

# Sustainable Finance in China

Newsletter # 10, November 2010

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 AT CHINESE BANKS**

### **1. China Development Bank boosts 'eco-friendly' lending in 2010**

China Development Bank (CDB) issued RMB 170.6 billion (about US\$ 25.6 billion) in ['eco-friendly' loans](#) in the first three quarters of 2010, constituting 10.5% of the bank's total new loans granted in this period, according to the Chinese media website 163.com citing statistics published by the bank. No details were given about which industries the bank categorized as 'eco-friendly.' CDB provided the lion's share of financing to [China's major solar power companies](#) in 2010, according to online media source *Digitimes*. This included a combined RMB 80 billion (roughly US\$ 12 billion) in loans to frontrunners Suntec and Trina solar. Some of the loans were designated to facilitate these companies to expand their businesses abroad.

No information was included about CDB's lending to highly-polluting or energy intensive industries, or other environmentally sensitive projects during this period. However, CDB is a major financier of China's leading oil companies, including a US\$30 billion loan to China National Petroleum Corporation for its overseas expansion in 2009.

### **2. Shenzhen Development Bank joins UNEP-FI**

In August, [Shenzhen Development Bank](#) (SZDB) became the fourth Chinese bank to join the United Nations Environment Program – Finance Initiative (UNEP-FI), after Bank of Shanghai, China Merchants Bank, and Industrial Bank, respectively. The UNEP-FI is a mission statement and platform created by the UNEP to promote linkages between sustainability and

financial performance. Over 200 global financial institutions have signed-on to the statement.

This is the first international norm to which SZDB has joined, and offers the bank an opportunity to improve its environmental and social risk management. SZDB lags behind its peers in terms of sustainability policies and practices, according to a 2009 [benchmarking report of Chinese commercial banks](#) carried out by Chinese NGOs. The report uses criteria such as establishing internal bank sustainability policies and implementation measures, cutting lending to energy-intensive and highly polluting industries and disclosing sustainability information.

## **POLICY DEVELOPMENTS**

### **3. China's central bank promotes environmental protection credit rating system**

The People's Bank of China (PBOC), China's central bank, is taking steps to strengthen the ability of Chinese banks to implement environmental protection, according to media reports. This past September at a high-level meeting about green finance in [Changchun](#), an official with the PBOC said that the bank is currently establishing a credit rating system to track the environmental violations of businesses. The bank will use environmental laws and a five-color rating system to rank environmental impact assessments. The information will be used to determine a project's eligibility for Chinese bank loans. An environmental protection "[blacklist](#)" will be developed to deny loans to companies with poor environmental performance. The bank has already collected more than [30,000 records](#) of corporate violations of

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environmental policies, and the environmental impact assessments from more than [3,000](#) corporate construction projects that will provide important reference for commercial banks in their credit decision-making.

In July 2007, the PBOC, in partnership with the Ministry of Environmental Protection and China Banking Regulatory Commission, launched the Green Credit Policy. The policy sought to leverage commercial banks to better control China's worst environmental polluters. At that time a credit "blacklist" was created, using information collected by the MEP and included in the PBOC database. It is not immediately clear how the new PBOC initiatives differ from those initiated in 2007.

#### **4. Chinese listed companies must disclose environmental incidents within 1 day**

Companies listing shares on China's stock markets must report sudden and unexpected environmental incidents within one day of the occurrence, according to [draft guidelines](#) from China's Ministry of Environmental Protection. On September 14, 2010, the MEP released the draft "Guidance on Environmental Information Disclosure of Listed Corporations," which instructs listed companies to fulfill more explicit environmental protection responsibilities and environmental information disclosure obligations. Also, a MEP official stated that the Guidance lists corporations in 16 heavy polluting industries (coal-fired power, steel, cement, electrolytic aluminum, etc.) that should publish annual environmental reports to periodically disclose pollution discharging, environmental law compliance, environmental management, and other environmental information. The draft

guidelines follow a July 2010 [notice](#) from the MEP to listed companies, which call for more disclosure of environmental information.

The new rules were sparked by the July 2010 chemical waste spill at a mine owned by Zijin Mining Group in Fujian Province. The accident, which the company failed to disclose for nine days, was called China's worst mining pollution disaster in two years. The local environmental protection agency [fined the company](#) RMB 9.6 million (US\$1.4 million), which was well below earlier reports that the fine could be as much as RMB 500 million (US\$74 million). Additionally, Zijin said it would [compensate local fishermen](#) for their losses, however in September the company had not paid out most of the money because it said it was receiving fraudulent claims from local village governments.

#### **5. Controversial water diversion project proposed**

China may consider a proposal for a massive project to divert seawater from its eastern coastal regions to the drought-plagued Northwest via thousands of kilometers of pipeline. The pipeline would transfer water from the Bohai Sea to Gansu, Inner Mongolia and Xinjiang. Experts have raised concerns that the project's negative impacts on the fragile ecosystems of these three provinces will be too great. Similar concerns were brought up about the controversial [South-to-North Water Diversion Project](#). According to media reports, the Bohai Sea project is estimated to cost RMB 103 billion, for which financing has been secured. However it is unclear from where this capital will come. According to the [MEP website](#), a proposal for the project will be put to regional government authorities for approval shortly.

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## **CIVIL SOCIETY ACTIVITIES**

### **6. Nine Chinese NGOs announce 3<sup>rd</sup> annual Green Banking Innovation Award**

In September 2010, nine Chinese NGOs presented the third annual [Green Banking Innovation Award](#) to China Merchants Bank as part of the *Economic Observer* magazine Best Chinese Banks ceremony. Chinese NGOs established this award in 2008 in order to encourage banks and other financial institutions to take an active role in environmental protection. In addition, the NGOs awarded the first annual “Environmental Information Disclosure Award”, which was given to Industrial Bank, to encourage improvements in the Chinese banking sector’s disclosure of environmental information.

Finalists were chosen based on information they provided to the NGO jury, which judged on criteria including information disclosure; environment-related policies and implementation measures; dedicated environmental departments or staff; actual lending to environmentally risky projects and energy-saving environmental protection projects; public critiques; adoption of international standards and norms; internal environmental performance; external advocacy and trainings; social investments; and overseas investments. The ‘Environmental Information Disclosure Award’ indicators included the means through which information was disclosed; the circumstances under which information was disclosed; the substance of information disclosure; and bank responses to public demands.

The nine NGOs nominating and voting on the award were Green Watershed, Friends

of Nature, Institute of Public & Environmental Affairs, Green Earth Volunteers, Global Environment Institute, Civil Society Watch, China Development Brief, Green Volunteer League of Chongqing and Hengduan Mountains Research Society. Additionally, consulting firm SynTao Co. Ltd., acted as an advisor. For more information, contact [YU Xiaogang](#), Green Watershed or [GUO Peiyuan](#), Syntao Co. Ltd.

### **7. GreenWatershed launches Chinese-language Green Finance website**

Yunnan-based NGO *GreenWatershed* launched a website on green finance in China. <<中国绿色银行观察网>> ([China Green Bank Watch](#)) is a Chinese-language online resource and information clearinghouse that seeks to educate the Chinese public about environmental and social sustainability issues in China’s financial sector. The website covers green finance news, sustainable policies and practices of Chinese banks, pertinent Chinese and international regulations and related NGO activities.

### **8. BankTrack launches new sustainability profiles of two Chinese banks**

BankTrack assessed the sustainability policies of two Chinese banks following an earlier benchmarking of four leading Chinese banks in 2010’s *Mind the Gap* report. The two newest Chinese banks to be rated were [Agricultural Bank of China](#), which raised a record [US\\$ 22 billion](#) during its initial public offering earlier this year, and [China Development Bank](#), a leading financier of Chinese overseas projects. The assessment follows the same methodology of the organization’s April 2010 *Close the Gap* benchmarking exercise, which

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analyzes the extent to which best policies and practices have been operationalized among 50 leading international banks. Including this latest round of benchmarking, BankTrack has ranked the sustainability policies and practices of 63 international banks, including the majority of Equator Principles Financial Institutions, which as a group have volunteered to incorporate higher environmental and social standards.

## **INTERNATIONAL COOPERATION AND DEVELOPMENTS IN SUSTAINABILITY**

### **9. WWF opens forum on sustainable banking**

WWF-China inaugurated a forum series on “Finance, Environment and Development” on September 4, 2010. The forums seek to engage Chinese banks and regulators and catalyze new thinking on sustainable finance through discussions with experts from different countries. Representatives from the People's Bank of China, Ministry of Environmental Protection, China Development Bank, China EXIM Bank, ICBC, China Construction Bank, Sinosure, Industrial Bank, DFID, etc. participated in the first meeting on “international standards.” The next meeting will be on November 30, 2010, with a discussion on environmental and social risks in Chinese overseas investment and a focus on Africa. The meeting will be under the auspices of the China Industrial Overseas Development & Planning Association, a think tank under the China National Development and Reform Commission. For more information

about the forum series, contact [SUN Yiting](#), Program Manager of WWF-China's Global Shift Initiative.

### **10. World meeting on investment for sustainable development held in China**

The second biennial [World Investment Forum](#) (WIF) was held on 6-9 September 2010 in Xiamen, China. The global forum on investment and development issues was organized by the United Nations Conference on Trade and Development (UNCTAD), in partnership with China's Ministry of Commerce. WIF 2010 brought together governments, businesses, international organizations, investors, civil society, experts and practitioners from around the world to discuss the broad theme of “Investment for Sustainable Development.”

### **11. IFC and GRI brainstorm to improve reporting of performance standard compliance**

The International Finance Corporation (IFC) and the Global Reporting Initiative (GRI) have collaborated on a document to show linkages between the IFC performance standards and the GRI reporting guidelines. The document proposes that banks applying the Equator Principles (such as China's Industrial Bank), could ask their investee companies to report using GRI's template. Additionally, the GRI Financial Sector Supplement could be used as a framework for banks to report on their risk assessment processes. For more information, contact [Sean Gilbert](#), GRI's representative in China.