Sustainable Finance in China

Newsletter #2 January 2009

This is a bi-monthly newsletter following developments in sustainable banking in China. It offers updates on what Chinese banks, Chinese government regulatory departments, civil society and international stakeholders are doing to promote sustainable finance initiatives for China's financial sector. We invite readers to contribute their own news and information on sustainable finance in China. We hope you find this update useful to your work and encourage you to send any feedback to Adina Matisoff at amatisoff@foe.org.

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SUSTAINABILITY AT CHINESE BANKS

1. CBA publishes CSR report for China's banking sector

On 5 December 2008, the China Banking Association (CBA), which has a membership of more than 80 institutions in China's banking sector, released the first-ever social responsibility report of China's banking sector. The report compiles CSR information from 51 commercial banks and rural credit unions, covering the year 2007. The report is available in Chinese on the CBA website. See also "CBA releases guidelines on implementing CSR for Banking Sector," Item 10.
(http://www.china-cba.net/eng/new/news1/200812/6243.html)

2. Shenzhen banks sign convention on fulfilling social responsibility

On 29 December 2008, 23 Shenzhen domestic banks and 15 non-bank financial institutions signed the "Convention on Shenzhen domestic banks financial institutions to fulfill social responsibility." The convention includes commitments by the banks in 14 areas, including improving services and actively participating in environmental protection; establishing a social responsibility reporting system; and publishing an annual social responsibility report.
(http://finance.sina.com.cn/roll/20081230/09362601450.shtml)

3. China Development Bank becomes commercial bank

China Development Bank, China's second leading bank in terms of overseas lending, officially converted itself from a policy bank to a commercial bank on 16 December 2008. Now known as China Development Bank Corp., CDB retains all the assets, liabilities and business of the original bank, including a registered capital of RMB 300 billion. The bank's two shareholders are the Ministry of Finance and the Central Huijin investment company, with stakes of 51.3% and 48.7%, respectively. CDB did not comment on when it will go public.
(http://www.china-wire.org/2008/12/cdb-officially-launches-shareholding-company/)

Hurdles for China Development Bank's Reform
CDB faces such challenges as maintaining enough cash on hand to meet the government's higher capital adequacy ratio and raising returns on invested capital. (http://www.china-wire.org/2008/12/hurdles-for-china-development-banks-reform/)

4. Agricultural Bank of China issues CSR report in preparation for IPO

The Agricultural Bank of China (ABC) will seek its initial public offering on the Shanghai and Hong Kong Stock

Exchanges in 2010, reported the *Economic Daily* on 9 December 2008. ABC hopes to raise USD 25 – 35 billion for the IPO, and is seeking an investment bank to help it get ready for the sale. In early November, ABC signed an agreement with Central Huijin Investment Company for a RMB 130 billion capital injection that will also make the investment company ABC's half owner, along with the Ministry of Finance. As part of its transition to a publicly traded bank, ABC released its first corporate social responsibility report in November 2008.
(http://www.china-wire.org/2008/12/agricultural-bank-of-china-plans-dual-listing/)
(http://www.syntao.com/E_Page_Show.asp?Page_ID=10528)

5. CCB says it will not lower lending standards after government stimulus plan announced

China Construction Bank announced that it will not lower lending standards and requirements in order to support domestic policies to expand domestic consumption, said a CCB spokesperson on 8 January 2009. The statement comes after the Chinese government announced a USD 586 billion stimulus plan in November that called for banks to loosen credit criteria and encourage lending in order to undertake massive infrastructure investments and social welfare projects. For more information, see Item #6, below.
(http://www.tradingmarkets.com/.site/news/Stock%20News/2116767/)

POLICY DEVELOPMENTS

6. Chinese bank lending sharply increases due to stimulus package

Recent Chinese government statistics indicate that new bank lending in December 2008 rose sharply, as financial institution began implementing China's RMB 4 trillion stimulus package.
(http://hosted.ap.org/dynamic/stories/A/AS_CHINA_MARKETS?SITE=MIBAX&SECTION=HOME&TEMPLATE=DEFAULT)

In November 2008, the China Banking Regulatory Commission began preparing for this expansion by ordering banks to increase the amount of capital they have on hand. The banks' capital adequacy ratio, the minimum amount of cash banks have available at any given time, was increased from the international standard of 8% to 10% by the end of 2008 An official with the CBRC said "…China cannot be immune to the global crisis and we expect next year to be much more severe." According to one report, the government notice to banks required that new loans continue to comply with existing laws and regulations.
(http://www.ftchinese.com/story.php?lang=en&storyid=001023291)

Xinhua reports that in December 2008 the CBRC issued guidelines that require banks to set up special subsidiaries or quasi-corporate bodies to issue loans to small and medium-sized businesses that frequently have difficulty obtaining traditional loans. The new financial institutions are intended to avoid widespread bankruptcies and massive lay-offs, which affected 67,000 SMEs and 20 million employees in the first half of 2008. In order to not have a negative impact on the non-performing loan ratios of their parent companies, the new financial institutions would have independent systems for addressing bad loans. (http://news.xinhuanet.com/english/2008-12/06/content_10465908.htm)

7. Economic stimulus plan to include financing for environmental protection, says Vice-Premier

Environmental protection will be included in the Chinese government's financial stimulus plan, said Vice-Premier Li Keqiang at an Environment and Development conference on 12 November. Over the next three years, RMB 1 trillion will be spent on environmental clean-up and protection, according to Zhou Shengxian, Minister of Environmental Protection. This may include water pollution treatment in the countryside, cleaning up air pollution in the Pearl River Delta, and investing in renewable energies and pollution treatment. (http://english.mep.gov.cn/News_service/media_news/200811/t20081114_131231.htm)

8. Local government economic stimulus projects deemed risk to environmental protection in China

In early December, Premier Wen Jiabao heard warnings from an international panel on the environment and development that local governments may approve environmentally destructive investment projects in order to maintain economic growth. The panel recommended that the central government strengthen inspections to prevent such situations. According to Chinese newspaper reports, Premier Wen said "the threat of a global recession should not shift China's focus from the long-run goals of energy conservation and emissions reduction." (http://www.china-wire.org/2008/12/local-govts-poor-awareness-a-major-risk/)

9. MEP gives 'green passage' to 153 investment projects around China

In January, the Ministry of Environmental Protection announced that it had approved a total of 153 investment projects around the country totaling more than RMB 470 billion. Among the projects that passed the environmental impact assessment (EIA) process were 31 infrastructure projects, such as transportation and water conservation, worth RMB 139.3 billion. Among those rejected were eleven *liang gao* (heavily-polluting and energy-intensive) projects, such as coal-fired power plants, worth RMB 43.8 billion. MEP did not state how many *liang gao* projects were included in the approved projects.

The majority of the 153 projects are part of the government's economic stimulus plan and are being fast-tracked through the EIA process. However, MEP stated that it continues to discourage local governments from pursuing *liang gao* projects through "stringent environmental assessments" for those industries. Also, the Ministry of Land and Resources has banned the use of land for construction of *liang gao* projects. (http://english.mep.gov.cn/News_service/media_news/200901/t20090112_133477.htm)

10. CBA releases guidelines on implementing CSR for Banking Sector

On 12 January the China Banking Association (CBA) published guidelines to Chinese banks for implementing their corporate social responsibility (CSR) work. The guidelines apply to commercial and policy banks, as well as credit cooperatives and financial asset management companies. The scope of CSR includes economic, social and environmental responsibilities and accountability to environmental and social sustainable development and to a number of stakeholders, including communities. Key environmental commitments include setting up specialized environmental protection departments, research on incorporating the Equator Principles into the banks' own guidelines, educating clients about environmental impact assessment (EIA) procedures and green credit program compliance, and conducting independent investigations and audits of client projects. The guidelines also call for integration of CSR principles into banks' business structure, governance and assessment mechanisms and publicly disclosing third-party verified annual CSR report, in principle by June of each year covering the previous year. (http://www.china-cba.net/Article/ShowArticle.asp?ArticleID=6445)

11. Shanghai Stock Exchange requires CSR and internal control self-assessment reports

In early December 2008, the Shanghai Stock Exchange introduced two new initiatives requiring some of its listed companies to disclose annual social responsibility reports and internal control self-assessment reports. The measures are intended to improve the standard and accuracy of information available to investors. Financial companies and overseas listed companies are among the companies that must disclose their annual reports. (http://www.syntao.com/E_Page_Show.asp?Page_ID=10640)

CIVIL SOCIETY ACTIVITIES

12. Continued delays for Asia Pulp & Paper – China IPO

In September 2008, APP China's efforts to launch an Initial Public Offering in the Chinese stock market suffered a setback, as China's Ministry of Environmental Protection (MEP) began an investigation of the company's compliance with environmental laws. The investigation was prompted by a complaint filed by six Chinese NGOs under China's new Green IPO Policy, which requires some companies to receive MEP approval as part of the IPO application process. In December 2008, international NGOs warned some 50 Qualified Foreign Institutional Investors (foreign investors who can directly buy stocks from the domestic Chinese market) about the APP's 4-month IPO delay, and its poor track record on water pollution and other environmental issues.

According to news reports, in December 2008, representatives from 6 environmental organizations in China, including *Friends of Nature* and *Greenpeace-China,* met with top executives from APP-China. Reportedly, the company admitted that it did not know if or when MEP will approve its application. (http://finance.sina.com.cn/stock/s/20081210/02375613806.shtml)

APP China is also known as Golden East Paper Company, and is a subsidiary of Indonesia-based Sinar Mas Group.

13. Brainforest sends letter to China Exim Bank about impacts of Belinga Iron Ore Mine

In its ongoing campaign for more citizen participation and better community benefits in the Belinga Iron Ore Mine project, Gabonese NGO *Brainforest* has appealed to the projects financier. On 20 October 2008, the NGO sent a letter to China's Export-Import Bank raising concerns about the project's impacts on communities in the area and noting that the project does not abide by the export credit agency's own environmental standards. For more information on the project, and to view a copy of the letter, see http://www.banktrack.org/show/dodgydeals/belinga_iron_ore_project.

14. Friends of the Earth-US and BankTrack release report on Chinese banks

In November 2008, Friends of the Earth (FOE)-US and BankTrack jointly released an update to *'Time to Go Green,'* the 2007 report on the state of environmental sustainability in China. *"The Green Evolution: Environmental Policies and Practice in China's Banking Sector"* overviews key updates on efforts to green Chinese finance, including the government's Green Credit Policy, and includes examples of environmentally and socially-sensitive projects Chinese banks are financing around the world.

The report is available on the FoE website in Chinese and English at http://www.foe.org/pdf/Chinese_Bank_Report_2008.pdf; at http://www.banktrack.org/download/_/green_evolution_2008_foe_ch.pdf; or by contacting Adina Matisoff at amatisoff@foe.org.

INTERNATIONAL COOPERATION AND DEVELOPMENTS FOR SUSTAINABILITY

15. CDP releases results of 2008 China report

The Carbon Disclosure Project (CDP), representing a global network of institutional investors that addresses climate change through informed and responsible investments, released its first research report on China after one year of study. The report collected data on greenhouse gas emissions and the climate change strategies of listed Chinese companies. *Syntao*, which administered questionnaires to the top 100 Chinese listed companies for the research project, reported that 25% of the companies approached for the study participated, which was "a marked increase in levels of engagement from companies" previously. Report authors said the study indicates a gradual development of awareness about climate change risks by senior management in Chinese companies. They also stated that financial institutions, especially banks, have among the highest levels of climate change risk awareness among the top 100 listed companies. The full report is available on the CDP and Syntao websites. (http://www.syntao.com/E_Page_Show.asp?page_id=10365)

16. IFC releases handbook on sustainable investing in China

On 6 November the Ministry of Environmental Protection and the International Finance Corporation (IFC) jointly launched a handbook for Chinese banks on managing environmental and social risks. "International Experience in Promoting Green Credit: The Equator Principles and the IFC Performance Standards and Guidelines Handbook" includes Chinese translations of the Equator Principles, IFC Performance Standards, the World Bank Environmental, Health and Safety Guidelines and guidance notes. The 1400-page manual will be available in major Chinese bookstores. (http://www.ifc.org/ifcext/sustainability.nsf/Content/Highlights_November2008_ChinaGreenCredit)

For more information, please contact Zhang Rong, Program Officer for Environment & Social Development Department, Policy and Standards Unit, IFC, at rzhang@ifc.org

17. US-China Strategic Economic Dialogue addresses environmental banking

For the past two years, the U.S.-China Strategic Economic Dialogue (SED; the semi-annual Cabinet-level meetings between the U.S. and China) has addressed a number of issues, including environmental protection. Led by U.S. Treasury Secretary Paulson, who was the head of Goldman Sachs when it adopted its first environmental policies, the topic of promoting environmental standards in China's banking sector has been a minor part of the SED since its inception. In particular, the U.S. has been concerned that China's Export-Import Bank has not adopted the OECD Common Approaches on the Environment -- an Equator Principles for export credit agencies -- thus undercutting the effectiveness of these international norms. (See for example, US Exim bank's 2007 Competitiveness report, available at www.exim.gov.) The topic of environmental financing standards finally rose to some level of prominence during the December 2008 SED meetings. However, it appears that efforts to persuade China Exim Bank, China's largest overseas financier, to adopt international environmental norms were not successful; rather, the Joint Communique merely praised Industrial Bank for becoming the first Chinese bank to adopt the Equator Principles.
(http://www.treas.gov/press/releases/hp1317.htm)

18. China's Sovereign Wealth Fund refraining from investing in foreign financial institutions

On 8 December 2008 China Investment Corp. (CIC) stated that it will not seek to invest in foreign financial institutions until they reform poor policies. Earlier in the month, CIC Chairman Lou Jiwei also said CIC would not seek to invest heavily overseas during the current global financial crisis. CIC's investments during this period will be spread out geographically, especially focusing on developing countries. Chairman Lou implied that the world should not look to China to bailout foreign banks and pull the global economy out of crisis; that "China can't save the world. It can only save itself." CIC has a registered capital of USD 200 billion. It recently lost billions of dollars on stakes in Morgan Stanley and Blackstone Group. (http://www.china-wire.org/2008/12/cic-not-to-invest-massively-overseas-till-uncertainty-clears/) and (http://www.china-wire.org/2008/12/cic-head-not-keen-on-fresh-acquisitions/)

19. Foreign banks reducing strategic investments in Chinese banks

A handful of foreign banks with strategic investments in Chinese banks have sold parts those shares to raise capital for their own struggling businesses. Bank of America sold USD2.83 billion worth of shares in China Construction Bank on 7 January, reducing its stake from 19.1% to 16.6%. BofA will remain CCB's second-largest shareholder and a "long-term strategic partner." Similar situations have arisen for other top Chinese banks: Swiss-owned UBS and UK-based RBS both sold their entire stakes of Bank of China during December 2008 and January 2009 respectively,, and a private foundation based in Hong Kong sold more than USD500 million worth of Bank of China shares in early January. Additionally, banks say there might be further stake sales later this year, including Temasek Holdings' shares in Bank of China, and Goldman Sachs', Allianz's and American Express' shares in Industrial and Commercial Bank of China. Earlier reports suggested that Chinese officials were not happy about the massive sales. (http://www.guardian.co.uk/business/feedarticle/8207590 and http://www.straitstimes.com/Breaking%2BNews/Money/Story/STIStory_316325.html)

20. ICBC profits from partnership with South Africa's Standard Bank

Industrial and Commercial Bank of China's USD 5.5 billion investment in South Africa's Standard Bank in October 2007 contributed over RMB 500 million in dividends to ICBC thus far, said ICBC Board Chair Jiang Jianqing,. ICBC's 20% stake in SB is the largest direct investment made by a foreign company in South Africa. Going forward, the two banks are planning strategic partnerships in a variety of investments in Africa and globally (mostly in the mining, metal, oil and gas industries). According to SB's CEO, Jacko Maree, the cooperation is expected to bring as much as USD 50 million in profits to SB in the twelve months after July 2008. (http://www.china-wire.org/2008/11/icbc-discloses-cooperation-with-south-african-bank/)

In March 2008, the two banks also announced in the launch of a USD 1 billion global resource investment fund, to specialize in junior mining and energy companies in China and Africa. The fund is been reportedly stalled due to delays in regulatory approvals. (http://www.marketwatch.com/news/story/standard-bank-icbc-global-resource/story.aspx?guid={8E08697D-7A36-4301-BABC-222FE294CBC9})