
LOAN NUMBER 2474-PRC

PROJECT AGREEMENT
(Dryland Sustainable Agriculture Project)

between

ASIAN DEVELOPMENT BANK

and

GANSU PROVINCIAL GOVERNMENT
HENAN PROVINCIAL GOVERNMENT
SHANDONG PROVINCIAL GOVERNMENT

DATED 3 FEBRUARY 2009

PAL:PRC 38301

PROJECT AGREEMENT

PROJECT AGREEMENT dated 3 February 2009 between ASIAN DEVELOPMENT BANK (hereinafter called ADB) of one part and Gansu Provincial Government (hereinafter called GPG), Henan Provincial Government (hereinafter called HPG) and Shandong Provincial Government (hereinafter called SPG) of the other part.

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 eighty three million Dollars (\$83,000,000) on the terms and conditions set forth in the Loan Agreement, but only on the condition that the proceeds of the Loan be made available to GPG, HPG and SPG and that GPG, HPG and SPG agrees to undertake certain obligations towards ADB as hereinafter set forth; and

(B) GPG, HPG and SPG, 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) GPG, HPG and SPG shall, and shall cause IAs and the Participating Enterprises to, carry out the Project with due diligence and efficiency, and in conformity with sound administrative, financial, engineering, environmental and agricultural practices.

(b) In the carrying out of the Project and operation of the Project facilities, GPG, HPG and SPG shall, and shall cause IAs to, perform all obligations set forth in the Loan Agreement to the extent that they are applicable to GPG, HPG and SPG and all obligations set forth in the Schedule to this Project Agreement; and GPG, HPG and SPG

shall, through IAs, cause the Participating Enterprises to perform all obligations set forth in the Schedule to this Project Agreement, to the extent that they are applicable to the Participating Enterprises, and the Onlending Agreements.

Section 2.02. GPG, HPG and SPG shall, and shall cause IAs and the Participating Enterprises to, make 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, GPG, HPG and SPG shall, and shall cause IAs and the Participating Enterprises to, employ competent and qualified consultants and contractors, acceptable to ADB, to an extent and upon terms and conditions acceptable 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. GPG, HPG and SPG shall, and shall cause IAs and the Participating Enterprises to, carry out the Project in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to ADB. GPG, HPG and SPG 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) GPG, HPG, SPG and IAs shall 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, GPG, HPG, SPG and IAs undertake 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. GPG, HPG and SPG shall, and shall cause IAs and the Participating Enterprises to, maintain, or cause to be maintained, 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 and GPG, HPG, SPG shall, and shall cause IAs and the Participating Enterprises to, cooperate fully to ensure that the purposes of the Loan will be accomplished.

(b) GPG, HPG and SPG shall, and shall cause IAs and the Participating Enterprises to, promptly inform ADB of any condition which interferes with, or threatens to interfere with, the progress of the Project, the performance of its obligations under this Project Agreement or the Subsidiary Loan Agreement or the Onlending Agreement, or the accomplishment of the purposes of the Loan.

(c) ADB and GPG, HPG and SPG 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, GPG, HPG and SPG and the Loan.

Section 2.08. (a) GPG, HPG and SPG shall, and shall cause IAs and the Participating Enterprises 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 GPG, HPG and SPG; and (v) any other matters relating to the purposes of the Loan.

(b) Without limiting the generality of the foregoing, GPG, HPG and SPG shall furnish to ADB semi-annual 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 six (6) months under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following six (6) months.

(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, GPG, HPG and SPG shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution and initial operation of the Project, including its cost, the performance by GPG, HPG and SPG of its obligations under this Project Agreement and the accomplishment of the purposes of the Loan.

Section 2.09. (a) GPG, HPG and SPG shall, and shall cause IAs and the Participating Enterprises 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. GPG, HPG and SPG shall, and shall cause IAs and the Participating Enterprises to, 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) GPG, HPG and SPG shall, and shall cause concerned IA and concerned Participating Enterprise to, enable ADB, upon ADB's request, to discuss GPG's, HPG's, SPG's and IAs financial statements and its financial affairs from time to time with the

auditors appointed by GPG, HPG, SPG, 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 GPG, HPG, SPG, concerned IA and concerned Participating Enterprise unless GPG, HPG, SPG, concerned IA or concerned Participating Enterprise shall otherwise agree.

Section 2.10. GPG, HPG and SPG shall, and shall cause IAs and the Participating Enterprises to, 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 GPG, HPG, SPG, IAs and the Participating Enterprises, as they relate to the Project, and any relevant records and documents.

Section 2.11. (a) GPG, HPG and SPG shall, through IAs, cause each Participating Enterprise to promptly as required, take all action within its powers to maintain its corporate existence, to carry on its operations, and to acquire, maintain and renew all rights, properties, powers, privileges and franchises which are necessary in the carrying out of the Project or in the conduct of their business.

(b) GPG, HPG and SPG shall, through IAs, cause the Participating Enterprises to at all times conduct their business in accordance with sound administrative, financial, environmental and agricultural practices, and under the supervision of competent and experienced management and personnel.

(c) GPG, HPG and SPG shall, through IAs, cause each Participating Enterprise 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, agricultural, and maintenance and operational practices.

Section 2.12. Except as ADB may otherwise agree, GPG, HPG and SPG shall, through IAs, cause the Participating Enterprises not sell, lease or otherwise dispose of any of their assets which shall be required for the efficient carrying on of their operations or the disposal of which may prejudice its ability to perform satisfactorily any of their obligations under this Project Agreement or the Onlending Agreement.

Section 2.13. Except as ADB may otherwise agree, GPG, HPG and SPG shall, and shall through IAs cause the Participating Enterprises to, apply 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, GPG, HPG and SPG shall, and shall cause IAs and the Participating Enterprises to, duly perform all their respective obligations under the Onlending Agreements, and shall not take, or concur in, any action which would have the effect of assigning, amending, abrogating or waiving any rights or obligations of the parties under the Onlending Agreements.

Section 2.15. GPG, HPG and SPG shall, through IAs, cause the Participating Enterprises to promptly notify ADB of any proposal to amend, suspend or repeal

any provision of their 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 GPG, HPG and SPG 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, 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

Facsimile Numbers:

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

For GPG

Financial Bureau of Gansu
Dong Gang Xi Lu No. 696
Chengguan District, Lanzhou, 730000

Facsimile Number:

86-931-8891043.

For HPG

Department of Finance
Henan Province
25 Jingsan Road
Zhengzhou, 450008

Facsimile Number:

86-371-65808030.

For SPG

Shandong Provincial Financial Bureau
No. 3 Jida Road, Central District
Jinan City, Shandong Province, 250002

Facsimile Number:

86-531-82920751.

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

(b) GPG, HPG and SPG 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 either party under this Project Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default; nor shall the action of such party in respect of any default, or any acquiescence in any default, affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

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

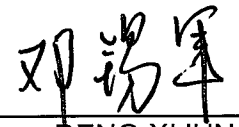
ASIAN DEVELOPMENT BANK

By 
HARUHIKO KURODA
President

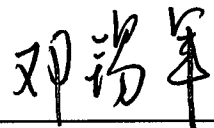
GANSU PROVINCIAL GOVERNMENT

By 
DENG XIJUN
Authorized Representative

HENAN PROVINCIAL GOVERNMENT

By 
DENG XIJUN
Authorized Representative

SHANDONG PROVINCIAL GOVERNMENT

By 
DENG XIJUN
Authorized Representative

SCHEDULE

Execution of Project; Financial Matters

Counterpart Financing

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

Change of Ownership

2. In the event that (a) any change in ownership or control of the Project facilities; or (b) any sale, transfer, or assignment of the shares of any IA and Participating Enterprises is anticipated, the GPG, HPG and SPG shall cause the concerned IA to consult with ADB, through the Borrower, at least 6 months prior to the implementation of such change. The GPG, HPG and SPG shall cause the concerned IA to ensure that such change is carried out in a lawful and transparent manner.

Risk Mitigation

3. GPG, HPG and SPG shall continue implementing agricultural risk mitigation measures to assist farmers participating in the Project in the event of natural disasters through provision of compensation, training, and services.

Environment and Social Safeguards

4. GPG, HPG and SPG shall, and shall cause IAs and Participating Enterprises to, ensure that the implementation procedures (including prior ADB approval requirements) agreed upon with ADB are followed, including environmental and social safeguard requirements in the EIAs.

5. GPG, HPG, SPG shall, and shall cause IAs and Participating Enterprises to, ensure that civil works contractor specifications include (a) provisions relating to the environment including, obligating contractors to carry out the mitigating and monitoring measures specified in the relevant EIA, and (b) requirement for contractors to estimate costs for all such mitigating and monitoring measures.

6. GPG, HPG and SPG shall, and shall cause IAs and Participating Enterprises to, ensure that the activities do not result in involuntary resettlement of people, and any land acquisition that may be required is adequately compensated in line with a resettlement plan prepared in accordance with applicable laws and regulations of the Borrower, and ADB's *Involuntary Resettlement Policy* (1995).

7. GPG, HPG, SPG and IAs shall cause the Participating Enterprises and farmers to operate, maintain, and monitor all Project facilities, including water treatment plants and associated pipelines, wastewater treatment plants, wastewater collection systems, and solid waste systems, in strict conformity with: (a) all applicable laws and regulations, including national and local regulations and standards for environmental

protection, health, labor, and occupational safety; (b) ADB's *Environment Policy* (2002); and (c) the environmental mitigating and monitoring measures detailed in the applicable EIAs.

8. GPG, HPG and SPG shall cause IAs and Participating Enterprises to ensure that annual environmental reports are submitted to ADB, commencing from the start of project implementation until 1 year after the commencement of operation of the Project facilities. The reports shall include (a) progress made on mitigating measures and monitoring; (b) problems encountered; (c) data collected; (d) a corrective action plan if any violation of the IEE or the Borrower's environmental laws, regulations, standards, rules, policies, or guidelines shall have occurred; (e) records of monitoring and mitigating measures; (f) comments on institutional capacity to manage the Project's environmental activities within the provincial governments, the IAs, environmental protection bureaus, and the Participating Enterprises; and (g) recommendations to address any institutional capacity challenges.

9. GPG, HPG and SPG shall cause IAs and Participating Enterprises to ensure that written justification is provided to ADB for any proposed changes to the mitigation measures specified in the EIAs, which are required during the design, construction, operations, and maintenance stages of the Project. Written justification shall be provided within 60 days if any changes to the EIAs have to be implemented for safety or emergency reasons.

10. GPG, HPG and SPG shall cause IAs and Participating Enterprises to ensure that project benefits accrue equitably to men and women by (a) ensuring equitable access to technology, advice and training, information, markets, and employment in both agro-enterprises and farm production; (b) ensuring women's representation in project management, in advisory services, and in farmers groups; (c) strengthening collaboration between project management and relevant organizations; and (d) ensuring implementation of the gender action plan prepared for the Project.

11. GPG shall cause the Zhangjiachuan county government to (a) encourage the contracting of Hui households, especially the poor and women; and (b) monitor the progress and report the results to ADB.

Warranties and Representations

12. GPG, HPG and SPG shall ensure that each Participating Enterprise represents and warrants that

- (i) it is a company legally incorporated under the Borrower's Company Law and retain this status throughout the period during which the onlending loan is outstanding;
- (ii) it has been authorized as required under the Borrower's Company Law and its charter by the board of directors to borrow the onlending loans for the purpose of implementation of the respective activity;
- (iii) the information relating to the Participating Enterprise continues to be true and accurate and does not contain any information which is

Schedule

misleading in any material respect nor does it omit any information in any material respect;

- (iv) the financial statement provided to GPG, HPG and SPG within 3 months of the end of each financial year for processing the concerned activity has been prepared in accordance with the accounting principles as required by the Borrower's Accounting Law, and disclosed all liabilities (contingent or otherwise) of the Participating Enterprise and the reserves, if any, for such liabilities and all unrealized or anticipated liabilities and losses arising from commitments entered into by the Participating Enterprise;
- (v) it is not engaged in nor, to the best of its knowledge, threatened by, any litigation, arbitration or administrative proceedings, the outcome of which could reasonably be expected to have a material adverse effect; and
- (vi) it has no outstanding lien on any of its assets and the assets provided as security for borrowing the onlending loan.

Negative Covenants

13. GPG, HPG and SPG shall ensure that unless each of them may otherwise agree, as may be the case, each Participating Enterprise shall not

- (i) declare or pay any dividends or make any distribution on its share capital, or purchase, redeem or otherwise acquire shares of the Participating Enterprise itself;
- (ii) change the ownership of Project facilities, or sell, transfer or otherwise dispose of all or a substantial part of its assets;
- (iii) enter into agreement for any sale, transfer or assignment of the shares of the Participating Enterprise;
- (iv) enter into any transaction of merger or acquisition of or by the Participating Enterprise;
- (v) enter into any borrowing arrangements other than in the ordinary course of business which shall not be made more senior than the onlending loan; or
- (vi) enter into any agreement to guarantee or, in any way or under any condition, assume or become obligated for all or any part of any financial or other obligations of a third party other than in the ordinary course of business; create or permit to exist any lien on any property, revenues or other assets, present or future, of the Participating Enterprise.

Notification

14. In the event of any breach of the representations and warranties by any Participating Enterprise as listed in paragraph 12 above, or occurrence of any event listed in paragraph 13 above, each of GPG, HPG and SPG shall, and shall cause the concerned IA and/or the concerned Participating Enterprise to, notify ADB at least 6 months prior to the implementation of any such change if such change is initiated by any Participating Enterprise, or as soon as possible in case of occurrence of such events out of the control of the concerned Participating Enterprise.

Financial Performance Ratios

15. (a) Except as ADB shall otherwise agree, GPG, HPG and SPG shall cause each Participating Enterprise not to incur any debt if after the incurrence of such debt the ratio of debt to equity shall be greater than 1.5.

(b) For purposes of this paragraph:

- (i) The term "debt" means any indebtedness of the Participating Enterprise 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 conditional sale or transfer or financing lease 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 Participating Enterprise not allocated to cover specific liabilities.
- (iv) Whenever for purposes of this paragraph 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 currency is, at the time of 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.

16. (a) Except as ADB shall otherwise agree, GPG, HPG and SPG shall, through concerned IAs, cause each Participating Enterprise not to incur any debt unless a reasonable forecast of the revenues and expenditures of the Participating Enterprise shows that the estimated net revenues of the Participating Enterprise for each fiscal year during the term of the debt to be incurred shall be at least 1.5 times the estimated debt service requirements in such year on all debt of the Participating Enterprise including the debt to be incurred and 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 Participating Enterprise.

- (b) For the purposes of this paragraph:
- (i) The term "debt" means any indebtedness of the Participating Enterprise 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
 - 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.
 - (vi) The term "reasonable forecast" means a forecast prepared by the Participating Enterprise not earlier than nine months prior to the incurrence of the debt in question, which both ADB and the Participating Enterprise accept as reasonable and as to which ADB has notified the Participating Enterprise of its acceptability.

- (vii) The terms "operations" or "operating" refer to the operations of the Participating Enterprise.
- (viii) Whenever for the purposes of this paragraph it shall be necessary to value, in terms of the currency of the Government, 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.

17. (a) Except as ADB shall otherwise agree, GPG, HPG and SPG shall, through concerned IA, cause each Participating Enterprise to maintain a ratio of current assets to current liabilities of not less than 1.5.

- (b) For the purposes of this paragraph:
 - (i) The term "current assets" means cash, all assets, which could in the ordinary course of business be converted into cash within twelve 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 will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.
 - (iii) 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.
 - (iv) Whenever for the purposes of this paragraph it shall be necessary to value, in terms of the currency of the Government, 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.

18. An agreement shall be entered into between each Participating Enterprise and participating farmers. Under the agreement, a Participating Enterprise shall be responsible for (i) undertaking, in collaboration with participating farmers, the necessary work to establish production and install farm infrastructure and equipment; (ii) providing seedlings, fertilizers and pesticides, and technology and guidance to participating farmers in production and post-harvest activities, with associated fees agreed to by participating farmers and the

Participating Enterprise; and (iii) undertaking to purchase outputs produced by participating farmers, at the higher rate of the prevailing market price or the protected price agreed at the beginning of each year.

19. Participating farmers shall be obliged to (i) carry out land improvement work under the guidance of the Participating Enterprise, (ii) ensure high-quality production stipulated by the Participating Enterprise, (iii) sell outputs produced to the Participating Enterprise in accordance with the agreement, and (iv) repay to the Participating Enterprise the cost of the inputs and goods provided by the Participating Enterprise through the deduction of charges from the payment made by the Participating Enterprise for the participating farmers' outputs.

Anticorruption

20. GPG, HPG and SPG shall, and shall cause IAs and the Participating Enterprises to comply with ADB's *Anticorruption Policy* (1998 as amended to date). Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the Project. To support these efforts, GPG, HPG and SPG shall ensure that relevant provisions of ADB's *Anticorruption Policy* are included in the bidding documents for the Project and 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 the EAs, IAs and Participating Enterprises; and all contractors, suppliers, consultants, and other service providers as they relate to the Project.

Project Performance Monitoring and Evaluation

21. GPG, HPG and SPG shall develop a project performance management system (PPMS) to establish benchmark indicators to assess Project performance and impact. The PPMS shall be designed to permit adequate flexibility to adopt remedial action regarding Project design, schedules, activities and development impacts. The PPMS shall include the following agreed indicators: (i) physical progress of agroenterprise implementation (production base and processing capacity expansion); (ii) changes in crop and livestock varieties and yields compared with present; (iii) types and application rates of fertilizers and agrochemicals compared with present; (iv) increases in farm incomes; (v) reduction in poverty incidence, and gender and social development; and (vi) reduction in degraded land.

Project Review

22. In addition to regular monitoring, the Borrower, GPG, HPG, SPG and ADB shall undertake a midterm review to assess implementation status and take appropriate measures, as appropriate, to achieve the Project's outcomes and impact.