

Chinese Banking Industry Environmental Record (NGO analysis) Executive Summary
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1. Introduction

1.1 Project Background

Through in-depth tracking of the environmental impact of large-scale projects, one can see the influence of commercial banks. Banks audit project environmental risks and decide whether to provide loans. For a long time, most banks have considered their investment returns, and relatively few pay attention to environmental and social impacts generated by project loans. Many pollution and social stability issues created by development projects also bring about operational risks and bad reputations for banks. Some irresponsible lending projects bring on immense environmental resource and social costs that infringe on China and its sustainable development, and has led to inquiries into the country and its development by civil society and NGOs.

Banks should also completely transform to forcefully push forward sustainable development. But, achieving this transformation requires going through an earnest and painful process. First, banks should formulate sustainable development policies and strict loan approval standards. The government's Green Credit Policy¹ can serve as guidance for the banking sector's transformation. But achieving transformation still requires each bank to formulate specific policies and standards for operations, coverage of major industrial clients and the environmental and social costs of investment areas and projects. Internationally, there are already some related international principles for the banking sector, for example the "Equator Principles (EPs)." Secondly, banks should establish and deploy appropriate institutions and personnel, as well as a strong authority², which would allow them the ability to strictly implement policies and standards within their everyday financial services and actively prevent environmental and social risks. Thirdly, banks should also use financial leverage to actively guide clients' development of a green economy and low carbon economy. Finally, banks should establish environmental information dissemination systems and accountability systems, and continuously improve social credibility by being open-minded about accepting society's supervision.

In order to promote banking and financial sectors to achieve transformation, government, banks, industry and NGOs all need to be involved in their respective roles and different functions. Government formulates and monitors policies and guidance that is responsible for economic development, social stability and environmental protection. In 2007, the

¹ Conforming to China's sustainable development trends and promoting the difficult goal of country-wide implementation of energy-saving and emission reduction, in July 2007 three ministries of the Chinese government jointly issued the 'Green Credit' policy, "Views On Implementing Environmental Protection Policies and Regulations to Prevent Credit Risks," in order to regulate the lending activities of banks and reduce pollution emissions.

² Industrial Bank Sustainability Center

government's environmental protection bureau put forth the Green Credit Policy, which served as a good guide. The banking financial sector provides investment services, they are major participants in corporate and project investment, they have decision-making power over financing specific projects, and they bear the financial, social and environmental risks brought on by projects. Corporations are the providers of products and services and most likely are resource consumers and polluters. They have a direct and primary responsibility for pollution and consumption behavior in the production process, and under laws, policies and bank investment guidelines, they may shift towards resource-saving and environmentally-friendly production methods. The general public is consumers of products and services, and also are the victims of environmental pollution. They also are taxpayers or could be ordinary investors, and they have a potential impact on decision-making about the banks' sustainable development. Representing [the public's interests], NGOs are advocates and monitors of environmental and social policies in the banking and financial sector. The international EPs arose after grassroots environmental groups first advocated to banks to respond [to concerns]. Positive interaction between government, banks, businesses and NGOs can achieve green transformation of banks. Nine Chinese NGOs launched China's green financial advocacy activities: the investigation for and publication of "Green Banking Innovation Award" selection and "Chinese Banking Industry Environmental Record (NGO analysis)" is a reflection of the positive commitment and role of NGOs.

1.2 The Concept of Green Finance and Green Credit

Green finance is financial services for sustainable development within the banking and financial sector. The concept of green finance is sustainable finance and more. Green credit is only one kind of service within green finance and mainly refers to controlling the environmental costs and impacts of projects, supporting favorable environmental protection project finance and a range of policy and management measures within credit services. Green finance also includes environmentally- and socially-responsible investments, asset and fund management, investment advisement, insurance, investment guarantees and more. We think green finance is a complex and challenging process: it is a financial policy and implementation process through which banks and the financial sector interact and form social and environmental responsibility with government, business, and civil society; it is the ultimate financial service to the sustainable development of humanity. There is space for more coverage of green finance.

1.3 Objective

The "Chinese Banking Industry Environmental Record (NGO analysis)" is the efforts of Chinese environmental NGOs to carry out financial advocacy. This report will enable banks to understand the steps toward a green footprint, enable government policymakers to understand implementation of green credit policies, enable more direction of business investment and production, and enable the public to participate in bank accountability and supervision. The vision of green financial advocacy is the establishment and implementation of good environmental and social policy within China's banking industry, and to play an important investment deployment role for China's sustainable development.

1.4 Scope of Indicators and Evaluation

International NGOs already have some environmental and social indicators for banks. *BankTrack* developed indicators for monitoring more than 50 international commercial banks, covering agriculture, forestry, fisheries, oil and gas, power generation, mining, arms trade and other production sectors, as well as biodiversity, climate change, toxics, indigenous rights and human rights, labor rights, taxation, transparency and accountability and other issues, and international standards and best practice benchmarks for these sectors and issues. The Chinese banking sector's Green Credit just began and it is difficult to use international indicators to evaluate them given that the scope and extent of sustainable finance development is also very limited. Based on national conditions and the relatively late initiation of implementation of the Green Credit Policy, the study and evaluation used eight basic indicators. The scope of the evaluation includes the extent to which banks have implemented the Green Credit Policy (banks' own green credit policies, formulation of standards and measures), institutions responsible for setting up green credit, the strength of the banks' implementation of green credit within its actual lending operations (exiting *liang gao* industries and entering environmental protection industries), more stringent degree of implementation of international principles, the degree of banks' environmental protection information disclosure, banks' own environmental awareness and energy-saving environmental protection performance, the banks' external (peer and client) green credit advocacy activities and society's evaluation of the banks' environmental performance. With the enhancement of sustainability in the banking sector, there is hope that not long in the future evaluation indicators will be integrated with international standards. The evaluation includes 14 Chinese joint-stock listed banks whose fulfillment of the Green Credit Policy reflects the environmental trends of China's banking sector. These 14 listed banks were chosen for investigation and study because their many investors have the right to understand the banks' sustainability situation of operations and risks, and make investment choices based on rational and basic sustainability concepts. Additionally, this study can provide information and guidance to other banks, especially those that are planning initial public offerings. Although the investment asset size and operating styles of these 14 listed banks are certainly different from other domestic banks, through formulating appropriate research and evaluation indicators the environmental trends in China's banking sector are largely reflected. In addition, three large foreign banks were included for reference.

1.5 Information Sources and Limitations

The information and data for this report is mainly from the banks' own publicly-disclosed information. Main information sources are: each bank's published 2008 Corporate Social Responsibility report, annual report and related reports, related information published on each bank's website, related articles about Chinese banks in the Chinese media, related content disclosed on foreign environmental protection websites, and information the banks provided for the "Green Banking Innovation Award" evaluation activity. It must be noted that information disclosure from China's banking sector is a recent phenomenon, and the content of disclosed information is still very limited, plus there is a habit [of disclosing] good news, but not bad news, so some key information may be hidden, especially the environmental and social impacts of specific projects of special concern to the public. To this end, we affirm that the limited information

disclosure of banks interfered with the accuracy of the evaluation, and this is also a limitation of the research project.

1.6 Participating Civil Society Organizations

The project implementer is Yunnan Province's Public Watershed Management Research and Promotion Center (Green Watershed). Grassroots environmental organizations that closely collaborated on the project are: Friends of Nature, Global Environmental Institute, Institute of Public and Environmental Affairs, Green Earth Volunteers, Civil Society Watch, China Development Brief, Green Volunteer League of Chongqing, and Sichuan Hengduan Mountain Research Society. Syntao Co. Ltd. consulted for the project. Oxfam Hong Kong supported research and publication, but this does not express the views of Oxfam Hong Kong.

2.1 Environmental Policy and Implementation Measures

In July 2007, the Ministry of Environmental Protection (MEP), People's Bank of China and China Banking Regulatory Commission (CBRC) jointly released "Issuance On the Prevention and Control of Credit Risks of Highly Polluting Industries," otherwise known as the "Green Credit Policy." Over two years (2007-2008) China's banking industry carried out the practical implementation of the Green Credit Policy.

Industrial and Commercial Bank of China (ICBC) formulated specific industry credit policies in order to clarify limitations for energy-intensive, highly polluting industries such as iron and steel (including alloy), electricity, aluminum, copper smelting, coke, manufacturing paper and a number of other sectors. This initially shaped the next three years' strategy goals for establishing bank-wide green credit, specific measures, and overall framework and implementation steps.³ Industrial Bank is a relatively young medium-sized joint-stock bank, which has a superior performance in terms of green credit policy formulation and implementation. Besides developing its "Environmental and Social Risk Management Policy," strict "credit business access rules," and credit approval systems, it also announced in October 2008 that it was joining the international standard "Equator Principles."⁴ China Construction Bank formulated '*liang gao*' industry credit policy operating rules; formulated different industry access standards and different industry examination and endorsement guides; it introduced "On Strengthening China Construction Bank energy-saving emission reduction credit management work program" and carried out its overall deployment and plan for energy-saving emission reduction credit work.⁵ China Merchants Bank published the "Guiding Opinion on Green Finance Marketing of China Merchant's Bank," "2008 Credit Policy," and a credit policy was also forthcoming with respect to contractual energy management and energy efficiency standards.⁶ Bank of Communications formulated a "Green Credit" construction project implementation method, published a notice on practical specifications of environmental

³ 2008 Annual Green Bank Innovation Award Selection Questionnaire (ICBC)

⁴ 兴业银行网站: <http://www.cib.com.cn/netbank/cn/index.html>

⁵ China Construction Bank's 2008 CSR report, p. 34, 3

⁶ 2008 Annual Green Bank Innovation Award Selection Questionnaire (China Merchants Bank)

protection classification to improve “Green Credit” project quality, a notice on the implementation of “Green Credit” construction project routine management, formulated “Bank of Communications Interim Method for Project Loan Management,” and “Bank of Communications Environmental Protection Classification Manual.”⁷ Shanghai Pudong Development Bank created and issued the “Shanghai Pudong Development Bank Credit Policy Guidelines (2008),” “Guidance On Developing Energy-Efficiency Investment Projects,” “Notice On Instructions for Carrying Out IFC Loss-Sharing Mechanism for Energy-Efficiency Project Loans,” and took the lead within the industry on releasing a “Green Credit Comprehensive Financial Service Plan.”⁸ Minsheng Bank published a “Notice On the National Energy-Saving Emission-Reduction Policy Comprehensive Industry Credit Policy,” as well as “Notice On the Implementation of the CBRC’s ‘Energy-Saving Emission-Reduction Credit Guidance.’”⁹ Bank of Beijing introduced “Bank of Beijing Social and Environmental Protection Management Methods,” and “Bank of Beijing Credit Provisions for Construction Project Land-use Management.”¹⁰ Other Chinese commercial banks, for example Bank of China Hua Xia Bank, Shenzhen Development Bank, Bank of Nanjing, Bank of Ningbo and CITIC Bank, up to March 2009 had not yet put together information to demonstrate that they formulated interrelated policies or measures.

In terms of the specific implementation measures of green credit policies, all listed banks have already begun to develop these measures in accordance with policies and guidelines. To varying degrees, they have adopted implementation of green credit policy measures into the credit process. For example, the implementation of the environmental protection ‘one ballot veto’ system calls for clients to follow corporate environmental protection laws as a prerequisite for receiving loans (ICBC, China Construction Bank, Bank of China, Industrial Bank, Shenzhen Development Bank, Ningbo Bank, CITIC, etc.) Some banks have not yet emphasized adopting the ‘Green One-Ballot Veto System,’ but declare that they are in accordance with relevant information from the Ministry of Environmental Protection. When environmental protection does not meet standards, corporate polluters are denied access [to loans], or if included on the national list of restricted industrial sectors or banned project, [the banks] do not provide credit support (Bank of Communications, China Merchants Bank, Minsheng Bank, Hua Xia Bank, Shanghai Pudong Development Bank, Bank of Beijing, and Bank of Nanjing). Other relatively effective measures are implementing enterprise list system management, controlling lending to ‘*liang gao*’ industries, and optimizing loan structure. ICBC formulated industry-specific credit policy measures for nationally recognized energy-intensive, high-polluting industries; and implemented a list system for managing corporate clients in these industries. China Construction Bank implemented list management for coke, calcium carbide, iron alloy, electric power and other industries. It

⁷ 2008 Annual Green Bank Innovation Award Selection Questionnaire (Bank of Communications)

⁸ Shanghai Pudong Development Bank 2008 Corporate Social Responsibility Report, p40-42.

⁹ Minsheng Bank’s 2008 Corporate Social Responsibility Report, p.40

¹⁰ Bank of Beijing 2008 Corporate Social Responsibility Report, p.27

also controlled new increases in loans outside the list. Bank of China and the MEP cooperated on carrying out list system management for ‘*liang gao*’ industries. Industrial Bank carried out list system management for clients and projects. In particular, it strengthened record-keeping and tracking for environmental and social information classification. China Merchants Bank formulated “*liang gao*” industry credit standard measures. Shenzhen Development Bank established a list management system. Minsheng Bank implemented ‘list system’ management for at-risk clients, and integrated environmental considerations into its lending, investments and risk assessment procedures. Management after loans are disbursed is an important measure. If banks can monitor client environmental information they can control post-loan risks. ICBC brought the information it had from clients about their corporate environmental protection in line with the CM2002 system, and established monitoring and feedback mechanisms for clients’ environmental protection information. China Construction Bank publishes monthly statistics about their lending to ‘*liang gao*’ industries in an internal quarterly bulletin to the whole bank and risk monitoring consultation reports, it also has [*liang gao*] industry quota early warning signals to call attention when departments should make adjustments based on interrelated industry operating strategies. Industrial Bank controls credit risks through implementation of post-loan management for clients and close and timely tracking to find clients’ environmental and social problems. Shenzhen Development Bank implemented post-loan management for clients, established credit business emergency handling and reporting mechanisms, and put forward warning signals in order to diffuse major risks to clients and preserve assets.

Generally speaking, Chinese listed banks have already accepted the concept of green credit, and the performance of the practical implementation of the green credit policy has already been favorable. Most banks responded and implemented the national policy. Industrial Bank, ICBC, Merchants Bank, China Construction Bank, Bank of Communications, and Shanghai Pudong Development Bank developed their own green credit policies and judgment standards based on the national policy. Some banks formulated *liang gao* sector-specific measures, green one-ballot veto systems, implemented corporate list system management, controlled or reduced lending, denied loans, or strengthened post-loan management and tracked and controlled post-loan risks. Currently the overall situation is that every bank is taking initiative and being innovative in their implementation of green credit policies; and some banks have formulated policy and established strict risk management systems at a higher level. Among the most prominent is Industrial Bank, which not only formulated its own “Environmental and Social Risk Management Policy,” it also joined the “Equator Principles,” a higher international norm. Some small- and medium-sized banks still do not show outstanding results at the policy and sustainable strategy levels, but at the general measures level they still show innovation and progress.

2.2 Dedicated Green Finance Departments Within the Bank

In order to implement green finance policies, banks should establish and deploy appropriate networks and personnel, as well as strengthen their authority.¹¹ This way,

¹¹ Industrial Bank Sustainability Center

they will have the power in their everyday financial services to strictly implement policies and standards to prevent environmental and social risks. In 2007-2008, among 14 Chinese listed banks, only Industrial Bank set up a special department for environmental-related matters – the Sustainable Finance Office. China Merchants Bank set up a green finance working group at its head office, which is comprised of representatives from different departments. Other banks still have not established similar specialized departments. Individual big and medium-sized commercial listed banks internally will assign specific environmental matters separately to various departments for implementation and management; to an extent, comparatively few banks still do not have data demonstrating their performance in this regard.

Industrial Bank had an innovative approach when in July 2008 it added a sustainable finance office within the legal and compliance departments of its head office. This was the first sustainable finance office within China's banking sector, and it is responsible for Industrial Bank's environmental and social risk management. Specific main functions include: environmental and social risk management of Equator Principle's related project finance; lead organization of environmental and social risk examinations of [the bank's] Equator Principle project financing; provide consultation, advice and capacity-building services about environmental and social risk management to Equator Principle projects; manage the bank's environmental and social risk expert resources; Equator Principle information disclosure and reports; responsibility for Equator Principle-related external exchange cooperation and everyday contacts and publicity work. At the same time, Industrial Bank established a sustainable finance center under the corporate finance department of the head office, with the main responsibility for integrated management of the entire bank's sustainable finance business, formulating a sustainable finance business development plan, and organize implementation of a series of work.¹² China Merchants Bank set up a green finance lead group and green finance working group at its head office. The leader of this group is the former Vice-President of the wholesale business department at the head office, and [staff from] the head office corporate banking department, credit management department, and loan approval department all became members. Responsible people became group leaders and relevant personnel became members from the latter head office corporate banking department, credit management department and credit approval department. Additionally, the green finance working group is the specific organization and implementation network for green finance business planning, decision-making and coordination work across the whole bank; responsible for formulating operation standards for green finance across the bank, setting up operation systems for green finance and developing green finance related credit policies and products.¹³ Industrial and Commercial Bank of China's credit and credit management departments are responsible for 'green credit' related matters. The bank office management department is responsible for promoting a green office within its own operation processes, and for reducing the operating energy consumption of relevant transactions. The client manager is responsible for updating the CM2002 system with

¹² 2008 Annual Green Bank Innovation Award Selection Questionnaire (Industrial Bank)

¹³ 2008 Annual Green Bank Innovation Award Selection Questionnaire (China Merchants Bank)

corporate environmental information and relevant data files for future reference. Each bank branch regularly conducts examinations within their own jurisdiction to check the corporate environmental protection inputs and corresponding post-loan management work. Generally, real-time monitoring of newly added clients that have not yet recorded environmental protection marks allows uniform operational control.¹⁴ Bank of Communications assigns each respective department implementation for environmental-related transactions: the credit management department is responsible for the entire bank's green credit work; the head business department is responsible for the entire bank's resource conservation work data center; the e-banking department is responsible for the entire bank's electronic data management; work staff services department is responsible for the entire bank's internal environmental protection activities of every staff worker; the corporate culture department is responsible for publicity and leadership of the entire bank's environmental protection and internal corporate social responsibility work.¹⁵ Within Bank of Nanjing's credit examination department the assistant director is responsible for arranging examinations of corporate environmental protection standards, and shall take environmental protection standards and environmental protection assessments as fundamental conditions for corporate and project credit.¹⁶ Other banks, such as China Construction Bank, Bank of China, Hua Xia Bank, Shanghai Pudong Development Bank, Minsheng Bank, Shenzhen Development Bank, Bank of Beijing, Bank of Ningbo and CITIC Bank, still have not made public their relevant information to verify that they installed a dedicated department for environmental matters or assigned each specific department implementation and responsibility for environmental matters.

The function of dedicated green credit departments cannot be ignored. It can specialize in studying the development of industry and access to standards and policies of specific clients and projects, conduct tracking, analysis and evaluation for green credit policies and standards, provide technical support for business regulations, develop innovative green finance services and products, etc. The present overall situation is a small number of banks established dedicated green finance departments and a clear mandate. But the majority of banks' environmental transactions or green finance management seems inadequate and temporary compared with institutional, human resources and other business departments, they also do not mention core and long-term development strategy positions for green finance management departments. This is detrimental to implementation of the Green Credit Policy and banks' future sustainable development.

2.3 Green Credit Performance: Exiting “*liang gao*” and Increasing Environmental Protection Financial Services

Actual environmental protection results responded to the objectives of the Green Credit Policy. According to all the information obtained and investigation, among 14 Chinese listed banks, the majority have already started to exit or reduce lending to highly-

¹⁴ 2008 Annual Green Bank Innovation Award Selection Questionnaire (ICBC)

¹⁵ 2008 Annual Green Bank Innovation Award Selection Questionnaire (China Merchants Bank Addendum)

¹⁶ Bank of Nanjing 2008 Corporate Social Responsibility Report, p.215

polluting or high-energy projects and at the same time gradually increased support for energy-saving environmental protection projects.

In terms of cutting loans to environmentally risky projects, information disclosed by ICBC demonstrates that during 2008, a total of 152 '*liang gao*' enterprises repaid loans worth RMB 3.52 billion. The bank conducted a system lock on 146 potential environmental protection at-risk clients, involving loan balances of RMB 5.13 billion, and for enterprises that had been pre-qualified, rectified by stopping issuance of any form of financing.¹⁷ China Construction Bank's information demonstrates that during the 2008 annual reporting period it cut RMB 64.46 billion in real loans, 121.86% of its total planned cuts, and cut 6,934 clients.¹⁸ In 2008, the head office of China Merchants Bank issued 11 warning notices in succession, and included 144 enterprises on a client warning list, worth a total of RMB 6.03 billion; At the same time, the bank issued 11 risk alert lists, carrying out risk alerts for 89 enterprises worth RMB 3.16 billion in credit assets. Cumulatively, [the bank had] strict credit access for 88 clients from high-energy consumption, high pollution industries, valued at RMB 8.28 billion. According to China Merchants Bank 2008 Corporate Social Responsibility Report, in 2008 the outstanding loan balance due from the '*liang gao*' sectors to the Company amounted to RMB 97.193 billion, representing 18.99% of its corporate loans as a whole, an increase of 3.08% from the beginning of the year. Except for the power industry, of which the share as a percentage of the total was higher than that at the beginning of the year, the Company's outstanding balances due from other sectors were under control.¹⁹ Shanghai Pudong Development Bank, by the end of 2008 cut approximately RMB 15 billion of high pollution and high energy-consuming sector stock²⁰ (accounting for 36.03% of its stock in late 2007). By the end of 2008, Minsheng Bank conducted a complete grooming of its stock of thermal power enterprises credit situation. Currently, it is thoroughly conducting a complete check of its stock of small thermal power enterprises below 135,000 kilowatts, and taking a gradual exit strategy for enterprises that do not meet national industry policy and energy-saving environmental protection requirements. By the end of 2008, the initiative to clear out other energy undertaking divisions [resulted in] cutting lending to 18 small thermal power enterprises, amounting to RMB 1.75 billion and one small coke enterprise with a credit line worth RMB 20 million.²¹ It has yet to publish the total loans the bank cut to risky projects. China CITIC Bank: By the end of 2008, new loan growth for the steel, cement, coke and non-ferrous metals sectors was 4.57%, which was lower than the bank's average loan growth. From a stock perspective, loans to 'two high, one excess' sectors totaled RMB 31.56 billion, and increase of 5.8%, compared with the bank's total lending increase of nearly 10 percentage points.²²

¹⁷ 2008 Corporate Social Responsibility Report, p.52

¹⁸ China Construction Bank 2008 Corporate Social Responsibility Report, p.35

¹⁹ China Merchants Bank 2008 Corporate Social Responsibility Report, p.12-13

²⁰ Shanghai Pudong Development Bank 2008 Corporate Social Responsibility Report, p.40

²¹ Minsheng Bank 2008 Corporate Social Responsibility Report, p.41

²² CITIC Bank 2008 Corporate Social Responsibility Report, p.44-45.

Other banks, such as Bank of China, only disclosed examples of risky projects they cut lending to, but did not disclose detailed data about bank-wide cuts in risky lending. Similarly, Hua Xia Bank, Industrial Bank, Bank of Communications, Shenzhen Development Bank, Bank of Beijing, Bank of Nanjing, Bank of Ningbo and CITIC Bank stated that they already started progressively exiting or reducing lending to environmentally risky projects, but they lack the relevant data to verify that.

In terms of providing environmental protection financial services, first mention should go to Industrial and Commercial Bank of China. At the end of the reporting period, environment-friendly enterprises certified by state environmental protection departments accounted for approximately 99.87% of the corporate clients of the domestic branches of the bank, with the balance of the loans accounting for 99.92% of that of the corporate clients of the domestic branches. The bank issued loans totaling RMB 49.15 billion for energy saving and environmental protection projects in 2008, growing by 69.17% over the previous year.²³ China Construction Bank: As of December 31, 2008, China Construction Bank's loans for green credit projects totaled RMB 154.14 billion, an increase of RMB 28.93 billion from the beginning of the year, which is an increase of 23.12%. Of these, renewable energy project loans totaled RMB 152.52 billion, accounting for 4.15% of total loans. Compared with 2007 this was an increase of .25 percentage points. Other environmental protection project loans totaled RMB 1.62 billion, down .01 percentage points over the previous year.²⁴ Industrial Bank: By the end of December 2008, a total of 86 loans worth RMB 3.30 billion had been offered to energy conservation and emissions reduction projects. Over the next three years, the company planned to provide loans of RMB 10 billion to support the undertaking of energy conservation and emissions reduction in China.²⁵ According to China Merchants Bank 2008 Corporate Social Responsibility Report, the bank's total investment in environmental protection industries was about RMB 24.93 billion.²⁶ In order to increase this type of lending project, the bank formulated the "Guiding Opinion on the Green Finance Marketing of China Merchants Bank," and more environmental finance services are forthcoming.²⁷ Shanghai Pudong Development Bank: As of the end of 2008, investment loans in energy-saving environmental protection industries totaled about RMB 12.3 billion. Minsheng Bank focused on supporting large- and medium-sized hydropower, nuclear power²⁸, wind power development and other energy projects, and encouraged promoting investment in the rational use of efficiency models, clean models and recycling models of industrial development projects. In 2008 the bank issued 23 new lines of credit support (including renewed credit), with outstanding loans worth RMB 2.45 billion, focused on energy-saving processes, technical innovations, technical

²³ ICBC 2008 Corporate Social Responsibility Report, p. 52

²⁴ China Construction Bank 2008 Corporate Social Responsibility Report, p.35

²⁵ Industrial Bank website:

http://www.cib.com.cn/netbank/cn/Sustainable_Finance/Social_Responsibility/20090709_4.html

²⁶ China Merchants Bank 2008 Corporate Social Responsibility Report, p.12-13

²⁷ 2008 Annual Green Bank Innovation Award Selection Questionnaire (China Merchants Bank Addendum)

²⁸ Internationally, it is disputed whether large- and medium-sized hydropower and nuclear power should be considered environmentally riskier energy projects.

transformations and product promotion.²⁹ Bank of Beijing issued RMB 2.5 billion worth of new loans to enterprises to implement sewage treatment, waste incineration, new energy saving, environmental protection and other projects. Along with the China Investment Guarantee Co. Ltd. And the International Finance Corporation (IFC), the bank continued to expand its support for energy-saving and energy-efficiency of small- and medium-sized enterprises, with 14 new clients and new loans worth RMB 120 million.³⁰ Bank of China, Bank of Nanjing, CITIC Bank, Hua Xia Bank, and other banks disclosed individual cases of lending support for energy-saving environmental protection projects, as well as loan date. Bank of Communications, Shenzhen Development Bank and Bank of Ningbo did not disclose energy-saving environmental protection project lending data.

From the above information, banks have already started implementing the national Green Credit Policy at the financial operations level, gradually reducing or exiting risky project lending and gradually increasing support for energy-saving environmental protection projects. Here the assets scale of some relatively big commercial banks should be noted. Because of their ample funds, they have the clear advantage over small- and medium-sized banks in terms of absolute loan amounts and in entering lending for environmental protection industries. As the world's biggest bank by assets, ICBC is more influential than other banks. However, historically big banks have many issues and a hard time making big overall changes. Small- and medium-sized banks, especially recently established ones, are small-scale, and their absolute investments in and need to exit *liang gao* industries are not much, and their absolute lending to environmental protection industries can not compare to big banks. From another perspective, it is easier for small- and medium-sized banks to innovate and make overall changes because their scale is relatively small. However, once a large commercial bank makes changes, its contribution to the environment will be more significant. Next, from looking at bank lending data for exiting risky projects in proportion to overall bank lending or as a proportion of total risky projects involved in at the beginning of the year, Shanghai Pudong Development Bank disclosed its loan data on exiting risky projects as a proportion of risky projects it was involved in as of the end of 2007; China Merchants Bank disclosed its risky projects in proportion to its total lending data for the year; Other banks still have not disclosed their 2008 total data and proportions for exiting [*'liang gao'* sectors] and entering [environmentally-friendly projects].

2.4 Conforming with International Standards

In order to standardize bank project finance activities, ten commercial banks and investment banks cooperated to develop the Equator Principles (EPs) in June 2003. This standard for commercial bank project finance is based on the International Finance Corporation (IFC) policy on social and environmental protection. It is widely-recognized within the international commercial banking industry, of which 50 commercial banks around the world were signatories as of the end of 2008. In addition to the EPs, some other international social responsibility efforts have been launched that are closely related

²⁹ Minsheng Bank 2008 Corporate Social Responsibility Report, p.41

³⁰ Bank of Beijing 2008 Corporate Social Responsibility Report, p.27

to international agreements and principles, including the UN Global Compact, United Nations Environment Program Finance Initiative (UNEP-FI), Carbon Disclosure Project (CDP), Global Reporting Initiative (GRI), UN Principles for Responsible Investment, Climate Principles (CmP), Extractive Industries Transparency Initiative (EITI), etc. Globally, some banks have signed on to promise to respect these standards (some principles are listed in the appendix of the full report). If a bank fulfills its obligations for signing-on to international standards, they shall greatly enhance bank sustainability and management levels, enhance efforts towards internationalization, better enhance the bank's image and reputation, reap public approval and investor favor and eventually return economic benefits to the bank. However, signing-on to international norms and contracts also implies abiding by stringent standards, requires reporting and information disclosure, scrutiny under the magnifying glass of public and peer monitoring, and also may cause the bank to lose short-term benefits when in competition with other banks.

Industrial Bank signed on to three international agreements and principles. In October 2007, Industrial Bank formally signed the "Statement by Financial Institutions on the Environment and Sustainable Development," which formally made it a member of the UNEP-FI. On 31 October 2008, Industrial Bank formally and openly committed to adopting the Equator Principles, thus becoming China's first 'Equator Bank.' Also in 2008, Industrial Bank began submitting information to the CDP. In October 2007, China Merchants Bank joined the UNEP-FI.³¹ In 2008, ICBC joined the CDP, and continued to strengthen communication and exchanges with the China Banking Regulatory Commission, Ministry of Environmental Protection and related international organizations to carry out related research on the Equator Principles. Before Industrial Bank joined the EPs, there were rumors that ICBC was expected to be China's first Equator Bank³²; from this ICBC's effort in this regard can be seen. China Construction Bank has not yet joined any international principles or agreements. However, it carried out the preparatory work for signing-on to the EPs.³³ Shenzhen Development Bank: Has

³¹ 2008 Annual Green Bank Innovation Award Selection Questionnaire (China Merchants Bank)

³² China's State Council Development Research Center informational website: <http://www.drcnet.com.cn/DRCNet.Common.Web/DocViewSummary.aspx?docid=1826434&Leafid=939>

³³ This preparatory work includes: 1) formulating a guide of business operating rules for the bank's internal work and an external guide for the bank's clients. Through trainings, visits, seminars, etc., the bank understood the bank branches suggestions about adopting the Equator Principles; consulted with clients about adopting the EPs; and visited the Ministry of Environmental Protection to understand the status of environmental protection management work and clarify the external environment for adopting the EPs; 2) Communicated with the China Banking Regulatory Commission and Ministry of Environmental Protection on a regular basis; 3) Invited the IFC and Japan's Mizuho Corporate Bank to carry-out presentations about the EPs; 4) Stayed in contact with WWF and other international NGOs.

not yet joined international principles, but it introduced the basic concept of the EPs in its social responsibility report.³⁴

The remaining nine banks, including Bank of China, Bank of Communications, Hua Xia Bank, Minsheng Bank, Shanghai Pudong Development Bank, Bank of Beijing, Bank of Nanjing, Bank of Ningbo and CITIC Bank have not yet signed on to related international agreements and principles, and also currently have not yet gathered related information to verify their efforts in this regard.

China's banking sector, especially large commercial banks, fall behind international commercial banks in terms of related international principles and agreements. However, taking into account that it has only been a few years since China's banks were restructured and only a year or two since the Green Credit Policy was introduced, studying and adopting international practice takes time. Currently, most listed banks are showing an active interest in paying close attention to and researching international principles and treaties, and receiving related international knowledge through exchanges and trainings.

2.5 Information Disclosure

Bank information disclosure is also a demand for the realization of a modern bank of integrity and good governance. Traditional banks imagine client confidentiality is proof of integrity, but modern banks have more demand to bear social responsibility. According to "The People's Republic of China Company Law," "The People's Republic of China Commercial Bank Law," "Commercial Bank Information Disclosure Interim Measures," "Listed Companies Information Disclosure Management Measures," as well as the international "the Global Reporting Initiative" principle and other relevant laws, regulations and principles, bank disclosure demands public information disclosure and publishing annual corporate social responsibility reports. The government also demands central enterprises publish corporate social responsibility (CSR) reports. Besides being required to publish reports, banks also should pay attention to report quality, integrity of environmental information, third-party reviewing, satisfying requirements for public knowledge and accept societal supervision.

ICBC, China Construction Bank, Bank of China, Industrial Bank, Bank of Communications, Shenzhen Development Bank, and Minsheng Bank all formulated related information disclosure systems. Fourteen Chinese listed banks already issued CSR reports. ICBC, Bank of China and Shenzhen Development Bank also hired Det Norske Veritas (a third-party agency) to conduct reviews of their reports. Every bank published information, mainly through their individual websites. Run Ling Public Welfare Consultant Agency (a domestic CSR specialty consultant agency), using the MCT-CSR report evaluation system, gives each bank's 2008 CSR report ratings as follows: China Construction Bank received 68.11 points, Shanghai Pudong Development Bank received 67.88 points, ICBC received 66.91 points, Shenzhen Development Bank received 57.74 points, Hua Xia Bank received 57.40 points, Bank of China received

³⁴ Shenzhen Development Bank 2008 Corporate Social Responsibility report, p.4

56.41 points, China Merchants Bank received 51.58 points, CITIC Bank received 49.95 points, Bank of Communications received 42.06 points, Industrial Bank received 37.37 points, Bank of Nanjing received 31.32 points, Bank of Ningbo received 26.06 points.

In China, company information disclosure - especially that of commercial banks in this century - is society's demand for emerging good governance measures. Currently in China, sufficient information disclosure at commercial institutions is still rare. In recent years, the preliminary outcome of the information disclosure of 14 Chinese listed banks has been commendable. Three banks that employ third-party verification have improved reliability to a certain extent. Report texts are widely available to internet users and investors, giving them more right to know. But this is still insufficient: some banks only comply with government information disclosure demands, but have not integrated these demands into their own systems; some banks only disclose financial information. Banks report many successes and no failures, disclosure of social and environmental impact information of specific loan projects is very little, and report quality and disclosure of information is far from the public's expectations. Most bank reports lack third-party verification, which compromises credibility. Internet publishing, although widely distributed, is through a single channel and the public and media think further investigation and verification is extremely difficult.

2.6 Environmental Protection Activities Within the Bank

The banks' environmental protection behavior and its business development are closely related. A bank's own environmental protection performance can include: promoting environmental protection awareness and quality among employees (allowing employees to receive environmental protection trainings), develop internal energy-saving emission reduction actions (implementing energy-saving offices, etc.). These also require developing systems and inspection measures.

In order to respond to national environmental protection directives, and tie internal energy-saving environmental protection and managing costs together, each bank actively initiated related measures in order to reduce energy-consumption and conserve resources in its own office processes. For example, Industrial Bank started supervision and incentive activities for energy-saving; China Construction Bank established an 'Energy-saving Management Information Evaluation System;' Minsheng Bank implemented annual inspections of the offices' energy-consumption situation and established an energy-saving incentive program; Pudong Shanghai Development Bank established a security contact person in every department who is responsible for supervising the implementation of everyday office energy-saving measures; Minsheng Bank created a water- and electricity-saving supervisory position. ICBC and China Construction Bank made public energy-consumption data as well as energy-consumption reduction data.

Insufficiencies remain though. Many banks have yet to establish monitoring and evaluation mechanisms. Most banks do not make public their energy-saving emission reduction specific data, and there is no way to survey and verify their energy-saving impacts.

Promoting environmental protection awareness and internalization among staff are part of building a corporate culture. The latter is a key factor in corporate sustainable development. Creating a green bank first requires promoting employee environmental protection awareness and internalization.

Industrial Bank and China Merchants Bank carried out many environmental protection trainings and communication for staff development. Industrial Bank also formulated related training mechanisms. China Merchant's Bank formulated detailed and exhaustive annual training plans. Also, ICBC and Bank of Communications carried out various kinds of trainings for employees. China Construction Bank and Minsheng Bank briefly noted carrying out environmental protection trainings for staff. Besides these, the other eight banks all still do not make public environmental protection training information.

Industrial Bank's activities were: for middle and senior staff, the Bank established internal department trainings, tutorials from external experts, internal specialized seminars and various other training mechanisms. The bank conducted many kinds of environmental protection trainings and communication activities directed towards employees. For example, inviting international finance experts from WWF to carry-out special trainings for Industrial Bank employees about the basics of the Equator Principles; Convened the "Equator Principles Symposium," discussing the bank's implementation of and internal capacity-building related to the Equator Principles; Bank branches in Xi'an, Taiyuan and other places developed Equator Principles specialty trainings; [bank employees] also participated in trainings and events organized by environmental NGOs. China Merchant's Bank formulated annual training plans, and carried out many green credit related trainings for employees, which included: holding a green finance symposium in Beijing which commenced with a press conference where the bank joined the UNEP-FI; organized an internal training class about green finance; organized green finance credit policy seminars; arranged for professional staff from relevant departments across the bank to participate in renewable energy and energy efficiency trainings of related industry associations and regulatory organizations. ICBC promoted employees' green credit awareness through videos, special presentations, documents, webinars, department Q&A's, staff participation in trainings and other events from the China Banking Regulatory Commission, National Development and Reform Commission and other government and external organizations. Bank of Communications carried out a total of four green credit trainings, conducted four green credit seminars, and one green credit international exchange. China Construction Bank increased staff awareness about green credit and became familiar with related environmental protection policies, standards and processes through trainings about the application of government policies and regulations, and environmental protection standards for relevant loans. Minsheng Bank established related training systems, developed trainings for credit approval personnel, and carried out relevant trainings for various departments based on energy conservation requirements. Bank of China, Hua Xia Bank, Shanghai Pudong Development Bank, Shenzhen Development Bank, Bank of Beijing, Bank of Nanjing, Bank of Ningbo and CITIC Bank have not yet made public related training information.

Overall, some banks paid more attention to promoting environmental protection awareness and internalization among employees than others. Particularly worth mentioning is Industrial Bank because through its participation in the Equator Principles, it enabled staff to take steps towards internalizing [environmental protection]. China Merchants Bank, ICBC, Bank of Communications, China Construction Bank, and Minsheng Bank also have systems and plans. Other commercial banks still lack environmental protection training mechanisms and their environmental education activities were still underdeveloped.

2.7 External Sustainable Finance Advocacy and Trainings for Banks

In order to shape sustainable development and healthy market competition and foster a good client base, banks' advocacy and promotion of client quality is very important. In this regard, Industrial Bank had some outstanding performances. ICBC, China Merchants Bank, China Construction Bank and Bank of China also developed some external activities related to promoting environmental protection.

Led by Industrial Bank, in 2008 Bank of Communications, CITIC Bank, China Merchants Bank, Shenzhen Development Bank, Guangdong Development Bank, China Everbright Bank, Hua Xia Bank, Shanghai Pudong Development Bank, Minsheng Bank, Prudential Bank, Zheshang Bank, Bohai Bank and 13 other joint-stock commercial banks together signed the "National Joint-stock Commercial Bank Social Responsibility Declaration," demanding heightened attention to environmental protection and resource conservation, active engagement in disaster relief, educational support and poverty alleviation, assistance to cultural, educational, health and other social welfare matters, promotion of social and public interests and fulfilling environmental and public responsibility.

2.8 Recognition and Criticism from Society

Banks that perform outstanding environmental and social responsibility certainly receive positive recognition from the public and reap a favorable public image among society. On the contrary, banks also may receive public criticism resulting in a damaged image. A good or bad reputation also will impact the bank's business development. Because of this, all banks emphasize their social image.

Industrial Bank has received relatively more environmental awards, including being chosen for the 2007 and 2008 annual "Sustainable Bank Award" jointly sponsored by the UK-based *Financial Times* and IFC. Industrial Bank was nominated two years in a row for the 'Emerging Market Sustainable Bank Award.' In December 2008, *21st Century Economic Report* put out the "Top 10 Green Credit Project Awards," for which award-winning banks included ICBC, China Construction Bank, Industrial Bank, Bank of Communications, Bank of Beijing, Bank of East Asia, Bank of China, Huishang Bank, China Everbright Bank, and Agricultural Bank of China. Although individual projects cannot represent a full picture of the bank, it still can serve a benchmarking role for project investments. On July 26, 2008, at the "2007 China's Best Bank Awards" sponsored by the *Economic Observer* magazine, eight Chinese NGOs launched the

independent initiative “Green Banking Innovation Award” and chose Industrial Bank as its recipient. This is China’s first domestic award related to green banking and green finance. It possesses significant potential for encouraging banks and other financial institutions to participate in environmental protection. On April 22, 2008, China Merchants Bank was chosen as the “2007 China’s Green Benchmark Enterprise” by the China Entrepreneurs magazine, Beijing University’s Guanghua School of Management, Daonong Enterprise Institute and many other institutions.

Conclusion

The Chinese banking industry, in its implementation of the Green Credit Policy, promotes the transformation of the country’s economic development model and has made gratifying achievements in supporting China’s sustainable development. From the situation of 14 listed banks we see that the concept of green credit has been accepted in China.

Some banks (ICBC, Merchant’s Bank, China Construction Bank, Bank of Communications, Shanghai Pudong Development Bank) formulated their own green credit policies and implementation methods. Some don’t have their own policy, but have some policy implementation measures. Industrial Bank has not only its own policy and measures, but also has adopted the higher demands of the international banking industry’s “Equator Principles.” Only a small number of banks have established special internal departments for implementing green credit. For example, Industrial Bank established a sustainable finance desk. Many banks in the meantime follow multi-sector convened or business sector positions for their relevant work. Also, green finance management departments haven’t become part of a core or long-term development strategy of the banks.

For the most part, banks have already started exiting or reducing lending for *liang gao* (energy-intensive and highly-polluting) industries; have gradually increased support for energy-saving environmental protection projects; and explain their actual green credit achievements. Some large banks with strong capital (ICBC), have an advantage over medium and small banks in their ability to phase-out lending to energy-intensive projects and support environmental protection projects, but medium and small banks (such as Industrial Bank), with their boutique financial products, have more easily made innovations and realized this transformation. As many banks don’t publish the total and proportions for phasing out *liang gao* lending and increasing environmental protection lending, its impossible to reflect on and compare banks’ vigor in implementing green credit.

As far as acknowledging and participating in international standards for the financial sector, this not only improves banks’ reputations, but more importantly promotes sustainable management levels. Industrial Bank became the first Equator Bank. Industrial Bank and Merchant’s Bank participated in the United Nations Environment Program Finance Initiative (UNEP-FI). ICBC and Industrial Bank joined the Carbon Disclosure Project. Other banks are researching international standards and receiving related knowledge trainings.

Banks already have initial results in terms of information disclosure, but this is still not sufficient: The adequacy of information disclosure is not enough, information disclosure about environmental and social impacts of specific projects is considerably inadequate, even though information about these risks are of common concern to society and banks.

Offices of every bank have started developing energy reduction activities. For example, some banks formulated monitoring and evaluation and incentive systems. But they still should report data on measured energy-saving emission reductions. Many banks developed employee knowledge trainings, and formulated systems and mechanisms for green credit. Because Industrial Bank participates in the Equator Principles, their staff trainings are more dynamic.

Lastly, as some banks undertake environmental and social responsibility more visibly, they are being acknowledge by society and establishing a favorable public image of their businesses. Industrial Bank prominently performs green credit advocacy within the industry and its client base. It is particularly worth noting that for two consecutive years Industrial Bank was awarded international and domestic environmental protection prizes.

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