

JAPAN'S GRANT AID

The Grant Aid Scheme provides a recipient country with non-reimbursable funds to procure the facilities, equipment and services (engineering services and transportation of the products, etc.) for economic and social development of the country under principles in accordance with the relevant laws and regulations of Japan. The Grant Aid is not supplied through the donation of materials as such.

1. Grant Aid Procedures

Japan's Grant Aid Scheme is executed through the following procedures.

Application	(Request made by the recipient country)
Study	(Basic Design Study conducted by JICA)
Appraisal & Approval	(Appraisal by the Government of Japan and Approval by the Cabinet)
Determination of recipient	(The Note exchanged between the Governments of Japan and Implementation country)

Firstly, the application or request for a Grant Aid project submitted by a recipient country is examined by the Government of Japan (the Ministry of Foreign Affairs) to determine whether or not it is eligible for Grant Aid. If the request is deemed appropriate, the Government of Japan assigns JICA (Japan International Cooperation Agency) to conduct a study on the request.

Secondly, JICA conducts the study (Basic Design Study) using (a) Japanese consulting firm(s).

Thirdly, the Government of Japan appraises the project to see whether or not it is suitable for Japan's Grant Aid Scheme, based on the Basic Design Study report prepared by JICA, and the results are then submitted to the Cabinet for approval.

Fourthly, the project, once approved by the Cabinet, becomes official with the Exchange of Notes (E/N) signed by the Governments of Japan and the recipient country.

Finally, for the implementation of the project, JICA assists the recipient country in such matters as preparing tenders, contracts and so on.

2. Basic Design Study

(1) Contents of the study

The aim of the Basic Design Study (hereafter referred to as "the Study") conducted by JICA on a requested project (hereafter referred to as "the Project") is to provide a basic document necessary for the appraisal of the Project by the Government of Japan. The contents of the Study are as follows:

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- Confirmation of the background, objectives, and benefits of the Project and also institutional capacity of agencies concerned of the recipient country necessary for the Project's implementation.
- Evaluation of the appropriateness of the Project to be implemented under the Grant Aid Scheme from a technical, social and economic point of view.
- Confirmation of items agreed on by both parties concerning the basic concept of the Project.
- Preparation of a basic design of the Project.
- Estimation of costs of the Project.

The contents of the original request are not necessarily approved in their initial form as the contents of the Grant Aid project. The Basic Design of the Project is confirmed considering the guidelines of the Japan's Grant Aid Scheme.

The Government of Japan requests the Government of the recipient country to take whatever measures are necessary to ensure its self-reliance in the implementation of the Project. Such measures must be guaranteed even though they may fall outside of the jurisdiction of the organization in the recipient country actually implementing the Project. Therefore, the implementation of the Project is confirmed by all relevant organizations of the recipient country through the Minutes of Discussions.

(2) Selection of Consultants

For smooth implementation of the Study, JICA uses (a) registered consulting firm(s). JICA selects (a) firm(s) based on proposals submitted by interested firms. The firm(s) selected carry(ies) out a Basic Design Study and write(s) a report, based upon terms of reference set by JICA. The consultant firm(s) used for the Study is (are) recommended by JICA to the recipient country to also work on the Project's implementation after the Exchange of Notes, in order to maintain technical consistency.

3. Japan's Grant Aid Scheme

(1) Exchange of Notes (E/N)

Japan's Grant Aid is extended in accordance with the Notes exchanged by the two Governments concerned, in which the objectives of the Project, period of execution, conditions and amount of the Grant Aid, etc., are confirmed.

(2) "The period of the Grant Aid" means the one fiscal year, which the Cabinet approves, the Project for. Within the fiscal year, all procedures such as exchanging of the Notes, concluding contracts with (a) consultant firm(s) and (a) contractor(s) and final payment to them must be completed. However, in case of delays in delivery, installation or construction due to unforeseen factors such as national disaster, the period of the Grant Aid can be further extended for a maximum of one fiscal year at most by mutual agreement between the two Governments.

(3) Under the Grant Aid, in principle, Japanese products and services including transport or those of the recipient country are to be purchased. When the two Governments deem it necessary, the Grant Aid may be used for the purchase of the products or services of a third country. However, the prime contractors, namely, consulting, constructing and procurement firms, are limited to "Japanese nationals". (The term "Japanese nationals" means persons of Japanese nationality or Japanese corporations controlled by persons of Japanese nationality.)

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(4) Necessity of "Verification"

The Government of recipient country or its designated authority will conclude contracts denominated in Japanese yen with Japanese nationals. Those contracts shall be verified by the Government of Japan. This "Verification" is deemed necessary to secure accountability to Japanese taxpayers.

(5) Undertakings required of the Government of the Recipient Country

In the implementation of the Grant Aid Project, the recipient country is required to undertake such necessary measures as the following in accordance with E/N:

a) To secure land necessary for the sites of the Project and to clear, level and reclaim the land prior to commencement of the Project,

b) To provide facilities for the distribution of electricity, water supply and drainage and other incidental facilities in and around the sites,

c) To secure buildings prior to the procurement in case the installation of the equipment,

d) To ensure all the expenses and prompt excursion for unloading, customs clearance at the port of disembarkation and internal transportation of the products purchased under the Grant Aid,

e) To exempt Japanese nationals from customs duties, internal taxes and other fiscal levies which will be imposed in the recipient country with respect to the supply of the products and services under the Verified Contracts,

f) To accord Japanese nationals, whose services may be required in connection with the supply of the products and services under the Verified contracts, such facilities as may be necessary for their entry into the recipient country and stay therein for the performance of their work.

(6) "Proper Use"

The recipient country is required to maintain and use the facilities constructed and the equipment purchased under the Grant Aid properly and effectively and to assign staff necessary for this operation and maintenance as well as to bear all the expenses other than those covered by the Grant Aid.

(7) "Re-export"

The products purchased under the Grant Aid should not be re-exported from the recipient country.

(8) Banking Arrangements (B/A)

a) The Government of the recipient country or its designated authority should open an account in the name of the Government of the recipient country in a bank in Japan (hereinafter referred to as "the Bank"). The Government of Japan will execute the Grant Aid by making payments in Japanese yen to cover the obligations incurred by the Government of the recipient country or its designated authority under the Verified Contracts.

b) The payments will be made when payment requests are presented by the Bank to the Government of Japan under an Authorization to Pay (A/P) issued by the Government of the recipient country or its designated authority.

(9) Authorization to Pay (A/P)

The Government of the recipient country should bear an advising commission of an Authorization to Pay and payment commissions to the Bank.

(End)

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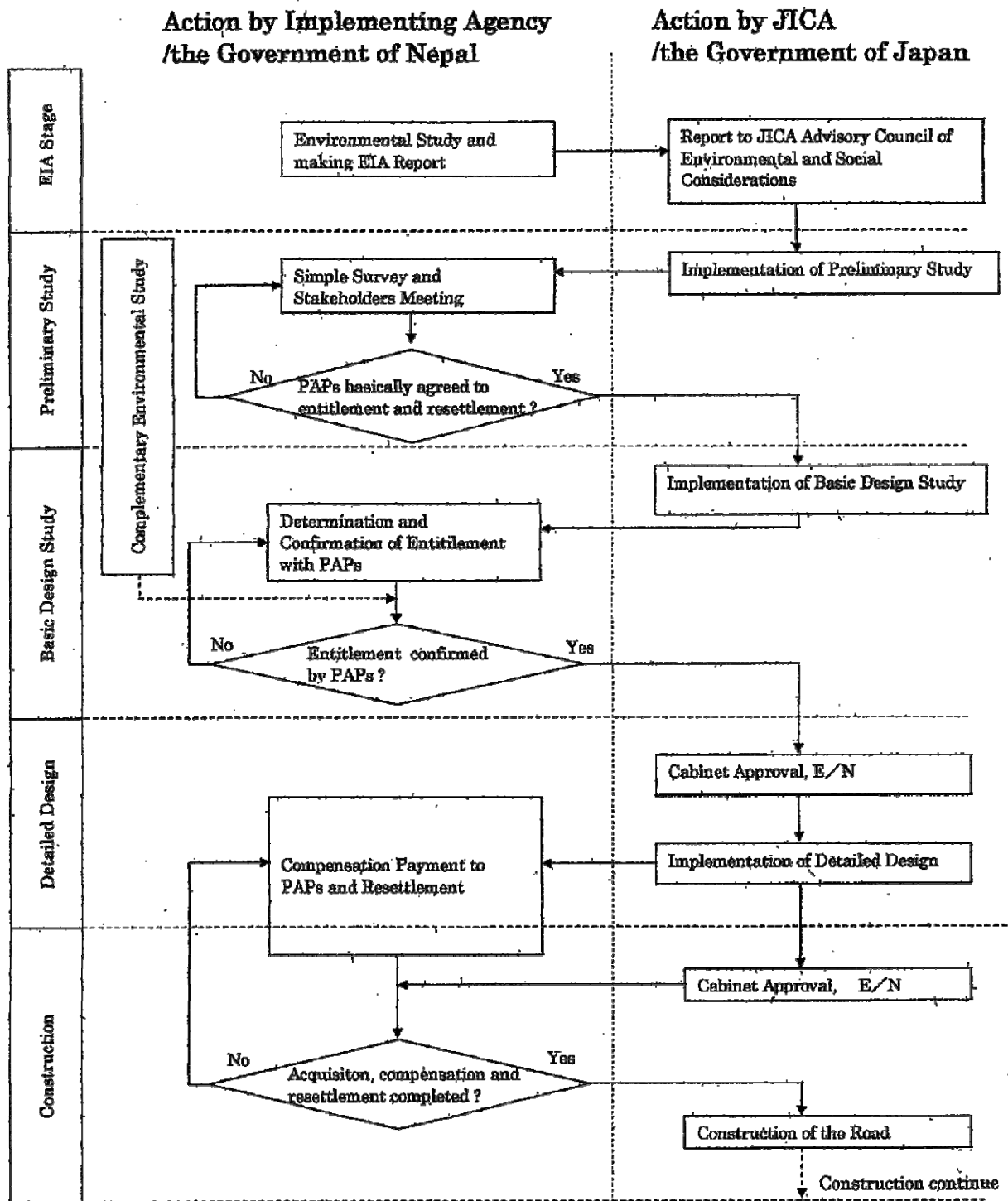
Major Undertakings to be taken by Each Government

No.	Items	To be covered by Grant Aid	To be covered by Recipient Side
1	To secure land		●
2	To clear, level and reclaim the site when needed		●
3	To construct gates and fences in and around the site		●
4	To bear the following commissions to a bank of Japan for the banking services based upon the B/A		
	1) Advising commission of A/P		●
	2) Payment commission		●
5	To ensure unloading and customs clearance at the port of disembarkation in recipient country		
	1) Marine (Air) transportation of the products from Japan to the recipient country	●	
	2) Tax exemption and customs clearance of the products at the port of disembarkation		●
	3) Internal transportation from the port of disembarkation to the project site	●	
6	To accord Japanese nationals whose service may be required in connection with the supply of the products and the services under the verified contract, such facilities as may be necessary for their entry into the recipient country and stay therein for the performance of their work.		●
7	To exempt Japanese nationals from customs duties, internal taxes and other fiscal levies which may be imposed in the recipient country with respect to the supply of the products and services under the verified contracts		●
8	To maintain and use properly and effectively the facilities constructed and equipment provided under the Grant Aid		●
9	To bear all the expenses, other than those to be borne by the Grant Aid, necessary for construction of the facilities as well as for the transportation and installation of the equipment		●

(B/A: Banking Arrangement, A/P: Authorization to pay, N/A: Not Applicable)

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Critical Passage to the Implementation of the Project

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**Minutes of Discussions
on the Preliminary Study
on the Project for Construction of Sindhuli Road (Section III)
in Nepal
(The second field survey)**

In response to the request from the Government of Nepal, the Government of Japan decided to conduct a Preliminary Study on the Project for Construction of Sindhuli Road (Section III) (hereinafter referred to as "the Project") and entrusted the study to the Japan International Cooperation Agency (hereinafter referred to as "JICA").

JICA sent to Nepal the Preliminary Study Team (the second field survey) (hereinafter referred to as "the Team") headed by Mr. Koichi Kito, Team Director, Transportation and Electric Power Team, Project Management Group I, Grant Aid Management Department, JICA, and is scheduled to stay in the country from July 5 to 12, 2007.

The Team held discussions with the concerned officials of Nepal. In the course of the discussions, both sides confirmed the main items described in the attached sheets.

Kathmandu, July 11, 2007



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ATTACHMENT

1. Progress and Results of the Stakeholders Meetings and Simple Survey

- (1) The Team confirmed that the Nepalese side conducted the stakeholders meetings and simple survey in an appropriate manner as confirmed in the previous Minutes of Discussions (M/D) signed on February 28, 2007.
- (2) The both sides confirmed that the stakeholders meetings at Gajulidaha, Ratmata and Ghumaune Chainpur went on very well in productive manner, however the stakeholders meeting at Khurkot did not achieve the meeting objective and was focused on construction of Phase III of Section II.
- (3) The both sides confirmed that a part of the people of Khurkot have complaints against the construction executing entities of Phase III of Section II, irrespective of negligible impacts, claiming that their land adjoining to the Ghogsila Khola and Adheri Khola have been extensively damaged due to the aggradations of river bed.
- (4) About 70% of the households within the Right of Way (RoW) of the proposed road alignment responded the simple survey and support the Project. The Team confirmed that the overall result of the stakeholders meetings and simple survey is acceptable except for the result of the stakeholders meeting at Khurkot.

2. Follow-up Measures for the people of Khurkot

- (1) Taking into consideration the above-mentioned fact concerning Khurkot, the both sides agreed that follow-up measures are required for the people of Khurkot.
- (2) The Team proposed that the Nepalese side should conduct the stakeholders meeting and/or focus group discussions for the people of Khurkot to obtain the basic consensus for the Project. The Nepalese side responded that only real stakeholders and PAPs (Project Affected Persons) need to participate in the meeting/discussions to avoid the disturbance observed at Khurkot. As a result of the discussions, the both sides agreed that the Nepalese side shall conduct the survey listed below to confirm the real attitude of the people in Khurkot area.
 - a) to conduct an interaction meeting for the Sta.35+800 to Sta.39+700 of Section II (which will be included in Section III) to confirm the attitude of the people in the area toward the Project through concerning all parties alliance of the area.
 - b) to find out and contact the 4 landowners at the section between Sta.0+000 and Sta.0+800 of Section III and obtain the basic agreement for the entitlement.
 - c) to conduct the stakeholders meeting in Khalte Chainpur (around Sta.5 of Section III) to confirm the general attitude and opinions of the people from Khurkot to Khalte Chainpur toward the Project.

The both sides agreed that the Nepalese side shall submit the result of the above mentioned survey to the Team through JICA Nepal Office around the middle of August 2007.

- (3) The both sides agreed that the conditions to finish the preliminary study are (i) completion of the above mentioned 3 surveys, (ii) obtaining the basic agreement for the Project with them.

3. Other Relevant Issues

- (1) The both sides agreed to continue and follow the critical passage as confirmed in the previous M/D signed on February 28, 2007.
- (2) Department of Roads (DOR) requested sectional modification of the road alignment to the

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Team based on the topographical reason by the letter on May 8, 2007, and a part of the people of Ratmata and Mulkot also requested the sectional modification of the road alignment during the simple survey by the reason of social considerations. The both sides confirmed that an additional topographic survey and further examinations shall be conducted at the Basic Design Study stage to finalize the road alignment from the viewpoints of road engineering, road safety and social considerations.

(3) The Team handed to the Nepalese side the drawings (road alignment plan, profile and limited cross-section) of the proposed road which the Team prepared. The both sides agreed to discuss the road alignment at the Basic Design Study stage based on the drawings.

(4) The Nepalese side explained to the Team that DOR will request to compensation fixation committee to invite representatives from VDC (Village Development Committee) as observers in consideration of the request from the PAPs.

(5) The Nepalese side explained to the Team that the Nepalese side shall pay much attention on the compensation for those tenant farmers who may be seriously affected by the Project.

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DIRECTOR-GENERAL