

COMMERCIAL AGRICULTURE ALLIANCE

**(A Not Profit Distribution Company set up under the
Nepal Company Act, 2006)**

Standard Operating Procedure (SOP) of CAA¹

January 2008

¹ *Approved by the CAA Board of Directors' Meeting held on 30 September 2007 with amendments and finalized as per the concurrence received from Asian Development Bank on the amendments proposed by the Broad of Directors.*

List of Abbreviations

| | |
|--------------|---|
| ADB | Asian Development Bank |
| AoA | Articles of Association |
| AP | Appraisal Panel |
| BOD | Board of Directors |
| CAA | Commercial Agriculture Alliance |
| CADP | Commercial Agriculture Development Project |
| CAF | Commercial Agriculture Fund |
| DDC | District Development Committee |
| DRC | District Review Committee |
| EDR | Eastern Development Region |
| FNCCI | Federation of Nepalese Chamber of Commerce and Industries |
| GM | General Manager |
| GoN | Government of Nepal |
| HVC | High Value Crop |
| MoA | Memorandum of Association |
| MOAC | Ministry of Agriculture and Cooperatives |
| PMU | Project Management Unit |
| SCN | Subproject Concept Note |
| SDP | Subproject Detailed Proposal |
| SOP | Standard Operating Procedures |
| VDC | Village Development Committee |

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A Preamble

- 1 The Asian Development Bank (ADB) approved in October 2006 a grant to Nepal for the Commercial Agriculture Development Project (CADP) (the Project). The Project aims to reduce poverty in the rural communities of Eastern Development Region (EDR) through equitable and sustainable commercialization of agriculture. The project has five components (i) Commercial Agriculture Investment and Management, (ii) Inclusive Development of Stakeholders, (iii) Market Information Dissemination, (iv) Project Partners Capacity Enhancement, and (v) Project Implementation Support. The project outcome will be improved efficiency in production, marketing, and processing of high value crops (HVCs) such as vegetables, fruits, tea, and spices, within the project area and strengthening their value chain.
- 2 The component of Commercial Agriculture Investment and Management of the Project will facilitate key agricultural stakeholders (farmers, traders, and processors) to work together to increase commercialization in agriculture. This will be done by establishing a commercial agriculture fund (CAF), a cost-sharing grant facility, to (i) develop community-based market infrastructure investments, and (ii) develop noninfrastructure investments to add value to agriculture products.
- 3 Commercial Agriculture Alliance (CAA), a not-for-profit company, registered under the Companies Act 2006, has been established to manage the CAF grant, and more importantly to facilitate subproject linkages and the networking of agricultural stakeholders within the project area.
- 4 This Standard Operating Procedures (SOP) specifies objectives and concept, project information in brief, impact of project and verification means, institutional set up of CAA, operational policies and procedures to be followed by the CAA Board of Directors, management and staff in extending and managing the grant facilities. This SOP is approved and adopted by the CAA Board of Directors and will be a binding document for CAA and its employees. The SOP shall be accordingly implemented by CAA.

B Objective and Concept

- 5 The objective of the project is to facilitate key agricultural stakeholders (farmers, traders, and processors) to work together to increase commercialization in agriculture building their alliance and providing them access to finance. This will be done by creating a commercial agriculture fund (CAF), a cost-sharing grant facility, to (i) develop community-based market infrastructure investments, and (ii) develop noninfrastructure investments to add value to agriculture products and establishing an alliance, Commercial Agriculture Alliance (CAA) to manage the stakeholders and finance available for the activities.
- 6 **CAA Concept**: The lack of functional value chains has been identified as the core problem impeding increased commercialization of agriculture in Eastern Development region (EDR). In Nepal most farmers are smallholders and are often isolated or organized in small groups. They sell small quantities in the peak season and have difficulty accessing inputs, credit, and technology. Their limited knowledge of technology and market requirements is reflected in low production, low quality and low price of their product. Processors complain of small, disaggregated amounts of product, irregularity of supply, and poor product quality. Both farmers and processors will be able to benefit from

- value-added agriculture products if the market chain is developed, and technology and infrastructure assistance are provided
- 7 The problem analysis highlights the need to focus on the key agents of commercialization- farmers, traders, processors, business development service providers and on facilitating and integrating their value chain. Most agriculture projects implemented in Nepal and in the EDR have paid relatively little attention to the link between production and marketing. The Project aims to create an alliance (Commercial Agriculture Alliance) of farmers groups /cooperatives, traders, and processors, which are already operating in some levels of commercialization of agriculture. CAA thus formed becomes an active partner for development with regular contact, information sharing and providing access to fund to empower the value chains which are the building blocks for commercialization. This concept will educate agricultural stakeholders including subsistence farmers about the importance of market linkage on production, sustainability, and multiplying the capacity of such activity.
 - 8 **CAF Concept:** Commercialization of agriculture requires improvement in awareness on the value of commercialization among the stakeholders. It involves investment in knowledge, practice of learning, access to information, creation and additional investment in infrastructure of public nature for its sustainability. It involves development of market centers, storage houses, quality labs, and road access and transportation facilities. It requires timely dissemination of information on changing market, improvement in technology, desirable product quality to attract competitive price and so on. Investments on these headings are development type and pay only in long run. In Nepal, most of the private sectors striving for commercialization are not in position to make large investment of this nature on their own. The private sector commercial banks have limited access in rural areas, reluctant to make such lending and they also lack expertise to finance such activities. The rural financial institutions are basically financing subsistence farmers and most of them are still in survival level. The government sector on its own has not been financing due to lack of fund and many other priorities.
 - 9 Key agents of agriculture commercialization, the farmers, traders, processors have not been investing in common benefit area- specifically the community-based market infrastructure and noninfrastructure investments, which could develop more mutually beneficial market chain linkages and add value in their products. The government support is negligible and has yet to invest in facilitating and integrating their institutions to emerge/ develop an effective network and value chain in Nepal. The concept of public private partnership and involvement of financial sector in such activity is not in developed form. In absence of such facilitation and development, the commercialization process in agriculture has been lying in low level. This is further deteriorated due to the conflict situation and absence of suitable funding agency which can vision the commercialization process and guide the stakeholders for its development.
 - 10 At this juncture, a separate mechanism which make provision to access the fund (Commercial Agriculture Fund) to conduct the activities that leads to commercialization of activities, develop linkage and dependency plays crucial role in development process.
 - 11 This project with CAF to CAA members aims to fill this developmental need of the EDR and accelerate the development process by strengthening the value chains. The grant character is the feather cap of the Project which does not provide extra burden to the stakeholders rather makes them understand the utility of commercialization from the benefit it provides and thereby encourages the government, the private sector and the

- donors to replicate it into other areas. It will also develop lending avenues for commercial banks that are willing to expand their business in rural areas.
- 12 The concept of CAF is to fund these common benefit areas in a market driven approach, which in return will directly improve the performance of farmer groups/ traders/ processors in terms of production, sales and profitability. The performance of commercialized farmers/ producers/ processor/ marketers directly guide the subsistence farmers and the survival small and medium enterprises to graduate from subsistence level to semi-commercialized and then become a commercialized entrepreneur – the growth engine of the economy.
 - 13 In this perspective, the Project with CAF and institutional mechanism of CAA aims in stimulating the economy with grant assistance. The Project aims to develop awareness, create common working forum of private sector and the government, build common benefit facilities and educate the stakeholder the concept of commercialization which could be replicated in other parts of the country thereafter.
 - 14 CAA will be the Implementing Agency for Component 1 of CADP on Commercial Agriculture Investment and Management. With the support of the other components of the Project (Inclusive Development of Stakeholders, Market Information Dissemination, Project Partners Capacity Enhancement, and Project Implementation Support), CAA will provide an opportunity to the commercial agriculture stakeholders to build partnership of private sectors in sharing the costs for promotional and developmental activities, in strengthening the commercial value chains especially for programs and services for which financing would not normally be available from commercial banks. CAF of CAA at different levels extends booster effect on the activities. The Inclusive Development of Stakeholders component will add feather cap in the process by building awareness, educating and making the subsistence and semi-commercialized group capable to develop linkage with the members of CAA and strengthen the commercialization process of agriculture. The Project aims to enable farmers, traders, processors members of CAA to secure effective, market oriented services of their own choosing while strengthening the linkage among members and other stakeholders in the value chain. It will educate the stakeholders of value chain the importance of market linkage on production, processing and marketing of the products along with its role on sustaining and multiplying the capacities. It will educate to develop similar value chains in other areas and improve the economy.
 - 15 CAA shall manage the CAF and it will be available to the general members of the CAA and selected nominated members of the project area. The core of the fund consists of the provision of funding access as grants to overcome market failure related to public goods, information and technology. The beneficiaries, the members of CAA, identify the select specific interventions which are aimed at enhancing the capacity and competitiveness of value chains.
 - 16 The purpose of CAA is to fund in such activities/infrastructures which extend quantifiable benefits beyond individual CAA member to other agricultural stakeholders along the value chain and the community as a whole so that the commercialization of agriculture shall flourish in the targeted area. The cooperation extended shall generate enough earning to sustain the activities instituted due to its observed benefits and thereafter will multiply it in another area for similar activities. It is expected that the farmers, traders and processors and the business service providers to them will enhance their level of commercialization and business development in terms of quality, capacity building, market broadening, turnover and profitability compared to existing level and in comparison to farmers, traders

- and processors not making use of such practices. The group, associations and cooperatives of farmers, traders, processors and the service agencies supporting them for this cause will be instrumental for the achievement of the overall objective of the Project.
- 17 CAA intends to provide a forum for stakeholder interaction and a means to access grant funding for investments that will strengthen the process of commercialization of agriculture. The objectives of CAA are as follows:
- (i) To promote commercial agriculture in Nepal by developing an alliance between the commercial agricultural stakeholders.
 - (ii) To manage CAF and provide support to its members from the CAF.
 - (iii) To educate its Members and other agricultural stakeholders about the importance of market linkage on production, its sustainability and multiplying capacity.
 - (iv) To conduct awareness program on intellectual property protection among the Members and support its Members for the protection of intellectual property right.
 - (v) To enter into contract for value with any third party competent to enter into contract.
 - (vi) To establish branch office required for the fulfilment of the objectives of the Company.
 - (vii) To engage in any other activities, which are ancillary to fulfil the above-mentioned principal objectives.
- 18 A broad range of activities will be covered, including processing, marketing, production (on farm & off farm), in the developing, managing and promotion of common benefits of the CAA members. Applications are accepted on the explicit understanding that the proposed investment is commercially viable and the recipient entity will match the corresponding requirement of the scheme from their own resources. This is to ensure that a strong sense of ownership remains with the recipient, and fosters a strong motivation to obtain value for money, in the recipient's own terms, from the activity supported.
- 19 There will be active promotion and marketing of CAA and more specifically to enhance the collaborative competitiveness of members (farmers, traders, and processors) and their value chains involving local stakeholders in planning and implementation.
- 20 CAA with the assistance of CADP PMU² will document all the agriculture marketing information disseminated to all stakeholders including the subsistence farmers and semi-commercialized stakeholders and thereby strengthening of commercial agriculture network and agriculture marketing information system among the members of CAA so that the benefit of market information could be shared and coordination mechanism among stakeholders (e.g. research & extension, extension & market, production & processing, market & processing, semi-commercialized & commercialized, public & private, NGO & private, borrower and financier) shall be improved resulting better performances at individual member's (farmer groups and cooperatives, trader, processor) level.
- 21 Outputs:** The specific outputs of the Alliance formation and access to cost sharing grant facility are (i) facilitating formation of functional value chains to support commercialization

² Added as per the 11th CAA Board of Directors' decision and concurrence of ADB. CADP PMU is supposed to provide all types of resources for documentation, dissemination and networking of the marketing information system among the stakeholders.

of agriculture, (ii) building supporting capacity among stakeholders (farmers groups/cooperatives, traders, processors) and the quality service providers that provide services for commercialization of agriculture, (iii) providing demand driven intervention including community-based market infrastructures to facilitate greater commercialization, (iv) developing growth environment for subsistence and semi-commercialized farmers, (v) supporting mobilization of farmer's groups and building institutional capacity to enable small farmers to better avail of the opportunity that will be created through the new institutional mechanism, and (vi) facilitating the formation of functional agricultural marketing information system contributive to all the farmer/ trader/ processors and others interested to involve in the commercialization and development of agriculture specially HVCs.

C Target Group and Eligible Activities

- 22 **Project Area:** The project area includes five hill districts (Dhankuta, Ilam, Panchtar, Terahatum, and Udayapur), five terai districts (Jhapa, Morang, Saptari, Siraha, and Sunsari), and one mountain district (Taplejung) in the EDR. Remaining five districts of the region (Sankhuwasabha, Bhojapur, Khotang, Okhaldhunga and Solukhumbu) can be included in the project area as per the Board decision and concurrence of GoN and ADB³.
- 23 **Target Group:** CAF is designed to support specialized (agriculture commercialization) needs of farmers groups/cooperatives, traders, and processors who are conducting their activities on HVCs and are already involved in some level of **commercial agriculture and are the members of CAA.**
- 24 **Members of CAA :** CAA will have two membership categories: general members and nominated members. General members comprise farmer groups or cooperatives, traders, and processors engaged in commercial agricultural activities within the project area. Nominated members include (i) the Ministry of Agriculture and Cooperatives, (ii) the Ministry of Local Development; (iii) District Development Committees (DDCs) of the 11 project districts; and (iv) the Agro Enterprise Center of the Federation of Nepalese Chamber of Commerce and Industries (FNCCI)⁴.
- 25 **Membership Criteria for CAA:**⁵ Specific membership criteria for general CAA members are set out in the Memorandum of Association (MOA). These are:
- (i) The commercial stakeholders must be engaged in-for-profit agriculture-based production, processing or trading within the districts covered by the Company for at least two years;
 - (ii) In the case of farmer cooperatives or groups, they must (a) have at least twenty-five active members. Such membership shall be demonstrated by reference to the cooperatives' or group's current accounts, proceedings of meetings or activities, or other

³ Added as per the 11th CAA Board of Directors' decision and concurrence of ADB.

⁴ Added as per the 11th CAA Board of Directors' decision and concurrence of ADB

⁵ Deleted the first sentence of the draft SOP "Only the commercial agricultural stakeholders capable of contributing significantly to the long-term commercialization of the agricultural sector in Nepal shall be eligible to be the General Members of CAA" as per Boards' comments and ADB's suggestion.

- formal written records; and (b) be able to demonstrate sales of agricultural products of not less than Rs.500,000 (Five Hunderd Thousand Rupees) in at least one of the two years immediately preceding their joining the Company as a member; and
- (iii) In the case of traders or processors, they must (a) be constituted as legal entity or otherwise officially licensed to engage in commercial business activities; and (b) be able to demonstrate sales of not less than Rs.500,000 (Five Hunderd Thousand Rupees) from a main base located within the districts covered in the year immediately preceding their joining the Company as a member.
- (iv) The amount of ceilings for farmer or cooperatives, traders and processors mentioned in clause no (ii) and (iii) above, however, can be modified based on its field level practicability provided that CAA Memorandum of Association is also modified and approved accordingly by the CAA General Assembly and ADB⁶.
- (v) The management every year will review the application of membership for CAA and the Board of Directors will issue new General Membership.
- 25 **Eligible Activities and members** : All the activities of CAA members will be demand- and stakeholders-driven. The activities will be marketing and processing oriented, which will benefit more than one type of stakeholder. Activities eligible for CAF funding may cover any type of subproject that require financial assistance for formation/strengthening of functional value chains to support commercialization in the EDR such as investments in (i) technology at any point in the value chain, (ii) infrastructure, (iii) information and marketing, and (iv) capacity development. These subprojects are not normally financed by financial institutions. They are *semi-public* investments in support, services or infrastructure, which benefit more than one party by their direct implementation and/or are risky and innovative in nature, but if successfully implemented may encourage replication by other investors.
- 26 The CAA will finance (i) community-based market infrastructure investments, and (ii) noninfrastructure investments for community and for the traders and processors.
- 27 **Community-Based Market Infrastructure Investments-** Only the DDCs are eligible to apply for community-based market infrastructure investments. Farmer communities, through their village development committee (VDC), will identify needs in a participatory manner, and the DDCs will screen VDC requests before submitting the proposal to the CAA district office to ensure (i) no duplication with other development programs in the district, and (ii) adequate appraisal of the technical and financial feasibility of the proposal. In this type of investment, the CAF will finance a maximum of 75 percent of the investment cost, with the community providing a minimum of 10 percent of the investment cost in the form of labor and in-kind contributions. The DDC will finance the remaining 15 percent of the investment cost in the form of technical services, field appraisal, and assessment. The range of community-based investments will include small collection centers, small markets, ropeways, small suspension bridges, farm-to-market road improvement including culverts and swing bridges, small-scale cool or cold storage, and small-scale marketing-related water supply. The VDCs and farmer communities assisted by the DDC district technical office will be responsible for construction, management, and maintenance of the infrastructure.

⁶ Additional Clause added as per the 11th CAA Board of Directors' Decision and concurrence of ADB.

- 28 **Non-infrastructure Investments-** The CAA will provide financial assistance for non-infrastructure investments of farmer groups and cooperatives, traders, and processors, which are the general members of the CAA. For this type of investment, the CAF will finance a maximum of 50 percent of the investment, with the remainder to be contributed by the direct beneficiaries. Among others, the investments could include (i) group promotion of improved cultivation practices for HVC and emerging crops; (ii) pest management including integrated pest management techniques; (iii) farm machinery and equipment; (iv) greenhouse equipment; (v) agro processing equipment and machinery; (vi) laboratory equipment for product testing and quality control; and (vii) market-related research and technology development such as pickle making, fruit or vegetable drying or preservation, tomato pulp making, crop diversification into emergent HVCs, and farm-to-market packaging systems. The selected investments must have maximum demonstration impact on the community and other agriculture stakeholders. All farm-level investment supports will be provided to farmer groups or cooperatives, not to individuals. Traders and processors must explicitly demonstrate how their proposed investments will enhance the agriculture value chain by strengthening linkages between farmer groups and markets.
- 29 **Other non-infrastructure investments-** CAA will provide financial assistance to general members in launching promotional and representational activities such as (i) trade fairs and trade promotion; (ii) industry networking on issues requiring joint action for resolving cross-border issues and reducing local red tape; (iii) product labeling and certification arrangements; (iv) product identification, branding, and feasibility studies; (v) quality mark initiatives; (vi) brand and intellectual property right protection; and (vii) specialized skill development and employment strategy formulation.
- 30 **Investment Ceiling** The maximum amount of financing that CAA will provide for each community-based market infrastructure intervention will be \$80,000. For the non-infrastructure investment, the maximum financing from CAF will be \$20,000. The allocation of the CAF on the district-level will vary according to their respective needs. The maximum amount of financing that each general member can obtain from CAF will be \$40,000 on cumulative basis, whereas, the maximum amount that each DDC can obtain from CAF will be \$320,000 on cumulative basis.
- 31 **Activities selection criteria** : The demand driven activities submitted by CAA members for CAF financing must meet a set of criteria as a prerequisite for further processing and approval. In addition to the following general criteria, specific criteria for (i) the community-based market infrastructure investments, and (ii) non-infrastructure investments will be formulated and applied.
- (i) Add value to agricultural products
 - (ii) Benefit other stakeholders and the community as a whole,
 - (iii) Improve the market chain efficiency,
 - (iv) Incorporate "public good" content,
 - (v) Have strong demonstration effects on the rest of the community.
 - (vi) Have the potential to increase incomes and opportunities of the poor and/or other disadvantaged groups such as women and low caste groups.
 - (vii) Technically sound and has the potential to be financially viable, as requisites for sustainability.
 - (viii) have no detrimental effects on the environment once implemented.
- 32 **Activity Period**: CAF will be utilized within the six-year implementation period of the Project and will lapse on its completion.

- 33 **Impact:** The Project would help the farmers to tap the opportunities by strengthening the capacity and linking with the market chain and the processors and traders to improve their efficiency building their linkages back wards with farmers and small entrepreneurs. The project helps the service providers of the area to enhance their efficiency and effectiveness. The impact of the project could be measured by (i) increased public and private investment on commercial agriculture, (ii) inclusion of poor and semi-commercial stakeholders in commercial agriculture, (iii) timely availability of market information to farmers, and (iv) enhanced capacity of project partners. It also show capacity building of members in terms of knowledge, ability to gauge market situation commercially, analyze and demand better service, enhance performance in terms of sales, profitability and turnover. The project would also help the other service providers serving CAA members.
- 34 The impact of the Project on each CAA member and other beneficiaries will be evaluated on the basis of qualitative and quantitative improvement they have received from the investment made in public and private level for infrastructure and non-infrastructures for commercialization of agriculture and improvement the members exhibit in performance including in improvement and increased provision of public goods, increased sales and profitability.
- 35 **Impact on CAA members-** The impact of the project occurs on members from establishment of CAA, investment on community based infrastructures and non-infrastructure could be measured with following indicators and verification means.

| Quantitative Indicators | Source of Verification |
|--|---|
| <p>A) Establishment of Commercial Agriculture Alliance</p> <ul style="list-style-type: none"> • Operation status of CAA Head Office and Branch Office • Numbers of web site visitors, Numbers of project information brochures distributed and responded • Numbers of CAA members in the target districts covering district locations, HVC commodities, and other stakeholders • Numbers and types of market awareness activities conducted by CAA and its partner organizations in each district <u>with the support of CADP PMU⁷</u>. • Numbers of meeting conducted by CAA members in response to market awareness activities of CAA, numbers and types of relevant issues raised, discussed and prioritized for commercialization agriculture in the district • Identification of numbers of potential CAA members • HVC Commodities well represented in CAA from all target districts and total members not less than 160 • Numbers of meeting at CAA head office, branches and regularity of meetings | <ul style="list-style-type: none"> • Annual Report • Website record, inventory record of brochure and public response on brochure distributed. • Membership Record, Meeting Minutes showing discussion issues and regularities of meetings, Records and follow ups on discussion issues. • Meeting Minutes of CAA district office, Record of visitors's enquiries, quarterly and annual reports of CAA and Project Management Unit (PMU). |

| Qualitative Indicators | Source of Verification |
|---|--|
| <ul style="list-style-type: none"> • General understanding of members on commercialization processes, value chain linkage of HVC commodities of their districts • Participation levels of CAA members in the activity, problems and issues raised in strengthening the value chain • Types of services demanded from the project, service providers and from themselves. | <ul style="list-style-type: none"> • Meeting Minutes at districts, Quarterly and Annual Reports |

⁷ Added as per the 11th CAA Board of Directors' decision and concurrence of ADB.

| Quantitative Indicators | Source of Verification |
|---|--|
| <p>B) Community-based market infrastructure investment in project districts</p> <ul style="list-style-type: none"> • Numbers of Sub-projects identified and proposal developed by DDC (At least 50 market infrastructures developed by the project completion expected) • Numbers of Sub-project approved by CAA and completed in the target districts • Types of infrastructure developed and its use • Status of management and management mechanism of infrastructure developed for commercialization of agriculture | <p>Socio-Economic Survey of target districts</p> <p>Sub-project completion Report</p> <p>Project Management Report</p> <p>Monitoring Report</p> <p>Quarterly / Annual Report</p> <p>DDC's and Community's Report on sub projects</p> <p>Minutes of the Infrastructure Management Committee</p> |

| Quantitative Indicators | Source of Verification |
|--|--|
| <p>C) Non infrastructure investment to general CAA members to add value in agriculture</p> <ul style="list-style-type: none"> • At least 200 subprojects implemented by project completion • Type and numbers of supported subprojects such as in quality improvement, management and control; agro processing technology, equipment, and machinery; supports on promotional and representational activities like trade fairs, intellectual property right protection, product labeling and certification, and industry networking • At least 10 commercial agriculture promotional and representational activities launched by project completion • Increased area coverage and production of HVCs • Improvement in quality of agriculture produce • Increased sales and profitability of farmers, cooperatives, processors and traders • Increased export-related sales • Position of value chains strengthened • Increased employment in CAA districts | <ul style="list-style-type: none"> • Activity report on sub-project supported • Project Completion Report • Project Management Report • Member's Interaction Reports. • Monitoring Report • Quarterly / Annual Report • Interviews & Reports • Financial statements and Guided Interview |

| Qualitative Indicators | Source of Verification |
|---|---|
| <ul style="list-style-type: none"> • Improvement in information dissemination | <ul style="list-style-type: none"> • Guided Interview and Reports |
| <ul style="list-style-type: none"> • Participation level of community members, VDC and submitted to CAA district office for processing | <ul style="list-style-type: none"> • Guided Interview and Reports |
| <ul style="list-style-type: none"> • Increased awareness and interactions among stakeholders at VDC, DDC | <ul style="list-style-type: none"> • Interaction Reports |
| <ul style="list-style-type: none"> • Increased knowledge to members and their associations on market of HVC | <ul style="list-style-type: none"> • Interaction Reports |
| <ul style="list-style-type: none"> • Improvement in production Processes | <ul style="list-style-type: none"> • Quality report of produce |
| <ul style="list-style-type: none"> • Improvement in processing and market management procedures | <ul style="list-style-type: none"> • Guided interviews and Reports on product quality & price gained |
| <ul style="list-style-type: none"> • Improvement in infrastructure | <ul style="list-style-type: none"> • Service report of infrastructure |
| <ul style="list-style-type: none"> • Improvement in infrastructure management | <ul style="list-style-type: none"> • Guided interviews & Reports |
| <ul style="list-style-type: none"> • Improvement in coordination among stakeholders | <ul style="list-style-type: none"> • Minutes & implementation of decisions |
| <ul style="list-style-type: none"> • Enhanced position of value chains | <ul style="list-style-type: none"> • Guided interviews |
| <ul style="list-style-type: none"> • Utility of membership for CAA members | <ul style="list-style-type: none"> • Guided interviews |

36 **Impact on Service Providers:**

| Quantitative Indicators | Source of Verification |
|---|-------------------------------|
| Increased revenues | Financial statements |
| Increased number of clients | Guided interviews |
| Enhancement in facilities for service | Guided interview |
| Qualitative Indicators | Source of Verification |
| Increased awareness of service recipients | Guided interviews |
| Increased interactions among service recipients | Guided interviews |
| Increased product making, guiding and monitoring capacity of private and public service providers | Annual Report |
| Increased enquiries on range of services by CAA members | Guided interview |
| Increased range of services offered to CAA members | Guided interviews |

37 **Interim Impact Assessment:** A CAA initial mid-term review is planned for 24 months after launch, followed by a second and third review after 48 and 72 months. As a part of the interim review of the CAF operation, a review team from CAA, who will report to the CAA Board of Directors, will conduct a sample survey. On-site interviews will be carried out with a representative sample of CAF grant recipients representing different types, sizes and sectors.

D Institutional Set-up

D.1 Composition

38 CAA is established as a not-for-profit distribution company registered under the Company Act 2006. It will be a member-based institution having Head Office and 11 Branch Offices. The CAA will have an elected Board of Directors and a management team headed by a General Manager. The branch in each project district will be headed by the Branch Manager. Pre-appraisal of the project is done in the respective district by the District Review Committee. The final appraisal is done at the head office by the Project Appraisal Panel and Board makes final approval on all types of grant proposal. In the management, CAA has target to comprise of 20 percent women.

D.2 CAA Head Office

39 The Head Office of CAA shall be stationed at Biratnagar and will undertake:

- (i) helping branches in conducting awareness campaign on activities of CAA
- (ii) the final screening and approval of the grant applications ;
- (iii) the necessary disbursement of the grant funds to the intended recipient(s);
- (iv) the maintenance and update of the membership registry, including issuance of the membership card (to be used as evidence of CAA membership); and
- (v) the coordination of branch activities and build the capacity of project partners and CAA staff to be able to contribute significantly to the project.
- (vi) documentation of grant and the information dissemination to CAA members on activities of the project and CAF to maintain the integrated market information to address the current imbalance in market information sharing and enhance transparency within the agriculture value chain.
- (vii) ensure appropriate dissemination of market information among the members with the assistance of CADP PMU⁸.
- (viii) processing and issuing of CAA membership by reviewing the application received through District Branch Office (The CAA may also call CAA Membership Application through District Agriculture Development Office (DADO) and directly through the Head Office, as required)⁹.

D.3 Board of Directors

40 The Board of Directors shall comprise the maximum of eleven Directors with at least two female representatives:

- (i) Six representatives from the General Members.

⁸ Added as per the 11th CAA Board of Directors' decision and concurrence of ADB.

⁹ Additional Clause added as per the 11th CAA Board of Directors' decision and concurrence of ADB.

- (ii) Two representatives from the Government Agencies
 - (iii) Two representatives from District Development Committee.
 - (iv) One representative from Agro Enterprise Centre of the Federation of Nepalese Chamber of Commerce and Industries.
- 41 It is intended that all Board members will be respected individuals from the private and public sectors, acting in their individual capacities, rather than only as “representatives” of particular organizations. The independent Chairperson will be appointed by agreement of the Board and will be drawn from the private sector general members of the Board. The tenure of the directors shall be up to two years and can be re-elected/nominated for another term. The CAA General Manager will attend CAA Board meetings as non-voting attendees. General Manager will also act as convener to the Board. The Board of Directors shall appoint a Company Secretary possessing necessary qualification as mentioned in the prevailing Company Law for the Company.

D.4 General Manager

- 42 General Manager will be the Chief Executive Officer. The tenure of the General Manager will be for three years and he/she may be reappointed on satisfactory performance. The General Manager will be jointly recruited by the Government and ADB through a competitive and transparent process, and will be formally appointed by the CAA Board of Directors. He/she should possess the following minimum qualification and experience:
- (i) at least Bachelor degree in finance, commerce, management or economics or other related field;
 - (ii) general familiarity with the agricultural sector and its importance in Nepal;
 - (iii) good understanding of financial management and analysis, investment planning and analysis, project appraisal, and credit distribution;
 - (iv) substantial working experience as a manager in relevant institution, preferably in the banks and financial institutions or adequate working experience as a Project Manager and/or financial expert in any internationally funded project.
- 43 The General Manager shall be responsible for the management and day-to-day operation of the Company subject to the prevailing Law, Standard Operating Procedures, Code of Conduct, AoA, MoA and as per the instruction of Board of Directors of the Company and perform the related duties and responsibilities accordingly¹⁰. The management team headed by a General Manager shall be assisted primarily by a Company Secretary, a Chief Accountant, a Compliance Officer, and other support staff.¹¹

D.5 Appraisal Panel

44. The final review and appraisal of the applications for CAF funding will be made by Appraisal Panel. The panel will consist of: (i) two Board members; (ii) the General

¹⁰ Added as per the 11th CAA Board of Directors' decision and concurrence of ADB.

¹¹ The other staff at CAA headquarters include a Senior Office Assistant, a Computer Operator, and Service Personnel.

Manager; and (iii) two technical experts, who will be selected by the Board from a list prepared by the General Manager. The chair of the panel will be selected from among its members. The tenure of the Board members and the technical expert in the Appraisal Panel will be limited to two years. The quorum of three members will be required to approve applications, by majority vote if necessary.

D.6 CAA District Office

45. CAA will have district office in all 11 target districts. The CAA staff at the district level will have adequate level of women representation. The district branch will have the following functions:
- (i) receive and process the membership registration. The branch will then submit the recommendation letter to the CAA headquarters for the formal membership registration;
 - (ii) undertake initial review on the concept, provide information to develop the concept note to detailed proposal and select the proposals for CAF, and
 - (iii) undertake other responsibilities assigned by the CAA General Manager.
 - (iv) the maintenance and update of the membership registry, including issuance of the membership card (to be used as evidence of CAA membership); and
 - (v) the coordination with other branches and head office for CAA receipts,
 - (vi) Monitoring and followup on CAF financed branch activities.
 - (vii) documentation on financing and information disseminated to CAA members on activities of the project and CAF,
 - (viii) to maintain the integrated market information to address the current imbalance inmarket information sharing and enhance transparency within the agriculture value chain.

D.7 Branch Manager

46. In each District Branch, there will be a CAA Branch Manager, who will be selected by the General Manager through a competitive and transparent process. The Branch Manager will be assisted by Finance and Administration Officer, a Monitoring and Evaluation Officer and other support staff.¹² The branch manager will report to the General Manager. The tenure of the Branch Manager will be for two years, and renewable on satisfactory performance.

D.8 District Review Committee

47. A District Review Committee will be formed at each District Branch to undertake the initial review and selection of proposals submitted by CAA members of the district. The District Review Committee will comprise:

¹² The other staff in the district Branch include an Office Assistant, a Computer Operator, and a Service Person.

- (i) the Branch Manager;
- (ii) two CAA general member representatives;
- (iii) one DDC representative;
- (iv) one representative from the District Agriculture Development Office;
- (v) the Women Development Officer from the District Women Development Office;
and
- (vi) one external technical expert.

48. The Branch Manager will chair the committee. The technical expert will be selected by the General Manager from the list prepared by the Branch Manager. The tenure of the technical expert and the CAA General Member representatives will be for a period not to exceed two years. The District Review Committee may seek technical advice from external parties to facilitate initial screening of the CAF applications.

D.9 Conflict of Interest

49. **Procedures covering potential conflicts of interest:** The Board of Directors will, in its first meeting, adopt conflict of interest rules that will be applied to Directors, the Appraisal Panel, and management and staff of the CAA. If an application is being considered for a CAA member in which a particular BOD member or Appraisal Panel member or management/ staff of the CAA has an interest, then that interested party will be obliged to exclude himself/herself from the discussions covering that particular application. The definition of "interested party" shall include the immediate family members covering mother, father, son, daughter, brother, sister, or any of the same related by marriage, having any relationship or interest in the application being considered. Such interests could include being a shareholder, employee, supplier of goods or services, a customer, representing more than 5 percent of sales, or a professional advisor (e.g. accountant, lawyer). The conflict of interest test in each situation should be based on whether the declaring party can be reasonably perceived as being able to exercise independent business judgment without being subject to any apparent form of interference.
50. If there is any doubt, the interested party must exclude himself/ herself from any consideration of the application under review. In any business decision and preparation thereof, conflicts of interest must be avoided through self-declaration of the person concerned. Sanctions shall be applied should that person fail to declare conflicts of interest.
51. In order to enhance good governance in the operations of CAA, the Code of Conduct, which will incorporate the conflict of interest rules for staff and members of the Board of Directors acceptable to ADB shall be implemented. In addition, there shall be requirement for the CAA General Manager, the CAA appraisal panel members and the CAA Compliance Officer to disclose their wealth prior to and upon completion of their assignments. The disclosure must be made in a manner which will allow the public to have access to information regarding the wealth of these persons.

E Proposal Procedures

E.1 Project Proposal Preparation

52. **Conduct of awareness program-** After setting-up the CAA offices and grant disbursement conditions and procedures, the project will conduct project awareness and training programs in the target districts stating its purpose, the benefit it can provide to farmers, processors, traders, other stakeholders and their association/ cooperatives. Awareness program will inform the target group on processes and requirement to become members of CAA, educate on special features of program like focus on HVC, emphasis of project on marketing and processing of HVC, inclusion of poor and semi-commercial stakeholder for their development, response of the project for social inclusiveness and environmental responsibility, two dimensional thrust of the program, types of grant facility available from CAA, indicative list of the community based market infrastructure investments and non infrastructure investment. CAA will utilize mass media (newspaper, radio, and television, website), trade fairs, and brochures for information dissemination. It will inform the target group on the basic quality to be maintained by CAA members to become an active CAA member, sub-project selection criteria and the process of sub-project development. It will educate the beneficiaries on sub-project identification, requirements of detailed proposal, selection and approval process, accountability of members and responsibility of the stakeholders.
53. The awareness and training program and promotion will be conducted through PMU, partner NGOs, District Agriculture Development Office and by the selected service providers like Agro Enterprise Center, Chambers of Commerce and others. The Project will support the analysis, review, and dissemination of market information, and notification of market trends and events to the CAA members through mass media.
54. **Guidance on procedures:** The CAA members (the applicants) will first approach the CAA District Office for guidance and the information on documents required, information to incorporate in the Sub-project Proposal and to make a Sub-project Concept Note (SCN). The awareness and training activities will enable CAA members to formulate SCNs. CAA District and Head Office shall maintain the copy of materials and document used in program awareness and marketing information circulated among the CAA members. A website and explanatory leaflet will be established to make this information accessible.
55. **Review of SCN.** CAA district branch will review and evaluate the submitted SCN in line with the criteria and coverage of the project and it will serve as the basis for screening-in subprojects for further developing into detailed proposal or conversely for screening-out those that do not meet one or more of the selection criteria. District branch will determine if the proposed subprojects (i) satisfies the CAA subproject selection criteria ii) segregate the type of investment and (iii) are potentially viable based on described activities iv) the stakeholders involved can initiate, develop and manage the proposed project with grant facility and v) sustainability of the project.

56. **Preparation of Subproject Detailed proposal (SDP).** Selected SCN or screened-in subprojects will be further developed to detailed proposal by the CAA members and will submit to CAA District Branch for review, evaluation and recommendation. If the subproject is screened-out, and the proponent is still interested to pursue it, the proponent will be required to make the necessary amendments on the SDP for reconsideration and re-screening. By whichever route the selection has been achieved, the process and information involved in achieving it will be on record and is to be regarded as the first phase of subproject evaluation process. Business service providers/ NGOs of the district may assist CAA members in the preparation of SDP at their cost.
57. In all cases where the initial screening is positive, and before submission of the proposal to the Head Office, the client will be visited 'on-site' by a CAA district level staff who will file a brief site checklist following the visit. The purpose of the site visit is mainly is to ensure that the applicant exists in reality and is engaged in the activity on the scale described in the initial application. Once it becomes known that a site-visit is a mandatory part of the process, this should discourage most would-be fraudulent applications. Following the preparation of the SDP, CAA may decide to
- Reject the application;
 - Return it to the members for upgrading or completion, or
 - Forward the proposal to the Head Office
58. **Subproject Detailed Proposal (SDP) Assessment:** On receipt of SDP, the Branch staff will make preliminary assessment of the sub project and will submit the proposal to District Review Committee (DRC) for pre-appraisal and decision. Project recommended by the DRC shall be submitted to head office for subsequent appraisal and approval. The branch staff shall establish at this stage that the grant element is clearly understood by the applicants and are capable to arrange remaining fund requirement from the beneficiary members of the project prior the use of co financing facility.
59. The SDP must clearly state the purpose of the proposed expenditure, which must aim at enhancing the ability of its members to expand its business and profitability. The proposal should be fully considered the cost factors, including the fee for the service provider, and evidence of the ability to co-finance should be attached. The district branch should ensure that all fees are within market norms and service limits for the service provided. The proposal should also include time-scales and cash flows to indicate when the cost sharing grant or co financing will be drawn down. CAA district office should also verify that the profile of the applicant and its commitment to completing the activities set out in that SDP (Appendix 1).
60. **Conduct of Subproject Detailed Proposal (SDP).** The details of the conduct of the subproject appraisal will be specified and further developed as the CAA and its branches gains initial experience. However, these are some general guidelines and that need to be followed during the conduct of subproject appraisal. Among others, the SDP must:
- (i) **Meet the grant financing requirement.** To meet the grant financing requirement, proponents must be qualified members (i.e., DDCS, farmers groups / cooperatives, traders, and processors) of the CAA and the proposed subproject must be included in the list of *Types of Subprojects Eligible for CAA grant financing*. The indicative list of the eligible sub projects is listed at Appendix 2.

- (ii) **Elaborate how the proposed subproject meets the selection criteria.** A detailed description of the proposed subproject must be presented in the SDP, including its rationale and objectives. An elaboration on how the proposed subproject will contribute to the overall development of the area where the subproject will be established, and the EDR as a whole, must be presented. This will provide the basis for explaining how the proposed subproject satisfies the selection criteria. Compared with the SCN, the SDP will be more precise, by presenting documented evidence, in explaining how the selection criteria have been met.
- (iii) **Identify key participating actors and assess their capabilities.** The SDP must identify the key actors (e.g., organizations, individuals, etc.) who are envisioned to play important roles in implementation. These shall be evaluated to determine their capability to carry out their proposed roles/functions in the subproject by focusing on their length of experience, adequacy of skills, organizational strength, and resources. The evaluation shall be undertaken within the context of the key actors' priorities and other commitments, their interest to participate, and provide the services specified. Furthermore, the roles/functions of all participating actors, as well as their expected outputs and benefits they will derive, must be clearly defined.
- (iv) **Quantify/Describe benefits accruing to the stakeholders.** The benefits to be derived from the proposed subproject must be quantified or described if the benefits are difficult to quantify. A subproject must be evaluated on (a) how it is likely to benefit significantly the parties in the value chains, (b) how it will strengthen linkages among the several beneficiary parties, and (c) how it will contribute to attaining a higher general level of commercialization in the district/EDR.
- (v) **Assess the technical viability of the proposed subproject.** The SDP must elaborate on the technical and logistical (i.e., human resources, equipment, civil works, and other facilities, etc.) requirements of the proposed subproject. The process of contracting and awarding must be clearly described and work plans and implementation schedules of specific activities must be clearly presented.
- (vi) **Assess the financial and economic viability of the proposed subproject.** A proposed subproject must be able to demonstrate that its operations will result in greater financial/economic benefits than the financial/economic costs it will incur.
- (vii) **Assess the subproject's sustainability.** The SDP should include an assessment on the sustainability of the subproject. Sustainability may take many different forms or aspects, depending on the nature of the subproject. The CAA will therefore have to develop sets of criteria suited to each type of subproject.

61. Elements of Project Proposal include:

| Element | Description |
|----------|--|
| SDP Form | <ul style="list-style-type: none"> • Actor's description: Full Name, Legal status, Full address • Expected Year of operations • Description of product range • Number of full-time employees, • Project Title/Synopsis/Objectives • Planned duration of project • Service Provider details, if any • Project Cost/Cost Sharing Grant applied for |

| Element | Description |
|--------------------------|---|
| | <ul style="list-style-type: none"> • Beneficiaries • Planned outputs at different level |
| Project Plan (free-form) | <ul style="list-style-type: none"> • The specific activities for which CAF support is being requested • Market Overview/Rationale • Process • What is the expected result • Timescales/Milestones • Outputs/Deliverables • Personnel executing the project • Control Mechanisms |
| Financial Projections | <ul style="list-style-type: none"> • Planned Expenditure for which CAF support is requested, broken down by each activity • Cash flow Forecast • Control Mechanisms |
| Co-financing | <ul style="list-style-type: none"> • Source(s) of funds • Proof of availability • Credit Status |

62. **Sound projections:** The proposal must be realistic in the sense that it must have a reasonable chance of being implemented successfully, given the realities of the operating environment. There must also be demonstrable *additionality* in what is planned. Merely continuing current efforts in the hope of extending sales will not be sufficient. The proposal must demonstrate that the members have properly considered the following essential planning questions:
- *Why* one particular initiative and/or development action is chosen instead of others; on what assumptions is this action based; and why this development action is realistic and achievable?
 - *What* steps are required for that action?
 - *Which* financial, advisory and service resources are likely to be needed, and where will they come from?
 - *How long* will the process take; and what benefits are to be expected?

E.2 Selection of Service/Service Provider

63. The successful operation of project involves a large numbers of activity in infrastructure building and providing non-infrastructure support to the CAA members. Various service providers in various capacities can assist the CAA members in their development endeavor.
64. **Eligible Service providers:** The selection of the service provider is the responsibility of the CAA members. However, the project will have the right of veto if it has any doubts about the ability of the nominated service provider to undertake and complete the task satisfactorily, or if there is any doubt that there is a genuine arms-length commercial relationship between the applicant and the service provider. The CAA will retain the right to refuse applications from providers where they consider a potential abuse of the CAF is

likely. CAA will require the service provider to show evidence of assignments of a similar nature in the form of third party references. In the case of newcomers, the service providers will need to provide CVs of professional staff, indicating that the experience of the consultants is appropriate to the task envisaged.

65. **Service Providers will be selected on the basis of:**

1. Legal status and recognition (in the case of organizations);
2. At least 3 years of continued functioning;
3. Track record of providing services in the proposed field and effectiveness;
4. Demonstrated skills in the field of proposed service;
5. Transparency of accounts and decision-making;
6. Evidence of local acceptance;
7. Willingness to work with partner NGOs, local bodies, government agencies, farmers, processors, traders and others in the value chain.

66. **Eligible services:** Any usage of an external service which is charged for and which can reasonably be expected to contribute to the achievement of improvement in farming practice/ crop management/ post harvest management and product marketing which shall be observed qualitatively and quantitatively in terms of performance of service receiver, will constitute an eligible service usage. The following is a purely illustrative example of a service usage that would normally be eligible under this definition.

- A short-term contract management services for example, up to one production/processing cycle to show the farmer/ traders/processors how the improvement in existing farming/ processing/trading practice makes effect in quality production/processing/marketing and improve the sales and profitability at farmer/trader/processor's level. This activity would normally be eligible, but new permanent staff appointments would not. The length of time for which temporary contract management could be supported would depend on a case being made as to how long the required transfer of know-how; skills, etc. could reasonably be expected to take.

67. **Defined deliverables from an eligible activity:** For each eligible service/ travel usage for which support is being sought, the applicant concerned will be expected to define "deliverable," the sight of which will verify that the activity has indeed taken place as described. Depending on the circumstance, a defined deliverable might consist, for instance, of a brochure, a training certificate, record that shows improvement in sales/ use of improved technology by members receiving services, receipts for trade fair stall rental, travel or hotel receipts, etc.

E.3 Processing of Applications

68. **Client refundable deposit or "earnest money":** All the SDP submitted to CAA District Branch for grant by the farmers group/ cooperatives must be accompanied by a bank draft or cash deposit of Rs. 2500 Rupees two thousand five hundred. The earnest money for the traders and processors shall be Rs.5,000.00 (Rupees five thousands). Such deposits will be immediately received in writing with the applicant. This deposit will be refunded (net of any relevant bank charges) to the applicant by bank transfer or draft in the following situations: a) The SDP screened out by the CAA, or; b) SDP approved but not implemented by members.

69. If the member's SDP is approved, but the member fails to implement the SDP within stipulated time, then the deposit shall be forfeited and retained by CAA to be applied against general operating costs. This measure is designed to screen out potential time-wasting applicants, who might otherwise engage CAA management and processing time without having any serious intent (or resources) to complete the approved activities. The refundable deposit mechanism should not cause difficulty for any bonafide applicant who is willing to cost-share with the CAA, and allows the CAA to concentrate on giving optimum service to those clients who want to genuinely partner with the CAA to improve commercialization of agriculture and enhance their profitability and growth.
70. **Processing of applications by the CAA:** All SDP will apply through the CAA District Branch. For the proposals on non-infrastructure related investments, CAA member will prepare the SDP and apply directly to the CAA district branch. For community based market infrastructure, initial formulation of the proposals will be prepared by the Village Development Committee (VDC) and the community groups. These proposals will then be submitted to the DDC, which will undertake the initial screening before submitting to CAA district branch to ensure (i) there is no duplication with other development programs in the district and (ii) the technical and basic financial feasibility of the proposal is adequately appraised. The Branch Manager will forward the proposals to the district review committee for their evaluation. Those proposals which meet the criteria shall be further submitted to the appraisal panel at CAA headquarters for final review and approval.

E.4 Approval of Applications

71. **District Review Committee:** The first level of appraisal occurs at district level. The Branch Office and District Review Committee considering the type of project will screen, analyze and recommend the proposal for further processing to head office for all types of projects.
72. **Appraisal Panel meeting:** The proposals received from the District Offices shall be circulated to the members of the panel in advance of each meeting of the panel. General Manager of CAA will make the presentation. The Appraisal Panel will meet as and when a sufficient number of applications are ready for discussion (General Manager will use his/her discretion as to what is a sufficient number of applications). A senior CAA staff designated by the General Manger as Secretary¹³ to the Appraisal Panel will minute the Appraisal Panel discussion and decision. The Appraisal Panel will forward the finding of the appraisal to the Board for approval with its opinion and recommendation
73. **Role of Board of Directors in the approval process:** All the SDP recommended by the Appraisal Panel are discussed and approved by the Board. The Board can delegate certain approval authority to Appraisal Panel. In such situation, Appraisal Panel shall inform the Board of Director the entire such project approved and the Board shall approve all others above of its delegated authority. If the Appraisal Panel refuses to approve an application recommended by the GM and of within its approval limit or fails to approve such an application within four calendar weeks from the recommendation, then this application will be automatically referred by the GM to the Board of Directors.

¹³ Added as per the 11th CAA Board of Directors' decision and concurrence of ADB.

The Board of Directors shall have the authority to refer the application back to the Appraisal Panel, with its comments, for re-consideration and review. If, subsequently, the Appraisal Panel and the Board of Directors can still not agree about a specific recommended application, the matter should be resolved by discussion between the Appraisal Panel, the Board of Directors and the GM. In the event that the dispute can still not be resolved at that stage, the application would be deemed to be not approved.

74. **Approval by circulation:** If no Appraisal Panel meeting can be arranged sufficiently quickly, the GM will have the alternative available of arranging an approval "by circulation." Copies of the application or applications pending will be circulated to Appraisal Panel members, who would have the opportunity to raise queries or object to an application within ten days. If the GM receives no objections from Appraisal Panel members within ten days from the date of circulation, the application would be deemed to have been recommended to CAA Board for final approval .
75. **Rejections:** The intention is that every bona-fide member will be given the maximum opportunity and assistance required so as to enable it to benefit from the scheme. It would be expected that outright rejections would be rare, and would occur only in cases where there is a perceived attempt to defraud the scheme or where a client persists in pursuing an activity or activities that the CAA, in its considered view, deems to be inappropriate or wasteful.
76. **Revoking an approval:** The Board of Directors may revoke an approval already granted in the event that false or misleading information is determined to have been provided in support of an application, or where there is evidence of fraud or other intentional failure to comply with the terms and conditions of any approval. Any such case is to be reported in detail to the ADB within one week of the Board of Directors decision.

F Some Governance Safeguards -

77. Subproject selection will, inter alias, be governed by the following conditions:
- (i) Use of information technology to increase transparency, accountability and efficiency in the process will be strengthened. The project shall disseminate information regarding the project objectives, program and funding arrangement to the targeted beneficiaries to ensure high level of awareness and understanding.
 - (ii) The entities closely affiliated to Appraisal Panel Members shall be prohibited to submit any proposal for grant. The Appraisal Panel Members, and their entities, however are eligible to submit their grant proposal once their terms as a District Review Committee Member or Appraisal Committee Member are completed. ¹⁴
 - (iii) No CAA Board Member Appraisal Panel Member and District Review Committee Member¹⁵ may vote on the approval/rejection of a subproject proposed by himself/herself, whether as the sole proponent or one of the proponents.
 - (iv) The CAA Board will need to formulate regulations governing the limits and Code of Conduct to prevent incorporation of Conflict of Interest of Board, management and

¹⁴ Added as per the advice of ADB on the Board's request to eliminate clause 77 (ii)

¹⁵ Added as per the 11th CAA Board of Directors' decision and concurrence of ADB.

- staff of CAA and securing an unduly high share of the CAA portfolio in one type of activity.
- (v) Complaint Redressal Mechanism shall be established to ensure that the community will be able to submit complaint and track the measures undertaken to address them.
 - (vi) All approved SDP and relevant information on any aspects of the approved subproject, must be made available, upon request, to all partners and stakeholders. The applicants whose applications have been declined will be informed individually by CAA with reasons for the declination.
 - (vii) The CAA Board, upon establishment, must determine the subproject size limits intended for CAF grant, for each type of subproject.
 - (viii) All approved and implemented subprojects shall be subject to the general audit provisions of CAA.
 - (ix) The CAA General Manager, the CAA Appraisal Panel Members and the CAA Compliance Officer will be required to disclose their wealth prior to and upon completion of their assignments. The disclosure must be made in a manner which would allow the public to have access to information regarding the wealth of these persons.
 - (x) The maximum amount of financing that CAF will provide to community based market infrastructurer will be \$80,000.00 and for non infrstructure investment \$20,000.00. The maximum amount each General Member can obtain from CAF on cumulative basis will be \$40,000, whereas, the maximum amount that each DDC can obtain from CAF on cumulative basis will be \$320,000.
 - (xi) The performance audit of the CAA will be conducted annually to review all disbursements made by the CAA within a particular year and evaluate the extent to which proper and timely disbursements were made. This audit will be conducted by an independent and external monitor.
 - (xii) The CAA will establish a Code of Conduct, which will incorporate Conflict of Interest rules to be applicable to its Board Members, management and staff. The Conflict of Interest rules will be designed to ensure that CAA will operate in a transparent and equitable manner.
 - (xiii) Under the Conflict of Interest Rules The Board Members, Appraisal Panel Members, District Review Committee Members and CAA staff has the right to declare their interest.¹⁶
 - (xiv) The annual project progress report submitted by the PMU to ADB will be translated in Nepali language and made available to the public.

G Documentation and fund Disbursement

78. **Letter of Agreement:** On receiving approval for support, each recipient will be required to sign a letter of agreement, specifying the details of the actual support agreed. This

¹⁶ Added as per the 11th CAA Board of Directors' decision and concurrence of ADB.

- letter will also bind the recipient to present defined deliverables for viewing by the CAA. The letter of agreement will allow for the CAA, or an official appointed by the Board of Directors, to inspect all documents and financial statements relevant to the cost sharing grant project and its execution. The letter of agreement will also specify the individual nominated by the recipient to be its representative in dealings with the CAA.
79. **Outputs and transparency:** All information related to the application process and the investments approved by CAA shall be made available to the communities and partners within the project area.
80. **Supporting documentation:** The letter of agreement will bind the recipient to back up all claims for the reimbursement of eligible expenditures with receipted invoices/vouchers for all fees and incidental expenses covered, so as to enable the CAA to verify that the expenditures have indeed been made. This documentation, plus the agreed deliverables, must be retained for possible inspection by external monitoring consultants, auditors or ADB review missions for three years after receipt of a CAA grant or longer, if required by local law.
81. **Impact data:** The letter of agreement will bind the recipients to provide continuing sales revenue data of its members, to track the direct impact of the grant support and thus to monitor the achievement by the scheme of its intended goals. The letter will also commit the recipient to co-operate fully with the audits and sample surveys to be conducted later to evaluate the impact of the overall CAF scheme of CAA. Each recipient and its members will also be obliged to complete, after every supported activity, a brief one-page "feedback form," indicating the level of satisfaction/ improvement achieved from the program/ services.
82. **CAA grants to be matched by members contribution:** For community-based market infrastructure, CAA will finance 75% of the investment costs. The community will provide 10% of the investment cost in the form of labor and in-kind contributions, and the DDC will finance the remaining investment cost in the form of technical services, field appraisal and assessment. For the non-infrastructure investments, CAA will finance maximum 50% of the investment costs, with the remaining cost to be covered by the direct beneficiaries.
83. **Limits on CAF grant amount:** A maximum of \$80,000 will be provided for each community-based market infrastructure intervention and a maximum of \$20,000 for each non-infrastructure investment. The allocation of the CAF to specific districts will vary according to need. Each general member can obtain a maximum of \$40,000 on cumulative basis, and each DDC a maximum of \$320,000 on cumulative basis. The ceiling can be increased or decreased based on the need of the stakeholders by the Board of Directors, subject to concurrence of GoN and Asian Development Bank.¹⁷
84. **Eligible Expenditures:** Expenditures on service fees, and expenditures on travel and incidental expenses charged at cost, incurred wholly and exclusively on an eligible service/travel usage of CAA approved facilities will be eligible for 50% grant support. Salaries for staff employed by the supported institution are not eligible, nor are recurrent

¹⁷ Additional write-up added as per the 11th CAA Board of Directors' decision and concurrence of ADB.

costs such as royalty fees. No expenditures on fixed assets or computers can be supported.

85. **Exclusion:** To avoid any semblance of a conflict of interest, expenditures on services supplied by any institution or service provider to the CAA, or by associated firm will not be eligible for support. The activities, which have already received or are currently in the process of applying for grant from sources other than CAA, will not be eligible for support. The Board of Directors shall not nominate same Board Members for Appraisal Panel, grant withdrawal authorization and signing for fund replenishment.
86. **Avoiding Double Funding:** Usage of non-commercial service suppliers, or receipt of grants or subsidies from other sources, will be on the basis that double subsidizing of activities is to be avoided. In such cases, CAA cost-sharing grants will be calculated so that the total subsidy element from all sources external to the recipient does not exceed 75 percent of the total direct costs for community based infrastructure investments and 50 percent for non infrastructure investments.
87. **Basis of payment:** Generally, twenty percent of the grant amount shall be disbursed at the start after completion of documentation as advance. The remaining amount shall be disbursed in four equal installments on the reimbursement basis, i.e. payment will be made following completion of the agreed activities to be supported. This will be conditional on sight by the CAA of defined deliverables, and of receipted invoices/vouchers for eligible expenditures, certified by the appointed representative of the recipient. The final reimbursement shall be made after completion of all condition and complete investment of shares of the CAA members promoting the activity. Any changes on basis of payment condition will require the approval of Board of Director.
88. **Service Charge:** Of the total grant approval amount one percent service charge to the Framers Group / Cooperatives and 1.5 percent to the processor and traders will be charged during the payment of each installment and deposited in the CAA income account for the long-term sustainability of the CAA. The service charge should be paid by the CAA members from their own resources and not to be deducted from the approved grant amount. The operation modality of the CAA income will be decided by the CAA General Assembly based on the recommendation of the Board of Directors¹⁸.
89. **Authorization:** Disbursement of CAA funds to the recipients will require signatures of General Manager and the Chief Accountant. The record of disbursement and status of activity shall be presented to BOD on regular basis.
90. **Over-charging and collusion:** The CAA will establish that fee rates being charged for services are broadly in line with market realities, by comparison with fees currently paid in Nepal for professional services, particularly in cases where the Service Provider is not previously known to the CAA. Where there are grounds for suspecting over-charging or collusion, support can be made conditional on a transparent process of competitive bidding between at least three technically qualified contenders.

¹⁸ Additional Clause added as per the 11th CAA Board of Directors' decision and concurrence of ADB.

H CAA Performance Measurement

91. **Annual work plan:** The GM will consolidate from the project district and develop an Annual Work Plan for each twelve-month period of operation and obtain approval of Board of Directors. This will specify in detail the activities to be carried out in order to launch and promote the scheme, the disbursement targets, and how the program will be established and managed under the terms of this SOP and the Business Plan. Progress made in following the Business Plan, plus modifications proposed to the plan, will be reported to the Board of Directors within 30 days of the end of each operational calendar quarter.
92. **Performance measurement:** District and head office level performance of CAA will be measured against the approved annual work plan and will take account of the following indicators:
 - a. Number of cases actually received, processed and approved
 - b. Number of cases approved for a district and high value crop coverage.
 - c. Number of grants disbursed
 - d. Value of grants disbursed.
 - e. Value addition in agriculture products
 - f. Performance monitoring report on fund disbursed & job accomplished
93. The Project will be monitored and evaluated to determine its efficiency (delivery of inputs against specified implementation targets and time frame) and effectiveness (outputs, outcomes, and short-term impacts) as measured against baseline pocket area and product-chain data. The baseline and product-chain studies will be undertaken in each district and will involve quantitative and qualitative assessments in order to provide a clear understanding of the socioeconomic characteristics of the beneficiaries, including ethnicity, gender, and economic status, and an assessment of the value chain that will serve as a benchmark against which project progress can be measured.

I Accounts & Audit Procedures

94. **Accounts:** CAA shall have Imprest Account in Nepal Rastra Bank. The provision shall be made to record amount of Imprest account in government budget but will remain as nonfreezing account so as to make it not affected by annual budget activity of the government. The Imprest accounts will be managed, and liquidated in accordance with ADB's Grant Disbursement Handbook, and detailed arrangements agreed by the Government and ADB. The initial deposit into the Imprest accounts will not exceed the estimated ADB-financed expenditures for the next 6 months, or 10% of the grant amount, whichever is lower. The statement of expenditure procedure will be used for reimbursing eligible expenditures and liquidating the Imprest account for any individual payment transaction up to \$50,000 equivalent. Application for withdrawal of fund from the Imprest account of CAA shall be signed by General Manager and two members of the Board so authorized.
95. CAA shall maintain the withdrawal fund in two accounts, one for the disbursement of grant fund and one for operational expenditures. These accounts are replenished from the Imprest Account. CAA General Manager and Chief Accountant shall be authorized to manage the

disbursement and operational expense accounts. CAA will submit to ADB quarterly and annual progress report on project implementation particularly addressing the physical progress of the project and status of project component.

96. **Audit Committee:** At the first meeting of the Board of Directors the Audit Committee will be appointed, consisting of at least three members who shall not be close relative of the CAA members, Board of Directors, members of the Appraisal Panel or the General Manager. The Audit Committee will meet at least annually.
97. **Performance and Financial auditing:** An annual performance audit of CAA will be conducted by an independent and external auditor, having at least 10 years¹⁹ of working experience as a qualified accountant, to (i) review all CAA disbursements to the intended recipients of the CAF, (ii) evaluate the extent to which proper and timely disbursements were made, and (iii) recommend measures to improve the timely and effective disbursement of the CAF. The report will be submitted within three months of completion of financial year. The CAA will be required to fully implement the recommended measures within 1 month of its receipt of the report.

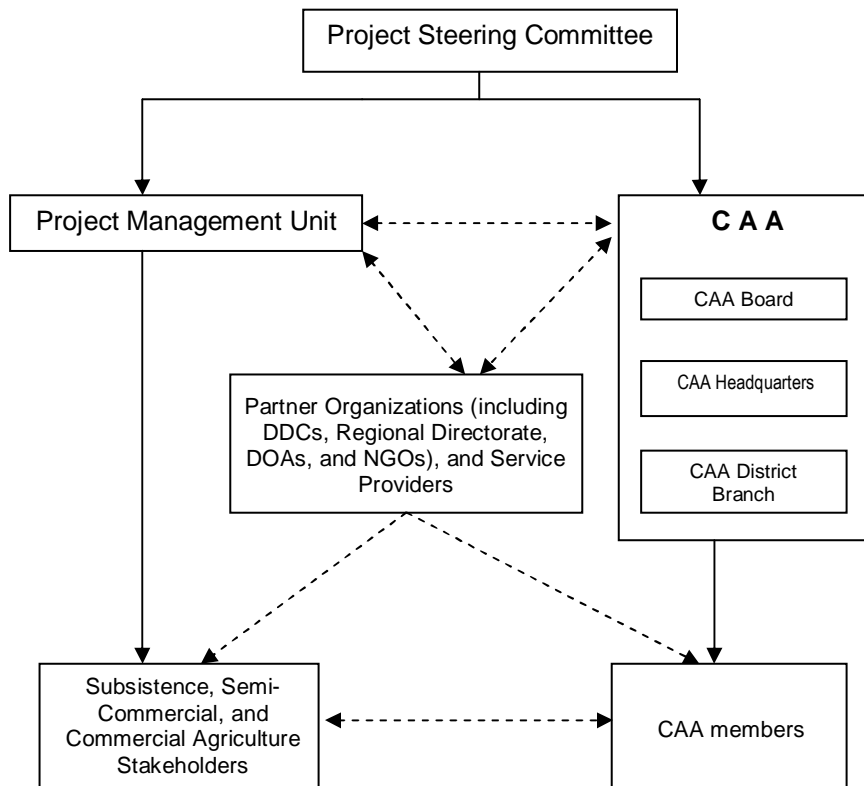
J Amendments to the SOP

98. **Modification procedures:** This SOP may be modified as required, so as to achieve the objectives of the scheme, but only by approval of the Board of Directors with subsequent endorsement by ADB. The SOP should seek to maintain a balance between achieving the objectives of the scheme on the one hand, and preserving simplicity, authenticity, and transparency in the approvals and supervision process on the other.

¹⁹ Modified as per the CAA Article of Association , 1st Board of Director's decision and concurrence of ADB.

APPENDIX-1

CADP Operation Chart



Legend: Supervision ————
Cooperation and Coordination - - - - -

Appendix - 2

Indicative List of CAF Investment

- Community-based market infrastructure investment proposals may include (i) small collection centers, (ii) small markets (haat bazaar), (iii) ropeways/suspension bridges, (iv) farm-to-market road improvement including culverts and swing bridges, (v) small-scale cold/cool storage, and (vi) storage facilities. Priority will be given to civil works that link farmers more effectively to the market chain.
- Noninfrastructure investment may take the form of (i) group promotion of improved cultivation practices for HVC²⁰ and emerging crops;²¹ (ii) pest management including integrated pest management techniques; (iii) farm machinery and equipment; (iv) greenhouse equipment; (v) agroprocessing equipment and machinery; (vi) laboratory equipment for product testing and quality control; and (vii) market-related research and technology development such as pickle making, fruit or vegetable drying or preservation, tomato pulp making, crop diversification into emergent HVCs, and farm-to-market packaging systems. The selected investments must have maximum demonstration impact on the community and other agriculture stakeholders. All farm-level investment supports will be provided to farmer groups or cooperatives, not to individuals. Traders and processors must explicitly demonstrate how their proposed investments will enhance the agriculture value chain by strengthening linkages between farmer groups and markets.
- Other noninfrastructure investments by CAA general members include launching promotional and representational activities such as (i) trade fairs and trade promotion; (ii) industry networking on issues requiring joint action for resolving cross-border issues and reducing local red tape; (iii) product labeling and certification arrangements; (iv) product identification, branding, and feasibility studies; (v) quality mark initiatives; (vi) brand and intellectual property right protection; and (vii) specialized skill development and employment strategy formulation.

²⁰ Including cabbage, cardamom, carrots, cauliflower, ginger, herbs, honey, mushrooms, tea, and tomato; and fruits such as citrus, mango, lychee, papaya, and pineapple.

²¹ Examples include onion, garlic, gherkin, herbs, floriculture, sericulture, and bittlenut (**floriculture, sericulture, and bittlenut** are included as per the CAA 11th Board of Director's decision and concurrence of ADB.

Appendix - 3

Job Descriptions of Key Personnel

| Title | General Manager |
|-----------------------------------|--|
| Responsible to: | Board of Directors (BOD) |
| Key Task: | To manage the day-to-day operations of CAA in accordance to Company Act-2006, <u>AoA and MoA of CAA</u> , ²² agreed Standard Operating Procedure, Business Plan and the Annual Plan as approved by the BOD and <u>direction of the Board</u> . ²³ |
| Main duties and Responsibilities: | <ul style="list-style-type: none"> • To Develop and install procedures and systems for efficient functioning of the CAA and managing the grant • To coordinate with Appraisal Panel in appraising and deciding the grant request on project proposal forwarded by the district office • To select employees and train them • To coordinate and consolidate district wise annual plan and make annual plan for CAA • To manage the staff efficiently and effectively • To supervise program implementation, administration including the Management Information System (MIS) and information dissemination activities of the project. • To supervise the grant application processing processes of the district offices. • To develop and conduct CAA promotion activities . • To approve expenditures up to the threshold amount prescribed in the Standard Operating Procedure. • To ensure financial accounts are maintained to international accounting standards and to accounting standards as prescribed in the law. • To report to the Board of Director on the performance of the company, regularly. • To facilitate and lead internal 'case' and application review meetings. • To liaise with MOAC, PMU, ADB and all external agencies. • To represent CAA in Project Steering Committee • To promote participation, transparency and sustainability on the project financed and minimize non-compliance and conflict of interest • To ensure that marketing information on commercialization of agriculture is made available to all CAA members • To ensure the security and protection and back up of all MIS of the company. • Discharge other duties and responsibilities assigned by the Board of Directors |

²² Added as per the 11th CAA Board of Directors' decision.

²³ Added as per the 11th CAA Board of Directors' decision.

| | |
|------------------------|--|
| Title | Company Secretary |
| Responsible to | General Manager |
| Key Task | <ul style="list-style-type: none"> • To assist in the implementation of the decision of BOD and Annual General Meeting. • To submit the company detail to the authorities as required by the law. |
| Major Responsibilities | <ul style="list-style-type: none"> • To call the meeting of Board of Directors and Annual General Meeting. • To prepare agenda to be discussed in the meeting and circulate among the Directors • To prepare the minutes of the meeting, get it signed by the directors, keep it in safe custody and attest it as and when necessary • To keep the record of shareholders/ members of the company it in safe custody and attest it as and when necessary • To inform the shareholders on distribution of shares and call to deposit fund respective to their shares • To submit any written documents to BOD or GM or office of company registrar or other agencies with regard to claims, complain, suggestion, application and advice received from the shareholders and other stakeholders for required action. • To keep the legal documentations of CAA grants and co-finance receivers in safe custody • To submit reports, documents and decisions to the concerned agencies as required by Company Act and other legislations promulgated by the government. • To perform all the functions of company secretary specified and as prescribed by the Company Act • To undertake any other activities which come under responsibility of Company Secretary as required by the law. • To implement and cause to implement the decision of the CAA board of directors and concerns of CAA and of related offices and agencies |

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|------------------------|--|
| Title: | Chief Accountant |
| Responsible to: | General Manager. |
| Key Task: | <ul style="list-style-type: none"> • To establish and maintain proper financial and company records, and prepare the financial statements on an ongoing basis • To oversee the disbursement and claims processes for CAF clients, and to ensure that all disbursements and claims are thoroughly examined and verified. |
| Major Responsibilities | <ul style="list-style-type: none"> • To develop procedures, rules and regulations to maintain and manage the accounts of the company • To train staff for appropriate accounting and financial management practices of international standard and as prescribed by the law • To prepare all company financial statements, records, and reports as required and prescribed by the law • To assist General Manager in preparing the budgets and forecasts as required, • To ensure adequate funding is received in time for successful operation of grant and activities of CAA • To supervise, authenticate, verify the accuracy of facilities documents and then approve or/ and recommend it as per the delegated authority • To liaise with branch managers of project districts and guide them to maintain account and financial records appropriately as per international standard and as prescribed by the law • To coordinate the activities to complete auditing and performance monitoring in time • Assist the General Manager in project appraisal, grant management and conduct administrative functions as required. |

| | |
|-----------------------------------|---|
| Title: | Compliance Officer |
| Responsible to: | General Manager |
| Key Task: | <ul style="list-style-type: none"> • To undertake all necessary measures to prevent and address any financial irregularities and/or abuse of authority in CAA operations, including in grant management. • To liaise with the relevant government agencies or commissions responsible to combat corruption and abuse of authority in the project activities |
| Main duties and responsibilities: | <ul style="list-style-type: none"> • To educate the CAA members on the processes to be followed in preparation, development and management of project • To update the information on acts, rules and regulation relevant to CAA and processes a grant applicant has to follow to utilize the grant and co-financing support and inform the same to management. • To inform the management on the status of grant applicants on public benefit and development nature of the project, level of stakeholders participation, its role in poverty alleviation, commercialization of agriculture and its sustainability. • To help the management in designing the proposal processing and funding formats required for the project. • To help in assessing and processing the Sub-project Detailed Proposal (SDP) submitted considering the level of transparency, participation of stakeholders in its formation and inbuilt mechanism to minimize/ eliminate the potential abuse of authority in project management. • To design a complaint format, make available to CAA members so that the community and the stakeholders involved in the grant program will be able to submit complaint and track the measures undertaken to address them • To keep updated with the process of implementation and transparency of the activities • To analyze the available data on client and members for management use • To keep knowledge of relevant position of anti-corruption policy of ADB and Government of Nepal on grant regulation and bidding activities of the project • To attend meetings with the management team, as required • To help the GM in implementing the Annual Plan in line with purpose of CAA. |

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| Title: | CAA Branch Manager |
| Responsible to: | General Manager |
| Key Task: | <ul style="list-style-type: none"> • To manage the day-to-day operations of the CAA District Branch in accordance with the approved Annual Plan • To built mass awareness on commercialization of agriculture in the project districts for successful operation of CAA activities |
| Major duties and responsibilities: | <ul style="list-style-type: none"> • To make Annual Plan and get it approved • To manage and conduct awareness program on CAA activities to facilitate the members to develop Sub-project Concept Note (SCN) and SDP • To supervise the Branch staffs. • To coordinate with District Review Committee in pre-appraisal of SDP and submit the SDP to appraisal panel for final appraisal • To ensure that the security and protection of all MIS of his/her branch and introduce a system to maintain periodic and timely back-up of all data. • To attend 'case' meetings with the management team, as required.²⁴ • To attend Appraisal Panel meetings when requested, and make presentations to support the written recommendations. • To check and approve the letters of agreement for members and arrange the disbursement of grants and co financing. • To monitor and report internally on the progress of each assigned client members. • To assess the CAA members to give a 'value-for-money' opinion prior to disbursement of relevant grants and co financing. • To discharge other duties and responsibilities assigned by the management |

²⁴ Case meetings are meetings of the professional team where complex or unusual projects are discussed. They provide an opportunity to exchange experience and opinions and seek advice from the peer group.

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| Title | Financial and Administration Officer²⁵ |
| Responsible to: | CAA Branch Manager |
| Key Task: | <ul style="list-style-type: none"> • To establish and maintain proper financial and company records, and prepare the financial statements on an ongoing basis. • To assist the Branch Manager to analyze project proposals from CAA applicants, summaries potential viability, and recommend further action. |
| Main Duties and Responsibilities | <ul style="list-style-type: none"> • To maintain the account system of the CAA District Office as per the formats and guidelines of the Head Office. • To prepare all Branch level financial statements, records, and reports as required by the CAA Head Office. • To coordinate the activities to complete auditing and performance monitoring in time. • To Assist the District Manager in project appraisal, grant management and conduct administrative functions as required |

²⁵ Key tasks, main duties and responsibilities of Financial and Administrative Office is changed per the 11th CAA Board of Directors' decision and concurrence of ADB.

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|-----------------------------------|--|
| Title: | District Monitoring and Evaluation Officer |
| Responsible to: | Branch Manager |
| Key Task: | <ul style="list-style-type: none"> • To monitor the activities and development of CAF activities in order to maintain quality of the financing • To follow up activities to measure the progress made to ensure the growing awareness and use of grant and co financing in commercialization of agriculture. |
| Main duties and responsibilities: | <ul style="list-style-type: none"> • To make annual plan for internal monitoring • To ensure all documentation of grant and co financing complete. • To ensure timely follow up on all approved and disbursed cases. • To update the list of members. • To inform supervisor on status of client -members and grant, completion of documents and development in line with the letter of agreement. • To analyze the available data of client-members for management use • To ensure the security and protection of all MIS and computer systems and data of the project district, and provide periodic and timely back up of all data of AMIS. • To attend meetings with the management team, as required. • To monitor and report internally on the progress of CAA district branch to the branch manager • To assess members and give opinion prior to disbursement of relevant grants, where requested,. • To assist the branch manager in appraisal, administrative and monitoring functions as required. |

| | |
|-----------------------------------|--|
| Title: | Office Assistant |
| Responsible to: | General Manager/ Branch Manager |
| Key Task: | Support the supervisor in managing the office |
| Main duties and responsibilities: | <ul style="list-style-type: none"> • To maintain the office premises clean • To manage and ensure proper functioning of equipments and its accessories • To assist in assessing, documenting and processing the submitted proposals • To assist in processing and documenting the approved proposals for implementation • To assist in coordinating the CAA HO activities with Branches, PMU and other stakeholders |

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|----------------------------------|--|
| Title: | Computer Operator |
| Responsible to: | General Manager/ Branch Manager |
| Key Task: | To maintain, manage and ensure proper functioning of computer and its accessories |
| Main duties and responsibilities | <ul style="list-style-type: none"> • To maintain the contact list and update the databases. • To participate in data collection and information gathering activities • To maintain documentation of CAA financed project • To dispatch information to CAA members as instructed • To coordinate with district branches and update the information at head office and branches • To support the office team in data documentation |

Appendix - 4

Matching Grant Application Procedure

