

No. 18321

**INTERNATIONAL FUND
FOR AGRICULTURAL DEVELOPMENT
and
NEPAL**

**Loan Agreement—*Integrated Rural Development Project*
(with schedules and General Conditions Applicable to
Loan and Guarantee Agreements of the Fund dated
11 April 1978). Signed at Kathmandu on 12 March
1979**

Authentic text: English.

*Registered by the International Fund for Agricultural Development on
26 February 1980.*

**FONDS INTERNATIONAL
DE DÉVELOPPEMENT AGRICOLE
et
NÉPAL**

**Accord de prêt — *Projet de développement rural intégré*
(avec annexes et Conditions générales applicables aux
accords de prêt et de garantie du Fonds en date du
11 avril 1978). Signé à Katmandou le 12 mars 1979**

Texte authentique : anglais.

*Enregistré par le Fonds international de développement agricole le
26 février 1980.*

LOAN AGREEMENT¹ (*INTEGRATED RURAL DEVELOPMENT PROJECT*) BETWEEN KINGDOM OF NEPAL AND INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Dated 12 March 1979

Loan No. 10-NEP

LOAN AGREEMENT

LOAN AGREEMENT, dated 12 March 1979, between the KINGDOM OF NEPAL (hereinafter called the Borrower) and the INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (hereinafter called the Fund).

WHEREAS:

(A) The Borrower has applied to the Fund for a Loan for the purposes of the Project described in Schedule 1 to this Loan Agreement;

(B) The Borrower and the Asian Development Bank (hereinafter called the Bank), acting as Cooperating Institution, have entered into a Loan Agreement dated 26 December 1978 for the purposes of the Project (hereinafter called the Bank Loan Agreement);

(C) The Fund has agreed to make a Loan to the Borrower upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties hereto agree as follows:

Article I. GENERAL CONDITIONS; DEFINITIONS

Section 1.01. All the provisions of the General Conditions applicable to Loan and Guarantee Agreements of the Fund dated 11 April 1978² 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 modification thereof (said General Conditions as so modified being hereinafter called the General Conditions): the following subparagraph is added to Section 4.01:

“(d) In various currencies equivalent to an amount in United States dollars.”

Section 1.02. Wherever used in this Loan Agreement, unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth, and the following additional terms have the following meanings:

- (a) “MOHP” means the Ministry of Home and Panchayat of the Borrower;
- (b) “MOHP (LDD)” means the Local Development Department of MOHP;
- (c) “MFAI” means the Ministry of Food, Agriculture and Irrigation of the Borrower;

¹ Came into force on 1 November 1979 by notification from the Fund to the Government of Nepal, in accordance with its section 6.01 and with sections 10.01 and 10.02 of the General Conditions.

² See p. 135 of this volume.

(d) "Agriculture Department" means the Department of Agriculture of MFAI;

(e) "Irrigation Department" means the Irrigation Hydrology and Meteorology Department of MFAI;

(f) "FDD" means the Fruit Development Division of MFAI;

(g) "LD" means the Livestock Division of MFAI;

(h) "Roads Department" means the Roads Department of the Ministry of Works and Transport of the Borrower;

(i) "SWCD" means the Department of Soil and Water Conservation of the Ministry of Forests of the Borrower;

(j) "DOF" means the Department of Forestry of the Ministry of Forests of the Borrower;

(k) "MOH" means the Ministry of Health of the Borrower;

(l) "MOE" means the Ministry of Education of the Borrower;

(m) "DCVI" means the Department of Cottage and Village Industries of the Ministry of Industry and Commerce of the Borrower;

(n) "DOC" means the Department of Cooperatives of the Ministry of Land Reforms of the Borrower;

(o) "Act" means the Agricultural Development Bank Act, 1967, of the Borrower, as amended from time to time;

(p) "ADB" means the Agricultural Development Bank of Nepal, a statutory corporation of the Borrower established under the provisions of the Act;

(q) "Subsidiary Loan Agreement" means the Agreement between the Borrower and ADB referred to in Section 3.01(b) of this Loan Agreement;

(r) "Cooperative" means a cooperative society registered under the Cooperatives Societies Act, 1959 of the Borrower, as amended from time to time;

(s) "Sub-loan" means a loan made or proposed to be made, either by ADB from the proceeds of the Loan made available to it pursuant to the Subsidiary Loan Agreement, or by a cooperative, from the proceeds of the Loan made available to it by ADB;

(t) "DDC" means the Dairy Development Corporation, a statutory corporation of the Borrower;

(u) "AIC" means the Agriculture Inputs Corporation established under the provisions of the Corporations Act, 1964 of the Borrower, as amended from time to time;

(v) "Project Office" means the office to be established by MOHP referred to in paragraph 3 of Schedule 3 to this Loan Agreement;

(w) "Project Executing Agency" for the purposes of, and within the meaning of the General Conditions, means the agencies referred to in Section 4.01(b) of this Loan Agreement; and

(x) "Project Area" means the three districts of Siraha, Saptari and Udaipur in the Sagarmatha Zone of the Borrower.

Article II. THE LOAN

Section 2.01. The Fund agrees to lend to the Borrower an amount in various currencies equivalent to thirteen million dollars (\$13,000,000).

Section 2.02. The Borrower shall pay to the Fund a service charge at the rate of one percent (1%) per annum on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

Section 2.03. For any special commitment entered into by the Fund at the request of the Borrower pursuant to Section 6.02 of the General Conditions, the Borrower shall pay to the Fund a fee at the rate of one-half of one percent (0.5%) per annum on the principal amount of such special commitment outstanding from time to time.

Section 2.04. The service charge and any other charge on the Loan shall be payable semi-annually on 1 May and 1 November in each year.

Section 2.05. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in equal semi-annual instalments of \$162,500 payable each 1 May and 1 November starting 1 May 1989 and ending 1 November 2028.

Article III. USE OF PROCEEDS OF THE LOAN

Section 3.01. (a) The Borrower shall make the proceeds of the Loan, together with other funds required for the Project, available to each of the Project Executing Agencies upon terms and conditions acceptable to the Fund.

(b) For the purposes of paragraph (a) of this Section, the Borrower shall enter into a Subsidiary Loan Agreement with ADBN whereby that portion of the proceeds of the Bank Loan and the Fund Loan which is allocated for the carrying out of Parts C(2)(d), C(3)(d), C(3)(f) and, to the extent ADBN is responsible for their implementation, B(2), C(4) and D(1) of the Project shall be relented by the Borrower to ADBN.

(c) The Borrower shall cause each of the Project Executing Agencies to apply the proceeds of the Loan to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement.

Section 3.02. The goods and services to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan among different categories of such goods and services shall be in accordance with the provisions of Schedule 2 to this Loan Agreement, as such Schedule may be amended from time to time.

Section 3.03. Except as the Borrower and the Fund shall otherwise agree, all goods and services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of international competitive bidding specified in the provisions of the Bank Loan Agreement and in accordance with the procurement and eligibility requirements specified by the Fund from time to time.

Section 3.04. Except as the Borrower and the Fund shall otherwise agree, the Borrower shall cause all goods and services financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.

Section 3.05. The closing date for withdrawals from the Loan Account for the purposes of Section 9.03(iii) of the General Conditions shall be 31 March

1985 or such other date as may from time to time be agreed between the Borrower and the Fund.

Article IV. PARTICULAR COVENANTS

Section 4.01. (a) The Borrower shall cause the Project to be carried out with due diligence and efficiency and in conformity with sound administrative, financial, engineering, agricultural and rural development practices and in accordance with the provisions of this Loan Agreement.

(b) Without prejudice to or limitation on the obligations of the Borrower under this Loan Agreement, the responsibility for carrying out the different Parts of the Project shall, except as the Borrower and the Fund may otherwise agree, be assigned as follows:

- (i) Roads Department shall be responsible for Part A;
- (ii) Irrigation Department shall be responsible for Parts B(1) and B(3), and for the field surveys and supply of rig sets required for Part B(2);
- (iii) Agriculture Department shall be responsible for Parts C(1)(a), C(1)(b), C(1)(c), C(1)(d), C(2)(a), C(2)(c), C(2)(e), C(3)(a), C(3)(b), C(3)(c) and C(3)(e);
- (iv) LD shall be responsible for Part C(2)(b);
- (v) The Chief District Officers of the Project Districts shall be responsible, with the assistance of the District level Panchayats and the Food and Agricultural Marketing Services Department of MFAI for Part C(5);
- (vi) ADBN shall be responsible for Parts B(2) (with the assistance of the Irrigation Department), C(2)(d), C(3)(d), C(3)(f), C(4) (with the assistance of the DOC), and D(1) (in cooperation with DCVI);
- (vii) DDC shall be responsible for Part C(2)(f);
- (viii) DCVI shall be responsible for Parts D(1) (in cooperation with ADBN) and D(2);
- (ix) SWCD shall be responsible for Part E;
- (x) DOF shall be responsible for Part F;
- (xi) MOH shall be responsible for Parts G(1) and G(2);
- (xii) MOHP (LDD) shall be responsible for Part G(3);
- (xiii) MOE shall be responsible for Part G(4), and
- (xiv) MOHP shall be responsible for Part H.

(c) The Borrower shall perform, or cause to be performed, all obligations relating to the execution of the Project and operation of the Project Facilities included in the Bank Loan Agreement in the same manner as if they were set forth in this Loan Agreement.

Section 4.02. The Borrower shall make available, or cause to be made available, promptly as needed, and on terms and conditions acceptable to the Fund, the manpower, the funds, facilities, services, lands and rights thereto and other resources which are required, in addition to the proceeds of the Loan, the Loan from the Bank and the grants from the Bank and the European Communities for the carrying out of the Project and for the operation and maintenance of the Project facilities.

Section 4.03. (a) In the carrying out of the Project, the Borrower shall cause competent and qualified consultants and contractors acceptable to the Borrower and the Fund to be employed to an extent and upon terms and conditions satisfactory to the Borrower and the Fund.

(b) The Borrower shall cause the Project to be carried out in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to the Borrower and the Fund. The Borrower shall furnish or cause to be furnished to the Fund, promptly after their preparation, such plans, design standards, specifications and work schedules and any material modifications subsequently made therein, in such detail as the Fund shall reasonably request.

Section 4.04. The Borrower shall ensure that the activities of the Project Executing Agencies and of other departments and agencies with respect to the carrying out of the Project and operation of the Project facilities are conducted and coordinated in accordance with sound administrative policies and procedures. To this end, the Borrower shall establish special arrangements acceptable to the Fund for coordination and cooperation throughout the period of execution of the Project and initial operation of the Project facilities.

Section 4.05. (a) The Borrower shall make arrangements, or shall cause arrangements to be made, satisfactory to the Fund for insurance of facilities, goods and equipment to be provided under the Project to such extent and against such risks and in such amounts as shall be consistent with sound practice.

(b) Without limiting the generality of the foregoing, the Borrower undertakes to insure or cause to be insured the goods to be imported for the Project and to be financed out of the proceeds of the Loan against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in currency freely usable to replace or repair such goods.

Section 4.06. (a) The Borrower shall maintain or cause to be maintained records adequate to identify the goods and services financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition, to the extent relevant to the Project, of the Project Executing Agencies, and any other agencies of the Borrower responsible for carrying out of the Project and operation of the Project facilities, or any part thereof.

(b) The Borrower shall: (i) maintain or cause to be maintained separate accounts for the Project by the Project Executing Agency; (ii) have such accounts and related financial statements audited annually, in accordance with sound auditing principles, by the Auditor General of His Majesty's Government of Nepal in the case of Ministries, departments and agencies of the Borrower, and by auditors appointed by the Auditor-General in the case of ADBN and DDC; (iii) furnish, or cause to be furnished, to the Fund and the Cooperating Institution, as soon as available but in any event not later than six (6) months after the end of each relating fiscal year, in the case of ADBN and DDC and not later than fourteen (14) months after the end of each related fiscal year in the case of all other Project Executing Agencies, certified copies of such audited financial

statements and the report of the auditors relating thereto, all in the English language; and (iv) furnish to the Fund and the Cooperating Institution such other information concerning such accounts and financial statements and the audit thereof as the Fund or the Cooperating Institution shall from time to time reasonably request.

Section 4.07. (a) The Borrower shall furnish or cause to be furnished to the Fund and the Cooperating Institution all such reports and information as the Fund shall reasonably request concerning: (i) the Loan, and the expenditure of the proceeds and maintenance of the service thereof; (ii) the goods and services financed out of the proceeds of the Loan; (iii) the Project; (iv) to the extent relevant to the Project, the administration, operations and financial condition of the Project Executing Agencies and any other agencies of the Borrower responsible for [the] carrying out of the Project and operation of the Project facilities, or any part thereof; (v) financial and economic conditions in the territory of the Borrower and the international balance of payments position of the Borrower; and (vi) any other matters relating to the purposes of the Loan.

(b) Without limiting the generality of the foregoing, the Borrower shall furnish or cause to be furnished to the Fund and the Cooperating Institution quarterly reports on the carrying out of the Project and on the operation and management of the Project facilities. Such reports shall be submitted in such form and in such details and within such a period as the Fund 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 programme of activity and expected progress during the following quarter.

Section 4.08. The Borrower shall enable the Fund's and the Cooperating Institution's representatives to inspect the Project, the goods financed out of the proceeds of the Loan, all other sites, works, properties and equipment related to the Project, and any relevant records and documents.

Section 4.09. (a) The Borrower shall ensure that the Project facilities are operated, maintained and repaired in accordance with sound administrative, financial, engineering, agricultural, rural development and maintenance and operational practices, and shall cause such additional facilities, services, manpower resources to be provided in the Project area, both while the Project is being carried out and after completion thereof, as are necessary to ensure that the full benefits of the Project are realized.

(b) The Borrower shall take all actions necessary to ensure efficient use for agricultural development of the water made available by the works included in the Project.

Section 4.10. The Borrower shall establish, in consultation with the Cooperating Institution, arrangements satisfactory to the Fund, to monitor the economic and social impact of the Project and to this effect shall submit to the Fund and the Cooperating Institution for their examination and comments, a detailed plan within six (6) months of the signing of this Loan Agreement. The Borrower shall provide or cause to be provided adequate funds for carrying out the monitoring arrangements referred to herein.

Article V. REMEDIES OF THE FUND

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 9.02(1) of the General Conditions:

- (a) The Loan from the Bank shall have become liable, at the option of the Bank, for suspension or termination prior to its agreed maturity date or a default shall have occurred in the performance of any obligation of the Borrower pursuant to the Bank Loan Agreement.
- (b) A default shall have occurred in the performance by the Borrower of any of its obligations under the Subsidiary Loan Agreement.
- (c) A default shall have occurred in the performance by ADBN of any of its obligations under the Subsidiary Loan Agreement.
- (d) The Act or any provision thereof shall have been repealed, suspended or amended in any manner which, in the reasonable opinion of the Fund, will or may adversely affect the carrying out of the Project or the operation of the Project facilities.

Article VI. EFFECTIVENESS; TERMINATION

Section 6.01. The following is specified as an additional condition to the effectiveness of this Loan Agreement for the purposes of Section 10.01(e) of the General Conditions: that the Bank Loan Agreement shall have been declared effective.

Section 6.02. The date 10 June 1979 is hereby specified for the effectiveness of the Loan for the purposes of Section 10.04 of the General Conditions.

Section 6.03. The obligations of the Borrower under Sections 4.06, 4.07 and 4.10 of this Loan Agreement shall terminate on the date on which this Loan Agreement shall terminate or on a date fifteen (15) years after the loan becomes effective, whichever shall be the earlier.

Article VII. COOPERATING INSTITUTION

Section 7.01. The Borrower and the Fund hereby agree to appoint the Bank as the Cooperating Institution, with the responsibilities for the administration of the Loan set forth in Sections 5.01, 5.02 and 5.03 of the General Conditions.

Section 7.02. Except where specifically provided in this Loan Agreement and the General Conditions, or requested by the Fund, the Borrower shall directly furnish to the Cooperating Institution and address all communications to such Institution on all matters referred to in Sections 3.03 and 4.01 to 4.09 of this Loan Agreement and Sections 6.01 to 6.07 of the General Conditions.

Section 7.03. If for any reason a change of the Cooperating Institution becomes necessary, such a change shall be made by agreement between the Borrower and the Fund in consultation with the Institution administering the Loan. In the event of such a change, all the obligations of the Borrower contained in the Bank Loan Agreement in respect of execution of the Project and operations of the Project Facilities shall remain in force and shall automatically become the obligations of the Borrower under this Loan Agreement.

Article VIII. MISCELLANEOUS

Section 8.01. The Secretary, Ministry of Finance, of the Borrower is designated as representative of the Borrower for the purposes of Section 12.02 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 12.01 of the General Conditions.

For the Borrower:

The Secretary to His Majesty's Government
Ministry of Finance
Kathmandu, Nepal

Cable Address:

ARTHA
KATHMANDU

Telex Number:

NP 249

For the Bank:

Asian Development Bank
P.O. Box 789, Manila, Philippines 2800

Cable Address:

ASIANBANK
MANILA

Telex Numbers:

ETPI 3587 ADB PN, RCA 7222094 ADB PH
ITT (742)0571 Asianbk PM

For the Fund:

International Fund for Agricultural Development
107 Via del Serafico
Rome 00142 Italy

Cable Address:

IFAD
Rome

Telex Numbers:

614160 IFAD
614160 IFAD

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 the Fund as of the day and year first above written.

Kingdom of Nepal:

Signed by: DEVENDRA R. PANDAY
Authorized Representative

International Fund for Agricultural Development:

Signed by: A. SUDEARY
President

SCHEDULE 1

DESCRIPTION OF THE PROJECT

The purpose of the Project is to assist rural development in an integrated manner in the districts of Siraha, Saptari and Udaipur in the southern part of the Sagarmatha Zone. The Project consists of the following parts:

PART A. *Transport Infrastructure*

—Survey, design and construction or improvement of about 139 kilometres of major road links and about 187 kilometres of trails and tracks including suspension bridges; provision of road construction and maintenance equipment.

PART B. *Irrigation Infrastructure*

- (1) Construction of surface and groundwater irrigation systems covering approximately 13,500 hectares, including establishment of about 15 pilot deep tubewells, construction of gallery system and gravity system schemes and construction of distributaries and canals;
- (2) Provision of medium-term credit to individual farmers or groups of farmers for procurement and installation of about 2,910 units of shallow tubewells, including spare parts, for year-round irrigation of about 15,300 hectares;
- (3) Provision of five rig sets and pumps, engines and other necessary equipment for the irrigation systems.

PART C. *Agricultural Development*

- (1) Agricultural research and extension, including:
 - (a) Establishment of one 5 hectare central demonstration farm at Lahan, including residential and office buildings, storage facilities and field equipment;
 - (b) Provision of agricultural extension facilities in about 27 rural service centers to be established including provision of staff residences, office buildings, service vehicles, field staff and office equipment;
 - (c) Provision of equipment, fertilizer and technical services for about 27 model demonstration farms to be established in farmers' fields;
 - (d) Expansion of facilities at the Tarhara research station, including dormitory construction and provision of soil laboratory equipment and training aids and materials.
- [(2)] Provision of livestock facilities, including:
 - (a) Provision of livestock facilities in about 27 rural service centres to be established as described under Part C(1)(b) with the additional provision of medical supplies;
 - (b) Provision at three rural service centres of facilities for raising of heifers to a production stage;
 - (c) Upgrading of dispensaries to veterinary hospital levels at Siraha and Gaighat, including construction of required buildings, and provision of electric generators, service vehicles, veterinary equipment and artificial insemination facilities for dispensaries/hospitals at Siraha, Gaighat and Rajbiraj;
 - (d) Provision of medium-term credit to individual farmers for the purchase of milch buffalo;
 - (e) Development of farm-level fodder production;
 - (f) Establishment of one cheese factory in the hill area, one milk-chilling centre in the terai and about nine milk collection centres (three in each district), and provision of two refrigerated trucks for milk collection.

- (3) Provision of horticulture facilities, including:
 - (a) Establishment of about 13 model farms (9 for citrus, 4 for seed potatoes) and provision of input supplies, equipment and technical services;
 - (b) Establishment of pilot vegetable production programmes at rural service centres;
 - (c) Establishment of two horticulture sub-stations at Katari and Beltar, including buildings, equipment, storage units and vehicles;
 - (d) Construction of cooperative cold storage facilities at Lahan, including provision of equipment, materials and one service truck;
 - (e) Provision of seeds and seedlings, supplies and services for the establishment of nurseries on small farms;
 - (f) Provision of medium-term credit to about 3,000 small fruit and vegetable farmers for land preparation, equipment, and initial planting materials; provision of supplies to about 2,000 seed potato growers.
- (4) Construction of about 27 cooperative warehouses with total capacity of approximately 3,600 tons;
- (5) Establishment of about 20 rural marketing centres, including buildings and water supply.

PART D. *Cottage and Rural Industries*

- (1) Provision of training, equipment, credit and marketing facilities for small-scale cottage and village industries and for small-scale rural industries;
- (2) Establishment of a cottage industries centre at Lahan, and of one emporium each at Lahan, Gaighat and Rajbiraj.

PART E. *Soil and Water Conservation*

- (1) Provision of facilities and technical services for about 20 kilometres of river control measures;
- (2) Treatment of catchment areas for soil erosion control and development of fodder trees and grasses, including development of fodder trees on about 1,500 hectares, terrace improvement on about 500 hectares, rehabilitation of about 80 gullies and stabilization of eroded slopes on about 25 kilometres;
- (3) Establishment of about 3 nurseries for seedlings for fodder trees; provision of seedlings;
- (4) Establishment of a soil and water conservation centre at Gaighat, including office and residential buildings, storage facilities, vehicles and equipment.

PART F. *Forestry*

- (1) Establishment of about seven new nurseries of about 1.3 hectares each, and expansion of the existing nursery at Rajbiraj (including construction of an office building); provision of equipment, materials and vehicles for the 8 nurseries;
- (2) Establishment of a new forestry service centre at Gaighat, including office and residential buildings, storage facilities, vehicles and equipment;
- (3) Establishment of community-based forest plantations of about 4,000 hectares in Siraha and Udaipur;
- (4) Provision of seedlings to individual farmers for farm-level tree planting covering about 78,000 hectares in the terai.

PART G. *Social Services*

- (1) Establishment of about 24 new health and family planning posts (including buildings and residential accommodations) and provision of vehicles, equipment, drugs and supplies to the new posts and the 7 existing posts;
- (2) Provision of doctors' and nurses' residences for the hospital at Gaighat, two surgical units (buildings, equipment and electric generator) at Gaighat and Siraha, one ambulance each at Siraha and Rajbiraj, and one x-ray unit each at Siraha, Rajbiraj and Gaighat;
- (3) Provision and installation of about 35 dugwells with hand pumps in Siraha and Saptari, and construction of about 25 catchment units (tanks) in Udaipur;
- (4) Establishment of a trade school at Lahan, including school building, dormitory and workshop; provision of laboratory and workshop equipment for expansion of trade school facilities at other locations in the Project Area.

PART H. *Training Centre*

—Establishment of a multi-purpose training centre at Lahan, including buildings, a workshop, vehicles, demonstration farm facilities and equipment; provision of equipment, teaching materials and staff to the National Cooperative Institute for the conduct of training at the Centre.

The Project includes the provision of consultants' services. It is expected that the Project will be completed by 31 March 1984.

SCHEDULE 2

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS

1. The table attached hereto sets forth the Categories of goods, services and other items to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan to each Category.

2. Except as otherwise provided in this Schedule, no withdrawals from the Loan Account shall be made in respect of any local expenditures on the Project.

3. With respect to the civil works included in Category I, the amount of \$1,573,000 represents the presently estimated foreign exchange cost of such civil works. Such estimate is 27 percent of the total cost of such civil works. For the purpose of withdrawals from the Loan Account in respect of such civil works, this figure of 27 percent will apply.

4. The amount of \$6,500,000 in Category III is for financing local expenditures. Such amount may be withdrawn from the Loan Account in foreign currency on the following basis: (i) Category III(A), 34 percent, and (ii) Category III(B), 64 percent subject to the maximum amount of \$6,500,000.

5. The items included in Category II will be procured under international competitive bidding or shopping procedures. With respect to any contract for such items awarded to a local supplier, such contract will be financed out of the proceeds of the Loan on the following basis:

- (a) Where the goods procured from a local supplier are manufactured locally, 100 percent of the ex-factory price of the goods supplied (exclusive of any duties and taxes); and
- (b) Where the goods procured from a local supplier have been entirely imported, the foreign exchange component of the contract price.

6. Notwithstanding the allocation of loan proceeds or the maximum withdrawal amount set forth above, if the Fund has reasonably estimated that the amount of the Loan then allocated to any Category will be insufficient to finance all agreed expenditures in

that Category, and except as provided in paragraph 4 above, the Fund may, by notice to the Borrower: (a) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of the Fund, are not needed to meet other expenditures, and (b) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage (if any) applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made.

7. On the basis of the attached table, the amounts of the Loan to be allocated in the first instance among the Project Executing Agencies for expenditures on the various parts of the Project would be as follows:

ADBN: \$5,083,000
 Roads Department: \$1,540,000
 Irrigation Department: \$5,273,000

On the basis of the attached table, and subject to possible reallocation pursuant to paragraph 6 above, an amount of the Loan equivalent to \$5,083,000 shall be made available to ADBN under the Subsidiary Loan Agreement referred to in Section 3.01(b) of the Loan Agreement.

Attachment to Schedule 2

ALLOCATION OF PROCEEDS OF LOAN (Integrated Rural Development Project)

<i>Category</i>	<i>Amount Allocated (Dollar Equivalent)</i>
I. Civil Works for Irrigation.....	\$1,573,000
II. Procurement of Irrigation Equipment, Materials Plants	3,823,000
III. Local Expenditure Financing	6,500,000
A. Civil Works for Roads	\$1,540,000
B. Civil Works for Irrigation	4,960,000
IV. Unallocated	1,104,000
	TOTAL <u>\$13,000,000</u>

SCHEDULE 3

EXECUTION OF THE PROJECT AND OPERATION OF PROJECT FACILITIES; FINANCIAL MATTERS

I. Project Management

1. *Primary Coordinating Agency.* MOHP shall act as Primary Coordinating Agency for the Project with overall responsibility for coordination with respect to implementation of the Project. MOHP shall consult with the Project Executing Agencies, and, when necessary, their supervisory Ministries, departments or agencies, to ensure coordination and to provide assistance to the Project Executing Agencies as required for the successful implementation of the Project.

2. *Central Project Coordinating Committee.* The MOHP shall carry out coordination with respect to implementation of the Project through the existing Central Project

Coordinating Committee ("CPCC"). The CPCC shall be chaired by the Secretary, MOHP, and shall at all times include senior level representatives of each of the Project Executing Agencies. The CPCC shall meet in Kathmandu at least once every quarter to set guidelines for implementation of the Project, to ensure coordination among the Project Executing Agencies, and to review and monitor the progress of the Project.

3. *Project Office.* The MOHP shall establish a Project Office at Lahan to undertake direct monitoring, logistic supervision and coordination of the Project components. MOHP shall appoint a qualified and experienced administrator, acceptable to the Bank and the Fund as Project Coordinator. The Project Coordinator shall head the Project Office on a full-time basis and shall be directly responsible to the MOHP through the CPCC. The Project Office shall also include, on a full-time basis, a civil engineer, an agriculturist, a surveyor, an accountant, a clerk/administrative assistant, a typist and such other staff as may be required for the successful completion of the Project.

4. *District and Village-Level Implementation.* (a) Actual execution of the individual Project components in the field shall be undertaken by local staff of the participating Ministries, Departments and agencies of the Borrower and ADBN and DDC (as described in Section 4.01(b) of the Loan Agreement), in coordination with the District and Village Panchayats. Each Project Executing Agency responsible for carrying out a Project component in a District shall appoint one qualified and experienced individual to act as Project Officer, on a full-time basis, for the District. Each Project Officer shall be responsible to his respective Project Executing Agency for carrying out the components of the Project assigned to him in his District.

(b) One District Coordinating Committee (DCC) shall be established for each District in the Project Area. Each DCC shall include, *inter alia*, the Chairman of the District Panchayat, the Chief District Officer, the Panchayat and Development Officer, and each Project Officer in the District. The DCCs shall meet as required to supervise and coordinate implementation of the Project components within their respective Districts, in line with the Borrower's District Administration Plan 1975 ("DAP"). The Borrower shall not repeal, amend or suspend the DAP in any manner which, in the reasonable opinion of the Bank or the Fund, will or may adversely affect the Project or the operation of the Project facilities, without the prior approval of the Bank and the Fund. The Borrower shall ensure that the Chief District Officers and Panchayat and Development Officers assigned to the Project Districts have the qualifications and experience necessary to ensure the successful completion of the Project. The Borrower shall ensure that, in case of inter-district development activities, the Zonal Commissioner will have the responsibility to coordinate the work.

II. Operation and Maintenance of Project Facilities

5. *Responsible Entities.* Section 4.01(b) of the Loan Agreement refers to allocation of responsibility for carrying out the different Parts of the Project. Except as the Borrower and the Fund may otherwise agree, however, the responsibility for operation and maintenance of the Project facilities, upon completion of their construction or improvement under the Project, shall be allocated as follows:

- (i) Individual farmers or cooperatives, as appropriate, shall be responsible for Parts C(1)(c), B(2), C(2)(d), C(2)(e), C(3)(d), C(3)(f) and C(4);
- (ii) FDD shall be responsible for Parts C(3)(a), C(3)(b), C(3)(c) and C(3)(e);
- (iii) LD shall be responsible for Parts C(2)(a), C(2)(b) and C(2)(c);
- (iv) DCVI and individual entrepreneurs shall be responsible for Part D(1);
- (v) District-Level Panchayats shall be responsible for Parts C(5) and G(3); and
- (vi) Project Executing Agencies allocated the responsibilities for carrying out the remaining Parts of the Project shall also be responsible for their operation and maintenance.

6. *Budgetary Allocations.* As a step towards meeting the requirements set forth in Section 4.02 of the Loan Agreement (but without in any way limiting those requirements), the Borrower shall provide, on a timely basis, necessary budgetary allocations both during and after implementation of the Project, to provide for:

- (i) Maintenance of all roads and irrigation systems in the Project Area (including roads and irrigation systems constructed or improved under the Project) in accordance with appropriate engineering standards;
- (ii) Supply of seeds, equipment and materials for the horticulture stations and rural service centres in the Project Area;
- (iii) Supply of adequate drugs and medicines for the health and family-planning posts in the Project Area;
- (iv) Supply of adequate spare parts for the vehicles, rig sets, electric generators, veterinary and medical equipment purchased under the Project; and
- (v) Operation and maintenance of the rural markets, the village water-supply systems, and the Lahan Center.

III. *ADB Credit*

7. *Relending Arrangements.* The Borrower shall bear all the foreign exchange risks associated with the relending of the Loan proceeds to ADBN. The Loan proceeds to be made available to ADBN shall be at rates of interest of at least four percent (4%) and eight percent (8%) per annum below the annual rates of interest at which ADBN will make sub-loans to cooperatives, and to individual farmers, entrepreneurs, or groups of farmers, respectively, and shall be repaid over 25 years, including five years of grace.

8. *ADB Sub-Loans.* The Borrower shall ensure that ADBN will comply with the following terms and conditions with respect to sub-loans under the Project:

- (a) Repayment periods for each sub-loan shall not extend beyond six (6) years, including a grace period of eighteen (18) months.
- (b) All individual farmers or farmers' groups, who purchase pumpsets under the Project shall be required to provide from their own resources five percent to twenty percent of the total cost of such items.
- (c) ADBN shall submit to the Bank and the Fund a quarterly statement of all sub-loans in such detail as the Bank and the Fund shall reasonably require.
- (d) All funds accruing to ADBN from the repayment of the principal of sub-loans shall be paid into the existing consolidated Revolving Fund account opened by ADBN pursuant to Sections 2.03 of the Project Agreement dated 29 December 1970 between the Bank and ADBN and the Project Agreement dated 15 May 1974 between the Bank and ADBN, as amended, and, subject to loan service payments under the Subsidiary Loan Agreement, shall be used by ADBN exclusively for its medium-term lending operations.

9. *Additional Inputs.* The Borrower shall ensure that ADBN will provide all additional local currency financing (in the form of credit to participating individual farmers, entrepreneurs, groups of farmers and cooperatives) as required to complete those Parts of the Project for which ADBN is responsible.

IV. *Other Matters*

10. *Staffing of Project Facilities.* The Borrower shall recruit, or cause to be recruited, qualified and experienced individuals, to provide for adequate and qualified staff at all health and family planning posts, the trade school, the Lahan Center, and all other centers and service stations to be provided under the Project in accordance with a detailed staffing schedule to be agreed upon between the Borrower, the Bank and the Fund.

11. *Water Assessment.* Rate structures shall be determined, and mechanisms for collection established, to recover operation and maintenance costs, and a reasonable proportion of the capital costs, of the facilities to be provided under Part A(2) of the Project. The Borrower shall submit proposals as to the rate structures and methods of collection for such water assessment, as well as proposals for the timing of its implementation, to the Bank and the Fund for review and comments within one year of the Effective Date of the Loan Agreement.

12. *AIC Inputs.* The Borrower shall ensure that AIC will provide fertilizers, insecticides and seeds to the relevant Project Executing Agencies, as required and, on adequate terms and conditions, to ensure the successful completion of those components of the Project for which such fertilizers, insecticides and seeds are required.

13. *Cottage and Rural Industries.* The Borrower shall cause DCVI, in cooperation with ADBN, to undertake a study to determine the local resources, skills and marketing prospects for the establishment of cottage and rural industries in the Project Area, and shall discuss the findings of the study with the Bank and the Fund within one year from the Effective Date of the Loan Agreement.
