
GRANT NUMBER 9180-NEP (EF)

PROJECT AGREEMENT

(Disaster Risk Reduction and Livelihood Restoration for Earthquake Affected Communities)

between

ASIAN DEVELOPMENT BANK

and

SMALL FARMERS DEVELOPMENT BANK

DATED 08 DECEMBER 2015

NEP 49202

PROJECT AGREEMENT

PROJECT AGREEMENT dated 08 December 2015 between ASIAN DEVELOPMENT BANK ("ADB") and the SMALL FARMERS DEVELOPMENT BANK ("SFDB").

WHEREAS

(A) by a Grant Agreement of even date herewith between Nepal ("Recipient") and ADB, ADB has agreed to make to the Recipient a grant from the Japan Fund for Poverty Reduction in the amount of fifteen million dollars (\$15,000,000) on the terms and conditions set forth in the Grant Agreement, but only on the condition that a portion of the proceeds of the grant be made available to SFDB and that SFDB agrees to undertake certain obligations towards ADB set forth herein; and

(B) SFDB, in consideration of ADB entering into the Grant Agreement with the Recipient, has agreed to undertake the obligations set forth herein;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Definitions

Section 1.01. (a) Wherever used in this Project Agreement, unless the context otherwise requires, the several terms defined in the Grant Agreement and in the Grant Regulations (as so defined) have the respective meanings therein set forth, except that for purposes of this Project Agreement:

- (i) the term "the Project" means Part B and C of the Project, as described in Schedule 1 to the Grant Agreement; and
- (ii) the term "Subsidiary Loan Agreement" means the subsidiary loan agreement to be entered into between MOF and SFDB for the purpose of implementing Part B of the Project.

ARTICLE II

Particular Covenants

Section 2.01. (a) SFDB shall carry out the Project with due diligence and efficiency, and in conformity with sound applicable technical, financial, business, and development practices.

(b) In the carrying out of the Project and operation of the Project facilities, SFDB shall perform all obligations set forth in the Grant Agreement to the extent that they are applicable to SFDB, and all obligations set forth in the Schedule to this Project Agreement.

Section 2.02. SFDB shall make available, promptly as needed, the funds, facilities, services, and other resources as required, in addition to the proceeds of the Grant, for the carrying out of the Project.

Section 2.03. (a) In the carrying out of the Project, SFDB shall employ competent and qualified consultants and contractors, acceptable to ADB, to an extent and upon terms and conditions satisfactory to ADB.

(b) Except as ADB may otherwise agree, SFDB shall procure all items of expenditures to be financed out of the proceeds of the Grant in accordance with the provisions of Schedule 3 to the Grant Agreement. ADB may refuse to finance a contract where any such item has not been procured under procedures substantially in accordance with those agreed between the Recipient and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 2.04. SFDB shall carry out the Project in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to ADB. SFDB shall furnish, or cause to be furnished, to ADB, promptly after their preparation, such plans, design standards, specifications and work schedules, and any material modifications subsequently made therein, in such detail as ADB shall reasonably request.

Section 2.05. (a) SFDB shall take out and maintain with responsible insurers, or make other arrangements satisfactory to ADB for, insurance against such risks and in such amounts as shall be consistent with sound practice.

(b) Without limiting the generality of the foregoing, SFDB undertakes to insure, or cause to be insured, the Goods to be imported for the Project 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 a currency freely usable to replace or repair such Goods.

Section 2.06. SFDB shall maintain, or cause to be maintained, records and accounts adequate to identify the items of expenditure financed out of the proceeds of the Grant, 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 principles, its operations and financial condition.

Section 2.07. (a) ADB and SFDB shall cooperate fully to ensure that the purposes of the Grant will be accomplished.

(b) SFDB shall promptly inform ADB of any condition which interferes with, or threatens to interfere with, the progress of the Project, the performance of its obligations under this Project Agreement or the Subsidiary Loan Agreement, or the accomplishment of the purposes of the Grant.

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

Section 2.08. (a) SFDB shall furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the Grant and the expenditure of the proceeds thereof; (ii) the items of expenditure financed out of such proceeds; (iii) the Project; (iv) the administration, operations and financial condition of SFDB; and (v) any other matters relating to the purposes of the Grant.

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

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

Section 2.09. (a) SFDB shall (i) maintain separate accounts and records for the Project; (ii) prepare annual financial statements for the Project in accordance with accounting principles acceptable to ADB; (iii) have such financial statements for the Project audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report (which includes the auditors' opinion on the financial statements, use of the Grant proceeds and compliance with the financial covenants of the Grant Agreement as well as on the use of the procedures for imprest fund(s) and statement of expenditures) and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any); and (v) furnish to ADB, no later than 6 months after the close of the fiscal year to which they relate, copies of such audited financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(b) ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 30 days of the date of their receipt by posting them on ADB's website.

(c) In addition to annual audited financial statements referred to in subsection (a) hereinabove, SFDB shall (i) provide its annual financial statements prepared in accordance with national accrual-based financing reporting standards acceptable to ADB; (ii) have its financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB; and

(iii) furnish to ADB, no later than 1 month after approval by the relevant authority, copies of such audited financial statements in the English language and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(d) SFDB shall enable ADB, upon ADB's request, to discuss the financial statements for the Project and SFDB and its financial affairs where they relate to the Project with the auditors appointed by SFDB pursuant to subsections (a)(iii) and (c) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of SFDB, unless SFDB shall otherwise agree.

Section 2.10. SFDB shall enable ADB's representatives to inspect the Project, the Goods and Works and any relevant records and documents.

Section 2.11. (a) SFDB shall, promptly as required, take all action within its powers to maintain its corporate existence, to carry on its operations, and to acquire, maintain and renew all rights, properties, powers, privileges and franchises which are necessary in the carrying out of the Project or in the conduct of its operations.

(b) SFDB shall at all times conduct its operations in accordance with sound applicable technical, financial, business, development and operational practices, and under the supervision of competent and experienced management and personnel.

(c) SFDB shall at all times operate and maintain its plants, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound applicable technical, financial, business, development, operational and maintenance practices.

Section 2.12. Except as ADB may otherwise agree, SFDB shall not sell, lease or otherwise dispose of any of its assets which shall be required for the efficient carrying on of its operations or the disposal of which may prejudice its ability to perform satisfactorily any of its obligations under this Project Agreement.

Section 2.13. Except as ADB may otherwise agree, SFDB shall apply the proceeds of the Grant to the financing of expenditures on the Project in accordance with the provisions of the Grant Agreement and this Project Agreement, and shall ensure that all items of expenditures financed out of such proceeds are used exclusively in the carrying out of the Project.

Section 2.14. Except as ADB may otherwise agree, SFDB shall duly perform all its obligations under the Subsidiary Loan Agreement, and shall not take, or concur in, any action which would have the effect of assigning, amending, abrogating or waiving any rights or obligations of the parties under the Subsidiary Loan Agreement.

Section 2.15. SFDB shall promptly notify ADB of any proposal to amend, suspend or repeal any provision of its memorandum of association, which, if implemented, could adversely affect the carrying out of the Project or the operation of the Project facilities. SFDB shall afford ADB an adequate opportunity to comment on such proposal prior to taking any affirmative action thereon.

ARTICLE III

Effective Date; Termination

Section 3.01. This Project Agreement shall come into force and effect on the date on which the Grant Agreement comes into force and effect. ADB shall promptly notify SFDB of such date.

Section 3.02. (a) This Project Agreement and all obligations of the parties hereunder shall terminate on the earlier of the date on which the Grant Agreement shall terminate in accordance with its terms; or

(b) If the Grant Agreement terminates in accordance with its terms before the date specified in subsection (a)(ii) hereinabove, ADB shall promptly notify SFDB of this event.

Section 3.03. All the provisions of this Project Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the Grant Agreement.

ARTICLE IV

Miscellaneous

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

For ADB

Asian Development Bank
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

Facsimile Numbers:

(632) 636-2444
(632) 636-2340.

For SFDB

Subidhar, Kathmandu,
P.O. Box 21956
Kathmandu, Nepal

Facsimile Numbers:

077-1-4111901.

Section 4.02. (a) Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Project Agreement by or on behalf of SFDB may be taken or executed by its Chief Executive Officer or by such other person or persons as he or she shall so designate in writing notified to ADB.

(b) SFDB shall furnish to ADB sufficient evidence of the authority of each person who will act under subsection (a) hereinabove, together with the authenticated specimen signature of each such person.

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

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Project Agreement to be signed in their respective names as of the day and year first above written, and to be delivered at the principal office of ADB.

ASIAN DEVELOPMENT BANK

By K. Yokoyama
KENICHI YOKOYAMA
Country Director
Nepal Resident Mission

SMALL FARMERS DEVELOPMENT BANK

By J. Sharma
JALAN KUMAR SHARMA
Chief Executive Officer