



Extended Annual Review Report

Project Number:46928-024
Investment Number: 7404
Loan Number: 3107
October 2019

Everbright Financial Leasing Company Limited Loan Program for Clean Bus Leasing (People's Republic of China)

This is an abbreviated version of the document, which excludes information that is subject to exceptions to disclosure set forth in ADB's Access to Information Policy.

CURRENCY EQUIVALENTS
Currency unit – yuan (CNY)

		At Appraisal		At Project Review
		14 December 2012		30 July 2019
CNY1.00	=	\$0.16009		\$0.14507
\$1.00	=	CNY6.2464		CNY6.89340

ABBREVIATIONS

ADB	–	Asian Development Bank
CEB	–	China Everbright Bank
CBIRC	–	China Banking and Insurance Regulatory Commission
CNG	–	compressed natural gas
DMF	–	design and monitoring framework
EFL	–	Everbright Financial Leasing Company Limited
EWAL	–	Everbright Wing (Tianjin) Aviation Leasing Company Ltd.
FEH	–	Far Eastern Horizon Limited
FLC	–	financial leasing company
GHG	–	greenhouse gas
IBFL	–	Industrial Bank Financial Leasing Company Limited
km	–	Kilometer
LNG	–	liquified natural gas
PRC	–	Peoples Republic of China
TA	–	technical assistance
US	–	United States

NOTES

In this report, "\$" refers to United States dollars.

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BASIC DATA
Loan Program for Clean Bus Leasing Program—Everbright Financial Leasing
(Loan No. 3107 – People’s Republic of China)

Key Project Data	As per ADB Loan Documents (\$ million)	Actual (\$ million)
Loan 3107		
Total Project cost:		
ADB Loan	75.00	75.00
Total investment:		
Committed	75.00	75.00
Disbursed	75.00	75.00
Outstanding	41.25	41.25
Supplementary cofinancing (The entire clean bus leasing program is \$275 million)	0.00	0.00
Risk Transfer Arrangement	None	None
Key Dates	Expected	Actual
Concept Clearance Approval	2012	19 July 2011
Board Approval	2013	15 January 2013
Loan Agreement	2014	13 March 2015
Loan Effectiveness	2014	13 March 2015
Amendment of Loan Agreement	...	17 November 2016
First Disbursement	2014	17 November 2016
Loan Maturity	17 November 2021	17 November 2021
Project Administration and Monitoring	Number of Missions	No. of Person-Days
Concept Clearance
Due Diligence Mission	3	12
Private Sector Credit Committee Meeting
Board Approval
Project Administration	1	2
XARR Mission	1	12

... = data not available, ADB = Asian Development Bank, XARR = extended annual review report.

EXECUTIVE SUMMARY

In January 2013, the Board of Directors of the Asian Development Bank (ADB) approved a loan program (program) for \$275 million to expand financial leasing for clean buses in the People's Republic of China (PRC). The loans were to be made available to up to five financial leasing companies (FLC) meeting program criteria, with each eligible to borrow up to \$100 million with a maturity of up to 8 years. The accredited leasing companies under the program were Far Eastern Horizon Limited (FEH), Industrial Bank Financial Leasing Company Limited (IBFL), and Everbright Financial Leasing Company Limited (EFL). FEH received a total of \$100 million loan from ADB, \$50 million in 2013 and \$50 million in 2014, while IBFL received a loan for \$100 million equivalent in yuan in 2014. EFL signed its 5-year loan for \$75 million from ADB in March 2015, and received it in December 2016. This extended annual review report covers the loan to EFL (project), which is 90% owned by China Everbright Bank, the 13th largest bank in the PRC.

Rapid growth in urban population, incomes, and car ownership had led to rising congestion, air pollution, and greenhouse gas (GHG) emissions in the PRC. In response, the government had ambitious plans to develop clean bus transport, including natural-gas-fired and electric buses. Bus operators lacked sufficient equity for bank loans, but leasing companies were more willing to lend. FLCs were able to realize the amount leased both through lease repayments and the resale value of buses, but they had no access to deposits and relied on short-term borrowings from capital markets and financial institutions.

The project under the loan program approved by ADB was in line with Strategy 2020 and ADB's country partnership strategy for the PRC, (2011–2015).

The project's development results are rated *satisfactory*, based on satisfactory performance across all four development impact dimensions: (i) contribution to private sector development and ADB strategic development objectives; (ii) economic performance; (iii) environmental, social, health, and safety aspects ; and (iv) business success.

The project's contribution to private sector development and ADB strategic development objectives is rated *satisfactory*. The project met the key targets of the Design and Monitoring Framework (DMF): EFL funded 990 clean buses under the project; achieved 83,160,000 vehicle kilometers (km), saved GHG emissions of 259,875 tons, and fully deployed \$75 million in lease contracts. Furthermore, EFL lent to three bus operators, two of which were from the PRC's less-developed western provinces.

The program exceeded its DMF targets. The program financed 6,504 buses, which exceeded the target of 5,000, achieving 546,336,000 vehicle km and saving 1,707,300 tons of GHG emissions above the targets of 420,000,000 vehicle kilometers and 1,312,500 metric tons. The total financing package approved under the program was \$375 million but only \$275 million was disbursed as cofinancing of \$100 million did not materialize. The total number of bus operators supported by the program is 39 against a target of 15, with 38.5% of those bus operators in less-developed provinces against a target of 30%. The program generated substantial environmental benefits, including an estimated reduction in GHG emissions of about 1.71 million tons per annum, against a target of 1.31 million metric tons.

At the national level, the use of clean buses expanded significantly over the program period, and the broad impact targets of at least 300,000 natural-gas-fired and 150,000 electric buses by 2020

have already been achieved. The leasing industry also grew rapidly over the program period. Although supportive government policies and healthy market conditions played a major role in these developments, the program made a small but tangible contribution through direct financing and by demonstrating the viability of acquiring clean buses through leasing.

The project's economic performance is rated *satisfactory*. EFL achieved sound financial and business performance. It achieved its business objectives despite the multiple policy interventions and subsidies on clean buses as these are designed to reflect the environmental and social benefits of clean buses, including more affordable transport and less traffic congestion, air pollution and GHG emissions.

The project's environmental and social performance is rated *satisfactory*. The project under the loan program was classified category FI (treated as C) for environment, involuntary resettlement, and indigenous peoples under ADB's Safeguard Policy Statement (2009).

The project's business success is rated *satisfactory*. EFL reported robust lease portfolio growth up to 2016, with a compound annual growth rate of 16.88% during 2015–2018. Key indicators of EFL's business success such as capital, earnings, and asset quality pointed to a profitable, well-managed institution. EFL is regulated by the China Banking and Insurance Regulatory Commission and was in compliance with all relevant capital adequacy regulations. EFL can improve its liquidity management by increasing its portfolio of longer-term borrowings.

ADB's additionality is rated *satisfactory*. ADB was unique in providing the long loan tenors required by bus operators. Leasing as a source of finance requires long term funds for on-lending. Most leases that the FLCs provided had terms of 6 to 10 years to match the expected useful life of the underlying assets.

ADB's investment profitability is rated *satisfactory*. Pricing of the loan was in line with ADB's pricing guidelines. Under the program, expenses were shared among the three subprojects for project appraisal, market assessment, program supervision and other items.

ADB's work quality in screening, appraisal, structuring, monitoring, and supervision is rated *satisfactory*. The project represented an innovative approach to engaging nonsovereign lending in the pursuit of key objectives of the PRC government and ADB. The programmatic approach was sound, reducing risk and widening outreach, with appropriate selection criteria employed to select the FLCs. When circumstances demanded that the loan be transferred to an EFL subsidiary, ADB and the borrower worked well together to ensure a mutually beneficial arrangement.

The project is rated *successful*. It achieved the targets of the design and monitoring framework and contributed to the overall program reaching its targets. In general, the project made a small but worthwhile contribution to the wider objective of boosting clean bus transport and financial leasing in the PRC.

A key lesson learned is that technical assistance (TA) accompanying ADB loan programs should be directly tied to all program participants or beneficiaries. The TA benefitted 17 bus companies, which however did not include EFL bus operators who benefitted from ADB's funds.

I. THE PROJECT

A. Project Background

1. In January 2013, the Board of Directors of the Asian Development Bank (ADB) approved a loan program (program) of \$275 million to expand financial leasing for clean buses in the People's Republic of China (PRC). The loans were to be made available to up to five financial leasing companies (FLC) that met the program's criteria. Each FLC grants leases to bus operators for the purchase of clean buses. Each FLC could borrow up to \$100 million with a maturity of up to 8 years. The accredited leasing companies under the program are Far Eastern Horizon Limited (FEH), Industrial Bank Financial Leasing Company Limited (IBFL), and Everbright Financial Leasing Company Limited (EFL). FEH received \$100 million in September 2013, IBFL received \$100 million equivalent in yuan in November 2014, and EFL received \$75 million in December 2016. Extended annual review reports were completed in 2016 for the FEH loan and in 2017 for the IBFL loan. This extended annual review report covers ADB's \$75 million loan to EFL (project).¹

2. Rapid growth in urban populations, incomes, and car ownership since 1990 had led to rising traffic congestion, air pollution, and greenhouse gas (GHG) emissions in the PRC. The PRC government had ambitious plans to develop public transport as a complement and partial substitute for private vehicle transport. In December 2006, the Ministry of Construction, the National Development and Reform Commission, the Ministry of Finance, and the Ministry of Labor and Social Security adopted a key policy making urban public transport development a priority.² Buses form the backbone of the public transport system in the PRC. Although most buses use conventional gas or diesel-fired engines, the government sought to promote "clean buses" to boost energy efficiency, reduce air pollution, and mitigate climate change.³ The loan to EFL excluded clean-diesel buses and included only buses that met EURO IV standards, such as "energy-efficient and new-energy buses" (footnote 3), compressed natural gas (CNG) buses, or liquefied natural gas (LNG) buses. The Energy Efficient and New Energy Vehicle Industry Development Plan, 2012–2020 of the State Council of the PRC set ambitious targets and offered generous subsidies for electric, CNG, LNG-fired, or hybrid buses.⁴ The government unveiled a complex system of subsidies for purchase and operation of clean buses at the central, state, and municipal government levels. In addition, the government invested heavily in CNG and LNG fueling stations and electric bus charging stations, and maintained attractive prices for natural gas compared with diesel fuel.⁵ These initiatives were designed to further boost the adoption of clean buses.

¹ ADB. Loan Program for Clean Bus Leasing Program—Everbright Financial Leasing.

² Government of the People's Republic of China. 2006. *Advice on Economic Policy for Priority Development of Urban Public Transport*. Beijing.

³ A "clean bus" is a bus that meets the emission standards of Euro III equivalent and falls within at least one of the following categories: (i) buses running on cleaner fuel such as compressed natural gas, liquefied natural gas, or biomethane; (ii) "energy-efficient and new-energy buses" as defined by the national government of the PRC (including hybrid buses with fuel-saving rates of more than 10%, battery-only electric buses, and fuel-cell electric buses); and (iii) buses that meet the most advanced emission standards of Euro IV equivalent or above. Euro III and Euro IV are European emission standards that define the acceptable limits for exhaust emissions of vehicles.

⁴ Sales target of 500,000 hybrid and electric vehicles for 2012–2015 and 5 million for 2012–2020.

⁵ The price of natural gas was at a level that kept the cost of operating CNG and LNG buses 30%–40% lower than the cost of running diesel buses. In addition, natural gas buses are only moderately more expensive than diesel buses—CNG buses cost about \$3,000 more than diesel buses, while LNG buses cost about \$10,000 more than diesel buses. These differences are often covered by subsidies from local governments.

3. The leasing industry saw new lease contracts grow from \$0.9 billion in 2001 to \$63.7 billion in 2010—the year when the China Banking and Insurance Regulatory Commission (CBIRC) allowed commercial banks to set up financial leasing subsidiaries to undertake leasing.⁶ The total industry (total value of outstanding lease contracts) stood at \$966.8 billion as of June 2018, according to FEH records. Three types of FLCs were operating in the PRC at the end of 2011: (i) 20 special FLCs, regulated by the CBIRC;⁷ (ii) 66 domestic FLCs, jointly regulated by the Ministry of Commerce and other state agencies; and (iii) 200 FLCs with foreign participation, regulated by the Ministry of Commerce.

4. Leasing was considered well-suited for bus operators as they had little equity and high borrowings to qualify for sufficient bank loans to meet their needs. They were also generally operating at losses because of the low regulated fares set by the government, which meant that they had to rely on subsidies to be viable.⁸ Lessors (leasing companies) could rely on the resale value of buses being fairly predictable, and could offer monthly repayment schedules that were better suited to the cash flows of bus companies. However, leasing companies were having difficulty matching the long tenors needed for buses (the typical useful life of a bus is 8–10 years), as they had no access to deposits and relied on short-term borrowings from capital markets and financial institutions. Leasing companies thus required infusions of long-term funds to develop their operations in this market segment.

B. Key Project Features

5. Eligibility requirements for FLCs interested in participating in the investment program included (i) minimum equity capital of \$100 million; (ii) a sound credit rating,⁹ (iii) strong governance and management, (iv) satisfactory financial performance, and (v) experience in leasing public transport vehicles and an interest in supporting the adoption of clean buses. In March 2015, ADB signed a loan agreement with EFL for \$75 million—the entire amount remaining under the program after \$200 million had already been disbursed (paragraph 1). EFL was 90% owned by China Everbright Bank, the 13th largest bank in the PRC at the time. China Everbright Bank was majority owned by Central Huijin Investment Company Limited, a state investment company set up to manage bank shareholdings held by the PRC's government.

6. ADB changed the loan agreement and transferred the loan to Everbright Wing (Tianjin) Aviation Leasing Company Ltd. (EWAL), a fully owned subsidiary of EFL. The loan agreement had to be amended and a new agreement was signed in November 2016 because the currency of the loan changed from yuan to US dollars.¹⁰ EWAL became the borrower of record, supported by a full guarantee from EFL to ADB.¹¹

⁶ ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan Program for Clean Bus Leasing (People's Republic of China)*. Manila.

⁷ These were generally at least 50% owned by banks, other leasing companies, or large enterprises, and accounted for the largest share of the leasing market.

⁸ Most bus operators are owned by local government authorities, though some have mixed or private ownership.

⁹ A minimum credit rating of Non-Sovereign Operation (NSO) 7 under ADB's internal rating system or an external rating of BB or equivalent.

¹⁰ EFL felt that the yuan interest rate quoted by ADB was too expensive to borrow. The yuan interest rate quoted by ADB was based on ADB's offshore funding cost of yuan.

¹¹ EWAL is a fully-owned special purpose vehicle of EFL with a foreign debt quota. EWAL was used as a channel to pass the ADB loan to EFL through repayment of existing shareholder loans.

7. ADB designed a structure for EFL to borrow yuan through EWAL, as EFL was not eligible to borrow in foreign currency based on regulations.¹² Under the structure, the US dollar-denominated ADB loan was lent to EWAL. EWAL was able to channel yuan to EFL through a structure as explained in Appendix 5. The structure enabled EFL to borrow in yuan, eliminating the foreign currency risk for EFL.

8. The design and monitoring framework (DMF) of the program defined long-term impact targets of at least 300,000 CNG or LNG and 150,000 hybrid and electric buses operating in the PRC by 2020. In addition, it set targets of 5,000 clean buses purchased, 420 million vehicle kilometers (km) of service provided per annum, and 1,312,500 tons¹³ of GHG emissions saved from 2019 onward (these targets were derived from the program parameters and other assumptions on bus types and operators).¹⁴ The other target of the DMF was \$375 million disbursed to 15 bus operators financed under the program. It was expected that 30% of the bus operators supported would be located in western or interior provinces that had lower income levels and were less able to afford clean bus purchases.

9. The Report and Recommendation of the President (RRP) assumed that the program would mobilize commercial cofinancing of at least \$100 million, and up to \$200 million, in the form of parallel loans from other development finance institutions, specialty funds, and commercial banks. The program targets were based on the assumption that such cofinancing would be made available to the participating FLCs.

10. PSOD designed a technical assistance (TA) scheme in parallel to the ADB loan program, though processed separately. Completion Report Improving Clean Bus Operations and Management (People's Republic of China) (TA 8662), dated 3 April 2019. It aimed to maximize the performance of bus fleets through the development of information resources and training materials or programs to help bus operators properly select bus types, optimize fleet operations, drive in an eco-conscious way, improve bus maintenance, carry out management reporting, and improve IT systems. Funding was provided on a grant basis by the Global Environment Facility.¹⁵

11. The PRC's Clean Development Mechanism Fund (CDMF) was the original executing agency of the TA project, but the Ministry of Transport (MOT) became the executing agency when the CDMF became the Public-Private Partnership Center of the PRC. Because the TA also supported a MOT initiative to promote public transport, administration of the TA was transferred from ADB's Private Sector Operations Department to the East Asia Department in April 2015.

12. The TA was completed in February 2019. It achieved the improvement of the selection, management, and operation of clean buses by clean bus operators who were funded under the program. It identified improvements to expand the use of clean buses through a review of international technologies and by surveying 17 bus companies on the performance of their clean buses (original target during TA preparation: 15 bus companies surveyed which included thirteen of ADB funded bus operators of FEH and two ADB funded bus operators of IBFL). The TA also

¹² Tianjin National Development and Reform Commission foreign debt quota approval as granted by Tianjin State Administration of Foreign Exchange.

¹³ Metric tons which is equivalent to 1,000 kilograms.

¹⁴ Assumptions included: 40% hybrid and electric buses at CNY900,000 per bus; 60% CNG and LNG buses at CNY500,000 per bus; down payment of 30%; cofinancing of \$100 million; average speed of 20 km per hour; 12 operating hours per day, 350 days per year; use of each clean bus avoids the emission of 0.75 tons of greenhouse gas (carbon dioxide equivalent) per day on average.

¹⁵ An international partnership of 183 countries, international institutions, civil society organizations and the private sector that addresses global environmental issues.

provided tools for measuring GHG emissions of PRC bus administrators and operators. Moreover, the TA gathered first-hand information on electric bus performance, which MOT used as a basis to review clean bus policies and make recommendations on promoting clean buses.

C. Progress Highlights

13. The PRC's economy continued to expand rapidly following approval of the ADB loan in 2015, although the pace of growth slowed somewhat from earlier periods as the economy matured. Demand for clean buses and for buses in general expanded rapidly. As of December 2018, many cities in the PRC stopped purchasing conventional fossil-fuel-powered buses, where about 28% of public buses in the PRC were clean buses; of those, about half were pure electric buses. However, most of these 16 cities are Tier 1 or Tier 2 cities (cities that represent the most developed areas of the PRC), with strong financial capacity. As a result, the composition of their bus fleet would not be representative of the entire country. Most of these cities are targeting 100% clean buses over the next few years.¹⁶ The electric bus fleet in the PRC has become by far the largest in the world, reaching 421,000 vehicles in 2019.¹⁷

14. Financial leasing also grew rapidly since 2001, as supportive government policies and market conditions fueled demand for leasing. As of September 2018, there were 11,600 financial leasing companies in the PRC, with a total lease balance of CNY6.6 trillion; these figures were over 10 times and more than 3 times the relevant figures at the end of 2013.¹⁸ The period since 2014 saw particularly strong growth in the leasing of energy and transportation equipment, in part because of a growing interest in energy efficiency and clean energy in the PRC. The financial leasing industry remained concentrated in four cities—Beijing, Guangdong, Shanghai, and Tianjin. More than 80% of PRC leasing companies were in these cities as of 2016.¹⁹ The market penetration rate of leasing was still only 8% in 2016, below the 15%–30% market penetration seen in Europe and the United States.²⁰

15. EFL continued to grow and register sound financial performance. Utilization of funds from ADB's loan started slowly, in part because of a delay in signing the loan agreement (refer to paragraph 6 – amendment in the loan agreement), but took off rapidly in 2018, and both project and program targets had been reached by the end of 2018. As of 31 December 2018, EFL had entered into 10 eligible lease contracts with three bus operators, for a total amount of CNY716.3 million.

II. EVALUATION

16. The monitoring and evaluation team visited EFL on its mission in May 2019. The team also met with two of the three bus operators served under the project, in Guizhou and Yunnan provinces.

A. Project Rationale and Objectives

17. The project represented an innovative attempt to engage nonsovereign operations in the pursuit of key strategic objectives. The project was fully aligned with the core objectives of ADB's country partnership strategy for the PRC, 2011–2015 in promoting energy efficiency, clean

¹⁶ ADB and Global Environmental Fund (GEF). 2018. *Sustainable Transport Solutions: Low-Carbon Buses in the People's Republic of China*. Manila.

¹⁷ Bloomberg. May 2019. "The U.S. Has a Fleet of 300 Electric Buses. China Has 421,000."

¹⁸ DBS Group Research. January 2019. *China Leasing Sector*. Singapore.

¹⁹ Research and Markets. 2017. *China Financial Leasing Industry Report, 2017–2021*. Dublin.

²⁰ Footnote 18.

energy, sustainability, and transport and finance sector development.²¹ The project was also in line with ADB's Strategy 2020 in promoting inclusive and sustainable growth;²² and with the ADB Sustainable Transport Initiative (STI), which aimed to increase the supply of accessible, affordable, safe, and sustainable transport.²³ Clean buses were an important focal area of STI, as they generate substantial positive social and environmental impacts. They were also in need of financing support, and leasing was an effective financing instrument to reach them.

18. The programmatic approach was sound as it limited risk and broadened the reach of the project. The flexible mix of public and private sector agents was adapted to the unique circumstances and development model followed by the PRC. Most bus operators are owned by local or other levels of government, though a few have mixed or private ownership. Leasing companies typically have a mix of public and private shareholders. The selection criteria for participating financial institutions were appropriate, ensuring that only leasing companies with demonstrated interest and capacity to serve the target market in a sustainable manner would participate in the program.

B. Development Results

1. Contribution to Private Sector Development and ADB Strategic Development Objectives

19. The project's contribution to private sector development and ADB strategic development objectives is rated *satisfactory*. The project has met key DMF targets as indicated in Table 1.

Table 1: Achievement of Program and Project DMF targets

DMF target	Program Target	Pro-rated Project target (based on amounts received by each FLC)	Project (EFL) achievement	Program achievement to date
Total financing	\$375 million (includes \$100 million of cofinancing with an upper limit of \$200 million)	NA	\$75 million	\$275 million
Number of buses	5,000 by 2018	1,350	990	6,504
Vehicle kilometers achieved	420,000,000 by 2019	113,400,000	83,160,000	546,336,000
GHG emissions saved (tons) ^b	1,312,500	354,375	259,875	1,707,300
Number of bus operators	15 by 2017	4	3	39
Bus operators in less developed western provinces in the PRC	30% of total bus operators (based on program achievement this should be 5)	1	1 each in Guangxi and Yunnan (67% against a target of 30%) ^a	11

Source: Developmental monitoring reports submitted by EFL to ADB as per Facility Agreement.

^a These two operators account for 62% of the number of buses and 46% of lease volume supported under the project.

^b A ton referred to here is a metric ton which is equivalent to 1000 kilograms.

20. It should be noted that the project was implemented significantly later than expected—almost 3 years after board approval of the program—because of the change in structure

²¹ ADB. 2011. *Country Partnership Strategy: People's Republic of China, 2011–2015*. Manila.

²² ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

²³ ADB. 2010. *Sustainable Transport Initiative Operational Plan*. Manila.

necessitated by EFL's lack of a foreign borrowing quota. Given the growth in activities in the target market, it is expected that leases for clean buses will continue to expand beyond program targets. EFL provided leases for CNY716.3 million under the program—equivalent to about \$104.1 million at the current exchange rate,²⁴ \$29.1 million more than the \$75.0 million provided by ADB. Thus, the ADB loan mobilized commercial cofinancing of \$29.1 million to support the eligible clean bus lease contracts.

21. The overall program also exceeded its DMF targets. As of 30 June 2018, IBFL had provided financing for 2,745 buses and FEH for 2,769 buses. The total including EFL (990) was thus 6,504 clean buses, exceeding the target of 5,000. The number of bus operators also exceeded the target, with 30 supported by FEH, 6 by IBFL and 3 by EFL, for a total of 38 against the target of 15. Meanwhile, 38% of the bus operators were located in less-developed western or interior provinces, against the target of 30%.

22. The overall program also achieved its derived targets for vehicle kilometers (vehicle-km) of service provided and reduction of GHG emissions.²⁵ Total vehicle-km is estimated at 546 million, against a target of 420 million vehicle-km, while GHG emissions were reduced by 1.71 million tons per annum, against a target of 1.31 million tons per annum.

23. As noted under paragraph 8, the use of clean buses expanded tremendously over the project period, and the broad impact targets of at least 300,000 natural-gas-fired and 150,000 electric buses by 2020 were achieved well ahead of schedule. Although this is mainly attributable to supportive government policies and market conditions, the project made a small but tangible contribution by demonstrating the viability of long-term leases for clean buses to the participating FLCs and the leasing business at large. Leasing is a key financing technique for bus operators in the PRC, given that bus companies have difficulty qualifying for and accessing bank loans. Other funding sources, like local government funding programs and guarantees, are limited in scope and have been curtailed amid general restrictions on credit growth in the PRC.

24. In a similar vein, although the overall program, including the loan to EFL, is a small part of the picture given the size of the PRC's economy and its financing needs, the program made a positive contribution to the development of the leasing industry.

25. Private sector development per se may not have been enhanced by relying on majority publicly owned bus operators that require state subsidies to remain viable. However, this was unavoidable in the context of the PRC and is intrinsically linked to its unique development model. The FLCs have mixed ownership and operate according to commercial principles. The bus operators are typically under local government ownership, though a few have mixed or private ownership, and all must generate enough revenues (including subsidies tied to specific activities) to cover their operating expenses and finance equipment acquisitions.

26. The project was fully aligned with the government's priorities, and therefore benefited from supportive policies. However, these policies alone would not have affected the desired changes without the active involvement of private, public, and mixed operators, and of financial intermediaries willing to provide financing.

²⁴ 1USD = 6.88 CNY as of 21 June 2019.

²⁵ A vehicle-kilometer of service is defined assuming an average speed of 20 kilometers per hour. Annual vehicle - kilometers are defined based on 12 operating hours per day, and 350 operating days per year: RRP, 2012, Manila.

2. Economic Performance

27. The economic performance of the project is rated *satisfactory*. EFL achieved sound financial and business performance. Although clean buses are subject to multiple policy interventions and subsidies, these are designed to reflect the environmental benefits and externalities of clean buses, including less traffic congestion, air pollution, and GHG emissions. In addition, all public transport, particularly if provided at low fares, generates social benefits by making transport affordable to lower-income groups who cannot afford cars. The economic benefits of clean buses thus generally exceed the financial profits generated.

28. Fundamentally, the project made a positive contribution to several government and ADB strategic objectives for the PRC:

- (a) Development of public transport, with attendant social and economic benefits including greater mobility and reduced congestion.
- (b) Financial deepening and general development of the leasing industry.
- (c) Pollution abatement and mitigation of climate change.
- (d) Development of western and interior provinces.

3. Environmental, Social, Health, and Safety Performance

29. The environmental, social, health, and safety performance of the project is rated *satisfactory*. The loan program (which includes three FLCs, including EFL) was classified category FI (treated as C) for environment, involuntary resettlement, and indigenous peoples impacts under ADB's Safeguard Policy Statement (2009). The program was approved to help up to five FLCs (the program ultimately included three) deploy clean buses and information technology systems to improve fleet operating efficiency for urban, suburban, or intercity bus services in the PRC. This section focuses on EFL, which supported three bus operators and helped procure 990 clean buses.

30. EFL confirmed that funds from the ADB loan have not been utilized for any activity that falls under the Prohibited Investment Activities List of ADB's Safeguard Policy Statement. EFL conducted due diligence on the three bus operators under to assess their compliance with national laws.

31. The nature of EFL's operations does not generate any adverse environmental impacts. After the useful life of a bus expires, the operator turns over the buses to government accredited company (i.e. Shuanghui Car and Vessel Disposal Company Limited in Liuzhou City) for reuse or recycle in accordance with applicable national laws and regulations. Likewise, disposal of hazardous wastes such as batteries are being handled and disposed of in appropriate manners as required by the PRC laws and regulations. Most of the buses are cleaned with water only. The mandatory bus engine emission testing is being conducted regularly. Bus emission testing results are compliant with the emission standards in PRC. Acquisition of the required permits and registration have been complied by the operators. Bus operators conduct regular safety trainings for their drivers. To date, there are no recorded major vehicular and road accidents incurred by the bus operators. All of the clean buses are equipped with a fire extinguisher and trash bins. The electric charging stations are being managed by a subcontractor and not included in the loan

program. Savings in greenhouse gas emissions computed for the existing fleet of EFL-funded clean buses totaled 259,875 tons in 2018.²⁶

32. The bus leasing activities of EFL did not entail acquisition of land or restrictions on land use. EFL and two bus operators (from Lizhou and Kunming) indicated that the new buses procured and leased helped replace old buses, hence did not entail building of new facilities. The Lizhou bus operator reported that it replaced 1,059 buses, 112 of which it leased from EFL, and the Kunming bus operator reported that it replaced 2,446 buses, 500 of which it leased from EFL. The bus operator from Kunming explained that the city's transport development plan calls for adding new routes, and that this will require new bus stations; this, however, is outside the scope of the program and the project.

33. No indigenous peoples were adversely affected by EFL's bus leasing activities. The leasing of environment-friendly buses and the introduction of new bus routes has contributed to more comfortable rides and easier access to public transport, including for ethnic minorities. EFL reported no instances of labor noncompliance or other labor-related issues for its three bus operators. During the replacement of the old buses with the new buses, certain staff positions, such as bus ticket sellers and money counters, were deemed unsuitable. These staff were retrained as drivers or for office work, while those staff who were of retirement age or nearing retirement age were offered the option to retire with financial compensation.

34. The project has been classified *no gender elements*. Despite that, there were activities that contributed to promoting the well-being of women: (i) two of the bus operators procured new buses under EFL leasing that dedicated seats for pregnant women, women with children, elderly, and people with disabilities; (ii) ticket sellers who were made redundant after procurement of the new buses, most of whom were women, were retrained for other company positions, including as drivers, to avoid retrenchment; and (iii) one bus operator committed to prioritizing recruitment of women drivers.

C. ADB Additionality

35. Additionality of the ADB loan is rated *satisfactory*. ADB was unique in providing the long tenors needed by bus operators, which EFL could not obtain from other funding sources. The majority of leases provided under the project had terms of 6 or 10 years, suited to the useful lives of the underlying assets. The participation of ADB also helped enhance the reputation of EFL; although no cofinancing was raised under the project, several international banks participated in subsequent financing rounds. Furthermore, EFL was able to mobilize additional commercial bank financing for its lease operations on top of the \$75 million (paragraph 20).

36. Leasing is an alternative source of finance for bus operators, and leasing companies need to resort to development finance institutions such as ADB to obtain the long-term funds needed for such operations. The leasing industry is also heavily concentrated in big coastal cities, including Beijing, Tianjin, Shanghai, and Guangdong; the ADB program encouraged participating FLCs to expand to less-developed areas that cannot afford clean buses in the absence of supportive financing options.

²⁶ The use of a single clean bus is estimated to prevent emissions of 0.75 tons of greenhouse gases (carbon dioxide equivalent) per day on average. Assuming 350 operating days per year per bus, 990 buses would prevent 259,875 tons of greenhouse gas emissions (carbon dioxide equivalent) per annum.

D. ADB Investment Profitability

37. ADB's investment profitability is rated *satisfactory*. Pricing of the loan was in line with ADB policies and Office of Risk Management guidelines. The larger overall program of \$275 million, also led to shared expenses on items like project appraisal, market assessment, and program supervision.

E. ADB Work Quality

1. Screening, Appraisal, and Structuring

38. The quality of ADB's screening, appraisal, and structuring is rated *satisfactory*. The program represented an innovative approach to enlist private sector operations in the pursuit of key government and ADB objectives. It included good collaboration within ADB, including between sovereign and nonsovereign departments and between private sector operations and technical and sector experts. The programmatic approach was sound, reducing risk and widening outreach by opening access to up to up to five FLCs meeting eligibility criteria. The selection criteria for the FLCs were appropriate to ensure their commitment and ability to deliver on program targets. ADB pre-identified a few FLCs and the selected ones were analyzed in-depth at appraisal. The appraisal mission also met with six bus operators to gain insight into the operating conditions and financing needs of prospective lessees.

39. Creating separate targets for GHG and vehicle-km may have complicated the picture without adding much to the project, as emissions are implicitly covered by expanding the use of clean buses. The project's definition of clean buses was improved to include only Euro IV diesel buses as clean buses. Expectations of a modal shift from private to public transport may also not have been realistic, given past trends in car ownership and the convenience and status enhancement associated with it.

40. It is not clear that adequate effort was expended by ADB to raise cofinancing for the project. This could have been held back by the delay in signing the loan agreement, but there is little indication that ADB actively pursued cofinancing as an important objective. EFL did raise subsequent financing from international banks, supported indirectly by the presence of ADB (paragraph 20), although this did not fall under the mantle of ADB cofinancing.

2. Monitoring and Supervision

41. The quality of monitoring and supervision is rated *satisfactory*. ADB maintained close contact with the borrower and followed up diligently in cases when any report due from EFL to ADB was submitted late. The change from EFL to EWAL as the borrower (paragraphs 6 and 7) warranted financial structuring (Appendix 5). Both ADB and the borrower handled this well.

42. Because of the financial structuring required for ADB to give the loan to EFL and the time taken for internal approvals within ADB and EFL, the loan was disbursed in December 2016 with a deployment period until September 2017. The deal team was able to anticipate the difficulties in deploying \$75 million in yuan during this period and was able to grant a 6-month extension until March 2017, which enabled EFL to deploy the \$75 million fully.

43. ADB's overall work quality is rated *satisfactory* based on the above.

F. Overall Evaluation

44. The project is rated *successful*. It reached the DMF targets and contributed to the broader program reaching its DMF targets. In general, the project made a small but tangible contribution to the wider objective of boosting clean bus transport and financial leasing in the PRC as indicated in Table 2.

Table 2: Evaluation of ADB's Loan to Everbright Financial Leasing Company Limited

Item	Unsatisfactory	Less than Satisfactory	Satisfactory	Excellent
Development Results				
(i) Contribution to private sector development and ADB strategic development objectives			✓	
(ii) Economic performance			✓	
(iii) Environmental, social, health, and safety performance			✓	
(iv) Business success			✓	
ADB Additionality			✓	
ADB Investment Profitability			✓	
ADB Work Quality				
(i) Screening, appraisal, and structuring			✓	
(ii) Monitoring and supervision			✓	
Overall Rating	Successful			

ADB = Asian Development Bank.
Source: Asian Development Bank.

III. ISSUES, LESSONS AND RECOMMENDED FOLLOW-UP ACTIONS

A. Issues and Lessons

45. The TA project was reassigned to the MOT (paragraph 10). The MOT tied the TA exclusively to bus operators who received funding from FEH and IBFL (the two other FLCs supported under the program). The bus operators who received funding from EFL were not covered by the TA project. TA should be tied to all program participants and beneficiaries, not just some participants and beneficiaries.

46. Since the board approved cofinancing of up to \$100 million with a ceiling of up to \$200 million, it would have been more advantageous had the approval included B loans, which would have made it easier for ADB to arrange B loans without resorting to a fresh board approval.

47. Because ADB needed to introduce a revised structure to grant (paragraphs 6 and 7), the loan, EFL had no grace period from the time of disbursement, which was an additional strain on EFL's liquidity.²⁷

²⁷ By contrast, the deployment periods for the IBFL and FEH loans were 6 months period from the date of signing.

B. Recommended Follow-Up Actions

48. ADB could consider broadening its collaboration with EFL to cover other sectors that may be of interest to EFL and generate important social and economic benefits.

**EVERBRIGHT FINANCIAL LEASING LIMITED:
DEVELOPMENT EFFECTIVENESS INDICATORS**

The development effectiveness of the loan to EFL is monitored based on the following outcomes and outputs as provided in the Design and Monitoring Framework of the Report and Recommendation of the President:

Outcome	Performance Targets (For the whole Clean Bus Leasing Program including EFL, FEH, and IBFL)	Actual for EFL (31 Dec. 2018)	Combined Result for EFL, IBFL, and FEH ^a
Deployment of clean buses in the urban, suburban, and intercity public transport markets increased	At least 5,000 buses leased and in operation by bus operators by 2018.	990	6,504
	120 million vehicle km of service per annum provided by buses funded by the program from 2019 ^b	83,160,000	546,336,000
	Greenhouse gas emission savings of 1.31 million tons per annum achieved from 2019 ^c	259,875	1,707,300
Output			
Clean bus leasing operations of financial leasing companies expanded	Financial leasing companies provide \$375 million of lease financing of clean buses to at least 15 public transport operators by 2017	3 public transport operators	39 public transport operators
	At least 30% of public transport operators receiving financing from the program are located in less-developed inland or western provinces ^d	66.7%	38.5%

^a Note: Figures for number of buses funded by FEH and IBFL are as of June 2018; for EFL they are as of December 2018.

^b Assuming average speed of 20 km/hour, 12 operating hours/day, and 350 operating days per year.

^c It is estimated that the use of clean buses will prevent the emission of 0.75 tons of greenhouse gases (carbon dioxide equivalent) per day on average, assuming 350 operating days per year per bus.

^d Yunnan and Guangxi provinces are included in the list of priority industries based on the PRC's Catalogue of Priority Industries for Foreign Investment in Central and Western China.

EFL = Everbright Financial Leasing Limited, FEH = Far East Horizon Limited, IBFL = Industrial Bank Financial Leasing Company Limited.

Note: Industries were classified based on the Catalogue of Priority Industries for Foreign Investment in Central and Western China.

**RESULTS AND RATINGS FOR PROJECT CONTRIBUTIONS TO PRIVATE SECTOR
DEVELOPMENT AND ADB STRATEGIC DEVELOPMENT OBJECTIVES—
FINANCIAL INTERMEDIARIES**

Results Area	Actual achievements	Rating	Justification	Potential future achievements	Risk
1. Financial institution and subborrower PSD effects					
1.1 Improved skills: (i) Improved credit skills in the participant financial institution(s). (ii) Contribution via the participating financial institution(s) to improved subborrower skills in operation of their businesses, e.g., via appropriate loan conditions, advisory services by the bank(s).	Not applicable				
1.2 Improved standards: Improved standards and practices with regard to corporate governance and transparency, stakeholder relations, or ESHS in participating financial institutions or subborrowers.	Adoption of ADB Safeguards and standards by EFL	Satisfactory			Low
1.3 Innovation: Innovative ways of offering effective banking services (including new products, services, and technologies)	Leasing for clean buses was not entirely new but became more widely known and accepted.	Satisfactory			Low
1.4 Catalytic element: Mobilizing or inducing more local or foreign market financing or foreign direct investment for the supported financial institution or subborrowers.	The project helped demonstrate the viability of leasing for clean buses. Bus operators attracted other financing following EFL support.	Satisfactory			Low
1.5. Improved business performance. Expanded MSME lending with good	EFL expanded clean bus leasing and maintained	Satisfactory	EFL has met the key growth and		Low

Results Area	Actual achievements	Rating	Justification	Potential future achievements	Risk
portfolio and subborrower performance. Expansion of market share.	strong financial condition.		sustainability targets.		
2. PSD effects beyond financial intermediaries and subborrowers					
2.1 Private sector expansion and institutional impact: 2.1.1 Contribution to an increased private sector share and role in the economy. 2.1.2 Contribution to expanded MSME lending in the financial system. 2.1.3 Improved access to finance of MSME projects.	The project contributed to an increased volume of financing for clean buses in the PRC and to growth in the financial leasing industry. Many operators have mixed or local government ownership, reflecting the development model followed by the PRC.	Satisfactory			Low
2.2 Competition: Enhanced competition in the financial leasing market segment among local banks or other types of financial institutions (including new product and service offerings, local-currency products) and/or contribution to increased competition in key subborrower markets.	The project contributed to increased competition in financial leasing for clean buses by demonstrating its commercial viability.	Satisfactory	New financial institutions entering the market and rapid expansion of leasing.		Low
2.3 Demonstration effects: Replication of new ways of offering effective banking services to MSMEs by other banks or institutions.	The approaches of EFL and other program participants are being applied by other financial institutions in	Satisfactory			Low

Results Area	Actual achievements	Rating	Justification	Potential future achievements	Risk
	the PRC (in particular long lease terms adapted to bus operations).				
2.4 Linkages: Contribution to local savings and deposit mobilization via networks of participant bank(s); contribution to notable upstream or downstream link effects to subborrowers' businesses in their industries or the economy.	Wider availability of cheap and clean bus transport has significant economic, social, and environmental benefits, including greater mobility, less congestion, less air pollution, and reduced GHG emissions.	Excellent			Low
2.5 Catalytic element: Contribution to mobilization of other local or international financing for financial institutions with MSME business, and by positive demonstration to market providers of debt and risk capital to MSMEs.	The success of EFL and other program participants attracted others to the financial leasing market.	Satisfactory			Low
2.6 Affected laws, frameworks, regulation: Contribution to (i) improved laws, regulation, and inspection affecting MSME financing; or (ii) a more enabling environment for MSME via lobby activity, policy dialogue, or otherwise.	Not applicable				
3. Contributions to other ADB strategic objectives					
3.1 Inclusion: Increased availability or reduced cost of financial services for the poor	The project helped make clean buses affordable for	Satisfactory			Low

Results Area	Actual achievements	Rating	Justification	Potential future achievements	Risk
and other disadvantaged groups. Indirect inclusion benefits generated by subprojects/borrowers through forward/backward links to poor, female, or rural entrepreneurs; the provision of services or products for the poor, women, and rural populations; and employment of such groups.	bus operators in less-developed areas.				
3.2 Job creation: Creation of additional sustainable jobs or self-employment. Distinguish between jobs created within supported financial institutions, subborrowers and beyond.	Expansion of bus services leads to job creation among bus operators and in the economy at large through enhanced mobility.	Satisfactory			Low
3.3. Environmental sustainability: Contribution to reduced GHG emissions and other environmental improvements through relevant lending policies and practices; and targeting and providing allocations for borrowers with environmentally beneficial investments.	Significant reduction in air pollution and GHG emissions through the project.	Excellent			Low
3.4. Regional integration: Project contributions to regional cooperation and integration by facilitating trade or cross-border financial transactions.	Not applicable				
3.5 Any other project development outputs and outcomes					
4. Overall Rating		Satisfactory			

ADB = Asian Development Bank; EFL = Everbright Financial Leasing Limited; ESHS = environment, social, health, and safety; GHG = greenhouse gas; MSME = micro, small, and medium-sized enterprises; PSD = private sector development;

Notes:

1. The rating scale for each results area is *unsatisfactory*, *less than satisfactory*, *satisfactory*, *excellent*, or *not applicable*. *Excellent* reflects a high level of achievement, usually exceeding targets. *Satisfactory* denotes a good level achievement in line with expectations and set targets. *Less than satisfactory* reflects a level of achievement below expectations. *Unsatisfactory* reflects no achievement or significant negative effects. *Not applicable* is used if the project RRP does not mention this aspect in its presentation of envisaged project development results, project justification, ADB's additionality, or the DMF itself, and if negative effects are not apparent.

2. The scale for the overall rating is: *unsatisfactory*, *less than satisfactory*, *satisfactory*, or *excellent*. The overall rating is not an arithmetic mean of the individual indicator ratings and does not have fixed weights. It is primarily based on the level of achievement of envisaged project outcomes as stated in the design and monitoring framework, provided these and associated indicators are meaningful for contributing to envisaged DMF development impacts.

Source: Asian Development Bank.

**TRANSACTION STRUCTURE OF THE LOAN TO
EVERBRIGHT FINANCIAL LEASING LIMITED**

- Everbright Wing (Tianjin) Aviation Leasing Company Ltd. (EWAL) is an aircraft leasing company with borrowings and leases denominated in both yuan and United States (US) dollars. They repay their US dollar borrowings using (i) US dollar repayments from aircraft lessees and (ii) yuan that they borrow domestically and convert to US dollars.
- ADB's dollar loan will help EWAL free up the amount of yuan they would have used for converting to US dollars for repayments of US dollar-denominated borrowings as in (ii) above.
- EWAL used any yuan that was not used for conversion to repay other US dollar borrowings, and to repay a yuan-denominated shareholder loan given to EWAL by Everbright Financial Leasing Limited (EFL), thereby making yuan available to EFL to lend through the bus leasing program.
- Using this structure, ADB was able to provide EFL with yuan at a more affordable cost through EWAL. ADB was able to use EWAL's quota to borrow in foreign currency to facilitate the loan to EFL, as explained above.

