



# Report and Recommendation of the President to the Board of Directors

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**PUBLIC**

Project Number: 56099-001  
September 2022

## Proposed Loan Ping An International Financial Leasing Co. Ltd. Ping An Leasing Micro, Small, and Medium-Sized Enterprises Energy Efficiency Improvement Project (People's Republic of China)

This is a redacted version of the document approved by ADB's Board of Directors. The document 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 20 September 2022)

Currency unit	–	yuan (CNY)
CNY1.00	=	\$0.1428
\$1.00	=	CNY7.0051

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
CO <sub>2</sub>	–	carbon dioxide
COVID-19	–	coronavirus disease
FLC	–	financial leasing company
MSMEs	–	micro, small, and medium-sized enterprises
NPA	–	nonperforming asset
PAI	–	Ping An Insurance (Group) Company of China, Ltd.
PAIFL	–	Ping An International Financial Leasing Co. Ltd.
PRC	–	People's Republic of China
SDG	–	Sustainable Development Goal
SMEs	–	small and medium-sized enterprises
WMSMEs	–	micro, small, and medium-sized enterprises owned or led by women

## **NOTE**

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

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## PROJECT AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number: 56099-001</b>	
<b>Project Name</b>	Ping An Leasing Micro, Small, and Medium-Sized Enterprises Energy Efficiency Improvement Project	<b>Department/Division</b>	PSOD/PSFI
<b>Country Borrower</b>	China, People's Republic of Ping An International Financial Leasing Co. Ltd.		
<b>Portfolio at a Glance</b>	<a href="https://www.adb.org/Documents/LinkedDocs/?id=56099-001-PortAtaGlance">https://www.adb.org/Documents/LinkedDocs/?id=56099-001-PortAtaGlance</a>		
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>ADB Financing (\$ million)</b>	
✓ Finance	Small and medium enterprise finance and leasing	<b>Total</b>	100.000
			<b>100.000</b>
<b>3. Operational Priorities</b>		<b>Climate Change Information</b>	
✓ OP2: Accelerating progress in gender equality		GHG reductions <sup>a</sup>	10%
✓ OP3: Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability		Climate Change impact on the Project	Low
		<b>ADB Financing</b>	
		Adaptation (\$ million)	0.000
		Mitigation (\$ million)	100.000
		<b>Cofinancing</b>	
		Adaptation (\$ million)	0.000
		Mitigation (\$ million)	100.000
<b>Sustainable Development Goals</b>		<b>Gender Equity and Mainstreaming</b>	
SDG 5.a		Effective gender mainstreaming (EGM)	✓
SDG 8.3			
SDG 13.a		<b>Poverty Targeting</b>	
		General Intervention on Poverty	✓
<b>4. Nonsovereign Operation Risk Rating</b>			
<b>Obligor Name</b>		<b>Obligor Risk Rating</b>	<b>Facility Risk Rating</b>
Ping An International Financial Leasing Co. Ltd.			
<b>5. Safeguard Categorization</b>	<b>Environment: FI-C</b>	<b>Involuntary Resettlement: FI-C</b>	<b>Indigenous Peoples: FI-C</b>
<b>6. Financing</b>			
<b>Modality and Sources</b>			<b>Amount (\$ million)</b>
<b>ADB</b>			<b>100.000</b>
Nonsovereign SOFR Based Loan (Regular Loan): Ordinary capital resources			100.000
<b>Cofinancing</b>			<b>100.000</b>
Commercial Banks (Full ADB Administration)			100.000
<b>Others<sup>b</sup></b>			<b>0.000</b>
<b>Total</b>			<b>200.000</b>
<b>Currency of ADB Financing: US Dollar, Yuan Renminbi</b>			

<sup>a</sup> Calculated based on percentage reduction in electricity use between energy-efficient equipment leased by PAIFL and the industry average for the same equipment type.

<sup>b</sup> 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 \$200,000,000 (or its yuan equivalent), comprising (i) a senior secured A loan of up to \$100,000,000 (or its yuan equivalent);<sup>1</sup> and (ii) a senior secured or unsecured B loan (or complementary loan) of up to \$100,000,000 (or its yuan equivalent) to the Ping An International Financial Leasing Co. Ltd. (PAIFL) for the Ping An Leasing Micro, Small, and Medium-Sized Enterprises Energy Efficiency Improvement Project in the People's Republic of China (PRC).

2. The project entails the Asian Development Bank (ADB) providing longer-tenor financing to PAIFL to accelerate energy efficiency improvements in micro, small, and medium-sized enterprises (MSMEs) in the PRC.<sup>2</sup> The ADB financing will promote new energy efficiency financing solutions, reduce MSMEs' carbon emissions, and support the PRC's transition to low-carbon energy.

## II. THE FINANCIAL INTERMEDIARY

### A. Investment Identification and Description

3. **Energy efficiency in the People's Republic of China.** As the world's largest energy consumer, the PRC's efforts to improve energy efficiency are crucial to the global energy and climate outlooks. The country accounted for 25% of global energy consumption in 2019 and 26% in both 2020 and 2021.<sup>3</sup> The government has developed comprehensive sets of energy efficiency policies and programs since 2010. Energy use per unit of gross domestic product declined by 28.7% during 2010–2020.<sup>4</sup> Steady improvement in energy intensity was attributable to energy efficiency gains and structural shifts in the economy. The 14th Five-Year Plan contains mandatory national targets to further reduce energy intensity by 13.5% and carbon intensity by 18% during 2021–2025.<sup>5</sup> These targets contribute to the PRC's nationally determined commitment to peak carbon dioxide (CO<sub>2</sub>) emissions before 2030 and achieve carbon neutrality before 2060.<sup>6</sup> Whereas larger enterprises have undertaken substantial efficiency improvements, MSMEs' energy efficiency potential remains largely untapped. With outdated equipment and low-efficiency processes, MSMEs are on average 40% less energy efficient than large industrial enterprises in their sectors.<sup>7</sup> MSMEs' energy efficiency potential has been assessed at 25% of their energy demand.<sup>8</sup> MSMEs face barriers that impede their adoption of energy efficiency measures. Their

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<sup>1</sup> A portion of the B loan or complementary loan may be substituted by the Asian Development Bank (ADB)-mobilized parallel loans to fund the same project, to accommodate liquidity from a wider group of lenders including non-eligible B loan or complementary loan participants.

<sup>2</sup> Based on Government of the PRC. 2011. [The Notice on Issuing the Provisions on Criteria for Classifying Small and Medium-Sized Enterprises](#). Beijing, MSMEs are defined and categorized based on revenues, staff size, and/or total assets, depending on the characteristics of different industries. For instance, in manufacturing, enterprises with annual revenues of CNY20 million–CNY400 million and 300–1,000 staff are defined as medium-sized enterprises; enterprises with annual revenues of CNY3 million–CNY20 million and 20–300 staff are classified small enterprises; and enterprises with annual revenues of less than CNY3 million or less than 20 staff are defined as microenterprises.

<sup>3</sup> BP. 2022. [Statistical Review of World Energy](#) (accessed 7 September 2022).

<sup>4</sup> CEIC. 2022. [CEIC database](#) (accessed 8 July 2022).

<sup>5</sup> Government of the PRC. 2020. [The 14th Five-Year Plan \(2021–2025\) for National Economic and Social Development and the Long-Range Objectives Through the Year 2035](#). Beijing.

<sup>6</sup> Government of the PRC. 2021. [China's Achievements, New Goals and New Measures for Nationally Determined Contributions](#). Beijing.

<sup>7</sup> International Finance Corporation. 2012. [Study on the Potential of Sustainable Energy Financing for Small and Medium Enterprises in \(the People's Republic of\) China](#). Washington, DC.

<sup>8</sup> International Energy Agency. 2015. [Policy Pathway – Accelerating Energy Efficiency in Small and Medium Enterprises](#). Paris.

access to financing for energy efficiency improvements is constrained by their lack of collateral, less rigorous record-keeping, and vulnerability to market changes. Commercial banks traditionally consider loans to MSMEs risky, with high transaction costs; therefore, they often lack financial products or capacity to support MSME energy efficiency.

4. **Access to energy efficiency finance for women.** Female entrepreneurship is rising in the PRC. At 0.8, the female–male ratio for entrepreneurial activity is higher than the global average.<sup>9</sup> Efforts have been made to increase financial inclusion of its people and reduce gender disparities that continue to affect women’s access to finance. While female account ownership at a financial institution has increased to 87%, the majority of those unbanked are women.<sup>10</sup> Furthermore, Chinese women tend to be more open to energy efficiency than men. A recent study indicates that families where men are the main decision-makers use more energy and are less likely to buy energy-efficient products than female-dominated families (i.e. where women constitute the power core with respect to household decision-making).<sup>11</sup> When women are the main decision-makers for household expenditures and purchases of large-scale commodities for the household, daily energy consumption is significantly lower and households tended to go green. Although the study was household based, women may be more likely to adopt green practices with the right purchase conditions.

5. **Financial leasing sector overview and energy efficiency financing through leasing.** The financial leasing sector has played an important role in the PRC financial system as an alternative to bank financing. Despite rapid growth since 2008, the financial leasing sector needs further development. Lease market penetration, measured as the ratio of lease finance to all fixed investments in plant and equipment, was 9.4% in 2020 compared with 28.4% in the United Kingdom, 22.0% in the United States and 16.2% in Germany.<sup>12</sup> With total outstanding lease receivables of CNY6.2 trillion in 2021, the leasing sector is also much smaller than the banking sector, which had total outstanding loans of CNY165 trillion in the same year.<sup>13</sup> Financial leasing is a suitable financing solution for MSME energy efficiency. As the financial leasing companies (FLCs) retain the ownership of the energy-efficient equipment, they typically do not require additional collateral. MSMEs benefit from reduced energy costs from the use of energy-efficient equipment, which can help cover part of their regular lease payments. Adoption of new technologies, including the internet of things, cloud computing, and artificial intelligence, can enable financial institutions to make quicker and more reliable credit decisions and offer faster and more convenient financial services. In turn, this digital innovation would help MSMEs improve their access to finance.

6. **Rationale.** PAIFL is a leading FLC in the PRC. The company has a clear focus on MSME financing, leveraging its technological capabilities including the use of a digital platform, online ecosystem, and proprietary equipment monitoring system. With a large MSME customer base, strong market influence, and a firm corporate social responsibility commitment, PAIFL is considered an ideal financial institution to partner with ADB to promote energy efficiency among MSMEs. The project will help improve access to energy efficiency financing for MSMEs by leveraging financial technology and contribute to reducing the carbon footprint of MSMEs. The

<sup>9</sup> Global Entrepreneurship Monitor. [China: Entrepreneurial Behaviour and Attitudes](#).

<sup>10</sup> World Bank. 2021. [Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19](#). Washington, DC.

<sup>11</sup> J. Wang, R. Long, H. Chen, and Q. Li. 2021. [Are female-dominated families more energy-saving? Evidence from Jiangsu Province, China](#). *Sustainable Production and Consumption*. 27. pp. 2178–2192.

<sup>12</sup> Solifi. 2022. *Solifi Global Leasing Report 2021*. Minneapolis.

<sup>13</sup> Government of the PRC, China Banking and Insurance Regulatory Commission. 2022. *Key indicators of Chinese commercial banks 2021*. Beijing.

project will also increase private sector operations in other mitigation domains beyond clean energy by scaling up demand-side energy efficiency.<sup>14</sup>

7. This is a One ADB project between ADB's East Asia Department and Private Sector Operations Department. The combination of the East Asia Department's sector knowledge and the Private Sector Operations Department's transaction expertise will meaningfully add value to PAIFL's MSME energy efficiency financing. PAIFL's technology platform captures the raw data on MSMEs' power consumption of the leased equipment. Through an approved technical assistance project,<sup>15</sup> ADB is supporting PAIFL to develop green financing tools by providing expert advice on a measuring methodology and conversion parameters to calculate CO<sub>2</sub> emissions from the equipment leased by MSMEs. This will help PAIFL (i) develop capacity to measure the power consumption and CO<sub>2</sub> emissions resulting from the use of energy-efficient equipment; and (ii) calculate emission reductions against the sector benchmark for similar equipment. In turn, it will enable PAIFL to offer additional services over the medium term, such as providing MSME lessees with in-house carbon credits based on the CO<sub>2</sub> emissions reduction achieved through the use of the leased equipment, which can be used to offset part of the lease payment or equipment maintenance costs and further incentivize MSME customers to adopt equipment with higher energy efficiency standards. ADB will also promote knowledge sharing by developing knowledge products on using innovative financing products and financial technology to support MSME energy efficiency enhancements.

## **B. Business Overview and Strategy**

8. PAIFL was incorporated in 2012 as a wholly owned subsidiary of Ping An Insurance (Group) Company of China, Ltd. (PAI). Headquartered in Shanghai, PAIFL has 20 offices nationwide and more than 3,000 staff. The company engages in financial leasing activities, factoring services, entrusted loans, equipment operating leases, and advisory services. Founded in 1988 in Shenzhen, PAI is one of the largest integrated financial groups in the PRC that provides customers with a full range of financial products and services such as insurance, banking, and investment. Driven by its technology-focused strategy, PAI has delivered steady growth with total assets exceeding CNY10 trillion in 2021. At the end of 2021, PAI served 227 million retail customers and 647 million internet users.

9. Leveraging PAI's brand influence, extensive distribution channels, experienced management team, and sophisticated information technology platform, PAIFL plays a key role in PAI's financial products and services offerings. PAIFL enjoys numerous advantages in terms of developing and retaining customers, particularly those who are looking for an integrated financial solution. Through joint marketing with key PAI subsidiaries, the company has access to PAI's large customer base. Leveraging the group's financial ecosystem and business synergy, PAIFL can also develop specialized products for its customers, such as autocar leasing and commercial vehicle leasing, which can be originated by cross-selling from the group's auto insurance business. Despite being an FLC originally approved by the Ministry of Commerce, and therefore lacking the mandatory capital and liquidity support from the parent company, there is strong evidence of shareholder support. The company has received 11 capital increases from PAI since its establishment, increasing its registered capital from CNY315 million to CNY14.5 billion.

<sup>14</sup> ADB. 2014. [\*Thematic Evaluation Study: Real-Time Evaluation of ADB's Initiatives to Support Access to Climate Finance\*](#). Manila.

<sup>15</sup> ADB. 2018. [\*Technical Assistance to the People's Republic of China for Improving the Design of the National Carbon Emissions Trading System\*](#). Manila.

10. PAIFL has built a robust MSME financing business that supports MSMEs to upgrade their production equipment. Powered by technology support, PAIFL's MSME financing has achieved high growth with standardized products, digital processing, and efficient risk management. To streamline the business origination process and improve the risk management capacity for MSME leasing, the company has built a series of online platforms that are used in mobile devices for the management of suppliers, customers, employees, and risk. They include (i) a "Mini Equip" app for vendor suppliers with functions of customer origination, contract management, and e-signing; (ii) a "Micro Leasing" app providing a 24-hour online service center for leasing customers, with financing application, payment and invoice solution, account management, equipment purchase, maintenance management, and sale functions; (iii) an "SMF Office" app for employees, with integrated franchise management, customer management, project management, announcement management, and process management functions to cover the full scope of business operations; and (iv) "Equip Band", an internet of things-based device that can be attached to the leased equipment for real-time performance monitoring. The equipment operation data collected through Equip Band is uploaded to the cloud and can be viewed by each MSME lessee in real time. PAIFL uses its big-data computing system to conduct multidimensional analyses of its leased assets, including the capacity utilization rate of the equipment. Because of these technological process improvements, the average processing time for an MSME finance lease is only 2.6 days.

### C. Ownership, Management, and Governance

11. **Ownership.** PAI holds 69.44% of the shares of PAIFL directly and the remaining 30.56% indirectly through a wholly owned subsidiary, China Ping An Insurance Overseas Holdings Limited. Dually listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange, PAI has a diversified shareholding structure and no controlling shareholder. ADB conducted integrity due diligence on PAIFL, its shareholders and beneficial owners, the members of their board of directors, and management.<sup>16</sup> They do not appear to constitute a significant or potentially significant integrity risk, since no unresolved adverse media or other relevant information related to them exists. ADB's review does not give ADB cause to believe that the entity is being used for money laundering or terrorism financing. Tax integrity due diligence was not required.

12. **Management.** PAIFL is led by a management team that has vast financial leasing experience and market knowledge. The management team operates within the strategic framework, risk appetite, and policies set by the board of directors while adhering to regulatory requirements. PAIFL's management consists of two deputy general managers and three assistant general managers.<sup>17</sup> Wenyi Li, deputy general manager and acting general manager, joined the company in 2012 and has served as deputy general manager since 2014. Prior to this, he held various senior positions at Far East Horizon Limited, another leading FLC in the PRC. The oversight and monitoring of various key areas within the business are exercised through the following dedicated standing committees: the Strategy Committee, the Risk Management Committee, the Products Management Committee, the Data Governance Committee, the Performance and Budget Committee, and the Human Resources Committee.

13. **Governance structure.** PAIFL operates within a clearly defined governance framework. Its board of directors is collectively responsible for the leadership and oversight of the company. The board consists of highly experienced professionals with diverse backgrounds in leasing, banking, investment banking, global capital markets, and relevant industry experience. All the

<sup>16</sup> ADB. 2003. [\*Enhancing the Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism\*](#). Manila.

<sup>17</sup> The position of general manager is currently vacant.

board members are appointed by PAI. Zhiliang Wang, chair of the board, has more than 20 years of experience in PAI and concurrently serves as its supervisor, chief administrative officer, and office director. PAIFL has one supervisor appointed by PAI who oversees the board of directors and management.

**D. CONFIDENTIAL INFORMATION DELETED**

**III. THE PROPOSED ADB ASSISTANCE**

**A. The Assistance**

14. ADB will provide a senior loan to PAIFL of up to \$200,000,000 (or its yuan equivalent) with a tenor of up to 5 years, comprising (i) a senior secured A loan of up to \$100,000,000 (or its yuan equivalent); and (ii) a senior secured or unsecured B loan (or complementary loan) of up to \$100,000,000 (or its yuan equivalent).

**B. Implementation Arrangements**

15. **Use of proceeds.** PAIFL will use the proceeds of the ADB debt financing to fund the lease of energy-efficient equipment to MSMEs. The project will use the government's definition of MSMEs (footnote 2). For each lease contract to MSMEs, the amount funded by the loan will be capped at \$500,000 (or its yuan equivalent).

16. **Reporting arrangements.** ADB will carry out project monitoring over the life of the project. PAIFL will provide ADB with financial and other reports at predetermined regular intervals and as requested, including (i) semiannual unaudited financial statements, (ii) annual audited financial statements, (iii) semiannual compliance certificates for financial covenants, (iv) periodic summary reports of energy-efficient equipment lease contracts funded by the ADB loan facility, (v) annual environmental and social monitoring reports, and (vi) annual reporting on the development effectiveness indicators agreed between ADB and PAIFL.

17. **Evaluation.** ADB will prepare monitoring reports regularly and at least annually. The first report will be submitted no later than 12 months after the first loan disbursement.

**C. Value Added by ADB Assistance**

18. **Capacity development.** Through a One ADB approach and under an approved technical assistance project (footnote 15), ADB will provide expert advice to help PAIFL develop green financing tools for calculating CO<sub>2</sub> emissions reduction resulting from the use of energy-efficient equipment by MSME lessees. This will enable PAIFL to offer additional green finance services in the medium term (para. 7).

19. **Green finance knowledge sharing.** Also, through a One ADB collaboration, ADB will develop knowledge products based on the experience of the project for sharing with other financial intermediaries in the PRC and other developing member countries. The knowledge sharing will amplify the project's demonstration effects.

20. **Promoting women's empowerment and gender equality.** ADB is working with PAIFL to implement a gender action plan that promotes women's access to financial inclusion and to green lease financing. The company will seek to improve its (i) value proposition to women

customers by enhancing its financial and nonfinancial capacity to service women borrowers, and (ii) corporate practices to promote gender equality and a more inclusive workplace for women.

21. **Providing long tenor finance and mobilizing commercial cofinancing.** The 5-year ADB loan will help the company diversify its funding sources and improve its maturity profile by providing long-term financing. ADB also expects to mobilize additional private sector funding for this project under a B loan or complementary loan structure.<sup>18</sup> This will help further diversify PAIFL's long-term funding base and enhance its capacity to scale up its financing to MSMEs for energy efficiency.

#### **D. CONFIDENTIAL INFORMATION DELETED**

### **IV. DEVELOPMENT IMPACTS AND STRATEGIC ALIGNMENT**

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

22. **Impacts.** The project is aligned with the following impacts: (i) PRC's transition toward carbon peaking before 2030 and carbon neutrality before 2060 achieved (footnote 5); and (ii) access to finance for MSMEs, including MSMEs owned or led by women (WMSMEs), expanded.<sup>19</sup> MSMEs' energy-efficient and gender-inclusive operations will be made possible through lease financing, which is better suited to MSMEs' business environment, capacity, and opportunities. The project will support the achievement of equal rights of women to economic resources (Sustainable Development Goal [SDG] 5.a), growth of the MSME sector by improving access to finance (SDG 8.3), and mobilization of resources for climate mitigation actions (SDG 13.a).

23. **Outcome.** The project will have the following outcome: energy efficiency of MSMEs enhanced. By providing critically needed longer-tenor funding to PAIFL, the project will enable the company to further scale up its inclusive green finance operations and support its MSME clients to reduce their carbon footprint by implementing targeted energy efficiency improvements.

24. **Outputs.** The project will have the following outputs: (i) capacity of PAIFL to provide energy efficiency finance to MSMEs in a more gender equitable manner increased, (ii) green financing tool and knowledge products for MSMEs developed, and (iii) gender inclusiveness of PAIFL's work environment improved.

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

25. **Consistency with ADB strategy and relevant ADB operations.** The project supports two Strategy 2030 operational priorities: tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability; and accelerating progress in gender equality.<sup>20</sup> It is consistent with ADB's country partnership strategy for the PRC, 2021–2025, which emphasizes reducing climate change vulnerabilities; promoting low-carbon development; and expediting access to finance for private companies, particularly MSMEs.<sup>21</sup> The project also aligns

<sup>18</sup> The final cofinancing product will be subject to the borrower's decision on the project's currency and market feedback.

<sup>19</sup> Government of the PRC. 2019. [State Council Guiding Opinions on Promoting the Healthy Development of Small and Medium-Size Enterprises](#). Beijing.

<sup>20</sup> ADB. 2018. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#). Manila.

<sup>21</sup> ADB. 2021. [Country Partnership Strategy. People's Republic of China, 2021–2025—Toward High-Quality, Green Development](#). Manila.

with ADB's Climate Change Operational Framework, 2017–2030.<sup>22</sup> In addition, it is aligned with the review of ADB's Financial Sector Operational Plan, which notes that ADB will support financial inclusion of the traditionally underserved, such as small and medium-sized enterprises (SMEs).<sup>23</sup> The plan calls for increased support to leasing and other finance subsectors, which supplement commercial banks and play an important role in improving SMEs' access to finance. The project builds on previous ADB support to the leasing industry in the PRC, targeting diverse subsectors focusing on underdeveloped segments, including SME financing. As noted earlier, the project also builds on ADB's sovereign operations supporting PRC's carbon emission reduction program through a One ADB approach (footnote 15).

## V. POLICY COMPLIANCE

### A. Safeguards and Social Dimensions

26. ADB has categorized the investment in compliance with its Safeguard Policy Statement (2009) as category FI treated as C for environment, involuntary resettlement, and indigenous peoples.<sup>24</sup>

27. **Category FI (treated as C).** ADB has undertaken due diligence and reviewed the potential environmental and social impacts and risks associated with PAIFL's existing and likely future portfolio. PAIFL will use the loan proceeds to finance the leasing of energy-efficient equipment to MSMEs. PAIFL's MSME clients are manufacturing and processing industries that have been operational for at least 2 years. Based on PAIFL's 2021 portfolio, the two industries with the highest outstanding principal balance are the metal products and rubber and plastics industries. Examples of equipment leased by PAIFL include computer numerical control machine tools, plate shearing machines, stamping presses, machine presses, laser cutters, plate shears, bending machines, turret punches, injection molding presses, printed circuit board drills, gripper looms, tool grinders, and automation machines. They are stand-alone and preassembled equipment with minimal requirement for installation, generally characterized as equipment with strong universality, and can improve the energy efficiency and conservation of PAIFL's clients' operations. PAIFL employs an exclusion list to exclude from finance (i) equipment that is obtained through illegal or criminal means, is prohibited or restricted by law, lacks consent from the regulatory authority, has existing mortgage or other rights, and/or has unclear ownership; and (ii) industries related to coal, steel, cement, mining, pornography, gambling, and illegal drugs.

28. PAIFL has a risk management system that incorporates the due diligence of potential clients and management of risks related to credit, liquidity, market, operational, insurance, environment, and legal and compliance. Considering the nature of the lease transactions to MSMEs, the project is not expected to entail impacts on involuntary resettlement and indigenous peoples. It is unlikely that PAIFL's clients are located within or near sensitive areas and receptors as most clients are in industrial or commercial areas. However, PAIFL's MSME clients and the current portfolio of leased equipment indicate a diverse range of industry sectors and size of operations. Hence, PAIFL will apply an additional exclusion list to ensure that ADB's proceeds will only be used for MSMEs (i) with business activities not included in the ADB Prohibited Investment Activities List; (ii) with minimal potential environmental impacts (i.e., considered category C as per ADB's Safeguard Policy Statement); (iii) with business activities that do not

<sup>22</sup> ADB. 2017. [Climate Change Operational Framework, 2017–2030: Enhanced Actions for Low Greenhouse Gas Emissions and Climate-Resilient Development](#). Manila.

<sup>23</sup> ADB. 2017. [Review of 2011 Financial Sector Operational Plan](#). Manila.

<sup>24</sup> ADB. [Safeguard Categories](#).

entail impacts on involuntary resettlement and indigenous peoples; and (iv) that comply with applicable national laws and regulations, and have no history or pending violations, fines, or penalties from the regulatory agencies. PAIFL is committed to capacitate its relevant staff in ensuring that the exclusion list is applied to its ADB-supported portfolio. PAIFL will confirm its compliance with the agreed use of proceeds in its annual reporting information to ADB.

29. PAIFL will comply with national labor laws and, pursuant to ADB's Social Protection Strategy (2001), will take measures to comply with internationally recognized core labor standards. PAIFL will report annually to ADB on its own and its contractors' compliance with such laws, and the measures taken. Information disclosure and consultation with affected people, if needed, will be conducted in accordance with ADB requirements.

30. **Effective gender mainstreaming.** Following ADB's Policy on Gender and Development, PAIFL has incorporated measures to promote gender equality and/or women's empowerment in its business activities.<sup>25</sup> Key features of the gender action plan are (i) increased disbursements of energy-efficient equipment leasing to WMSMEs, (ii) increase in the number of WMSMEs receiving energy efficiency lease finance, (iii) increased number of WMSME lessees, (iv) implementation of a green finance outreach marketing campaign targeting WMSMEs, (v) enhancement of corporate practices and procedures to be more responsive to gender equality and anti-sexual-harassment standards, and (vi) training of MSME leasing teams on servicing women borrowers. PAIFL will submit periodic reports on the implementation of gender measures to ADB.

## **B. Anticorruption Policy**

31. PAIFL 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.

## **C. CONFIDENTIAL INFORMATION DELETED**

## **D. Assurances**

32. Consistent with the Agreement Establishing the Asian Development Bank (the Charter),<sup>26</sup> ADB will proceed with the proposed assistance upon establishing that the Government of the PRC has no objection to the proposed assistance to PAIFL. 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**

33. 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 \$200,000,000 (or its yuan equivalent), comprising (i) a senior secured A loan of up to \$100,000,000 (or its yuan equivalent) from ADB's ordinary capital resources; and (ii) a senior secured or unsecured B loan (or complementary loan) of up to \$100,000,000 (or its yuan equivalent) to Ping An International Financial Leasing Co. Ltd. for the Ping An Leasing Micro,

<sup>25</sup> ADB. 2003. [Policy on Gender and Development](#). Manila (adopted in 1998).

<sup>26</sup> ADB. 1966. [Agreement Establishing the Asian Development Bank](#). Manila.

Small, and Medium-Sized Enterprises Energy Efficiency Improvement 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.

Masatsugu Asakawa  
President

22 September 2022

## DESIGN AND MONITORING FRAMEWORK

<b>Impacts the Project is Aligned with</b> PRC's transition toward carbon peaking before 2030 and carbon neutrality before 2060 achieved <sup>a</sup> Access to finance for MSMEs, including MSMEs owned or led by women, expanded <sup>b</sup>			
<b>Results Chain</b>	<b>Performance Indicators</b>	<b>Data Sources and Reporting Mechanisms</b>	<b>Risks and Critical Assumptions</b>
<b>Outcome</b> MSMEs' energy efficiency enhanced	a. XX reduction of CO <sub>2</sub> emissions <sup>c</sup> achieved through the use of more energy-efficient equipment by MSMEs <sup>d</sup> in PAIFL's portfolio in 2024 (2021 baseline: XX) (OP 3.1)	a. PAIFL's annual development effectiveness monitoring reports	R: Macroeconomic and currency instability affects low-income households.  R: Changes occur in the regulatory environment affects demand of MSME lease finance  R: The pandemic situation deteriorates, resulting to lower lease finance disbursement to MSMEs  A: MSMEs take climate financing loans.
<b>Outputs</b> 1. Capacity of PAIFL to provide energy efficiency finance to MSMEs in a more gender equitable manner increased	By 2024: 1a. Annual disbursements for energy-efficient equipment leasing to MSMEs increased to XX (2021 baseline: XX)  1b. Annual disbursements for energy-efficient equipment leasing to WMSMEs <sup>e</sup> increased to XX (2021 baseline: XX)  1c. Outstanding energy efficiency lease finance portfolio to MSMEs increased to XX (2021 baseline: XX)  1d. Outstanding energy efficiency lease finance portfolio to WMSMEs <sup>d</sup> increased to XX (2021 baseline: XX)  1e. Number of MSME lessees increased to XX, of which XX are WMSMEs <sup>e</sup> (2021 baselines: XX)	1a.–3b. PAIFL's annual development effectiveness monitoring reports	R: Interest rates and inflation increase to high levels.  A: MSMEs take climate financing loans.

Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
<p>2. Green financing tool and knowledge products for MSMEs developed</p> <p>3. Gender inclusiveness of PAIFL's work environment improved</p>	<p>MSMES, of which XX are WMSMEs) (OP 2.1.3)</p> <p>1f. Green finance outreach marketing campaign <sup>f</sup> reached at least XX WMSMEs <sup>e</sup> (2021 baseline: XX) (OP 2.5.2)</p> <p>2a. Green financing tool for CO<sub>2</sub> emission reduction monitoring developed and adopted by PAIFL for internal use by 2023 (2021 baseline: XX)</p> <p>2b. Case study on MSME energy efficiency improvement and carbon reduction through leasing developed and disseminated by 2024 (2021 baseline: XX)</p> <p>3a. XX action plan of gender-responsive corporate practices on gender equality standards and supporting procedures against all forms of harassment implemented <sup>g</sup> (2021 baseline: XX) (OP 2.2.3, OP 2.3.2)</p> <p>3b. At least XX of staff in MSME leasing teams trained on gender-responsive financial services (2021 baseline: XX)</p>		
<p><b>Key Activities with Milestones</b></p> <p><b>1. Capacity of PAIFL to provide energy efficiency finance to MSMEs in a more gender equitable manner increased</b></p> <p>1.1 Sign legal documentation by Q4 2022</p> <p>1.2 Disburse ADB loan by Q1 2023</p> <p>1.3 Deploy ADB loan proceeds to fund lease of energy-efficient equipment by Q4 2023</p> <p><b>2. Green financing tool developed by PAIFL and knowledge products for MSMEs to improve energy efficiency developed</b></p> <p>2.1 Develop basic CO<sub>2</sub> emission measurement methodology and undertake pilot testing by Q4 2023</p> <p>2.2 Deploy upgraded equipment monitoring device (Equip Band) for enhanced CO<sub>2</sub> emission data collection by Q4 2024</p> <p><b>3. Gender inclusiveness of PAIFL's work environment improved</b></p> <p>3.1 Staff conduct handbook revised with implementation guideline on procedures to deal with harassment issues by Q4 2023</p> <p>3.2 Establish confidential telephone hotline or e-mail reporting harassment, and develop internal communication campaign on gender sensitization by Q4 2023</p> <p>3.3 Train MSME lease officers by Q4 2024</p> <p><b>Project Management Activities</b></p> <p>Monitor and report MSME loans</p>			

**Inputs**

ADB: Up to \$100 million ordinary capital resources loan and up to \$100 million B loan or complementary loan

A = assumption; ADB = Asian Development Bank; CO<sub>2</sub> = carbon dioxide; MSMEs = micro, small, and medium-sized enterprises; NA = not applicable; OP = operational priority; PAIFL = Ping An International Financial Leasing Co. Ltd.; PRC = People's Republic of China; Q = quarter; R = risk; WMSMEs = MSMEs owned or led by women.

- <sup>a</sup> Government of the PRC. 2021. [The 14th Five-Year Plan \(2021–2025\) for National Economic and Social Development and the Long-Range Objectives Through the Year 2035](#). Beijing.
- <sup>b</sup> Government of the PRC. 2019. [State Council Guiding Opinions on Promoting the Healthy Development of Small and Medium-Size Enterprises](#). Beijing.
- <sup>c</sup> Based on the grid emission factor of the PRC (0.547 tons of CO<sub>2</sub> per megawatt-hour), the percentage CO<sub>2</sub> emission reduction will be calculated as a percentage reduction in electricity use between energy-efficient equipment leased by PAIFL and the industry average for the same equipment type.
- <sup>d</sup> Based on Government of the PRC. 2011. [The Notice on Issuing the Provisions on Criteria for Classifying Small and Medium-Sized Enterprises](#). Beijing, MSMEs are defined and categorized based on revenues, staff size, and/or total assets, depending on the characteristics of different industries. For instance, in manufacturing, enterprises with annual revenues of CNY20 million–CNY400 million and 300–1,000 staff are defined as medium-sized enterprises; enterprises with annual revenues of CNY3 million–CNY20 million and 20–300 staff are classified small enterprises; and enterprises with annual revenues of less than CNY3 million or less than 20 staff are defined as microenterprises.
- <sup>e</sup> WMSMEs refer to MSMEs owned or led by women, which is defined as MSMEs that are (i) at least 51% owned by women (either directly or indirectly through nominees); or (ii) with women in the most senior leadership position (e.g., chair, managing director, or general manager) and acting as legal representative of the company.
- <sup>f</sup> The green finance marketing campaign may include marketing activities, publicity for lease finance products, and customer service to guide potential female clients on suitable products, aiming to increase access to green leases for women.
- <sup>g</sup> Under the framework of the corporate policy, the company will enhance its human resources management practices to support better gender responsiveness, which may notably include revising the staff conduct handbook with implementation guidelines on procedures to deal with harassment behavior, strengthening of the complaint and reporting mechanism for employees, and disseminating internal communication on gender stereotypes and unconscious bias sensitization.

**Contribution to Strategy 2030 Operational Priorities**

Expected values and methodological details for all OP indicators to which this project will contribute results are detailed in Contribution to Strategy 2030 Operational Priorities (accessible from the list of linked documents in Appendix 2).

Source: Asian Development Bank.

### **LIST OF LINKED DOCUMENTS**

<http://www.adb.org/Documents/RRPs/?id=56099-001-4>

1. Sector Overview
2. Country Economic Indicators