Newsletter 22

China Sustainable Finance Newsletter #22

Policy Developments

1. Chinese Economists Stress Government Role in Green Credit

People's Bank of China economist Ma Jun argues that the government should design a policy system which directs investments towards green projects. He describes how China's financial system over-supplies capital towards polluting sectors, whereas green sectors face a shortage of capital. Chief economist at China Galaxy Securities also argues for the government to create green finance legislation to better control and contain environmental problems. Because green companies and projects possess high risks, he advocates for stronger government policies to foster green economic growth. Gao Xiqing, former president of China Investment Corporation, has called for greater government oversight in greening China's financial sector, arguing that China would benefit more from government intervention in controlling pollution from fossil fuels instead of relying on the capital market.

2. First Green Bond Issued in RMB

The International Finance Corporation issued the first ever yuan-denominated green bond on the London Stock Exchange in June. It is a three year bond priced with a two percent yield, and the first to be issued by a multilateral institution for offshore yuan markets. HSBC is the lead manager for the bond, and the criteria for using the IFC green bond include certification by Cicero, a research center affiliated with the University of Oslo. The bond can only draw upon offshore yuan at this time, and IFC has made arrangements so that the yuan can be accessed to finance projects in China.

Within China, wind farm producer CGN issued a one billion yuan to encourage wind energy developments in Inner Mongolia, Guangdong, Xinjiang and Gansu. The rate is tied to the China Certified Emission Reduction (CCER). The bond has also been dubbed a "carbon bond", and is the first green bond within China. The underwriters are SPD Bank and China Development Bank. New chief economist at the People's Bank of China Ma Jun has also spoken in favor of creating a broader green bond market in China.

Green bonds represent a dynamic new avenue for supporting green projects. However, criteria for green bonds has not yet been standardized, so "dirty" projects, such as those involving fossil fuels, could potentially draw upon funds raised through bonds marketed as green[1].

3. CBRC Encourages More Green Credit Initiatives

[1] Articles\Gr Bond Brief, FoE US, IR, BT.pdf

The CBRC continues to advocate for the expansion of green lending. Deputy Head of Statistics Ye Yanfei announced that the agency would explore ways to "launch securities backed by loans to green companies, in a bid to expand support for green lending". He has also called for stronger regulatory pressure to strengthen information disclosure, green credit incentive programs, and improve the supervision, management, and compliance of loans involving environmental and social risks. A recent example is MEP's coordination with the financial sector in initiating a pilot scheme for small businesses involved in environmental protection activities, in which they would receive finance assistance for green projects from banks, government, and other investors through a joint fund.

4. New Requirements for Chinese Foreign Direct Investment Approvals Process

As Chinese overseas investments have swelled in the past decade, the Chinese government has introduced new approval and regulatory requirements to streamline foreign direct investment overseas. The change is intended to streamline the growing demand for outbound investment and facilitate Chinese enterprises access overseas markets. The new procedures decentralize the approval process, with local NDRC offices responsible for recording outbound investments which are less than $300 million. As stipulated in the newly released "Measures for the Approval and Recordation of Overseas Investment Projects", as issued by SAFE (State Administration of Foreign Exchange), projects over 2 billion and related to sensitive countries and industries will be approved by the State Council; projects over 1 billion in sensitive countries and industries will be approved by the NDRC, and centrally administered SOEs or local enterprises investing between 300 million and 1 billion must be recorded by the NRDC as well. The Measures stipulate that all project proposals must include the submission of the Project Application Report, which includes: project name, investor information, feasibility analysis, implementation plan, financing plan and risk analysis. It should also include board resolution, assets and credit status of investor, letter of intent for financing issued by the bank, and a framework agreement signed by all parties. At this time, it is not clear how environmental and social risks may or may not factor in this new process.

Sustainability in China's Financial Sector

5. Overall Lending to High Polluting Industries Decrease

In 2013, China reduced loans to high pollution, high energy consumption industries by 24.8 percent, according to the China Banking Association. The CBA produced a report which describes the banking industry's tougher admission requirements and project evaluation mechanisms among the cement, electrolyte, aluminum, and flat glass industries. The report states that the amount of outstanding loans to energy conservation and environmental protection was 1,604.5 billion yuan by the end of 2013, which supported a total of 14,403 green projects.

6. Green Credit Initiatives Grow among Chinese Banks and Provinces

Local governments and environmental bureaus have implemented several pilot projects to increase green credit. In Guizhou province, Chinese financiers have authorized 98.43 billion yuan in loans to 673 energy conservation and environmental projects. In Shandong and Hainan provinces, the MEP has designed programs in which local banks, government, and investment institutions will provide preferential loans to encourage environmentally friendly projects among small enterprises. The Fujian Banking Bureau has released "Guidance for Banking Institutions to Promote Green Credit"; the policy aims to prioritize commercial bank lending to energy saving projects and services throughout 2014.

Local bank branches have also encouraged green credit. Huaxia Bank issued 34.66 billion yuan in green loans by the end of 2013, and the Shenzhen branch of Bank of Communications loaned approximately $300 million USD of loans to small business clients in the environmental protection industry. The Taizhou branch of Bank of Jiangsu provided 67,620,000 yuan worth of credit to environmental protection industries, waste disposal and pollution prevention, and resource recycling project support.

Green credit continues to be a long term focus on a national level as well. Industrial and Commercial Bank of China reported that by the end of 2013, the bank had loaned over 600 billion RMB to green projects.

7. National Credit System to Control Pollution

In coordination with other departments, the Ministry of Environmental Protection is drafting a national credit system to incentivize pollution control and punish poor environmental protection among companies. Expected punitive measures include travel bans and loan denials. The system will use four levels to rate a company's pollution-control performance; the rating is hoped to be a key criteria when companies apply for loans, administrative licenses or other relevant certificates. Chinese experts anticipate that although the credit system can work well to control pollution, it will face tough challenges in becoming a national system due to difficulty in collecting information on company's production, pollution, and safety measures. The system is already implemented on the provincial and regional level, and has been relatively successful. In Jiangsu province, the system was initiated in 2013 and now covers more than 20,000 companies. A key element in the credit system will be supervision, which Chinese experts say could even be mitigated through the use of drones. As the Chinese government attempts to strengthen the supervision of polluting industries, it is simultaneously considering the establishment of a national level environment and resources tribunal to hear complex environmental disputes and solve increasingly severe pollution problems.

8. CBRC Published Green Credit Statistics Report Forms

In May 2014, CBRC issued a "Notice on the Submision of Green Credit Statistics Report Forms" which required banking institutions to submit data according to the forms in an accurate, timely and thorough manner, in order to fully and accurately reflect their achievements in implementing green credit policies. As of the end of 2013, the green credit balance of 21 major domestic banking institutions totaled 5.2 trillion yuan.

Civil Society Activities

9. Ecuadorean Activists Challenge Chinese Financed Projects

Chinese banks have not yet responded to Ecuadorean activists regarding the environmental and social impacts of a controversial Chinese financed copper mine. Although banks were notified earlier this year, none of the six Chinese banks have responded to Ecuadorean requests for financiers to require their loan client, Tongling Nonferrous, to implement and abide by E&S standards and international norms, as obligated under the Green Credit Directive. The copper mine has become a focal point for growing concern regarding the environmental impacts of Chinese investments in Ecuador. Ecuadorean groups have spoken positively regarding China's green finance policies, yet there is no evidence that the policy is being followed. Chinese investment in another Ecuadorean oil refinery project has only heightened concern whether Chinese banks and companies are aware of environmental and social obligations under both Chinese and Ecuadorean laws and policies. Industrial and Commercial Bank of China (ICBC) has committed a total of $9 billion USD to building the oil refinery, which would potentially use oil from Venezuela and the hugely controversial Yasuni oil blocs.

10. Chinese Groups Voice Concern over Weakening World Bank Safeguards

In light of the new draft of World Bank safeguards, Chinese NGOs Green Watershed and Greenovation Hub recommended against the weakening of environmental and social safeguards. NGOs addressed this issue to China's deputy executive director at the World Bank, Mr. Han Bin, and urged him to share the matter with the World Bank management team. The letter states that the weakened WB safeguards go against Chinese environmental policies and laws, and advises against any shift towards client's self reporting. An English translation of the letter can be found here.

International Cooperation and Developments in Sustainability

11. BRICS Development Bank to be Based in Shanghai

In July, BRICS leaders confirmed that the long anticipated BRICS Development Bank will be based in Shanghai. The bank will draw upon $50 billion in capital from BRICS members and hold $100 billion as an emergency fund for financial crises. BRICS leaders have emphasized the need for affordable financing among emerging market economies, in which environmental and social safeguards are anticipated to become a key concern. Earlier in the year, environmental ministers from BRICS nations informally met in Kenya to increase consensus and cooperation on environmental issues. According to media reports, "[o]n the surface, these should be fairly green, given the bank's mandate to mobilise 'resources for infrastructure and sustainable development projects' in emerging and developing economies". However, civil society groups have urged that the BRICS Development Bank should take its sustainability measures seriously if it is to be a truly "South by South" collaboration.

12. Bank of China and Swedish Export Credit Corporation Agree to Finance Green Projects

Financing agreements between Bank of China and Swedish Export Credit Corporation (SEK) will offer export buyer's credit to Chinese enterprises to import environmentally friendly equipment from Sweden. The deal totals 100 million Euros and is the first deal to focus exclusively on green environmental protection projects between China and Sweden.

13. Chad Takes CNPC to Court for Violating Environmental Rules

Earlier this month, the Chadian government has decided to file a complaint against CNPC for illegally dumping crude oil in the Koudalwa region. Arbitration will take place in the International Arbitration Chamber of Paris. The Chadian government claims that CNPC owes $1.2 billion in compensation for environmental destruction. Before this complaint was filed, the government had also taken legal action against CNPC in N'Djamena for violating environmental rules and endangering the public.

CNPC has held licenses for several oil blocs in Chad since 2009. After weeks of negotiation, the government and CNPC failed to come to an agreement, leading to the cancellation of five exploration licenses previously approved for CNPC.