

PROGRAM PREPARATORY TECHNICAL ASSISTANCE

I. Justification

1. Program preparatory technical assistance (PPTA) is required to prepare the proposed Results Based Lending (RBL) Program to support the industrial energy efficiency improvement in Shaanxi Province under the 13th Five-Year Plan. The PPTA will be conducted in two phases. Phase 1 of the PPTA will (i) confirm the need for proposed financing platform and RBL as the most appropriate lending modality, (ii) define the RBL program scope and program boundary, and (iii) recommend the appropriate institutional arrangements to ensure fiduciary oversight and safeguard compliance. Phase 2 of the PPTA will (i) undertake the fiduciary, safeguard, and program soundness assessments of the RBL program, (ii) due diligence on legal and institutional arrangements, (iii) detailed design of the RBL program including the results framework and disbursement linked indicators (DLI), (iv) preparing program action plan and program implementation guidelines, and (v) identifying capacity building needs of the program implementing agencies and participating financial institutes.

2. Given the highly specialized nature of expertise required and the limited availability of consultants with prior experience in preparing a RBL program, a team of consultants will be recruited as individual consultants. A PPTA of \$500,000 is required to undertake the above mentioned tasks. The government has been advised that the approval of the PPTA does not commit Asian Development Bank (ADB) to finance the ensuing loan.

II. Major Outputs and Activities

3. Phase 1 of the PPTA will consist of the following tasks and the consulting requirement is summarized in Table A3.3:

(i) **Program Rationale & Justification:** (a) review the track record of promoting energy efficiency financing in Shaanxi and other similar provinces and make recommendations on fiscal and other incentives for commercial banks to expand lending to energy efficiency investments; (b) make recommendations on fiscal incentives and other measures to further incentivize commercial banks and other financial institutions to expand lending to energy efficiency projects; (c) identify the institutional barriers and market failures preventing access to finance for energy efficiency investments; (d) assess the demand for financing and nature of financial products and instruments that are required to address the financial barriers to energy efficiency investments; (e) make recommendations on the design of the proposed financing platform for industrial energy efficiency to address these barriers;

(ii) **Preliminary Program Design:** (a) define the scope of proposed Green Financing Platform to be established in terms of financial products to be offered, financial partnerships with commercial banks, guarantee companies, leasing companies and fund management companies etc.; (b) define the RBL program boundary in relation to the proposed Green Financing Platform; (c) make recommendations on the institutional structure of the proposed green financing platform taking into account the commercial incentives, fiduciary oversight and overall development objectives; (d) identify the key program implementation risks and proposed appropriate measures to mitigate them; and (e) recommend the eligibility criteria for program activities to be included in the RBL program taking into account contribution to the program results and overall development objectives, ADB Staff guidelines on RBL modality and other relevant ADB Policies.

(iii) **Preliminary Safeguard Assessment:** (a) review and conduct initial environmental categorization of indicative industrial energy efficiency activities under the RBL program in accordance with the ADB Safeguard Policy (2009); (b) identify and describe the likely environmental and social impacts of the proposed RBL program based on the review of indicative list of activities; (c) identify and describe the ADB safeguard policy principles that are likely to be triggered by the RBL program for industrial energy efficiency; (d) undertake a diagnostic assessment of the applicable laws, regulations, rules and procedures for managing and mitigating the environmental and social impacts of the RBL program; and (e) recommend institutional arrangements for screening, approving and monitoring environmental and social impacts if any, during program implementation.

4. Phase 2 of the PPTA will undertake the detailed design of the RBL program. It will consist of:

(i) **Program Soundness Assessment:** (a) assess the relevance and justification of proposed financing platform; (b) describe the adequacy of policy instruments, implementation arrangements and financing instruments under the proposed financing platform; (c) assess the efficiency and economy of the RBL program; (d) assess the financial viability and sustainability of the RBL program; and (e) assess the roles, incentives, capacities, resources of different institutions and agencies involved in implementing the proposed RBL Program.

(ii) **Program Fiduciary Systems Assessment, and Financial Assessment:** (a) Undertake the Program Fiduciary Systems Assessment to identify fiduciary risks if any, and mitigation measures to assure that the project's funds will be used appropriately. The fiduciary assessment in particular will look into following Internal Controls, Fund Flow, Accounting and Financial Reporting, Independent Audit, Anticorruption Risk Assessment and Fraud and Corruption Risk Assessment; (b) Undertake the Procurement Systems Assessment by describing the procurement profile of the RBL program and procurement risk assessment to identify key procurement risks; (c) Assess the RBL Program Expenditure Framework, including expenditure requirement, effectiveness, efficiency and adequacy of using public financing including proposed ADB loan for the RBL Program; (d) Prepare the financing plan of the proposed RBL program; and (e) Financial due diligence on key financial partners of the proposed financing platform and the program implementing agency.

(iii) **Program Results Assessment and Disbursement Linked Indicators:** (a) Undertake the RBL Program Results Assessment to describe how the proposed RBL program contributes to industrial energy efficiency improvement in Shaanxi Province. Describe results chain in terms of causal relationship between output level results, intermediate level results, institutional results and outcome level results, (b) Describe how the DLIs effectively measure the progress of implementing the outputs, (c) Describe how the key program implementation risks are monitored through the DLIs and other results indicators, (d) Prepare the RBL Program Results Framework and the schedule of DLIs. Prepare the verification protocols of DLIs and the expected disbursement schedule, and (e) Assess the M&E systems of its ability to monitor the RBL Program and identify capacity gaps if any and identify any risks with respect to M & E.

(iv) **Program Safeguard System Assessment:** (a) Undertake a diagnostic assessment of the applicable laws, regulations, rules and procedures for managing and mitigating the environmental and social impacts of the RBL Program. Identify any capacity gaps or inconsistencies with the safeguard policy principles, the significance of these gaps and make recommendations on how to address these gaps and inconsistencies; and (b) Prepare the Program Safeguard System Assessment of the RBL Program including the Safeguard Program

Action plan to address any capacity gaps, policy inconsistencies with ADB Safeguard Policy. This may require establishing an Environmental and Social Management System.

(v) **Legal Due Diligence:** (a) Review and advice on the proposed corporate and transactional structures in the project under the PRC law and relevant regulations governing the conduct of commercial banks, investment holding companies, fund management companies and guarantee companies; (b) advice on whether the institutional and legal structure of the proposed Venture Capital Fund is compliant with the PRC's laws and regulations governing such funds and mezzanine financing instruments to be used by the proposed fund meets the PRC laws and regulations; and (iii) assist Shaanxi Province Finance Bureau and Shaanxi Finance Holding Company to structure outline and draft the contracts/agreements necessary to implement the project.

5. The major outputs and activities are summarized in Table A3.1.

Table A3.1: Summary of Major Outputs and Activities

Major Activities	Major Outputs	Expected Completion Date
PPTA Phase 1	Program Rationale and Justification Defining Program Boundary Recommendations on Policy Incentives Recommendations on Institutional Arrangements Recommendations on eligibility criteria on program activities Identification of safeguard impacts.	Jan 2016
PPTA Phase 2	Program Soundness Assessment Results Assessment Results Framework and DLI DLI Verification Protocol Fiduciary Systems Assessment Integrated Risk Assessment Program Safeguard Systems Assessment Financial due diligence on financing partners. Due diligence on legal agreements	May 2016

DLI = disbursement linked indicators, M&E = monitoring and evaluation, RBL = results-based lending.

III. Cost Estimate and Proposed Financing Arrangement

6. The TA is estimated to cost \$600,000 equivalent, of which \$500,000 equivalent will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-other sources). The government will finance the remaining \$100,000 equivalent in in-kind contributions. The disbursements under the TA will be done in accordance with the *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). The detailed cost estimate is presented in Table A3.2.

Table A3.2: Cost Estimates and Financing Plan
(\$'000)

Item	Total Cost
A. Asian Development Bank Financing ^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants (12 person-months)	300.0
ii. National consultants (23 person-months)	115.0
b. International and local travel	35.0
2. Miscellaneous administration and support costs ^b	5.0
3. Contingencies	45.0
Total	500.0

The PPTA is estimated to cost \$600,000, of which contributions from ADB are presented in the table above. The government contribution provided in the form of in-kind contribution is estimated to be 17% of the TA.

^a Financed by the Asian Development Bank's Technical Assistance funding program (TA Special Fund-other sources).

^b Translation, communication and secretarial services.

Source: Asian Development Bank estimates.

IV. Consulting Services

8. Given the innovative nature of the program and complex legal and financial structuring work required, it is required to recruit highly qualified and specialized consultants with experience in structured finance, commercial banking and fund management regulations and practices in the PRC as well as technical experts with knowledge and experience relevant to the initial batch of subprojects to be financed. Hence, the consultants with specific and relevant experience will be recruited as individual consultants in accordance with the Guidelines on the Use of Consultants (2013, as amended from time to time).

Table A3.3: Summary of Consulting Services Requirement

Name of the Task	International Person- months	National Person months
Phase 1		
RBL Program Design Expert	2.0	
Energy Efficiency Institutional Expert		1.0
Energy Efficiency Finance Expert	2.0	3.0
Safeguard Expert	2.0	1.5
Energy Efficiency Policy Expert		1.5
Sub total	6.0	7.0
Phase 2¹		
Program Soundness Assessment	1.0	1.0
Program Results Assessment	1.5	1.0
Program Fiduciary Systems Assessment	2.0	4.0
Program Safeguard Systems Assessment	1.5	2.0
Legal Due Diligence		5.0
Guidelines on Technical Due Diligence		3.0
Total	12.0	23.0

V. Implementation Arrangements

13. The Shaanxi Provincial Development Reform Commission will be the executing agency for the PPTA and the ensuing program. The Shaanxi Finance Holding Group, a state owned

¹ The Phase 2 consulting service requirement is indicative at this stage and this will be finalized upon the completion of Phase 1 of the PPTA.

enterprise belonging to SPG, will act as the implementing agency. The proposed TA implementation schedule is listed in Table 4.

Table A3.4: Proposed Technical Assistance Processing and Implementation Schedule

Major Milestones	Expected Completion Date
Approval of PPTA	IV October 2015
Phase 1 of PPTA	Nov 2015– Feb 2016
Phase 2 of PPTA	Mar 2016– Jun 2016
Final review for PPTA and Loan Fact Finding	Jun 2016