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A.I.D. Project No. 367-0167

PROJECT GRANT AGREEMENT

BETWEEN

HIS MAJESTY'S GOVERNMENT OF NEPAL

AND THE

UNITED STATES OF AMERICA

FOR THE

SUSTAINABLE INCOME AND RURAL ENTERPRISE PROGRAM

September 14, 1992

Program No. 367-0167

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**Sustainable Income and Rural Enterprise Program
A.I.D. Program No. 367-0167**

Project Grant Agreement

Dated: September 14, 1992

Between

His Majesty's Government of Nepal (hereinafter referred to as "HMG/N");

And

The United States of America, acting through the Agency for International Development (hereinafter referred to as "A.I.D.").

Article 1: The Agreement

The purpose of this Agreement is to set out the understandings of the parties named above ("Parties") with respect to the undertaking by HMG/N of the Program described below, and with respect to the financing of the Program by the Parties.

Article 2: The Program

SECTION 2.1. Definition of Program. The Sustainable Income and Rural Enterprise Program ("SIRE") combines and integrates four activities already under implementation: the Institute of Forestry Project (367-0154), the Rapti Development Project (367-0155), the Forestry Development Project (367-0158), and the Agroenterprise and Technology Systems Project (367-0160), (the "Four Projects"), the amplified project description of which are incorporated by reference. SIRE will concentrate and focus A.I.D. and HMG/N attention and resources toward a single essential objective - increasing rural household incomes. Annex 1, attached, amplifies the above definition of the Program and explains the performance criteria and system to be employed to ensure impacts. Within the limits of the above definition of the Program, elements of the amplified description stated in Annex 1 may be changed by written agreement of the authorized representatives of the Parties named in Section 8.3, without formal amendment of this Agreement.

SECTION 2.2. Incremental Nature of Program

- (a) A.I.D.'s contribution to the Program will be provided in increments, the initial one being made available in accordance with Section 3.1 of this Agreement. Subsequent increments will be subject to availability of funds to A.I.D. for this purpose, and to the mutual agreement of the Parties, at the time of a subsequent increment, to proceed.

- (b) Within the overall Program Assistance Completion Date stated in this Agreement, A.I.D., based upon consultation with HMG/N, may specify in Program Implementation Letters (PILs) appropriate time periods for the utilization of funds granted by A.I.D. under an individual increment of assistance.

Article 3: Financing

SECTION 3.1. The Grant.

- (a) Background. To assist HMG/N to meet the costs and achieve the objectives of carrying out the Program, A.I.D. has been authorized an amount not to exceed Forty-Eight Million Five Hundred Thousand United States (U.S.) Dollars (\$48,500,000). Of this amount, \$35,648,080 has already been granted and obligated under the aforementioned Four Projects. The remaining \$12,851,920 budgeted for the Four Projects will be granted to HMG/N over the life of the subject Program Grant Agreement, subject to the availability of funds to A.I.D. for this purpose and the A.I.D. budget process and to the mutual agreement of the Parties to proceed at the time of each increment. Grant funds obligated under this Agreement may be used to finance foreign exchange costs, as defined in Section 6.1, and local currency costs, as defined in Section 6.2, of goods and services required for the Program.

SECTION 3.2. HMG/N Resources for the Program. HMG/N shall provide or cause to be provided for the Program all funds, in addition to the Grant, and all other resources that may be required to carry out effectively and in a timely manner those portions of the Program involving HMG/N participation.

SECTION 3.3. Program Assistance Completion Date

- (a) The "Program Assistance Completion Date" (PACD), which is May 31, 2002, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Grant will have been performed and all goods financed under the Grant will have been furnished for the Program as contemplated in this Agreement.
- (b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Grant for services performed subsequent to the PACD or for goods furnished for the program, as contemplated in this Agreement, subsequent to the PACD.

- (c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Program Implementation Letters are to be received by A.I.D. or any bank described in Section 7.1 no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D., giving notice in writing to HMG/N, may at any time or times reduce the amount of the Grant by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Program Implementation Letters, were not received before the expiration of said period.

Article 4: Condition Precedent to Disbursement

SECTION 4.1. First Disbursement. Prior to the first disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, HMG/N will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D. statement of the name(s) of the person(s) holding or acting in the office of HMG/N specified in Section 8.2., and of any additional representatives, together with a specimen signature of each person specified in such statement.

SECTION 4.2. Notification

When A.I.D. has determined that the condition precedent specified in Section 4.1. has been met, it will promptly notify HMG/N.

SECTION 4.3. Terminal Dates for condition Precedent. If the condition to the first disbursement specified in Section 4.1. has not been met within 180 days from the date of this Agreement, or such later dates as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to HMG/N.

Article 5: Special Covenants

SECTION 5.1. Program Evaluation. The parties agree to establish an evaluation plan as part of the Program. Except as the Parties otherwise agree in writing, the plan will include, during the implementation of the Program:

- (a) evaluation of progress toward attainment of the objectives of the Program;
- (b) identification and evaluation of problem areas or constraints which may inhibit such attainment:

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- (c) assessment of how such information may be used to help overcome such problems and to allocate resources based on performance; and
- (d) evaluation of the overall development impact of the Program.

Plans for project evaluation are described more fully in Annex 1.

SECTION 5.2. Previous Covenants. The Parties agree that all Special Covenants in the Project Grant Agreements (Article V thereof) of the Four Projects shall be applicable to, and binding under, the subject Agreement.

Article 6: Procurement Source

SECTION 6.1. Foreign Exchange Costs. Disbursements pursuant to Section 7.1. will be used exclusively to finance the costs of goods and services required for the Program having, with respect to goods, their source and origin, and with respect to services, their nationality, in the United States, other countries within A.I.D. Geographic Code 941 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods or services ("Foreign Exchange Costs"), and Nepal, except as A.I.D. may otherwise agree in writing, and except as provided in the Standard Provisions Annex, Section C.1(b) with respect to marine insurance. Ocean transportation costs will be financed under the Grant only on vessels under flag registry of the United States, Nepal, or countries included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing.

SECTION 6.2. Local Currency Costs. Disbursements pursuant to Section 7.2 will be used exclusively to finance the costs of goods and services required for the Program having their source and, except as A.I.D. may otherwise agree in writing, their origin in Nepal ("Local Currency Costs").

Article 7: Disbursement

SECTION 7.1. Disbursement for Foreign Exchange Costs

- (a) After satisfaction of conditions precedent, HMG/N may obtain disbursements of funds under the Grant for the Foreign Exchange Costs of goods or services required for the Program in accordance with the terms of this Agreement, by such of the following methods as may be mutually agreed upon:



- (1) by submitting to A.I.D., with necessary supporting documentation as prescribed in Program Implementation Letters, (a) requests for reimbursement for such goods or services, or, (b) requests for A.I.D. to procure commodities or services on HMG/N's behalf for the Program; or
- (2) by requesting A.I.D. to issue Letters of Commitment for specified amounts directly to one or more contractors or suppliers, committing A.I.D. to pay such contractors or suppliers for such goods or services.
- (3) Banking charges incurred by HMG/N in connection with Letters of Commitment will be financed under the Grant unless HMG/N instructs A.I.D. to the contrary. Such other charges as the Parties may agree to may also be financed under the grant.

SECTION 7.2. Disbursement for Local Currency Costs

- (a) After satisfaction of conditions precedent, HMG/N may obtain disbursements of funds under the Grant for Local Currency Costs required for the Program, in accordance with the terms of this Agreement, by submitting to A.I.D., with necessary supporting documentation as prescribed in Program Implementation Letters, requests to finance such costs.
- (b) The local currency needed for such disbursement may be obtained through acquisition by A.I.D. with U.S. Dollars by purchase. The U.S. Dollar equivalent of the local currency made available hereunder will be, in the case of subsection (a) above, the amount of U.S. Dollars required by A.I.D. to obtain the local currency.

SECTION 7.3. Other Forms of Disbursement. Disbursements of the Grant may also be made through such other means as the Parties may agree to in writing.

SECTION 7.4. Rate of Exchange. Except as may be more specifically provided under Section 7.2., if funds provided under the Grant are introduced into Nepal by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, HMG/N will make such arrangements as may be necessary so that such funds may be converted into the currency of Nepal at the highest rate of exchange which, at the time conversion is made, is not unlawful in Nepal.

Article 3: Miscellaneous

SECTION 8.1. Communications. Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following addresses:

To HMG/N:

Mail and Cable Address:

Secretary or
Joint Secretary
Foreign Aid Division
Ministry of Finance
His Majesty's Government
Bagh Durbar
Kathmandu, Nepal

To A.I.D.:

Mail and Cable Address:

Director
U.S. Agency for International Development
c/o American Embassy
Kathmandu, Nepal

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice.

SECTION 8.2. Representatives. For all purposes relevant to this Agreement, HMG/N will be represented by the individual holding or acting in the office of Secretary or Joint Secretary, Ministry of Finance, and A.I.D. will be represented by the individual holding or acting in the office of Director, USAID/Nepal, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1 to revise elements of the amplified description in Annex 1. The names of the representatives of HMG/N, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

SECTION 8.3. Standard Provisions Annex. A "Standard Provisions Annex" (Annex 2) is attached to and forms part of this Agreement.

IN WITNESS WHEREOF, His Majesty's Government of Nepal and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

On Behalf of His Majesty's
Government of Nepal

On Behalf of the United
States of America

BY: Thakur Nath Pant
Thakur Nath Pant

BY: Julia Chang Bloch
Julia Chang Bloch

TITLE: Secretary
Ministry of Finance

TITLE: Ambassador

BY: Kelly C. Kammerer
Kelly C. Kammerer

TITLE: Director
USAID/Nepal

ANNEX 1: DESCRIPTION OF THE PROGRAM

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ANNEX 1: DESCRIPTION OF THE PROGRAM

I. PROGRAM SUMMARY

A. Background

The agricultural and rural development (ARD) sector is the foundation upon which much needed, sustainable, broad-based income growth in Nepal can be achieved. Rural income growth is essential for rural poverty alleviation and national economic growth. While the sector holds tremendous promise for the future, it also holds sobering concerns. Basic food consumption requirements can no longer be met due to population pressure on limited arable land and on traditional farming systems and practices. With the over-use and mismanagement of forests, this basic source of soil nutrients is being drawn down quickly. Subsistence agriculture doesn't generate sufficient income to pay for, or ensure access to, improved and sustainable technologies and practices. This requires additional farm income derived from commercializing farm products and off-farm employment. It also requires more rural user control over productive resources and greater private participation in extending technologies and services to rural clients. Experience has shown that control over productive assets, together with cash income opportunities found in the market economy, create a favorable environment for financially sustainable farm enterprises and environmentally sustainable production systems.

Since the 1960s, HMG/N and USAID/Nepal have collaborated to support a public agriculture research capacity to help increase agricultural production and to transmit these benefits to the country's two million small farms. That effort has resulted in substantial benefits; today, 60 percent of Nepal's grain land is planted with improved seed. Nevertheless, faced with the dilemma that yields have not continued to increase, USAID and the HMG/N have recognized that the production-led, grain-based and public-managed agricultural development strategy of the past is not sufficient to achieve the productivity, employment and income growth the country needs. USAID also shares HMG/N concerns for lessening reliance on the public sector and on donor aid for growth. With democracy comes an opportunity to broaden and deepen organized producer, private firm and community participation and investment in sector development.

A significant conclusion from this experience and supporting analyses, is that an ARD growth strategy must be income oriented and therefore has to be:

- Market-led;
- Private sector driven; and

- Built upon farmers', rural groups' and agroenterprises' control over productive assets and access to appropriate technologies and market opportunities.

B. Project Description

The Sustainable Income and Rural Enterprise (SIRE) program will be initiated by combining and integrating four HMG/N-USAID activities already under implementation: the Institute of Forestry Project (367-0154), the Rapti Development Project (367-0155), the Forestry Development Project (367-0158), and the Agroenterprise and Technology Systems Project (367-0160). SIRE will serve the purpose of concentrating and focusing these and future activities on the achievement of a single essential objective - increasing rural household incomes - over the ten-year life-of-program.

For this, SIRE subsumes the combined authorized life of project (LOP) funding of the above mentioned four projects (\$48.5 million). The \$12.852 million remaining unobligated from those previously authorized LOPs will be obligated into SIRE. These funds will then be allocated to the constituent program activities based on the original project intent, and justified by focused annual workplans, corresponding budgets and measurable standards of performance. No new funding is currently proposed for authorization under SIRE. However, USAID will actively consider increasing SIRE program funding for new jointly agreed upon activities, subject to overall program performance and the availability of funds.

C. Program Objective and Outcomes

Program Objective: to increase rural household incomes through sustainable private sector agriculture and forestry enterprise.

A successful program will result in specific development outcomes:

Program Outcomes

- Sustained increases in private sector sales of cash crop products;
- Private control and sustainable management of farm and forest resources; and
- Supportive agricultural and forestry policy and regulatory reforms defined and implemented.

The SIRE Program will also strengthen the management of combined HMG/N and USAID assistance through procedural improvements.

Procedural Improvements

- A clearer concentration of scarce HMG/N and USAID resources upon a single high priority objective and supporting program outcomes;
- A unified, agreed upon management framework within which all program activities will operate, be functionally linked and be evaluated;
- Specific performance-based indicators and benchmarks against which progress will be regularly measured;
- Shared HMG/USAID criteria and procedures which will allow resource shifts from poor performing to strong performing activities;
- Simplified and more flexible procedures for changing or adding program activities in response to lessons learned and evolving opportunities.

Project technical analyses done for each of the activities subsumed under SIRE are still valid and are incorporated by reference. Any new activities proposed for funding under SIRE will require appropriate activity-specific analyses. The combined authorized amounts, by expenditure element, for SIRE are presented below.

Table I.A.

**SUMMARY OF AID INPUTS
(\$000)**

PROGRAM INPUTS	LOP
Long-Term TA	11,081
Short-Term TA	2,602
Special Studies	2,692
Training	4,139
Commodities	2,988
Non-Government Organization Support	4,202
Local Support	15,309
Monitoring, Evaluation and Audits	1,164
Contingency/Inflation	<u>4,323</u>
PROGRAM TOTAL	48,500

II. STRATEGIC PROGRAM APPROACH

A. An Income Strategy

Market-oriented private initiatives, investments and incentives are vital to achieving income growth through agriculture. Working with public and private Nepali organizations, USAID/Nepal has supported analytical work and broad discussions over recent years focusing on critical, but poorly understood issues of marketing and the role of private agroenterprise in stimulating agro-based growth and incomes. The clear conclusion of these extensive analyses and discussions is that a commercially focused agricultural growth strategy for Nepal must:

- Be market-led and demand-driven;
- Be carried out by private sector agroenterprises (i.e. producer groups, associations, cooperatives, firms, industries); and
- Expand the control of farmers, rural groups and agroenterprises over productive assets and access to appropriate technologies and market opportunities.

Given these principles, USAID shares Nepali public and private sector interest in an agricultural growth strategy built around Nepal's comparative advantages vested in its enormous agroecological diversity (from tropical to alpine) and its proximity to vast markets in India and the region. While the strategy must promote steady medium-term growth in foodgrain productivity, this must be coupled with medium- to long-term expansion of market-oriented and income generating cash crops. Lowland grain productivity and production must increase, but so too must incomes, especially in food deficit areas. Increased emphasis on income generating cash crops within farming systems is needed wherever there are accessible domestic or foreign market opportunities.

Private sector agroenterprises, as defined broadly above, are best at linking producers with markets, market services and the flow of technologies required. They help farmers to increase the quantity and improve the quality of their products and to provide goods at the time of peak market demand. They help to add value and generate employment through agro-processing and send a ripple effect through the entire economy. To support this growth strategy, a major contribution of government is needed to improve infrastructure and to adopt stable and conducive economic and trade policies and regulations. In Nepal, where the

agroenterprise sub-sector is still in very early stages, public sector support for technology development and adaptation is also important, to the extent it genuinely responds to the interests of commercially-oriented farmers and agroenterprises. At the same time, essential government services must become more cost effective and broaden their sources of financial support.

Furthermore, the availability of cash income from market opportunities, coupled with control of essential forest and other productive assets, allows farmers to obtain and reinvest in soil nutrients and other productive technologies. There is a strong link between income, asset ownership and farm and resource productivity.

In the proposed agricultural strategy for the HMG/N's 8th Five-Year Plan emphasis is placed on market-oriented, commercial production for import substitution and export and on the role of private agroenterprise in input supply and market activities. The turnover of productive forest and irrigation assets to private and community stewardship is already being legislated and implemented.

Therefore, HMG/N and USAID/N have strong mutual interests in, and a shared commitment to, income growth through strategic market-oriented ARD sector development.

B. A Program Approach

A successful SIRE Program will support the implementation of shared HMG/N and USAID strategic aims over the ten-year life-of-program. This program approach will result in:

- Concentration of scarce USAID and HMG/N resources on a single high priority objective;
- A unified framework linking program objective, program outcomes, enabling conditions and performance standards;
- More effective integration of USAID and HMG/N interests, assistance and program activities, including: better analysis and attention to financial sustainability and other cross-cutting issues; improved donor coordination; better coordination and complementarity among related elements in different activities; and improved identification, and resolution of, systemic and/or policy issues;
- Specific activity-level performance benchmarks which allow progress against program indicators and outcomes to be regularly assessed;

- An active joint USAID/HMG Program Steering Committee which will annually review progress of the program and individual activities and allocate program resources for the following year. The committee review mechanism will consider and determined program resource shifts from poor performers to strong performers; and
- Less cumbersome, more responsive procedures for amending the program and its activities, making annual obligations and responding to a changing program environment.

The program approach allows the responsible executing agencies to focus on critical implementation details, but also puts all parties on notice that they are accountable for results and impacts.

C. Program Logical Framework Narrative

The SIRE program will combine and integrate four previously designed and formally agreed upon ARD activities: the Institute of Forestry (367-0154), Rapti Development (367-0155), Forestry Development Project (367-0158), and Agroenterprise and Technology Systems (367-0160) projects. The guiding structure for SIRE is illustrated in Figure II.A., Program Framework, and in the Program Logframe, Annex A.

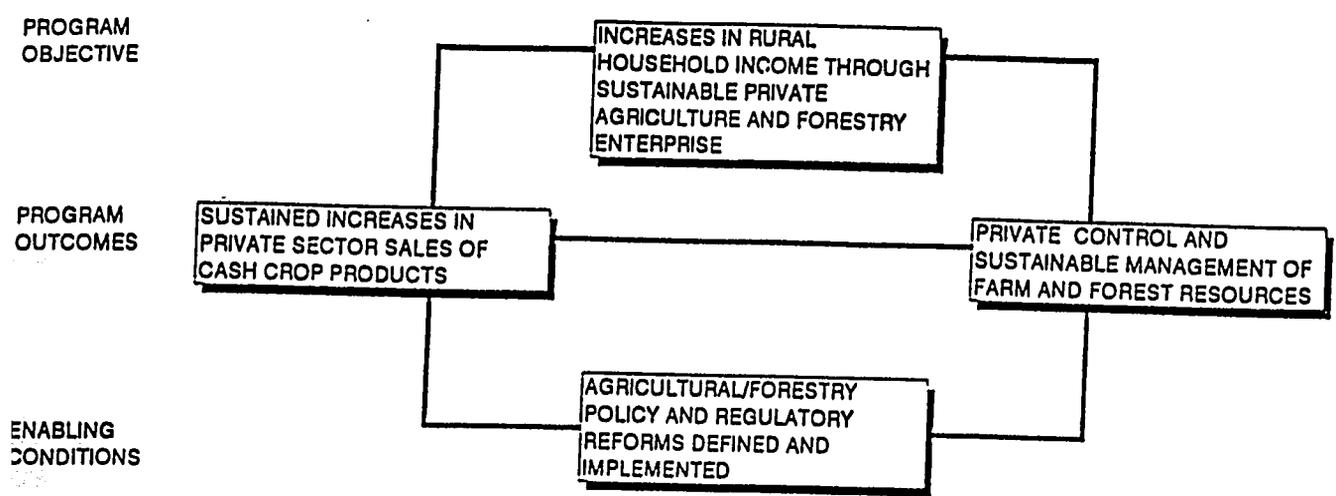
The SIRE Program Objective is:

to increase rural household incomes through sustainable private sector agriculture and forestry enterprise.

This statement reflects a broader USAID Mission objective of "increasing private sector contribution to income growth" while stressing people-level impacts. The objective recognizes a wide array of private sector players and functions associated with agriculture and forestry inputs, production, marketing, processing, storage, distribution and export. While the primary and ultimate beneficiary of the program is the rural household, the program is also intended to improve the efficiency and responsiveness of small, medium and large scale agribusinesses, even though, in some instances, their operations and owners may be located in urban areas. The well-being of farm enterprises and agribusinesses are inextricably linked.

Measurable indicators of objective achievement are defined below.

PROGRAM FRAMEWORK FOR ACTIVITIES IN AGRICULTURE AND RURAL DEVELOPMENT



(ALL USAID SUPPORTED ACTIVITIES IN THE ARD SECTOR MUST DIRECTLY PROMOTE THE PROGRAM OUTCOMES OR 'ENABLING CONDITIONS')

The Program Objective will be considered met when:

- 1) Rural household cash incomes in Rapti Zone have increased 100% in real terms, above the 1979 baseline figure of Rs.1798;
- 2) Household income generated from participation in selected agroenterprise projects has increased by no less than 25% within three years from said project initiation; and
- 3) Broad-based rural household cash incomes, as determined by the Multi-Purpose Household Budget Survey (Nepal Rastra Bank), have increased to Rs.32,000 from the 1985 base of rupees 5,500.

It is recognized that increasing the incomes of all rural households in Nepal is not fully "within the manageable interest" of the SIRE program. Consequently, the Program Objective will be promoted and measured most intensively in those geographic and program areas where USAID assistance is directly involved. Other important areas of program concern, such as policy and regulatory reform, will have broader ranging multiplier effects and should contribute to improved incomes and welfare, though progress may not be easily measurable nationally or easily attributed to this program. Still, as policy and other enabling conditions take hold, and complementary HMG/N and other donor assistance continues, measurable improvement should appear over time.

Generally speaking, achievement of the Program Outcomes gives an indication that the Program Objective is being achieved. For SIRE, there are three primary Program Outcomes:

- Sustained increases in private sector sales of cash crop products;
- Private control and sustainable management of farm and forest resources; and
- Agricultural and forestry policy and regulatory reforms defined and implemented.

In the Program Framework on the previous page, policy and regulatory steps are presented as "Enabling Conditions" to emphasize the causal relationship between the actions incorporated in that outcome and the other two outcomes. The outcomes and measures discussed below for the sector-level program are not an exhaustive list of "outputs" or "End of

Project Status" indicators for the component activities, but rather emphasize those that are critical to achieving the Program Objective. Indicators express important and useful measures of progress and trend for each Program Outcome but shouldn't be viewed as immutable targets. They may be fine-tuned, added or dropped as experience with SIRE so warrants. Individual activities under the SIRE program will establish their own specific performance benchmarks in conjunction with their annual work plans and budgets.

While all four original activities brought under SIRE directly contribute to the Program Objective and/or the Program Outcomes, each activity may not necessarily contribute to all objectives and outcomes. The areas of emphasis within each on-going activity which contribute most to SIRE objectives are illustrated in Section D. below.

1. Private Sector Sales

The indicators for sustained increases in private sector sales of cash crop products reflect an ongoing structural transformation of Nepal's economy, from subsistence farming to market agriculture. They also acknowledge the critical role of private initiatives and investments (rather than government programs) as the leading engine of growth. The focus on cash sales is a proxy for the general health of the market economy. Farmers and households which stay engaged in subsistence agriculture may also benefit from SIRE, but those benefits will not be measured. Specific measures of private sector sales are:

- a. Average cash sales of market-oriented farmers in Rapti Zone increase from Rs.3,500 in 1991 to Rs.10,000 in 1995;
- b. Cash generating commercial functions performed by public forest entities, such as nurseries, planting, tree cutting, milling, transport and sale of forest products, are transferred to the private sector; and
- c. Cash sales of specific firms assisted by the Agroenterprise Center increase by at least 25% as a result of AEC assistance.

2. Private Control and Sustainable Management

As the experience of the last three decades has sadly demonstrated, without sufficient private control over productive resources, there is insufficient incentive to invest in and

sustainably manage these. Conversely, given adequate control, resource users (including women) are likely to manage farm and forest resources so as to maximize their long-term economic welfare. Appropriate management practices, in turn, contribute to increased productivity (both for cash sales and domestic consumption) and to increased household incomes and improved welfare. Indicators of progress achieving this program outcome are:

- a. The number of private forest user groups registered increases from 806 in 1991 to 5000 in 1997.
- b. At least 250,000 hectares of government forest will be turned over to community forests by 1997.
- c. All new IOF graduates are qualified to advise farmers and communities on productive and sustainable forest and farm management practices by 1994.
- d. At least 15 percent of all new IOF graduates will be women.
- e. Farmers and communities are utilizing more sustainable management practices in turn-over areas as measured by biomass and other studies.

3. Policy and Regulatory Improvements

As noted above, this outcome is labeled "enabling conditions" because its components are considered so essential to other favorable outcomes in the sector. These measures must occur before farmers and other agro- or forest-based enterprises will have adequate incentive and support to invest their labor and capital in higher yielding, more competitive and more financially and environmentally sustainable practices. The indicators include specific policy and regulatory improvements as well as organizational reform or strengthening. While many of the indicators of this outcome (especially d, e, f and h below), are tied directly to the four on-going activities, all of these, and others, can be addressed through the broader sectoral focus and presence afforded by SIRE. The following specific indicators towards which tangible evidence of progress on policy and regulatory reform is expected are:

- a. Private fertilizer dealers distribute at least 50% of all chemical fertilizers by 1994.
- b. Dairy and vegetable seed industries and tree nurseries are fully privatized by 1998.

- c. Procedures are simplified and expedited for export of agro-based products and for import of agro-industry inputs by 1994.
- d. The National Agricultural Research Center (NARC) is decentralized, operating autonomously, initiates fee for services and places the priorities of private commercial farmers and agro-enterprises on station research agendas by 1994.
- e. FNCCI operating a self-financing marketing and technical service center reaching agroenterprises throughout Nepal by 1995.
- f. No less than 10 percent of the enterprises assisted by AEC will be women owned/managed by 1995.
- g. Legislation and regulations to turn over management of state-owned forests to private user groups is enacted by 1993.
- h. Legislation and regulations turning over state-run irrigation to user groups are enacted by 1993.
- i. The IOF curriculum is revised to include community and private user oriented courses and its administrative system is strengthened and made more financially sustainable by 1995.
- j. The practice of fee for service, cost recovery and other means of resource mobilization is incorporated into all program entities no later than 1996.

It is expected that additional policy and institutional reform indicators will emerge from the dialogue and experience gained in implementing the SIRE program.

D. Strategic Areas of Emphasis

Just as activities within SIRE are not necessarily linked with each program outcome, so too, only major elements of the four on-going activities are considered critical to the successful achievement of the Program Objective. All new activities added to SIRE will, of course, be closely linked to Program Objective and Program Outcome achievement. Each of the initial component activities under SIRE is shown below with its associated strategic areas of emphasis which best support the achievement of the Program Objective.

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RAPTI DEVELOPMENT PROJECT

- Increased household incomes from expanded market-oriented activities.
- Increased production, marketing and sales of cash crops.
- Increased private and community ownership, and improved management of, productive forest and farm resources.
- Increased private distribution and sales of production inputs and marketing services, e.g. tree seedlings, fertilizer, vegetable seeds.

AGROENTERPRISE AND TECHNOLOGY SYSTEMS

- Strengthened private sector role in expanding markets for rural products and improving rural incomes.
- Public agricultural research system more responsive and accountable to needs of market-oriented farmers and agroenterprises in station command areas.
- Public agricultural research system more cost-effective, decentralized and autonomously managed.

FORESTRY DEVELOPMENT PROJECT

- Policies and programs resulting in increased forest user group management of community forest lands.
- Greater private sector role in supplying market with forest products.

INSTITUTE OF FORESTRY

- Graduates trained to better advise on and work with community forestry and private resource management.
- IOF curriculum incorporates community and private forest management.
- IOF administrative system strengthened and more financially sustainable.

E. Core Program Functions

To underline the Program rationale discussed above, the operation of SIRE will not call for creation of a new institution or require separate commodities, training or long-term technical assistance. Rather, it will manage existing and new activity resources to provide both more focused and more flexible financial arrangements, greater project integration and impact, and increased program accountability for results. By combining sectoral resources that have already been authorized and obligated and, by looking at the separate activities integrally, SIRE will more effectively utilize USAID and HMG/N resources in the sector. However, through the program-level approach, several new core functions will be performed. They include:

- A strengthened and more carefully managed monitoring and evaluation plan which is performance based and encompasses key elements of the original four activities, any new activities, as well as important actions not currently falling under any specific activity;

- Sectoral and cross-sectoral analyses, syntheses and pilot-studies important to better orienting program implementation, policy dialogue and strategy approaches; and
- Design of new program activities in the agriculture and rural development sector.

To the extent resources are required to support core functions, these may be drawn from the uncommitted amounts in the appropriate line items of the composite program budget (see Figure III.B. below).

III. FINANCIAL PLAN

Program inputs are presented in Table III.A., SIRE Program Summary. Current HMG/N contributions are estimated at \$17.7 million, or approximately 27 percent of the program total. These inputs are based entirely on the current budgets for the four separate program activities. Also, it should be reiterated that authorization and obligation of SIRE does not, at this time, provide additional funding beyond the \$48.5 million which has already been authorized by A.I.D. in the separate activity authorizations. It is anticipated that the balance of \$12.852 million, representing the difference between the sum of the amounts originally authorized and all previous obligations, will be obligated in the SIRE Program Agreement during FY 93 and in subsequent fiscal years.

USAID anticipates augmenting program funding over the life of program at levels roughly equivalent to those of recent years. Any future increases to the program budget would be reviewed and approved by HMG/N and USAID.

The financial disbursement and the management processes and procedures currently in place for the four individual activities incorporated into SIRE will remain unchanged. USAID'S Office of Financial Management will review all program accounts on a periodic basis. The funding previously allocated (but remaining uncommitted) for external (non-federal) audits continues to be available under SIRE.

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Table III.A.

SIRE PROGRAM SUMMARY
(\$000)

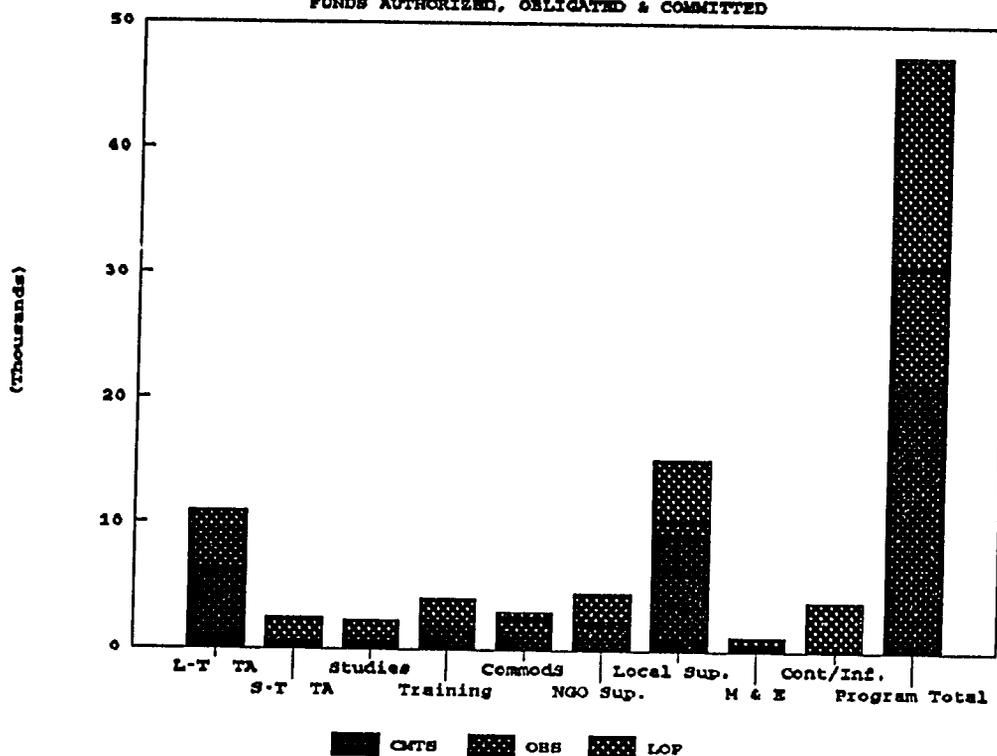
PROGRAM INPUTS	AID/LOP	HMG/N	TOTAL
Technical Assistance (TA)	11,081	0	11,081
Short-term TA	2,602	0	2,602
Special Studies	2,692	0	2,692
Training	4,139	119	4,258
Commodities	2,988	0	2,988
NGO Support	4,202	545	4,747
Local Support (HMG/N)	15,309	16,655	31,964
Monitoring, Eval. & Audit	1,164	0	1,164
Contingency/Inflation	4,323	357	4,680
Program Total	48,500	17,676	66,176

The budgeting process, however, will be modified. Starting from the overall program outcomes and performance indicators prescribed by the Program, the activity implementing agencies, contractors/grantees and USAID activity managers will propose annual progress benchmarks, work plans and corresponding budgets. These proposed plans, budgets and benchmarks will be reviewed by the Program Steering Committee and be approved by Project Implementation Letter (PIL) prior to the final allocation of annual program funds. The SIRE program outcomes and indicators strongly emphasize certain aspects of the particular activities and, by omission, de-emphasize others. This shift of emphasis, by implication, suggests that there may also be some shifts within the individual activity budgets. SIRE will allow funds to be shifted within and between activities and between program budget elements subject to approval by PIL.

For the combined \$48.5 million program, Figure III.B. illustrates, by budget line item, the funds currently authorized, obligated and committed. A so called "core" budget represents all funds obligated but not committed. Each successive increase in the obligated amount will be distributed according to the line items of the core budget. Those funds obligated into core can then be committed via PILs and contracting instruments to support specific activities and Program requirements.

FIGURE III.B.

FUNDS AUTHORIZED, OBLIGATED & COMMITTED



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IV. IMPLEMENTATION PLAN

A. Roles and Responsibilities

The roles and responsibilities of the various ministries, implementing agencies, contractors, grantees and USAID project managers will remain essentially as currently outlined in the Implementation Plans of individual Project Papers. The primary difference under SIRE is that all parties' attention and efforts will be more focused on the high priority Program Objective and Program Outcomes discussed in Part II of this Annex. Correspondingly, the basic responsibility of the key actors who oversee the SIRE program (see below) will be to keep those activities and outcomes impact-focused, to allocate program resources in accordance with performance, and to facilitate actions which are essential to progress, but outside the direct control of, the implementing ministries/agencies. The intention is to make program management better by making it more efficient and timely. The following section outlines the program-specific responsibilities of the various actors.

1. The Program Steering Committee

The Steering Committee will be chaired by the National Planning Commission. The NPC has broad oversight responsibilities for the program areas and the authority to task other line agencies to produce agreed upon outcomes. To assist the NPC in discharging its responsibilities, the SIRE Program Steering Committee will consist of representatives from the Ministry of Finance, the Ministry of Agriculture, the Ministry of Forests and Environment, the Ministry of Local Development and USAID. Other interested parties may be included as issues dictate. The Steering Committee will be chaired by the NPC representative in close coordination with the MOF and USAID/Nepal representatives. It will meet at least twice a year and will advise the Ministers and/or Secretaries of Finance, Agriculture, and Forests and Environment on program progress at least once a year. The Program Steering Committee will:

- a. Review program progress on a semi-annual basis in conjunction with the semi-annual progress reports prepared by the individual activities. Since the SIRE program does not focus on all the details of each of the separate activities, the semi-annual reports will highlight information of most concern to the Steering Committee. The Committee will note any discrepancies between planned benchmarks and the progress actually achieved and make recommendations for accelerating progress in the upcoming six-month period.

- b. Review and approve the annual progress benchmarks, workplans and budgets proposed by the individual activities, making such changes (in collaboration with the implementing entities) as may be needed to maintain satisfactory progress towards overall program objectives. On the basis of those reviews, approvals and modifications, the Steering Committee will draw up a unified program workplan of the related agencies, with benchmarks and budgets, including agreed upon amounts in support of core program functions.
 - c. Allocate program resources based on the review of progress, workplans, benchmarks and budgets.
 - d. Facilitate progress by adding the "good offices" of the Steering Committee to the efforts of those implementing the individual activities.
2. Implementing Agencies and Technical Assistance Contractors and Grantees

The specific functions of implementing agencies, contractors and grantees under the SIRE program will remain fundamentally unchanged from their current responsibilities. The primary difference under SIRE is that their joint attention and efforts will be more focused on high priority program objectives. In practice, activity directors, chiefs of party and all long-term advisors will be more involved in cooperating with their counterparts in ensuring that meaningful annual progress benchmarks (including policy and institutional steps) for their activities are developed and then achieved.

Other practical changes for implementing entities, contractors and grantees under the SIRE program are:

- a. A requirement that the annual performance benchmarks, workplans and budgets for each of the activities incorporate and/or emphasize the program outcomes and indicators that pertain to that activity; and
- b. Semi-annual progress reports will emphasize these priority outcomes and benchmarks including: progress to date, a comparison of that progress to the planned achievements during the period, a discussion of problems encountered, and a action proposal for dealing with those problems over the next reporting period.

3. USAID/NEPAL

The Chief of USAID's Office of Agriculture and Rural Development (or his/her designee) will serve as Program Officer for SIRE. In collaboration with the Secretary of the Ministry of Finance (or his designee), the Program Officer will monitor progress and provide regular oversight for high priority objectives of the program. The Program Officer will be a permanent member of the Program Steering Committee, participating in all progress reviews and resource allocation exercises. The Program Officer will also propose the use of core funds in support of program functions not associated with any specific activity. The Program Officer will maintain and lead, as necessary, policy discussions with HMG/N and other donor representatives on important program related issues.

The SIRE Program Officer will generally guide and depend on a team of USAID professional staff. They will be responsible for overseeing sound activity implementation, regular program monitoring and management.

B. Implementation Schedule

The program assistance completion date (PACD) for this ten year project is fixed as May 31, 2002. The PACDs for the existing activities are:

Institute of Forestry	July 15, 1995
Rapti Development	July 31, 1995
Forestry Development	August 30, 1995
Agroenterprise and Technology Systems	September 30, 1996

New activities may be designed to extend for any length of time up to the Program PACD. However, unless an extension to the program PACD is mutually agreed upon by the HMG/N and USAID, and approved by AID/W, no activity may be authorized with an individual PACD which extends beyond that date.

For the current year of the program, individual activities will continue as planned and without interruption. Implementation schedules for those activities are found in the individual activity documents.

An Illustrative Program Implementation Schedule is found in Table IV.A. and the Annual Program Cycle is illustrated in Figure IV.B.

SIRE ANNUAL PROGRAM CYCLE

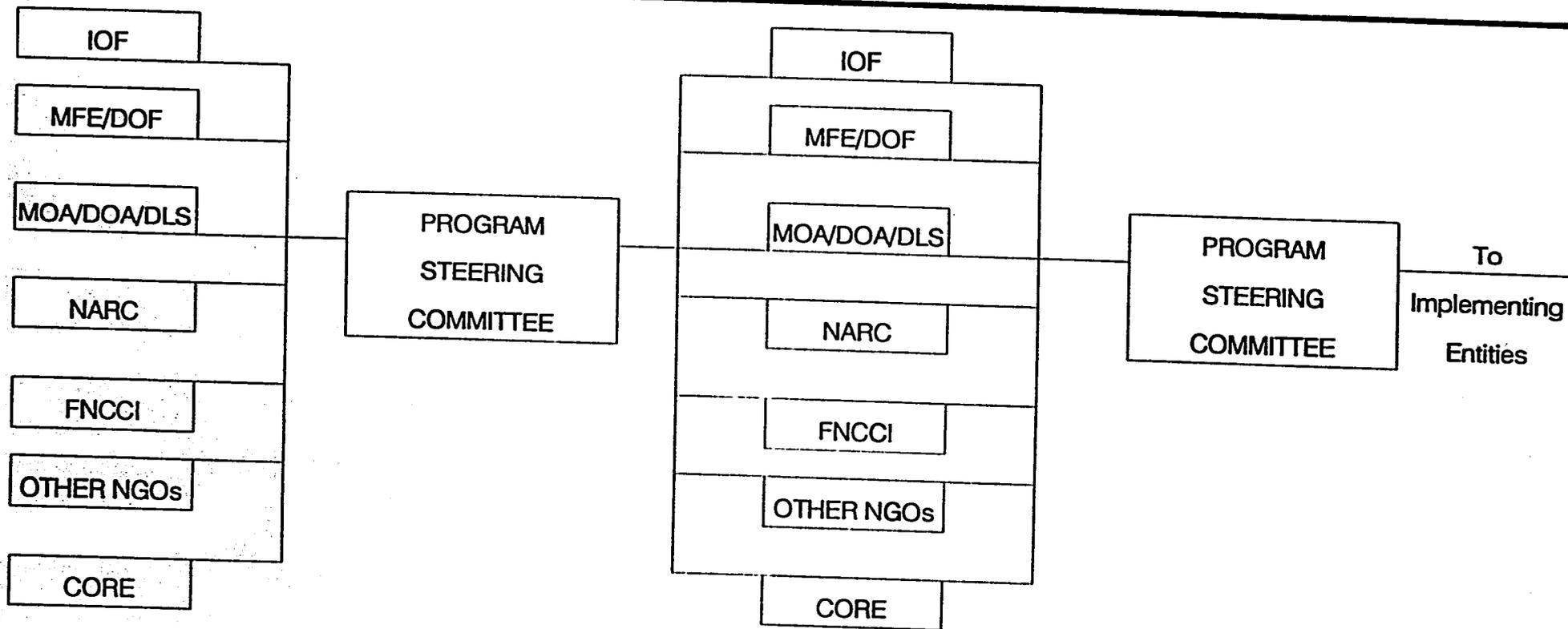
FIGURE IV.B.

Implementing agencies implementing activities.

Semi-Annual Review -- Progress Report and Recommendations Issued

Implementing agencies implementing activities. Annual Progress Benchmarks Workplans and Budgets Proposed

Review and Finalize Workplans, Benchmarks & Budgets -- PIL Issued and Counter- signed / Resource allocation



MONTH

AUGUST

FEBRUARY

V. DESIGN AND AUTHORIZATION OF FUTURE ACTIVITIES

New activities proposed for incorporation into SIRE must first demonstrate that they clearly fit within the overarching program framework and directly promote the Program Objective, Program Outcomes and/or Enabling Conditions described earlier above. With that additional condition, new activities will go through a design and approval process similar to, but more abbreviated than, A.I.D.'s current PID and Project Paper process.

The documentation for each new activity will have to clearly describe how the project fits within the SIRE program structure and how it promotes the higher level program objectives. It will also have to fit within operational components such as the monitoring and evaluation plan. New activities will undergo the same process of analysis and discussion with HMG/N required of Project Papers.

New activities will be authorized through an amendment to the SIRE Program Agreement and obligated by an amendment to the Program Agreement. The authorization and obligation amounts will increase the LOP program levels by the amount planned for the new activity. Any completed and fully disbursed activities, and their corresponding budget amounts, will be dropped from the Program. New activities will be implemented through grants, cooperative agreements, contracts and other methods as appropriate.

No activity will be authorized with a PACD which extends beyond the ten-year SIRE program PACD. At such point where a program PACD extension is required to incorporate a new or extended activity, concurrence for that extension will be requested from the AID/Washington.

VI. MONITORING AND EVALUATION PLAN

Each of the four activities being subsumed under SIRE has developed its own monitoring and evaluation plan suited to its own unique needs. Those plans and systems will continue substantially as originally detailed in respective Project Papers and revised M&E Plans. SIRE's M&E Plan focuses on impact-level questions and is based on Program Performance Indicators tailored specifically to SIRE during program design.

The primary purposes of the M&E Plan are to determine whether the program approach is reasonable and whether adequate progress is being maintained towards achieving Program Outcomes and the

Program Objective. -- Monitoring requires analyzing information to track program accomplishments and to identify problems or "bottlenecks." A second purpose of the monitoring is to collect relevant information needed for periodic reports required by the HMG/N, USAID, and AID/W. -- Evaluations aim to provide information about program impact at the outcome and program objective levels.

To a significant extent, strengthened and more carefully managed monitoring and evaluation are major aims of the program.

The emphasis of the plan is on routine and ad hoc information collection provided by program implementing agencies and clients rather than intensive periodic evaluations. An illustrative list of the key questions to be addressed is contained in the Program Paper.

Primary responsibility for program monitoring and evaluation will rest with the SIRE Program Officer in cooperation with members of the Steering Committee. He/she will prepare and present a M&E plan for Steering Committee approval. The plan will stress the value of gender disaggregated data and address how to obtain it to the extent practicable.

On a semi-annual basis, the SIRE Steering Committee will assess specific progress being made, the major problems impeding progress, and suggest corrective actions. If special studies have been performed by the program or activities during the review period, their results will also be included in the semi-annual reviews.

One interim evaluation will be held in FY 95 and a second in FY 98 (subject to Steering Committee review). The principal purpose of these evaluations are to examine whether the program process and mechanisms are valid, whether progress towards Program Outcomes and Program Objectives is satisfactory, and what modifications might be made to make program implementation more effective and efficient. The purpose of the final evaluation will be to determine to what extent the Outcomes and Program Objectives have been achieved and what the program's impact has been. Evaluations conducted for the separate activities may be very helpful to the overall program evaluations.

Short-term assistance will be required for the formal evaluations as well as for any special monitoring or evaluation studies which may be required program.

VII. PROGRAM INITIATION

Once the Program Agreement is signed with the Ministry of Finance, a Program Implementation Letter (PIL) No. 1 will be drafted, referencing the Program Agreement, and countersigned by all the implementing agencies. This PIL will formally link the four existing projects to the objectives and implementation approach of SIRE. Following submission of annual workplans, budgets and benchmarks by the implementing agencies and review and allocation by the Program Steering Committee, another PIL will be drafted and countersigned clearly delineating the workplans, budgets and benchmarks for the individual activities as well as the overall program. Formal amendments to the program agreement would be drafted when new activities are added or when significant modifications are proposed for the Program Objective, Program Outcomes or budget.