Project Administration Manual

Project Number: 49021-002
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People's Republic of China: Heilongjiang Green Urban and Economic Revitalization Project

Financial Intermediation Component and Business Development Services Subcomponent (Section B)

ABBREVIATIONS

ADB	–	Asian Development Bank
BDS	–	business development services
CCF	–	cash collateral facility
ESMS	–	environmental and social management system
FCA	–	framework cooperation agreement
FIC	–	financial intermediation component
FMA	–	financial management assessment
GFA	–	guarantee framework agreement
GRM	–	grievance redress mechanism
HAGC	–	Heilongjiang Agriculture Guarantee Company
HBC	–	Harbin Bank Corporation
HDRC	–	Heilongjiang Development and Reform Commission
HFD	–	Heilongjiang Finance Department
HMG	–	Hegang Municipal Government
HPG	–	Heilongjiang Provincial Government
IDA	–	interest difference account
JMG	–	Jixi Municipal Government
LBC	–	Longjiang Bank Corporation
M&V	–	monitoring and verification
MGPMO	–	municipal government project management office
MOF	–	Ministry of Finance
NDRC	–	National Development and Reform Commission
PAM	–	project administration manual
PCG	–	project coordinating group
PCR	–	project completion report
PIU	–	project implementation unit
PPMS	–	project performance management system
PRC	–	People’s Republic of China
PSC	–	project selection criteria
QMG	–	Qitaihe Municipal Government
REA	–	revolving escrow account
REF	–	revolving escrow fund
RRP	–	report and recommendation of the President
SASAC	–	state-owned assets supervision and administration commission
SOE	–	state-owned enterprise
SMEs	–	small- and medium-sized enterprises
SMEFP	–	small- and medium-sized enterprise financing platform
SMG	–	Shuangyashan Municipal Government
SPS	–	Safeguard Policy Statement
SUF	–	statement of utilization of funds
XZGC	–	Xinzheng Guarantee Company

GLOSSARY

Cash collateral	–	Cash deposit of up to 20% of a guarantee amount, provided by the respective municipal government project management office (MGPMO) out of proceeds of the loan, including reflow funds, to a cofinancing lender to support the respective guarantee company's obligations under such guarantee
Consolidated earnings before interest and taxes	–	At any time, the consolidated operating profits of the group for that relevant period before taxation: (i) before deducting any consolidated interest expense, and (ii) before considering any items treated as exceptional or extraordinary items
Consolidated interest expense	–	In respect of the relevant period, all interest, acceptance commission, fees, discounts, other finance charges, and any other continuing regular or periodic costs and expenses in the nature of interest (whether paid, payable, or accrued, and determined on a consolidated basis and in accordance with the accounting principles acceptable to ADB) incurred by such person in effecting, servicing, or maintaining financial indebtedness during that period, including any initial issue discount allowed on the issue of debt instruments and the interest component of rentals under finance leases
Current liabilities	–	All financial indebtedness and liabilities due on demand or due or to become due within one year, and other liabilities treated as current liabilities under the applicable accounting principles acceptable to ADB
Debt to equity ratio	–	At any time, the ratio of (i) total consolidated financial indebtedness to (ii) total consolidated amount of equity
Entrusted loan	–	A loan made by the respective MGPMO through the respective financial intermediary to a qualified subborrower for a qualified subproject using loan proceeds, including reflow funds
Entrusted loan agreement	–	An agreement, using a template approved by ADB, among a qualified subborrower, financial intermediary, and the respective project city, whereunder the financial intermediary makes a loan to a qualified subborrower at the respective project city's risk and, which provides (x) that it is a default if the borrower violates the related subproject agreement and (y) where there is a guarantee of cofinancing for the same borrower and subproject, that it is a default if the guarantee or cofinancing is in default
Equity	–	The aggregate (as of the date for calculation) of amount subscribed for and paid in as share capital amount credited

		to reserves, premium account, and any credit balance on profit and loss account less: (i) any minority interest; (ii) any amount set aside for payment of dividends, taxes, goodwill, trademarks, deferred charges, licenses, patents, and intangible assets; (iii) any debit balance on the profit and loss account; (iv) any impairment of issued share capital; (v) any amount created because of revaluation of investments and assets; and (vi) amounts attributable to capitalized or intangible items such as goodwill, trademarks, license, and patent Based on the most recent financial statements delivered to ADB and calculated in accordance with the applicable accounting principles acceptable to ADB
Financial indebtedness	–	Any indebtedness for or in respect of: (i) moneys borrowed; (ii) any amount raised by acceptance under any credit facility; (iii) any amount raised pursuant to issue of bonds, notes, debentures, loan stock, or similar instrument; (iv) any amount of liability in respect of lease or hire purchase contract; (v) any derivative transactions entered; (vi) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby, or documentary letter of credit, or any other instrument issued by a bank or financial institution; (vii) any amount raised by the issue of redeemable shares receivables sold or discounted, (without double counting) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to above; and (viii) any amount raised under any other transaction having the commercial effect of a borrowing
Financial intermediary	–	Either of Longjiang Bank Corporation (LBC) or Harbin Bank Corporation (HBC) or any other bank, banks, or respective bank-branch approved in writing by ADB
First batch of subprojects	–	The subprojects that are financed directly by ADB loan proceeds through entrusted loans, guarantees, or cofinancing loans and do not include the subprojects financed using the reflow funds
Framework cooperation agreement	–	An agreement, acceptable to ADB, between each financial intermediary and the respective MGPMO that addresses the following matters and attaches agreed contracts or templates, where appropriate: (i) entrusted loans, (ii) contracts required

		to implement project supported financing structures, (iii) cofinancing by financial intermediary, (iv) financial intermediary's roles and responsibilities in the cooperation, (v) operation of cross-defaults to subproject agreements, and (vi) project-related accounts and their operation
Guarantee	–	A guarantee from Xinzheng Guarantee Company [XZGC]
Guarantee framework agreement	–	A guarantee corporation supported by cash collateral in a manner as defined above and provided through a financial intermediary to a qualified subborrower for a qualified subproject An agreement, acceptable to ADB, between the respective MGPMO and the respective guarantee company that addresses the following matters and attaches agreed contracts or templates, where appropriate: (i) arrangements for the MGPMO to provide cash collateral through a financial intermediary, and (ii) collateral realization and sharing arrangements between cash collateral and guarantees
Interest coverage ratio	–	The ratio of (i) consolidated earnings before interest and taxes to (ii) consolidated interest expense
Liquid assets	–	The aggregate at such time of cash, bank balances, inventories, receivables, marketable securities, prepayments, and trade debtors and deposits payable on demand or within 1 year from the date of computation
Quick ratio	–	At any time, the ratio of (i) total liquid assets to (ii) total current liabilities
Reflow funds	–	The principal amount of entrusted loans that is repaid, cofinancing that is repaid, and the amount of cash collateral funds for guarantees returned or repaid to the respective MGPMO
Subproject	–	A project which satisfies the eligibility criteria set out in the project administration manual as in effect at the time the subloan to such person is approved by the MGPMO
Subborrower	–	A borrower of a subloan
Subloan	–	(i) An entrusted loan, (ii) a guarantee supported by cash collateral, or (iii) a cofinancing loan to a subproject
Subproject agreement	–	An agreement between a subborrower and the respective MGPMO, using a template approved by ADB, that reflects the requirements of the Loan Agreement, Project Agreement, project administration manual, and environmental and social

management system for subprojects to be supported by the project and other provisions that ADB determines are reasonable and prudent to protect the interests of the Borrower, HPG, and/or provincial government executing agency, MGPMO, or ADB

CONTENTS

Project Administration Manual Purpose and Process

The project administration manual (PAM) describes the essential administrative and management requirements to implement the project on time, within budget, and in accordance with the policies and procedures of the government and Asian Development Bank (ADB). The PAM shall include references to all available templates and instructions either through linkages to relevant URLs or directly incorporated in the PAM. For this project two PAMs were developed to better serve the two distinct component types of the project and the respective parties involved: (i) Project Administration Manual: Investment Project Components (Section A) to be referred to as PAM (Section A); and (ii) Project Administration Manual: Financial Intermediation Component and Business Development Services Subcomponent (Section B) to be referred to as PAM (Section B), which is this PAM (Section B).

The Heilongjiang Provincial Government (HPG), the executing agency, and the four implementing agencies: the Hegang Municipal Government (HMG), Jixi Municipal Government (JMG), Qitaihe Municipal Government (QMG), and Shuangyashan Municipal Government (SMG) are wholly responsible for the implementation of ADB-financed projects, as agreed jointly between the borrower and ADB.

In accordance with the policies and procedures of the government and ADB, ADB staff is responsible for supporting implementation, including compliance by the HPG and the four implementing agencies: the HMG, JMG, QMG, and SMG, of their obligations and responsibilities for project implementation in accordance with ADB's policies and procedures. ADB will involve the Longjiang Bank Corporation and Harbin Bank Corporation as financial intermediaries in the implementation of the financial intermediation component (FIC).

The financial intermediaries acknowledge and support the implementation by the respective municipal implementing agencies of a small- and medium-sized enterprise development as part of an economic diversification strategy, which shall comply with all government's and ADB's policies and procedures. The financial intermediaries perform the role of lender of record in all three financial intermediation component products, while the credit risk exposure versus the subborrowers is shared with or fully borne by the municipal government, as the provider of the FIC funds. The financial intermediaries' staff perform the role of monitor on all parties to the financial arrangements, who in their obligations and responsibilities under the FIC implementation, shall act in compliance and in accordance with ADB's policies and procedures.

At loan negotiations, the borrower and ADB shall agree to the PAM (Section B) and ensure its consistency with the loan agreement. Such agreement shall be reflected in the minutes of the loan negotiations. In the event of any discrepancy or contradiction between the PAM (Section B) and the loan agreement, the provisions of the loan agreement shall prevail.

After ADB Board approval of the project's report and recommendations of the President (RRP), changes in implementation arrangements are subject to agreement and approval pursuant to relevant government and ADB administrative procedures (including the Project Administration Instructions) and upon such approval, they will be subsequently incorporated in the PAM (Section B).

I. PROJECT DESCRIPTION

1. The proposed loan to the People's Republic of China (PRC) for the Heilongjiang Green Urban and Economic Revitalization Project (the project) comprises investment and capacity development components, and a complementary financial intermediation component (FIC), which will support access to financing for small- and medium-sized enterprises (SMEs) in the project cities Hegang, Jixi, Qitaihe, and Shuangyashan. The capacity development component includes a subcomponent for business development services (BDS), which will strengthen capacities of SMEs in areas of business planning, marketing, strategy, and technology. Through these two complementary subcomponents, FIC and BDS, the project is expected to catalyze a socioeconomic development diversifying economic activities and jobs creation away from coal-related industries and businesses that are currently dominating the economies of the project cities. This PAM (Section B) focuses on the FIC and its implementation arrangements and principles and on how the BDS relates to the FIC. The BDS and its scope and terms of reference of consultants is included in the PAM (Section A).

2. The proposed FIC and BDS will establish a dedicated platform that strengthens a sustainable SMEs' access to investment capital and/or longer term working capital funding for non-coal related projects, and that nurtures SME development, enhances their viability and growth, and enhances their credit repayment capacity. These components are expected to support economic diversification and job creation in the project cities. The proposed project will have a direct contribution to environmentally sustainable growth and inclusive private sector development in the economically challenged northeastern region of the PRC.

3. **Loan amount allocated to the financial intermediation component.** From the $310 million requested by the PRC Government from the Asian Development Bank's (ADB) ordinary capital resources to help finance the project, $56 million will be used for the FIC. From their respective portion of the ADB loan, each of the project cities will allocate a certain amount to the FIC to support financing to SMEs, with Hegang allocating $20 million; Jixi, $8 million; Qitaihe, $13 million; and Shuangyashan, $15 million.

4. **Impact, outcome, and outputs.** The FIC will directly contribute to the project's objectives. The project is aligned with the following impacts: (i) economy revitalized and diversified and non-coal industries in the cities of Hegang, Jixi, Qitaihe, and Shuangyashan developed; and (ii) living environment, safety, and public health in cities of Hegang, Jixi, Qitaihe, and Shuangyashan improved.[1] The project will have the following outcome: non-coal economic activities and urban livability in project cities increased.

5. There is one specific output for the FIC (output 2), and output 1 includes and refers to the BDS subcomponent. Attached to the loan is a technical assistance to provide capacity development to SMEs with BDS, and to financial intermediaries supporting implementation of the environmental and social management system (ESMS). Outputs 3, 4, and 5 are investment project components and described in the Project Administration Manual: Investment Project Components (Section A). Below are the descriptions of the outputs 1 and 2, relevant to this document.

[1] Government of the PRC, State Council. 2015. *National Economy and Social Development Thirteenth Five-Year Plan, 2016–2020.* Beijing; Heilongjiang Provincial Government. 2016. *Thirteenth Five-Year Plan.* Harbin; Municipal Government of Hegang. 2016. *Thirteenth Five-Year Plan*. Hegang; Municipal Government of Jixi. 2016. *Thirteenth Five-Year Plan*. Jixi; Municipal Government of Qitaihe. 2016. *Thirteenth Five-Year Plan*. Qitaihe; Municipal Government of Shuangyashan. 2016. *Thirteenth Five-Year Plan*. Shuangyashan.

6. **Output 1: Capacity in business development services and integrated project planning and management developed.** This output will support project management and capacity development to ensure successful diversification and project sustainability in areas of (i) project planning and management, procurement, and financial management; (ii) BDS for SMEs and local SME bureaus; (iii) human resources and skills development; (iv) smart city cluster cooperation; (v) mining remediation planning and implementation; (vi) flood risk management, climate resilience, and sponge city planning;[2] (vii) water, wastewater, and drainage system design, construction, and operation; and (viii) sustainable urban transport, road safety, and public transport management.

7. **Output 2: Sustainable small- and medium-sized enterprises investment and access to finance in project cities improved.** The project will establish an SME financing platform, using the FIC,[3] to mobilize domestic financing. The platform will offer (i) cofinancing loans for SME investments by financial intermediaries in which the ADB loan component is subordinated in return for longer-term project loans, (ii) a first-loss cash collateral facility to mobilize commercial guarantees and ease access to commercial financing for investments and longer-term working capital of up to 3 years,[4] and (iii) entrusted loans for high-priority projects for local governments. The FIC will be linked to the BDS subcomponent (output 1).

8. **Attached technical assistance.** The TA will support capacity building as a further risk mitigation measure for implementation of the FIC.[5] It will strengthen SMEs during subloan implementation to enhance credit repayment capacity and FIC sustainability. It will also strengthen the risk control capacities of financial intermediaries and support the implementation of an ESMS. Outputs are (i) SME performance and identification of weaknesses during the subloan repayment period monitored, (ii) SME performance improvement action plan and capacity building plan developed, (iii) capacity of SMEs in implementing corrective measures improved, and (iv) capacity of financial intermediaries in implementing the environmental and social management system improved. ADB will administer the TA. The TA is estimated to cost $800,000, of which $450,000 will be financed on a grant basis by the Technical Assistance Special fund others, and $300,000 by the Financial Sector Development Partnership Special Fund.[6] The government will provide counterpart support in the form of counterpart staff, office accommodation, office supplies, secretarial assistance, and other in-kind contributions.

9. **Economic redevelopment strategy for the project cities.** A comprehensive economic diversification strategy and roadmap supporting economic redevelopment includes the development of SMEs in identified non-coal industry sectors through the provision of BDS and a program to facilitate access to finance for such SMEs in the four project cities. The FIC and BDS are designed to address specific capacity barriers faced by SMEs and are essential and mutually reinforcing components of a holistic development strategy to revitalize the economies in a coal-dependent and resource depleted region suffering from economic decline and population

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[2] Sponge city is a concept of comprehensive urban water resources management, in which greenways, parks, and wetlands maximize ecosystem services, including stormwater management, using ecosystems-based adaptation.

[3] Output 2 will be implemented through subprojects by SMEs, selected according to criteria described in this PAM (Section B) (accessible from the list of linked documents in Appendix 2). The FIC modality is most appropriate for aggregate projects facilitating diversification into non-coal industries through SMEs, for which financing requirements are not large enough to allow direct lending by ADB.

[4] The cash collateral facility will cover (i) first loss of 20% for a guarantee company to assume risk for 80% of SME loan exposure and thus facilitate longer-term (3–5 years) debt financing by local financial intermediaries, and (ii) straight loans for higher-risk project loans in priority sectors.

[5] Attached Technical Assistance Report (accessible from the list of linked documents in Appendix 2). HPG requested TA during the ADB TA review mission in February 2017.

[6] Established by ADB. Financing partner: the Government of Luxembourg.

loss, particularly of younger, qualified people; and brain drain.

10. **Barriers to small- and medium-sized enterprises development.** Key constraints for the development of SMEs in the four project cities include the lack of (i) access to long-term financing, (ii) business development capacity, (iii) adequately skilled workforce, and (iv) access to advanced industry practices. The four project cities require a targeted approach to facilitate access to financing and BDS for SMEs to revitalize and transform socioeconomic development. The establishment of a dedicated SMEFP can address specific financing barriers faced by SMEs in investment and mobilizing finance for long-term investments. Development priority is given to sectors with significant potential for the diversification in non-coal related economic activity, employment creation, and projects with financial and/or societal economic returns for economic development. The financial and development constraints to be reduced include:

- (i) reluctance of commercial banks to finance discrete and small investments in different enterprises,
- (ii) preference of commercial banks to provide asset-backed balance sheet financing, while SMEs lack assets which may be pledged as collateral to borrow for discrete investments, and
- (iii) difficulty in structuring cash flow-based limited recourse longer term project financing to SME projects.

11. **Business development services design strategy.** The proposed BDS subcomponent is designed to address specific business development capacity barriers faced by SMEs. These include:

- (i) strategic planning, business expansion, new business development, and new market entry;
- (ii) product development, including technology related (access to new technology) and product design related (product positioning, differentiation);
- (iii) management capability and access to the latest industry practices;
- (iv) sales and marketing capability to improve sales and/or share, including sales management, key account management, business development and marketing and branding;
- (v) business operations improvement and optimization (including production and/or operation and other shared services, such as financial, legal, tax, information technology, and human resources); and
- (vi) investment-related support, such as formulating business plans and investor pitches.

12. **Business development services rationale and objective.** Over a 5-year implementation period of the investment project component, the BDS subcomponent intends to support the development of SMEs in diversified non-coal industries by providing general business management consulting and industry specific services, tailored to specific company needs. Approximately 10%–15% of the SMEs that receive BDS are expected to show outstanding business potential and will be proposed to receive a loan or guarantee through the FIC.

13. **Business development services components.** BDS will comprise three components in each of the respective project cities:

- (i) SME capacity development support “incubators” servicing high-potential SMEs with tailored, one-on-one advisory services where approximately 25 start-up companies will receive BDS in each city for 5 years, and are expected to be “investment-ready” after 2 years of receiving BDS;

(ii) a regional web-based SME service platform to cover and coordinate among all four project cities with company profiles, general expert information, in-depth policy interpretations, and business training content; and
(iii) strengthening of SME association to organize events, including training, seminars, and regional case competition, as well as overseeing the operation of the web-based service platform.

14. **Business development services build on and link to existing structures.** The BDS components will align, build on, and link with existing infrastructure and private sector development programs present in the project cities, namely the local SME bureaus, which will be strengthened in the process, instead of being an isolated activity.

15. **Business development services office.** Each project city will operate a dedicated and professional BDS office associated with or as part of the local SME bureau that performs the following responsibilities:
(i) appraise and screen for potential subproject SME companies,
(ii) seek out and screen for service providers to support SME companies,
(iii) bridge business-to-business and business-to-institution partnerships including facilitating research and product development,
(iv) organize periodic pitching workshops to connect SME companies and their subprojects with investors or commercial banks, and
(v) track and report the incubation progress of the subproject companies.

16. **Rationale for financial intermediation loan modality.** While the government has issued guidelines on SME development and financing, commercial banks are currently not providing sufficient financing on a comprehensive basis, neither for longer-term working capital nor for project financing. The government has requested ADB to establish a dedicated SMEFP and to design the proposed FIC to mobilize domestic financing for SME investments by leveraging of the ADB loan proceeds. The FIC modality enables ADB and the PRC Government to establish partnerships with local commercial banks and financial institutions to channel financing resources to eligible SMEs whose individual financing requirements are not large enough to warrant direct lending by ADB. The FIC structure seeks to provide lending products to eligible SMEs with investment and or longer-term working capital of up to 3–5 years on commercially attractive terms, while building a sustainable lending capacity and risk sharing capacity of participating commercial banks and guarantee companies.

17. **Complementary and innovative design of the financial intermediation component and the business development services subcomponent.** The BDS design is to develop a sustainable SME sector, which is complementary to the FIC objective of developing sustainable financing access for the SME sector. The need for integration is evident in areas of SME readiness with bankable projects, risk mitigation, mutual reinforcement, and longer-range sector development through incubation and introduction of best practice as outlined below:
(i) BDS before accessing finance will help improve SME capacities and competitiveness to increase their readiness for financing and lowering the FIC default risk. The BDS during SME project implementation and loan repayment especially through the attached TA will monitor and improve the business and financial performance of FIC recipients, The continued BDS during subproject implementation and especially through the attached TA can provide timely correction to FIC recipients operation and strategy, so they are more likely to grow with a healthy trajectory, therefore reducing potential default risk.

(ii) Both BDS and FIC will support the growth and development of high-potential SMEs but from different angles. BDS will support the needs of SMEs mostly for non-financing related services customized and tailored to individual company's needs such as strategic planning, product development, management capacity, sales and marketing capacity, business operation optimization, and investment-related support.

(iii) The BDS and FIC can mutually reinforce each other, therefore catalyze greater growth for SMEs. As SME investments have a relatively short payback period, the subloans to be made using the FIC are expected to have a loan repayment period of 3–5 years. Once the initial batch of subloans is repaid, the proceeds will be relent to another batch of subprojects. It is expected that the FIC loan proceeds will be reutilized at least 3–5 times before the FIC is repaid after 15 years.

(iv) While FIC will support "investment ready" companies, BDS will target the companies that are expected to be investment ready and aims to develop them into "investment ready" non-coal companies within 5 years. After the loan closing date, the project cities may elect to fund BDS from interest differential earnings from the FIC.

18. **Asian Development Bank value addition.** The proposed project demonstrates a high degree of ADB value addition by structuring an innovative green financing partnership to mobilize financing for SME investments, as follows:

(i) Providing capacity building to domestic financial institutes to undertake technical and environmental as well as financial due diligence on SME projects using loan funded consultants;

(ii) Using ADB loan funds in a strategic manner to mobilize additional financial resources from domestic banks, including a local provincial bank through appropriate risk sharing mechanisms, credit enhancement products, and capacity building;

(iii) Encouraging domestic banks to offer project financing secured on project assets or cash flows;

(iv) Establishing suitable funding mechanism for strengthening SMEs' access to financing over a longer period, which is self-sustainable to cover incremental risks associated with the SME financing;

(v) The FIC and BDS are well-designed to support and complement each other to scale up SME financing in the four project cities from both supply side (through FIC to mobilize more funds for SME subprojects) and demand side (through BDS to provide more bankable SME subprojects), although each component also adds value by itself and does not only serve the purpose of the other;

(vi) Strengthening green and inclusive business solutions and devising innovative solutions to enhance creditworthiness through combination of FIC with BDS; and

(vii) Establishing an ESMS to enhance the capacity of domestic banks and the project implementing agencies to ensure safeguard compliance of the subprojects.

19. The proposed FIC directly contributes to ADB's country partnership strategy for the PRC, 2016– 2020 in its priorities of supporting private sector and finance sector development objectives, also included in the Midterm Review of Strategy 2020 by catalyzing domestic bank financing to mainly privately owned SMEs for diversifying in non-coal-related priority sectors, such as tourism and agribusiness.[7] The proposed project component is also aligned with the Thirteenth

[7] ADB. 2016. *Transforming Partnership: People's Republic of China and Asian Development Bank, 2016–2020.* Manila; ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

Five-Year Plan of the national and provincial governments of the PRC to achieve industrial transformation and deepening access to finance for emerging industries and SMEs.

II. IMPLEMENTATION PLANS

A. Project Readiness Activities

20. Prior to the ADB loan fact-finding mission, the Heilongjiang Provincial Government (HPG) and their relevant agencies, had already undertaken the following project readiness activities:

(i) HPG is the project executing agency and it has established the (a) Heilongjiang project leading mechanism chaired by the Director General of the Heilongjiang Development and Reform Commission (HDRC) to provide policy guidance and coordination, and project management support in HDRC (for the investment project component) and Heilongjiang Finance Department (HFD) (for the FIC) to supervise and coordinate overall project implementation.

(ii) The municipal governments of the project cities will be the implementing agencies, and each has established a project leading group headed by the mayor or concerned vice-mayor, and a local PMO in the municipal development and reform commission. The local PMOs will coordinate project implementation units (PIUs) that have been established in the concerned local government bureaus including the SME bureaus, who are responsible for implementation of the subprojects and the day-to-day project management activities during the preparatory and implementation phases of the FIC and BDS.

(iii) Using a competitive process agreed with ADB, Hegang, Jixi, and Shuangyashan cities selected Longjiang Bank Corporation (LBC), while Qitaihe city selected Harbin Bank Corporation (HBC) to act as its financial intermediaries. Both financial intermediaries established a PIU in collaboration with key departments in their respective banks.

(iv) In addition, the provincial guarantee company, Xinzheng Guarantee Company (XZGC) agreed to partner with the cities to offer guarantees conditional on cash collateral in the form of a first loss facility from the cities to benefit the subprojects lacking sufficient collateral acceptable to commercial banks and, thus mobilize commercial funding for SMEs in the cities.

(v) The credit decisions will be taken by the banks' investment decision making committee. In case the investment committees choose not to finance a project, the cities' PMOs may still decide to proceed with funding the project through the entrusted loan facility.

21. Prior to loan negotiations, these steps should be completed:

(i) Confirm with ADB the selection of a bullet repayment method to ADB and the principal repayment terms–for the FIC portion of the loan. The maturity based interest premium will depend on the repayment terms agreed at loan negotiation.

(ii) Approval of foreign capital utilization plan by the appropriate government authority, and obtaining formal government approval for loan negotiation.

22. Table 1 indicates the main project readiness activities required to be completed prior to disbursement of ADB loan proceeds for the FIC, and the indicative timing each activity needs to be completed before loan effectiveness by March 2018. These include entering into legal agreements acceptable to ADB of the project cities with the respective financial intermediaries and finalizing the drafts of the agreements to be entered with subborrowers. In addition, the

US dollar advance account to receive the ADB loan proceeds needs to be established by the HFD prior to disbursement.

23. HFD will open the advance account. The cities will need to establish a dedicated CNY account denominated in CNY at the selected financial intermediary to receive funds from the advance account after conversion to CNY. The cities will also need to open a reflow subledger under the dedicated CNY account to receive reflows (principal amount) from the entrusted loans and cash collateral for guarantees once the underlying subloan is repaid and an interest differential account (IDA) or more specifically an interest differential subledger to receive interest payments from the subprojects. Subsequent to the signing of a subloan and subproject agreements, financial intermediaries in collaboration with project cities will prepare and submit withdrawal applications to ADB. The advance account is a conduit for the FIC. The HFD will transfer the funds from the advance account to the concerned subproject/subloan city’s CNY account within three days of receipt.

Table 1: Project Readiness Activities

	2017 (Months)										2018 (Months)			
Indicative Activities	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**1**	**2**	**3**	**Responsible Individual/Unit/Agency/ Government**
Advanced approval of subprojects[a]														Project cities
Advanced recruitment of consultants[b]														HDRC, project cities
Establish institutional and legal mechanisms for SMEFP														Project cities, LBC, HBC, XZGC, HAGC
Preparation, submission, and approvals of FSR, EIA, resettlement plans, and FCUP														HDRC, project cities
MRM														ADB
FCUP approved by NDRC														NDRC
Loan negotiations														ADB, HFD, HPG, MOF, project cities
ADB Board approval														ADB
Loan signing														ADB, MOF
Government legal opinion provided														MOF, project cities
Loan effectiveness														ADB, MOF

ADB = Asian Development Bank, EIA = environmental impact assessment, FCUP = foreign capital utilization plan, FSR = feasibility study report, HAGC = Heilongjiang Agriculture Guarantee Company, HBC = Harbin Bank Corporation, HDRC = Heilongjiang Development and Reform Commission, HFD = Heilongjiang Finance Department, LBC = Longjiang Bank Corporation, MOF = Ministry of Finance, MRM = management review meeting, NDRC = National Development and Reform Commission, PRC = People's Republic of China, SMEFP = small- and medium-sized enterprise financing platform, XZGC = Xinzheng Guarantee Company.

[a] The implementing agency may enter into entrusted loan agreements prior to signing of the Loan Agreement with ADB and this will be deemed as advance contracting. Retroactive financing will be provided to subprojects that have been approved with the concurrence of ADB prior to the signing of Loan Agreement with ADB to refinance the short-term financing obtained by subborrowers.

[b] The consulting services contracts that municipal governments may enter into in accordance with ADB Guidelines on the Use of Consultants prior to the signing of the Loan Agreement with ADB will also be eligible for retroactive financing.

Source: ADB estimates.

B. Overall Project Implementation Plan

24. Although the FIC repayment period is 15 years, the initial disbursement of the ADB loan will be implemented over a period of 5 years and the estimated loan closing date is 31 August 2023. It is expected to have achieved the following by the loan closing: (i) SMEFP established and made fully operational (output 2), (ii) first batch of output 2 subprojects completed and have achieved targeted energy savings, and (iii) second batch of output 2 subprojects commenced (financed using reflow from the first batch). The loan implementation schedule is provided in Table 2.

Table 2: Project Implementation Plan

Indicative Activities	**2017 (Qtr)**				**2018 (Qtr)**				**2019 (Qtr)**				**2020 (Qtr)**				**2021 (Qtr)**				**2022 (Qtr)**				**2023 (Qtr)**			
	1	**2**	**3**	**4**	**1**	**2**	**3**	**4**	**1**	**2**	**3**	**4**	**1**	**2**	**3**	**4**	**1**	**2**	**3**	**4**	**1**	**2**	**3**	**4**	**1**	**2**	**3**	**4**
A. DMF																												
Output 1: Capacity in BDS and integrated project planning and management developed																												
(i) Implement BDS support to SMEs including pipeline development of potential FIC subprojects																												
(ii) Implement TA to monitor and support SMEs and financial intermediaries ESMS implementation																												
Output 2: Sustainable SME investment and access to finance in project cities improved																												
(i) Complete onlending agreements and subloan templates																												
(ii) Identify subprojects and sign subloan agreements for first batch - including all due diligence of appraising SMEs and subproject proposals																												
(iii) Identify subprojects in project cities and sign subloan agreements for second batch - including all due diligence of appraising SMEs and subproject proposals																												
B. Management Activities																												
Setting up of investment decision committee																												
Development of SMEFP operating procedures																												
Entering into legal agreements with financial intermediaries																												
Entering into legal agreements with guarantee companies																												

Indicative Activities	2017 (Qtr)				2018 (Qtr)				2019 (Qtr)				2020 (Qtr)				2021 (Qtr)				2022 (Qtr)				2023 (Qtr)			
Revolving fund established using the reflows from first batch of subprojects																												
TA consultant selection procedures																												
ESMS implementation key activities																												
Progress reporting																												
Annual and/or midterm review																												
Project completion reports for first batch of subprojects																												
Project completion report																												

ADB = Asian Development Bank, BDS = business development services, DMF = design and monitoring framework, ESMS = environmental and social management system, FIC = financial intermediation component, Qtr = quarter, SMEs = small- and medium-sized enterprises, SMEFP = small- and medium-sized enterprise financing platform, TA = technical assistance.

Notes: 1. Subprojects individually listed are eligible for retroactive financing and hence can commence before loan effectiveness.

2. Subprojects may be approved after the approval of the loan and before the effectiveness of the loan and may be eligible for retroactive financing. Thereafter, the selection and financing of projects becomes a continuous approach and should be decided when funding reflows can be reliably predicted.

3. Commencement assumes the first reflows are available.

Source: ADB estimates.

III. PROJECT MANAGEMENT ARRANGEMENTS

25. HPG is the project executing agency and the municipal governments of Hegang, Jixi, Qitaihe, and Shuangyashan will be the implementing agencies, and will bear the interest, foreign exchange fluctuation rate, and the final credit risk for the loans to be provided through this FIC. HDRC will provide strategic and policy guidance to the implementing agencies during project implementation. HDRC will ensure the achievement of development objectives and the expected outcomes that ADB has agreed with HPG. HFD will exercise fiduciary oversight over the project.

26. The implementing agencies have established dedicated project management offices (PMOs), which will be responsible for the day-to-day project management implementation. The municipal governments will be accountable for ensuring compliance with ADB policy and other requirements, including those relating to environmental and social safeguards, and anticorruption.[8] The financial intermediaries will (i) use their current procedures and policies for appraising and deciding on credit approval, (ii) conduct post credit approval management, and (iii) establish an ESMS to cover all subprojects financed by the proposed project to ensure that all subprojects comply with the ESMS and the subborrowers implement environment and social safeguard requirements in accordance with ADB's Safeguard Policy.

27. **Fund flow.** The proposed ADB loan proceeds will be on-lent by the Ministry of Finance (MOF) to HPG, and HFD on behalf of HPG will relend to the project city governments, both on identical terms to the terms provided by ADB to MOF. Thus, the risks of interest rate and foreign exchange rate fluctuation will be borne by the project city governments. As per the onlending agreement between the HFD and the municipal governments, each city will be responsible for paying commitment fees to ADB.

28. **Financial intermediation component terms and conditions.** The FIC will have, as part of the overall project loan, a 25-year term and a 5-year grace period. While the overall project loan follows straight-line repayment, the FIC-allocated funds will be repaid after 15 years using the bullet repayment method. This combination will be the custom-tailored repayment method for the overall project loan. Annual interest rate will be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; a commitment charge of 0.15% per year, and a maturity premium of 0.1% per year (the interest and other charges during construction to be capitalized in the loan); and such other terms and conditions set forth in the draft loan and project agreements.

29. Using the proceeds of the FIC, the project city governments will offer three complementary financial products to support non-coal related SMEs in the respective cities: (i) a debt facility to provide (a) entrusted loans or (b) cofinancing loans, and (ii) a cash collateral facility to support the mobilization of commercial financing by the financial Intermediary.

30. The subloans to be made using the debt facility are expected to have a loan repayment period of 3–5 years. As the initial batch of subloans is repaid, the proceeds will be relent to another batch of subprojects. For this purpose, a reflow account will be established to receive the principal repayments of the entrusted subloans as well as the reflows from cash collateral supporting the guarantees. It is expected that the ADB loan proceeds will be reutilized for at least 2 times, but more likely 3–5 times before it is repaid to ADB. The municipal governments with support by the financial intermediaries will ensure subsequent subprojects comply with (i) subproject eligibility

[8] As set out in the loan and projects agreements for the project, and as elaborated on in this Project Administration Manual.

criteria, and (ii) the ESMS. Detailed implementation arrangements are described in paras. 31–51.

A. Project Implementation Organizations: Roles and Responsibilities

31. The roles and responsibilities of the different entities involved in project implementation and oversight are summarized in Table 3. The legal agreements governing the relationship between these entities were outlined above and are described further in Appendix 1.

Table 3: Roles and Responsibilities

Project Implementation Organizations	Management Roles and Responsibilities
HPG (executing agency)	Overall project sponsor and loan guarantor. In accordance with normal practices in the PRC, HPG has delegated oversight responsibility to the HDRC and HFD as set out below. HPG will also enter into Project Agreement with ADB and ensure that the cities will perform their obligations under the Project Agreement.
HDRC	(i) Provide strategic guidance, leadership, and project management and coordination to ensure that the project activities are consistent with the provincial government's development objectives under the Thirteenth Five-Year Plan (ii) Approve any required project management regulations regarding subproject selection and approval criteria (iii) Approve project feasibility study reports submitted by the project cities and prepare and submit project FCUP for NDRC approval (iv) Review and approve, on behalf of HPG, any changes in project scope (v) Participate in the overall PCR process
HFD	(i) Exercise oversight of project financial management arrangements (ii) Enter into subsidiary Loan Agreement with MOF (iii) Enter into a FIC onlending agreement with the cities for the whole proceeds of the ADB loan (iv) Establish and manage US dollar advance account to receive ADB loan proceeds and for onlending to the project cities in CNY (v) Approve project fund management regulations, covering onlending, withdrawal, disbursement, repayment of project fund, and account management for the dedicated project CNY account (vi) Review, endorse, and submit withdrawal applications and request for advance account advances and replenishment to ADB (vii) Arrange for the annual audit of the project, as stipulated in the loan and project agreements entered between PRC, HPG, the project cities, and ADB (viii) Participate in the overall PCR process
Project cities	(i) Project implementing agencies of the loan project. Establish project leading groups and PMOs and provide staff resources with competence in technical, environmental, social, procurement, and financial issues pertaining to the project implementation (ii) Enter into Project Agreement with ADB and ensure ADB's requirements with respect to safeguards, financial management, anticorruption, and procurement during project implementation (iii) Enter into framework cooperation agreement (FCA) with the respective financial intermediary to establish a dedicated CNY account maintained at the respective financial intermediary for receiving ADB loan proceeds from the advance account. Under the dedicated CNY account, there will be three principal subledgers (or ledgers) for allocating the FIC principal into 100% entrusted loan, entrusted loan with cofinancing, and CCF respectively, collectively referred to as REA. Funds in the REA can be revolved for designated purposes in the grace period of the FIC term, and under the dedicated CNY account, there will be one reflow subledger to receive the principal repayment from subprojects including the released CCF principal, and another revenue subledger, referred to as IDA, for receiving interest payments from subprojects, interest payments by the financial intermediaries for cash deposit, and CCF usage fees from subborrowers. Money in the IDA can be used for payment of eligible expenditures as set out by the municipal governments in a way acceptable to ADB. FCA will also specify roles and responsibilities of financial intermediaries in implementing the ESMS and the due

Project Implementation Organizations	Management Roles and Responsibilities
	diligence checks, managing collaterals, and providing cofinancing loans or CCF-guaranteed loans (iv) Enter into GFA with XZGC and HAGC (subject to ADB's further assessment) to address the following: (a) arrangements for the municipal government to provide cash collateral as first loss reserve to back the related guarantee company's loan guarantee, and (b) collateral realization and sharing arrangements between CCF and guarantees (v) Enter into entrusted loan agreements with subborrowers and the designated financial intermediary (vi) Enter into CCF-backed guarantee agreements with subborrowers, the loan lending bank (financial intermediaries), and the related guarantee company (vii) Enter into subproject agreements with the subborrowers receiving 100% entrusted loans or guaranteed cofinancing loans to ensure that the respective municipal government's obligations under the project agreement are implemented by the subborrowers (viii) Coordinate BDS support prior to subloan agreement signing to the selected borrowing SME during the project implementation through the attached TA via the PMOs (ix) Establish PMOs and provide adequate staff, budget, and training to municipal government and the respective PMO staff responsible for implementing the project (x) Use PLG investment decision making mechanism to approve the subprojects based on the credit appraisal undertaken by the financial intermediaries and after obtaining ADB's no objection; IDA funds may be used by the cities as directed by the PLG and acceptable to ADB as described in para. 45 (xi) Ensure that the PMOs and the financial intermediaries implement the ESMS as agreed with ADB (xii) Allocate adequate financing to cover the operating expenses of the PMO until there are sufficient funds in the IDA. The project management expenses of the PMO will include (a) staff salaries and other routine expenses of the PMOs (b) technical and environment due diligence of subprojects (c) monitoring subprojects during implementation (d) measurement and verification of energy savings achieved
Project cities PMOs	(i) Review and screen subproject applications according to the selection criteria and approval process for subprojects described in this PAM (Section B), and prepare subproject appraisal reports using the agreed format with ADB (ii) Obtain ADB's no objection to the initial subproject screening, including safeguard categorization and after completing the subproject appraisal, confirm the subproject's compliance with the selection criteria with ADB (iii) Monitor the implementation progress of subprojects, including compliance with the terms and conditions of the subproject agreements; with support from the TA consultants, monitor and identify weaknesses and possible noncompliance and propose and request remedial actions in the event of any noncompliance with the obligations under the subproject agreement with respect to ESMS implementation, financial management, anticorruption, and others as needed (iv) Endorse and certify the achievement of milestones mentioned in the respective subloan agreements for the purpose of subloan disbursement (v) Prepare the ADB loan withdrawal applications with the necessary supporting documents described in the disbursement section of this PAM (Section B) and with support of the respective financial intermediary (vi) Coordinate with the financial intermediary and the related guarantee company in the event of default by subborrowers under any subproject agreement and initiate recovery of entrusted loans or CCF where a decision is made to accelerate recovery or exercise other remedies (vii) Prepare the operating procedures for IDA and utilize the proceeds of IDA accordingly (viii) Solicit proposals for candidates for subsequent batches of subprojects (ix) Implement and coordinate BDS and attached TA in coordination with concerned agencies including SME bureaus, industrial parks management, SME associations, and SMEs (x) Submit all reporting requirements to ADB and retain supporting documentation (xi) Represent the municipal government and coordinate the overall PCR process in conjunction with ADB

Project Implementation Organizations	Management Roles and Responsibilities
Financial intermediaries (LBC and HBC)	(i) Enter into FCA with the respective project cities as described under project cities above. Maintain the dedicated CNY account of the respective project city government to receive ADB loan proceeds; including the three REA subledgers to allocating the ADB loan proceeds into three financial instruments, the reflow subledger to receive reflows from the subprojects to be onlent to subsequent batches of subprojects; and an IDA subledger for the respective project city government to receive interest payments by the subborrowers of entrusted loans; and payments on cash collateral supporting guarantees by the related guarantee company (ii) Recommend potential subprojects to the related city's PMO for the PMO's confirmation on their eligibility (iii) Undertake the credit appraisal of assigned subprojects, including the market risk assessment, credit history check, and financial assessment of the subborrower and perform ESMS screening and safeguards categorization (iv) Prepare credit appraisal reports for subprojects requiring entrusted loans for approval by the PLG of the respective cities (v) Make final decision on whether it will lend cofinancing loan to subprojects (vi) Propose to the respective project city PMO and/or PLG how the debt financing to a particular subproject can be split between entrusted loans and cofinancing, and whether guarantees are required (vii) Confirm that the subprojects have required permits and approvals, including environment approval and land allocation from local governments (viii) Certify the achievement of milestones mentioned in the respective subloan agreements for subloan disbursement (ix) Support the project city PMO in preparing the ADB loan withdrawal applications with the necessary supporting documents described in the disbursement section of this PAM (Section B) (x) Disburse the entrusted loans to subborrowers or deposit cash collateral as pledge with the related guarantee company as beneficiary within 3 days of receipt of ADB loan proceeds to the respective project city's dedicated CNY account (xi) Apply financial intermediary bank's regular operation procedures for post-loan management, including borrower's business status monitoring, subloan repayment monitoring, and interest payment monitoring and collateral management and report to the respective city any violations of the entrusted loan agreements or subproject agreements by the subborrowers; notify the PMO of possible and actual defaults from subprojects financed by the FIC (xii) Exercise remedies under entrusted loan agreement (and cofinancing agreement) on instructions from the respective city's PLG (xiii) Implement ESMS and ensure environmental and social safeguards compliance of all subprojects under the project (xiv) Report the FIC implementation progress and result to the PMO on a regular basis (xv) Undertake subproject completion inspection and the preparation of evaluation reports on subproject performance (xvi) Submit monthly reports to the respective project city government and PMO on subloan disbursements and repayment (xvii) Prepare consolidated SUF of ADB loan proceeds for entrusted loans, cofinancing loans, and cash collateral using ADB's template provided in Appendix 7 and provide the SUF with supporting documents to external auditors (xviii) Prepare annual SUF using a template to be provided by ADB to record the use of ADB loan funds for entrusted loans and CCF (xix) Facilitate annual audit of SUF (xx) Submit to ADB own externally audited financial statements. (xxi) Use own credit risk management mechanism to monitor the respective city's exposure to credit risk, interest rate risk, and exchange rate risk on the project and recommend appropriate mitigation measures. (xxii) Participate and facilitate PCR preparation **For subprojects that are supported only through a cash collateral and guarantee for cofinancing:**

Project Implementation Organizations	Management Roles and Responsibilities
	(i) Enter into CCF-backed guarantee agreement with the related guarantee company, the related municipal government, and subborrowers and extend the cofinancing in the form of guaranteed loan (ii) Maintain a subledger to allocate the cash collateral provided by the respective city with the related guarantee company as beneficiary to support guarantees **For subprojects (a) receiving parallel entrusted loans and cofinancing secured jointly or (b) through an entrusted loan without cofinancing:** (i) Enter into an entrusted loan agreement with the respective project city and subborrower with cross default provisions to the subproject agreement between respective city and the subborrower and to the cofinancing loan where applicable (ii) Establish entrusted loan subledgers with or without cofinancing in the name of the respective project city for receiving funds from the dedicated CNY account to be onlent to subborrowers as entrusted loans (iii) Maintain as security agent the same set of collaterals for both entrusted loans and the financial intermediaries' own cofinancing loans and in the event of default by a subborrower, liquidate the security and refund the financial intermediaries cofinancing loan (if any) and the entrusted loan in proportion to their financing amounts. If cofinancing loan has expired while the entrusted loan is still effective, the liquidation of security shall be 100% used to make up the loss of entrusted loan (iv) With consideration of risk sharing mechanisms available to the financial intermediary from the FIC, the financial intermediary shall reasonably expand the scope to acceptable collaterals, and reduce the discount rate when computing collateral's mortgage value; this modification shall be especially applicable for subprojects under the FIC
Guarantee companies	(i) Enter into a GFA with the respective project city government whereby the respective project city government agrees to provide up to 20% of each guaranteed loan amount to the related guarantee company to be used as cash collateral to support the guarantees and the guarantee company agrees to act as security agent for its guarantee (in first loss recovery position) and the respective project city government's CCF (in second loss recovery position) (ii) Conduct detailed appraisal of the value of collateral offered by subborrowers who seek guarantees, and any other supplementary credit worthiness checks (iii) Decide in consultation with the respective project city government on the issuance of a guarantee where both the related guarantee company and the respective project city government consider loan risk or reward as reasonable (iv) Manage liquidation of collaterals and distribution of proceeds to cover any credit losses incurred by the respective project city government with respect to its CCF in an order after replenishing the credit loss of the guarantee company for its 80% additional guarantee (v) Prepare SUF to record the guarantees supported by cash collateral (vi) Facilitate annual audit (vii) Furnish ADB with externally audited financial statement
Subborrowers (end borrowers of ADB funds)	(i) Participate and cooperate in BDS assessments and capacity development activities prior to subloan agreements signing as needed and during project implementation and repayment period cooperating with the TA BDS consultants and providing performance related information (ii) Implement subprojects in accordance with the subloan agreements and subproject agreement (iii) Ensure the subprojects comply with the requirements assigned to subborrowers under the ESMS (iv) Undertake the procurement of goods and works in compliance with the procurement manual provided in Appendix 4 (v) Provide monitoring and evaluation information and participate in the completion review of the subproject
ADB	(i) Development partner to HPG and the project cities and supervise project implementation to ensure ADB policies are complied with (ii) Disburse loan proceeds in accordance with the agreed procedures upon receipt of duly authorized withdrawal applications and necessary supporting documents

Project Implementation Organizations	Management Roles and Responsibilities
	(iii) Provide guidance to HPG and the project cities to help resolve any implementation issues that arise (iv) Review project progress reports and monitors implementation of ESMS (v) Review and endorse applications of new subprojects wishing to use the entrusted loans or to receive guarantees under the first batch and the subprojects over the free limit to be agreed under subsequent batches until the loan closing date (vi) Require HPG and the project cities to act on any non-compliance issues (vii) Organize the overall PCR, jointly conducted with various agencies of HPG and related project stakeholders

ADB = Asian Development Bank, BDS = business development services, CCF = cash collateral facility, CNY = Chinese yuan, ESMS = environmental and social management system, FCA = framework cooperation agreement, FCUP = foreign capital utilization plan, FIC = financial intermediation component, GFA = guarantee framework agreement, HAGC = Heilongjiang Agriculture Guarantee Company, HBC = Harbin Bank Corporation, HDRC = Heilongjiang Development and Reform Commission, HFD = Heilongjiang Finance Department, HPG = Heilongjiang Provincial Government, IDA = interest difference account, LBC = Longjiang Bank Corporation, MOF = Ministry of Finance, NDRC = National Development Reform Commission, PAM = project administration manual, PCR = project completion report, PLG = project leading group, PMO = project management office, PRC = People's Republic of China, REA = revolving escrow account, SMEs = small- and medium-sized enterprises, SUF = statement of utilization of funds, TA = technical assistance, XZGC = Xinzheng Guarantee Company.
Source: ADB estimates.

B. Key Persons Involved in Implementation

Executing Agency Heilongjiang Provincial Government	Officer's Name: Li Chenglin Position: Deputy Director of Foreign Capital Utilization and Overseas Investment Division of Hegang Provincial Development Reform Commission (DRC) Telephone No.: +86 451 8260 3161 Email address: 702437574@qq.com Office Address: Heilongjiang Provincial DRC, Zhongshan St. 202, Nangang District, Harbin, Heilongjiang
Implementing Agencies Hegang Municipal Government	Officer's Name: Yu Xiang Position: Director of Hegang DRC Telephone No.: +86 133 5958 2226 Email address: fgwjmkwh@163.com Office Address: Hegang DRC, Beijing Rd. No.1, Xiangyang District, Hegang, Heilongjiang
Jixi Municipal Government	Officer's Name: Han Shengdi Position: Director of Jixi City Government DRC Information Center Telephone No.: +86 139 0467 8666 Email address: fgwhsd@163.com Office Address: Jixi DRC, Hongqi Rd. 18, Jixi, Heilongjiang
Qitaihe Municipal Government	Officer's Name: Feng Liang Position: Deputy Director of Qitaihe DRC Telephone No.: +86 186 4641 9002 Email address: mzd11123@163.com

	Office Address: Qitaihe DRC, Qitaihe, Heilongjiang
Shuangyashan Municipal Government	Officer's Name: Liu Ping Position: Deputy Director of Shuangyashan DRC Telephone No.: +86 136 0458 8508 Email address: 13604588508@163.com Office Address: Shuangyashan DRC, Jianshan District, Shuangyashan, Heilongjiang
Financial Intermediaries Harbin Bank Corporation	Staff Name: Ms. Zhang Xuyan Position: Director of Corporate Finance Department Telephone No.: +86 45186779518 Email address: zhabgxuyan@hbb.com.cn
Longjiang Bank Corporation	Staff Name: Mr. Zhou Zhan Position: Corporate Business Vice General Manager Telephone No.:+86 451 8570 6010 Email address: zhouzhanbin@lj-bank.com.cn
Xinzheng Guarantee Company	Staff Name: Mr. Zhou Zhanbin Position: Corporate Business Vice General Manager Telephone No.: +86 451 8570 6010 Email address: zhouzhanbin@lj-bank.com.cn
Heilongjiang Agriculture Guarantee Company	Staff Name: Xia Wenfei Position: Vice General Manager Telephone No.: +86 451 5859 2995 Email address: xiawenfei163@163.com
Asian Development Bank East Asia Department, Urban and Social Sectors Division	Staff Name: Sangay Penjor Position: Director Telephone No.: (632) 632 6148 Email address: spenjor@adb.org
Mission Leader	Staff Name: Stefan Rau Position: Senior Urban Development Specialist Telephone No.: (632) 632 5812 Email address: srau@adb.org
Deputy Mission Leader Responsible for Financial Intermediation Component Implementation	Staff Name: Annika Seiler Position: Senior Advisor to the Vice President, VPFR Telephone No.: (632) 683 1512 Email address: aseiler@adb.org

C. Project Organization Structure

32. The organization structure for the implementation of the FIC and BDS are as follows.

1. Principal Fund Flow and Financial Intermediation Component Design Summary

33. ADB will lend $310 million to the MOF, which will relend the ADB loan at the same terms and conditions to the HPG represented by the HFD. An advance account will be established at the provincial level by HFD. HFD will onlend the ADB loan proceeds to the finance bureaus of the four project cities on the same terms and conditions. The project cities have gone through a process of competitive selection of a suitable financial intermediary. The municipal governments of Hegang, Jixi and Shuangyashan selected Longjiang Bank Corporation (LBC), and the municipal government of Qitaihe selected HBC to act as financial intermediary on their behalf.

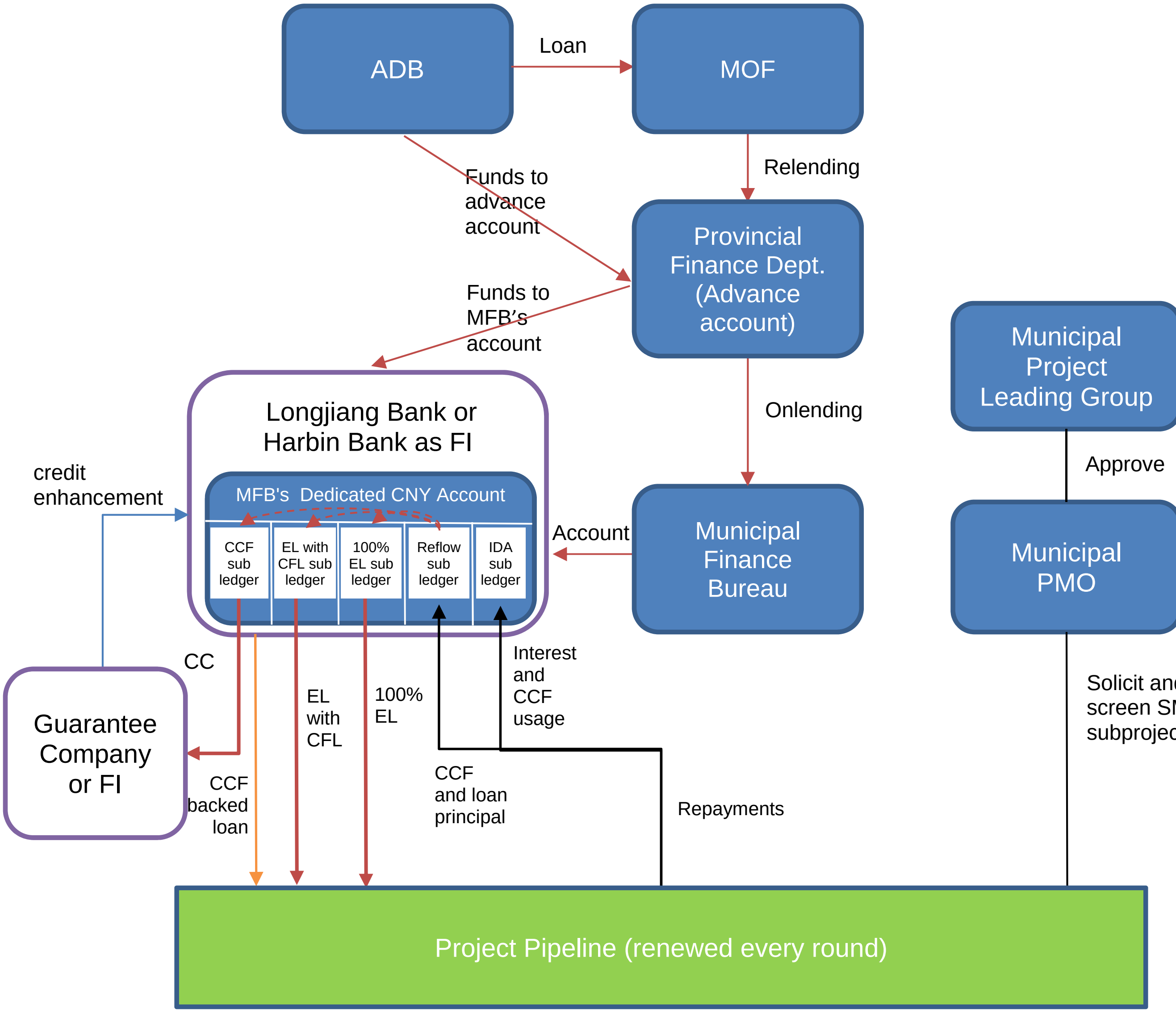
34. The SME financing platform to be established by the FIC will offer three financing instruments: (i) entrusted loans (without cofinancing), (ii) cofinancing loan (including entrusted loan from ADB loan proceeds and parallel collaborative commercial cofinancing from the selected financial intermediary), and (iii) domestic debt financing (loan or loan guarantee) backed by cash collateral facility (CCF), which is to be provided from the part of the city's FIC proceeds.

35. ADB loan proceeds will first flow into the main advance account established by HFD at the provincial level, where they will be converted from US dollars into CNY and transferred to a dedicated CNY account and then further transferred to three subledgers (or ledgers, collectively referred to as revolving escrow account [REA]) under the dedicated CNY account of each related city to allocate and revolve the FIC principals for three different designated financial instruments, respectively. Under the dedicated CNY account, there will be one reflow subledger for receiving the principal repayments, and another revenue subledger, referred to as IDA, for receiving interest payments from subprojects, interest payments by the financial intermediaries for cash deposit, and CCF usage fees from subborrowers. ADB loan proceeds in the dedicated CNY account which is to be established by the city's finance bureau within the related financial intermediary's local branch, e.g., in LBC Hegang branch for Hegang's FIC, will finally be onlent to finance subprojects of an eligible SME.

36. Although the ADB loan proceeds in foreign currency will be converted in the main project account of the provincial finance department, it is the four municipal governments who will bear the associated foreign exchange rate risk, as well as the associated interest rate risk and subloan credit risk. The financial intermediary is required to provide adequate risk mitigation advice to the related city about US dollar exchange rate risk and the London interbank offered rate (LIBOR) US dollar interest rate change risk. This onlending arrangement results in the necessary review of the financial intermediary's capacity in hedging foreign currency risk and LIBOR US dollar interest rate change risk. Furthermore, while the municipal governments will bear the primary credit risk and the risk of fluctuating interest and exchange rates, HPG is in the second position to bear the repayment risks. Considering the small amount of FIC portion for each city, and for the province, the interest and exchange rate risks are deemed low impact and controllable.

37. A comprehensive fund flow chart is in Figure 1.

Figure 1: Fund Flow



ADB = Asian Development Bank, CCF = cash collateral facility, CFL = cofinancing loan, EL = entrusted loan, FI = financial intermediary, MFB = Municipal Finance Bureau, MOF = Ministry of Finance, PMO = project management office.
Note: The three subledgers: (i) cash collateral fund, (ii) entrusted loan with co-financing loan, and (iii) full entrusted loan combined constitute the revolving escrow account.
= the three subledgers constituting the revolving escrow account (REA).
Source: ADB based on consultations with the project cities' PMOs.

38. Although each city has selected one bank as its financial intermediary at the beginning of implementation, the project cities may select another bank agreeable to ADB on a competitive basis as its financial intermediary during implementation.

2. Deal Flow Process and Subproject Proposal Mechanisms

39. **Deal flow process.** A two-step appraisal process will be adopted. Candidate subprojects under the FIC will be screened for eligibility by the PMO of each city. If a candidate subproject complies with the initial screening criteria, the PMOs will refer the subproject to the respective financial intermediary for due diligence checks. An ESMS consistent with ADB safeguards requirements and standards on FIC will be established within the headquarters of each financial intermediary before the effectiveness of FIC of the ADB loan. As stated above, it will be the financial intermediary's task to appraise subprojects against detailed subproject selection criteria, covering technical, financial, environmental, and social safeguards adopted by the implementing agencies agreeable to ADB. Before approving the subprojects under the first batch, the project cities will submit the subproject appraisal reports to ADB for compliance check. Salient features of the deal flow process are highlighted below:

(i) **Solicitation of subprojects.** Subprojects will be solicited from four sources to ensure that sufficient projects are identified. In previous FIC projects, an efficient deal flow mechanism was implemented when, in addition to the local government, other institutions were also tasked to identify suitable subprojects as follows:[9]
   - (a) the municipal governmental system organized by the PMO,
   - (b) financial intermediaries (LBC and HBC),
   - (c) two selected guarantee companies (XZGC and Heilongjiang Agriculture Guarantee Company [HACG]), and
   - (d) BDS consultants.[10]

(ii) **Screening of candidate subprojects.** The related city PMO will screen candidate subprojects in the pipeline to ensure their eligibility as per the project screening criteria (PSC).

(iii) **Subproject appraisal.** The PMO will refer eligible candidate subprojects to the related bank, and ineligible subprojects will be rejected accordingly. The bank will conduct the required due diligence investigation. For the approval of subprojects and selection of the appropriate financial instrument, a transparent and structured approach will be applied as described below and further illustrated in Figure 2:
   - (a) **Step 1.** If it finds that subprojects do not comply with ESMS or their borrowers are not credible, the subprojects will be rejected directly.
   - (b) **Step 2.** The respective financial intermediary will continue the due diligence. Should the credit approval committee conclude that the proposed project is not suitable for funding by the bank, it will refer the project to the guarantee company for further assessment. Should the financial intermediary decide to finance the subprojects through parallel collaborative cofinancing with risk sharing support from the city using ADB loan proceeds, the subprojects will be extended a cofinancing loan.
   - (c) **Step 3.** For subprojects to which the related bank does not want to provide cofinancing should the guarantee company decide to provide loan guarantee, then the CCF will be provided to back the guarantee company and the guarantee company will provide loan guarantee to back the related SME subproject loans (CCF-backed loan). But if the guarantee company does not want to provide financing either, the subprojects can obtain a final

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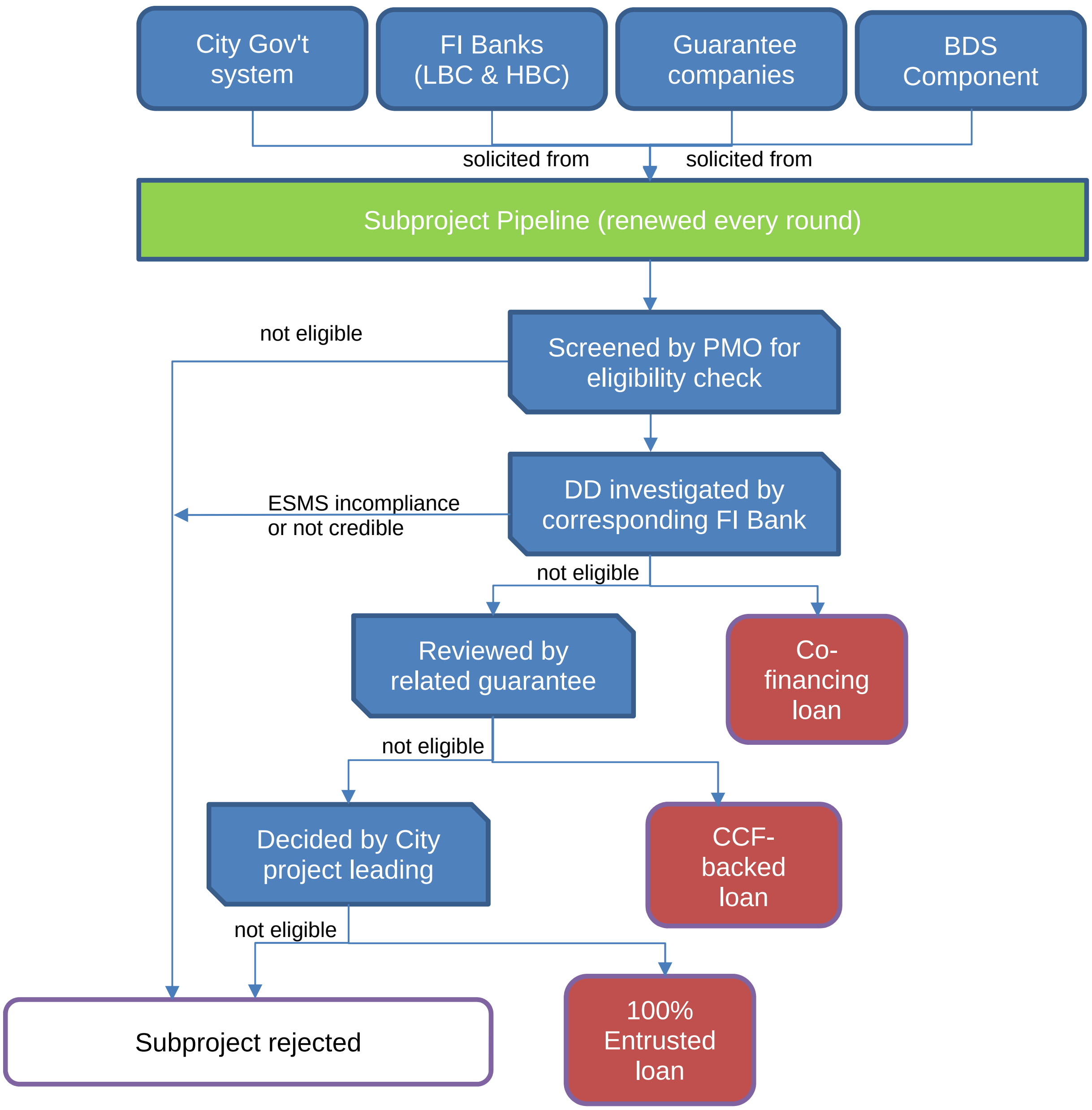
[9] ADB. 2011. *Report and Recommendation of the President for the Hebei Energy Efficiency Improvement and Emission Reduction Project.* Manila.

[10] If the financial intermediaries or guarantee companies have identified eligible subprojects as per the project selection criteria, they can, as supplementary channel, recommend these subprojects together with due diligence documents to the PMO of related city for confirmation of the subproject's eligibility in terms of the PSC. The BDS will establish incubators that will support SMEs to have access to financing through the SMEFP.

chance to get support if the PMO recognizes the subprojects' significant potential impact on local economy diversification. The PMO will submit the subprojects to the city's project leading group for decision. If the project leading group decides to finance, they will obtain 100% entrusted loan, otherwise, the subprojects will be rejected. The following chart illustrate the deal flow structure:

Figure 2: Deal Flow Process



BDS = business development services, CCF = cash collateral facility, DD = due diligence, ESMS = environmental and social management system, FI = financial intermediary, HBC = Harbin Bank Corporation, LBC = Longjiang Bank Corporation, PMO = project management office.
Source: Asian Development Bank based on discussions with project cities and financial intermediaries.

40. There is only one exception from the above-mentioned deal process. If a subproject is recommended by either of the guarantee companies to the related project city PMO, it passes eligibility check of the PMO, and it passes ESMS check by the related financial intermediary, the referring guarantee company shall then have the priority to provide CCF-backed loan guarantee, over the related financial intermediaries to provide a portion of the cofinancing loan.

41. Deals are proposed to go through this process to maximize the likelihood that an SME subproject can obtain the FIC financing support while controlling the associated risk properly. Meanwhile, all subprojects submitted to the city's project leading group for decision making must be assessed by both the bank and guarantee companies as non-bankable under applied appraisal and collateral valuation standards, otherwise either the bank or the related guarantee company will provide financing support together with the city's FIC in the form of cofinancing loan or CCF-backed loan. Therefore, the city's PLG must be well informed of the potential credit risks before approving the 100% entrusted loan. A condition for the decision of financing a subproject will be that in terms of cash flow analysis, the subproposed project will be viable.

3. Financial Products

42. **Entrusted loan without cofinancing (or 100% entrusted loan).** Entrusted loans **without cofinancing** are applicable for subprojects that are economically and financially viable and is critical to the city's economic non-coal diversification strategy and whose developer (SME borrower) has a credible history but lacks sufficient bank-acceptable collaterals so that only the municipal government may want to provide financing support.[11]

(i) **Credit risk.** The credit risk of the entrusted loan will be borne 100% by the municipal government.

(ii) **Loan term (up to 5 years).** Since the subborrowers are SMEs, any longer term of the 100% entrusted loans shall strictly refer to the financial intermediary's credit appraisal.

(iii) **Pricing.** The pricing has been designed so that ADB loan proceeds will be onlent to SMEs at near market rates to reflect the associated risks and to avoid market distortion. Under the entrusted loan without cofinancing case, the local government can use the bank's premium charged to minimum bankable rating projects, which is 50% over the prime lending rate, as a reference. In principle, entrusted loans without cofinancing to SMEs shall be priced at 90% of 1.5 times of prime lending rate, thus making the FIC interest rate eventually be equivalent to 1.35 times of prime lending rate.

(iv) **Cap on entrusted loan.** To limit the excessive usage of entrusted loan without cofinancing and mitigate credit exposure of the municipal governments, this financial instrument can only be used for up to 30% of the project city's FIC proceeds. The maximum amount of entrusted loan without cofinancing to a single SME project/borrower is limited at CNY30 million.[12]

(v) **Collateral requirements.** The municipal government using entrusted loans without cofinancing may accept to collateralize "soft assets" such as the

[11] A typical barrier to accessing bank loans is that banks in the four project cities often only accept land usage right and buildings from SMEs as collaterals, and give a large discount ratio (e.g., 50%–60% reduction) when calculating the value of such land usage right and building collaterals. This practice hinders the ability of SMEs to get sufficient financing for their projects. In some cases, there are no financial intermediary cofinancing available for important/feasible SME projects.

[12] Since the SME subproject can only get entrusted loan in this case, the total debt financing of the subproject is CNY30 million.

subproject's future cash flows and valuable patents, and possibly others in addition to the traditional hard asset collaterals such as land usage right and buildings.

43. **Cofinancing loan.** The cofinancing loan has been designed to ensure that the municipal government's entrusted loan using ADB loan proceeds and the financial intermediary's commercial loan share the project risk acceptable to each party and reduce potential implementation difficulties. Terms and conditions and other salient features of cofinancing loans under the SMEFP are as follows:

(i) **Subborrower and subproject characteristic.** This financial instrument is applicable for subprojects that are strongly financially feasible and whose implementing SMEs are assessed by the financial intermediary as credible and capable of providing collaterals in significant value. However, if a wider range of collaterals such as future cash flows, valuable rights, and invention patents with large market potential are not accepted; and if collateral discount is not reduced, the computed collateral value is still not sufficient compared to the financing demand of SMEs. Thus, the financial intermediary needs local government to share the risk by taking the same set of collaterals to back both the entrusted loan and the financial intermediary's commercial loan in proportion to their financing amount, respectively.

(ii) **Loan term.** To encourage the financial intermediary to scale up its project financing to SMEs, the financial intermediary's domestic loan can be set at a loan term shorter (2–4 years) than the entrusted loan by the municipal government using ADB loan proceeds (say 3–5 years).

(iii) **Collateral requirements.** To protect the municipal government's interest, it is required that the project city's entrusted loan and the financial intermediary's own capital loan during their co-existence period shall share the same set of collaterals.[13] In such a case, the FIC is provided to SMEs together with the financial intermediary's domestic loan (collaborative parallel commercial cofinancing).

(iv) **Leverage ratio.** By allowing the financial intermediary's loan term to be set at a shorter term, the financial intermediary can be motivated to provide its own loans from ordinary capital sources at even more than a 1:1 leverage ratio with the FIC for certain types of SME projects.

(v) **Approval process.** The decision-making power for cofinancing loan is delegated to the financial intermediary and the financial intermediary shall be under fiduciary duty to manage the collateral portfolio for the mutual interest of both the bank and the municipal government.

(vi) **Pricing.** The FIC will be priced at 90% of the interest rate of the financial intermediary's cofinancing loan.

(vii) **Cap on entrusted loan use.** The maximum amount of entrusted loan portion in cofinancing to a single project/borrower is also limited at CNY30 million.[14] Subprojects that obtain cofinancing loan are subject to the financial intermediary's independent decision making process, with expanded scope of collaterals and eased collateral value calculation methods, as per the pre-set project selection criteria.

44. **Cash collateral facility.** CCF is applicable to subprojects to which guarantee

[13] This requirement will be included as a covenant in the project agreement.

[14] This is slightly different from a purely entrusted loan case. Under a cofinancing loan there is cofinancing from the financial intermediary in proportion of at least 1:1. Therefore the upper limit of total debt financing of a single SME subproject is CNY 60 million.

companies[15] require credit enhancement support from the municipal government's SMEFP in return for them to provide financing in form of a loan guarantee. The cash collateral will be deposited in the name of the project city government (the finance bureau on behalf of the municipal government). The 20% cash collateral functions as first loss reserve to the guarantee company. If the subproject suffers default loss, that loss will be deducted first by the financier from the CCF, and the extra loss over 20% cash collateral will be borne by the financier itself. CCF is recommended to be provided to the commercial guarantee company (XZGC) who is willing to provide debt financing support based on CCF and shall be acceptable to ADB in terms of financial management capacity. Detailed terms and conditions are stated below:

(i) **Cash collateral facility to loan guarantee ratio.** For a loan to an eligible subproject, a city can provide cash deposit as collateral (pledged) in proportion to 20% of the guarantee amount to the guarantee company.

(ii) **Collateral disposal.** The related guarantee company is obliged to properly dispose the collaterals to serve the respective project city's best interest. The portion of net collateral disposal value over 80% of loan amount but less than 100% of loan amount will belong to the municipal government and flow back to the city's reflow subledger.

(iii) **Loan term.** the CCF-backed loan guarantee and the related loan may have a term expected between 1–3 years with consideration of both SMEs' financing demand and SME credit risk.

(iv) **Pricing and earnings from cash collateral facility.** CCF will have two sources of revenues: (a) interest revenue from the financial intermediary as term deposit (about 2% annually), and (b) fund usage fee that can be charged to SME borrowers. The CCF usage fee will be priced on a risk adjusted basis with discount to the market rate of the loan guarantee fee charged to SMEs.[16]

(v) **Cap on cash collateral facility.** The maximum amount of CCF that can be used to finance a single subproject/borrower is limited at CNY20 million.[17]

(vi) **Safeguard requirements.** Subprojects that obtain CCF are subject to financial intermediary's ESMS compliance check, and then the guarantee company's independent decision making process, with expanded scope of collaterals and eased collateral value calculation methods, as per the pre-set PSC. XZGC [18] has been assessed in this report on its financial management capacity, and has been recognized as eligible for participating in the FIC by utilizing the CCF to provide the loan guarantees to back SME financing.[19]

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[15] CCF is designed primarily to support the guarantee company's loan guarantee. In some cases, where the municipal governments prefer to use it to directly back a bank's loan and the financial intermediary accepts to extend loans to SMEs on the basis of CCF, CCF can also be used to back the financial intermediary's loan.

[16] It is found that in the four project cities of Heilongjiang, the market SME guarantee fee is in the range between 1.6% and 4.0% of guarantee amount (namely loan amount) annually. If 50% discount rate is utilized by the city to reduce SME finance burden, the CCF usage fee charged by the city to SMEs will range from 0.8% to 2.0% of the loan, or from 4% to 10% of the CCF amount due to 5-time leverage ratio. In our sustainability calculation, we assume this CCF usage fee rate is 5%.

[17] Because of the 5-time leverage, this requirement makes the upper limit of a loan backed by CCF to be CNY100 million.

[18] It is encouraged to have other provincial guarantee companies to participate in the FIC, i.e. Heilongjiang Agriculture Guarantee Company (which is being assessed) and possibly others, to make use of the CCF, available under the FIC, to provide guarantee support, but the new guarantee companies are subject to ADB's acceptable assessment on their financial management system.

[19] This FIC structure is open to other guarantee companies in the future if executing and implementing agencies wish to propose. Heilongjiang Agriculture Credit Guarantee Corporation has expressed interest to participate, which will be assessed before loan effectiveness.

4. Interest Differential Account and Use of Interest Differential

45. The interest payments and/or earnings of all three financing instruments will be aggregated in a subledger of the dedicated CNY account named interest differential account (IDA) for each project city, which will also be maintained within the related financial intermediary's local branch IDA. Funds accumulated in the IDA will be used for several purposes. The respective project city PMO will develop in the future procedures on how to use the interest differentials (which is the balance amount in the IDA after paying ADB FIC interest expense in foreign currency), in a way acceptable to ADB. It is expected that the following expenses and/or costs will be covered in order of priority by the revenue account: (i) ADB FIC interest and commitment fee payments; (ii) FIC principal loss; (iii) reserve for foreign exchange rate risk and LIBOR interest rate change risk; (iv) project management expenses of PMO including expenses associated with third-party technical assessment, environment and social safeguards categorization and compliance monitoring, subsequent rounds of BDS expenses, after the loan and attached TA and the loan-financed BDS support have concluded; and (v) periodic rewarding funds.

5. Business Development Services to Small- and Medium-Sized Enterprises

46. **Proposed business development services support.** The proposed BDS program includes SME capacity development and related activities to enhance SME capacity in non-coal industry sectors and focused on pillar industries as identified in the Thirteenth Five-Year plans of the HPG and the project cities. BDS will be provided to a wider range of companies and serves the purpose of building a pipeline of FIC subprojects for the following batches of subprojects. BDS will be provided by consultants working together with the SME bureaus of the project cities and aligning and strengthening national, provincial, and city-level SME support programs. BDS is custom-tailored to the needs of the actual SME companies. BDS will be provided under a consultant service contract prior to SMEs receiving FIC support, and during subproject implementation monitoring and corrective action plan. BDS will be provided through the attached TA.[20] The BDS support under the project will complement the existing SME development and economic transformation programs and activities in the four project cities and address some of the critical gaps in the existing framework. To ensure effective SME business capacity development and incubation support to the new non-coal industry, various SME support agents will provide targeted and professionally designed programs on topics such as general business management, business plan preparation, strategy, financial management, and accounting, project finance, human resource development, product research and design, marketing and distribution, and others as needed. Currently, the SME support agencies in the four project cities lack such capacity and support is urgently needed to improve the SME sector and enable private sector development. The pool of general business topic experts in the BDS design will address the shortage of professional expertise, including specific technical topics by connecting them to SMEs on a regular basis and measuring the experts' performance based on the progress of the companies they are supporting. In addition, collaboration between research agencies or local/regional universities and SMEs in the non-coal pillar industries will be promoted. Such targeted partnership will fuel technical innovations these SME companies need and also help them attract suitable technical talents. The BDS program design includes technical support from industry-specific experts to fulfill SMEs' specific technical needs that cannot be fulfilled under the current SME support mechanisms. The BDS organization structure is in Figure 3.

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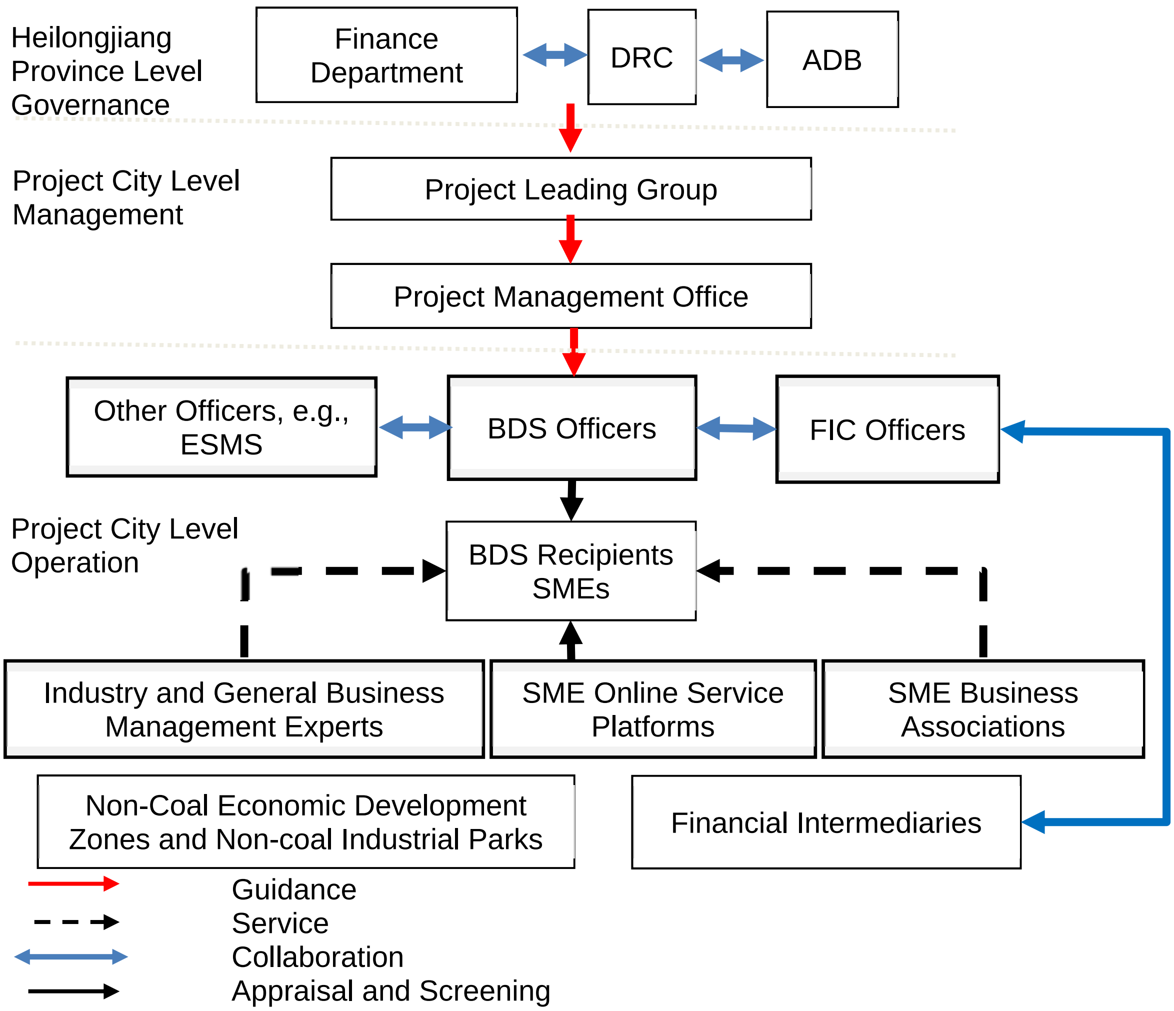
[20] See Project Administration Manual: Investment Project Components (Section A), procurement plan and consulting services for details of the BDS consulting services contract description, and for terms of reference for consultants, and for TA consulting services contract and terms of reference for consultants.

47. **Provincial level business development services support.** At the HPG level, the HFD, the HDRC, and the Heilongjiang Industrial and Information Technology Commission, with support from ADB, will collaborate to provide guidance to the city-level management and operation organizations, including city-level SME bureaus.

48. **Project city level business development services support.** At the project city level, the project leading group will guide and oversee the PMO, which coordinates all efforts for the SME support components of the project. Within each PMO, each project city will form a dedicated and professional BDS office in cooperation with the local SME bureau, that will propose, appraise, and screen potential candidate SMEs for BDS support as follows:

(i) Seek out and screen for service providers to support candidate SMEs and FIC subproject companies; facilitate business-to-business and business-to-institution partnerships including for research and product development;
(ii) Organize periodic pitching workshops to connect subprojects with investors or commercial banks; and
(iii) Monitor, evaluate, and report the incubation progress of the SMEs receiving BDS support and the SME subproject companies receiving FIC and BDS support.

Figure 3: Organization Structure of Business Development Services Subcomponent



ADB = Asian Development Bank, BDS = business development services, DRC = development reform commission, ESMS = environmental and social management system, FIC = financial intermediation component, SMEs= small- and medium-sized enterprises.
Source: Asian Development Bank.

49. Together with the FIC, the BDS subcomponent will help SMEs improve capacity and secure financing more sustainably: both FIC and BDS will support the growth of high-potential SMEs but from different angles. FIC provides SME companies the needed financial support they are currently struggling to receive, and BDS provides targeted capacity development support that the SMEs are currently not receiving from the SME support agencies and their programs. BDS complements the FIC support by improving SMEs' overall business operation which will also reduce FIC default risk. BDS will monitor and improve the business and financial performance of FIC recipients before and during the FIC support. The BDS subcomponent both financed by the ADB project and by the TA grant will provide timely correction to FIC recipients' operation and strategy, so they are more likely to grow with a healthy trajectory, therefore reducing potential default risk. With a healthier financing track record, it is more likely for the SME companies to secure additional future funding even if other SME support agents are not able to provide further financial support.

50. The BDS subcomponent will improve the existing government SME platform. To make the existing SME service platform more relevant and useful for the SMEs in the project cities, the BDS program has been referenced against more successful platforms in other provinces such as Guizhou as benchmarks. Furthermore, based on the feedback, the BDS program was designed to enrich the platform functionalities to include what are most needed by SMEs, such as applying for government short-term loans, contacting technical experts in the respective industries, and accessing commercial services.

51. **Business development services with inclusive business targets.** In addition to SME development as part of overall economic diversification and transformation targets, the FIC and BDS also aim at inclusive and gender balanced economic development. The project will introduce inclusive business and social development targets. Inclusive businesses are companies with commercially viable and bankable business models that create scaled up, innovative, and systemic solutions for the poor and low income people. The poor are defined by the government as those people with annual per capita income of less than (about) CNY2,300 (about CNY1,000 per rural farm household), and low-income people of up to CNY30,000. Inclusive business SME companies usually involve thousands of people in their value chain of which at least 60% are low income, they pay substantially higher than market rates, and implement other innovations to help the poor, as part of their core business strategy. Inclusive business is expected to generate more jobs compared to regular SMEs. Specifically, the FIC and BDS are designed to achieve indicators aiming at certain percentages for inclusive business and women-owned and/or managed SMEs in the four project cities across reach, depth, social innovation, and gender equity dimension. Targets are in the design and monitoring framework.

IV. COSTS AND FINANCING

52. Output 2 consists of establishing the SMEFP to mobilize financing for non-coal related SME projects of SMEs in the project cities, which will be instrumental in diversifying their economies. The specific subprojects will be undertaken by several SME subborrowers. At the payback period, the financing provided through SMEFP will mainly be utilized for the purchase and installation of equipment. It is not envisaged that projects to be supported by the FIC will have significant civil works or require land acquisition.

53. The project city governments of Hegang, Jixi, Qitaihe, and Shuangyashan have requested a FIC of $20 million, $8 million, $13 million, and $15 million, respectively totaling $56 million as part of the project loan of $310 million from ADB's ordinary capital resources to help finance the FIC. The FIC is part of the overall project loan, and the FIC funds of $56 million will be repaid after 15 years following the bullet-repayment method for the FIC portion of the loan, an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, a commitment charge of 0.15% per year, a maturity premium of 0.1% annually, and such other terms and conditions set forth in the draft loan and project agreements.

54. The SMEFP will offer three complementary financial products to support non-coal related SMEs in the respective project cities. Based on the following leverage assumptions and the total investment costs, the SMEFP will be able to support:

(i) subprojects that will be financed through a combination of subborrower's equity contributions;
(ii) subborrowers that are expected to contribute about 30% of equity to the projects;
(iii) entrusted loans without cofinancing that will not leverage any commercial cofinancing, but limited to CNY30 million of each city's contribution to the SMEFP;
(iv) the cofinancing loans will leverage the cities' entrusted loans at least 1:1;
(v) the CCF will leverage commercial funding in a magnitude of 1:4;
(vi) 30% each of total funding will be allocated to the two types of debt facilities, while 40% of total funding will be used for the CCF; and
(vii) the maximum loan term to be allowed under the SMEFP is 5 years for entrusted loans using ADB loan proceeds, 4 years for cofinancing loan, and 3 years for CCF-backed loan.

55. Based on the set of conditions and assumptions made (paras. 36–41), the SMEFP is expected to leverage a significant amount of commercial cofinancing, estimated at $176 million cofinancing and counterpart funds is expected from the first batch of subprojects. Since the terms of the subloans are expected to be 3–5 years, after the first batch of subloans is repaid, the proceeds will be relent to another batch of subprojects with an estimated total investment of $744.8 million over the 15 years of the FIC's grace period.

Table 4: Summary Cost Estimates for the Financial Intermediation Component
($ million)

Item	Amount
Financial Intermediation Component	
Output 2: Sustainable SME investment and access to finance	
(i) Subprojects through cofinancing loans	48.0
(ii) Subprojects through cash collateral facility	160.0
(iii) Subprojects through entrusted loans	24.0
Total	**232.0**

FIC = financial intermediation component, SMEs = small- and medium-sized enterprises.

Source: Asian Development Bank estimates.

Table 5: Summary Financing Plan for the Financial Intermediation Component

Source	Amount ($ million)	Share of Total (%)
Financial Intermediation Component		
Asian Development Bank: ordinary capital resources (regular loan)	56.0	24.1
Domestic Commercial Banks	106.4	45.9
Subborrowers[a]	69.6	30.0
Total	**232.0**	**100.0**

[a] Subborrowers are expected to provide 30% equity contribution.
Source: Asian Development Bank estimates.

A. Allocation and Withdrawal of Loan Proceeds

56. For the appraised subprojects of the first batch, the ADB loan proceeds have been allocated for entrusted loans and cash collaterals to support the guarantees as described in Table 6. The rest of ADB loan amount will be used for subprojects to be appraised and identified during loan implementation based on the financing requirements of these proposed subprojects.

Table 6: Allocation and Withdrawal of Loan Proceeds for the Financial Intermediation Component[a]

Category	Total Amount Allocated for ADB financing ($)	Percentage and Basis for Withdrawal from the Loan Account
Financial intermediation component: Provision of entrusted loans and cash collateral[b]	56,000,000	100% of total expenditure claimed.
Total	**56,000,000**	

[a] Please refer to PAM (Section A), Table 15: Allocation and Withdrawal of Loan Proceeds for the overall project loan allocations and cost categories.
[b] Conditional upon execution of framework cooperation agreements with concerned financial Intermediaries and other such terms and conditions as set forth in Schedule 3 of the draft loan agreement.
Source: Asian Development Bank estimates.

B. Contract and Disbursement S-Curve

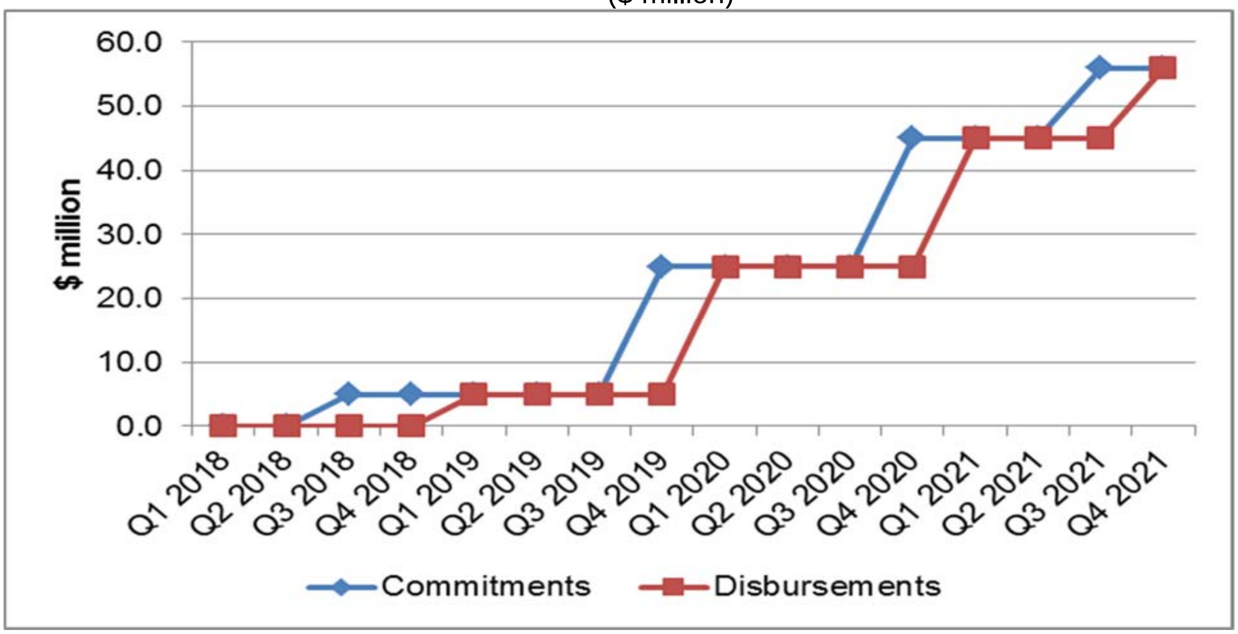
57. The S-curve provides estimates of how the ADB FIC funding will be committed and disbursed during loan implementation. Only the ADB FIC financing portion will be recorded in ADB's systems for internal monitoring and reporting purposes. Counterpart funds and any other cofinancing are therefore excluded. The projection for contract awards in case of the FIC relates to approval of entrusted loans and guarantees requiring a cash collateral. The amounts shown in tables 7 and 8, with respect to guarantees pertains only to the cash collateral financed by ADB loan proceeds. The projected disbursements are based on the typical implementation period of SME subprojects for entrusted loans and the cash collateral is assumed to be disbursed in the same quarter as the approval of the guarantee. The subloan commitment and disbursement tables and S-curve will be finalized during the loan inception mission in 2018.

Table 7: Financial Intermediation Component Subloan Commitments for the Project Cities[a]

Year	Subloan Commitments ($ million)					Projected Disbursement ($ million)				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
2018	0.0	0.0	5.0	0.0	**5.0**	0.0	0.0	0.0	0.0	**0.0**
2019	0.0	0.0	0.0	20.0	**20.0**	5.0	0.0	0.0	0.0	**5.0**
2020	0.0	0.0	0.0	20.0	**20.0**	20.0	0.0	0.0	0.0	**20.0**
2021	0.0	0.0	11.0	0.0	**11.0**	20.0	0.0	0.0	11.0	**31.0**
Total					**56.0**					**56. 0**

[a] The table reflects the first batch of subprojects which is expected to be fully disbursed by Q4 2021.
Source: Asian Development Bank estimates.

Figure 5: Contract Awards and Disbursements Projections for the Financial Intermediation Component
($ million)



Source: Asian Development Bank estimates.

V. FINANCIAL MANAGEMENT

A. Financial Management Assessment

58. The financial management assessment (FMA) was conducted in March 2017 in accordance with ADB's Guidelines for the Financial Management and Analysis of Projects and the Financial Due Diligence: A Methodology Note.[21] The FMA for the FIC considered the capacity of the project cities, the financial intermediaries, and the associated guarantee companies, including funds-flow arrangements, staffing, accounting and financial reporting systems, financial information systems, and internal and external auditing arrangements. Based on the assessment, five financial management risks were identified as described below.

59. Major risks associated with the FIC are detailed below:

(i) The first major project-specific risk identified is the sustainability risk of the FIC structure: the designed FIC structure may not be able to be sustainably maintained due to the potential high perceived risk associated with SME financing. Project cities lack the capacity to assess and control related risks of the financial intermediary. Hence, the FIC design has proposed (a) the selected financial intermediary shall conduct the due diligence on all candidate subprojects for the related project city, especially on the financial analysis of subprojects, market risk analysis, financial assessment of SME borrowers, and credit check on the SME borrowers; (b) the financing decision for the entrusted loan portion under a cofinancing loan and for the usage of CCF to back loan guarantee shall be made by the related financial intermediary or guarantee company respectively, but not by the related project city government, so as to avoid excessive risk exposure for SME financing; and (c) the pricing of all three financial instruments under the FIC requires marking to market, and thus is a kind of risk-based pricing. Consequently, the accumulated interest differential and CCF usage fee is expected to absorb the identified risks such as foreign exchange rate risk, LIBOR interest rate risk, project default risk, and credit risk. A cash flow estimate of FIC based on reasonably conservative assumptions has revealed that the FIC is sustainable for the 15-year ADB loan term.

(ii) The second project-specific risk is that the relationship between the project cities and the financial intermediaries is a principal-agent relationship in a long-term relationship with multiple repetitions of the tasks and in which the agents (financial intermediaries) risk losing their reputation and relationships in relationship to the local governments in case of bad performance. The related potential moral hazard risk may occur in three different ways, notably (a) the selected banks may not conduct the due diligence for the municipal governments in a prudent and professional way as they do for its own loan, (b) the financial intermediaries may not conduct effective post loan signing credit management, and (c) the respective financial intermediary and guarantee companies may not properly manage collaterals used to back the entrusted loans and protect the interest of municipal governments. The FIC design and implementation arrangements effectively mitigates these risks, notably (a) the selected two provincial banks are state-owned

[21] ADB. 2005. *Financial Management and Analysis of Projects*. Manila; ADB. 2009. *Financial Due Diligence: A Methodology Note*. Manila; ADB. 2015. *Financial Management Technical Guidance Note: Financial Management Assessment*. Manila.

enterprises (SOEs) and are controlled by the provincial level State Assets Supervision and Administration Commission and Harbin Municipal State-owned Assets Supervision and Administration Commission (SASAC) for LBC and HBC, respectively, thus the fundamental interest in line with that of the project cities; (b) project cities have the right to change the financial intermediary based on the performance of the financial intermediary's service quality for subsequent rounds of revolving ADB loan proceeds; (c) most of the FIC (over 70%) will be accompanied by cofinancing from either the financial intermediary or a guarantee company, thus aligning interest of financial institutions and respective project city, and therefore, protecting the respective project city's interest in the same way as protecting their own; and (d) a covenant will be included in the project agreement that the financial intermediary's own cofinancing loan and the entrusted loan of a project city under the cofinancing case will jointly share the same set of collaterals covering the full amount of both loans; the guarantee companies agree that its 80% secondary guarantee position and the 20% first loss reserve CCF shall be backed in total amount of both by the same set of collaterals.

(iii) The third project-specific risk is the lack of qualified subprojects. The city PMOs may not be able to solicit sufficient number of SME subprojects for usage of the FIC that meet both the PSC and financial intermediaries credit standards. Although through field investigation the project preparatory technical assistance (PPTA) consultants found a lot of SME financing demand, this demand may not be able to meet the bank and/or guarantee company's rigid collateral requirements. Therefore, the designed FIC has proposed mitigation measures: (a) the respective financial intermediary and guarantee company are required to reasonably expand the scope of acceptable collaterals and reduce the collateral discount; (b) the candidate SME subprojects are designed to be solicited from multiple sources including the project city government system, financial intermediaries, guarantee companies, and the associated BDS subcomponent. The BDS subcomponent, while having much wider scope of services, is also expected to supply bankable subprojects for the FIC after providing SMEs with business planning, management, technical, marketing, and financing capacity building.

(iv) The fourth identified major risk is financial intermediaries' lack of project financing capacity. To encourage the financial intermediaries to scale up project loan with a larger size and a longer term to SMEs, the designed FIC suggests a gradual approach to guide the financial intermediaries towards scaling up SME lending and reducing barriers to financing for SMEs. It requires the financial intermediary to modify their collateral requirements to accommodate a larger size of SME financing demand, while it allows the financial intermediaries that their cofinancing loan will have shorter loan term (2–3 years) than that of the corresponding entrusted loan (3–5 years). In addition, the project city PMO as well as the associated BDS subcomponent will engage third-party professionals to conduct technical assessment support for those with complicated processes and advanced technologies. Through this kind of risk sharing and capacity building arrangement, financial intermediaries have been motivated to provide project financing to SME subprojects on a necessary basis. Moreover, the training on structuring appropriate project financing for sample subprojects can be demonstrated by PPTA consultants to financial intermediaries, to enhance the financial intermediaries' knowledge of project financing.

(v) The fifth identified major risk is exchange rate risk and interest rate risk. These risks are to be borne by the related project cities. Both LBC and HBC have experience of dealing with CNY, US dollar, and some other currencies and have the channel to arrange foreign currency forward and interest rate swap transactions for the client. Under the FIC, they will provide briefings and advice to the related project city PMOs on movements of foreign exchange rate and interest rate. Since the FIC amount is small for each project city, and the loan is long term, the sharp fluctuations in exchange rate and interest rate can be flattened on average and the project cities can bear the net losses in unfavorable exchange rate change and interest rate change. Furthermore, as shown in the FIC sustainability analysis, the FIC is expected to be self-sustainable if the default risk is controlled within a certain range, which means the accumulated net cash flows under the FIC can be more than sufficient to hedge the related exchange rate and interest rate risks.

60. While the pre-mitigation financial management risks of the financial intermediaries are *low*, related pre-mitigation project risks are assessed as being *high*. Therefore, overall the premitigation risk level of the FIC is *substantial*, but related risks can be effectively mitigated. The borrower, executing agency, implementing agencies, and financial intermediaries have agreed to implement an action plan as key measures to address the deficiencies. The financial management risk analysis and risk mitigation action plan is in Table 9.

Table 8: Risk Analysis and Risk Mitigation Action Plan

Risks	**Impact**	**Likeli-hood**	**Risk Assess-ment**	**Proposed Mitigation**
Inherent Risks				
Country specific risks. National accounting standards as issued by the MOF are equivalent to IAS and acceptable to ADB. Audit reports of supreme audit institution are submitted timely in line with ADB requirements. ADB experiences in project implementation shows generally high financial management capacity and high rate of timely implementation of projects. Audit reports of supreme audit institution are submitted timely in accordance with ADB requirements.	**low**	**less likely**	**low**	
Entity-specific risks (1). The project city governments will bear the default risks, foreign exchange rate risk, and interest rate risk. Since each city's share of FIC is small (maximum at $20 million), and the governments have strict financial management system covering the PMOs and FIC, the likelihoods of the executing and implementing agencies becoming insolvent for the FIC are low.	**high**	**unlikely**	**sub-stantial**	Documentation and reporting on the project operation shall follow the PAM (section B) requirement. The attached TA will support monitoring of SMEs during project implementation and subloan repayment period and early detection of any performance challenges, preparation of an action plan, and therefore significantly reduce SME default risk.

Risks	Impact	Likeli-hood	Risk Assess-ment	Proposed Mitigation
Entity-specific risks (2). LBC and HBC are medium-sized, provincial level commercial banks. Their lending to SMEs are mainly balance sheet based and short-term working capital loans.	**low**	**unlikely**	**low**	Cofinancing and CCF as risk-sharing mechanism are made available to the financial intermediaries to motivate them to do more project financing for SMEs as needed.
Entity financial strength. The financial standings of both LBC and HBC are solid. They fully comply with CBRC's regulation. In addition, their financial outlook is positive. They have sufficient strength to provide cofinancing.	**high**	**unlikely**	**sub-stantial**	Audited financial statements of financial intermediaries shall be provided to ADB for monitoring purposes. It shall be covenanted in the framework cooperation agreement that if either of them cannot comply with banking regulation, or does not provide quality services, the related city shall have the right to change financial intermediaries.
Project Risks				
Moral hazard risk. The financial intermediaries and guarantee companies may not work to the best interest of project cities.	**high**	**low**	**sub-stantial**	The selected financial intermediaries and guarantee companies are SOEs, with interest in line with that of the project cities. Same set of collaterals shall be shared by the entrusted loan and financial intermediaries' own capital loan in case of cofinancing loan, and in case of CCF-backed loan, shared by the CCF and the 80% secondary guarantee of the guarantee companies. Project cities have the right to change financial intermediaries and guarantee companies if they do not provide satisfactory services.
Financial sustainability of the financial intermediaries' implementation structure. The financial sustainability of the entire FIC is tested with positive cash flows under conservative assumptions. Both LBC and HBC may not be able to find sufficient number of SME subprojects to finance under the FIC. The municipal governments want to support SME development by providing them low cost funding, which may contradict the SME subproject's higher risk profile.	**high**	**unlikely**	**sub-stantial**	It shall be covenanted that financial intermediaries are required to ease its collateral requirements on a prudent basis. Pricing of FIC shall be marked to the market, so as not to ignore the potential SME risk. Project city governments are only allowed to approve entrusted loan, limited at no more than 30% of FIC total amount allocated to the component by the project city. For financial instruments, other than the entrusted loan without cofinancing, the lending decision will be made by the financial intermediaries or the related guarantee company.

Risks	Impact	Likeli-hood	Risk Assess-ment	Proposed Mitigation
				Multiple sources of candidate subprojects are adopted, BDS will contribute to supply of bankable subprojects.
Quality of due diligence and investment appraisal. The PMO is not experienced at assessing bankability of SME projects, which may cause significant loss if the government is responsible for approving subloans under the FIC. The financial intermediaries may have insufficient capacity when assessing the technical feasibility of SME projects applying complicated technologies. Project financing is not commonly used by the financial intermediaries for SME subprojects. The financial intermediaries have only started with their own internal arrangements on environmental and social screening and monitoring, as they are keen to be able to do green financing as promoted by the CBRC in 2016. An environment and social unit has been established in HBC and LBC and they will be responsible for ESMS implementation, screening, categorization, due diligence, and monitoring of SME subprojects. They currently lack the experience implementing the ESMS. There are also weaknesses in technical assessment of SME investment projects.	**high**	**unlikely**	**sub-stantial**	The financial intermediaries will provide due diligence service to all subprojects. The related city PMO or the BDS subcomponent will organize qualified third- party review to conduct technical assessment as needed to the financial intermediaries. Project financing training on the sample subprojects can be demonstrated by PPTA consultants to financial intermediaries. The attached TA will support the financial intermediaries and their ESMS units on ESMS implementation and due diligence on environmental, involuntary resettlement, indigenous peoples' safeguards, and other social concerns of proposed subprojects, and provide capacity development. The BDS subcomponent will improve SMEs' capacity to prepare technically sound proposals and provide support to HBC and LBC with technical assessments.
Staffing. The accounting personnel at the PMO and financial intermediaries have long-standing project-relevant working experience and are excellently qualified with adequate financial skills. City PMOs need to build relationships with qualified technical institutes.	**low**	**unlikely**	**low**	PMO shall select technical partners on a competitive basis. The accumulated money in the revenue account can be used to hire the technical partner.
Accounting policies and financial management system. The financial intermediaries practice accrual accounting in accordance with the PRC's GAAP. The executing and implementing agencies are government entities, and are subject to fiscal management system. All staff in the financial intermediaries and PMO are not very familiar with ADB disbursement, procurement, and reporting requirements.	**low**	**less likely**	**low**	Capacity training on ADB requirements and procedures of disbursement, procurement, and reporting will be provided to ensure they are understood by all related staff prior to and during project implementation.
Internal audit. The day-to-day project accounting, monitoring, and audit are to be done by financial intermediaries, who have independent internal audit department staffed with sufficient qualified personnel; and this department staffing is deemed adequate. The PRC Government is cracking down on corruption in SOEs and	**low**	**unlikely**	**low**	The project account is subject to routine internal audit of the financial intermediaries, with necessary adaptation to meet special ADB monitoring and reporting requirement.

Risks	Impact	Likeli-hood	Risk Assess-ment	Proposed Mitigation
public fund supported projects to ensure governance during project implementation.				
External audit. The financial intermediaries are subject to annual external audit of financial statements. The project accounts will also receive government-organized audits after project completion.	**low**	**unlikely**	**low**	The project will be subject to annual external audit and government-organized acceptance audit.
Reporting and monitoring. The reporting and monitoring of the project will be carried out mainly by PMO with guidance from the PAMs.	**low**	**less likely**	**low**	The PAM will include guidance on preparing progress reports and annual reports.
Funds flow and/or disbursement arrangements. Funds flow will be a little bit complex since the FIC is just one component of the larger ADB loan project.	**low**	**unlikely**	**low**	Each project city will establish an FIC account with five subledgers: REA (including three subledgers) and its associated revenue account to especially receive and repay principals and to allocate investment income pay risk losses under the FIC structure.
Significant project implementation delay risks. The implementation structure comprises multiple layers of onlending. The cooperation of the cities and the financial intermediaries will need to be established and supported and this requires assistance. Moreover, the cities do not have access to a wide range of potential subborrowers, while the financial intermediaries have a large customer base allowing them to quickly solicit potential subprojects. Thus, the project implementation delay risk can be mitigated if the financial intermediaries and guarantee companies are allowed to recommend candidate subprojects. Therefore, the risk of occurrence of significant delay is deemed to be low.	**low**	**likely**	**moderate**	ADB will provide support for formulation of key agreement templates and help assess the first batch of sample subprojects. The FIC specifically allows four sources of candidate subproject identification: local government system, financial intermediaries, guarantee companies, and BDS. The first three sources will contribute to the timely preparation of first batch of subproject pipeline.
Information systems. Both financial intermediaries use specialized accounting software, which is in compliance with the PRC accounting standards, and can provide detailed project account transaction recording, loan fund flow tracking, financial book summary, and archive index management.	**low**	**unlikely**	**low**	
Overall Project Risk	**high**	**unlikely**	**mode-rate**	Implementing the recommended mitigation actions will reduce the risk to low.
Overall Risk	**high**	**unlikely**	**mode-rate**	

ADB = Asian Development Bank, BDS = business development services, CBRC = China Banking Regulatory Commission, CCF = cash collateral facility, ESMS = environmental and social management system, FIC = financial intermediary component, GAAP = generally accepted accounting principles, HBC = Harbin Bank Corporation, IAS = international accounting standards, LBC = Longjiang Bank Cooperation, MOF = Ministry of Finance, PAM = project administration manual, PMO = project management office, PPTA = project preparatory technical assistance, PRC = People's Republic of China, REA = revolving escrow account, SMEs = small- and medium-sized enterprises, SOE = state-owned enterprise, TA = technical assistance.
Source: Asian Development Bank.

61. **Proposed action plan.** The overall risk assessment for this FIC before mitigation is considered to be high. ADB suggested taking necessary mitigation measures and is working with the concerned agencies and institutions to take the right measures with the right financial instruments and arrange capacity development and training to address the respective development problem identified. The following actions are proposed to be taken by the concerned parties:

(i) The FCA template between the project cities and the financial intermediaries (LBC and HBC); and the FCA between the financial intermediaries, the related guarantee companies (XZGC or HACG), and the project cities shall be reviewed by ADB before it is signed. Specifically, the following conditions shall be covenanted:

    (a) The banks and guarantee companies agree to ease their SME collateral requirements by expanding acceptable collateral scope and reduce the collateral discount in a way consistent to their credit policy and meeting the need of accepted sample subprojects;

    (b) The financial intermediaries will provide due diligence on all candidate SME subprojects under the FIC in the following aspects: ESMS check and categorization, financial analysis of subprojects, market risk analysis, financial assessment of SME borrowers, and credit background check on the SME borrowers;

    (c) The financial intermediaries agree that its own capital loan and the entrusted loan of a project city under the cofinancing case will jointly share the same set of collaterals in full amount; the guarantee companies agree that its loan guarantee and the CCF shall be backed in total amount by the same set of collaterals;

    (d) The financial intermediaries will manage assets/rights collateralized for the entrusted loan to the best interest of the related project city; and the guarantee company is also obliged to manage the collaterals shared by the CCF and the loan guarantee to the best interest of the related project city;

    (e) If the financial intermediaries do not meet the PRC's regulation, or do not provide quality services to the project city, the project city shall have the right to change financial intermediaries for subsequent rounds of FIC funds revolving;

    (f) Cofinancing ratio of financial intermediaries' own capital loan to entrusted loan from the FIC in the cofinancing loan shall be at least 1:1; the CCF shall be 20% of the guarantee amount; and 100% entrusted loan shall not exceed 30% of the FIC amount for each project city; and

    (g) The signing parties shall agree to implement the FIC in accordance with this PAM (section B).

(ii) Entrusted loan agreement template (three party agreement) combining two scenarios (100% entrusted loan scenario and cofinancing loan scenario) between the entrusted bank, the project city PMO, and the SME borrower; and the CCF usage agreement template (fourth-party agreement) between the financial intermediary, the guarantee company, the loan borrower SME, and the related project city shall be reviewed by ADB before it is applied;

(iii) The PSC and this PAM (section B) shall be finalized by ADB and the project cities in consultation with the financial intermediaries and guarantee companies. This PAM (section B) shall guide the deal flow process as mentioned above in section C of this report;

(iv) The project city PMOs shall solicit and screen sample subprojects from the designated four channels as soon as possible. If technical assessment by technical experts is needed, it will partner with PPTA consultants and later with the BDS subcomponent for the first and subsequent batches to provide the needed technical assessment support and capacity development to the SMEs strengthening their projects and making them bankable;

(v) PPTA consultants will work with the financial intermediary and related project city PMO on technical, environmental, financial, and safeguards analysis of the sample subprojects, and demonstrate the project financing practice to financial intermediaries and guarantee companies;

(vi) Training on the ADB disbursement procedures and monitoring requirement was provided by ADB and will be provided during project implementation to the project city PMOs, the selected financial intermediaries, and guarantee companies before the loan effectiveness; and

(vii) Project city PMOs will search appropriate consulting firms and technical institutes in the PRC for the consulting services contract package of the BDS and the attached TA to carry out the BDS subcomponent and related technical assessment of SME subprojects with complicated processes and advanced technologies.

B. Disbursement

1. Disbursement Arrangements for Asian Development Bank Funds

62. The loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time),[22] and detailed arrangements agreed upon between the government and ADB. Online training for project staff on disbursement policies and procedures is available.[23] Project staff are encouraged to avail of this training to help ensure efficient disbursement and fiduciary control.

63. **Advance fund procedure.** HFD will establish an advance account promptly after loan effectiveness at a commercial bank. The currency of the advance account is the US dollar. The advance account is to be used exclusively for ADB's share of eligible expenditures. The HFD who administers the advance account is accountable and responsible for proper use of advances to the advance account. The advance account will be for the overall project including the investment project components and the FIC. Please also refer to PAM (section A). The currency of the advance account will be in US dollar.

64. The advance account in its use for the FIC will only be a conduit, because the FIC will be implemented together with the investment project components, as described in PAM (Section A). Funds will flow through the advance account as a pass-through account. The basis for disbursement of ADB loan proceeds for the FIC will be the signed subloan and subproject agreements, and that such subloan and subproject agreements have reached effectiveness. At the time a project city withdraws the loan proceeds, they would immediately be ready for disbursement to the subborrower. The borrower will prepare withdrawal applications in accordance with the respective subloan agreement's payment schedule and submit to ADB.

65. Each project city needs to establish a dedicated CNY account denominated in CNY at the respective financial intermediary to receive funds from the advance account after conversion to

[22] ADB. 2017. *Loan Disbursement Handbook*. Manila. Available electronically from the ADB website (http://www.adb.org/documents/ loan-disbursement-handbook)

[23] Disbursement eLearning: http://wpqr4.adb.org/disbursement_elearning

CNY. This account consists of five subledgers. Three principal subledgers for allocating the ADB loan proceeds to 100% entrusted loan, entrusted loan with cofinancing, and CCF, respectively together form the REA. Funds in the REA can be revolved for designated purposes of the FIC term. Under the dedicated CNY account, there will also be one reflow subledger to receive the principal repayment from subprojects including the released CCF principal, and another revenue subledger, referred to as IDA, for receiving interest payments from subprojects, interest payments by the financial intermediaries for cash deposit, and CCF usage fees from subborrowers. Funds accumulated in the IDA can be used for building a risk reserve and for payment of eligible expenditures as set out by the project city governments in a way acceptable to ADB.

66. The funds from the dedicated CNY account may be utilized by the respective project city for (i) provision of entrusted loans to approved subborrowers with or without cofinancing; and (ii) provision of cash collaterals to support the guarantees issued by XZGC or HAGC for approved subprojects. The respective city's PMO in collaboration with the respective financial intermediary is required to provide the following documents to ADB to obtain a subloan number from ADB to facilitate transfer of funds from the advance account relating to that subproject.

- (i) For entrusted loans with or without cofinancing:
  - (a) the subloan agreement between the respective project city government, financial intermediary, and the subborrower with respect to entrusted loans, and cofinancing loan agreement if any; and
  - (b) the subproject agreement between the respective project city government and subborrower.
- (ii) For cash collateral supporting the guarantees:
  - (a) the guarantee agreement between XZGC or HAGC as guarantor, the subborrower, the concerned city, and the concerned financial intermediary; and
  - (b) the subproject agreement between the project city and the subborrower.

67. Upon submission of the duly accomplished withdrawal application, ADB will disburse the loan proceeds to the advance account in accordance with the respective subloan agreement's payment schedule. HFD is required to complete the ADB loan proceeds conversion and transfer to the related city's dedicated CNY account within 3 days and the related financial intermediary of each city shall further disburse the entrusted loans to subborrowers or deposit cash collateral as pledge with the related guarantee company as beneficiary within 3 days of receipt of ADB loan proceeds to the respective project city's dedicated CNY account.

68. Before the submission of the first withdrawal application (WA), the borrower should submit to ADB sufficient evidence of the authority of the person(s) who will sign the withdrawal applications on behalf of the government, together with the authenticated specimen signatures of each authorized person. The minimum value per WA is stipulated in the *Loan Disbursement Handbook* (2017, as amended from time to time). Individual payments below such amount should be paid (i) by the implementing agencies and subsequently claimed to ADB through reimbursement, or (ii) through the advance fund procedure, unless otherwise accepted by ADB. The borrower should ensure sufficient category and contract balances before requesting disbursements. Use of ADB's Client Portal for Disbursements (CPD)[24] system is encouraged for submission of withdrawal applications to ADB.

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[24] The CPD facilitates online submission of WA to ADB, resulting in faster disbursement. The forms to be completed by the Borrower are available online at https://www.adb.org/documents/client-portal-disbursements-guide.

69. **Statement of expenditure.** The statement of expenditure (SOE) procedure may be used for reimbursement of eligible expenditures or liquidation of advances to the advance account for subloans below the free limit of CNY30 million. Supporting documents and records for the expenditures claimed under the SOE should be maintained and made readily available for review by ADB's disbursement and review missions, upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit. After eligible expenditures are incurred and paid from the advance account, the HFD and the respective project city requests liquidation of the advance account by submitting an SOE for FIC in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).[25] The SOE will list payments from the advance account for each subloan either as an entrusted loan or as a cash-collateral to support the credit guarantee.

[25] ADB. 2017. *Loan Disbursement Handbook.* Manila. (See *Appendix 9 C*).

Table 9: Responsibilities with Respect to Loan Disbursement

Responsible Unit	Activity
HFD	(i) Exercise overall oversight of the disbursement process (ii) Open the advance account and keep required accounting records (iii) Notify ADB of authorized signatories (and changes thereto) for withdrawal applications (iv) Maintain the advance account (v) Undertake checks on the completeness, accuracy, and procedural compliance of all withdrawal applications; and having done so cross certifies the withdrawal SOE sheets and submits to ADB any required supporting documents for liquidating the disbursements made through the advance account (vi) Immediately convert US dollar disbursements received from ADB, forward the CNY equivalent to dedicated CNY account, and transfer CNY funds to the respective city account together with the supporting documents
Project City Governments	(i) Establish and maintain the dedicated CNY account including all of the subledgers (ii) Financial management oversight of the respective project city governments, including the establishment of all necessary internal control systems
Project City PMOs	(i) Verify the achievement of subloan disbursement milestones and the amount claimed in accordance with the subloan disbursement schedule (ii) For retroactive refinancing of expenses incurred prior to ADB loan signing, verify the eligibility with respect to the criteria for eligibility for retroactive financing (iii) Prepare 6 month forecasts of expected expenditure to be financed through the advance account for the purpose of replenishment and submit to project city government (iv) Submit to the respective project city government (for certification drawdown requests from advance account (v) Prepare consolidated statement of utilization of ADB loan funds
Financial Intermediaries (LBC and HBC)	(i) On behalf of the project cities certify the effectiveness of subloan and subproject agreements (ii) On behalf of the project city's PMO verify the achievement of subloan disbursement milestones and the amount claimed in accordance with the subloan disbursement schedule included in the entrusted loan agreement (iii) Make the subloan disbursements in accordance with the payment instructions received from the respective project city government PMO (iv) Retain for safekeeping invoices from suppliers and contractors of subborrowers with respect to contract packages financed under each subloan, and any other supporting documentation required for audit purposes (v) Support respective project city government and prepare SOE sheets for liquidation of dedicated CNY account and submit to city government for confirmation. Approved SOE sheets will also function as ones for liquidation of the advance account of HFD. (vi) Support respective city government to prepare 6 month forecasts of expected expenditure to be financed through the advance account for replenishment and submit to city government (vii) Collaborate about the disbursement of subloans (viii) Prepare and submit to the respective project city PMO (for certification drawdown requests from advance account with respect to (a) disbursements of entrusted loans upon achievement of milestones by the subborrower, and (b) cash collateral relating to XZGC or HAGC guarantees provided to cofinancing banks
Subborrowers	(i) Based on the payment schedule of subloan agreement, prepare a payment application for the entrusted loan and submit it to the respective project city PMO along with any required supporting documents (ii) Prepare separate statement of utilization of ADB loan funds by each of the entrusted banks or the entrusted loans
ADB	(i) Review the withdrawal applications, SOEs, and estimate of expenditure and related supporting documents and make timely disbursements

ADB = Asian Development Bank, CNY = Chinese yuan, HAGC = Heilongjiang Agriculture Guarantee Company, HBC = Harbin Bank Corporation, HFD = Heilongjiang Finance Department, LBC = Longjiang Bank Corporation, PMO = project management office, SOE = statement of expenditure, XZGC = Xinzheng Guarantee Company.
Source: Asian Development Bank.

2. Conditions for Disbursements

70. General conditions for loan disbursement to the FIC cost category are included in schedule 3 of the loan agreement and specify that no disbursement to the cost category can be made until:

(i) the Borrower shall cause HPG to have certified to ADB that the ESMS for the Project, as prepared by each of the PMOs and approved by ADB shall have been endorsed and adopted by the PMOs; and

(ii) the Framework Cooperation Agreements, in a form and substance satisfactory to ADB, shall have been duly authorized or ratified by, and executed and delivered on behalf of, the project implementing agencies and the entrusted banks and are fully effective and legally binding upon these agencies and banks in accordance with their terms.[26]

C. Accounting

71. The project city governments will maintain separate books and record accounts for the FIC, including (i) dedicated CNY account to receive funds from the advance account; (ii) REAs to keep the 100% entrusted loan, entrusted loan with cofinancing, and cash collateral; (iii) a reflow subledger to receive the principal repayments; and (iv) IDA using accrual-based accounting following the equivalent national accounting standards. In addition, the project city governments through the respective financial intermediary will cause the subborrowers for entrusted loans to establish separate accounts at the financial intermediaries to receive the entrusted loans. The XZGC and HAGC will be required to maintain separate accounts to record the guarantee operations supported using ADB loan proceeds. The project city governments will prepare consolidated project accounts in accordance with the government's accounting laws and regulations, and financial reporting standards, which largely comply with international standards and are acceptable to ADB.

D. Auditing and Public Disclosure

72. Each project city government will cause the detailed consolidated project financial statements to be audited in accordance with International Standards on Auditing and with the government's audit regulations, by an independent auditor acceptable to ADB. The project financial statement should clearly distinguish the investment project components from the FIC. The audited project financial statements together with the auditor’s opinion will be presented in the English language to ADB within 6 months from the end of the fiscal year by the municipal government.

73. The audit report for the project financial statements will include a management letter and auditor’s opinions, which cover (i) whether the project financial statements present an accurate and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting standards; (ii) whether the proceeds of the loan were used only for the purpose(s) of the project; and (iii) whether the borrower or executing agency was in compliance

[26] *Framework Cooperation Agreement* means an agreement, acceptable to ADB, between each financial intermediary and the respective MGPMO that addresses the following matters and attaches agreed contracts or templates, where appropriate: (i) entrusted loans, (ii) contracts required to implement project supported financing structures, (iii) cofinancing by financial intermediary, (iv) financial intermediary’s roles and responsibilities in the cooperation, (v) operation of cross-defaults to subproject agreements, and (vi) project-related accounts and their operation.

with the financial covenants contained in the legal agreements (where applicable). The auditor's opinion will be formulated on the basis of:

(i) the consolidated SUF using the template provided in Appendix 7 prepared by the city PMO and the separate SUF prepared by the respective financial intermediary for entrusted loans;
(ii) the use of the advance procedures and SOE for liquidation and replenishment of advance account;
(iii) the transfer of funds from REAs under dedicated CNY account to subborrowers and to cash collateral in support of guarantees for the first batch of subprojects;
(iv) use of funds received by subborrowers through (a) entrusted loans, and (b) cofinancing with or without support through guarantees;
(v) operation of REA containing principal repayments of first batch of subprojects and use of funds from the reflow subledger;
(vi) a management letter which will set out the deficiencies in the internal controls of the project that were identified in the course of the audit, if any; and
(vii) whether the respective project city government was in compliance with the financial covenants contained in the legal agreements (where applicable).

74. In addition, the audited entity financial statements of LBC, HBC, XZGC, and HAGC together with the auditor's report and management letter will be submitted to ADB within 1 month after their approval by the relevant authority.

75. The government, HPG, and the project city governments have been made aware of ADB's approach to delayed submission, and the requirements for satisfactory and acceptable quality of the audited project financial statements.[27] ADB reserves the right to require a change in the project account auditor (in a manner consistent with the constitution of the borrower), or for additional support to be provided to the auditor, if the audits required are not conducted in a manner satisfactory to ADB, or if the audits are substantially delayed. ADB reserves the right to verify the project's financial accounts to confirm that the share of ADB's financing is used in accordance with ADB's policies and procedures.

76. Public disclosure of the audited project financial statements, including the auditor's opinion on the project financial statements, will be guided by ADB's Public Communications Policy 2011.[28] After the review, ADB will disclose the audited project financial statements and the opinion of the auditors on the project financial statements no later than 14 days of ADB's confirmation of their acceptability by posting them on ADB's website. The management letter, additional auditor's opinions, and audited entity financial statements will not be disclosed.[29]

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[27] ADB's approach and procedures regarding delayed submission of audited project financial statements are as follows:
(i) When audited project financial statements are not received by the due date, ADB will write to the executing agency advising that (a) the audit documents are overdue; and (b) if they are not received within the next 6 months, requests for new contract awards and disbursement such as new replenishment of advance account, processing of new reimbursement, and issuance of new commitment letters will not be processed.
(ii) When audited project financial statements are not received within 6 months after the due date, ADB will withhold processing of requests for new contract awards and disbursement such as new replenishment of advance accounts, processing of new reimbursements, and issuance of new commitment letters. ADB will (a) inform the executing agency of ADB's actions; and (b) advise that the loan may be suspended if the audit documents are not received within the next 6 months.
(iii) When audited project financial statements are not received within 12 months after the due date, ADB may suspend the loan.

[28] Public Communications Policy: http://www.adb.org/documents/pcp-2011?ref=site/disclosure/publications

[29] This type of information would generally fall under public communications policy exceptions to disclosure. ADB. 2011. Public Communications Policy. Paragraph 97(iv) and/or 97(v).

VI. PROCUREMENT AND CONSULTING SERVICES

A. Advance Contracting and Retroactive Financing

77. All advance contracting and retroactive financing will be undertaken in conformity with ADB Procurement Guidelines (2015, as amended from time to time) and ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). The issuance of invitations for bid under advance contracting and retroactive financing will be subject to ADB approval. The borrower, HPG, and the implementing agencies have been advised that approval of advance contracting and retroactive financing does not commit ADB to finance the project.

78. **Advance contracting.** Advance contracts to be entered into may include goods, works, and consulting services contract packages, as described in the PAM (Section A). For the FIC modality, advance contracting may include invitation for expressions of interest (EOIs), evaluation of EOIs, and contract signing. The respective project city PMO may enter into entrusted loan agreement and subproject agreement to provide entrusted loans and cash collateral to support guarantees issued by XZGC to mobilize cofinancing prior to the signing of the ADB loan agreement. The respective PMO will follow the subproject approval procedure described in the PAM for such projects.

79. **Retroactive financing.** The HPG and the four implementing agencies were advised that retroactive financing may only apply up to the maximum amount of the equivalent of 20% of the total ADB loan, to cover eligible expenditures incurred for eligible expenditures (works, goods, and consulting services) procured through advance contracting before loan effectiveness, but not more than 12 months before the signing of the loan agreement.

80. The executing agency and implementing agencies have requested approval for retroactive financing for the FIC and for selected investment project subcomponents as described in the PAM (Section A). For the FIC, retroactive financing may be provided to subprojects that have been approved with the concurrence of ADB prior to the signing of loan agreement with ADB to retroactively finance the short-term financing obtained and incurred by subborrowers for such subprojects. Except as otherwise stated, the disbursements to eligible subloans, which the respective project city government's project leading group approved in accordance with the procedures laid out in this PAM (Section B), are eligible for retroactive financing subject to following conditions sated in para. 78.

B. Procurement of Goods, Works, and Consulting Services

81. Procurement will be done by the respective project beneficiaries in accordance with the established commercial practices and procedures acceptable to ADB as required by para. 3.12 of ADB's Procurement Guidelines. Such commercial practices and procedures as described in the draft Procurement Manual shall ensure that procurement of goods, works, and consulting services is done through open competition with due consideration of principles of economy, efficiency, transparency, fairness, and equal opportunity. Procurement will be done in accordance with ADB's Procurement Guidelines applicable to FICs, and adopt appropriate procedures, including (i) payment of reasonable prices, and (ii) fair canvassing when selecting suppliers. Procurement must be from ADB member countries. Subborrowers will be encouraged to procure all goods through competitive bidding or shopping when such procedures are most appropriate in the interest of economy and efficiency. To provide guidance to subborrowers in undertaking procurement using ADB loan proceeds and for the municipal government PMOs to provide

guidance to subborrowers to monitor the procurement activities undertaken by subborrowers, a project specific draft Procurement Manual have been prepared and included in Appendix 4.

C. Procurement Plan

82. As this component is using FIC modality and the project city government PMO is not responsible for directly procuring goods and services related to the FIC, a separate procurement plan has not been prepared for the FIC. The procurement plan for the investment project components including consulting services for the BDS and the attached TA is included in the PAM Section A: Investment Project Components.

VII. SAFEGUARDS

83. An ESMS has been established and maintained as part of the respective project city‘s and overall project management system, in relation to the ADB FIC, in order to meet national laws and ADB environmental and social safeguard requirements for FICs as per ADB‘s Safeguard Policy Statement (SPS 2009). The purpose of the ESMS is primarily to guide the financial intermediary and the project city PMOs on the responsibility of appraising future subprojects proposed for FIC support, with respect to impacts on environment, involuntary resettlement, indigenous peoples, and other social impacts. The respective financial intermediaries have agreed to adopt the ESMS prior to loan signing.

84. Environmental and social performance will be evaluated on an annual basis. The project city PMOs will ensure that each subproject owner submits environmental and social safeguards monitoring report, and will review and assess the subproject's performance on environmental and social safeguards issues. A suggested outline for a subproject environmental and social safeguard monitoring report is provided in the ESMS.

85. **Grievance redress mechanism.** The financial intermediaries in collaboration with the respective project city governments will ensure that an effective grievance redress mechanism (GRM) is established to deal with project-related grievances as described in the ESMS. The agreed GRM, which is included in full in the ESMS will provide a clear and transparent mechanism and will be publicized prior to loan effectiveness. The respective PMO will be responsible for administering the GRM and will be responsible for ensuring that a record is maintained of grievances received (both written and oral) and how these are resolved. This record will be made available upon request to ADB review missions and summary information reported in the semiannual project progress reports.

86. **Prohibited investment activities.** Pursuant to SPS 2009, ADB funds may not be applied to the activities described in the ADB Prohibited Investment Activities List set forth at Appendix 5 of the SPS 2009. All financial institutions will ensure that their investments are in compliance with applicable national laws and regulations and will apply the prohibited investment activities list to all subprojects financed by ADB, and benefiting from the project’s guarantee facility.

VIII. GENDER AND SOCIAL DIMENSIONS

87. The respective project city governments through their PMOs are expected to ensure the relevant labor laws and occupational health standards are complied with by all subborrowers. The occupational health and safety procedures adopted by identified subborrowers and their compliance with relevant domestic laws and regulations have been assessed and found to be adequate. Subprojects resulting in labor retrenchment and redundancies due to introduction of

new technologies will not be included in the project unless ADB is fully satisfied and adequate counter-measures have been taken. This is included in subproject selection criteria and the project city governments are expected to ensure this requirement with respect to future subprojects. The subborrowers are expected to provide equal opportunities to the poor, female workers, and ethnic minorities and improve the working conditions of these workers because of improvements achieved under the project.

IX. PERFORMANCE MONITORING, EVALUATION, REPORTING, AND COMMUNICATION

A. Monitoring

88. Project performance will be monitored through the project performance management system (PPMS). The project implementation period is 15 years and the loan implementation period is 5 years from the date of loan effectiveness, expected in March 2018. The estimated loan closing date is 31 August 2023 and the project completion date is 28 February 2023. The project cities through their PMOs and with support from the project implementation consultants will establish the PPMS in a form acceptable to ADB to monitor the progress of project implementation during the loan implementation period. The PPMS will ensure the monitoring of the project's impacts, outcome, and outputs with respect to performance targets set forth in the design and monitoring framework. Please also refer to PAM (Section A).

89. **Compliance and safeguards monitoring.** The compliance status of loan and project covenants, including the provisions of the ESMS will be reported and assessed through the semiannual progress reports and verified by ADB review missions.

90. **Evaluation.** Please refer to PAM (Section A).

B. Reporting

91. The PMOs with support from the financial intermediaries and the guarantee companies will prepare semiannual progress reports in a format acceptable to ADB and submit these reports within 30 days of the end of each semiannual period. These reports will provide (i) a narrative description of progress in project implementation, (ii) any changes to the subproject implementation schedule, (iii) problems or difficulties encountered, (iv) work to be carried out in the next 6 months with respect to each component and subproject, and (v) compliance with ESMS, and environmental monitoring plans prepared for subprojects. The progress report will also report summary statement of dedicated CNY account, reflow account, IDA, and any new subloans approved.

92. During the project implementation period, the project city governments will provide ADB with (i) semiannual progress reports in a format consistent with ADB's project performance reporting system; (ii) consolidated annual reports including (a) progress achieved by output as measured through the indicator's performance targets, (b) key implementation issues and solutions, (c) an updated lending and disbursement plan, (d) updated implementation plan for the next 12 months, and (iii) a project completion report within 6 months of physical completion of the project. To ensure that projects will continue to be both viable and sustainable, project accounts and the executing agency audited financial statement together with the associated auditor's report, should be adequately reviewed. The template to be used in preparing semiannual and annual progress reports is in Appendix 7. Table 10 summarizes the key reporting requirements during project implementation. Project performance will be monitored through the PPMS.

Table 10: Summary of Key Reporting Requirements During Implementation

Name of Report/Documents	Timing of Reporting	Remarks
Semiannual progress reports on FIC implementation, with the second half year reports serving as the annual reports for the year concerned	Every 6 months until loan completion. Thereafter, only the annual report is needed	First report to cover the half year ending 31 December 2017—if advanced action was recorded
Audited financial statements and audited project accounts Auditor's report (including auditor's opinion on statement of expenditures)	Before 30 June of each year auditing the previous year throughout the loan implementation period	First report due by 30 June 2018
Subproject selection report	As and when each subproject under the FIC is selected during the loan implementation period	To commence from loan fact-finding
Environmental and social due diligence reports of host facilities as required by the ESMS	As and when each subproject under the FIC is selected during the loan implementation period	To commence from loan fact-finding
Annual ESMS implementation report	Once a year covering all subprojects until loan completion, including compliance with ESMS requirements	First report due by 31 January 2018 in respect of 2017, if advanced action was recorded
Project completion report		Expected by 6 months from loan closing

ESMS = environmental and social management system, FIC = financial intermediation component.
Source: Asian Development Bank staff estimates.

C. Stakeholder Communication Strategy

93. Consultation is an important aspect of the project. The project's stakeholder communication strategy has four major themes to ensure:

(i) The project is implemented in an open and transparent manner that provides access to ADB funds in an equitable manner to the applicants most qualified to receive them based on the project selection criteria.
(ii) Stakeholders who might be adversely affected by the project are identified and engaged in consultations with a view to protecting their interests.
(iii) Benefits arising from the project are communicated to interested parties to promote (a) the further development of the SMEFP; (b) similar initiatives by other provinces or cities, and (c) the benefits of energy conservation generally.
(iv) Corruption risk is minimized.

94. To implement this strategy, the following steps have or will be taken:

(i) Opportunities to access project funds to be openly advertised widely within Heilongjiang Province using a variety of media selected to reach the targeted enterprises most likely to benefit from the SMEFP's financial products.
(ii) The project city government will ensure that local communities affected by the project are consulted before each subproject approval under the provisions of ESMS, and after subproject implementation, to identify, assess, and remedy any residual concerns.
(iii) Within 2 months of the loan effectiveness date, the respective project city government's PMO will commence disclosure of all key project-related information, including the scope, financial, and institutional arrangements of the project; and an annual progress performance and sustainability report.

X. ANTICORRUPTION POLICY

95. ADB reserves the right to investigate, directly or through its agents, any violations of the Anticorruption Policy relating to the project.[30] All contracts financed by ADB shall include provisions specifying the right of ADB to audit and examine the records and accounts of the executing agency and all project contractors, suppliers, consultants, and other service providers. Individuals and/or entities on ADB's anticorruption debarment list are ineligible to participate in ADB-financed activity and may not be awarded any contracts under the project.[31]

96. ADB's Anticorruption Policy was explained to and discussed with the government, HPG, project city governments, their PMOs, the financial intermediaries, and the XZGC and HAGC. It was emphasized that ADB reserves the right to investigate, directly or through its agents, any alleged violations of the Anticorruption Policy relating to the project.[32]

97. To support these efforts, relevant provisions are included in the loan agreement and project agreement, and the bidding documents for the project. In addition, the following characteristics of the project promote transparency and strengthen governance: (i) scrutiny of the subprojects (technical, financial, economic, environmental, and social by the respective PMO and its agents [LBC or HBC, XZGC or HAGC]; (ii) the inclusion of anticorruption provisions in the Project Agreement, agreements between the respective project city government and its agents, and in all subloan and subproject agreements; and (iii) an information campaign to be carried out by the respective PMO to inform non-coal SMEs about the project and their entitlements.

XI. ACCOUNTABILITY MECHANISM

98. People who are, or may in the future be, adversely affected by the project may submit complaints to ADB's Accountability Mechanism. The Accountability Mechanism provides an independent forum and process whereby people adversely affected by ADB-assisted projects can voice, and seek a resolution of their problems, as well as report alleged violations of ADB's operational policies and procedures. Before submitting a complaint to the Accountability Mechanism, affected people should try in good faith to solve their problems by working with the concerned ADB operations department. Only after doing that, and if they are still dissatisfied, should they approach the Accountability Mechanism.[33]

XII. RECORD OF CHANGES TO THE PROJECT ADMINISTRATION MANUAL

98. All revisions and updates during implementation are retained in this section to provide a chronological history of changes to implemented arrangements recorded in this PAM (Section B), including a revision to contract awards and disbursement s-curves.

PAM Changes and/or Updates	Date	Remarks
Initial draft		Loan Negotiation
Second draft		
Third draft		

PAM = project administration manual.
Source: Asian Development Bank.

[30] Anticorruption Policy: http://www.adb.org/Documents/Policies/Anticorruption-Integrity/Policies-Strategies.pdf
[31] ADB's Integrity Office web site: http://www.adb.org/integrity/unit.asp
[32] Anticorruption Policy: http://www.adb.org/Documents/Policies/Anticorruption-Integrity/Policies-Strategies.pdf
[33] Accountability Mechanism. http://www.adb.org/Accountability-Mechanism/default.asp

CONTRACT FORMS FOR DIFFERENT FINANCING STRUCTURES

1. This appendix identifies the financing arrangements anticipated to be supported under the financial intermediation component, and the related project implementing contracts required to be acceptable to or approved by the Asian Development Bank in connection with each such arrangement; if the Asian Development Bank may waive its right to review and approve any of these agreements.

2. Subproject has entrusted loan and cofinancing loan(s), with or without guarantee:
   (i) entrusted loan agreement;
   (ii) cofinancing loan agreement;
   (iii) subproject agreement;
   (iv) guarantee agreement, if any;
   (v) joint security and/or guarantee agreements by or on behalf of qualified subborrower with project executing agency and guarantee company, subject to terms of guarantee framework agreement, if any; and
   (vi) guarantee counter-indemnity agreement, if any.

3. Subproject has cofinancing loan(s) with guarantee, no entrusted loan:
   (i) cofinancing loan agreement;
   (ii) subproject agreement;
   (iii) cash collateral facility-backed guarantee agreement; and
   (iv) guarantee counter-indemnity agreement, including any security and/or guarantee agreements by or on behalf of qualified subborrower.

4. Subproject has only entrusted loan:
   (i) entrusted loan agreement;
   (ii) subproject agreement; and
   (iii) separate security and/or guarantee agreements, if any, by or on behalf of qualified subborrower, with project executing agency and separately with cofinancing lender.

SUBPROJECT SELECTION CRITERIA

A. Selection Procedure

1. Each project city's project management office (PMO) will be the financial intermediation component's (FIC) implementing unit, responsible for (i) soliciting candidate subprojects, which it shares together with financial intermediaries, small- and medium-sized enterprises (SMEs) bureaus as well as guarantee companies; and (ii) preliminarily screening candidate subprojects as per the project screening criteria agreed by both the Asian Development Bank (ADB) and the respective project city. It will notify the provincial financial intermediaries on the candidate subproject pipeline having passed its preliminary screening. All financial intermediaries will review the candidate subprojects and conduct due diligence on them, and should give feedback to the related PMO in which subprojects it is interested in. If a subproject does not get any FIC's intention to finance, and is not in the core pillar industry sectors identified, it shall be dropped out of the pipeline since it is too risky. But if it is within the core pillar industry, it can be granted a second chance. The PMO will submit the subproject, with all review information including the FIC's opinion, to the related city's project leading group (PLG) for final decision. After a subproject is decided to be financed under the FIC, the PMO will be responsible for ADB loan proceeds withdrawal application, disbursement to the related financial intermediary, and implementation progress monitoring and reporting, with support from the relevant financial intermediary.

2. The financial intermediaries are required to establish environmental and social management system (ESMS) acceptable to ADB, use ESMS to appraise subprojects, provide due diligence report on the candidate subprojects in each city in terms of subproject financial feasibility and borrower's creditworthiness, provide co-financing or leverage function as agreed, and share risks with the related city as per agreed risk-sharing mechanism. Meanwhile, they have the right to recommend subprojects, referring to the project selection criteria, in the four cities to the PMOs into their candidate subproject pipeline, which are subject to the related city PMO's review on priority industry check and borrower's qualification check. ESMS may be established within each city's PMO if potential future financial intermediaries are not able to build a system. If so, the PMO will be also responsible for candidate subproject's ESMS check.

3. The respective financial intermediary shall sign a cooperation framework agreement with each project city, in which the core pillar industry, priority industries, and project selection criteria can be tailored for each project city to accommodate each city's situation.

B. Subproject Screening Criteria

4. Subproject screening criteria are the following:
   (i) The proposed subproject does not involve coal-related businesses and activities.
   (ii) The proposed subproject must not involve Category A for involuntary resettlement. If the land has been acquired within last two years, the respective project city government's PMO need to confirm that the land has been acquired by the local governments after paying compensation to affected people. If there are outstanding issues, it shall not be considered for financing.
   (iii) The subproject should not result in net labor retrenchment.
   (iv) The industrial plant where the subprojects are to be located is in compliance with all relevant government approvals including environment permits and it should not belong to an industry that is designated as to be phased out under obsolete technology category or industrial overcapacity category.

(v) Subproject should not involve any prohibited activities under the ADB SPS 2009 (see ESMS).

(vi) The subproject should comply with the industry policies of Heilongjiang Province. Normally, the project should belong to the encouraged and prioritized sectors, supported technologies by the respective city, or Heilongjiang Provincial Government. However, if the SME is another sector with large diversification and employment generation potential, it should not be excluded.

(vii) Project company annual revenue should in general not exceed CNY30 million, but for special reasons such as significance for non-coal diversification, job creation, gender inclusiveness, inclusive business, or such other reasons acceptable to ADB, a project company with annual revenue of up to CNY50 million are eligible.

C. Subproject Approval Criteria

5. To guide the respective project city government in approving subprojects, detailed approval criteria have been established for technical and financial ratios. If a particular subproject from a sector supported by national or provincial government does not meet these ratios, the respective project city government's PMO is required to justify why SME financing platform should support the subproject based on relevant government policies and overall non-coal-related objectives of the SME financing platform.

D. Technical Criteria

6. All subprojects must meet the following criteria:

(i) Baseline for economic activity in the sector in the respective project city shall be established before the subprojects are being implemented.

(ii) Economic activity generated by the subprojects after implementation shall be monitored and recorded.

(iii) All subprojects must use proven technologies with reliable, measurable outputs.

(iv) All subprojects must be in the geographic jurisdictions of the respective project cities.

(v) All subprojects must have good growth potential.

(vi) If ADB promotes social and gender inclusiveness and a total of 30% of all supported subprojects should be SMEs that are women-owned or women-managed.

E. Subproject Financial Criteria

7. All subprojects must be financially viable. Financial analysis should be prepared in accordance with ADB Financial Management and Analysis of Projects guidelines. The financial internal rate of return shall be greater than the weighted average cost of capital. The financial internal rate of return should also exceed the weighted average cost of capital under several plausible adverse scenarios.

8. For subprojects applying for a working capital loan, the selection criteria of the respective financial intermediaries, acceptable to ADB shall be adopted and applied.

F. Subborrower Financial Criteria

9. All subborrowers must meet the following criteria:

(i) All subborrowers must be financially creditworthy and not have a poor credit record, as recorded in the People's Bank of China credit history database.
(ii) The subborrowers must be capable of contributing a minimum of 20% of the total subproject investment cost as counterpart financing.
(iii) The subborrowers shall commit to enhance capacities in project planning, financing, implementing, and monitoring during the subproject preparation and implementation periods.

G. Subproject Social and Environmental Safeguards Criteria

10. All subprojects must meet the following criteria:
(i) The subprojects must not involve Category A for involuntary resettlement.[1]
(ii) The subproject must not have any adverse impacts on ethnic minorities.[2]
(iii) The subprojects must not be in any designated environmental protection zone and cultural heritage site.
(iv) The subprojects must not support enterprises which have activities involving commercial development of cultural resources of Indigenous Peoples without their consent for the commercialization of such resources.
(v) Each subproject must be designed, constructed, and operated in accordance with relevant national and provincial social and environmental laws and regulations.
(vi) Subproject must meet requirements of the ESMS developed for the loan project.
(vii) Initial Poverty and Social Assessment, and Summary Poverty Reduction and Social Strategy shall be prepared for all subprojects.
(viii) Each subproject must acquire proper approvals from proper national and provincial authorities in-charge.
(ix) The subprojects shall not result in labor retrenchment and labor redundancies.

11. If a subproject has good employment generation potential, but does not meet some of these criteria, the municipal government and the financial intermediary, may consider and recommend to ADB, ADB will review and approve.

[1] The subproject proposal will be screened through an involuntary resettlement impact screening checklist in accordance with procedures contained in the project's environmental and social management system (ESMS) which is included as Appendix 6 of the ESMS.
[2] The subproject proposal will be screened through an ethnic minorities' impact screening checklist.

ADB PROHIBITED INVESTMENT ACTIVITIES LIST

The following do not qualify for Asian Development Bank financing:

(i) production or activities involving harmful or exploitative forms of forced labor [34] or child labor;[35]

(ii) production of or trade in any product or activity deemed illegal under host-country laws or regulations, or international conventions and agreements, or subject to international phase outs or bans, such as (a) pharmaceuticals,[36] pesticides, and herbicides;[37] (b) ozone-depleting substances;[38] (c) polychlorinated biphenyls[39] and other hazardous chemicals;[40] (d) wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora;[41] and (e) trans-boundary trade in waste or waste products;[42]

(iii) production of or trade in weapons and munitions, including paramilitary materials;

(iv) production of or trade in alcoholic beverages, excluding beer and wine;[43]

(v) production of or trade in tobacco;[10]

(vi) gambling casinos and equivalent enterprises;[10]

(vii) production of or trade in radioactive materials,[44] including nuclear reactors and their components;

(viii) production of, trade in, or use of unbonded asbestos fibers;[45]

(ix) commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests or old-growth forests; and

(x) marine and coastal fishing practices, such as large-scale pelagic drift-net fishing and fine-mesh net fishing, harmful to vulnerable and protected species in large numbers and damaging to marine biodiversity and habitats.

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[34] Forced labor means all work or services not voluntarily performed, that is, work or services extracted from individuals under threat of force or penalty.

[35] Child labor means the employment of children whose age is below the host country's statutory minimum age of employment, or the employment of children in contravention of International Labor Organization Convention No. 138, "Minimum Age Convention" (www.ilo.org).

[36] A list of pharmaceutical products subject to phase outs or bans is available at http://www.who.int

[37] A list of pesticides and herbicides subject to phase outs or bans is available at http://www.pic.int

[38] The chemical compounds that react with and deplete stratospheric ozone, resulting in the widely publicized ozone holes, are listed in the Montreal Protocol, together with target reduction and phase out dates. Information is available at http://www.unep.org/ozone/montreal.shtml

[39] A group of highly toxic chemicals, polychlorinated biphenyls are likely to be found in oil-filled electrical transformers, capacitors, and switchgear dating from 1950 to 1985.

[40] A list of hazardous chemicals is available at http://www.pic.int

[41] A list is available at http://www.cites.org.

[42] As defined by the Basel Convention; see http://www.basel.int

[43] This does not apply to project sponsors that are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations.

[44] This does not apply to the purchase of medical equipment, quality control (measurement) equipment, and any other equipment for which ADB considers the radioactive source to be trivial or adequately shielded.

[45] This does not apply to the purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.

SUBPROJECT SOLICITATION, SCREENING, AND APPRAISAL PROCEDURE

1. The project city government PMO undertakes a phased approach to ensure that Subprojects meet the selection criteria and are bankable.

A. Phase 1: Screening Phase

2. To be completed within 2 weeks of receiving the documents listed in A1.

A1: Ensure that the subborrower has provided all the relevant documents related to the Subproject including

- (i) permits issued by the local government to the subborrower allowing it to conduct its authorized business including business license, environmental permits, water extraction permits, land use permits, etc.;
- (ii) annual environment monitoring reports that need to be provided by the subborrower for its existing operations;
- (iii) subproject feasibility study report (FSR);
- (iv) subproject environment assessment report and/or form as per the PRC Government requirements;
- (v) subborrowers audited financial accounts for previous three years; and
- (vi) audit reports of the previous three years, if available.

A2: Check that the subborrower's existing operations comply with the relevant local government regulations. project city government PMO needs to check with provincial and/or municipal economic and information committee that the proposed subproject is an encouraged technology under the National Development Reform Commission's list of technologies and the existing operations of the subproject do not come under the technologies and industries to be phased out under obsolete technology or over capacity industry phase out program. If not, the project city government PMO should reject the subproject.

A3: Review the financial analysis in the FSR and confirm whether the report demonstrates the proposed subproject's financial sustainability by highlighting that the internal rate of return (IRR) is higher than the weighted average cost of capital. If the proposed subproject's IRR is lower than the weighted average cost of capital, then the project city government PMO need to check the accuracy of the IRR calculation in the FSR and if it is still less than the weighted cost of capital, the subproject will be rejected.

A4: Review the financial statements of the subborrower to assess the debt: equity ratio, debt service cover ratio, and current ratio and overall profitability of the subborrower. If the subborrower's historical financial ratios do not meet the ratios mentioned in the selection criteria, the potential subborrower should provide a reliable business plan demonstrating how the company will reestablish financial sustainability of its operations.

A5: Undertake a rapid environmental screening as described in the environmental and social management systems (ESMS) to categorize the subproject according to ADB Safeguard Policy. If the subproject is likely to be categorized as category A, the project city government need to inform ADB, the nature of subproject, and its likely environment impacts and agree with the scope of environmental impact assessment (EIA) to be prepared in accordance with the ESMS. If it is confirmed that a project is category A, the project city government will need to reject the project.

A6: Undertake rapid screening to ensure that the subproject must not involve Category A for involuntary resettlement.

A7: The commercial banks will undertake a rapid credit review of the subborrower to assess the credit worthiness of the subborrower.

A8: After completing steps A1–A7, prepare a 2–3-page concept note on the subproject. Obtain preliminary "no objection" from ADB and preliminary approval from the respective project city government's credit appraisal committee to undertake the detailed due diligence on the subproject.

A9: At this point, the respective PMO should request the subborrower to pay a nominal appraisal fee to demonstrate the borrower's commitment to seek financing from the SME financing platform (SMEFP) and the respective PMO, and to cover the cost of due diligence should inform the subborrower of the terms and conditions of applicable subprojects, as described in the Project Agreement between ADB and the respective project city government.

B. Phase 2: Detailed Appraisal Phase

3. To be completed within 2 months of completing Phase 1.

PROCUREMENT MANUAL

A. Introduction

1. This procurement manual is prepared to regulate the procurement activities of the Heilongjiang Green Urban and Economic Revitalization Project, which will utilize an Asian Development Bank (ADB) financial intermediation component (FIC). ADB expects that for the FIC the procurement is undertaken by the respective loan beneficiaries in accordance with established private sector or commercial practices, and which are acceptable to ADB.

2. One objective of the manual is to draw attention to subproject owners[1] that they have a responsibility to ensure the procurement activities they undertake to implement their subprojects must:

- (i) Comply with any relevant laws and regulations of the People’s Republic of China (PRC) and Heilongjiang Provincial Government.
- (ii) Adhere to procurement principles and guidance determined by ADB to be applicable to this financial intermediation component.

3. A second objective of the manual is to offer specific guidance on how procurement activities can be undertaken that will ensure compliance with the ADB principles and guidelines.

4. It is not appropriate for this ADB manual to offer specific advice on compliance with the specific requirements of the PRC and Heilongjiang laws and regulations. Such legal compliance is the responsibility of subproject owners and applies not just for procurement activities but is an all-embracing responsibility they have in how they conduct all their business activities.

5. Notwithstanding the above statement, all the guidance provided in this manual is compatible with current applicable PRC laws and specifically the PRC Tendering and Bidding Law 1999 (effective from 1 January 2000), the scope and applicability of which includes all investment projects that utilize foreign capital funds. Subproject owners should therefore ensure that their procurement staff is familiar with the requirements of this law and its applicable regulations, in addition to being provided with this procurement manual.

6. It is also not the intention of this manual to force changes in the procurement procedures of subproject owners where these already substantially comply with required ADB procurement principles. However, it is expected that subproject owners will review their own procurement procedures using the contents of this manual as a guide and adjust their procedures to ensure the required substantial compliance.

7. The contents of this procurement manual will be kept under review during project implementation and can be revised at any time per the project requirements, or changes in applicable laws and regulations. Any changes in the manual will be jointly approved by the project city governments and ADB.

B. Procurement Objectives

8. The aim of any procurement process is to ensure the resulting procurement provides the purchaser with goods, works, or services that

[1] Subproject owners for this manual include (i) all subborrowers of ADB financial intermediary funds and (ii) the owners of subprojects whose financial intermediary financing is guaranteed with financial intermediary support.

(i) are fit for the intended purpose–that is they meet required quality, durability and performance criteria,
(ii) provide value for money to the purchaser, and
(iii) are procured in a timely and efficient manner.

9. These objectives are wholly compatible with best commercial practice and endorsed by ADB. However, the objectives are not mutually exclusive and they can conflict to a degree. For example, sophisticated procurement procedures may well be justified for large scale or technically complex procurement but would not be justified on efficiency grounds for simpler small scale procurement. ADB procurement guidelines and commercial best practice procurement regulations recognize the need for an efficient procurement process by providing simpler procedures for small scale procurement.

10. Another cross-cutting objective of any procurement process is to adequately safeguard subproject owners against the risks of corruption and fraud that could damage the level of subproject performance (as measured in financial terms and/or energy/emissions savings), and potentially the competitiveness of the entire business.

C. Asian Development Bank Procurement Principles

11. ADB procurement guidelines are based on the principles of (i) competition, (ii) economy and efficiency, (iii) transparency, and (iv) fairness and equal opportunity. Each of these principles is briefly explained below, while specific guidance on their application is given in Section D.

12. **Competition.** Open competition is the default approach, and conditions for other methods are clearly described. Conditions justifying a departure from open competition may involve situations when open competition is either inappropriate (e.g., due to proprietary technology) or when it hinders optimal economy and efficiency.

13. **Economy and efficiency.** The procurement processes are efficient and lead to optimal results in a balanced consideration of time, costs, and quality. This requires that procurement processes are not cumbersome and prone to unnecessary delays.

14. **Transparency.** Procurement processes are governed by clear rules that are easily accessible and can be consistently applied. Contract opportunities are advertised widely.

15. **Fairness and equal opportunity.** All eligible bidders have an equal and fair opportunity. Procurement processes avoid preferential or discriminatory measures that might favour or adversely affect certain participants, and are not prone to opportunities of collusion and excessive discretion.

16. It is generally accepted by procurement experts that these principles, if properly applied, will ensure the procurement objectives set out in Section B of this manual are realized by subproject owners and represent best procurement practice. However, in setting the requirement that "FIC procurement is undertaken by the respective loan beneficiaries in accordance with established private sector or commercial practices, acceptable to ADB", ADB recognizes that it may be in the interests of commercial borrowers of ADB funds to apply these principles in a more flexible manner than as stipulated in ADB's detailed procurement guidelines that have been designed with public procurement primarily in mind.

D. Specific Guidance on Financial Intermediation Loan Procurement

17. This section of the manual builds on the earlier content by providing some specific guidance to subproject owners. The section first gives guidance on how generally accepted procurement objectives might be best achieved and then considers each of the ADB procurement principles in turn and gives guidance on compliance.

1. Ensuring Procurement Results are Fit for Purpose

18. For potential suppliers to provide equipment, goods, or services that meet the needs of the purchaser it is vital that purchasers clearly articulate their needs and expectations to those potential suppliers. Therefore, appropriate written information should be provided to potential suppliers. A good written specification of purchaser needs will enhance the prospects for those needs being successfully met and will also provide a basis for any procurement disputes to be adjudged and settled in a fair way.

19. Feasibility study reports (FSRs) will have been prepared and approved for all the FIC subprojects. These FSRs will document the performance expectations of the subproject and therefore it is important that as a minimum, these expectations are included in relevant procurement specifications.

20. For the procurement of key equipment and/or civil works that are critical to the performance of the subproject, the procurement documentation should include a more detailed design specification. This should be prepared by qualified technical specialists in conjunction with procurement staff.

21. For the procurement of services (e.g., technical support to assist the implementation of the subproject), it is important to ensure that potential service providers are suitably qualified, and that the scope of work and the required outputs/deliverables of the service provider are clearly defined.

2. Achieving Value for Money

22. Value for money (VFM) is normally considered to be achieved if the purchaser feels they have paid a fair price for what they have received. However, some would argue that VFM is only achieved if one pays the lowest available price.

23. VFM is a more complex concept to assess than simply through a purchase price comparison alone. For example, for equipment purchase the costs or downtime for equipment servicing, and the availability of spare parts may be important factors to the purchaser. Additional length of a performance guarantee (over and above anything specified by the purchaser) might also legitimately influence the purchaser to not purchase based on the cheapest price. If VFM is to be assessed on a scientific basis then a risk based approach over the equipment life cycle should be used, but even then, there will be subjectivity over matters such as assessing the level of risk and the value of maintaining a long-lasting and trusted purchaser-supplier relationship.

24. Specific guidance on making value for money judgements is as follows:

(i) Consider what factors will affect the VFM judgement in advance of procurement and where possible include these into the product specification. Also, ask all potential suppliers to provide supplementary information considered relevant to the purchase decision in addition to the basic supply price (e.g., response time to breakdowns, guarantee terms, service frequencies, downtime and costs, delivery periods, and costs of spare parts).

(ii) Establish a company procurement committee to evaluate VFM and make procurement decisions as a means of reducing the individual subjectivity in VFM assessments. Ensure that records are kept of decisions made and the reasons for them, so that independent or higher level reviews can assess their reasonableness.

(iii) Use open procurement (see below) wherever possible so that the lowest available specification compliant price is known thus making the price premium paid for non-quantifiable VFM factors readily identifiable.

(iv) Only use sole supplier purchasing, where either (a) an existing competitively let rolling supplier contract already exist, (b) there has been recent similar procurement made via open procurement, or (c) extenuating circumstances apply that justify short-cutting normal procedures and company standing orders allow for this (note: such a situation under the FIC is extremely unlikely and such short-cutting is normally only justified in response to an emergency).

3. Timeliness and Efficiency of Procurement

25. For the procurement process to operate in a timely and efficient manner, the subproject will need to be planned and budgeted for so procurement activities are carefully scheduled to be compatible with the subproject implementation plan and that financial commitments can be met when due.

26. It follows that procurement plans should (i) be linked to the financial plans, (ii) allow a realistic time for the completion of individual activities, and (iii) as far as possible avoid a" log jam" of activity in the procurement department.

27. Efficiency of procurement will be achieved, where (i) companies develop standardized procedures and procurement documentation, (ii) the number of procurement packages are minimized without unduly restricting competitiveness, (iii) adopting simplified procurement procedures for small low value procurement, and (iv) the use of existing rolling annual or multi-year supplies of services and supplies for which a company has a regular demand.

4. Use of Competitive Procurement

28. Effective competition undoubtedly reduces prices by forcing suppliers to innovate and become more efficient. Purchasers will only be able to benefit from reductions that are available if they use procurement procedures based on competitive bidding or shopping.

29. Competitive procurement is most commonly achieved in a project setting through advertising and an open invitation for suppliers to request tender document and submit bids.

30. For some critical and specialist procurement packages, a multi-stage procurement process may be advantageous whereby potential suppliers are first invited to pre-qualify by demonstrating they have the required skills and experience. Then all pre-qualified suppliers would be invited to submit bids.

31. Preparing bids for some procurement packages can impose a heavy workload and expense on potential suppliers, and this can discourage some good quality suppliers from bidding if they feel their chance of being successful is low. Purchasers can guard against the risks this

situation creates restricting the number of suppliers invited to bid to a small number of those most qualified to be the supplier.

32. However, before deciding on the detailed procurement procedures to use they should ensure subproject owners should consult any applicable government laws and regulations on the procurement methods permissible in specific circumstances. This especially applies to SOE subproject owners who will undoubtedly operate in a more regulated procurement environment than wholly private enterprises.

5. Fairness and Equal Opportunity

33. All eligible bidders should have an equal and fair opportunity. Procurement processes are designed and implemented to avoid preferential or discriminatory measures that might favour or adversely affect certain participants.

34. Fairness and equal opportunity goes hand in hand with procurement procedures that require open competitive bidding. It also goes hand in hand with transparency in procurement (see below).

35. Further measures to promote fairness and equal opportunity include:

- (i) Ensuring that potential suppliers have adequate time to submit bids or expressions of interest (the actual time allowed should depend on the complexity of the procurement and the level of detail requested in bids/EOIs).
- (ii) The terms of purchase contracts used are equitable to both sides.
- (iii) The purchasing organization has a grievance redress mechanism to deal with cases of alleged unfairness, mis-procurement or other abuses. This mechanism should operate to be independent of the purchasing function.
- (iv) Subject only to issues of commercial confidentiality, unsuccessful bidders may request and receive feedback on why they were unsuccessful.

6. Transparency in Procurement

36. Transparency of procurement processes are those governed by clear rules that are easily accessible and can be consistently applied. That is, not only is the purchaser fair and providing equal opportunity, they can be seen to be open and fair in their procurement activity.

37. Transparent procurement involves contract opportunities (procurement plans and individual bid opportunities) being advertised widely and results are published (or at least made available to the unsuccessful bidders).

38. Transparency in procurement has several potential benefits to purchasers:

- (i) Competition is increased.
- (ii) Suppliers can more readily identify the bids most suited to them allowing them to select which bids to make and better tailor bids to meet the purchaser’s needs. From the purchaser side this reduces the number of poor quality or unqualified bids and should increase bid quality.
- (iii) They gain a reputation for openness and fairness in how their businesses are operated and if they practice local procurement policies (where allowed by applicable regulations) for the support they provide the local community.
- (iv) Open and transparent processes are less susceptible to abuse through fraud and corruption and such abuse is more likely to be detected.

E. Required Organizational Capacity and Arrangements

39. Subproject owners need to assess whether they possess adequate procurement capacity in terms of
    (i) functional responsibilities,
    (ii) internal processes,
    (iii) resources and skills,
    (iv) information management, and
    (v) experience and performance.

40. For the selection of subprojects, ADB has assessed organizational capacity of proposed subproject owners. The capacity building suggestions of these assessments may be of guidance to others and can be shared by contacting the respective project city government PMO for relevant guidance. A procurement capacity checklist is provided in the annex to this manual.

41. If subproject owners conclude it is uneconomic to build, the required internal procurement capacity then they should consider recruiting the services of a procurement agent to fill capacity gaps.

ROLES AND FINANCIAL MANAGEMENT RESPONSIBILITIES OF THE FINANCIAL INTERMEDIARIES HARBIN BANK CORPORATION AND LONGJIANG BANK CORPORATION

1. Harbin Bank Corporation and Longjiang Bank Corporation, and possibly other financial intermediaries if requested by the government during project implementation, will function as financial intermediaries for the respective project cities of Hegang, Jixi, Qitaihe, and Shuangyashan under the financial intermediation component (FIC) of the ADB loan project, and the banks' respective branch in the related project city will be the operation window for provision of the designated services. Under the FIC, it will undertake the following duties:

(i) With consideration of risk sharing mechanisms available to the financial intermediary from the FIC, the financial intermediary shall reasonably expand the scope and sort of acceptable collaterals, and reduce the discount rate when computing the collateral's mortgage value. This modification shall be especially applicable for subprojects under the FIC.
(ii) Build up ESMS capacity to the extent acceptable by ADB, and coordinate and accept TA consultants support to the financial intermediaries in ESMS implementation.
(iii) Recommend potential subprojects to the related city's PMO for the PMO's confirmation on their eligibility.
(iv) Effectively conduct due diligence investigation to all subprojects that apply for financing support from the FIC, covering subproject financial feasibility analysis, borrower credit history investigation, and ESMS check in accordance with ADB's safeguard policy.
(v) Make final decision on whether it will lend cofinancing loan to subprojects.
(vi) Properly executing, as per the PAM (Section B), and recording all transactions in REA account and revenue account.
(vii) Apply the bank's regular operation procedures for post-loan management, including borrower's business status monitoring, subloan repayment monitoring, and collateral management; and notify the PMO of possible and actual defaults from subprojects financed by the FIC.
(viii) Report the FIC implementation progress and result to the PMO on a regular basis.
(ix) Accept external audit organized by the PMO.
(x) Advise the city's finance bureau and/pr PMO for risk control of foreign exchange rate and LIBOR USD interest rate.
(xi) Together with the PMO coordinate and accept TA consultants' review and monitoring of the SMEs which benefit from loans and guarantees under the ADB financed project, to ensure that effective SME performance monitoring is carried out during the respective subloan repayment periods.

ANNEX TO APPENDIX 5

PROCUREMENT CAPACITY CHECKLIST

1. This checklist works systematically through the procurement cycle identifying key requirements at each stage.

2. **Procurement planning and budgeting.** Are procurement planning and budgeting arrangements for the program

   (i) linked to budget and planning of the financial management system,
   (ii) linked to the needs of the program beneficiaries,
   (iii) realistic,
   (iv) timely, and
   (v) reliable?

3. **Bidding processes**

   (i) Are procurement packaging approaches under the program appropriate for economy and efficiency?
   (ii) Are standard bidding documents available where suitable and possible?
   (iii) Do bidding documents for the program allow for a clear definition of qualifications, evaluation criteria, technical specifications, and conditions of award?
   (iv) Do bidding documents provide relevant and equitable conditions of contract?
   (v) Do conditions for bid participation by state-owned enterprises (SOEs) ensure fair competition (especially relevant where the subproject owner is an SOE)?
   (vi) Are bidding opportunities properly advertised (the specific advertisement arrangements and scope should depend on the size and nature of the procurement)?
   (vii) Are time limits prescribed for bid submission reasonable, given the nature and complexity of the procurement?
   (viii) Do reasonable arrangements exist to ensure fairness and efficiency of bid evaluation?
   (ix) Is information disclosed on conditions of bid participation, qualification and evaluation criteria, technical specification, results of contract award, and justification of circumstances that require non-competitive procurement?

4. **Contract administration and management.** Is there:

   (i) A reasonable practice to document key steps in the procurement cycle?
   (ii) A reasonable framework to develop and update benchmarks to measure the time and cost-effectiveness of procurement?

5. **Control and integrity**

   (i) Are effective controls in place, as jointly assessed with financial management including clear definition and segregation of procurement functions, quality control processes, and availability of records of the procurement processes?
   (ii) Are procurement decisions made by competent authorities on the basis of established processes?
   (iii) Do clear ethical standards exist, and is there a reasonable mechanism to apply and enforce ethical standards or codes of conduct; identify and manage conflicts of interest; and deter fraudulent, corrupt, collusive, coercive or obstructive behaviour?

(iv) Are reasonably independent and effective fraud and corruption control and oversight frameworks or arrangements in place?

6. **Complaint and dispute resolution mechanism**

(i) Is there an adequately functioning complaint and/or dispute resolution mechanism?

(ii) Cab the mechanism be effectively enforced?

7. **Procurement system performance.** Is there a system for assessing procurement performance and does this include measures that relate to

(i) timeliness of procurement;

(ii) cost and time within plans;

(iii) cost and time overruns; and

(iv) quality of goods, works, and services delivered?

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

The outline terms of reference for consultants for the business development services subcomponent and for the attached technical assistance are included in the Project Administration Manual: Investment Project Components (Section A).

TEMPLATE FOR ANNUAL AND/OR SEMIANNUAL PROGRESS REPORT

1. For general sections, refer to PAM: Investment Project Components (Section A). Below are financial intermediary sections for reporting on the FIC and BDS to be filled out separately by each project city PMO.

A. Subproject Approvals and Appraisal Progress

2. Table 1 provides details of the subprojects that have already been approved and their current status. This table provides a comprehensive record since the commencement of the project.

Table 1: Summary of Approved Subprojects

Subproject Title	Date of Approval[a]	Estimated Cost[b]	Entrusted Loan[c]	SMEFP[d] Cofinancing	Guarantee[e]	Current Status[f]

SMEFP = small- and medium-sized enterprise financing platform.
[a] Indicates the date of subproject approval by respective city project leading group.
[b] Indicates the total estimated cost of the subproject.
[c] Indicates the amount of any approved entrusted loan.
[d] Indicates whether LBC or HBC has approved cofinancing to the subproject and the amount.
[e] Indicates whether the subproject benefits from a guarantee by XZGC or HAGC and if so, the guaranteed amount.
[f] Indicates the current status as one of “legal nys” = legal agreement, not yet signed; “signed” = legal agreements signed, not yet commenced; “ui (mm-yy)” = under implementation (date commenced), “completed (mm-yy)” “cancelled” (due to borrower withdrawals or other reasons).

3. During the period under report, xxx projects withdrew from the project having obtained respective city project leading group approval of the subproject concerned. Brief details and reasons for each withdrawal is as follows:

(i) xxx
(ii) xxx

4. Table 2 provides summary details of the subprojects that are were under appraisal at the end of the reporting period and the current appraisal status of those subprojects. This table only includes subprojects that have cleared phase one of the appraisal procedure and paid their application fee.

Table 2: Subprojects Currently Under Detailed (Phase 2) Appraisal

Subproject	Sector and/or Type	Estimated Cost	SMEFP Support	Env DD	Technical DD	Financial DD

DD = due diligence, ENV = environment, SMEFP = small- and medium-sized enterprise financing platform.

5. Currently, the XX city PMO has received a further xx applications with a total investment requirement of xx from potentially interested subborrowers, which are in the process of being assessed under phase one of the appraisal procedure.

6. Table 3 provides details of applications and appraisal outcomes both during the period under report and cumulative data since project commencement.

Table 3: Data on Applications Received and Appraisal Outcomes

	Applications Received	Cleared Phase 1	Phase 2 Appraisals[a]	Phase 2 Clearances[b]	ADB Endorsed	City Government Approvals[c]
Previous total						
This Period						
Cumulative total						

[a] This is the number of phase 2 appraisals completed.
[b] This is the number of successful phase 2 endorsed by the respective project city government credit approval committee.
[c] At the end of the reporting period there were xx subprojects that had been endorsed by ADB but were awaiting formal approval by the respective project city government.

B. Implementation Progress and Disbursements

7. Table 4 provides details of implementation status of all approved subprojects and the amounts disbursed to date. During the reporting period the expected disbursement was xx and the actual disbursement was $XX {briefly provide reasons and any lessons learned if actual disbursements vary significantly from the expected disbursements and if appropriate make a revised assessment of the full year disbursement total}. At the end of the reporting period the cumulative disbursement of ADB loan proceeds was $xxx representing xx% of the approved loan sum.

Table 4: Implementation Status and Disbursements to Date
(CNY million)

ADB Ref [a]	Subproject Title[b]	Name of Subborrower	Approved Loan Amount	Current Progress Status[c,d]	Withdrawal Progress		
					This period	Total to Date	% Disbursed
	Totals						

[a] As issued by ADB for disbursement purposes.
[b] All approved loans to be listed.
[c] Select from: nyc = not yet commenced; ipos (% complete) = in progress and on schedule; ipbd = in progress but delayed (% complete), completed.
[d] % complete of a subproject is (construction value to date x 100)/ estimated total cost.

C. Subborrower Repayments and Reflows {Section not relevant until loans start to be repaid}

8. Table 5 provides details of repayments due, the amounts received, and default follow-up action.

Table 5: Repayment Summary

ADB Ref [a]	Subproject Title[b]	Approved Loan Amount	Total Repayments Due to date	Payment Status[c]	Repayments Made		
					This period	Total to Date	% Repaid
	Totals						

[a] As issued by ADB for disbursement purposes.
[b] All loans for which repayments are due are to be listed.
[c] Select from: utd = up-to-date, ia = in arrears, default = default action in progress.

9. At the end of the period under report the revolving escrow account had a balance of CNY xx, of which CNYxx has already been committed to approved new subprojects, with CNYxx currently available but uncommitted.

D. Progress of Individual Subproject Implementation.

10. Of the xx subprojects currently under implementation, xxx are progressing smoothly with no significant delays or issues arising worthy of report. Issues and concerns arising in relation to the remaining subprojects are discussed briefly below on a project by project basis, together with action proposed to mitigate any negative impacts.

1. Subproject A Date Approved: {mm/yy}

11. Planned completion date {mm/yy} Expected completion date {mm/yy}
{Provide Narrative on reasons for delay, other issues and concerns and remedial action either agreed or being contemplated}

E. Project Management Activities

2. Progress Made During the Last 6 Months

12. {Provide Narrative on progress made on key project management tasks}

3. Discussion on any Unresolved Issues Awaiting Resolution

13. {Provide Narrative on unresolved issues and plans to resolve these, including loans with repayment default status}

1. Plans for the Next 6 months

14. {Identify and briefly discuss key project management tasks for the coming period}

F. Status of Loan Covenant Compliance

15. The Annex to this report lists all relevant loan compliance and identifies the current status of covenant compliance. {Covenants not currently in compliance are discussed below}.

16. {Provide Narrative on any significant covenant non-compliance}

G. Additional Items to be Reported on in each Annual Report

H. Summary of Monitoring and Verification Results

Table 6: Summary Subproject Performance Data

Subproject	Estimated Job Creation		Actual Savings	
	Total Jobs	Female Jobs	Total Jobs	Female Jobs
Totals				

17. {Provide Narrative on reasons and lessons learned for any significant under or over-performance where actual differs from estimate by more than 10%}

I. Updated Implementation Plan for the Next 12 Months

J. Disbursement Forecast for the Next 12 Months

K. Environmental and Social Management System Compliance, General Progress, and Implementation Issues (in the reporting format stipulated in the environmental and social management system)

ANNEX
DETAILS OF LOAN COVENANT COMPLIANCE

Ref[a]	**Covenanted Requirement**[b]	**Status**[c]	**Notes**[d]

[a] Reference to clause in loan and/or project agreement.
[b] Copy or para-phrase requirement from legal document.
[c] Status will be one of “not yet due”, “complied with” (used for one off covenants), “in compliance” (used for covenants where compliance is required on a continuing basis), “incompliant.”
[d] Should be used to record (i) date compliance was achieved for time stipulated covenants, (ii) any minor qualifications to compliance, or (iii) mitigating circumstances. Significant cases of non-compliance should be discussed in detail in the main report and cross-referenced in the table.

Annual Statement of Utilization of Funds for PFIs
Name of PFI:__________
For the Year Ended [dd/mm/yy]
(in KZT)

	Notes*	Year 1	Year 2	Cumulative
A. Opening cash balance		xx	xx	xx
I. Sources of funds				
1. ADB loan proceeds (SLA1, SLA2 …)		xx	xx	xx
2. Reflows (repayments from SLA 1)		xx	xx	xx
3. Reflows (repayments from SLA 2)		xx	xx	xx
(…)				
Total (sum 1 to 3)		xx	xx	xx
II. Uses of funds**				
1. Subloan to qualified sub-borrower		xx	xx	xx
2. Subloan to qualified sub-borrower		xx	xx	xx
(…)				
Total (sum 1 to 2)		xx	xx	xx
B. Net cash activity (I - II)		xx	xx	xx
C. Ending cash balance (A - B)		xx	xx	xx

* Please provide accompanying note disclosures (including below) and supplementary schedules necessary to explain the main statement.
** Should include subloans using reflows and identify which cycle.

***Note Disclosures for PFIs**
(in KZT)

All columns below, in local currency.

1. Subloan No.	2. Name of Subborrower	3. Loan Amount	4. Tenor

Note: This information is entirely obtained from the books and records of the PFI, and the auditor should be able to verify, including getting confirmations from the subborrowers of the statement of account of balance outstanding or both. Where the PFI sanctioned and disbursed loan figure is MORE than the amount allocated to ADB loan, it will be the responsibility of the auditor, to verify that the reporting is accurate.

***Note Disclosures for PFIs**
(in KZT)

All columns below, in local currency.

1. Subloan No.	2. Name of Subborrower	3. Loan Amount	4. Tenor

Note: This information is entirely obtained from the books and records of the PFI, and the auditor should be able to verify, including getting confirmations from the subborrowers of the statement of account of balance outstanding or both. Where the PFI sanctioned and disbursed loan figure is MORE than the amount allocated to ADB loan, it will be the responsibility of the auditor, to verify that the reporting is accurate.

ELIGIBILITY CRITERIA FOR SELECTION OF ADDITIONAL FINANCIAL INTERMEDIARIES

(if proposed by the Government during project implementation)

No.	Fist Class Indicator		Second Class Indicator			Criteria	Maximum Score	Eligibility Requirement	Minimum Score
	Content	Subtotal	Content	Actual Value	Score				
1	**Organization & management**	**25**	Number of branches and subbranches in the four coal-rich cities of Heilongjiang (Jixi, Hegang, Shuangyashan and Qitaihe)			Assuming: Vmax, Vmin, and V_N represent maximum value, minimum value and the value of bid N respectively, then score of bid N will be: $Score_N$ = 1.5+ 1.5*[(V_N-Vmin)/(Vmax-Vmin)]	**3**	At least one branch in each city, Vmin=4	**1.5**
			Number of dedicated staff for SME segment in the branches and subbranches of the FI in the four coal rich cities			Assuming: Vmax, Vmin, and V_N represent maximum value, minimum value and the value of bid N respectively, then score of bid N will be: $Score_N$ = 1.5+ 1.5*[(V_N-Vmin)/(Vmax-Vmin)]	**3**	At least 4 dedicated staff for SME for the 4 cities, Vmin=4	**1.5**
			Number of staff in promoting credit lending in key industries as designated by the four coal-rich cities in Heilongjiang ("key industries" for each city is defined in the RFP)			Assuming: Vmax, Vmin, and V_N represent maximum value, minimum value and the value of bid N respectively, then score of bid N will be: $Score_N$ = 2+ 2*[(V_N-Vmin)/(Vmax-Vmin)]	**4**	At least 2*4 dedicated staff for this function, which means Vmin=8	**2**
			The average Non-performing loan rate of the FI in the recent 3 years			Assuming: Vmax, Vmin, and V_N represent maximum value, minimum value and the value of bid N respectively, then score of bid N will be: ScoreN =	**5**	NPL should be less than 2.5%, Vmax=2.5%	**3**

No.	Fist Class Indicator		Second Class Indicator			Criteria	Maximum Score	Eligibility Requirement	Minimum Score
	Content	Subtotal	Content	Actual Value	Score				
						3-2*[(V_N-Vmax)/(Vmax-Vmin)]			
			Average growth rate of operating income of the FI in the recent 3 years			Assuming: Vmax, Vmin, and V_N represent maximum value, minimum value and the value of bid N respectively, then score of bid N will be: $Score_N$ = 3+ 2*[(V_N-Vmin)/(Vmax-Vmin)]	**5**	Vmin=0%	**3**
			Average rate of return on assets of the FI in the recent 3 years			Assuming: Vmax, Vmin, and V_N represent maximum value, minimum value and the value of bid N respectively, then score of bid N will be: $Score_N$ = 3+ 2*[(V_N-Vmin)/(Vmax-Vmin)]	**5**	Vmin=1%	**3**
2	**Relevant experience**	**35**	Number of credit loans to Key industries in the recent 3 years in the branches of the four cities			Assuming: Vmax, Vmin, and V_N represent maximum value, minimum value and the value of bid N respectively, then score of bid N will be: $Score_N$ = 4+ 2*[(V_N-Vmin)/(Vmax-Vmin)]	**6**	Vmin=48(4*3*4, at least 4 loans in key industries in 3 yrs for the 4 cities)	**4**

No.	Fist Class Indicator		Second Class Indicator			Criteria	Maximum Score	Eligibility Requirement	Minimum Score
	Content	Subtotal	Content	Actual Value	Score				
			The average loan balance of key industries in the FI's branches in the 4 cities in recent 3 years			Assuming: Vmax, Vmin, and V_N represent maximum value, minimum value and the value of bid N respectively, then score of bid N will be: $Score_N$ = 4+ 2*[(V_N-Vmin)/(Vmax-Vmin)]	**6**	Vmin=CNY 100m	**4**
			Amount of loans issued by the FI under cooperaiton with the four coal rich city governments in recent 3 years (including loans with government provided interest subsidy, guarantee provided by governmental policy guarantee companies, and/or loans backed by governmental risk sharing reserve pool)			Assuming: Vmax, Vmin, and V_N represent maximum value, minimum value and the value of bid N respectively, then score of bid N will be: $Score_N$ = 4+ 2*[(V_N-Vmin)/(Vmax-Vmin)]	**6**	Vmin=CNY 100m	**4**
			Bank average trading volume of hedge products including foreign exchange swap/forward/future and interest rate swap in the recent 3 years			Assuming: Vmax, Vmin, and V_N represent maximum value, minimum value and the value of bid N respectively, then score of bid N will be: $Score_N$ = 4+ 2*[(V_N-Vmin)/(Vmax-Vmin)]	**6**	Vmin=CNY 500 m	**4**
			Average rate of SME loans accounted for the proportion of total loan in the branch in the recent 3 years			Assuming: Vmax, Vmin, and V_N represent maximum value, minimum value and the value of bid N respectively, then score of bid N will be: $Score_N$ = 4+ 2*[(V_N-Vmin)/(Vmax-Vmin)]	**6**	Vmin=10%	**4**

	Fist Class Indicator		Second Class Indicator						
No.	**Content**	**Subtotal**	**Content**	**Actual Value**	**Score**	**Criteria**	**Maximum Score**	**Eligibility Requirement**	**Minimum Score**
			Have the branch ever operated a trust fund/excrow account, if yes provide brief particulars			5 points for bid with rich prior experience of managing no less than 5 escrow accounts; 4 points for managing 4 secrow accounts, 3 points for 3 escrow accounts, and so on	**5**	Vmin=3	**3**
3	**Products & services (To provide the number for the specific category/clients only)**	**20**	SME project loan (classified as per collateral types)			Assuming: Vmax, Vmin, and V_N represent maximum value, minimum value and the value of bid N respectively, then score of bid N will be: $Score_N$ = 3+ 2*[(V_N-Vmin)/(Vmax-Vmin)]	**5**	Vmin=2	**3**
			SME credirline (defined as per fund usage and time of period)			Assuming: Vmax, Vmin, and V_N represent maximum value, minimum value and the value of bid N respectively, then score of bid N will be: $Score_N$ = 3+ 2*[(V_N-Vmin)/(Vmax-Vmin)]	**5**	Vmin=3	**3**
			Clients of advanced technologies of the identified key industries who currently have borrowing relation with the FI			Assuming: Vmax, Vmin, and V_N represent maximum value, minimum value and the value of bid N respectively, then score of bid N will be: $Score_N$ = 3+ 2*[(V_N-Vmin)/(Vmax-Vmin)]	**5**	At least 4 in each city, Vmin=16(=4*4)	**3**
			lending to Start-up technology companies			Assuming: Vmax, Vmin, and V_N represent maximum value, minimum value and the value of bid N	**5**	Vmin=8	**3**

No.	Fist Class Indicator		Second Class Indicator			Criteria	Maximum Score	Eligibility Requirement	Minimum Score
	Content	Subtotal	Content	Actual Value	Score				
						respectively, then score of bid N will be: $Score_N = 3+2*[(V_N-Vmin)/(Vmax-Vmin)]$			
4	**Project management & compliance**	**20**	Number of CBRC's punishments/criticism over branch's violation of regulation in last 3 years			Full points if no CBRC punishment in last 3 years; 1 point will be deducted for each CBRC punishment in last 3 years until 0. Specifically, if the FI is criticized by the regulator in the fields of AML and counter terrorism financing, its score in this column will be deducted to zero directly.	**4**	No AML violation	**0**
			Use the external annual audit to evaluate the inner control mechanism and the conclusion of external audit on the branch's legal compliance			Full points if the external audit is consistent with with the branch's self inspection and concludes the effectiveness of inner control mechanism; 1 points will be deducted if there is external audit of branch's compliance situation but the external audit indicate there exist slight flaws in internal control system	**4**	No material flaw as per external audit	**2**
			Recourse rate collected back from collateral in last 3 years when the related mortgage/pledged loans encounter default in percent of loan default loss			Assuming: Vmax, Vmin, and V_N represent maximum value, minimum value and the value of bid N respectively, then score of bid N will be: $Score_N = 2+ 2*[(V_N-Vmin)/(Vmax-Vmin)]$	**4**	Vmin=40%	**2**

No.	Fist Class Indicator		Second Class Indicator			Criteria	Maximum Score	Eligibility Requirement	Minimum Score
	Content	**Subtotal**	**Content**	**Actual Value**	**Score**				
			Number of employees in the branch/subbranch designated for management of the entrusted loan accounts and subloan accounts			Full points if no less than 4 qualified employees are designated specifically responsible for the ADB loan project; 2 points if 3 employees designated; 1 if 2 employees designated	**4**	Vmin=2	**1**
			Current status on IT usage for transaction & information management-total number of services provided on real time			Assuming: Vmax, Vmin, and V_N represent maximum value, minimum value and the value of bid N respectively, then score of bid N will be: $Score_N$ = 2+ 2*[(V_N-Vmin)/(Vmax-Vmin)]	**4**	All project accounts can generate financial statements automatically	**2**
5	**Overall score**	**100**					**100**		**56**
6	**Are you familiar with the financial product & services under bid**					**Yes/No**			
	If yes, please briefly describe why your bank is best suited for providing the services								