ASIA CLEAN ENERGY FORUM 2023

Navigating toward a Carbon-Neutral Future through Clean Energy Solutions

13–16 June
Innovative Intermediate Lending Model Based on Low-carbon Circular Development

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Part 01 Project Background
Great Coal Consumer
The coal-based economic structure has taken a heavy toll on China’s natural environment

Priority Project of the Chinese Government
Promote environmental sustainable development

The 13th Five-Year Plan
Reduced energy intensity by 15% in 2020 compared with 2015

Funds from International Financial Organizations

SFHG
Policy-based national sovereign credit loan projects

Traditional mode: low level of fund management, scattered projects, non-standard operation
Basic Information of the Loan

- **Project Name**: Shaanxi Accelerated Energy Efficiency and Environment Improvement Financing Project by ADB Loan
- **Executing Agency**: Shaanxi Financing Holding Group (SFHG)
- **Implementing Agency**: SFHG Development & Investment Management Company (SDIMC)
- **Term of Loan**: 15 years (expected fund cycle 2-3 times)
- **Start Date**: September 29, 2017
- **Closing Date**: June 30, 2022

**Project Objectives:**
1. Establish a clean energy financing platform to provide financing services for investment in energy conservation and emission reduction;
2. Implement demonstrative energy conservation and emission reduction projects;
3. Contribute directly to environmentally sustainable development, private sector development and climate change mitigation in western China.

**Total Fund**: $150 million

**Conditions of Loan**
- In line with ADB related issuing policy and with the guarantee and mortgage approved by SFHG

**Industries and Fields Supported**
- Energy conservation, emission reduction and air pollution control

**Term of Loan**
- 3-8 years, and 10 years for individual projects

**Interest Rate of Loan**
- The interest rate is LIBOR for 6 months plus 0.5%
Application of the Loan

- Building energy efficiency improvement project
- Boiler energy efficiency improvement project
- Distributed small boilers are replaced by central heating
- Coal bed methane recovery and utilization project
- LED street lamp renovation project
- Waste heat utilization project
- Geothermal energy utilization project
- Wind power project
- New energy vehicle charging pile project
- Photovoltaic power generation project
- Desulfurization and denitration project
- VoCs management project
- Waste heat utilization project
- Geothermal energy utilization project
- Wind power project
Application of the Loan

- Industrial waste heat recovery and utilization project
- Heating energy efficiency improvement project
- Power generation by industrial waste gas
- Industrial process improvement with efficient equipment
- Energy efficiency in buildings and utilities

- Power generation projects with renewable energy sources (solar energy, wind energy, biomass, geothermal energy and biogas, etc.)
- Project of new energy vehicle utilization and charging pile

- Industrial desulfurization and denitrification project
- VOC management project
Characteristics and Added Value of ADB Projects

I. Optimize investment and financing models and improve the efficiency of funds use.
The project adopts the four-in-one organizational model of “government + platform + financial institutions + third-party service agencies” innovatively and the combined financial model of “sub-loan + guarantee + lease” to support the development and utilization of clean energy in Shaanxi Province through “introduction of investment + talents”, improve the technical level of traditional industries and improve energy efficiency.

II. The highly market-oriented operation mode is adopted, and the use of loan funds is more flexible. SFHG is the executing agency of this ADB loan project, which is mainly responsible for the overall operation, decision-making and supervision of the project implementation. The amount, term and interest rate of the sub-project loan are selected and determined by SFHG in accordance with market-oriented principles, so as to ensure the environmental benefits, social benefits and economic benefits of the project.
III. Promote the establishment of a new mechanism of green financial service platform for energy conservation and environmental protection. In the “13th Five-Year Plan” of Shaanxi Province, it is clearly proposed that the Shaanxi green financial service platform established by SFHG is based on the ADB loan project, and improves enterprises’ financing capacity of green projects and provides enterprises with comprehensive services for the green projects by various financial instruments and means such as guarantee and financial leasing.

IV. Initially set up a professional management and implementation team for the national sovereign loan project. Since the implementation of the project, SFHG has actively established an exchange mechanism with ADB experts in finance, law, environment and society, invited experts in various fields to provide personnel training and long-term intellectual support for the smooth implementation of ADB loan project, and gradually established the professional management and implementation team for the national sovereign loan project through capacity building, talent introduction, cooperation with external professional institutions, etc.
Part 02
Project Organization and Planning
ADB Loan Project Process

- **March 2016 - July 2016**: Cooperate with ADB to complete the technical assistance
- **Aug. 19, 2016**: The MOU of ADB loan project was officially signed
- **Oct. 13, 2016**: Negotiations on the ADB loan project were successfully concluded
- **March. 29, 2017**: The Governor officially signed the loan agreement with ADB
- **September. 29, 2017**: The ADB loan project launch meeting was officially held, and the first batch of projects were officially launched.
- **September. 30, 2021**: The loan releasing of ADB loan projects was completed, and the first batch of projects were launched.
Shaanxi Financing Holding Group (SFHG), as a financial intermediary and provincial-level state-owned enterprise, was established in 2011 with a registered capital of 3.3 billion yuan.

SFHG Development & Investment Management Company (SDIMC) is a wholly-owned subsidiary of SFHG, which was established by the Ministry of Finance and ADB in December 2015. The registered capital is 10 million yuan.

Relevant personnel are equipped with more than five years of financial project management experience. Through the management and technical trainings of ADB and provincial organizations, the managers of all departments can manage the project in accordance with the rules and regulations of ADB project, and the project implementation is guaranteed.

Executing Agency: SFHG

- **Perfect organizational structure**
  - Strategy Committee, Nomination Committee, Remuneration Committee, Risk and Audit Committee, Investment Decision Committee, Asset Disposal Committee.
- **Adequate professional practitioners**
  - There are 575 employees, including 44 with senior titles, 40 with CPA, CFA and legal professional qualifications, and 336 with professional qualifications in finance.

Implementing Agency: SDIMC

- **Perfect organization**
  - Credit Department, Risk Control Department, Finance Department, Energy Conservation and Environmental Protection Department and General Department
- **Stable project team**
  - There are a total of 16 employees in the team, with an average age of 35 years old. 10 of them have bachelor’s and master’s degrees or above, accounting for 90% of the total.
The “13th Five-Year Plan” of Shaanxi Province clearly proposed the requirement of “relying on SFHG and ADB to build a green financial service platform for energy conservation, environmental protection, and green and low-carbon development, and promote the market-oriented trading of carbon dioxide emission rights, waste discharging rights and energy saving”. As a wholly-owned subsidiary of SFHG, SDIMC aims that on the basis of ADB loans and the green investment fund to be established by the Group, it strives to build the Shaanxi green financial service platform through four facets of capital sources, investment tools, project services and implementation carriers.

During the project implementation, the institutional management capacity of SFHG and SDIMC has significantly improved. The professional and comprehensive quality of the staff are constantly improved by necessary trainings such as the regular international financial organization loan training by the Ministry of Finance and ADB in Beijing, Shanghai, Xiamen and other places, the learning of ADB loan project manual and new financial regulations issued by the state, business seminars, skills training and other ways.
Perfect project management system

Effective information collection channels

Sound risk prevention and control measures
A: It is required for a qualified third-party institution for environmental monitoring (monitoring frequency and item are determined according to the project complexity and impacts on environment);

B: Data required for energy saving calculation should be monitored regularly;

C: Handle and record all project complaints about the environment and society;

D: The compliance of the project should be checked regularly, including the aspects of society, environment, energy saving, etc.

A: Prepare the semi-annual environmental and social monitoring report in Chinese;

B: Prepare the semi-annual environmental and social monitoring report in English for all projects;

C: Prepare the annual environmental and social management system implementation report in English for all projects;

D: Prepare the project annual report in English (including finance, energy saving, environment and social performance)
Part 03

Project Implementation
Performance
Achievements of ADB Loan Project

1. Established the CEFP financing platform for Shaanxi energy conservation and emission reduction sub-project financing and successfully implemented nine energy conservation and emission reduction projects.

2. ADB project leveraged $1.02 billion for clean energy investment in 2021. By 2023, it is expected to be $1.73 billion.

3. According to preliminary estimates by third-party energy conservation assessment institutions, the ADB project will save 331,900 tons of standard coal and reduce CO₂ emission by 919,000 tons by 2023.

4. The ADB loan project of SFHG has been an excellent domestic ADB loan project, and has been selected as the project with best performance in the energy category by ADB in 2021.
Analysis and Evaluation of Project Performance

Relevance

1) The project objectives and content design are in line with the current national, industry and regional development strategies, and can effectively solve practical problems.
2) The output of the project is aimed at the actual problems and needs of the current local economic and social development.

Efficiency

1) The project was implemented according to schedule and corresponding phased outputs were achieved.
2) The project budget was invested and used as planned.
3) The project management and internal control were in place and ensured the effective project implementation.
4) The resource input of the project was economical and effective, and the project content design and implementation mechanism were innovative to a certain extent.
Analysis and Evaluation of Project Performance

Achievements

1) The project has achieved the phased performance target.

2) The target beneficiary group of the project is properly selected, and the actual beneficiary group is expected to be the target one of the project.

Sustainability

1) Sustainable project finance

2) Sustainable project implementation
Overall Assessment

- **Relevance**: Highly relevant
- **Effectiveness**: Effective
- **Efficiency**: Efficient
- **Sustainability**: Most likely sustainable
Part 04 Experience, Lessons
Experience

1. Established a relatively complete decision-making management system for ADB loan project.

2. Strengthened systematic guidance and training for sub-project units to prevent compliance risks during project implementation.

3. Continuously reinforced the capacity building of project execution and implementation agencies to ensure efficient, sustainable, and smooth operation of the project.

4. Adopted the “entrusted loan + fund + guarantee” in reference of a new model of foreign loan, and took Shaanxi Financial Holding Group as a comprehensive financing platform to solve the financing difficulties of small and medium-sized enterprises, improve the contract energy management mechanism, and enhance the comprehensive benefits of energy efficiency and environment improvement projects.

5. The ADB loan and the recovered principal were jointly reissued to the sub-borrowers, which not only ensured the efficient use of ADB loan funds, but also met the relevant audit requirements.
The small number of cooperating financial institutions reduced the efficiency of project implementation and it failed to fully reflect the financial innovation of the project.

The spread yield of ADB loan project was influenced by three variables: cost interest rate, exchange rate, and implementation interest rate, and the loan cost price couldn't be accurately measured in the early stages of investment.

There were relatively few project enterprises that met the requirements for both green index and investment scale and efficiency, even fewer SMEs who could meet these standards.

The consulting fees for green certification cooperating agency increased the operating costs of the ADB loan sub-projects, but the sub-project units were not much willingn to bear such certification charges.
THANK YOU