



Report and Recommendation of the President to the Board of Directors

Project Number: 52375-001
December 2019

Proposed Loan Bank of Communications Financial Leasing Co. Ltd. New Energy Bus Leasing Project (People's Republic of China)

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

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 26 November 2019)

Currency unit	–	yuan (CNY)
CNY1.00	=	\$0.1421
\$1.00	=	CNY7.0364

ABBREVIATIONS

ADB	–	Asian Development Bank
BOCFL	–	Bank of Communications Financial Leasing Co. Ltd.
BOCOM	–	Bank of Communications
CAGR	–	compound annual growth rate
CAR	–	capital adequacy ratio
FLC	–	financial leasing company
GDP	–	gross domestic product
GHG	–	greenhouse gas
NEB	–	new energy bus
NPA	–	nonperforming assets
PRC	–	People's Republic of China
TA	–	technical assistance

NOTES

- (i) The fiscal year (FY) of Bank of Communications Financial Leasing Co. Ltd. ends on 31 December.
- (ii) In this report, "\$" refers to United States dollars.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 52375-001	
Project Name	New Energy Bus Leasing Project	Department/Division	PSOD/PSFI
Country	China, People's Republic of		
Borrower	Bank of Communications Financial Leasing Co. Ltd.		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=52375-001-PortAtaGlance		
2. Sector		Subsector(s)	
✓ Finance	Finance sector development	ADB Financing (\$ million)	
Transport	Urban public transport	50.00	
		50.00	
		Total	100.00
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		CO ₂ reduction (tons per annum)	338,000
✓ Accelerating progress in gender equality		Climate Change impact on the Project	Low
✓ Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability			
✓ Making cities more livable			
Sustainable Development Goals		ADB Financing	
SDG 9.1		Mitigation (\$ million)	100.00
SDG 11.2			
SDG 13.a			
		Gender Equity and Mainstreaming	
		Some gender elements (SGE)	✓
		Poverty Targeting	
		General Intervention on Poverty	✓
4. Nonsovereign Operation Risk Rating			
Obligor Name		Obligor Risk Rating	Facility Risk Rating
Bank of Communications Financial Leasing Co. Ltd.			
5. Safeguard Categorization			
Environment: FI-C		Involuntary Resettlement:	Indigenous Peoples: FI-C
		FI-C	
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		100.00	
Nonsovereign LIBOR Based Loan (Regular Loan): Ordinary capital resources		100.00	
Cofinancing		200.00	
Commercial Banks (Full ADB Administration)		200.00	
Others^a		0.00	
Total		300.00	
Currency of ADB Financing: US Dollar			

^a Derived by deducting ADB financing and Cofinancing from Total Project Cost.

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan of up to \$300,000,000, comprising (i) an A loan of up to \$100,000,000; and (ii) a B loan of up to \$200,000,000 to Bank of Communications Financial Leasing Co. Ltd. (BOCFL) for the New Energy Bus Leasing Project in the People's Republic of China (PRC).

2. The project entails the Asian Development Bank (ADB) providing long-term financing (with a tenor of up to 7 years) to BOCFL to fund the lease or purchase of new energy buses (NEBs), which are needed to reduce the climate impact of urbanization and develop public transport in a sustainable manner.¹ ADB's financing will facilitate the company's provision of long tenor lease finance to NEB operators to enable them to manage the affordability of these large assets.

II. THE FINANCIAL INTERMEDIARY

A. Investment Identification and Description

3. **Economic overview.** The PRC has experienced strong economic growth since 1980. Gross domestic product (GDP) growth averaged 9.7% and per capita income increased by 8.6% per year during 1980–2014.² The PRC economy is transitioning to a more sustainable growth path, with reforms undertaken in many areas. The real GDP growth rate slowed to 6.8% in 2017 and 6.6% in 2018. ADB estimates that GDP growth will be 6.2% in 2019 and 6.0% in 2020.³ The International Monetary Fund projects a gradual slowdown in growth from the current level to a real GDP growth rate of 5.6% in 2023.⁴

4. **Transport sector overview.** Rapid economic growth has contributed significantly to improvements in human well-being and quality of life, but has also created serious social and environmental challenges that constrain inclusive and sustainable development. Massive urbanization has led to a substantial increase in the production and use of motor vehicles in the PRC, which has become the largest producer and consumer of automobiles globally. Annual production capacity reached 27.81 million vehicles in 2018, with sales of 28.08 million units.⁵ There were over 310 million motor vehicles in the PRC by the end of 2017, including 170 million private cars.⁶ Despite some socioeconomic benefits, the extensive use of private cars in cities is causing congestion, air and noise pollution, and road accidents. Rapid motorization and the country's moderate success in controlling emissions from industrial and energy sources has made the PRC's urban transport sector the fastest growing source of greenhouse gas (GHG) emissions. According to the China Vehicle Environmental Management Annual Report 2018, transport emissions are a major contributor of fine atmospheric particulate matter less than 2.5 micrometers in diameter (PM_{2.5}) in some urban areas (45% in Beijing, 29% in Shanghai, and 52% in

¹ New energy buses (NEBs) refer to buses running on "new energy" as defined by the Government of the PRC. Most buses financed by the project are expected to be electric buses with zero direct emissions. Any plug-in hybrid buses financed will meet emission standards of at least Euro V equivalent (Euro V is an European emission standard that defines the acceptable limits for exhaust emissions of vehicles). Subject to market demand, buses running on fuel cells may also be financed. All NEBs will have inclusive design with priority seating for vulnerable groups.

² ADB. 2016. *Country Partnership Strategy: Transforming Partnership: People's Republic of China and Asian Development Bank, 2016–2020*. Manila.

³ ADB. 2019. *Asian Development Outlook 2019 Update: Fostering Growth and Inclusion in Asia's Cities*. Manila.

⁴ International Monetary Fund. [International Monetary Fund DataMapper](#). (accessed 30 April 2019).

⁵ China Association of Automobile Manufacturers. 2018. *The 2018 Chinese Automobiles Industry Overview*. Beijing. http://www.caam.org.cn/chn/3/cate_17/con_5221202.html

⁶ *People's Daily*. 2018. [Over 170 million private cars in China](#). May 26.

Shenzhen).⁷ Public transport is increasingly recognized as the solution to a potential urban transport crisis. Congestion and air pollution can be alleviated by encouraging urban residents to shift from using private cars to public transportation and by using public vehicles with cleaner technology. This would reduce GHG emissions that contribute to global climate change while improving inner city air quality. The development of public transport will also benefit directly lower income people; groups with reduced mobility (e.g., the elderly and persons with disabilities); and women, who accounted for less than 30% of all car owners in the PRC in 2018. In 2016, the Ministry of Transport issued a policy guideline to improve the quality of public transport by enhancing the speed, convenience, comfort, and security of public transport services.⁸ In 2015, a joint report of the World Bank and Development Research Center of China's State Council called for a new model of urbanization that would reduce growth in private car use and promote a shift to public transport.⁹

5. **Leasing sector overview.** Leasing provides a good solution for long-term bus financing, as banks usually do not accept buses as collateral. The PRC's leasing industry has been growing rapidly, targeting this financing gap that traditional bank financing typically does not address. New leasing sales in the PRC expanded from \$21.88 billion in 2008 to \$265.68 billion in 2017, representing a compound annual growth rate (CAGR) of 31.97%.¹⁰ Despite rapid recent growth, the PRC's financial leasing industry still needs further development. The lease penetration rate, measured as a percentage of lease finance to total GDP, was 2.21% in 2017, 12th among 50 countries, indicating ample room for future growth.¹¹ The leasing industry, with total outstanding lease receivables of CNY6.55 trillion, is also much smaller than the banking industry, which had total outstanding loans of CNY108.56 trillion as of September 2018.

6. **Rationale.** ADB's nonsovereign operations projects in the PRC's finance sector have actively supported nonbank financial institutions to target sectors not traditionally a focus of banks. To date, this includes smaller transactions for microfinance companies and larger debt lines for leasing companies, targeting diverse subsectors and focusing on underdeveloped segments, including green buses. ADB approved a \$275 million loan program for the Clean Bus Leasing Project and fully disbursed the loans in 2016.¹² The Global Environmental Facility funded \$2.315 million in technical assistance (TA) to maximize service performance of the bus fleets.¹³ In 2017, ADB approved a loan of \$400 million to Minsheng Financial Leasing to support green transport finance.¹⁴ Based on the uptake of the previous projects and to continue to support much-needed green transport alternatives in the PRC, ADB identified BOCFL as a good partner to implement this project. BOCFL has substantial experience in financing green buses and has close

⁷ Government of the PRC, Ministry of Ecology and Environment. 2018. *The China Vehicle Environmental Management Annual Report 2018*. Beijing.

⁸ Government of the PRC, Ministry of Transport. 2016. *Guidelines of the Thirteenth Five-Year Plan of Urban Public Transport Development*. No. (2016) 126. Beijing.

⁹ World Bank and Development Research Center of China's State Council. 2015. *Urban China—Toward Efficient, Inclusive, and Sustainable Urbanization*. Washington, DC.

¹⁰ White Clarke Group. 2019. *Global Leasing Report*. London.

¹¹ Footnote 10. Market penetration is defined as the ratio of lease finance over fixed investment in plant and equipment.

¹² ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Loan Program to the People's Republic of China for the Clean Bus Leasing Project*. Manila. ADB has fully disbursed the loans, totaling \$275 million, to Far East Horizon, Industrial Bank Financial Leasing, and Everbright Financial Leasing.

¹³ ADB. 2014. *Technical Assistance to the People's Republic of China for Improving Clean Bus Operations and Management*. Manila (financed by the Global Environment Facility). After an initial implementation delay because of a change in the executing agency, the TA was successfully implemented, with participation by 17 bus operators located in various provinces.

¹⁴ ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Minsheng Financial Leasing Co. Ltd. for the Green Transport Finance Project in the People's Republic of China*. Manila. The loan comprised an A loan of up to \$200 million and a B loan of up to \$200 million. The A loan was fully disbursed in 2018 and the B loan syndication is still in process.

relationships with electric bus manufacturers and bus operators in the PRC. BOCFL has strong shareholders, sound corporate governance, an experienced management team, advanced risk management systems, and good financial performance. As a non-deposit-taking financial institution, BOCFL has maturity mismatches between its assets and liabilities and, therefore, has an ongoing need to raise longer-tenor financing to expand its green bus leasing business (with typical lease terms of 5–10 years).

7. The design of the transaction builds on the lessons of previous ADB support for green bus finance in the PRC. ADB's ex post evaluation gave a *less than satisfactory* rating to the earlier loan program for the Clean Bus Leasing Project primarily due to the applied definition of a clean bus, which was considered to be overly broad.¹⁵ The proposed project will only finance NEBs, which have zero or very low direct emissions. Unlike earlier projects, it will not finance clean diesel buses or compressed natural gas and liquefied natural gas buses. The current project also incorporates gender elements in the project design. Additionally, the project will benefit from the earlier TA to strengthen the capacity of bus operators by providing knowledge products and training materials to bus operators.¹⁶

B. Business Overview and Strategy

8. BOCFL was established in December 2007. As of December 2018, it was the third-largest financial leasing company (FLC) in the PRC with total assets of CNY231.74 billion. In line with the leasing sector, BOCFL has experienced rapid growth in total assets with a CAGR of 40% during 2008–2018. BOCFL expects its lease portfolio growth to moderate to the range of 5%–10% per annum over the period 2020–2025. BOCFL is rated A2 by Moody's Investors Service, A by Fitch Ratings, and A- by S&P Global Ratings.

9. BOCFL's operations cover three business segments comprising aviation (30.9% of the total lease portfolio at 30 June 2019), shipping (28.7%), and infrastructure and other businesses (40.4%). The company has significantly increased the share of its leasing operations that focus on the transport sector (aviation, shipping, and public transport); the lease portfolio in aviation and shipping grew from 21.9% in 2014 to 59.6% as of 30 June 2019, driven by rapid growth of operating lease assets in these two segments.¹⁷ **CONFIDENTIAL INFORMATION DELETED.** Public transport leasing is within the infrastructure and other business segment, which also includes energy, water supply, gas supply, wastewater treatment, culture and tourism, and manufacturing. Most of the company's public transport leasing clients are local public transport operators owned by municipalities, and the lease assets include buses as well as rolling stock and other equipment of metro and light rail. The company has focused its bus leasing operations on green buses since 2012. **CONFIDENTIAL INFORMATION DELETED**

C. Ownership, Management, and Governance

10. **Ownership.** BOCFL is a wholly owned subsidiary of Bank of Communications (BOCOM). BOCOM, established in 1908, is the largest nationwide joint stock commercial bank in the PRC.

¹⁵ ADB. *Performance Evaluation Report. PRC: Loan Program for Clean Bus Leasing (Far East Horizon Limited)*. Manila.

¹⁶ The \$2.315 million TA was financed by the Global Environment Facility, with the PRC's Ministry of Transport as the executing agency (footnote 13). The knowledge products include (i) an evaluation report to help bus operators select the most appropriate green buses by offering operational, financial, and environmental performance benchmarks for various technology; (ii) a guidance book on scheduling and dispatching; and (iii) guidelines on improving bus maintenance management, with a systematic framework and practical procedures to help bus operators improve green bus operational efficiency.

¹⁷ By 30 June 2019, over 90% of the aviation portfolio was operating lease assets and over 70% of the shipping portfolio was operating lease assets.

BOCOM's businesses include commercial banking, securities, trust, financial leasing, fund management, and insurance. As of 30 June 2019, BOCOM had total assets of CNY9,886.61 billion (fifth among all commercial banks in the PRC), with total net income of CNY42.75 billion in the first half of 2019. BOCOM is rated A2 by Moody's Investors Service, A by Fitch Ratings, and A- by S&P Global Ratings. It has been listed on the Hong Kong Stock Exchange since 2015 and on the Shanghai Stock Exchange since 2017. The largest ultimate beneficial owner is the Government of the PRC, with a total shareholding of over 40% through various state-owned enterprises. The Hongkong and Shanghai Banking Corporation Limited (HSBC) is the second largest shareholder with an 18.70% of stake as of 30 June 2019. No other shareholders directly or indirectly hold more than a 5% stake in BOCOM. Integrity due diligence was conducted, and no significant or potentially significant integrity risks were identified.¹⁸ Although the ultimate beneficial owners of BOCFL could not be identified, the potential risk is mitigated by the fact that the relevant shares of BOCOM are held by the public and institutional investors, and no indirect shareholder other than the government and HSBC, which is also a listed entity, holds more than a 5% indirect stake in BOCFL. ADB's review of the entity does not give ADB cause to believe that it is being used for money laundering or terrorism financing. Tax integrity due diligence was not required.¹⁹

11. **Management.** BOCFL is led by an experienced management team, comprised of the president and three vice presidents, all of whom previously held senior positions at BOCOM. The president, Zhu Yequn, joined BOCFL since its establishment. His prior positions included vice president of BOCFL, director of the credit monitoring department of BOCOM, and director of the asset management department of BOCOM.²⁰

12. **Governance structure.** BOCFL has a well defined corporate governance structure. The board of directors is responsible for the company's overall strategy, major decisions, important internal policies, key business objectives, and senior management appointments. Because BOCFL is a wholly owned subsidiary of BOCOM, all directors are appointed by BOCOM. The board consists of six members, all of whom have extensive banking and finance experience. The chairperson, Zhao Jiong, previously served as the chairperson and chief executive officer of Bank of Communications International Trust Co. Ltd. (footnote 20). The board has three committees: a risk management and related-party transactions committee, budget and audit committee, and remuneration and nomination committee.

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III. THE PROPOSED ADB ASSISTANCE

A. The Assistance

13. ADB will provide an A loan of up to \$100 million with a tenor of up to 7 years. ADB expects to syndicate a B loan of up to \$200 million among commercial banks and other eligible B loan participants. ADB will also explore risk transfer arrangements on a portion of the A loan with eligible counterparties.

¹⁸ ADB. 2003. *Enhancing the Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism*. Manila.

¹⁹ ADB. 2016. *Anticorruption Policy: Enhancing the Role of the Asian Development Bank in Relation to Tax Integrity*. Manila

²⁰ The profiles of other key managers and current board members are in Ownership, Management, and Governance (accessible from the list of linked documents in Appendix 2).

B. Implementation Arrangements

14. **Use of proceeds.** BOCFL will use the proceeds of the proposed loan to fund the lease or purchase of NEBs (footnote 1). All NEBs will have inclusive designs, with priority seating for vulnerable and priority needs groups such as pregnant women, the elderly, or the disabled.

15. **Reporting arrangements.** Monitoring of the project will be carried out by ADB over the life of the project. BOCFL will provide ADB with financial and other reports at predetermined regular intervals and as requested. These reports will include unaudited semiannual financial statements, audited annual financial statements, compliance certificates for financial covenants, periodic reports on the underlying leases financed by BOCFL through the proposed loan, and annual reporting on selected development indicators agreed by ADB and the borrower.

C. Value Added by ADB Assistance

16. **Providing critically needed long-term finance.** The PRC's leasing sector is still developing. Most funding is available to companies on a 1-year tenor basis. BOCFL has significant maturity mismatch between its assets and liabilities (para 16), although it has been able to raise some medium-term funding in the markets on a sporadic basis. Long-tenor funding of 7 years from ADB, as the first development finance institution lender to BOCFL, will help support the company to provide longer-tenor financing for NEBs and improve its asset-liability profile. This will in turn increase the company's capacity to expand its operations and address its funding gap.

17. **Catalyzing private sector funding and support.** ADB is expected to mobilize a substantial amount of private sector funding for this project under a B loan structure and risk transfers. A mandate letter for the proposed loan facility including the B loan has been signed. ADB is targeting some banks that do not have an existing relationship with BOCFL. Overall, this will help further diversify BOCFL's long-term funding base.

18. **Incorporating gender elements.** ADB has worked with BOCFL to incorporate gender elements in the project design. At the subproject level, all NEBs financed by ADB will have inclusive designs, with priority seats for pregnant women and vulnerable groups. BOCFL also commits to promoting gender equality at the company level by improving training and career development for female staff.

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IV. DEVELOPMENT IMPACT AND STRATEGIC ALIGNMENT

A. Development Impacts, Outcome, and Outputs

19. **Impacts.** The project is aligned with the following strong development impacts:

- (i) **Green transport scaled-up in the People's Republic of China, including the expansion of new energy bus services as an environment-friendly and inclusive transport mode.**²¹ By financing the lease of NEBs, the project will support the expanded use of low emission vehicles in public transport. Electric

²¹ Government of the PRC. 2015. *Ministry of Transport Implementation Opinions on Accelerating the Spread and Adoption of New-Energy Vehicles in the Transport Sector*. Beijing; Government of the PRC. 2014. *State Council Guiding Opinions on Accelerating the Spread and Adoption of New-Energy Vehicles*. Beijing; and Government of the PRC. 2012. *State Council Guiding Opinions on Prioritizing Public Transport Development in Urban Areas*. Beijing

buses have no direct emissions of particulate matter less than 2.5 micrometers in diameter, or emissions of other pollutants (e.g., carbon monoxide, hydrocarbons, and nitrogen oxides). The use of high-quality buses that are quiet, clean, and comfortable will also encourage a modal shift from private passenger vehicles to public transport. Overall, the large-scale deployment of NEBs will improve air quality and reduce GHG emissions, leading to significant beneficial environment and climate impact. The expansion of environment-friendly NEB services is expected to particularly benefit low-income commuters and other disadvantaged groups with less access to private cars.

- (ii) **Financial leasing industry developed.**²² Despite rapid growth since 2008, the PRC's financial leasing industry is still underdeveloped, with a lease penetration rate that is below other developed markets. Access to finance remains a challenge for most leasing companies, particularly for long-tenor loans, and the project will contribute to the alleviation of this funding bottleneck.

20. **Outcome.** The project will have the following outcome: deployment of NEBs in the urban, suburban, and intercity public transport markets increased. The project is expected to finance the lease of about XX NEBs by 2021. From 2021, the project will help avoid XX tons of GHG emissions per year through a shift from the use of private cars to the use of public transport using low-emission buses.²³ The project will result in XX million vehicle-kilometers of service operation by NEBs per year in the PRC.²⁴

21. **Outputs.** The outputs will be BOCFL's leasing operations for NEBs expanded and BOCFL's gender inclusiveness for human resources and NEB leasing operations improved.

B. Alignment with ADB Strategy and Operations

22. **Consistency with ADB strategy and country strategy.** The project supports four Strategy 2030 operational priorities: (i) addressing remaining poverty and reducing inequalities; (ii) accelerating progress in gender equality; (iii) tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability; and (iv) making cities more livable.²⁵ Under Strategy 2030, ADB will increase its emphasis on mitigating GHG emissions in line with the objectives of the Paris Agreement. By financing NEBs, the project will help to promote sustainable low-carbon transport in the PRC and reduce GHG emissions. The project also contributes to supporting mass public transport, which particularly benefits low-income people; it will help improve mobility of the elderly, persons with disabilities, and women, thereby creating a safe and healthy urban environment that improves the quality of life for all residents. The project

²² Government of the PRC. 2015. *State Council Guiding Opinions on Healthy Development of the Financial Leasing Industry*. Beijing

²³ Based on research conducted by the China Clean Development Mechanism Fund, the project assumes a private vehicle displacement rate of 12% for additional buses on new routes and 1.5% for replacement buses on existing routes because of quality enhancement. The overall private vehicle displacement rate is estimated to be 5.2%, leading to GHG savings of 574 kilograms carbon dioxide equivalent per NEB per day. Most (90%) of NEBs financed under the project are assumed to be pure electric buses, with 10% plug-in hybrids. Using a well-to-wheel approach, which takes into account emissions from extractive and processing activities for fossil fuels as well as electricity generation, the GHG savings from energy consumption is estimated to be 78 kilograms of carbon dioxide equivalent per electric bus per day. Considering the impacts from the fuel switch and private vehicle displacement, the use of each NEB is estimated to avoid 0.65 tons of GHG emissions per day on average. It is assumed that each bus operates 325 days per year.

²⁴ Assuming an average speed of 20 kilometers per hour, 14 operating hours per day, and 325 operating days per year.

²⁵ ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

is consistent with ADB's country partnership strategy, 2016–2020 for the PRC as it will support the government's reform agenda to manage environmental challenges, encourage a shift to lower emission transportation modes, and finance private sector projects with innovative technologies and business models to support green cities development.²⁶

23. **Consistency with sector strategy and relevant ADB operations.** The project fully supports ADB's Sustainable Transport Initiative, which focuses on creating transport systems that are accessible, safe, affordable, and environment-friendly. The Sustainable Transport Initiative Operational Plan states that ADB should help its developing member countries overcome sector obstacles through the wider adoption of sustainable transport, and identifies urban transport as an area in which ADB should scale up support for sustainability.²⁷ The operational plan emphasizes private sector participation and mobilization of additional finance. The project also fully aligns with the multilateral development banks' Rio+20 (United Nations Conference on Sustainable Development) commitment to provide \$175 billion for transport in developing countries during 2012–2022. Supporting finance sector development is a key focus of development assistance for ADB, and the project aligns with ADB's Financial Sector Operational Plan.²⁸ The project builds on previous ADB support for green transport and the leasing industry in the PRC.

V. POLICY COMPLIANCE

A. Safeguards and Social Dimensions

24. ADB has categorized the investment in compliance with ADB's Safeguard Policy Statement (2009).²⁹

25. **Environmental and social safeguards.** The project is classified as category FI (treated as C) for impacts on the environment, involuntary resettlement, and indigenous peoples. BOCFL's operations under the ADB loan have minimal or no adverse environmental impacts; any impacts mainly arise from the disposal of end-of-life batteries, and are unlikely to entail impacts on involuntary resettlement and indigenous peoples.³⁰ The project will fund the leasing of vehicles that will use new energy sources. Compliance with emission standards covering motor vehicle engines is mandatory in the PRC, and the project is expected to have minimal environmental or social impacts. Green vehicles leased under the project will be required to meet the PRC's permitting, testing, and registration requirements, and follow national and local vehicle emission standards and regulations. No land acquisition, physical or economic displacements, or impacts on indigenous peoples are expected from this project. BOCFL will apply ADB's prohibited investment activities list, exclude all projects that will have adverse environment and social safeguards impacts, ensure that investments using ADB funds abide by applicable national laws and regulations, and comply with ADB's Safeguard Policy Statement.³¹

26. **Labor and social protection.** BOCFL will comply with national labor laws and, pursuant to ADB's Social Protection Strategy, take measures to comply with internationally recognized core

²⁶ ADB. 2016. *Country Partnership Strategy: People's Republic of China, 2016–2020—Transforming Partnership: People's Republic of China and Asian Development Bank*. Manila.

²⁷ ADB. 2010. *Sustainable Transport Initiative Operational Plan*. Manila.

²⁸ ADB. 2011. *Financial Sector Operational Plan*. Manila.

²⁹ ADB. [Safeguard Categories](#).

³⁰ In January 2016, the Government of the PRC promulgated the Electric Vehicle Power Battery Recycling Technology Policy, which specifies battery design and recycling requirements, and the responsibilities of relevant entities.

³¹ Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

labor standards.³² BOCFL will report regularly to ADB on (i) its compliance with such laws and (ii) the measures taken. Information disclosure and consultation with affected people will be conducted following ADB requirements.

27. **Gender.** BOCFL commits to implementing measures to promote women's empowerment and welfare in its business activities following ADB's Policy on Gender and Development (1998).³³ The project is classified as *some gender elements*. The project is expected to benefit all commuters, including women. At the subproject level, all NEBs financed by ADB will have inclusive design with priority seats for vulnerable groups and pregnant women, the elderly, and the disabled. BOCFL also commits to promoting gender equality by improving training and career development for female staff. More specifically, the company will encourage and give priority to female staff participating in the Young Talent Training and Development Program to develop their leadership potential.³⁴

B. Anticorruption Policy

28. BOCFL was advised of ADB's policy of implementing best international practice relating to combating corruption, money laundering, and the financing of terrorism. ADB will ensure that the investment documentation includes appropriate provisions prohibiting corruption, money laundering, and the financing of terrorism, and remedies for ADB in the event of noncompliance.

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C. Assurances

29. Consistent with the Agreement Establishing the Asian Development Bank (the Charter),³⁵ ADB will proceed with the proposed assistance upon establishing that the Government of the PRC has no objection to the proposed assistance to BOCFL. ADB will enter into suitable finance documentation, in form and substance satisfactory to ADB, following approval of the proposed assistance by the ADB Board of Directors.

VI. RECOMMENDATION

30. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of up to \$300,000,000, comprising (i) an A loan of up to \$100,000,000 from ADB's ordinary capital resources; and (ii) a B loan of up to \$200,000,000 to Bank of Communications Financial Leasing Co. Ltd. for the New Energy Bus Leasing in the People's Republic of China, with such terms and conditions as are substantially in accordance with those set forth in this report, and as may be reported to the Board.

Takehiko Nakao
President

10 December 2019

³² ADB. 2003. *Social Protection Strategy*. Manila (adopted in 2001).

³³ ADB. *Gender Mainstreaming Categories*; and ADB. 2012. *Guidelines for Gender Mainstreaming Categories of ADB Projects*. Manila.

³⁴ Currently, females account for 43% of staff at the technical and administrative level, and 25% of those in management positions. The Young Talent Training and Development Program includes intensive on-campus courses in English and Chinese at the China Europe International Business School.

³⁵ ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

DESIGN AND MONITORING FRAMEWORK

Impacts the Project is Aligned with			
<p>Green transport scaled up in the PRC, including the expansion of new energy bus services as an environment-friendly and inclusive transport mode (Ministry of Transport Implementation Opinions on Accelerating the Spread and Adoption of New-Energy Vehicles in the Transport Sector; and State Council Guiding Opinions on Prioritizing Public Transport Development in Urban Areas)^a</p> <p>Financial leasing industry developed (State Council Guiding Opinions on Healthy Development of the Financial Leasing Industry)^b</p>			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources or Reporting Mechanisms	Risks
<p>Outcome</p> <p>Deployment of NEBs^c in the urban, suburban, and intercity public transport markets increased</p>	<p>By 2021:</p> <p>a. XX NEBs funded by the project and operated by bus operators</p> <p>b. XX vehicle-kilometers of service per year provided by NEBs funded by the project^d</p> <p>c. Greenhouse gas emission savings of XX tons per year achieved^e</p>	<p>a.–c. Development effectiveness monitoring reports</p>	<p>Reduction of government subsidies reduces attractiveness of NEBs</p>
<p>Outputs</p> <p>1. BOCFL's leasing operations for NEBs expanded</p> <p>2. BOCFL's gender inclusiveness for human resources and NEB leasing operations improved</p>	<p>1. \$300 million of lease financing for NEBs provided by BOCFL by 2021 (Baseline: Not applicable)</p> <p>2a. Training and career development for female staff improved with female staff participation in the Young Talent Training and Development Program increased to XX%</p> <p>2b. All NEBs funded by the project to incorporate inclusive design with priority seats for vulnerable groups and pregnant women, the elderly, or the disabled; full-sized NEBs also include sufficient space for wheelchairs and prams</p>	<p>1.–2. Development effectiveness monitoring reports</p>	<p>Change in market conditions restricting growth of BOCFL's leasing operations for NEBs</p>

<p>Key Activities with Milestones</p> <ol style="list-style-type: none"> 1. Receive ADB Board of Directors approval in Q1 2020. 2. Sign legal documentation by Q1 2020. 3. Disburse ADB A loan by Q2 2020. 4. BOCFL deploys A loan proceeds fully by Q2 2021. 5. Disburse ADB B loan by Q2 2021. 6. BOCFL deploys B loan proceeds fully by Q2 2022.
<p>Inputs</p> <p>ADB A loan: \$100 million (in United States dollars) ADB B loan: \$200 million (in United States dollars)</p>
<p>Assumptions for Partner Financing</p> <p>Not applicable</p> <p>ADB = Asian Development Bank; BOCFL = Bank of Communications Financial Leasing Co. Ltd.; NEB = new energy bus; PRC = People's Republic of China; Q = quarter.</p> <p>^a Government of the PRC. 2015. <i>Ministry of Transport Implementation Opinions on Accelerating the Spread and Adoption of New-Energy Vehicles in the Transport Sector</i>. Beijing; Government of the PRC. 2014. and Government of the PRC. 2012. <i>State Council Guiding Opinions on Prioritizing Public Transport Development in Urban Areas</i>. Beijing.</p> <p>^b Government of the PRC. 2015. <i>State Council Guiding Opinions on Healthy Development of the Financial Leasing Industry</i>. Beijing.</p> <p>^c New energy buses (NEBs) refer to buses running on "new energy" as defined by the Government of the PRC. Most buses financed by the project are expected to be electric buses with zero direct emissions, and any plug-in hybrid buses will meet emission standards of at least Euro V equivalent. Subject to market demand, buses running on fuel cells may also be financed.</p> <p>^d Assuming an average speed of 20 kilometers per hour, 12 operating hours per day, and 325 operating days per year.</p> <p>^e The use of each NEB is estimated to avoid 0.65 tons of greenhouse gas emissions (carbon dioxide equivalent) per day on average, and it is assumed that each bus operates 325 days per year.</p> <p>Source: Asian Development Bank.</p>

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=52375-001-4>

1. Contribution to the ADB Results Framework
2. Country Economic Indicators