

Sustainable Finance in China

Newsletter 8, May 2009

This is the quarterly 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 these stakeholders to read the below updates and contribute their own information on relevant sustainable finance work in China.

We hope you find this update useful to your work and encourage you to send any feedback to [Adina Matisoff](#).

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SUSTAINABILITY IN CHINA'S FINANCIAL SECTOR

1. Chinese banks release annual CSR reports

Many of China's leading commercial banks have released Corporate Social Responsibility reports for the 2009 calendar year, following last year's guidelines to do so from the China Banking Association. Banks that have made reports available include [Bank of China](#), [China Construction Bank](#), [China Merchants Bank](#), [Industrial Bank](#), [Industrial and Commercial Bank of China](#), [Hua Xia Bank](#), and [Shanghai Pudong Development Bank](#). [Bank of Nanjing](#), [China CITIC Bank](#) and the [China Banking Association](#) released statements that they published 2009 CSR reports; however the reports are not yet available on their websites. [Shenzhen Development Bank](#) briefly mentioned (one page) its CSR activities in its annual report.

Some banks, such as ICBC, followed the Global Reporting Initiative (GRI) reporting format, an internationally recognized standard. However, they did not follow the GRI Financial Supplement, which is recommended for financial institutions. Industrial Bank included a special section (beginning on p.66) that highlights its progress in implementing the Equator Principles, to which it has been a signatory since late 2008. China Merchants Bank noted that it developed internal Green Credit policies in 2009 to bring the bank into compliance with the national policy.

Additionally, some of these banks noted their reductions in lending to energy-intensive and highly-polluting industries and divulged how much they cut lending to '*liang gao*' sectors. For example, as it did

last year, CCB noted that it lowered lending to 16 energy-intensive and polluting industries by [2.89 per cent](#) of its total lending portfolio. Along with lending to the real estate sector, total lending to '*liang gao*' companies and projects was reduced by RMB 76.7 billion. According to CCB, it was able to make the cuts by using credit quotas and a 'list system.'

Many of the CSR reports are available in Chinese and some in English on the *BankTrack* website in addition to the websites of the individual banks.

2. ICBC to finance what could be Africa's most destructive dam

Industrial and Commercial Bank of China (ICBC), China's largest commercial bank, has agreed to finance what could be Africa's most destructive dam. According to news reports, ICBC agreed to extend a US\$ 500 million loan for a contract under which Dongfang Electric Machinery Corp., a Chinese state-owned company, will provide equipment for the [Gibe 3](#) hydropower project in Ethiopia. According to independent groups, the dam would destroy fragile ecosystems on which 500,000 indigenous people in Southern Ethiopia and Northern Kenya depend for their livelihoods. The World Bank, African Development Bank and the European Investment Bank have stayed away from the project that violates many of their safeguard policies. Kenyan and Ethiopian groups, along with international NGOs have drafted a [petition](#) calling for a halt to the project.

3. Sinohydro to release environmental policy in preparation of IPO

Sinohydro, the world's largest dam-builder controlling as much as 50% of the global hydropower market, made preparations in early March to [list shares](#) on the Shanghai

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Stock Exchange for the first time. Under China's Green Securities Policy, Sinohydro is required to first gain the approval of the Ministry of Environmental Protection (MEP) under the country's Green Securities Policy, a policy which seeks to leverage the country's stock markets to regulate environmental polluters. On March 3, the MEP posted Sinohydro's [Environmental Audit Report](#) on its website, and invited comments from the public. NGOs from China and host countries of Sinohydro projects submitted comments to the MEP expressing their support for Sinohydro's IPO under the condition that the company indeed adopts and implements an environmental policy that reflects highest international standards. Sinohydro is now awaiting the MEP's decision.

That same month, Sinohydro announced that it was in the beginning stages of drafting an [environmental policy](#). The company invited International Rivers, an international NGO, to provide input. The company's final environmental policy has not yet been released.

POLICY DEVELOPMENTS

4. Gov't green development plan calls for more support from financial sector

The CPCC National Committee put forward a new low-carbon economic development [proposal](#) at its third session in March, calling for the country's financial regulators and companies to step-up efforts to address environmental sustainability. Subsequently, an op-ed in [Sohu.com](#) listed policy and industry recommendations to improve existing financial products and create new ones to aid in the development of a green economy. Some of those recommendations include improving environmental risk

rating standards and guidance through strengthening cooperation between the country's financial regulators and environmental protection agencies; formulating policies to support green businesses to list shares on the country's stock markets; develop environmental pollution liability insurance; and enforce stricter adherence to government guidelines about energy-intensive, high-pollution and resource consumption industries.

One of the initiatives that have been developed since the NPCC low-carbon economy proposal was introduced is an [action plan](#) from the [Ping An Insurance Company](#) to introduce environmental pollution liability insurance, green rating standards for car insurance, and increased investment in green industries.

5. Provincial gov'ts push implementation of green finance policies at local level

Recent initiatives by some provincial governments show that efforts are being made to further implementation of the central government's green finance policies at the local level. In December, the Environmental Protection Department of [Guangxi](#) signed a memorandum of understanding with Beibuwan Bank, a local bank, stating that the bank will not provide loans to any clients unless borrowers have a clean environmental record. Also late last year, the Environmental Protection Department of [Guangdong](#) released a new policy that will enforce the central government's 'Green Credit' and 'Green Securities' policies. The "Guangdong Province Environmental Protection Department credit approach to environmental protection from pollution (draft)" rates enterprises' environmental performances, shares it with banks and



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securities companies and imposes punishments on environmental violators such as restricting access to IPOs and bank loans.

6. Progress on Green Credit guidelines for Sichuan's iron and steel sector

In March, Syntao, a Chinese corporate sustainability consulting company, released an update on its [pilot project](#) to develop Green Credit guidelines for Sichuan's iron and steel sector in partnership with the Ministry of Environmental Protection (MEP), Sichuan authorities and the British Embassy. Throughout the winter, Syntao held several seminars and trainings for local financial regulators and environmental officials, commercial banks and iron and steel companies in Sichuan, which focused on practical implementation of sustainable finance policies. Following these activities, in March Syntao started consultations with stakeholders to assess their needs before drafting Green Credit Guidelines for Sichuan's Iron and Steel Industry. A first draft of those guidelines was to be drafted that month, but have not yet been made public.

CIVIL SOCIETY ACTIVITIES

7. Reports assess the environmental policies and practices of Chinese banks

Two recent reports analyze the sustainability policies of Chinese banks. The [report](#), "**China's Banking Industry Environmental Record (NGO Edition)**," was released by a coalition of Chinese NGO led by Kunming-based *Green Watershed* in late March. It looks at sustainability of 14 leading Chinese commercial banks, covering areas such as environmental policies and

implementation measures, lending reductions to energy-intensive and polluting sectors, information disclosure and more. The authors used data from the banks' 2008 CSR reports, publicly-available bank policies, and questionnaires sent to the banks. The report is available in Chinese, and a (rough) English translation of the executive summary is available on the [BankTrack](#) website in the 'China Banks' section.

To publicize the report findings, the NGOs hosted a report launch and forum on Green Finance in Beijing on 21 April. The Ministry of Environmental Protection, banks and many NGOs were invited to attend. For more information, contact *Green Watershed's* [Xiang Hongmei](#).

The report "**Close the Gap**," was [released](#) by *BankTrack*, an international network of NGOs monitoring the environmental and social standards of commercial banks, in late April. This report evaluates to what extent 50 leading global banks have incorporated sustainability criteria into their lending and investment policies. The report assesses the quality of policies in seven key business sectors and nine sustainability issue areas, as well as the performance of the banks on transparency and accountability. Only publicly-disclosed policies of banks were evaluated, and scores from 0 to 5 were awarded using a benchmark developed by BankTrack in cooperation with Profundo, an economic research consultancy.

Industrial and Commercial Bank of China, China Construction Bank and Bank of China are included in the report as they are three of the top banks in the world. China's Industrial Bank is also covered in the benchmarking activity. The report can be viewed [here](#) in English and profiles of

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the four mentioned Chinese banks are available on the *BankTrack* website. An executive summary in Chinese will be available on the *BankTrack* website shortly.

8. IPEA releases report on Chinese corporate polluters listed on the HKSE

More than 16 per cent of Mainland Chinese companies listed on the Hong Kong Stock Exchange (HKSE) have violated China's environmental laws, according to an April 2010 report by the *Institute of Public & Environmental Affairs (IPEA)*. IPEA found that about 175 HKSE-listed companies have environmental violations on their record, according to data from its' [Pollution Map](#). The Pollution Map assesses the environmental performance of Chinese companies using Chinese government data. The report recommends that the HKSE revise some of its procedures and rules in order to improve companies' information disclosure about environmental violations. The report is available in [Chinese](#) and [English](#).

9. NGO organizes investor briefing on sustainable forestry in Hong Kong

The *Association for Sustainable & Responsible Investment in Asia (ASRIA)*, along with *Greenpeace China* and *WWF Hong Kong* organized the "Sustainable Forestry Investment Forum: Risks and Opportunities in the Asian Forestry Sector" on 17 May in Hong Kong. The forum will bring together leading financial institutions, forestry industry representatives and civil society experts to focus and engage on current environmental, social and governance risks associated with the forestry industry in Asia and help investors identify opportunities to promote responsible and sustainable forest use among publicly-listed companies in Hong Kong. For more information, a full agenda and contact information, click [here](#).

INTERNATIONAL COOPERATION AND SUSTAINABLE FINANCE DEVELOPMENTS

10. CDB participates in GRI's Biennial meeting

The *Global Reporting Initiative (GRI)* held its third biennial Amsterdam Global Conference on Sustainability and Transparency from 26-28 May in Amsterdam. The conference brought together large and small businesses, NGOs, civil society, governments and regulators from around the world to discuss sustainable business practices and how to improve corporate reporting as a key driver of sustainability. China Development Bank's Director General, Mrs. Wang Yuan, was among the discussants of a plenary talk about sustainability in China. The full conference schedule, including sessions and speakers, is available [here](#).

11. SIF holds annual Spring Symposium about responsible investing in China

The International Working Group of the *Social Investment Forum* held a [symposium](#) on China's economic rise and responsible investing in Washington, DC on 17-18 May. The event, "The Paradox of China's Transformation," discussed issues of concern to social investors as they look to Chinese firms and the Chinese market to make sound investments and make a difference for their clients. Representatives from investment firms such as Calvert and TIAA-CREF; consulting firms such as ASRIA, Business for Social Responsibility, and SynTao and NGOs such as Friends of the Earth and World Resources Institute participated in the event.