

Sustainable Finance in China

Newsletter 11, First Quarter 2011

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 Exim Bank learns about ESG issues of Chinese development projects in SEA

From December 11-18, 2010, a representative from the China Export-Import Bank participated in a study tour of Chinese development projects in Laos and Cambodia. The one-week trip was organized by Heinrich Böll Stiftung (Beijing) office. In addition to the China Exim Bank official, the eight-person delegation included representatives from the Institute for International Economic Research of NDRC, Development Research Center under the State Council, Center for Research on Multinational Corporations of the Ministry of Commerce, Chinese Academy of Social Sciences, Peking University, and NGOs. During the trip, the Chinese academics and policy makers talked to the two countries' international and local NGOs, community representatives, Chinese Chamber of Commerce, academics, governmental officials and Chinese companies. The group visited Chinese investment sites and Theun Hinbon Extension Project (which is neither financed nor constructed by Chinese companies) to get a better understanding about China's role in the two countries and hydro-power related development issues.

All the representatives were to give policy recommendations to their respective institutes on how Chinese investors can better communicate with local stakeholders and promote their environmental and social performances to contribute to the sustainable development results. For more information, please contact [WANG Xiaojuan](#) in HBF's Beijing office.

2. Chinese banks to provide financing for new PNG mine

In February, the Marengo Mining Ltd, a global copper miner based in Australia, moved forward with plans to obtain financing for the Yandera copper project in Papua New Guinea (PNG) from Chinese banks. According to a Memorandum of Understanding signed in October 2010 between the Australian miner and China Non-ferrous Metal Industry's Foreign Engineering Construction Co Ltd (NFC), the companies will seek out Chinese banks to provide at least 70% of the necessary project financing. In February 2011, Marengo [announced](#) that it would enlist South Africa's Standard Bank to provide financial advise and develop a comprehensive funding plan through completion of the project.

The Yandera copper-molybdenum-gold deposit is located in PNG's Madang Province, which is also home to the [hotly contested](#) Ramu Nickel Mine (being developed by a consortium of Chinese companies).

POLICY DEVELOPMENTS

3. China releases first Green Credit Policy development report

In December 2010, China's Ministry of Environmental Protection released the agency's first review of the government's 2007 Green Credit Policy, which has sought to enlist the power of the country's banking sector to mitigate severe environmental pollution. The [China Green Credit Development Report 2009](#), which covered developments through 2009, noted that environmental protection authorities have reported more than 40,000 environmental violations to the banking sector between 2007 and 2009. However, the report

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pointed out that authorities were unable to adequately monitor and evaluate the impacts of the Green Credit Policy.

Since the launch of the policy, some specific green credit guidelines have been developed for the paper, iron and steel sectors, while additional guidelines were to be released in the future.

4. Shanghai Stock Exchange to bolster disclosure requirements of listed companies

In December 2010, Shi Duoli, the director of Management Department of the [Shanghai Stock Exchange](#) (SSE), said that the SSE would broaden the scope of listed companies required to file Corporate Social Responsibility (CSR) reports and do more to encourage those companies which are not required to also release CSR reports. The [China Securities Journal](#) reported that in 2009, 318 companies listed on the SSE released CSR reports, accounting for about 40% of listed companies. Of those, 278 were required to file reports, while 40 companies did so voluntarily.

5. Shanxi Green Credit Policy implementation evaluation report published

In December 2010, a [local-level Green Credit implementation pilot program](#) was launched by the Taiyuan branch of the People's Bank of China and the Shanxi Environmental Protection Bureau. According to [Xinhua News](#), the program would strive to create greater financial support for advanced technology energy-efficiency projects, while restricting loans to energy-intensive and highly polluting industries. The two government agencies in charge of the program will monitor progress for two years and evaluate the

performance all banks operating in Shanxi Province.

CIVIL SOCIETY ACTIVITIES

6. Civil Society Groups Petition the HKSE over Zijin Mining Group's corporate disclosure

On March 3, several civil society groups [petitioned](#) the Hong Kong Stock Exchange to ensure that Zijin Mining Group (listed as 2899:HK) fully discloses material risks associated with one of its most controversial overseas projects, the Rio Blanco Mine in Peru. The groups include Friends of the Earth-US, Peruvian rights organizations CooperAccion and Fundación EcuMénica para el Desarrollo y la Paz (Fedepaz), and Belgian solidarity organization CATAPA. The [letter](#) raised concerns that Zijin investors are in the dark about the risks posed by the Rio Blanco Mine project, including failure to obtain community consent required by Peruvian law), violations of environmental laws and conflict with local communities.

The groups found that in 2009, Zijin's Supervisory Board found that the company may have [overstated the value of some of its assets](#) because of "problems [arising] from the social and environmental protection in local society, higher political, economic and cultural risk for overseas investments." However, Zijin's 2009 annual report disclosed neither these risks nor how the company was addressing them.

The petitioning groups urged the Hong Kong Stock Exchange to ensure that Zijin properly reports on these risks in-line with the Exchange's rules for disclosure.

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7. Grassroots Groups protest Gibe 3 dam in Ethiopia

On February 20, citizens staged [peaceful marches](#) outside the Chinese embassies in Kenya and Sudan to petition the Chinese government against the involvement of several Chinese companies in the ongoing construction of the controversial Gibe III mega-dam. The protests were led by Friends of Lake Turkana, a Kenyan organization that is opposed to the dam because of the grave threat it poses to the area's fragile ecosystem and indigenous Nubian culture. The [petition](#) called for the involved companies to withdraw from the project and contact directly the affected peoples.

The Industrial and Commercial Bank of China (ICBC) is set to provide financing for the risky dam, which Chinese dam builders are to construct.

8. WRI begins new project on “emerging actors”

World Resources Institute (WRI), an environmental think tank in Washington, DC, recently started a new program to influence emerging international financial actors in development finance, including Chinese financial institutions. According to WRI Senior Associate TAN Xiaomei, this work stems from the organization's long history of working to ensure that the foreign investments of traditional financial institutions such as the World Bank do not contribute to environmental and human rights harm. Now, as the development finance landscape changes, WRI will seek to influence Chinese and Brazilian institutions. To kick off its project, WRI is helping to translate the Global Environmental Institute's recent book, Environmental Policies for China's Overseas Investments, and will publish a joint analysis of environmental and social standards. WRI

plans to engage Chinese overseas actors with the goal of promoting responsible overseas investment, and collaborate with other civil society organizations. Please contact WRI Senior Associate [Xiaomei TAN](#) for more information.

INTERNATIONAL COOPERATION AND DEVELOPMENTS IN SUSTAINABILITY

9. China Development Bank goes on sustainable banking study tour in Germany

In December, China Development Bank (CDB) a leading Chinese bank engaged in overseas investment sent a bank delegation on a two-week study tour in Frankfurt, Germany to learn about corporate social responsibility and sustainable finance. The United Nations Environment Programme – Finance Initiative (UNEP-FI), along with WWF, IFC and other organizations, were actively involved in the tour, during which the delegation covered a wide range of key subjects in sustainable finance - from climate change, carbon finance, energy efficiency/renewable energy financing, to environmental infrastructure, CSR & corporate governance, and eco-efficiency for financial institutions, etc. Through peer-to-peer exchanges with European counterparts, site visits, lectures and interactive debates, the tour provided the delegation with a full overview of corporate social responsibility and sustainable finance, as well as the implementation in development financial institutions.

At the opening ceremony, Mrs. Yuan Wang, Chief Economist of the Bank stated:

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“Through this program, we could seriously think over what responsibilities China Development Bank and every one of our staff should take in fulfilling sustainable development, then bring these concepts back and implement in the whole process of our operational work.”

10. Equator Banks meet with Chinese counterparts in Beijing

The Equator Principle Financial Institutions (EPFIs) conducted outreach to Chinese banks in Beijing in early December 2010, with regard to best practice in environmental and social risk management of the financial sector. The International Finance Corporation (IFC) facilitated the EPFI's interaction and exchanges with Chinese environmental and banking regulators as well as leading Chinese banks, sharing EPFI's experience on environmental and social risk management and China's Green Credit Policy implementation. For more information on the IFC's role, contact [Ms. ZHANG Rong](#), Environmental, Social and Governance Department, IFC.

Outreach was conducted on the sidelines of the Equator Principles Strategic Review Meeting held in Beijing on December 1 - 2, 2010. The meeting, hosted by Citi China, presented an opportunity for Equator banks to examine the vision for the Equator Principles going forward in terms of managing environmental and social risk. It was attended by 31 participants (including Steering Committee members and EPFIs representing each region). The Strategic Review consultants presented views gathered through surveys and direct conversations with industry, civil society, and other key stakeholders such as the IFC and other agencies. Numerous issues were debated including the 'beyond project finance' issue, transparency and disclosure, consistency in Equator Principles application, and other Association-related governance topics. EPFIs also listened to guest-speakers, including a senior representative of China's Ministry of Environmental Protection. For further information on the Strategic Review, please go to www.ep-strategic-review.com.