Project Agreement

(Micro and Small Enterprise Finance Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

CHINA DEVELOPMENT BANK
PROJECT AGREEMENT

AGREEMENT dated March 3, 2008, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") and CHINA DEVELOPMENT BANK ("Project Implementing Entity") ("Project Agreement") in connection with the Loan Agreement of same date between PEOPLE’S REPUBLIC OF CHINA ("Borrower") and the Bank ("Loan Agreement"). The Bank and the Project Implementing Entity 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. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity 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 the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III – REPRESENTATIVE; ADDRESSES

3.01. The Project Implementing Entity’s Representative is the Governor or any Vice Governor of China Development Bank or such other person or
persons as the Governor or Vice Governors of China Development Bank designates in writing, and China Development Bank 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: INTBAFRAD  
Telex: 248423(MCI) or 1-202-477-6391  
Facsimile: 64145(MCI)

3.03. The Project Implementing Entity’s Address is:

China Development Bank  
No.29 Fuchengmenwaidajie  
Xicheng District  
Beijing 100037  
People’s Republic of China

Facsimile: 86-10-68307214

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/ David Dollar  
Authorized Representative
CHINA DEVELOPMENT BANK

By /s/ Li Huachang
Authorized Representative
SCHEDULE

Execution of the Project

Section I. Institutional and Other Arrangements

A. Project Management

1. The Project Implementing Entity shall maintain, throughout the period of implementation of the Project and with terms of reference, staffing and other resources acceptable to the Bank, the MSE Business Unit (“MBU”) headed by a Director-General and assisted by teams responsible for: (a) PFI selection and monitoring; (b) MSE finance advisory services; and (c) project management and administration. The MBU shall be responsible for the overall coordination and implementation of Project activities.

B. Project Implementation

Operational Manual

1. The Project Implementing Entity:

   (a) shall adopt an operational manual (“Operational Manual”), satisfactory to the Bank, which shall include: (i) criteria and procedures for the selection of PFIs; (ii) samples of the Subsidiary Loan Agreement and Technical Cooperation Agreement, which agreements will include criteria and procedures for the selection of MSEs and Sub-projects; (iii) procurement procedures as set forth in Section III of this Schedule; (iv) monitoring and reporting requirements and financial management procedures, including audit procedures as set forth in Section II of this Schedule; and (v) the Environmental Assessment Framework;

   (b) shall carry out the Project, and cause the Project to be carried out, in accordance with the Operational Manual, which the Bank has confirmed to be satisfactory; and

   (c) shall not amend, delete, suspend, or waive any part of the Operational Manual, without the prior approval of the Bank.

Subsidiary Loans and Subloans
2. Unless otherwise agreed by the Bank, the Project Implementing Entity shall approve proposed PFIs for financing under the Project in accordance with the criteria and procedure and on the terms and conditions set forth in the Operational Manual, including that a PFI may be selected only if:

   (a) said PFI shall have been established and operating pursuant to the Borrower’s Commercial Banking Law dated May 10, 1995, and as amended on December 27, 2003, or pursuant to other relevant laws and regulations;

   (b) said PFI shall have had financial reports for the most two (2) recent years (that is, the two (2) fiscal years prior to the date of appraisal of said participating institution by the Project Implementing Entity) audited by an auditing agency acceptable to the Bank and in accordance with auditing standards acceptable to the Bank; and

   (c) the PFI shall have had a positive net income for the current and previous fiscal years, as reflected in the audited financial statements.

3. The Project Implementing Entity shall make proceeds of part of the Loan available to a PFI (“Subsidiary Loan”) only after the PFI has:

   (a) entered into a Subsidiary Loan Agreement with the Project Implementing Entity, whereby:

       (i) The principal amount of the subsidiary loan made to the PFI: (A) shall be denominated in RMB, except under circumstances where foreign currency loans are requested by MSEs; (B) shall be repaid within a period equal to or less than ten (10) years, inclusive of a maximum grace period of five (5) years; and (C) shall bear interest at a rate that reflects, among other things, the Project Implementing Entity’s cost of funding and the PFI’s credit standing; and

       (ii) The PFI undertakes to promote, appraise, review, approve and supervise Sub-projects in accordance with the criteria, conditions and procedures set out in the Operational Manual;

   (b) entered into a Technical Cooperation Agreement with the Project Implementing Entity, whereby technical assistance will be provided to the PFI for up to two (2) years without any charge. Thereafter, further assistance, if needed, will be provided on a cost sharing basis; and

   (c) undertaken in either the Subsidiary Loan Agreement or Technical Cooperation Agreement to onlend the proceeds of its Subsidiary Loan in the form of
Subloans to MSEs for the carrying out of Sub-projects and in accordance with the criteria, conditions and procedures, acceptable to the Bank, including that the PFI:

(i) shall select a MSE only if the MSE: (A) has at least fifty-one percent (51%) private ownership and control; (B) has not more than one hundred (100) staff (except otherwise agreed with the Bank; and (C) is engaged in the production, service or trade sectors;

(ii) shall approve a subloan only if the proposed sub-project activities are not excluded in the Environmental Assessment Framework, which forms part of the Operational Manual; and

(iii) shall make the proceeds of a Subloan available to a MSE only after the MSE has entered into a Subloan Agreement with the PFI, whereby:

(A) the principal amount of a Subloan made to the MSE:

(I) shall be not less than RMB 100 and not more than RMB 500,000, unless otherwise agreed by the Bank;

(II) shall be denominated in RMB, except under circumstances where foreign currency loans are requested by the MSE;

(III) shall be repaid within a period not exceeding three (3) years; and

(IV) shall bear interest at a rate sufficient to cover the cost of borrowing of the PFI concerned plus a reasonable risk-adjusted spread and profit margin;

(B) the MSE undertakes to carry out its Sub-project with due diligence, and efficiency and in accordance with sound technical, financial, social and environmental standards and practices and to maintain relevant records;

(C) the MSE undertakes to utilize the proceeds of the Subloan exclusively in the carrying out of its Sub-project;

(D) the MSE undertakes to ensure that goods, works and services (other than consultants’ services) financed by the
Subloans are procured in accordance with the provisions of Section III of this Schedule;

(E) the MSE undertakes to enable the Project Implementing Entity, PFI or the Bank to inspect goods, facilities and sites, if any, included in its Sub-project and any other relevant records and documents; and

(F) The MSE undertakes to furnish to the Project Implementing Entity, PFI or the Bank, all such information as may be reasonably requested relating to the Sub-project.

4. The Project Implementing Entity may utilize amounts repaid under each Subsidiary Loan, to the extent the monies are not required to meet the Project Implementing Entity’s repayment obligations to the Borrower, to finance additional Subsidiary Loans consistent with the provisions of the Operational Manual.

Compliance with Agreements

5. The Project Implementing Entity shall:

(a) take all such action as shall be necessary (including, the suspension, cancellation and acceleration of the principal amount of the Subsidiary Loan Agreement): (i) to cause each PFI to comply with its obligations under its Subsidiary Loan Agreement including, the suspension, cancellation and acceleration of the principal amount of the relevant Subloan; and (ii) to ensure that each PFI causes each MSE to comply with the obligations under its Subloan Agreement; and

(b) not waive, suspend, abrogate, cancel or otherwise amend any Subsidiary Loan Agreement or any provision therein without the prior approval by the Bank.

Technical Cooperation Agreement

6. For purposes of carrying out Part 2 of the Project, the Project Implementing Entity shall enter into a Technical Cooperation Agreement (“TCA”) with each PFI in accordance with the Operational Manual and shall take all such action, satisfactory to the Bank, for the effective and timely implementation by the PFI of its obligations under the TCA.

Consultants’ Contract

7. For purposes of implementing Part 2 of the Project, during the period of implementation of the Project and until the Bank has confirmed that the Project Implementing Entity has sufficient capacity, the Project Implementing Entity shall
engage and retain the services of consultants, under terms of reference satisfactory to the Bank, to provide technical assistance to strengthen the institutional and human resource capacity of the Project Implementing Entity and PFIs in the provision of financial services to MSEs.

**Risk of Loss**

8. The Project Implementing Entity shall take all prudent and timely measures necessary to protect against the risk of loss resulting from either: (a) changes in the exchange and interest rate environment; or (b) from developments in PFIs that increase the Project Implementing Entity’s risk exposure to such PFIs.

**Strategy and Plans**

9. By January 1, 2008, the Project Implementing Entity shall furnish the following strategy and plans, prepared in accordance with terms of reference acceptable to the Bank and thereafter, implement said strategy and plans, taking into account the Bank’s comments thereon: (a) an updated strategy and business plan with respect to Part 1 of the Project; and (b) an updated procurement plan for the implementation of Part 2 of the Project. Said strategy and plans may be updated with the agreement of the Bank.

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

A. **Project Reports**

1. The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports of the Project in accordance with the provisions of Section 5.08(b) of the General Conditions and on the basis of the indicators set forth in the Annex to this Schedule. Each such Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Bank not later than one (1) month after the end of the period covered by such report.
B. **Financial Management, Financial Reports; Audits**

1. The Project Implementing Entity shall maintain, and cause to be maintained, 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 the Project Implementing Entity, including the operations, resources and expenditures related to the Project.

2. The Project Implementing Entity shall adopt, and thereafter, apply in the implementation of the Project the financial management guidelines ("Financial Management Guidelines"), which form part of the Operational Manual, satisfactory to the Bank, including guidelines on financial management, internal controls, accounting procedures, fund and asset management and withdrawal application procedures. The Project Implementing Entity shall not amend, waive, suspend, abrogate or cancel the Financial Management Guidelines or any provision therein without the prior approval by the Bank.

3. The Project Implementing Entity shall have its financial statements referred to above audited by an independent auditor acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank. The audited financial statements for each period shall be furnished to the Bank not later than six (6) months after the end of such period.

**Section III. Procurement**

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

2. The Project Implementing Entity shall seek the Bank’s “no objection” in accordance with the provisions in paragraph 3 of the Appendix 1 to the Consultant Guidelines for any modification to the existing consultants’ contract signed by the Project Implementing Entity and financed by the proceeds of the Loan.
### Annex

**Performance Indicators**

<table>
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<tr>
<th>Project Development Objectives</th>
<th>Project Outcome Indicators</th>
<th>Use of Project Outcome Information</th>
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<tr>
<td>To expand credit flows to MSEs on a mass-market and commercially sustainable basis.</td>
<td>Increase in number of loans to MSEs granted through the new lending technology compared to a control group.</td>
<td>To assess whether activity is suitable for scaling-up nationwide.</td>
</tr>
<tr>
<td></td>
<td>Portfolio quality: Maximum percentage of subloans overdue by more than 30 days.</td>
<td>To judge whether MSE lending outreach is at the expense of portfolio quality and to introduce promptly corrective actions.</td>
</tr>
<tr>
<td></td>
<td>Indicator of rate of return on capital of MSE borrowers in the treatment group compared to control group.</td>
<td>To demonstrate the effectiveness of the new lending technology.</td>
</tr>
<tr>
<td></td>
<td>To assess whether activity is suitable for scaling-up nationwide.</td>
<td>To demonstrate the efficiency of the new lending technology.</td>
</tr>
</tbody>
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<table>
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<tr>
<th>Intermediate Results</th>
<th>Intermediate Results Indicators</th>
<th>Use of Intermediate Results Monitoring</th>
</tr>
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<tr>
<td><strong>Result 1:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>③ PIE develops skills and capacity to effectively provide long-term-funding and advisory services to banks for MSE lending.</td>
<td>③ Number of PIE staff able to evaluate and monitor commercial banks eligibility to engage in MSE activity.</td>
<td>③ To judge effectiveness of PIE’s strategy and business plan and determine whether modifications are needed.</td>
</tr>
<tr>
<td>③ MSE lending accepted by PFIs as a viable line of business.</td>
<td>③ The number of MSE borrowers.</td>
<td>③ To assess whether there is potential for scaling up nationwide.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>③ To judge whether the TA program is effective in institution building or requires modification.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>③ To make sure that PFIs give priority to the number of MSE loans (or borrowers) rather than the volume of portfolio.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>③ To enable PFIs to assess whether the activity should be mainstreamed into their regular business activities.</td>
</tr>
<tr>
<td><strong>Result 2:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>③ PIE develops capacity to advise PFIs in MSE lending.</td>
<td>③ Number of PFIs that adopt and implement institutional development plans and MSE credit technologies.</td>
<td>③ To judge whether the TA program is effective or requires modification and whether PFIs are fulfilling their obligations under the project.</td>
</tr>
<tr>
<td>③ Newly recruited and trained lending officers in PFIs utilize requisite new business practices and lending technologies.</td>
<td>③ Number of PIE in-house experts able to provide advisory services to PFIs on MSE lending.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>③ Number of trained loan officers</td>
<td></td>
</tr>
</tbody>
</table>

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1 The survey will be conducted by an independent group with separate funding and participation in the survey study will be on voluntary basis.
at PFI's.
Arrangements for Results Monitoring

<table>
<thead>
<tr>
<th>Outcome Indicators</th>
<th>Baseline</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>Frequency and Reports</th>
<th>Data Collection Instruments</th>
<th>Responsibility for Data Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Annual percentage increase in number of MSE loans.</td>
<td>---</td>
<td>NA</td>
<td>305%</td>
<td>146%</td>
<td>67%</td>
<td>65%</td>
<td>Semi-Annual Progress reports</td>
<td>Monthly reports from PFI/PIE</td>
<td>PIE, PFI</td>
<td></td>
</tr>
<tr>
<td>(ii) Maximum percentage of subloans overdue by more than 30 days (subloan repayment performance).</td>
<td>0</td>
<td>&lt;3%</td>
<td>&lt;3%</td>
<td>&lt;3%</td>
<td>&lt;3%</td>
<td>&lt;3%</td>
<td>Semi-Annual</td>
<td>Monthly subloan portfolio reports on PFI subloan account activity</td>
<td>PFI/PIE</td>
<td></td>
</tr>
<tr>
<td>(iii) Average profitability of MSEs in the treatment group compared with a control group.</td>
<td>0</td>
<td>TBD</td>
<td>TBD</td>
<td>TBD</td>
<td>TBD</td>
<td>TBD</td>
<td>Annual survey data</td>
<td>WB/PIE/PFI/PFs</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Results Indicators for Each Component

Component 1:

(iv) Number of PIE staff able to evaluate and monitor PIEs eligibility to engage in MSE activity.

<table>
<thead>
<tr>
<th>Baseline</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>Frequency and Reports</th>
<th>Data Collection Instruments</th>
<th>Responsibility for Data Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>6</td>
<td>12</td>
<td>14</td>
<td>16</td>
<td>18</td>
<td>18</td>
<td>Semi-Annual</td>
<td>Project supervision</td>
<td>PIE</td>
</tr>
</tbody>
</table>

2 Closing date will be June 30, 2011.

3 The survey will be conducted by an independent group with separate funding and participation in the survey will be on voluntary basis.

4 This indicator is only a proxy for PIE’s institutional capacity in PFI selection and monitoring. It will be used in combination with continued assessment of the quality and depth of work in this area, including PFI due diligence reports, corrective action plans and implementation results.
<table>
<thead>
<tr>
<th>(v) Number of MSE borrowers.</th>
<th>3360</th>
<th>13200</th>
<th>40100</th>
<th>72300</th>
<th>119600</th>
<th>119600</th>
</tr>
</thead>
<tbody>
<tr>
<td>(vi) Average subloan size(^5)</td>
<td>50,000</td>
<td>50,000</td>
<td>50,000</td>
<td>50,000</td>
<td>50,000</td>
<td>50,000</td>
</tr>
</tbody>
</table>

**Component 2:**

<table>
<thead>
<tr>
<th>(vii) Number of PFIs that adopt and implement institution development plans and project-related credit technologies.</th>
<th>0</th>
<th>6</th>
<th>12</th>
<th>14</th>
<th>16</th>
<th>18</th>
<th>18</th>
</tr>
</thead>
<tbody>
<tr>
<td>(viii) Number of PIE in-house advisors able to advise PFIs in conducting MSE lending business.</td>
<td>NA</td>
<td>4</td>
<td>8</td>
<td>10</td>
<td>15</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>(ix) Number of trained loan officers in PFIs.</td>
<td>0</td>
<td>80</td>
<td>265</td>
<td>398</td>
<td>596</td>
<td>894</td>
<td>894</td>
</tr>
</tbody>
</table>

\(^5\) The average subloan size is subject to variation based on local circumstances and mutual agreement between the WB and PIE.