

Evaluation Approach Paper

Project Performance Evaluation Report for Maxwealth Financial Leasing Co., Ltd. Industrial and Municipal Wastewater Treatment Project (People's Republic of China) Loan 3811

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Team Leader: Ambra Avenia, Evaluation Specialist (aavenia@adb.org)
Contact: evaluation@adb.org

A. Background

1. The rapid economic growth and extensive urbanization in the People's Republic of China (PRC) during 1980 to 2018 resulted in deteriorating water quality. As of June 2019, the PRC stood as one of the world's most water-stressed nations, with per capita water resources at 2,100 cubic meters (m³) per year, equivalent to 25% of the global average. This water scarcity was compounded by severe pollution in surface water bodies and groundwater, along with climate-related incidents. Wastewater discharge surged by 65%, escalating from 41.5 billion m³ annually in 2000 to 69.5 billion m³ in 2013. Micro, small, and medium-sized enterprises (MSMEs) contributed 60% to the overall water pollution, while only 56% of wastewater in the PRC was treated.¹

2. Leasing emerged as a viable solution for long-term financing of wastewater treatment equipment, as traditional banks often did not accept movable assets like equipment as collateral. Between 2008 to 2017, the leasing industry in the PRC experienced substantial growth, addressing a financing gap left by traditional bank methods. New leasing sales in the PRC surged from \$21.88 billion in 2008 to \$265.68 billion in 2017, boasting a compound annual growth rate of almost 32%. Despite this rapid expansion, the PRC's financial leasing industry required further development, with a lease market penetration² of about 9% in 2020, compared with 42% in Canada, about 28% in the United Kingdom, and 22% in the United States, indicating significant potential for future growth. In 2018, total outstanding lease receivables amounted to CNY6.55 trillion, considerably smaller than the banking industry's total outstanding loans of CNY108.56 trillion in the same year (footnote 1).

3. **The project.** In September 2019, the Board of Directors of the Asian Development Bank (ADB) approved a senior secured loan of up to \$60 million or its yuan equivalent to Maxwealth Financial Leasing Co., Ltd. (MWFL) in the PRC. The disbursement was made in local currency. The loan's objectives were two-fold: (i) to fund the construction, maintenance, and expansion of industrial and municipal wastewater treatment plants (WWTPs), and (ii) to facilitate the development and expansion of the financial leasing industry in the PRC.³

¹ ADB. 2019. *Report and Recommendation of the President to the Board of Directors: Proposed Loan Maxwealth Financial Leasing Co., Ltd. Industrial and Municipal Wastewater Treatment Project in People's Republic of China*. Manila.

² Measured as the ratio of lease finance to all fixed investments in plant and equipment.

³ ADB. 2023. *Extended Annual Review Report: Maxwealth Financial Leasing Co., Ltd. Industrial and Municipal Wastewater Treatment Project in People's Republic of China*. Manila.

B. Project Scope and Objectives

4. The ADB loan was intended to assist MWFL in offering lease financing to industrial and municipal WWTPs in the PRC. The funds from the ADB loan would be used to finance a minimum of six WWTPs, with each subproject receiving a maximum of \$10 million of the ADB loan proceeds.

5. The anticipated impacts of the project included (i) the reduction of water pollution, leading to a more sustainable environment and improved water quality, and (ii) the development of the financial leasing industry in the PRC. The expected outputs by the end of 2021 consisted of (i) the expansion of MWFL's lease operations for wastewater treatment by providing an additional \$60 million in lease financing to at least six industrial or municipal WWTPs and (ii) the enhancement of MWFL's gender inclusiveness by strengthening the company's commitment to inclusivity in its operations, particularly regarding its female staff. The project's expected outcome was the enhancement of treatment capacity for industrial and municipal wastewater, which was expected to benefit 2.2 million people in urban areas.

C. [CONFIDENTIAL INFORMATION DELETED]

D. Progress Highlights

6. **ADB loan.** A senior secured loan of \$60 million (equivalent to CNY425.1 million) was signed on 11 November 2019 and disbursed in one tranche on 6 December 2019. [CONFIDENTIAL INFORMATION DELETED]. The loan proceeds were to be used to provide long-tenor leases for the construction or upgrading of industrial and municipal WWTPs in the PRC. The treatment plants would be primarily located in Zhejiang and Jiangsu provinces, which are the focus of MWFL's operations.⁴ MWFL is current on all fees, interest, and principal payments due, and it is expected to fully repay the loan upon maturity in December 2024 (footnote 3).

7. **Compliance with loan covenants.** MWFL has been compliant with all ADB covenants since disbursement. No breaches are expected for FY2023.⁵

8. **MWFL performance.** During 2020–2022, the PRC economy was severely affected by coronavirus disease (COVID-19), characterized by multiple lockdowns, mobility restrictions, and fluctuations in GDP growth. Challenges in the real estate sector and trade tensions with the United States further impacted the economy. In addition, CBIRC issued new regulatory standards for FLCs covering areas such as business scope, prohibited activities, administrative licensing, and financial standards. In the same period, the government prescribed loan moratoriums and encouraged banks to expand lending in response to COVID-19 to mitigate the impacts of the pandemic on the economy. In this challenging macroeconomic and financial sector environment, MWFL achieved robust growth, with total lease assets increasing from CNY 33.2 billion in 2019

⁴ Water pollution is more acute in PRC's coastal provinces with more developed private economies and a larger number of MSMEs, such as Zhejiang, which ranked second among PRC provinces in terms of wastewater discharge volume in 2013 and Jiangsu, which ranked fourth (footnote 1).

⁵ October 2023 Annual Monitoring Report reviewed and approved by the Office of Risk Management dated 6 November 2023. The facility agreement between MWFL and ADB, requires MWFL to ensure at all times, on a consolidated basis, the following: (a) its Capital Adequacy Ratio is not less than 10.5%; (b) its Largest Single Lessee Exposure is no more than 30% of Net Capital; (c) its Largest Single Group Exposure is no more than 50% of Net Capital; (d) its Overall Related Party Exposure is not more than 50% of Net Capital; (e) its Aggregate Non-Performing Leases do not exceed more than 2% of its Net Aggregate Lease Receivables; (f) its Liquidity Ratio is not less than 25%; and (g) its Interbank Borrowing is not greater than 100% of Net Capital.

to CNY 87.7 billion in 2022, while maintaining strong profitability and a non-performing loan ratio below 0.1% during FY2019-FY2022. As of 31 December 2022, MWFL ranked 11 among 72 financial leasing companies regulated by CBIRC in terms of leasing assets, up from 20th–25th in previous years.

E. Major Findings of the Extended Annual Review Report

9. The extended annual review report (XARR) for MWFL was completed in October 2023. Overall, the project is rated *successful* based on a strong development impact and business success, particularly its contribution to wastewater treatment, clean water supply, and financial sector development in PRC.

10. The XARR highlighted the following key lessons: (i) within the state and municipal government-owned sector, it may be beneficial to focus on entities that provide essential public services, are revenue generating, and are cash flow positive; (ii) the strong performance of the project further underscores the advantages of leasing versus bank lending in meeting the financing needs of various sorts of enterprises (e.g., the ability to serve creditworthy borrowers lacking fixed asset collateral, the collection of monthly as opposed to quarterly payments, and the ease of repossession in case of defaults); and (iii) financial institutions located in more-developed areas of the PRC can be good partners for addressing important environmental or climate-related objectives of ADB and the PRC government. [CONFIDENTIAL INFORMATION DELETED]

F. Objectives and Scope of Evaluation Review

11. **Evaluation Objective.** The main objective of this independent evaluation is to assess the performance of the project towards achieving its objectives, particularly to (i) to fund the construction, maintenance, and expansion of industrial and municipal wastewater treatment plants (WWTPs), and (ii) to facilitate the development and expansion of the financial leasing industry in the PRC. The evaluation is envisaged to derive lessons that can assist in the design and implementation of future ADB private sector operations, particularly similar investments in the financial leasing sector in the PRC and other ADB developing member countries (DMCs). Moreover, the evaluation findings are expected to provide inputs to the upcoming livable cities and urban resilience evaluation. The output of this evaluation will be a project performance evaluation report (PPER) of the ADB loan extended to MWFL.

12. **Evaluation Scope.** This evaluation will assess the project against the evaluation criteria of development results, ADB additionality, ADB investment profitability, and ADB work quality following the Guidelines for the Preparation of Project Performance Evaluation Reports on Non-Sovereign Operations⁶ and will identify issues, lessons, and recommendations from the project. The evaluation matrix (Attachment 2) contains the main evaluation questions by criteria and sub-criteria and describes the methods to be used in evaluating the performance of the project and the corresponding sources of information.

13. The evaluation will focus on the following areas:

- (i) **Contribution to private sector development and alignment with government and ADB policies and strategies.** The PPER will assess whether the project contributed to the country's private sector development in the area of WWTPs

⁶ ADB. 2014. *Guidelines for the Preparation of Project Performance Evaluation Reports on Non-sovereign Operations*. Manila.

leasing and is aligned with the pertinent government strategies and policies as well as ADB's relevant policies and strategies, including, but not limited, to the 13th Five-Year Plan of the PRC covering 2016-2020, ADB-PRC country partnership strategy for 2016-2020, ADB's private sector development strategy, ADB Strategy 2030, and ADB's Water Operational Plan 2011-2020.

- (ii) **Achievement of objectives and development outcomes.** The PPER will assess if the project achieved the outcome of enhancing the treatment capacity for industrial and municipal wastewater, and the outputs of expanding MWFL's lease operations for wastewater treatment and enhancing MWFL's gender inclusiveness.
- (iii) **ADB's value addition.** The PPER will assess ADB's financial and nonfinancial additionality to the project. Financial additionality will consider whether MWFL would have been able to obtain sufficient financing on appropriate terms without ADB support. Nonfinancial additionality will be assessed by considering, among others, the extent to which ADB assistance improved the MWFL's environmental, social, health and safety (ESHS), financial, institutional, and governance standards.
- (iv) **ADB's investment profitability.** The PPER will assess the project's net profit contribution to ADB and compare the loan pricing to ADB cost recovery pricing and market prices of benchmark instruments provided to financial leasing companies in the country.
- (v) **ADB's work quality.** The PPER will assess the performance of ADB in preparing, structuring, monitoring, and supervising the project.

14. The evaluation will include the following activities: (i) desk review of all relevant project documents; (ii) gather and review of secondary data including relevant reports on borrower's operations and sector statistics; (iii) discussions with project staff from PSOD and Office of Risk Management (ORM); (iv) discussions with officials of MWFL; (v) discussions with other stakeholders such as relevant government officials, non-governmental and private organizations, industry participants, MWFL's clients and development partners; and (vi) preparation of the PPER.

G. Implementation Arrangements and Resource Implications

15. The evaluation team shall be composed of the following staff and consultants: (i) Ambra Avenia, Evaluation Specialist and Team Leader; (ii) Mark Leander Mendoza, Evaluation Officer; (iii) Alzeus Alzate, Evaluation Assistant; (iv) a national consultant with expertise on evaluating private sector projects; and (v) an in-country national consultant with local experience in the sector to support the team during the independent evaluation mission (IEM). Internal and external peer reviewers will also be engaged to review this Evaluation Approach Paper and the subsequent draft PPER. Overall guidance will be provided by Nathan Subramaniam, Director, Sector and Project Division, IED. The time commitment for the PPER will be about 6-8 months intermittently for each of the team members according to the following schedule, subject to approvals:

Activity	Target Date
Approval of evaluation approach paper	V April 2024
Recruitment of consultant	I May - I June 2024
Independent evaluation mission	II June - III June 2024
IED internal review	II July 2024
Interdepartmental review	II August 2024
Submission of the draft PPER to the Editor	IV August 2024

Submission to IESP Director for approval	III September 2024
Submission to Director General, IED	I October 2024
Circulation	II October 2024

Attachments:

1. Basic Data
2. Evaluation Matrix

BASIC DATA
Industrial and Municipal Wastewater Treatment Project (PRC)
(Loan Number 3811 – PRC)

Key Project Data	As per ADB Documents (\$ million)	Actual (\$ million)
Total project cost		
ADB investment:		
Loan:		
Committed	60.0	60.0
Disbursed	60.0	60.0
Outstanding	23.4	23.4
Key Dates	Expected	Actual
Concept clearance approval	2019	12 April 2019
Board approval	2019	6 September 2019
Loan agreement	2019	11 November 2019
Loan effectiveness	2019	11 November 2019
Loan disbursement	2019	6 December 2019
Loan maturity	2024	6 December 2024
Project Administration and Monitoring	No. of Missions	No. of Person-Days
Concept clearance	1	6
Due diligence	1	12
Project administration	1	2
Extended annual review	0	6

ADB = Asian Development Bank, PRC = People's Republic of China

EVALUATION MATRIX

Evaluation Criteria	Evaluation Questions	Method	Information Source
A. Development Results			
1. Private Sector Development and ADB Strategic Development Objectives	<p>Did the project contribute to enhancing the treatment capacity of municipal and industrial wastewater?</p> <p>Did the project contribute to expanding the partner financial institution's (PFI) wastewater treatment lease operations?</p> <p>Did the project strengthen the PFI's inclusiveness in its operations with respect to women staff?</p> <p>Did the project contribute to developing the financial leasing industry in the PRC?</p>	<p>Review project monitoring and supervision documents.</p> <p>Interview various stakeholders.</p> <p>Gather secondary data and check whether the project contributed to private sector participation in the financial leasing industry.</p>	<p>Development effectiveness monitoring reports, annual monitoring reports, extended annual review report.</p> <p>Interviews with PSOD and ORM staff; MWFL management; and other stakeholders (e.g., MWFL's lessees).</p> <p>Industry reports.</p>
2. Business Success	<p>What was the financial performance of the project and how did this compare with approval assumptions and expectations?</p> <p>Did the project contribute to business goals stated during project approval?</p> <p>What are the overall prospects for sustainability and growth of the PFI?</p>	<p>Review the financial performance and long-term profitability and viability of the financial institution, including an assessment of its capital, asset quality, management, earnings, and liquidity.</p> <p>Review project documents for other business goals which may have been stated and interview stakeholders to determine if these were achieved.</p> <p>Interview various stakeholders to get their assessment of the sustainability and growth of MWFL's operations.</p>	<p>Financial statements and ratios of MWFL.</p> <p>ADB approval documents, development effectiveness monitoring reports; external monitoring reports and/or industry reports; stakeholder interviews.</p> <p>PSOD and ORM staff; MWFL management; industry experts</p>

Evaluation Criteria	Evaluation Questions	Method	Information Source
3. Economic Performance	Did the project contribute to economic output and growth?	A qualitative stakeholder analysis should be carried out, identifying each stakeholder group affected by the project, the positive and negative impacts on them, and a broad judgment of the magnitude and direction (positive or negative) of the impact on each.	Financial statements of MWFL; interviews with stakeholders; statistics from government and other industry reports.
4. Environment, Social, Health, and Safety Performance	Did the project adhere to ADB's safeguard policies?	Review project documents, ESHS studies, and monitoring reports, to determine if the project complied with ADB policies and standards.	Facility agreements; safeguard documents such as AESPRs; interviews with ADB staff, and other stakeholders.
B. ADB Additionality			
ADB Additionality	<p>To what extent was ADB financing a necessary condition for the timely realization of the project and other funding mobilization?</p> <p>What was ADB's contribution to the design and functioning of the project to improve development impact?</p> <p>What was ADB's contribution to the design and function of the project to improve ESHS and governance standards, project performance, and development impact?</p>	Evaluate the impact of ADB on supporting the project and ADB's contribution to the project development impact through counterfactual analysis. Interview ADB staff and various stakeholders. Review project documents.	Project documents; interviews with PSOD and ORM staff, other lenders, and project stakeholders; market and secondary data analysis.
C. ADB Investment Profitability			
ADB Investment Profitability	<p>Was the ADB pricing model cleared?</p> <p>Was market pricing achieved?</p> <p>Were there covenant breaches and waivers suggesting that profitability on the loan is lower than anticipated?</p> <p>What were the factors that contributed to the performance or underperformance of the project?</p>	<p>Compare margin and profitability to ADB's return requirements/pricing policies. Review whether loan interest payments and principal repayments were made on schedule. Compare ADB's pricing to market benchmarks.</p> <p>Review annual monitoring reports and requests for waivers to determine if there were any covenant breaches and if MWFL may have trouble servicing its loan</p>	<p>Project documents; PSOD disbursement and receipt records; secondary sources for comparable financings; annual monitoring reports; waiver requests.</p> <p>Interviews with PSOD and ORM staff; MWFL management; industry experts.</p>

Evaluation Criteria	Evaluation Questions	Method	Information Source
		interest and principal payments in the future. Determine and analyze various factors that affected MWFL's loan repayment history.	
D. ADB Work Quality			
1. Screening, Appraisal, and Structuring	Did ADB's screening, appraisal, and structuring performance meet the high standards of multilateral development banks?	Review project's processing documents and interview ADB staff and stakeholders.	ADB approval documents; interviews with ADB staff, and project stakeholders.
2. Monitoring and Supervision	Did ADB keep itself promptly and fully informed about the project in all material areas and use this knowledge proactively to improve the project's development outcomes and ADB's investment outcomes?	Review project administration documents, monitoring reports, and compliance reports.	Annual monitoring reports; interviews with PSOD and ORM staff, project stakeholders.

ADB = Asian Development Bank; AESPR = annual environmental and social performance report; ESHS = environmental, social, health and safety; MWFL = Maxwealth Financial Leasing Company; ORM = Office of Risk Management; PFI = partner financial institution; PRC = People's Republic of China; PSOD = Private Sector Operations Department