

PD-ABA-148

Loan and Grant Agreements

FM/LMD (if Loan)

FM/PAFD

FM/CAD

GC/ANE

ANE/Desk

ANE/TR Officer

ANE/PD Officer & File

PFC/CDIE/DI ✓

A.I.D. Project No. 367-0158

PROJECT GRANT AGREEMENT

BETWEEN

HIS MAJESTY'S GOVERNMENT OF NEPAL

AND THE

UNITED STATES OF AMERICA

FOR THE

FORESTRY DEVELOPMENT PROJECT

Project No. 367-0158 Grant Agreement

TABLE OF CONTENTS

	<u>Page</u>
Article 1: The Agreement.....	1
Article 2: The Project.....	1
SECTION 2.1. Definition of Project.....	1
SECTION 2.2. Incremental Nature of Project.....	1
Article 3: Financing.....	2
SECTION 3.1. The Grant.....	2
SECTION 3.2. HMG/N Resources for the Project.....	2
SECTION 3.3. Project Assistance Completion Date.....	2
Article 4: Conditions Precedent to Disbursement.....	3
SECTION 4.1. First Disbursement.....	3
SECTION 4.2. Additional Disbursements.....	3
SECTION 4.3. Notification.....	4
SECTION 4.4. Terminal Dates for Conditions Precedent.....	4
Article 5: Special Covenants.....	4
SECTION 5.1. Project Evaluation.....	4
SECTION 5.2. Project Covenants.....	4
SECTION 5.3. Procurement Method and Utilization.....	5
SECTION 5.4. Establishment and Use of Special Account....	6
SECTION 5.5. Local Currency Committee.....	6
SECTION 5.6. Grant Exempt from Contract Tax.....	6
SECTION 5.7. Project Funded Trainees.....	6
Article 6: Procurement Source.....	7
SECTION 6.1. Foreign Exchange Costs.....	7
SECTION 6.2. Local Currency Costs.....	7
Article 7: Disbursement.....	7
SECTION 7.1. Disbursement for Foreign Exchange Costs.....	7
SECTION 7.2. Disbursement for Local Currency Costs.....	8
SECTION 7.3. Other Forms of Disbursement.....	8
SECTION 7.4. Rate of Exchange.....	8
Article 8: Miscellaneous.....	8
SECTION 8.1. Communications.....	8
SECTION 8.2. Representatives.....	9
SECTION 8.3. Standard Provisions Annex.....	9
Annex 1: Amplified Project Description	
Annex 2: Project Grant Standard Provisions Annex	

Project Grant Standard Provisions Annex
Table of Contents

Article A: Project Implementation Letters

Article B: General Covenants

SECTION B.1. Consultation
SECTION B.2. Execution of Project
SECTION B.3. Utilization of Goods and Services
SECTION B.4. Taxation
SECTION B.5. Reports, Records, Inspections, Audits
SECTION B.6. Completeness of Information
SECTION B.7. Other Payments
SECTION B.8. Information and Marking

Article C: Procurement Provisions

SECTION C.1. Special Rules
SECTION C.2. Eligibility Date
SECTION C.3. Plans, Specifications, and Contracts
SECTION C.4. Reasonable Price
SECTION C.5. Notification to Potential Suppliers
SECTION C.6. Shipping
SECTION C.7. Insurance
SECTION C.8. U.S. Government-Owned Excess Property

Article D: Termination; Remedies

SECTION D.1. Termination
SECTION D.2. Refunds
SECTION D.3. Nonwaiver of Remedies
SECTION D.4. Assignment

Project Grant Agreement

Dated: September 15, 1989

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 Project described below, and with respect to the financing of the Project by the Parties.

Article 2: The Project

SECTION 2.1. Definition of Project.

The Project, which is further described in Annex 1, will assist HMG/N to increase the productivity and sustainability of forestry production systems in Nepal by strengthening the institutional and financial capacity of HMG/N to implement programs described in the Forestry Sector Master Plan and by increasing nationwide usage of improved stove models. Budget support for implementation of the Forestry Sector Master Plan will be provided through local currency generated from kerosene imports financed under the Project.

Annex 1, attached, amplifies the above definition of the Project. Within the limits of the above definition of the Project, 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 8.2, without formal amendment of this Agreement.

SECTION 2.2 Incremental Nature of Project.

(a) A.I.D.'s contribution to the Project, which is planned at Eight Million Dollars (\$8,000,000), will be provided in increments. The initial increment will be 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 Project Assistance Completion Date stated in this Agreement, A.I.D., based upon consultation with HMG/N, may specify in Project 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.

To assist HMG/N to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant HMG/N as the first increment under the terms of this Agreement not to exceed Three Million Eight Hundred Fifty Thousand U.S. dollars (\$3,850,000) (the "Grant"). The Grant 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 Project.

SECTION 3.2. HMG/N Resources for the Project.

(a) HMG/N agrees to provide or cause to be provided for the Project all funds, in addition to the Grant, and all other resources required to carry out the Project effectively and in a timely manner.

(b) The resources provided by HMG/N over the life of the project, including costs borne on an "in-kind" basis, are planned to be approximately Nineteen Million Nine Hundred Eleven Thousand Nepali Rupees (NRs.19,911,000), the equivalent of approximately Seven Hundred Thirty Two Thousand U.S. Dollar (\$732,000) or 8 percent of total estimated project costs.

SECTION 3.3. Project Assistance Completion Date.

(a) The "Project Assistance Completion Date" (PACD), which is August 30, 1995, 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 Project as contemplated in this Agreement.

(b) Except as A.I.D. and HMG/N 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 project, as contemplated in this Agreement, subsequent to the PACD.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project 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 Project Implementation Letters, were not received before the expiration of said period.

Article 4: Conditions 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.:

(a) a 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;

(b) a solicitation document for procurement of kerosene by HMG/N which complies with applicable A.I.D. requirements.

SECTION 4.2. Additional Disbursement.

(a) Prior to any disbursement or to issuance by A.I.D. of documentation pursuant to which any disbursement will be made for purposes other than kerosene imports, 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., documentary evidence that the Chief Planning Officer, heading the Planning Division of the Ministry of Forests and Soil Conservation (MFSC), has been designated Project Director.

(b) Prior to any disbursement or to issuance by A.I.D. of documentation pursuant to which any disbursement will be made for purposes other than kerosene imports, technical assistance and training, 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.:

(1) evidence that all conditions required for signing the World Bank-financed Second Community Forestry Project (Hills) have been satisfactorily met; and,

(2) evidence that HMG/N has formally adopted the Forestry Sector Master Plan, including the proposed Forest Policy.

SECTION 4.3. Notification.

When A.I.D. has determined that the conditions precedent specified in Sections 4.1 and 4.2 have been met, it will promptly notify HMG/N.

SECTION 4.4. Terminal Dates for Conditions Precedent.

If all of the conditions precedent to the first disbursement specified in Section 4.1 have not been met within 180 days from the date of this Agreement, or such later date 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. Project Evaluation.

The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project:

(a) evaluation of progress toward attainment of the objectives of the Project;

(b) identification and evaluation of problem areas or constraints which may inhibit such attainment;

(c) assessment of how such information may be used to help overcome such problems;

(d) regular monitoring of project activities through visits to sites where those activities take place by appropriate HMG/N, USAID and contractor officials; and,

(e) evaluation of the overall development impact of the Project through examination of project records, case studies, rapid appraisal, surveys, or such other evaluation methods as are appropriate.

SECTION 5.2. Project Covenants.

Except as the Parties may otherwise agree in writing, HMG/N will:

(a) provide financial and other contributions on a timely basis during the Project according to mutually agreed annual programs and budgets;

(b) develop and implement a mutually-acceptable plan for assigning and retaining qualified personnel to carry out the Project, including assigning one HMG/N counterpart for each long-term technical assistance advisor hired for the Project;

(c) establish additional positions in the Planning Division of the MFSC, as described in a mutually-acceptable Project Implementation Letter, by January 1, 1992;

(d) proceed with timely implementation of the Master Plan for the Forestry Sector; and,

(e) make a concerted effort to develop and implement a plan for phased reduction of stove subsidies, by January 1, 1992.

SECTION 5.3 Procurement Method and Utilization of Commodities

(a) The procurement and utilization of kerosene financed under this Grant are subject to A.I.D. regulations as from time to time amended and in effect, except as A.I.D. may otherwise specify in writing.

(b) HMG/N will assure that kerosene financed under this Grant will be effectively used for the purposes for which the assistance is made available. To this end, HMG/N will use its best efforts to assure that the following procedures are followed:

(1) accurate arrival and clearance records are maintained by customs authorities; imports are promptly processed through customs at ports of entry; such imports are removed from customs and/or bonded warehouses within ninety (90) calendar days from the date the commodities are unloaded from the vessel or conveyance at the port of entry, unless the importer is hindered by force majeure or A.I.D. otherwise agrees in writing; and

(2) kerosene imports financed under the Project are consumed or used not later than one (1) year from the date the imports are removed from customs, unless a longer period can be justified to the satisfaction of A.I.D. by reason of force majeure or special market conditions or other circumstances.

(c) HMG/N will assure that kerosene financed under the Project will not be re-exported in the same or substantially the same form, unless specifically authorized by A.I.D.

SECTION 5.4 Establishment and Use of Special Account.

(a) HMG/N shall establish a Special Account in a bank mutually agreed upon by the Parties and, except as the Parties may otherwise agree in writing, shall, not later than four (4) months from the date of delivery to HMG/N of kerosene financed hereunder, deposit in such account the local currency equivalent of three million dollars.

(b) Except as the Parties may otherwise agree in writing, HMG/N shall propose to A.I.D. on a trimester basis allocation and disbursement of Special Account funds as budget support for implementation of the Forestry Master Plan. Priority will be given to forestry sector development programs of the Master Plan that promote private sector involvement in forestry. Disbursements shall be agreed upon on the basis of progress in policy implementation.

SECTION 5.5. Local Currency Committee.

HMG/N shall, within four months from the date of this Agreement, establish a Local Currency Committee, including the MFSC Project Director, USAID Project Officer, a representative from the Ministry of Finance, and others, as agreed upon by the Parties, to propose allocation and disbursement of Special Account funds. The Ministry of Finance will review and report, on a trimester basis, on deposits and disbursements of such funds for agreed upon development programs contained in the Forestry Master Plan.

SECTION 5.6. Grant Exempt from Contract Tax.

Contracts funded under this Project Grant Agreement are exempt from the assessment, withholding, collection or payment of the Nepal Contract Tax under Standard Provision B.4 of this Agreement. HMG/N will not assess, withhold, collect or require payment of contract tax on contracts funded under this Agreement. Further, HMG/N will include a clause in any procurement documents and contracts executed or administered by HMG/N ministries and agencies for all contracts funded hereunder that the contract is exempt from the withholding, assessment, collection and payment of Contract Tax and that contractors' bids and vouchers shall not include amounts for the contract tax.

SECTION 5.7. Project Funded Trainees.

For each HMG/N employee trained outside Nepal under this Grant, HMG/N agrees to assign the returned trainee to an HMG/N position which relates to the Project for a period of time equal to the duration of the training in order that the trainee's skills acquired thereby will be utilized, unless HMG/N and A.I.D. agree otherwise in writing.

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 Project having, with respect to goods, their source and origin, and with respect to services, their nationality, in the United States or 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"), except as A.I.D. may otherwise agree in writing, and except as provided in the Project Grant 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 Project having their source and, except as A.I.D. and HMG/N 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 Project 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 Project 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 Project; 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.

(b) 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 for the Forestry Planning and Improved Stove Components

(a) After satisfaction of conditions precedent, HMG/N may obtain disbursements of funds under the Grant for Local Currency Costs required for the Project, in accordance with the terms of this Agreement, by submitting to A.I.D., with necessary supporting documentation as prescribed in Project 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 8: 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:
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. For approving implementation documents and for all purposes other than revising this Agreement, HMG/N will be represented by the individual holding or acting in the office of Secretary or Joint Secretary and in the office of Project Director, Ministry of Forests and Soil Conservation. 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 "Project Grant 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: Mohan Raj Sharma
Mohan Raj Sharma

BY: Milton Frank
Milton Frank

TITLE: Acting Secretary
Ministry of Finance

TITLE: Ambassador

Annex I:

Amplified Project Description

The elements of this description may be changed by written agreement of the authorized representatives of the parties named in the Project Agreement without formal amendment of the Agreement, provided that such changes are within the general scope of the Project as set forth in the text of the Agreement.

I. General Project Description

A. Project Context

His Majesty's Government of Nepal (HMG/N), supported by both multilateral and bilateral donors, has embarked upon a new, long-term program to protect, develop, manage and exploit Nepal's forest resources, which have experienced serious decline since the 1950s. This new program has been outlined in the recently approved Master Plan for the Forestry Sector (hereafter referred to as the Master Plan).

The Master Plan has assembled all available data on the forestry sector and carefully analyzed both the data and development experience of the past several decades. It also shows how the current decline in forest resources can be reversed through implementation of an action program designed to:

- o meet and sustain the requirements for fuelwood, fodder, timber and other forest products;
- o support requirements for food and water by keeping a steady flow of natural nutrients and water from forests to farms;
- o maintain a safe and wholesome natural environment;
- o conserve the ecosystems and genetic resources; and,
- o contribute to the growth of local and national economies by developing forest management and forest-based industries and creating opportunities for income generation and employment.

The strategy to be pursued has been translated into twelve separate development programs, receiving support from a number of donors including USAID.

B. Project Activities

The goal of USAID's involvement in implementation of the Master Plan through the Forestry Development Project is to increase the productivity and sustainability of forestry production systems. Its purpose is to strengthen the capacity of the Ministry of

Forests and Soil Conservation (MFSC) to implement programs laid out in the Forestry Sector Master Plan and to increase nationwide usage of improved stove models. The project has three principal components: Forestry Policy and Planning; the Improved Stove Program; and, Special Local Cost Support for Master Plan Policy Agenda. Over a period of six years, USAID will work primarily with the Planning Division of the MFSC and with the Department of Forests. Support will be provided through technical assistance, training, program support and a moderate amount of commodities for the MFSC. In addition, the Project will provide budget support for implementing the Forestry Sector Master Plan with local currency generated by kerosene imports financed under the Project.

The Forestry Policy and Planning component will focus on enhancing institutional capabilities of the MFSC's Planning Division - the unit responsible for policy analysis and strategy formulation, program development, program budgeting, and project planning and analyses within the MFSC. Objectives of this component include:

1. Strengthening of the planning function;
2. Institutionalization of planning functions including program budgeting at all relevant levels within MFSC;
3. Upgrading and expansion of analytical capabilities;
4. Improvements in project planning, analysis and evaluation; and,
5. Installation of a planning/programming information system.

The Improved Stoves Program will involve support for the Department of Forests, working with research organizations, women's organizations, and community and volunteer organizations, to design, produce, market and promote the use of new, low-cost, fuel-efficient stove models. Objectives of this component are to contribute directly to reduced demand for fuelwood and to strengthen private sector production of and marketing channels for improved stove models. The improved stove program is based on a demand driven, market-based strategy for stove production and dissemination/marketing. It is expected that new strategies will be implemented for sustained production and dissemination of certain stove models and that a private sector program for continued development, promotion and services to producers and users of improved stoves will be established.

The Special Local Cost support component involves generation of local currency by HMG/N through the importation of kerosene financed under the Project and the use of that local currency as budget support for implementation of the Forestry Master Plan. The importation of kerosene is linked to project objectives because it is used as a direct substitute for fuelwood in cooking and heating. Kerosene financed under the Project will be procured in accordance with standard A.I.D. contracting procedures.

Kerosene so financed will, subject to the terms of this Agreement, be distributed and used in accordance with HMG/N policy and procedures.

An amount of local currency equal to three million dollars shall be deposited into a Special Account within four months from the date the kerosene is delivered to Nepal. Deposits will be used to provide budget support for implementation of the Master Plan, as mutually agreed upon by the parties. Special attention will be given to those programs which promote private sector involvement in Forestry. HMG/N will establish a Local Currency Committee to propose allocations and disbursements of Special Account funds on a trimester basis, unless a longer period of time is agreed to by both Parties. The Ministry of Finance shall be responsible for reviewing and reporting, on a trimester basis, on all Special Account deposits and disbursements. Special Account disbursements shall depend upon demonstrated progress in implementing priority policy programs as agreed upon by the Parties.

C. Project Resources

In order to implement the project activities outlined above, project inputs have been estimated as follows:

1. Technical Assistance

Technical assistance for both the Forestry Policy and Planning Component and the Improved Stoves Program will be provided by a single project contractor. Long-term technical assistance to the Planning Division will consist of a senior planning advisor (five years), and a forest economist (two years). In addition, through the primary contractor, an improved stove specialist will be provided for two years to work with the Department of Forests.

Short-term technical advisors will be provided for a total of approximately 23 person months, spread over the six years of the project. Local consultants, for a large variety of tasks (17 identified tasks), will be used for an estimated total of 71 person months over the life of the project (LOP). Estimated costs for technical assistance are described in the Illustrative Financial Plan attached hereto.

Following the arrival of the project technical assistance team in country, a review will be undertaken with HMG and the U.S. Peace Corps of possibilities for support from Peace Corps for implementation of the Forestry Development Project, particularly for the Improved Stoves Program.

2. Training

The FDP will involve substantial amounts of training, both formal and informal, carried out both in-country and abroad. A primary task of all technical assistance personnel (both long term and short term, expatriate and local) will be to provide training to the staff of MFSC.

Funds have also been set aside in the Project budget to cover local in-country training to be arranged by the Project contractor. Estimated training costs are shown in the Illustrative Financial Plan attached hereto.

3. Commodities

The Project will finance a moderate amount of commodities to support the Forestry Policy and Planning Component and the Improved Stoves Program, as indicated in the Illustrative Financial Plan. This will include approximately 10 vehicles, 1 bus and 4 motorbikes, technical equipment, technical supplies, office equipment and other general items.

In addition, the Project will finance kerosene imports for purposes of generating local currency to provide budget support for implementing the Forestry Sector Master Plan. It is anticipated that procurement will be conducted by HMG/N, through the Nepal Oil Corporation, in accordance with standard AID host country contracting procedures.

4. Program Support Costs

Funds have been set aside in the Project budget to cover program support costs. These include selected support primarily for field operations and training in both project components. Additional requirements for program support will likely be identified during the course of project implementation. These funds will be provided through the technical assistance contractor. Programming of these funds will be carried out jointly by the USAID Project Officer, HMG Project Director and the Chief of Party of the technical assistance team.

5. Financial Management

The methods of financing under this Project are entirely consistent with preferred AID payment procedures as indicated in AID/Nepal's Mission General Assessment of Mission Financing Policies and Procedures.

The management of AID costs under the Project will follow AID standard regulations and USAID operating policies and procedures. Within the prescriptions of the Project Grant

Agreement, the earmarking of these funds will be done through PIO's signed by USAID. Administrative reservation for specific purposes of local cost support will be done through PILs.

II. Responsibilities of the Participants

A. HMG/N

The primary HMG/N entity responsible for implementing the Forestry Development Project will be the MFSC, with the Chief Planning Officer of the Ministry's Planning Division serving as Project Director for the overall project and for day-to-day implementation matters on the Forestry Policy and Planning Component.

Responsibility for day-to-day implementation matters on the Improved Stove Program component will rest with the Department of Forests, Community Forest Development Division, under the Director General and an appropriate designee in the Division.

HMG/N and USAID will mutually agree upon: scopes of work for technical assistance advisors; evaluation of offerors; and selection of participants. HMG/N will also undertake to appoint qualified counterparts, provide necessary office space for advisors, and monitor and evaluate project activities through existing HMG/N formats.

HMG/N, including the Nepal Oil Corporation, will work closely with USAID to effect purchase and importation of kerosene in accordance with standard AID host country contracting procedures. The Ministry of Finance, together with the Local Currency Committee, will be responsible for ensuring that local currency generated in connection with kerosene imports is deposited into the Special Account and disbursed from the Account for support of development programs of the Master Plan in amounts and within time periods agreed upon by the parties.

B. USAID

USAID's Office of Agriculture and Rural Development will be primarily responsible for project oversight and monitoring within USAID. USAID's responsibilities will include, among other things, retaining the services of technical assistance contractors in accordance with A.I.D. direct contracting procedures, procuring vehicles and other commodities if necessary, and monitoring and evaluation generally. In addition, A.I.D. will work closely with HMG/N to effect procurement of kerosene financed under the Project.

15

C. Technical Assistance Contractors and Advisors

A single prime contractor, selected in accordance with standard A.I.D. direct contracting procedures, will be responsible for providing technical assistance, coordinating in-country and overseas training programs and procurement of local and offshore project commodities, with the general exception of vehicles.

III. Illustrative Financial Plan

The financial plan shown in Attachment A is illustrative; changes may be made in the plan by representatives of the parties named in the text of the Agreement without formal amendment of the Agreement, provided that changes do not cause A.I.D.'s contribution to exceed the amount specified in Section 3.1 of the Agreement or cause HMG/N's contribution to be less than that specified in Section 3.2 of the Agreement.

IV. Evaluation and Audit

Project implementation will include systematic monitoring and periodic evaluation and audit of both project components, making maximum use of the existing HMG/N monitoring/evaluation format designed by the National Planning Commission for its trimester and annual progress evaluation reports. Information provided by these reports will be supplemented with contractor and consultant reports.

The annual progress review by senior HMG staff and USAID personnel will take place in the form of a Project Coordinating Committee meeting. In this Committee, the Secretary, Ministry of Forests and Soil Conservation, will serve as a Chairperson and other members may include: the MFSC Chief Planning Officer; the Director Generals MFSC Departments; representatives from the National Planning Commission and the Ministry of Finance, Foreign Aid Coordination Division; the Senior Planning Advisor; and, representatives from USAID. Representatives from other donor organizations may be requested to participate in certain elements of the Coordinating Committee deliberations. This Committee will review the progress made by the project and give directions for necessary action. It will also approve the annual plan and budget for the following year.

The project will adopt an on-going evaluation system based on information generated by the monitoring system. The evaluation program will include:

- Annual progress reviews by senior HMG/N staff and USAID personnel;

- A mid-term evaluation by a joint HMG/N - USAID team, planned for the project's third year to assess project progress toward goals and to recommend modifications; and, including field studies of project impacts (as appropriate), incorporating such methods as case studies, rapid appraisal, and field surveys; and,

- A final evaluation by a joint HMG/N - USAID team, planned for early in the project's final year, including field studies of project impacts, to assess attainment of the project's purpose and goal and the need for additional follow-up.

The terms of reference for evaluations will be drawn up jointly by HMG/N and USAID.

A project completion report covering both components will be submitted to USAID by the Planning Division of MFSC within one year after project completion.

Forestry Development Project - Grant AgreementIllustrative Financial Plan
(000 U.S. Dollars)

<u>Category</u>	<u>AID FY 89</u>	<u>AID* LOP</u>	<u>HMG/N LOP</u>	<u>LOP Total</u>
Technical Assistance	650	1,680	-	1,680
Training	-	653	70	723
Program Support Cost	200	1,063	545	1,608
Special Local Cost	3,000**	3,000	-	3,000
Commodities	-	448	-	448
Evaluation and Audits	-	190	-	190
Inflation	-	770	95	865
Contingency	<u>-</u>	<u>196</u>	<u>22</u>	<u>218</u>
Total Project Cost	<u>3,850</u>	<u>8,000</u>	<u>732</u>	<u>8,732</u>

* Provision of subsequent increments of funding after FY 89 is subject to the availability of funds and to the agreement of the parties to proceed.

** Local currency will be generated through kerosene imports financed under this line item.

ANNEX 2: GRANT STANDARD PROVISIONS

Grant Standard Provisions

Table of Contents

	<u>Page</u>
Article A: Project Implementation Letters	1
Article B: General Covenants	1
SECTION B.1. Consultation	1
SECTION B.2. Execution of Project	1
SECTION B.3. Utilization of Goods and Services	2
SECTION B.4. Taxation	2
SECTION B.5. Reports, Records, Inspections, Audit	2
SECTION B.6. Completeness of Information	3
SECTION B.7. Other Payments	3
SECTION B.8. Information and Marking	3
Article C: Procurement Provisions	3
SECTION C.1. Special Rules	3
SECTION C.2. Eligibility Date	4
SECTION C.3. Plans, Specifications, and Contracts	4
SECTION C.4. Reasonable Price	5
SECTION C.5. Notification to Potential Suppliers	5
SECTION C.6. Shipping	5
SECTION C.7. Insurance	6
SECTION C.8. U.S. Government-Owned Excess Property	6
Article D: Termination; Remedies	6
SECTION D.1. Termination	6
SECTION D.2. Refunds	7
SECTION D.3. Nonwaiver of Remedies	7
SECTION D.4. Assignment	8