.

Project Management Unit

3. The Recipient shall establish a Project Management Unit (PMU) to be located at Biratnagar to be responsible for (i) preparing annual work plans and Project progress reports; (ii) recruiting consultants and award procurement contracts; (iii) supervising activities under Components 2, 3, 4 and 5 and the performance of partner NGOs and service providers under these components; and (iv) carrying out monitoring and evaluation of the activities, outputs, and expected impacts of Components 2, 3, 4 and 5.

4. The PMU shall be headed by a Project manager who shall oversee the day-to-day implementation of Components 2, 3, 4 and 5. The Project manager shall be jointly selected by MOAC and ADB from among the officers of the Recipient with the necessary core competence and experience and assisted by the following staff: (i) social equity officer; (ii) results-based monitoring officer; (iii) accounts and financial officer; (iv) two planning and implementation officers; (v) procurement and contract officer; (vi) two technical officers; and (vii) the necessary support staff. One of these officers shall be responsible for the management of a complaint cell to be created as part of the complaint redressal mechanism to be established under the Project. Within three months of the Effective Date, the Recipient shall ensure that the PMU shall have been fully staffed and with adequate representation of women staff.

Project Steering Committee

5. The Recipient shall establish a Project Steering Committee (PSC) chaired by secretary, MOAC with the Project manager as the member-secretary. The other members of the PSC shall comprise the director general of DOA, senior officials at the joint-secretary level from MOAC, Ministry of Finance, Ministry of Industries, Commerce and Supplies, Ministry of Local Development, Ministry of Women, Children and Social Welfare, and the National Planning Commission, the executive director of the Agro Enterprise Center and the General Manager. The PSC shall convene its meeting at least on semi-annual basis.

6. The functions of the PSC shall be to (i) oversee the entire implementation of the Project; (ii) review progress of the Project; and (iii) resolve policy issues related to the Project.

Commercial Agriculture Alliance

7. The responsibilities of the CAA under the Project shall be to (i) manage and disburse CAF; (ii) facilitate subproject linkages; and (iii) facilitate the networking of the agricultural stakeholders within the Project Area. The management of CAA shall be headed by the General Manager, who shall be selected through open and competitive selection process. The General Manager shall be assisted by a company secretary, a compliance officer, a chief accountant and other support staff.

8. Within two months of the Effective Date, the CAA shall have adopted (i) business plan; (ii) standard operating procedures which shall incorporate the principles of equitable participation of women and include provisions to prohibit any discriminatory or prejudicial measures against the minority and/or disadvantaged groups; and (iii) code of conduct which shall incorporate the conflict of interest rules for staff and members of the Board. Each of these documents must be formulated to the satisfaction of ADB.

9. The CAA shall recruit a compliance officer to undertake all necessary measures to prevent and address any financial irregularities and/or abuse of authority in the operations of CAA, including in its management of CAF. In the conduct of its duties, the compliance officer shall also be required to liaise with the relevant government agencies or commissions responsible for the efforts to combat corruption and abuse of authority.

10. Within four months of the Effective Date, the CAA headquarters shall have been fully staffed to the satisfaction of ADB.

11. Within four months of the Effective Date, CAA shall have established a district branch in each of the Project districts and appoint a branch manager to head each of the district branches. The branch manager shall be recruited through open and competitive selection process. The branch manager shall be assisted by a finance and administration officer, a monitoring and evaluation officer and other support staff.

12. Within five months of the Effective Date, each of the CAA district branches shall have been fully staffed to the satisfaction of ADB.

13. Within five months of the Effective Date, the CAA shall have formed an appraisal panel which shall make the final review and approval of the investments proposals to be financed under the CAF. The appraisal panel shall consist of five members, which includes (i) the General Manager; (ii) two Board members; and (ii) two external experts to be appointed by the Board from the list of experts to be prepared by the General Manager. The chair of the appraisal panel shall be selected by its members. The tenure of the Board members and the external experts as appraisal panel members shall be for a period not to exceed two years.

14. Within five months of the Effective Date, the branch manager shall have constituted a district review committee in each Project district. The tasks of the district review committee shall be to perform the initial screening of the proposals to be financed under CAF. The district review committee shall consist of (i) the branch manager; (ii) two CAA General Member representatives; (iii) one representative from the district agriculture development office; (iv) one representative from the DDC; (v) the women development officer from the district women development office; and (v) one external technical expert to be appointed by the General Manager from the list of experts prepared by the branch manager. There should

be at least one female member in the district review committee. The district review committee may seek technical advice from external parties to facilitate initial screening of CAF applications. The tenure of the CAA members and the technical expert as district review committee members shall be for a period not to exceed two years.

Commercial Agriculture Fund

15. The CAF shall only be utilized to finance community-based market infrastructure investments and non-infrastructure investments that fulfill the following general criteria:

- (i) the investment must add value to agricultural products;
- (ii) the investment must benefit other agricultural stakeholders and the community as a whole;
- (iii) the investment must improve the market chain efficiency;
- (iv) the investment must demonstrate public good content; and
- (v) the investment must have strong demonstration effects on the rest of the community.

16. The applicants for the community-based market infrastructure investments shall be limited only to DDCs and the applicants for the non-infrastructure investments shall be limited only to the General Members of CAA. The maximum amount to be financed under CAF for each community-based market infrastructure investment shall be \$80,000, and for each non-infrastructure investment, the limit shall be \$20,000. The maximum amount that each General Member can obtain on cumulative basis from CAF shall be \$40,000, whereas, the maximum amount that each DDC can obtain on cumulative basis from CAF shall be \$320,000.

17. In the event that any appraisal panel member or his/her immediate family members shall have fifty percent (50%) or more financial interests in an entity, such entity shall not be allowed to submit financing proposals under CAF.

18. Within five months of the Effective Date, the specific criteria for the community-based market infrastructure investments shall have been formulated by the Recipient to the satisfaction of ADB.

19. Within five months of the Effective Date, the specific criteria for the non-infrastructure investments shall have been formulated by the Recipient to the satisfaction of ADB.

Governance Measures

20. All information related to the application process and the investments approved under the CAF shall be made available to the communities within the Project Area. The applicants whose applications have been rejected shall be informed on the reasons for such rejection.

21. Within four months of the Effective Date, the Recipient shall have established a complaint redressal mechanism, to the satisfaction of ADB, to allow the intended beneficiaries of the Project to file their complaints related to the implementation of the Project and ensure that these complaints are addressed accordingly.

22. The Recipient shall ensure that the performance audit of the CAF shall be undertaken on annual basis. The audit shall include a review of all disbursements made by the CAA to the intended recipients of the CAF and evaluate the extent to which proper and timely disbursements were made. This audit shall be conducted by an independent and external auditor having at least five years of working experience as a qualified accountant. The audit report produced by the auditor should include recommendations of measures to improve the timely and effective disbursement of CAF. The CAA shall be required to fully implement these measures within one month of its receipt of the report.

23. The General Manager, the CAA appraisal panel members and CAA compliance officer shall be required to disclose their wealth prior to undertaking and upon completion of their assignments. The disclosure must be made in a manner which would allow the public, in particular the local Project stakeholders, to have access to such information.

24. In order to enhance transparency and accountability in the implementation of the Project, within six months of the Effective Date, the Recipient shall have established a Project website which will allow the public to track procurement contract awards, including its amount, and the list of Goods, Works and consulting services procured. In addition, the website shall also provide other relevant information related to the Project implementation including information related to Component 1.

Counterpart Funds

25. Without limiting the generality of Section 6.05 of the Grant Regulations, the Recipient shall ensure that throughout the implementation of the Project, adequate budgetary allocations of the required counterpart funds are made, approved and released in a timely manner in order to ensure proper implementation of the Project.

Project Performance Management System

26. The Project shall be monitored and evaluated to determine its efficiency (delivery of inputs against specified implementation targets and time frame) and effectiveness (outputs, outcomes, and short-term impacts) as measured against baseline pocket area and product-chain data. The baseline and product-chain studies shall be undertaken in each district and shall involve quantitative and qualitative assessments in order to provide a clear understanding of the socioeconomic characteristics of the beneficiaries, including ethnicity, gender, and economic status, and an assessment of the value chain that shall serve as a benchmark against which Project progress can be measured.

27. The Project shall solicit monitoring and evaluation feedback on the Project activities from (i) producer groups; (ii) marketing groups, associations and cooperatives; (iii) partnering NGOs and training service providers; (iv) CAA and its branch offices; (v) Project studies and reports; (vi) the Project-supported market information system; and (vii) any other relevant sources. The collected information will be analyzed, evaluated and aggregated to be utilized for (i) guidance into Project planning and implementation decision making; (ii) inclusion into the Project's reporting framework; and (iii) utilization by institutional partners such as DOA and FNCCI.

Project Review

28. The Recipient and ADB shall undertake semi-annual review of the Project, which shall cover the review of (i) the performance of PMU, CAA, and partner NGOs and service providers; (ii) physical progress of Project implementation; (iii) the extent of the inclusion of poor and excluded groups in Project implementation; (iv) compliance with the covenants under this Grant Agreement; (v) implementation of the Gender Action Plan, and (vi) other relevant matters that may arise during Project implementation.

29. The Recipient and ADB shall also undertake a comprehensive midterm review of the Project in the beginning of the fourth year to identify problems and constraints encountered during Project implementation and suggest measures to address identified constraints.

Project Reports

30. The PMU shall submit quarterly and annual progress reports to ADB on Project implementation and such other reports and information related to the Project as ADB may reasonably request. Within three months of its submission to ADB, the annual progress reports shall be made available to the public, in particular the local stakeholders, in Nepali language. The PMU shall also submit a Project completion report to the PSC and ADB within three months of physical completion of the Project.

Environment

31. The Recipient shall ensure that the entire implementation of the Project, including the interventions to be financed under CAF, shall be carried out in compliance with all applicable environmental laws and regulations of the Recipient and *ADB's Environmental Policy (2002)*.

Resettlement

32. The Recipient shall ensure that the implementation of the Project, including the interventions made under CAF, shall not entail land acquisition, resettlement or land donation and that no persons shall be adversely affected in terms of *ADB's Policy on Involuntary Resettlement (1995)* and the prevailing laws and regulations of the Recipient.

Gender

33. The Recipient shall take all necessary and appropriate measures to implement the Gender Action Plan to ensure that due consideration will be provided to women in the implementation of the Project, both as the beneficiaries of Project and staff in the PMU and CAA.