

PROGRAM AGREEMENT
(Rural Finance Sector Development Cluster Program)

between

ASIAN DEVELOPMENT BANK

and

AGRICULTURAL DEVELOPMENT BANK LIMITED
SMALL FARMERS DEVELOPMENT BANK
NEPAL RASTRA BANK

DATED _____

PROGRAM AGREEMENT

PROGRAM AGREEMENT dated _____ between ASIAN DEVELOPMENT BANK (hereinafter called "ADB") of the first part and, AGRICULTURAL DEVELOPMENT BANK LIMITED (hereinafter called "ADBL"), SMALL FARMERS DEVELOPMENT BANK (hereinafter called SFDB"), and NEPAL RASTRA BANK (hereinafter called "NRB") of the second part.

WHEREAS

(A) by a Loan Agreement of even date herewith between Nepal (hereinafter called the "Borrower") and ADB (hereinafter called the "Loan Agreement"), ADB has agreed to make to the Borrower a loan in various currencies equivalent to thirty seven million nine hundred six thousand Special Drawing Rights (SDR 37,906,000) on the terms and conditions set forth in the Loan Agreement, but only on condition that a portion of the proceeds of the Loan be made available to ADBL, SFDB and NRB and that ADBL, SFDB and NRB agree to undertake certain obligations as set forth in this Program Agreement; and

(B) ADBL, SFDB and NRB, in consideration of ADB entering into the Loan Agreement with the Borrower, have agreed to undertake the obligations set forth in this Program Agreement;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Definitions

Section 1.01. Wherever used in this Program Agreement, unless the context otherwise requires, the terms defined in the Loan Agreement and in the Loan Regulations (as so defined) have the respective meanings therein set forth, except that for the purposes of this Program Agreement, the term "Program" means with respect to ADBL, the ADBL Restructuring Plan; with respect to SFDB the SFDB Restructuring Plan; and with respect to NRB, the GBB Divestment Plan and the Training Institution.

ARTICLE II

Particular Covenants

Section 2.01. (a) ADBL, SFDB and NRB shall carry out the Program with due diligence and efficiency, and in conformity with sound administrative, financial, engineering, environmental and rural finance practices.

(b) In the carrying out of the Program and operation of the Program facilities, ADBL, SFDB and NRB shall perform all obligations set forth in the Loan Agreement to the extent that they are applicable to ADBL, SFDB and NRB.

Section 2.02. ADBL, SFDB, and NRB shall make available, promptly as needed, the funds, facilities, services, and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Program.

Section 2.03. ADBL, SFDB, and NRB shall carry out the Program in accordance with plans, design standards, schedules and methods acceptable to ADB. ADBL, SFDB and NRB shall furnish, or cause to be furnished, to ADB, promptly after their preparation, such plans, design standards, schedules, methods, and any material modifications subsequently made therein, in such detail as ADB shall reasonably request.

Section 2.04. ADBL, SFDB, and NRB shall maintain, or cause to be maintained, records and accounts adequate to identify the items of expenditure financed out of the proceeds of the Loan, to disclose the use thereof in the Program, to record the progress of the Program (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, its operations and financial condition.

Section 2.05. (a) ADB, ADBL, SFDB, and NRB shall cooperate fully to ensure that the purposes of the Loan will be accomplished.

(b) Each of ADBL, SFDB, and NRB shall promptly inform ADB of any condition which interferes with, or threatens to interfere with, the progress of the Program, the performance of its obligations under this Program Agreement, or the accomplishment of the purposes of the Loan.

(c) ADB, ADBL, SFDB, and NRB shall from time to time, at the request of either party, exchange views through their representatives with regard to any matters relating to the Program, ADBL, SFDB and NRB and the Loan.

Section 2.06. (a) ADBL, SFDB, and NRB shall furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the Loan and the expenditure of the proceeds thereof; (ii) the items of expenditure financed out of such proceeds; (iii) the Program; (iv) the administration, operations and financial condition of ADBL, SFDB and NRB; and (v) any other matters relating to the purposes of the Loan.

(b) Without limiting the generality of the foregoing, ADBL, SFDB, and NRB shall furnish to ADB quarterly reports on the execution of the Program and on the operation and management of the Program facilities. Such reports shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the quarter under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following quarter.

(c) Promptly after physical completion of the Program, but in any event not later than three (3) months thereafter or such later date as ADB may agree for this purpose, ADBL, SFDB and NRB shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution and initial operation of the Program, including its cost, the performance by ADBL, SFDB and NRB of its obligations under this Program Agreement and the accomplishment of the purposes of the Loan.

Section 2.07. (a) Each of ADBL, SFDB, and NRB shall (i) maintain separate accounts for the Program; (ii) have such accounts and related financial statements (balance sheet, statement of income and expenses, and related 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; and (iii) furnish to ADB, promptly after their preparation but in any event not later than 6 months after the close of the fiscal year to which they relate, 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 Loan proceeds and compliance with the financial covenants of the Loan Agreement as well as on the use of the procedures for imprest account/statement of expenditures), all in the English language. ADBL, SFDB and NRB shall furnish to ADB such further information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) Each ADBL, SFDB, and NRB shall enable ADB, upon ADB's request, to discuss the financial statements and its financial affairs from time to time with the auditors, appointed by ADBL, SFDB and NRB pursuant to Section 2.09(a) hereabove, 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 ADBL, SFDB and NRB unless ADBL, SFDB and NRB shall otherwise agree.

Section 2.08. Each of ADBL, SFDB, and NRB shall enable ADB's representatives to inspect the Program, the items of expenditure financed out of the proceeds of the Loan and any relevant records and documents.

Section 2.09. (a) Each of ADBL, SFDB, and NRB shall, promptly as required, take all action within its powers to maintain its corporate existence, to carry on its operations, and to acquire, maintain and renew all rights, properties, powers, privileges and franchises which are necessary in the carrying out of the Program or in the conduct of its business.

(b) Each of ADBL, SFDB, and NRB shall at all times conduct its business in accordance with sound administrative, financial, environmental and rural finance practices, and under the supervision of competent and experienced management and personnel.

(c) ADBL, SFDB, and NRB shall at all times operate and maintain its plants, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound administrative, financial, engineering, environmental, rural finance, and maintenance and operational practices.

Section 2.10. Except as ADB may otherwise agree, ADBL, SFDB, and NRB shall not sell, lease or otherwise dispose of any of its assets which shall be required for the efficient carrying on of its operations or the disposal of which may prejudice its ability to perform satisfactorily any of its obligations under this Program Agreement.

Section 2.11. Except as ADB may otherwise agree, ADBL, SFDB, and NRB shall apply the proceeds of the Loan to the financing of expenditures on the Program in accordance with the provisions of the Loan Agreement and this Program Agreement.

Section 2.12. Each of ADBL and SFDB shall promptly notify ADB of any proposal to amend, suspend or repeal any provision of their (i) Memorandum of Association or Articles of Association; or (ii) Restructuring Plan and shall afford ADB an adequate opportunity to comment on such proposal prior to taking any action thereon.

ARTICLE III

Effective Date; Termination

Section 3.01. This Program Agreement shall come into force and effect on the date on which the Loan Agreement shall come into force and effect. ADB shall promptly notify ADBL, SFDB, and NRB of such date.

Section 3.02. All the provisions of this Program Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the Loan Agreement.

ARTICLE IV

Miscellaneous

Section 4.01. Any notice or request required or permitted to be given or made under this Program Agreement and any agreement between the parties contemplated by this Program Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex, facsimile or radiogram to the party to which it is required or permitted to be given or made at its address hereinafter specified, or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

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) 636-2337

For NRB

Governor
Nepal Rastra Bank
Baluwatar
Kathmandu, Nepal

Facsimile Number:

977-1-4410159.

For ADBL

General Manager
Agricultural Development Bank Limited
Ramshah Path
Kathmandu, Nepal

Facsimile Number:

977-1-4262676.

For SFDB

General Manager
Small Farmers Development Bank
Bijuli Bazar
Kathmandu, Nepal

Facsimile Number:

977-1-47839390.

Section 4.02. (a) Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Program Agreement or under Section 7.01 of the Loan Agreement by or on behalf of (i) ADBL may be taken or executed by its General Manager or by such other person or persons as he shall so designate in writing notified to ADB, (ii) SFDB may be taken or executed by its General Manager or by such other person or persons as he shall so designate in writing notified to ADB, and (iii) NRB may be taken or executed by its Governor or by such other person or persons as he shall so designate in writing notified to ADB,.

(b) Each of ADBL, SFDB, and NRB shall furnish to ADB sufficient evidence of the authority of each person who will act under paragraph (a) of this Section, together with the authenticated specimen signature of each such person.

Section 4.03. No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under this Program Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default; nor shall the action of such party in respect of any default, or any acquiescence in any default, affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Program 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.

ASIAN DEVELOPMENT BANK

By _____

NEPAL RASTRA BANK

By _____
Authorized Representative

AGRICULTURAL DEVELOPMENT
BANK LIMITED

By _____
Authorized Representative

SMALL FARMERS DEVELOPMENT
BANK

By _____
Authorized Representative