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LOAN NUMBER 2428-PRC

PROJECT AGREEMENT

(Integrated Ecosystem and Water Resources Management in the Baiyangdian Basin Project)

between

ASIAN DEVELOPMENT BANK

and

HEBEI PROVINCIAL GOVERNMENT  
BAODING MUNICIPAL GOVERNMENT

DATED 27 NOVEMBER 2008

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PAL:PRC 36437

## **PROJECT AGREEMENT**

PROJECT AGREEMENT dated 27 November 2008 between ASIAN DEVELOPMENT BANK (hereinafter called ADB) and HEBEI PROVINCIAL GOVERNMENT (hereinafter called HPG) and BAODING MUNICIPAL GOVERNMENT (hereinafter called BMG).

### **WHEREAS**

(A) by a Loan Agreement of even date herewith between People's Republic of China (hereinafter called the Borrower) and ADB, ADB has agreed to make to the Borrower a loan of one hundred million dollars (\$100,000,000) on the terms and conditions set forth in the Loan Agreement, but only on condition that the proceeds of the Loan be made available to HPG and BMG and that HPG and BMG agree to (i) make the proceeds of the Loan available to the IAs through respective County, City, Township, BZAC or BWAZ in accordance with the terms and conditions of the Onlending Agreements; and (ii) undertake certain obligations towards ADB as hereinafter set forth; and

(B) HPG and BMG, in consideration of ADB entering into the Loan Agreement with the Borrower, have agreed to undertake the obligations hereinafter set forth;

NOW THEREFORE the parties hereto agree as follows:

## **ARTICLE I**

### **Definitions**

Section 1.01. Wherever used in this Project Agreement, unless the context otherwise requires, the several terms defined in the Loan Agreement and in the Loan Regulations (as so defined) have the respective meanings therein set forth.

## **ARTICLE II**

### **Particular Covenants**

Section 2.01. (a) HPG and BMG shall, and shall cause the IAs to, carry out the Project with due diligence and efficiency, and in conformity with sound administrative, financial, engineering, environmental and water resources management practices.

(b) In the carrying out of the Project and operation of the Project facilities, BMG shall, and shall cause the IAs to, perform all obligations set forth in the Loan

Agreement to the extent that they are applicable to BMG and the IAs and all obligations set forth in the Schedule to this Project Agreement.

Section 2.02. HPG and BMG shall make available, and shall cause to be made available, promptly as needed, the funds, facilities, services, equipment, land and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Project.

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

(b) Except as ADB may otherwise agree, all Goods, Works and consulting services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to the Loan Agreement. ADB may refuse to finance a contract where Goods, Works or consulting services have not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

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

Section 2.05. (a) BMG shall, or shall cause the IAs to, take out and maintain with responsible insurers, or make other arrangements satisfactory to ADB for, insurance of the Project facilities to such extent and against such risks and in such amounts as shall be consistent with sound practice.

(b) Without limiting the generality of the foregoing, BMG undertakes to insure, or cause to be insured, the Goods to be imported for the Project and to be financed out of the proceeds of the Loan against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable to replace or repair such Goods.

Section 2.06. HPG and BMG shall, or cause the IAs to, maintain records and accounts adequate to identify the Goods, Works and consulting services and other items of expenditure financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, its operations and financial condition.

Section 2.07. (a) ADB, HPG and BMG shall cooperate fully to ensure that the purposes of the Loan will be accomplished, and BMG shall cause the IAs to cooperate with ADB to ensure that the purposes of the Loan will be accomplished.

(b) BMG shall, through the PMO, promptly inform ADB of any condition which interferes with, or threatens to interfere with, (i) the progress of the Project; (ii) the performance of its obligations under this Project Agreement; or (iii) the performance of the

obligations of any party to the Onlending Agreement; or (iv) the accomplishment of the purposes of the Loan.

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

Section 2.08. (a) BMG shall, through the PMO, and shall cause the IAs to, furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the Loan and the expenditure of the proceeds thereof; (ii) the Goods, Works and consulting services and other items of expenditure financed out of such proceeds; (iii) the Project; (iv) the administration, operations and financial condition of the IAs; and (v) any other matters relating to the purposes of the Loan.

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

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

Section 2.09. (a) BMG shall, and shall cause each IA to, (i) maintain separate accounts for the Project and for its overall operations; (ii) have such accounts and related financial statements (balance sheet, statement of income and expenses, and related statements) audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; and (iii) furnish to ADB, promptly after their preparation but in any event not later than 6 months after the close of the fiscal year to which they relate, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan proceeds and compliance with the covenants of the Loan Agreement as well as on the use of the procedures for imprest account/statement of expenditures), all in the English language. BMG shall, through the PMO, furnish to ADB such further information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) BMG shall enable ADB, upon ADB's request, to discuss BMG's or any IA's financial statements and financial affairs from time to time with the auditors appointed by BMG or the concerned IA pursuant to Section 2.09(a) hereabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an

authorized officer of BMG or the concerned IA unless BMG or concerned IA shall otherwise agree.

Section 2.10. BMG shall enable ADB's representatives to inspect the Project, the Goods and Works financed out of the proceeds of the Loan, all other plants, sites, properties and equipment of the IAs and any relevant records and documents.

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

(b) BMG shall at all times conduct its operations and activities, and shall cause each IA to, at all times conduct its business in accordance with sound administrative, financial, environmental and water resources management practices, and under the supervision of competent and experienced management and personnel.

(c) BMG shall, and shall cause each IA to, at all times operate and maintain its plants, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound administrative, financial, engineering, environmental, water resources management, and maintenance and operational practices.

Section 2.12. Except as ADB may otherwise agree, BMG shall not, and shall ensure that no IA shall, sell, lease or otherwise dispose of any of its assets which shall be required for the efficient carrying on of its operations or the disposal of which may prejudice its ability to perform satisfactorily any of its obligations under this Project Agreement.

Section 2.13. Except as ADB may otherwise agree, BMG shall, and shall ensure that each IA applies the proceeds of the Loan to the financing of expenditures on the Project in accordance with the provisions of the Loan Agreement and this Project Agreement, and shall ensure that all Goods, Works and consulting services financed out of such proceeds are used exclusively in the carrying out of the Project.

Section 2.14. Except as ADB may otherwise agree, HPG and BMG shall ensure that (a) each of County, City, Township, BZAC or BWAZ and concerned IA duly perform all their respective obligations under the related Onlending Agreement; and (b) each of County, City, Township, BZAC or BWAZ and concerned IA do not take, or concur in, any action which would have the effect of assigning, amending, abrogating or waiving any their respective rights or obligations under any Onlending Agreement.

Section 2.15. BMG shall, and shall cause concerned IA to promptly notify ADB of any proposal to amend, suspend or repeal any provision of its Charter and shall afford ADB an adequate opportunity to comment on such proposal prior to taking any action thereon.

### **ARTICLE III**

#### **Effective Date; Termination**

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

Section 3.02. All the provisions of this Project Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the Loan Agreement.

### **ARTICLE IV**

#### **Miscellaneous**

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

For ADB

Asian Development Bank  
P.O. Box 789  
0980 Manila, Philippines

Cable Address:

ASIANBANK  
MANILA

Telex Numbers:

29066 ADB PH (RCA)  
42205 ADB PM (ITT)  
63587 ADB PN (ETPI)

Facsimile Numbers:

(632) 636-2444  
(632) 636-2534.

For HPG

HPG: Hebei Provincial Finance Bureau, 48 South Zhonghua St.  
Shijiazhuang, PRC  
Postal Number: 050051

Facsimile Number:

(86-311) 87010246.

For BMG

BMG: No.1 West Dongfeng Rd., Baoding, Hebei, PRC  
Postal Number: 071000

Facsimile Number:

(86-312) 3183239.

Section 4.02. (a) Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Project Agreement (i) by or on behalf of HPG may be taken or executed by its Governor or by such other person or persons as the Governor shall so designate in writing notified to ADB, and (ii) by or on behalf of BMG may be taken or executed by its Mayor or by such other person or persons as the Mayor shall so designate in writing notified to ADB.

(b) BMG shall furnish to ADB sufficient evidence of the authority of each person who will act under paragraph (a) of this Section, together with the authenticated specimen signature of each such person.

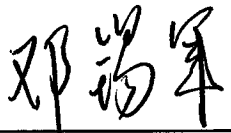
Section 4.03. No delay in exercising, or omission to exercise, any right, power or remedy accruing to any party under this Project Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default; nor shall the action of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

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

ASIAN DEVELOPMENT BANK

By   
HARUHIKO KURODA  
President

HEBEI PROVINCIAL GOVERNMENT

By   
DENG XIJUN  
Authorized Representative

BAODING MUNICIPAL GOVERNMENT

By   
DENG XIJUN  
Authorized Representative

## SCHEDULE

### Execution of Project; Financial Matters

#### Implementation Arrangements

1. BMG shall be the EA and shall have overall responsibility for execution of the Project.
2. The subprojects shall be implemented by the following IAs:

<u>WWT subprojects</u>	<u>IA</u>
(i) Liushi Town WWT	Liushi Town Wastewater Treatment Co.
(ii) Baigou Town WWT	Baigou WWT Plant
(iii) Li County WWT	Li County WWTC
(iv) Xushui County WWT	Xiushui County Hengxing Municipal Project Co.
(v) Xinxing Town WWT	Xinxing Town Textile City Comprehensive Development Co. of Li County
(vi) Anxin County WWT	Anxin County WWTC
(vii) Yi County WWT	Yi County Yuquan Urban Construction Development Co.
(viii) Dingxing County WWT	Dingxing County Urban Construction Municipal Co.
(ix) Dingzhou City WWT	Dingzhou City WWTC
(x) Mancheng County WWT	Mancheng County Municipal Project Co.
(xi) Xiong County WWT	Xiong County WSC
(xii) Tang County WWT	Tang County Real Estate Development Co. under the Tang County Urban Construction Bureau
(xiii) Wenquancheng WWT	Baoding Baiyangdian Wenquancheng Longji Tourism Service Co.

<u>WSS subprojects</u>	<u>IA</u>
(xiv) Xiong County WSS	Xiong County WSC
(xv) Dingzhou City WSS	Dingzhou City WSC

Reforestation, CED, IWM, SWM, UFM  
subprojectsIA

(xvi) Angezhuang Watershed (Reservoir) Reforestation	Yi County Forestry Bureau
(xvii) Baiyangdian Lake Reforestation	Anxin County Forestry Bureau
(xviii) Xiong County Clean (Geothermal) Energy	Xiong County Geothermal Energy Co.
(xix) Anxin UFM	Anxin County Water Resource Bureau
(xx) SWM (Huanghuagou Watershed)	Baoding High-Tech Zone Development Company
(xxi) IWM (Wangkuai- Xidayang Reservoir)	Baoding Water Resource Bureau

3. BMG shall set up a central PMO with about 15 staff to implement the Project. The PMO shall be headed by a full-time Project Director. The key PMO staff shall have expertise in financial management, civil and mechanical engineering, water resources, environment, ecosystem, project management, social development, and forestry. The PMO shall be responsible for day-to-day coordination and monitoring of all Project activities.

4. Each County shall set up a PIU at its respective financial bureau. PIUs shall be headed by the Project Coordinators who shall be focal point for all Project related activities with the PMO.

5. To coordinate the Project activities among line bureaus and the IAs, BMG shall set up a PLG that shall meet at least quarterly for the first 2 years and semiannually for the remaining Project period or as needed.

Counterpart Funding

6. HPG and BMG shall ensure that (a) all counterpart funding necessary for the Project is provided in a timely manner, and (b) additional counterpart funding is provided in the event of any shortfall of funds or cost overruns to complete the Project.

Change of Ownership

7. HPG and BMG shall ensure that each IA obtains the prior written consent of ADB in the event that any such IA plans to (a) change the ownership structure of any of the Project facilities; (b) sell, transfer or assign any of its shares; or (c) otherwise make any material organizational change, where such change may have an adverse effect on such IA's ability to perform its obligations in respect of the relevant subproject, the Project Agreement or any Onlending Agreement. In the event any such change is approved by ADB, the Borrower shall cause HPG and BMG, through the relevant IA, to ensure that the change in ownership structure is carried out in a transparent manner and does not affect repayment of the Loan made under the Loan Agreement. Depending on the nature of the approved change in ownership structure, ADB shall have the right to modify the repayment terms of the Loan.

GEF Grant

8. In the event the GEF Grant funding is not approved (i) Component 2; and (ii) the relevant training and consulting activities under the Components 3 and 4 shall not be financed under the Project. The Borrower may make other necessary arrangements, acceptable to ADB, to cover the funding shortfall.

Clean Development Mechanism (CDM)

9. BMG shall ensure that Xiong County transfers 50 percent of its revenues earned from carbon credits from Clean (Geothermal) Energy subproject to Xiong County Poverty Reduction Agency to expand its activities. This shall be an incremental amount over and above the prevailing budget of Xiong County Poverty Reduction Agency.

Land Acquisition and Involuntary Resettlement

10. BMG, through the relevant IAs, shall ensure that:
- (i) all land and rights-of-way required by the Project are made available in a timely manner;
  - (ii) the RPs are implemented efficiently in accordance with their terms, all applicable laws and regulations of the Borrower, and ADB's *Involuntary Resettlement Policy (1995)*;
  - (iii) all those affected are given adequate opportunity to participate in resettlement planning and implementation;
  - (iv) counterpart funds are provided on a timely basis for land acquisition and resettlement activities; any obligations in excess of RP budget estimates are met;
  - (v) compensation and resettlement assistance are given to affected people (AP) prior to dispossession and displacement to ensure those affected are at least as well off as they would have been in the absence of the Project; RPs are updated where necessary based on detailed designs and resubmitted to ADB for concurrence prior to commencement of civil works;
  - (vi) during Project implementation, ADB is advised of any significant material changes in Project scope, and such changes or other causes are reflected in an updated RP and submitted to ADB for approval; and that relevant IAs disclose such updated RPs to AP prior to ADB's approval;
  - (vii) adequate staff and resources are committed to resettlement monitoring and supervision, and ADB is provided with quarterly reports on implementation and a resettlement completion report covering all subprojects;

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- (viii) an independent agency, acceptable to ADB, is engaged to monitor resettlement progress through survey updates for the first and second year and in the last year of the Project implementation, the semi-annual progress reports will be prepared by the PMO with assistance of consultant;
- (ix) external monitoring reports are submitted simultaneously to ADB and the Borrower;
- (x) civil works contractor specifications include requirements to comply with the RPs and entitlements for permanent and temporary impacts to AP; and
- (xi) contractors are supervised to ensure compliance with requirements of the RPs, Borrower's applicable laws and regulations, and ADB's *Involuntary Resettlement Policy* (1995).

11. BMG shall ensure that relevant IAs establish Project land acquisition units for (i) supervising implementation, (ii) continuing public consultation, (iii) responding to grievances in accordance with the grievance redress procedures set forth in the relevant RPs, and (iv) reporting progress. To redress any other grievances, each PIU and PMO shall nominate one staff to receive complaints and arrange provision of appropriate relief in accordance with the Borrower's State Council Decree 431.

Environment

12. BMG shall cause each IA to construct, maintain and operate the Project facilities in strict conformity with (i) all applicable national and local environmental laws, regulations and procedures; (ii) ADB's *Environment Policy* (2002); and (iii) the environmental mitigation and monitoring measures set out in approved EIA, the SEIA, the IEE and SIEE; and the EMP for the Project.

13. BMG shall ensure that the IEE and EIA are (i) reviewed and updated following final detailed designs, (ii) approved by ADB prior to undertaking any works, and (iii) updated with all mitigation measures incorporated in the bidding documents and the civil works contracts.

14. BMG shall ensure that each IA (i) allocates sufficient resources to implement the EMP; and (ii) provides monitoring reports to the PMO which shall coordinate the preparation of a semiannual environmental report on implementation of the EMP in a format acceptable to ADB, for the duration of the Project.

Capacity Building

15. BMG shall ensure that each IA and other relevant stakeholders (i) follow the agreed Project implementation plan; (ii) implement recommendations for capacity building and institutional strengthening; (iii) appoint suitable trainers and training institutions based on a selection criteria; (iv) select staff for training using a transparent and objective methodology; and (v) take such steps as may be reasonable to ensure, that staff who have received training under the Project, remain with the Project throughout its implementation.

Governance, Financial Management and Anticorruption

16. In furtherance of the principles of transparency, participation, accountability and zero-tolerance for corruption, BMG shall enhance and further develop the internet Project web-site that describes the Project in order to provide the public with information on the Project including setting out (a) a summary of the audited financial statements of the Project, and (b) tracking of procurement contract awards.

17. BMG shall ensure that each IA establishes financial control and management arrangements compatible with ADB's *Guidelines for the Financial Governance and Management of Investment Projects Financed by the ADB* and ADB's *Loan Disbursement Handbook* (2007, as amended from time to time).

18. HPG and BMG shall, and shall cause each IA to, comply with ADB's *Anticorruption Policy* (1998, as amended to date). HPG and BMG agree that ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive or coercive practices relating to the Project. In particular, HPG and BMG shall (a) ensure that all contracts financed by ADB in connection with the Project include provisions specifying the right of ADB to audit and examine the records and accounts of BMG, the IAs and all contractors, suppliers, consultants and other service providers as they relate to the Project; (b) cooperate fully with and cause each IA to cooperate fully with any such investigation and to extend all necessary assistance, including providing access to all relevant books and records, as may be necessary for the satisfactory completion of any such investigation; (c) engage an international consultant and a national consultant to advise and assist in the procurement of goods and services, and recruitment of other consultants; (d) introduce a dual signing system in which the civil works contractor awarded the contract will also sign an anticorruption contract with the employer; and (e) cause the PMO to conduct periodical inspection of the contractor's activities related to fund withdrawals and settlements.

Labor Standards; Health

19. BMG shall, and shall cause each IA to, comply with all employment and labor standards set forth in the applicable laws, regulations and policies of the Borrower. In particular, BMG shall ensure that all civil works contractors engaged under the Project (a) provide timely payment of wages and safe working conditions for all workers (with such requirements being included in the civil works contracts and monitored by the construction supervision consultants); (b) pay equal wages to the male and female employees for work of equal value; and (c) not employ child labor in the Project activities.

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20. BMG shall ensure that each IA, in coordination with the appropriate agencies identified by BMG, cause contractors to disseminate information on the risks of socially and sexually transmitted diseases, including HIV/AIDS, to their employees during Project implementation.

Gender and Development

21. BMG shall cause each IA to (a) take necessary steps to ensure timely and effective implementation of the Project-specific participatory gender and sustainable livelihood plans; (b) carry out awareness-raising campaigns to encourage women in the Project area to participate in the planning and implementation of the Project; (c) set a 30 percent target for women's employment in construction and/or rehabilitation of the Project infrastructure, operation and maintenance of the Project infrastructure; and (d) monitor the Project's impacts on women during Project implementation by collecting and analyzing gender-disaggregated data and information.

Financial

22. (a) Except as ADB shall otherwise agree, BMG shall ensure that no IA incurs any debt unless (i) a reasonable forecast of the revenues and expenditures of such IA shows that the estimated net revenues of the relevant IA for each fiscal year during the term of the debt to be incurred shall be at least 1.2 times the estimated debt service requirements of such IA in such year on all debt of the relevant IA including the debt to be incurred, and (ii) no event has occurred since the date of the forecast which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition of future operating results of the IA.

(b) For the purposes of this paragraph:

- i. The term "debt" means any indebtedness, of the IA maturing by its terms more than one year after the date on which it is originally incurred.
- ii. Debt shall be deemed to be incurred: (a) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (b) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
- iii. The term "net revenues" means the difference between:
  - (i) the sum of revenues from all sources related to operations and net non-operating income, after making adequate provisions for uncollectible debts; and

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- (ii) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt. Lease payments under finance leases must also be included.
- iv. The term "net non-operating income" means the difference between:
  - (i) revenues from all sources other than those related to operations, and
  - (ii) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (iv)(a) above.
- v. The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.

The term "reasonable forecast" means a forecast prepared by BMG, through the IA, not earlier than 9 months prior to the incurrence of the debt in question, which both ADB and BMG accept as reasonable and as to which ADB has notified BMG of its acceptability.

23. (a) Except as ADB may otherwise agree, no IA shall incur any debt if after the incurrence of such debt the ratio of debt to equity shall be greater than 70:30.

(b) For the purposes of this paragraph:

- i. The term "debt" means any indebtedness of the IA maturing by its terms more than one year after the date on which it is originally incurred.
- ii. Debt shall be deemed to be incurred: (a) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment, on the date of such contract, agreement or instrument; and (b) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
- iii. The term "equity" means the sum of the total unimpaired paid-up capital, retained earnings and reserves of the IA not allocated to cover specific liabilities.

24. (a) Except as ADB may otherwise agree, each IA shall maintain a ratio of current assets to current liabilities of not less than 1.2:1.

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- (b) For the purposes of this paragraph:
- i. The term "current assets" means all cash, all assets, which could in the ordinary course of business be converted into cash within 12 months, including accounts receivable, marketable securities, inventories and prepaid expenses properly chargeable to operating expenses within the next fiscal year.
  - ii. The term "current liabilities" means all liabilities, which shall become due and payable or could under circumstances then existing be called for payment within 12 months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes.

25. For purposes of the assurances contained in paragraphs 22 through 24 above, whenever it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is at the time of such valuation obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to ADB.

Project Monitoring and Evaluation

26. BMG shall ensure that at the Project inception, the PMO establishes and maintains a project performance monitoring system (PPMS) to monitor the progress of the Project in achieving the planned outcome and outputs. The PPMS shall be designed to permit adequate flexibility to adopt remedial action regarding Project design, schedules, activities, and development impacts. The PPMS shall adopt the following agreed indicators: (a) physical progress of subproject implementation; (b) results of capacity development program; (c) water quality and quantity improvements in the Baiyangdian Lake; (d) improvement in biodiversity conservation; and (e) social development. At the Project inception stage, the PMO, in consultation with each IA, shall: (i) identify and obtain baseline data, as agreed with ADB and (ii) develop comprehensive PPMS procedures to systematically generate data on (a) inputs and outputs of the Project activities; and (b) the socioeconomic, health, and environmental indicators to measure Project impacts.

27. BMG shall ensure that not later than 6 months after the Project implementation begins, the PMO (a) refines the PPMS framework; (b) confirms achievable targets; (c) firms up monitoring and recording arrangements; and (d) establishes PPMS related systems and procedures. Baseline and progress data shall be reported at the requisite time intervals by the IAs to the PMO, including annual reporting on the EMP. The PMO shall be responsible for (a) analyzing and consolidating the reported data through its management information system; and (b) reporting the outcome to ADB through the quarterly progress reports.

Project Reviews: Midterm Review

28. In addition to regular monitoring, the Project performance shall be reviewed at least once a year jointly by ADB, the Borrower, HPG and BMG. The review shall (a) assess (i) implementation performance, (ii) achievement of progress towards Project outcomes and outputs, and (iii) financial progress; (b) identify issues and constraints affecting implementation; and (c) work out a time-bound action plan for their resolution.

29. The Borrower, HPG, BMG and ADB shall undertake a comprehensive midterm review to assess implementation status and take appropriate measures, including but not limited to, (a) the need for modification of scope and implementation arrangements; and (b) reallocation of the Loan proceeds, as appropriate, to achieve the Project objectives.