Projected Number: 53143-001
August 2019

Proposed Loan
Maxwealth Financial Leasing Co., Ltd.
Industrial and Municipal Wastewater Treatment 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 23 July 2019)

Currency unit – yuan (CNY)
CNY1.00 = $0.1453
$1.00 = CNY6.8811

ABBREVIATIONS

ADB – Asian Development Bank
BON – Bank of Ningbo Co., Ltd.
CBIRC – China Banking and Insurance Regulatory Commission
ESMS – environment and social management system
FLC – financial leasing company
GDP – gross domestic product
LGFP – local government finance platform
m³ – cubic meter
MWFL – Maxwealth Financial Leasing Co., Ltd.
MSMEs – micro, small, and medium-sized enterprises
NPL – nonperforming loan
PRC – People’s Republic of China
SOE – state-owned enterprise
WWTP – wastewater treatment plant
YE – year-end

NOTE

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

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## CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PROJECT AT A GLANCE</strong></td>
<td></td>
</tr>
<tr>
<td>I. THE PROPOSAL</td>
<td>1</td>
</tr>
<tr>
<td>II. THE FINANCIAL INTERMEDIARY</td>
<td>1</td>
</tr>
<tr>
<td>A. Investment Identification and Description</td>
<td>1</td>
</tr>
<tr>
<td>B. Business Overview and Strategy</td>
<td>3</td>
</tr>
<tr>
<td>C. Ownership, Management, and Governance</td>
<td>3</td>
</tr>
<tr>
<td>III. THE PROPOSED ADB ASSISTANCE</td>
<td>3</td>
</tr>
<tr>
<td>A. The Assistance</td>
<td>3</td>
</tr>
<tr>
<td>B. Implementation Arrangements</td>
<td>3</td>
</tr>
<tr>
<td>C. Value Added by ADB Assistance</td>
<td>4</td>
</tr>
<tr>
<td>IV. DEVELOPMENT IMPACT AND STRATEGIC ALIGNMENT</td>
<td>4</td>
</tr>
<tr>
<td>A. Development Impacts, Outcome, and Outputs</td>
<td>4</td>
</tr>
<tr>
<td>B. Alignment with ADB Strategy and Operations</td>
<td>5</td>
</tr>
<tr>
<td>V. POLICY COMPLIANCE</td>
<td>6</td>
</tr>
<tr>
<td>A. Safeguards and Social Dimensions</td>
<td>6</td>
</tr>
<tr>
<td>B. Anticorruption Policy</td>
<td>7</td>
</tr>
<tr>
<td>C. Assurances</td>
<td>7</td>
</tr>
<tr>
<td>VI. RECOMMENDATION</td>
<td></td>
</tr>
<tr>
<td>1. Design and Monitoring Framework</td>
<td>8</td>
</tr>
<tr>
<td>2. List of Linked Documents</td>
<td>10</td>
</tr>
</tbody>
</table>
# Project Classification Information Status: Complete

## Project at a Glance

### 1. Basic Data

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Industrial and Municipal Wastewater Treatment Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country</td>
<td>China, People's Republic of</td>
</tr>
<tr>
<td>Borrower</td>
<td>Maxwealth Financial Leasing Co., Ltd.</td>
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<tr>
<td>Project Number</td>
<td>53143-001</td>
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</table>

### 2. Sector

<table>
<thead>
<tr>
<th>Subsector(s)</th>
<th>ADB Financing ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>30.00</td>
</tr>
<tr>
<td>Water and other urban infrastructure and services</td>
<td>30.00</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>60.00</strong></td>
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</tbody>
</table>

### 3. Strategic Agenda

<table>
<thead>
<tr>
<th>Subcomponents</th>
<th>Climate Change Information</th>
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</thead>
<tbody>
<tr>
<td>Inclusive economic growth (IEG)</td>
<td>Climate Change impact on the Project Low</td>
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<tr>
<td>Environmentally sustainable growth (ESG)</td>
<td>ADB Financing</td>
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<tr>
<td></td>
<td>Adaptation ($ million) 30.00</td>
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<tr>
<td></td>
<td>Mitigation ($ million) 30.00</td>
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### 4. Drivers of Change

<table>
<thead>
<tr>
<th>Components</th>
<th>Gender Equity and Mainstreaming</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private sector development (PSD)</td>
<td>Some gender elements (SGE)</td>
</tr>
</tbody>
</table>

### 5. Poverty and SDG Targeting

<table>
<thead>
<tr>
<th>Location Impact</th>
<th>SDG Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Geographic Targeting</td>
<td>SDG6, SDG9, SDG13</td>
</tr>
<tr>
<td>Household Targeting</td>
<td>No</td>
</tr>
<tr>
<td>General Intervention on Poverty</td>
<td>Yes</td>
</tr>
<tr>
<td>SDG Targeting</td>
<td>Yes</td>
</tr>
<tr>
<td>SDG Goals</td>
<td>SDG6, SDG9, SDG13</td>
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<tr>
<td>Urban</td>
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### 6. Nonsovereign Operation Risk Rating

<table>
<thead>
<tr>
<th>Obligor Name</th>
<th>Obligor Risk Rating</th>
<th>Facility Risk Rating</th>
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</thead>
<tbody>
<tr>
<td>Maxwealth Financial Leasing Co., Ltd.</td>
<td></td>
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</tr>
</tbody>
</table>

### 7. Safeguard Categorization

<table>
<thead>
<tr>
<th>Environment</th>
<th>Involuntary Resettlement</th>
<th>Indigenous Peoples</th>
</tr>
</thead>
<tbody>
<tr>
<td>FI</td>
<td>FI</td>
<td>FI-C</td>
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</table>

### 8. Financing

<table>
<thead>
<tr>
<th>Modality and Sources</th>
<th>Amount ($ million)</th>
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<tbody>
<tr>
<td>ADB</td>
<td>60.00</td>
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<tr>
<td>Nonsovereign LIBOR Based Loan (Regular Loan): Ordinary capital resources</td>
<td>60.00</td>
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<tr>
<td>Cofinancing</td>
<td>0.00</td>
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<tr>
<td>Others a</td>
<td>0.00</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>60.00</strong></td>
</tr>
</tbody>
</table>

Currency of ADB Financing: USD

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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 $60,000,000 (or its yuan equivalent) to Maxwealth Financial Leasing Co., Ltd. (MWFL) for the Industrial and Municipal Wastewater Treatment Project in the People’s Republic of China (PRC).

2. The project entails the Asian Development Bank (ADB) providing long-tenor financing to MWFL for lease finance to wastewater treatment plants (WWTPs) for industrial and municipal wastewater treatment in the PRC. ADB financing will meet MWFL’s requirements for long-term funding, which is in short supply in the PRC, and will enable MWFL to provide long-tenor lease finance to WWTPs.

II. THE FINANCIAL INTERMEDIARY

A. Investment Identification and Description

3. Economic overview. The PRC has experienced strong economic growth since 1980. During 1980–2014, gross domestic product (GDP) growth averaged 9.7% per year and per capita income increased by 8.6% per year. Since 2014, the PRC economy has continued to transition to a more sustainable growth path, and the government has advanced wide-ranging reforms. The real GDP growth rate slowed to 6.8% in 2017 and 6.6% in 2018, and ADB estimates that GDP growth will slow further to 6.3% in 2019 and 6.1% in 2020. The International Monetary Fund projects a gradual slowdown to a real GDP growth rate of 5.6% in 2023.

4. Water sector overview. Rapid economic development and massive urbanization in the PRC have been accompanied by worsening water pollution. PRC is one of the most water stressed countries in the world, with per capita water resources of 2,100 cubic meters (m³) per year, or 25% of the global average. Severe pollution of surface water bodies and groundwater, as well as climate-related events, exacerbate water scarcity. Total wastewater discharge increased by 65% from 41.5 billion m³ per year in 2000 to 69.5 billion m³ per year in 2013, with micro, small, and medium-sized enterprises (MSMEs) contributing to 60% of the total water pollution in the country. Only 56% of the PRC’s wastewater is treated. The problem is more acute in coastal provinces with more developed private economies and a larger number of MSMEs, such as Zhejiang, which ranked second, and Jiangsu, which ranked fourth among PRC provinces in terms of wastewater discharge volume in 2013. To cut costs, some MSMEs discharge untreated wastewater directly into the river or ground, which leads to severe water pollution problems. Places with a high concentration of MSMEs also attract many migrant workers, adding to the significant environmental pressure, because planning for water demand and wastewater treatment capacity is often based on official population statistics, which do not include migrants.

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5. The government has tightened policies and regulatory frameworks to address the increasingly serious levels of water pollution across the country. The Environmental Protection Law, 2015; the Water Pollution Prevention and Control Action Plan, 2015; and the Regulations on Assessment of Water Pollution Prevention and Control Action Plan, 2016 (jointly published by 11 ministries) are key documents for environmental protection in the PRC. The 2016 regulations set standards to evaluate the implementation status of water pollution control actions and their effectiveness against effluent discharge standards for 2017–2020. The PRC’s 13th Five-Year Plan continues and strengthens previous sector reforms for better water and wastewater coverage and treatment and for integrated water resources management at the water catchment level, including stormwater management (sponge cities) and water conservation. During 2000–2018, the PRC made remarkable progress in expanding municipal and industrial wastewater infrastructure by increasing treatment capacity six-fold, tripling the length of the collection networks, and raising wastewater discharge standards. The PRC’s primary gauge for wastewater discharge standards of 10 milligrams of biochemical oxygen demand per liter for Grade 1A and 20 milligrams per liter for Grade 1B are stricter than those of Europe (25 milligrams per liter) and the United States (a 30-day average of 30 milligrams per liter). Despite notable progress, there is still a major gap between the 56% wastewater treatment coverage in the PRC and the 100% coverage in developed countries such as the Republic of Korea and the United States (footnote 9).

6. Leasing industry overview. Leasing provides a good solution for long-term wastewater treatment equipment financing as banks usually do not recognize movable assets, such as equipment, as collateral. The PRC’s leasing industry has been growing rapidly, targeting a financing gap that traditional bank financing 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 of 31.97%. Despite rapid 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 the PRC in 2017, ranking it 12th among 50 countries and indicating ample room for future growth. With total outstanding lease receivables of CNY6.55 trillion in 2018, the leasing industry is also much smaller than the banking industry, which had total outstanding loans of CNY108.56 trillion in the same year.

7. Rationale. ADB’s nonsovereign operations have been actively supporting leasing in the PRC given its underdevelopment and need for long-tenor financing, targeting a diverse range of development subsectors. ADB has provided $475 million in debt to four PRC financial leasing companies (FLCs) for clean bus leasing since 2013. ADB has also provided $75 million for health care leasing and $60 million for SME lease finance. In 2018, ADB approved a loan of

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$150 million to FLC to support health care finance in underdeveloped provinces in the PRC.\textsuperscript{13} This project builds on ADB’s earlier experience in the PRC’s leasing industry, using lease finance to support a new sector. ADB identified MWFL as a good partner to support wastewater treatment financing given MWFL’s focus on the water sector and experience in financing WWTPs in Jiangsu and Zhejiang provinces, where many MSMEs have contributed to severe water pollution. MWFL has strong shareholders, sound corporate governance, an experienced management team, advanced risk management systems, and good financial performance.

B. Business Overview and Strategy

8. MWFL was established in May 2015. It is a leasing company regulated by the China Banking and Insurance Regulatory Commission (CBIRC). CONFIDENTIAL INFORMATION DELETED.

C. Ownership, Management, and Governance

9. Ownership. MWFL is a wholly owned subsidiary of BON, a top-tier city commercial bank registered in Ningbo, established in 1997 and listed on the Shenzhen Stock Exchange since 2007. As of YE2018, BON had total assets of CNY1,116.42 billion and deposits of CNY646.72 billion, and ranked fifth among all city commercial banks in the PRC in terms of total assets. BON also has good asset quality, with the lowest nonperforming loans (NPL) ratio among all listed commercial banks in the PRC as of YE2018 and a Baa2 rating from Moody’s Investors Service. CONFIDENTIAL INFORMATION DELETED

10. Management. MWFL is led by an experienced management team comprising a chief executive officer and two vice-presidents, all of whom held senior positions at BON before joining MWFL. CONFIDENTIAL INFORMATION DELETED

11. Governance structure. MWFL has a well-defined corporate governance structure. The board of directors is responsible for the company’s overall strategy, major decisions, key business objectives, and senior management appointment. CONFIDENTIAL INFORMATION DELETED

CONFIDENTIAL INFORMATION DELETED.

III. THE PROPOSED ADB ASSISTANCE

A. The Assistance

12. ADB will provide a senior secured loan to MWFL of up to $60 million (or its yuan equivalent) with a tenor of up to 5 years.

B. Implementation Arrangements

13. Use of proceeds. The ADB loan will help MWFL provide lease finance to WWTPs for industrial and municipal wastewater treatment in the PRC. CONFIDENTIAL INFORMATION DELETED.

14. **Legal documentation.** The loan to MWFL will be governed by a facility agreement, which will be based on ADB’s customary terms and conditions for a loan of this nature and amount.

15. **Reporting arrangements.** ADB will carry out project monitoring over the life of the project. MWFL will provide ADB with financial and other reports at predetermined regular intervals and as requested. CONFIDENTIAL INFORMATION DELETED.

16. **Evaluation.** ADB’s Private Sector Operations Department will prepare monitoring reports and submit them to ADB’s Office of Risk Management regularly and at least annually. The first report will be submitted no later than 12 months after the first disbursement.

C. **Value Added by ADB Assistance**

17. **Providing critically needed long-term finance.** The PRC’s leasing industry is still in the early stages of development. Most funding is available to companies on a 1-year tenor basis. CONFIDENTIAL INFORMATION DELETED

18. **Enhancing MWFL’s environmental and social safeguard capacity and supporting gender equity.** ADB will be the first international finance institution to provide financing to MWFL. As a condition for disbursement, MWFL must establish an ESMS that meets the requirements of ADB’s Safeguard Policy Statement (2009). ADB will continue to work with MWFL throughout the ADB investment period to enhance the company’s safeguard capacity, support the company’s adherence to high safeguard standards, and promote gender-inclusive measures in its operations. MWFL will appoint a gender champion to empower and help create opportunities for MWFL’s female staff, including professional and life skills training.

CONFIDENTIAL INFORMATION DELETED.

IV. **DEVELOPMENT IMPACT AND STRATEGIC ALIGNMENT**

A. **Development Impacts, Outcome, and Outputs**

19. **Impacts.** The project is expected to have the following development impacts:

   (i) **Water pollution reduced, leading to a more sustainable environment and improved water quality.** By providing lease finance to WWTPs, the project helps increase wastewater treatment capacity and support technological upgrades to meet the stricter wastewater treatment standard imposed by the Government of the PRC since 2015. This will lead to improvement of the urban environment and better quality of life for residents, including migrant workers; and

   (ii) **Financial leasing industry developed.** Despite rapid growth since 2008, the PRC’s financial leasing industry is still underdeveloped, with a lower leasing penetration rate than other developed markets. Access to finance remains a challenge for most leasing companies, particularly for long-tenor loans, and the project will help alleviate this funding bottleneck.

20. **Outcome.** The outcome will be enhanced treatment capacity for industrial and municipal wastewater, which will benefit 2.2 million people in urban areas.
21. **Outputs.** The outputs will be the following:

(i) **MWFL’s wastewater treatment lease operations expanded.** MWFL will provide an additional $60 million in lease finance to at least XX industrial or municipal WWTPs; and

(ii) **MWFL’s gender inclusiveness improved.** The project will also strengthen MWFL’s inclusiveness in its operations with respect to its women staff.

B. **Alignment with ADB Strategy and Operations**

22. **Consistency with ADB strategy and country strategy.** The project supports two Strategy 2030 operational priorities: (i) tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability; and (ii) making cities more livable.\(^14\) Under Strategy 2030, ADB will increase its emphasis on assisting developing member countries in improving their environmental management, including efforts to improve water quality and foster green economic growth. The project also contributes to water security and environmental conservation, thus supporting the building of livable cities that are green, competitive, resilient, and inclusive. The project is consistent with ADB’s country partnership strategy for the PRC, 2016–2020 as it will support the government’s reform agenda to manage environmental challenges to reduce water pollution, and to finance private sector projects with innovative technologies and business models to support the development of green cities (footnote 1).

23. **Consistency with sector strategy and relevant ADB operations.** The project fully supports ADB’s water policy, which recognizes the importance of reversing the degradation of water resources caused by agricultural, industrial, and municipal effluents.\(^15\) The project is also aligned with ADB’s Water Operational Plan, 2011–2020, which commits to investments of $2.0 billion–$2.5 billion per year by 2020 and targets an additional $500 million per year for private sector lending.\(^16\) In addition, the project supports the Urban Operational Plan, 2012–2020, which identifies green cities as a priority theme of ADB operations.\(^17\) Supporting finance sector development is a key focus of development assistance for ADB, and the project aligns with ADB’s Financial Sector Operational Plan.\(^18\) The client selection and project design reflects ADB’s experience in the PRC leasing industry by selecting financial intermediaries that have proven expertise in the targeted sector and augmenting the design by leveraging ADB-wide expertise of sector specialists and gender specialists in the early stages of structuring transactions. Lastly, the project is aligned with ADB’s Gender Equality and Women’s Empowerment Operational Plan, 2013–2020.\(^19\)

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V. POLICY COMPLIANCE

A. Safeguards and Social Dimensions

24. ADB has classified the investment in compliance with ADB’s Safeguard Policy Statement (2009) as category FI for the environment and involuntary resettlement and category FI treated as C for Indigenous Peoples. 20

25. Category FI. ADB has assessed the investment’s potential environmental and social impacts, its risks associated with MWFL’s existing and likely future WWTP lease finance portfolio, and its policies, procedures, commitment, and capacity for environmental and social management. Due diligence found that while the installation of new wastewater treatment equipment is likely to have minimal or less adverse environmental impacts, WWTP operations may incur impacts from effluent discharge, sludge disposal, odor, and noise, as well as occupational health and safety risks. As the proposed project is for equipment leasing, the risk from climate change impact is expected to be low. Wastewater treatment can support climate change adaptation by improving surface and ground water quality to enhance climate resilience, and support climate change mitigation by reducing greenhouse gas emission from untreated wastewater. MWFL’s lease finance to WWTPs are not expected to involve new land acquisition and/or significant land acquisition and involuntary resettlement impacts, as the company only finances WWTPs that have completed civil works. The government had already completed all land acquisition and resettlement for the WWTPs, most of which are SOEs, before MWFL’s financing. MWFL will exclude lease projects involving construction of a new pipeline from the financing of the ADB loan. No subprojects are expected to be in areas populated by ethnic minorities, and no impacts on indigenous peoples are expected from MWFL’s existing and likely future WWTP lease finance portfolio. 21

26. Based on due diligence findings, ADB has identified the following actions to be implemented by MWFL: (i) adopt an ESMS satisfactory to ADB before first disbursement; (ii) apply ADB’s prohibited investment activities list; (iii) ensure that investments using ADB funds comply with ADB’s Safeguard Policy Statement and other social requirements, and abide by applicable national laws and regulations; (iv) screen and categorize environment and involuntary resettlement potential impacts and risks and impacts on indigenous peoples; (v) exclude from ADB financing transactions that will likely have significant adverse environmental and social impacts (category A) and those involving construction of new pipelines; (vi) conduct environment and social due diligence, and prepare and implement corrective action plans as required or exclude from ADB finance any subprojects with a compliance gap; (vii) appoint environment and social staff for day-to-day implementation of the ESMS; and (viii) develop staff capacity on the management of environmental and social impacts and risks. The ESMS will set out requirements, as applicable, for compliance with national labor laws and measures to comply with the internationally recognized core labor standards, pursuant to ADB’s Social Protection Strategy. The ESMS will also contain requirements for information disclosure, consultation with stakeholders, and grievance redress mechanism, in accordance with ADB requirements. MWFL will include in its regular reporting information to ADB (i) the nature of subprojects and categorization, (ii) compliance with the safeguard and social requirements, and (iii) compliance with applicable national and international laws and standards.

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21 Most of ADB’s loan to MWFL will be used for WWTPs in Jiangsu Province, where ethnic minorities account for 0.5% of the total population and in Zhejiang Province, where ethnic minorities account for 0.9% of the total population.
27. **Some gender elements.** CONFIDENTIAL INFORMATION DELETED. MWFL will submit periodic reports on implementation of gender measures to ADB.

**B. Anticorruption Policy**

28. MWFL 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.

CONFIDENTIAL INFORMATION DELETED.

**C. Assurances**

29. Consistent with the Agreement Establishing the Asian Development Bank (the Charter), ADB will proceed with the proposed assistance upon establishing that the Government of the PRC has no objection to the proposed assistance to MWFL. ADB will enter into suitable finance documentation, in form and substance satisfactory to ADB, following approval of the proposed assistance by the 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 $60,000,000 (or its yuan equivalent) from ADB’s ordinary capital resources to Maxwealth Financial Leasing Co., Ltd. for the Industrial and Municipal Wastewater Treatment Project 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

15 August 2019

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## Design and Monitoring Framework

### Impacts the Project is Aligned with

Water pollution reduced, leading to a more sustainable environment and improved water quality (State Council Action Plan on Water Pollution Prevention)\(^a\)

Financial leasing industry developed (State Council Guiding Opinions on Healthy Development of the Financial Leasing Industry)\(^b\)

<table>
<thead>
<tr>
<th>Results Chain</th>
<th>Performance Indicators with Targets and Baselines</th>
<th>Data Sources or Reporting Mechanisms</th>
<th>Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Outcome</strong></td>
<td><strong>By 2022</strong>&lt;br&gt;a. XX people benefited from improved wastewater treatment service (^c)&lt;br&gt;b. XX m(^3) of annual wastewater treatment capacity added or improved (^d)</td>
<td>a–b. Development effectiveness monitoring reports</td>
<td>Change in market conditions restricts growth of MWFL’s leasing business in the water sector.</td>
</tr>
<tr>
<td><strong>Outputs</strong></td>
<td><strong>By 2021</strong>&lt;br&gt;1. An additional $60 million of lease financing provided to at least XX wastewater treatment plants by MWFL&lt;br&gt;2a. XX leadership training for middle management staff conducted with women representing at least XX of participants&lt;br&gt;2b. XX supervisory and technical training for technical and administrative staff conducted with women representing at least XX of participants&lt;br&gt;2c. At least XX life skills training programs for female staff provided (^e)</td>
<td>1–2. Development effectiveness monitoring reports</td>
<td>Change in regulation or market conditions restrict growth of MWFL’s leasing business in the wastewater sector.</td>
</tr>
</tbody>
</table>

### Key Activities with Milestones

**Output 1: Maxwealth Financial Leasing’s wastewater treatment lease operations expanded**
1.1 Receive Board approval in Q3 2019
1.2 Sign legal documentation by Q4 2019
1.3 Adopt ESMS before ADB’s first disbursement
1.4 Disburse ADB loan by Q2 2020
1.5 Deploy ADB loan proceeds to fund wastewater treatment by Q1 2021

**Output 2: Maxwealth Financial Leasing’s gender inclusiveness improved**
2.1 Appoint gender champion promoting gender equity by 2020

### Inputs

ADB loan: $60 million (or its yuan equivalent)
Assumptions for Partner Financing
Not applicable

ADB = Asian Development Bank; ESMS = environment and social management system; m³ = cubic meter; MWFL = Maxwealth Financial Leasing Co., Ltd.; Q = quarter.


Contribution to the ADB Results Framework:

c Level 2A indicator of the ADB Results Framework, 2019–2024 contributing to the operational priority on making cities more livable (ADB. 2019. ADB Results Framework, 2019–2024. Manila). The calculation is based on 151 million m³ of municipal wastewater treated annually that is compliant with national and applicable local standards, with assumed annual wastewater discharge of 68.12 m³ per person.
e Life skills training may be on the following broad categories: self-awareness, interpersonal communication, decision-making, work–life balance, and financial management.

LIST OF LINKED DOCUMENTS
http://www.adb.org/Documents/RRPs/?id=53143-001-4

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