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LOAN NUMBER 7935-CN

# Project Agreement

(Energy Efficiency Financing II Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

CHINA MINSHENG BANKING CORPORATION LIMITED

Dated August 11, 2010

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## **PROJECT AGREEMENT**

AGREEMENT dated August 11, 2010, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”), and CHINA MINSHENG BANKING CORPORATION LIMITED (“Project Implementing Entity” or “Minsheng”) (“Project Agreement”) in connection with the Loan Agreement of same date between PEOPLE’S REPUBLIC OF CHINA (“Borrower”) and the Bank (“Loan Agreement”); and the Bank and Minsheng hereby agree as follows:

### **ARTICLE I – GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to the Loan Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Project Agreement have the meanings ascribed to them in the Loan Agreement, or the General Conditions.

### **ARTICLE II – PROJECT**

- 2.01. Minsheng declares its commitment to the objective of the Project. To this end, Minsheng shall: (a) carry out the Project in accordance with the provisions of Article V of the General Conditions; and (b) provide, promptly as needed, the funds, facilities, services and other resources required for the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank and Minsheng shall otherwise agree, Minsheng shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

### **ARTICLE III – REPRESENTATIVE; ADDRESSES**

- 3.01. Minsheng’s Representative is its President or its Vice President or such other person or persons as said President or Vice President designates in writing, and Minsheng shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

3.02. The Bank's Address is:

International Bank for Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

3.03. Minsheng's Address is:

No.2 Fuxingmennei Dajie  
Xicheng District  
Beijing 100031  
People's Republic of China

Facsimile:  
  
010-5912-3669

AGREED at Beijing, People's Republic of China, as of the day and year first above written.

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Klaus Rohland  
Authorized Representative

CHINA MINSHENG BANKING  
CORPORATION LIMITED

By /s/ Hong Qi  
Authorized Representative

## **SCHEDULE**

### **Execution of the Project**

#### **Section I. Institutional and Other Arrangements**

##### **Project Management**

1. Throughout the period of implementation of the Project, Minsheng shall maintain, and cause to be maintained, for purposes of carrying out the Project, the On-lending Office, with terms of reference, staffing and other resources acceptable to the Bank, to be responsible for implementing the Project.

##### **Project Implementation**

##### **Operational Manual**

- 2.01. In carrying out the Project, Minsheng shall:
  - (a) apply the Operational Manual, satisfactory to the Bank, which shall include: (i) institutional and implementation arrangements; (ii) eligibility criteria and procedures for the selection of Sub-loan Beneficiaries and Sub-projects; (iii) terms and conditions of Sub-loans; (iv) procurement procedures consistent with the provisions set forth in Section III of Schedule 2 to the Loan Agreement; (v) a financial management manual, including guidelines on financial management, internal controls, accounting procedures, fund and asset management and withdrawal application procedures, consistent with the provisions set forth in Section II.B of this Schedule; (vi) the Environmental Impact Assessment Framework; and the Policy Framework for Compensation, Resettlement, and Rehabilitation of Displaced Persons; (vii) monitoring, evaluation and reporting procedures; and (viii) a negative list of activities not to be financed by Sub-loans; and
  - (b) not amend, abrogate, suspend, or waive any part of the Operational Manual without the prior written approval of the Bank.
- 2.02. In the event of any inconsistency between the provisions of the Operational Manual or any part thereof and the provisions of this Agreement, the provisions of this Agreement shall prevail.

##### **Sub-Loan Beneficiaries**

3. Unless the Bank shall otherwise agree in writing, the Project Implementing Entity shall select and approve Sub-loan Beneficiaries in accordance with the

eligibility criteria and the procedures set forth in the Operational Manual, including that a Sub-loan Beneficiary may be selected only if:

- (a) said Sub-loan Beneficiary has been established and is operating and in good standing pursuant to the Borrower's relevant laws and regulations; and
- (b) said Sub-loan Beneficiary is an industrial enterprise, or is an energy service company (ESCO) providing services to such industrial enterprise.

### **Sub-projects**

4. The Project Implementing Entity shall appraise, review, approve, and supervise Sub-projects in accordance with the criteria, conditions and procedures set out in the Operational Manual, including, among others, the following eligibility criteria:
  - (a) the proposed Sub-project is in compliance with the environmental standards set out in the Environmental Impact Assessment Framework, and with all applicable laws and regulations of the Borrower relating to environmental protection; an environmental screening has been carried out for the proposed Sub-project in accordance with principles set forth in the Environmental Impact Assessment Framework; and if said environmental screening concludes that an environmental management plan is required, said environmental management plan has been prepared by the relevant Sub-loan Beneficiary and approved by the Bank for implementing the proposed Sub-project;
  - (b) if the proposed Sub-project involves involuntary acquisition of land, or involuntary restriction of access to legally designated parks and protected areas, a resettlement action plan has been prepared in accordance with the principles set out in the Policy Framework for Compensation, Resettlement, and Rehabilitation of Displaced Persons and said resettlement action plan has been approved by the Bank for implementing the proposed Sub-project;
  - (c) the proposed Sub-project is technically feasible, and economically, financially and commercially viable; and
  - (d) the proposed Sub-project is limited to renovation or rehabilitation of existing facilities of Sub-loan Beneficiaries with the objective of achieving energy efficiency, with the exception of waste heat recovery Sub-projects that might be involved in construction of related heating supply facilities outside the existing facilities, which, for the avoidance of doubt, it is agreed would be eligible for Sub-loan financing, including,

inter alia, the following types of renovation or rehabilitation activities: (i) replacement of inefficient industrial technologies with energy saving technologies; (ii) recovery and utilization of by-product gas, waste heat and pressure; (iii) installation of highly efficient mechanical and electrical equipments; (iv) industrial system optimization to reduce energy use; and (v) such other energy efficiency activities as may be agreed from time to time in writing by the Borrower and the Bank.

5. The Project Implementing Entity shall furnish Sub-project proposals and appraisal documents for: (a) all Sub-projects with an environmental category A rating; and (b) the first two (2) Sub-projects with an environmental category B rating, to the Bank for review and approval, prior to signing of relevant Sub-loan Agreements for carrying out said Sub-projects.

#### **Sub-loans and Sub-loan Agreements**

6. The Project Implementing Entity shall make Sub-loans to Sub-loan Beneficiaries in accordance with eligibility criteria and procedures acceptable to the Bank as set out in the Operational Manual, and shall only make the proceeds of the Sub-loan available to such Sub-loan Beneficiary after the Project Implementing Entity has entered into a Sub-loan Agreement with the Sub-loan Beneficiary on terms and conditions acceptable to the Bank, which shall include the following:
  - (a) The Sub-loan shall be: (i) not more than US\$20 million equivalent, unless otherwise agreed by the Bank; (ii) denominated and repayable in RMB or US Dollars; (iii) repaid within a period not exceeding ten (10) years from the date of the Sub-loan Agreement, inclusive of a grace period not exceeding five (5) years; and (iv) charged interest on the principal amount withdrawn and outstanding from time to time at a rate sufficient to cover the cost of borrowing of the Project Implementing Entity plus a reasonable risk-adjusted spread and profit margin.
  - (b) The Project Implementing Entity shall obtain rights adequate to protect its interests and those of the Borrower and the Bank through a Sub-loan Agreement between the Project Implementing Entity and a Sub-loan Beneficiary, including the right to:
    - (i) suspend or terminate the right of the Sub-loan Beneficiary to use the proceeds of the Sub-loan, or declare to be immediately due and payable, or obtain a refund of all or any part of the amount of the Sub-loan then withdrawn, upon the Sub-loan Beneficiary's failure to perform any of its obligations under the Sub-loan Agreement; and
    - (ii) require each Sub-loan Beneficiary to:

- (A) carry out its Sub-project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Bank, including the provisions of the Anti-Corruption Guidelines, the Environmental Impact Assessment Framework, and the Policy Framework for Compensation, Resettlement, and Rehabilitation of Displaced Persons;
- (B) provide, promptly as needed, the resources required for carrying out the Sub-project;
- (C) procure the goods and works to be financed out of the Sub-loan in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement and use such goods and works exclusively for the Sub-project;
- (D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Bank, the progress of the Sub-project and the achievement of its objectives;
- (E) (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations, resources and expenditures related to the Sub-project; and (2) at the Bank's or the Borrower's or the Project Implementing Entity's request, have such financial statements audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank, and promptly furnish the statements as so audited to the Borrower, the Bank and the Project Implementing Entity;
- (F) enable the Borrower, the Bank and the Project Implementing Entity to inspect the Sub-project, its operation and any relevant records and documents; and
- (G) prepare and furnish to the Borrower, the Bank and the Project Implementing Entity all such information as the Borrower or the Bank or the Project Implementing Entity shall reasonably request relating to the foregoing.

7. Minsheng shall exercise its rights under each Sub-loan Agreement in such manner as to protect the interests of the Borrower, the Bank and Minsheng and to accomplish the purposes of the Loan. Except as the Borrower and the Bank shall otherwise agree in writing, Minsheng shall not assign, amend, abrogate or waive any Sub-loan Agreement or any of its provisions, which in the opinion of the Bank, will affect materially and adversely the ability of Minsheng to perform any of its obligations under the Sub-loan Agreement.

### **Scaling-up Financing for Energy Efficiency Investments**

- 8.01. In order to scale-up commercial lending for energy efficiency and other low carbon investments, during the implementation of the Project, Minsheng shall, in parallel to the Project financed by the Loan, invest at least five hundred million Dollars (\$500,000,000) equivalent from its own resources to finance eligible energy efficiency and other low carbon investment projects whose eligibility criteria are described in the Operational Manual.
- 8.02. Without limitation upon its other reporting obligations under Section II.A.1 of this Schedule, Minsheng shall take all measures necessary on its part to regularly collect, compile, and submit to the Bank and provide a copy to the Borrower, on an annual basis, reports acceptable to the Bank on the status of its investments in eligible energy efficiency and other low carbon investment projects pursuant to Section 8.01 of Section I of this Schedule, giving reasonable details, satisfactory to the Bank, of the nature, amount, location and timing of such investments, as well as a summary of the principal terms and conditions on which such investments were made.

### **Anti-Corruption**

9. Minsheng shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

### **Other Undertakings**

10. Minsheng shall not amend, suspend, abrogate, repeal or waive its Articles of Association so as to affect materially and adversely its ability to perform any of its obligations under the Project Agreement for the Loan.

## **Section II. Project Monitoring, Reporting and Evaluation**

### **A. Project Reports**

1. Minsheng shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08(b) of the General Conditions and on the basis of the indicators set forth in Annex A to this



Schedule. Each such Project Report shall cover the period of one (1) calendar year, and shall be furnished to the Borrower and the Bank not later than forty-five (45) days after the end of the period covered by such report.

2. Without limitation on the provisions in paragraph A.1 of this Section II above, the Project Implementing Entity shall:
  - (a) conduct a mid-term review for the Project, and thereafter prepare, under terms of reference satisfactory to the Bank, and furnish to the Borrower and the Bank on or about August 15, 2012, a mid-term report on the progress achieved in the carrying out of the Project during the period preceding such report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and
  - (b) review with the Bank by October 30, 2012, or such later date as the Bank shall request, the mid-term report referred to in sub-paragraph (a) above, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

**B. Financial Management, Financial Reports; Audits**

1. The Project Implementing Entity shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations and financial condition of Minsheng including the operations, resources and expenditures related to the Project.
2. Without limitation on the provisions of Part B of this Section, Minsheng shall prepare and furnish to the Bank, not later than forty-five (45) days after the end of each calendar semester, interim unaudited financial reports for the Project covering the calendar quarter, in form and substance satisfactory to the Bank.
3. Minsheng shall have its financial statements referred to above audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one (1) fiscal year of Minsheng. The audited financial statements for each period shall be furnished to the Borrower and the Bank not later than six (6) months after the end of the period.

**Section III. Procurement**

All goods and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement.

**ANNEX A  
to  
SCHEDULE**

<b>PDO</b>	<b>Project Outcome Indicators</b>	<b>Use of Project Outcome Information</b>
<ul style="list-style-type: none"> <li>• Improve energy efficiency of selected enterprises, and thereby reduce their adverse environmental impacts through scaling-up commercial lending for energy efficiency (EE) investments.</li> </ul>	<ul style="list-style-type: none"> <li>• Amount of accumulated EE and renewable energy investments supported and leveraged by the project;*</li> <li>• Associated annual energy savings from the EE investments; and**</li> <li>• Reduction of greenhouse emissions (GHGs) from the EE investments.***</li> </ul>	Determine if project assistance strategies/activities need to be adjusted
<b>Intermediate Outcomes</b>	<b>Intermediate Outcome Indicators</b>	<b>Use of Intermediate Outcome Monitoring</b>
<b>Component A: Energy Efficiency Lending</b>		
<ul style="list-style-type: none"> <li>• Increased energy efficiency investments in industrial sectors.</li> </ul>	<ul style="list-style-type: none"> <li>• Cumulative amount of energy efficiency on-lending of the Loan.</li> </ul>	Low levels may flag weak business development capacity at Minsheng Bank and require necessary adjustments in EE lending business strategy.
<b>Component B: Technical Assistance</b>		
<ul style="list-style-type: none"> <li>• Minsheng's capacity of identifying, and evaluating energy efficiency projects and managing the environmental and social risks of its lending operations is strengthened.</li> </ul>	<ul style="list-style-type: none"> <li>• Number of training courses carried out;</li> <li>• Environmental and social risk assessment and control system strengthening plan is developed and recommended to the management of Minsheng Bank for consideration; and</li> <li>• Study of business opportunities for Minsheng Bank in carbon finance and trading is carried out</li> </ul>	YR1-YR4: monitor implementation progress to determine whether assistance is effective and approaches are realistic. Necessary adjustments made to meet policy and institutional development objectives.

Notes:

\* These investments include: (1) the on-lending of the IBRD loan; (2) the parallel financing by Minsheng Bank with its own resources; (3) the parallel financing of other financing institutions; and (4) the equity investments of EE the project owners which will be estimated at 40 percent of the total investment costs of the EE project.

\*\* See footnote 16.

\*\*\* See footnote 17.

Project Outcome Indicators	Baseline 2009	Target Values					Data Collection and Reporting		
		YR1	YR2	YR3	YR4	YR5	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
<ul style="list-style-type: none"> <li>Amount of accumulated EE and renewable energy investments supported and leveraged by the Project (million US\$)</li> </ul>	0	100	300	600	1,000	1,000	Annual report	Project progress report	On-lending Office
<ul style="list-style-type: none"> <li>Associated annual energy savings from the EE investments (million tons of coal equivalent) <sup>1</sup></li> </ul>	0	0	0.247	0.741	1.481	2.469	Annual report	Project progress report	On-lending Office
<ul style="list-style-type: none"> <li>Annual GHGs reduction capacity (million tons of CO2 equivalent) <sup>2</sup></li> </ul>	0	0	0.610	1.830	3.658	6.098		Project progress report	On-lending Office
<b>Intermediate Outcome Indicators</b>									
<b>Component A: Energy Efficiency Lending</b>									
<ul style="list-style-type: none"> <li>Cumulative amount of energy efficiency lending</li> </ul>	0	30	60	80	100		Annual report	Project progress report	On-lending Office
<b>Component B: Tailored Technical Assistance</b>									
<ul style="list-style-type: none"> <li>Number of training courses on the Operational Manual carried;</li> <li>Environmental and social risk assessment and control system strengthening plan is developed and recommended to the management of Minsheng Bank for consideration;</li> <li>Study of business opportunities for Minsheng Bank in carbon finance and trading is carried out</li> </ul>	0	4	3	1	0	0	Annual report	Project progress report	On-lending Office
				Completed					
				completed					

<sup>1</sup> These are estimated based on the sample EE subprojects funded under CHEEF and CHEEF II, average US\$ 405/tce. It is assumed that savings will only be produced one year after the investments.

<sup>2</sup> The estimates are based on the assumed factor of 2.47 ton CO2/tce.

