

LOAN AGREEMENT
(Special Operations)

(Rural Finance Sector Development Cluster Program)

between

NEPAL

and

ASIAN DEVELOPMENT BANK

DATED _____

**LOAN AGREEMENT
(Special Operations)**

LOAN AGREEMENT dated _____ between NEPAL ("the Borrower")
and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) ADB has received from the Borrower a development policy letter dated 14 September 2006 (hereinafter called the Policy Letter), setting forth certain objectives, policies and actions, described in Schedule 1 to this Loan Agreement, designed to develop the Borrower's rural finance sector (the "Program Cluster") of which the Program (hereinafter called the "Program") comprises the first subprogram as described in Schedule 1 to this Loan Agreement;

(B) the Borrower has applied to ADB for a loan from its Special Funds resources for the purposes of the Program;

(C) portions of the Program shall be carried out by Agricultural Development Bank Limited (hereinafter called "ADBL"), Small Farmers Development Bank (hereinafter called "SFDB") and Nepal Rastra Bank (hereinafter called "NRB");

(D) to implement the Program, ADB, of the first part, and ADBL, SFDB and NRB, of the second part, have entered into a Program Agreement of even date herewith;

(E) in support of the Program, the Borrower has applied to ADB for a grant for the purposes of the Rural Finance Sector Development Project (hereinafter called the "Project") and by a Grant Agreement of even date herewith between the Borrower and ADB (hereinafter called the "Grant Agreement"), ADB has agreed to make to the Borrower a grant in the amount of eight million seven hundred thousand dollars (\$8,700,000);

(F) the Borrower has also applied for a technical assistance grant up to the equivalent of five hundred thousand dollars (\$500,000) to support the Program and the Project through assisting in the implementation of ADBL Restructuring Plan (as defined below) and ADB has agreed to provide a technical assistance grant to the Borrower for such purpose; and

(G) ADB has, on the basis inter alia of the foregoing, agreed to make a loan to the Borrower from ADB's Special Funds resources upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All the provisions of the Special Operations Loan Regulations of ADB, dated 1 January 2006 (the "Loan Regulations"), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) Section 2.01(24) is deleted and the following is substituted therefor:

24. The term "Program" means the program for which ADB has agreed to make the Loan, as described in the Loan Agreement and as the description thereof may be amended from time to time by agreement between ADB and the Borrower.

(b) The term "Project" wherever it appears in the Loan Regulations shall be substituted by the term "Program".

(c) Section 2.01(26) is deleted and the following is substituted therefor:

26. The term "Program Executing Agency" means the entity or entities responsible for the carrying out of the Program as specified in the Loan Agreement.

(d) The term "Project Executing Agency" wherever it appears in the Loan Regulations shall be substituted by the term "Program Executing Agency".

(e) Section 6.05 (c) is deleted and the following is substituted therefor:

(c) Promptly after the closing date for withdrawals from the Loan Account, but in any event not later than three (3) months thereafter or such later date as may be agreed for this purpose between the Borrower and ADB, the Borrower shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution of the Program, including its cost, the performance by the Borrower of its obligations under this Loan Agreement and the accomplishment of the purposes of the Loan.

Section 1.02. The terms defined in the Loan Regulations are incorporated into this Loan Agreement, unless the context requires otherwise. In addition, the following terms have the following meanings:

(a) "ADBL" means Agricultural Development Bank Limited, which operates under NRB license as a commercial bank pursuant to BFIO (defined below) and was incorporated pursuant to the Company Act of the Borrower (repealed and replaced by the Companies Ordinance);

(b) "ADBL Restructuring Plan" means the Restructuring Plan of ADBL adopted by its board of directors on 31 August 2005, as may be amended from time to time;

(c) "ADBN" means Agricultural Development Bank Nepal, originally formed under the Borrower's Agricultural Development Bank Act 1967, which was repealed by BFIO and has now been converted into ADBL;

(d) "BFIO" means the Banks and Financial Institution Ordinance of the Borrower, as may be amended from time to time, which is the prevailing law of the Borrower on matters related to banks and financial institutions;

(e) "Companies Ordinance" means the Companies Ordinance of the Borrower, as may be amended from time to time, which is the prevailing law of the Borrower on matters related to companies;

(f) "Counterpart Funds" means the Rupees proceeds accruing to the Borrower and generated from the Loan proceeds under the Program and referred to in paragraph 11 of Schedule 5 to this Loan Agreement;

(g) "Eligible Items" means the goods imported under the Program (except those specifically excluded pursuant to Attachment 1 to Schedule 3 to this Loan Agreement), the foreign exchange costs of which are eligible for financing out of the proceeds of the Loan;

(h) "First Tranche" means the portion of the proceeds of the Loan in an amount not exceeding the equivalent of SDR 27,076,000 to be initially withdrawn and utilized;

(i) "GBB" means the Grameen Bikash Banks, which operate under BFIO as micro finance institution;

(j) "GBB Divestment Plan" means the divestment plan of NRB in the GBB as reflected in the NRB document on monetary policy for fiscal year 2006-2007;

(k) "Ministry of Agriculture and Cooperatives" means the Ministry of Agriculture and Cooperatives of the Borrower or any legal successors thereto acceptable to ADB;

(l) "Ministry of Land Reform and Management" means the Ministry of Land Reform and Management of the Borrower or any legal successors thereto acceptable to ADB;

(m) "MOF" means the Ministry of Finance of the Borrower or any legal successors thereto acceptable to ADB;

(n) "National Planning Commission" means the National Planning Commission of the Borrower or any legal successors thereto acceptable to ADB;

(o) "NRB" means the Nepal Rastra Bank, which acts as the central bank of the Borrower pursuant to the Nepal Rastra Bank Act 2002, as may be amended from time to time;

(p) "Pilot Crop Insurance Plan" means a plan to be developed to implement a pilot scheme for crop insurance for the purpose of risk mitigation for the rural poor;

(q) "PIU" means the Program Implementation Unit to be established by each of the Program implementing agencies and further described in paragraph 3 of Schedule 5 to this Loan Agreement;

(r) "PMU" means the Program Management Unit to be established by the Program Executing Agency and further described in paragraph 2 of Schedule 5 to this Loan Agreement;

(s) "Program Cluster" means the Program Cluster to develop the Borrower's rural finance sector, as described in the Policy Letter, and of which the Program forms the first subprogram;

(t) "Program Director" means the head of the PMU;

(u) "Program Executing Agency" means, for the purposes and within the meaning of the Loan Regulations, MOF, which is responsible for the carrying out of the Program;

(v) "Program facilities" means facilities provided or to be provided under the Program;

(w) "PSC" means the Program Steering Committee to be established by the Borrower and further described in paragraph 4 of Schedule 5 to this Loan Agreement;

(x) "RFIs" means rural financial institutions;

(y) "Rupees" means the currency of the Borrower;

(z) "Second Tranche" means the balance of the proceeds of the Loan remaining in the Loan Account after the utilization of the First Tranche, to be withdrawn pursuant to and subject to the provisions of paragraph 5 of Schedule 3;

(aa) "SFDB" means the Small Farmers Development Bank,¹ which was incorporated in 2002 pursuant to the Company Act of the Borrower, which has been repealed and replaced by the Companies Ordinance;

(bb) "SFDB Restructuring Plan" means the restructuring plan of SFDB to be developed under the Program and to be approved by the board of directors of SFDB;

(cc) "SPR" means the review of the Program as the first subprogram in the Program Cluster as further described in paragraphs 21 – 23 of Schedule 5 to this Loan Agreement;

(dd) "subprogram" means each subprogram under the Program Cluster of which the Program forms the first subprogram; and

(ee) "Training Institution" means the training institution to be incorporated pursuant to the Companies Ordinance with the mandate to provide training on banking and finance with specific focus on rural finance and social intermediation trainings with shareholders consisting of NRB, SFDB, ADBL, and other banking and financial institutions.

¹ The Nepali name for SFDB is Sana Kisan Bikas Bank Ltd.

ARTICLE II

The Loan

Section 2.01. ADB agrees to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to thirty seven million nine hundred six thousand Special Drawing Rights (SDR 37,906,000).

Section 2.02. (a) The Borrower shall pay to ADB an interest charge at the rate of one percent (1%) per annum during the grace period, and one and one-half percent (1.5%) per annum thereafter, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

(b) The term "grace period" as used in paragraph (a) of this Section means the period prior to payment of the first principal amount of the Loan on the payment date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 1 January and 1 July in each year.

Section 2.04. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.05. The currency of repayment of the principal of the Loan and the currency of payment of the interest charge for the purposes of Sections 4.03(a) and 4.04 of the Loan Regulations shall be United States Dollar.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures on the Program in accordance with the provisions of this Loan Agreement.

Section 3.02. The proceeds of the Loan may be withdrawn from the Loan Account only for the purposes of financing foreign currency expenditures incurred for Eligible Items under the Program in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Except as ADB may otherwise agree, all Eligible Items to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Loan Agreement.

Section 3.04. Withdrawals from the Loan Account shall be made only on account of expenditures relating to Eligible Items which:

- (a) are produced in, and 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) meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. Except as ADB may otherwise agree, no withdrawals shall be made from the Loan Account in respect of expenditures for Eligible Items incurred more than one hundred and eighty days (180) days prior to the Effective Date.

Section 3.06. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 30 June 2009 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.

Section 4.02. (a) The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to record the progress of the Program.

(b) The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.

Section 4.03. (a) As part of the reports and information referred to in Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (i) the Counterpart Funds and the use thereof; and (ii) the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

(b) Without limiting the generality of the foregoing or Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB quarterly reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

ARTICLE V

Suspension; Cancellation; Acceleration of Maturity

Section 5.01. The following are specified as additional events for suspension of the right of the Borrower to make withdrawals from the Loan Account for the purposes of Section 8.01(m) of the Loan Regulations:

(a) the Borrower has, in the opinion of ADB, failed to perform any of its obligations under the Grant Agreement.

(b) Any of the (i) Memorandum of Association or Articles of Association of ADBL; (ii) ADBL Restructuring Plan; or (iii) SFDB Restructuring Plan shall have been repealed, suspended, amended, revoked or superseded in a manner which in the reasonable opinion of ADB may adversely affect the carrying out of the Program.

Section 5.02 The following is specified as an additional event for acceleration of maturity for the purposes of Section 8.07(d) of the Loan Regulations: any of the events specified in Section 5.01 of this Loan Agreement shall have occurred.

ARTICLE VI

Effectiveness

Section 6.01. The following is specified as an additional condition to the effectiveness of this Loan Agreement for the purposes of Section 9.01(f) of the Loan Regulations: the Grant Agreement shall have been duly executed and delivered on behalf of the Borrower, and all condition precedents to its effectiveness (other than a condition requiring the effectiveness of this Loan Agreement) shall have been fulfilled.

Section 6.02. A date ninety (90) days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

ARTICLE VII

Delegation of Authority

Section 7.01. The Borrower hereby designates ADBL as its agent with respect to ADBL Restructuring Plan, SFDB with respect to SFDB Restructuring Plan and NRB with respect to GBB Divestment Plan and the Training Institution, in each case for the purposes of taking any action or entering into any agreement required or permitted under Sections 3.02, 3.03 and 3.06 of this Loan Agreement and under Sections 5.01, 5.02, 5.03 and 5.04 of the Loan Regulations.

Section 7.02. Any action taken or any agreement entered into by ADBL, SFDB or NRB pursuant to the authority conferred under Section 7.01 of this Loan Agreement shall be fully binding on the Borrower and shall have the same force and effect as if taken by the Borrower.

Section 7.03. The authority conferred on ADBL, SFDB and NRB under Section 7.01 of this Loan Agreement may be revoked or modified by agreement between the Borrower and ADB.

ARTICLE VIII

Miscellaneous

Section 8.01. The Secretary MOF of the Borrower is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations:

For the Borrower

Secretary
Ministry of Finance
Singha Durbar
Kathmandu, Nepal

Facsimile Number:

977-1-4257110

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

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan 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 _____
Authorized Representative

ASIAN DEVELOPMENT BANK

By _____

SCHEDULE 1
Description of the Program

1. The goals of the Program Cluster are (i) to ensure sustainable access of rural households to institutional financial services, and (ii) to encourage private sector participation in the rural finance sector. The objective is to develop a sustainable rural finance system for providing affordable services to the rural poor for income generation and poverty reduction. The scope is comprehensive rural finance sector development mainly through enabling sector policy environment and institutional reform and restructuring of major RFIs.
2. The Program Cluster will:
 - (a) create favorable policy environment for the development of the rural financial sector;
 - (b) (i) support the reform and restructuring of ADBL to transform ADBL into a viable and efficient RFI relevant to rural poverty alleviation; (ii) strengthen SFDB and small farmers cooperatives to supplement the efforts of ADBL to ensure that agricultural credit needs of small farmers are adequately met in areas that are not considered viable by the commercial banks; and (iii) support the implementation of GBB divestment;
 - (c) consolidate the fragmented, ineffective, and dormant supervisory and regulatory mechanisms for all entities that are not supervised by NRB but undertake financial intermediation;
 - (d) support the establishment and incorporation of an autonomous training institution on comprehensive banking and finance subjects to be established jointly by NRB, ADBL, and other bank and non-bank financial institutions; and
 - (e) support product and process innovations in the rural financial sector through the development and implementation of the Pilot Crop Insurance Plan and capacity development support to key RFIs.
3. The specific objective of the Program is to develop enabling rural financial sector framework through policy, legal, regulatory and institutional reform. The Program is the first of the two subprograms under the Program Cluster. The Program shall be implemented during the period of 1 January 2007 – 31 December 2008.
4. The Program Cluster includes a subsequent subprogram to be designed based on the SPR process to build on the reforms under the Program and to be implemented over the Program Cluster period until 31 December 2011, subject to the approval of ADB's Board of Directors.
5. The Program Cluster and the Program are described in more detail in the Policy Letter.

6. In support of the Program:

(a) the proceeds of the Loan shall be used to finance the foreign exchange costs of Eligible Items; and

(b) the Counterpart Funds shall be used to finance the local currency costs relating to the implementation of certain programs and other activities consistent with the objectives of the Program, pursuant to the provisions of paragraph 11 of Schedule 5 to this Loan Agreement.

7. The proceeds of the Loan are expected to be utilized by 31 December 2008.

SCHEDULE 2**Amortization Schedule****(Rural Finance Sector Development Cluster Program)**

Payment Due Date	Payment of Principal Expressed in SDR *
1 January 2015	1,184,563.00
1 July 2015	1,184,563.00
1 January 2016	1,184,563.00
1 July 2016	1,184,563.00
1 January 2017	1,184,563.00
1 July 2017	1,184,563.00
1 January 2018	1,184,563.00
1 July 2018	1,184,563.00
1 January 2019	1,184,563.00
1 July 2019	1,184,563.00
1 January 2020	1,184,563.00
1 July 2020	1,184,563.00
1 January 2021	1,184,563.00
1 July 2021	1,184,563.00
1 January 2022	1,184,563.00
1 July 2022	1,184,563.00
1 January 2023	1,184,563.00
1 July 2023	1,184,563.00
1 January 2024	1,184,563.00
1 July 2024	1,184,563.00
1 January 2025	1,184,563.00
1 July 2025	1,184,563.00
1 January 2026	1,184,563.00
1 July 2026	1,184,563.00
1 January 2027	1,184,563.00
1 July 2027	1,184,563.00
1 January 2028	1,184,563.00
1 July 2028	1,184,563.00
1 January 2029	1,184,563.00
1 July 2029	1,184,563.00
1 January 2030	1,184,563.00
1 July 2030	1,184,547.00
TOTAL	37,906,000.00

*The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

SCHEDULE 3**Withdrawal of Loan Proceeds**

1. Except as ADB may otherwise agree, the following provisions of this Schedule shall apply to the withdrawal of Loan proceeds from the Loan Account.

2. (a) Withdrawals from the Loan Account shall be made for the financing of the cost of Eligible Items.

(b) No withdrawals from the Loan Account shall be made in respect of any expenditures which have been financed by credits from official international or bilateral aid agencies or any other loans made by ADB.

3. (a) An application for withdrawal from the Loan Account shall be submitted to ADB by the Borrower and shall be in a form satisfactory to ADB.

(b) Such withdrawal application shall be accompanied by a certificate of the Borrower confirming that (i) in case the proceeds of the Loan will finance imports already made, the value of Eligible Imports in the period concerned exceeded the amount of the requested withdrawal, or (ii) in case the proceeds of the Loan will finance items to be imported, the value of Eligible Imports in the immediately preceding one-year period was equal to or greater than the amount of the requested withdrawal plus all other amounts expected to be withdrawn from the Loan Account during the succeeding one-year period.

(c) For the purposes of this paragraph, the term "Eligible Imports" means the total imports of the Borrower during the relevant period minus the following imports during the same period:

- (i) imports from countries which are not members of ADB;
- (ii) imports for ineligible items specified in Attachment 1 to this Schedule; and
- (iii) imports financed from credits from official international or bilateral aid agencies or any other loans made by ADB.

(d) The Borrower shall allow experts appointed by ADB to verify the value of Eligible Imports during any period in respect of which the Borrower has certified the value of Eligible Imports in its withdrawal application.

4. (a) Prior to submitting the first application to ADB for withdrawal from the Loan Account, the Borrower shall open an account (the Deposit Account) at Nepal Rastra Bank into which all withdrawals from the Loan Account shall be deposited. The Deposit Account shall be established, managed and liquidated in accordance with terms and conditions satisfactory to ADB.

(b) Separate accounts and records in respect of the Deposit Account shall be maintained in accordance with consistently maintained sound accounting principles. Upon ADB's request, the Borrower shall have the Deposit Account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with appropriate auditing standards. Promptly after their preparation but in any event not later than six (6) months after the date of ADB's request, certified copies of such audited accounts and records shall be furnished to ADB, all in the English language.

(c) Throughout the Program implementation period, the Borrower shall submit trade statistics and any other information as ADB may require from time to time to assess the Borrower's compliance with the formula for determining Eligible Imports.

5. Notwithstanding any other provisions of this Loan Agreement or the Loan Regulations and except as ADB may otherwise agree, no withdrawals shall be made from the Second Tranche unless ADB shall be satisfied, after consultation with the Borrower, that (a) sufficient progress has been achieved by the Borrower in the carrying out of the Program; and, in particular, (b) the Borrower has fulfilled the conditions for the release of the Second Tranche specified in Attachment 2 to this Schedule.

List of Ineligible Items

1. Loan proceeds will finance the foreign currency expenditures for the reasonable cost of imported goods required during the Rural Finance Sector Development Cluster Program.
2. No withdrawals will be made for the following:
 - (i) expenditures for goods (included in the following Standard International Trading Commodity chapters or headings):

Table: Ineligible Items

Chapter	Heading	Description of Items
112		Alcoholic beverages
121		Tobacco, unmanufactured; tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitute)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
897	897.3	Jewelry of gold, silver or platinum-group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, nonmonetary (excluding gold ore and concentrates)
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors

Source: United Nations.

- (ii) expenditures in the currency of the Borrower or of goods supplied from the territory of the Borrower;
- (iii) payments made for expenditures incurred more than 180 days before the effectiveness date of the loan;
- (iv) expenditures for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed under any loans from the Asian Development Bank;
- (v) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (vi) expenditures for narcotics; and
- (vii) expenditures for pesticides categorized as extremely hazardous or highly hazardous in classes I-a and I-b, Classification of Pesticides by Hazard and Guidelines to Classification.

Conditions for Release of the Second Tranche

The conditions for the release of the Second Tranche are as follows:

A. Institutional Restructuring and Reforms**(a) ADBL**

1. ADBL shall have issued a notice to offer its shares to the small shareholders of ADBN.
2. ADBL Board of Directors shall have issued a decision to initiate the initial public offering of ADBL.
3. The Borrower shall have settled its dues payable to ADBL.
4. The Borrower shall have finalized the divestment plan of its shares in ADBL.
5. ADBL shall have (i) written-off its bad debts; and (ii) provided adequate provisions for its other categories of debts, in each case in accordance with NRB directives.
6. ADBL shall have revised and updated its policies related to (i) human resources management; (ii) portfolio management; (iii) financial management; and (iv) credit management, to the satisfaction of ADB.
7. ADBL shall have completed its second voluntary retirement scheme.
8. ADBL shall have achieved the performance indicators and critical implementation targets set out in ADBL Restructuring Plan, to the satisfaction of ADB.
9. ADBL shall have established a separate unit, which shall have direct reporting line to the Audit Committee, to deal with client complaints including those related to corruption.
10. ADBL shall have established management information system that would allow the measurement of the outreach of its banking services to women and disadvantaged groups.
11. ADBL shall have completed the phasing out of its small farmers development program (SFDP), which is a credit extension program to small and marginal farmers.
12. ADBL shall have completed its assessment of the performance of SFDB's customers which are in the form of small farmers' cooperatives. The assessment shall be the basis to determine further onlending support by ADBL to SFDB.

(b) SFDB

13. SFDB shall have developed and adopted a restructuring plan, in consultation with ADB, which covers (i) strategy, (ii) legal and governance structure, (iii) organization and human resources development, (iv) operating policies and guidelines for financial activities, (v) partnership arrangements, (vi) performance benchmarks, and (vii) implementation schedule.

(c) NRB

14. NRB shall have issued a decision on the future direction of the technically insolvent GBBs.

B. Supportive Legal and Regulatory Framework

15. NRB shall have (i) issued a decision on the appropriate supervisory and regulatory framework of the RFIs; and (ii) initiated its implementation.

C. Sector Capacity Building

16. NRB shall have incorporated the Training Institution, with NRB, ADBL, and other financial institutions providing the necessary financial contributions for its operations.

17. NRB shall ensure that (i) the business plans for training, (ii) course curriculum and materials, (iii) library, (iv) training of trainers module, and (v) equipment of the Training Institution shall have been developed.

18. NRB shall ensure that the Training Institution shall have commenced training.

D. Product and Process Innovations

19. NRB, in consultation with the local stakeholders, shall have developed a Pilot Crop Insurance Plan.

SCHEDULE 4

Procurement

1. Except as ADB may otherwise agree, the procedures referred to in the following paragraphs of this Schedule shall apply in the procurement of Eligible Items to be financed out of the proceeds of the Loan.

2. (a) Except as provided in subparagraph (b) of this paragraph, each contract for Eligible Items shall be awarded on the basis of either the purchaser's normal commercial procurement practices, in the case of procurement by the private sector, or the Borrower's prescribed procurement procedures, in the case of procurement by the public sector, having due regard for the principles of economy and efficiency.

(b) Each supply contract for Eligible Items which are commonly traded commodities shall be awarded on the basis of procedures appropriate to the trade and acceptable to ADB.

SCHEDULE 5

Program Implementation and Other Matters

Program Implementation

1. The Borrower shall (a) maintain the policies adopted and actions taken prior to the date of this Loan Agreement, as described in the Policy Letter and the policy matrix, for the duration of the Program and subsequently thereafter; (b) promptly adopt the other policies and the other actions included in Program as specified in the Policy Letter and the policy matrix; and (c) ensure that such policies and actions continue in effect for the duration of Program and subsequently thereafter.

Program Executing Agency

2. MOF shall be the Program Executing Agency and shall coordinate with ADBL, SFDB and NRB on policy reforms. The MOF shall establish a Program Management Unit (PMU) to coordinate, monitor and supervise Program implementation. The PMU shall be headed by a Program Director, who shall be at a joint secretary level in MOF. The Program Director shall be assisted by a full-time staff with qualifications and experiences satisfactory to ADB.

Program Implementing Agencies

3. NRB shall be the implementing agency for sector capacity building, supportive legal and regulatory framework, and product and process innovation. ADBL and SFDB shall be the implementing agencies for institutional reform and restructuring of their respective organizations. Each implementing agency shall establish a Program Implementation Unit (PIU) to facilitate the implementation of the policy reforms under its responsibilities. Each PIU shall have a PIU director supported by one specialist staff member, with qualifications and experience acceptable to ADB. The PIU director shall report to the Program Director.

4. The Borrower shall constitute a Program Steering Committee (PSC) to be chaired by the secretary, MOF with members to comprise the General Manager of ADBL, the General Manager of SFDB, the deputy governor of NRB, the Program Director and the senior level representatives of the National Planning Commission, Ministry of Agriculture and Cooperatives and Ministry of Land Reform and Management. The PSC shall: (i) provide policy and technical guidance to the PMU and PIUs; (ii) review the progress of the Program implementation; (iii) monitor the performance of the PMU and PIUs; and (iv) ensure Program coordination. The PSC shall meet at least on quarterly basis.

Program Dialogue

5. The Borrower shall keep ADB informed of, and the Borrower and ADB shall, from time to time, exchange views on the progress made in carrying out the Program.

6. The Borrower shall continue timely policy dialogue with ADB on problems and constraints encountered during implementation of the Program and on desirable changes to overcome or mitigate such problems and constraints, and on further reforms to strengthen the rural financial sector.

7. The Borrower shall keep ADB informed of policy discussions with other multilateral and bilateral agencies that have implications for the implementation of the Program, and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower shall take ADB's views into consideration before finalizing and implementing any such proposals.

Auditing

8. If requested by ADB, the Borrower shall undertake an audit of the use of Loan proceeds. ADB shall also retain the right to (i) audit any account relating to the Program; and (ii) verify the validity of the certification issued by the Borrower for each withdrawal application.

9. The Borrower shall ensure that within twelve months of the Effective Date, ADBL shall have acquired and installed forensic accounting ability to support the Audit Committee to track and minimize corruption cases.

10. The Borrower shall ensure that within eighteen months of the Effective Date, ADBL shall undertake a performance audit to be conducted by an independent and external auditor, which shall focus on its operational and financial activities, and will recommend time-bound measures to further improve its accountability and transparency. Based on the recommendations of the audit, the Borrower shall ensure that within six months of the submission of the audit report, ADBL shall have implemented these recommendations to the satisfaction of ADB.

Use of Counterpart Funds

11. The Borrower shall ensure that the Counterpart Funds to be generated out of the proceeds of the Loan shall be used for the recapitalization of ADBL through subscription of ADBL's preference shares, which shall be divided between redeemable and irredeemable shares.

Program Management

12. The PMU shall establish and maintain a Program performance management system for the monitoring and evaluation of the Program during and after implementation. Such system shall include database on the status of policy measures.

Pilot Crop Insurance Plan

13. The Borrower shall ensure that the Pilot Crop Insurance Plan shall be implemented to the satisfaction of ADB.

Reform Commitments

14. The Borrower shall ensure that any specific actions taken by the Borrower in respect of the operations of ADBL shall be done to promote financial soundness and operational viability of ADBL and in accordance with the prevailing laws and regulations.

15. Within six months of the Effective Date, the Borrower shall ensure that ADBL shall have established the necessary mechanisms required for the full implementation of its code of conduct to the satisfaction of ADB.

16. The Borrower shall ensure that ADBL shall promptly inform ADB of any change in its board of directors or its General Manager, and ensure that any such change shall be made in accordance with the prevailing laws and regulations and its Memorandum of Association and Articles of Association.

17. The Borrower shall ensure that ADBL shall carry out its banking operations in accordance with the provisions under BFIO and prudential norms prescribed by NRB under its directives throughout the implementation of the Program and subsequently thereafter.

18. The Borrower shall ensure that ADBL shall adopt and implement good corporate governance norms and practices throughout the implementation of the Program and subsequently thereafter.

Review and Evaluation of the Program

19. Without limiting the generality of Section 4.03 of this Loan Agreement, the PMU shall provide ADB with reports on the implementation of the policy and institutional reforms. The reports shall include (i) quarterly report; (ii) annual report; and (iii) mid-term review report. The reports shall be submitted in such form and in such detail as ADB may request, and should include information on (i) the progress made and problems encountered during the period in review, (ii) the steps taken or proposed to be taken to remedy problems encountered, (iii) the proposed detailed activity for Program implementation, and (iv) expected progress during the next review period. The PMU shall also submit the Program completion report within 3 months of the completion of the Program.

20. The Borrower and ADB shall conduct semi-annual reviews throughout the implementation of the Program to identify further actions required for continued development of the rural finance sector.

21. The Borrower shall ensure that the subprogram review (SPR) is undertaken for the Program (as the first subprogram of the Program Cluster) to design proposed subsequent subprogram of the Program Cluster based on the implementation of the studies undertaken and experience gained under the Program and the Project and to reflect the changes that may occur in the external policy environment during the Program period. The Borrower shall ensure that the SPR shall be undertaken by the PSC. The Borrower shall ensure that ADB shall have the opportunity to participate in the SPR.

22. The Borrower shall ensure that first SPR shall be undertaken prior to the release of the second tranche under the Program, which shall (i) review compliance with the second tranche conditions; (ii) identify initial lesson learned; and (iii) formulate the initial outline for the subsequent subprogram under the Program Cluster. The Borrower shall ensure that the final SPR shall be undertaken prior to the commencement of subprogram II under the Program Cluster to examine and finalize the design of the subprogram II under the Program Cluster.

23. The Borrower acknowledges that the SPR process does not obligate ADB to provide a loan for a further subprogram under the Program Cluster and that any such further subprogram shall be subject to ADB's board approval.