

# Sustainable Finance in China

Newsletter 12, June 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 in CHINA'S FINANCIAL SECTOR**

### **1. ABC, three other Chinese banks release 2010 CSR reports**

In March, the Agricultural Bank of China released its [2010 corporate social responsibility](#) (CSR) report, its first since it became a joint-stock commercial bank last year. In terms of its environmental performance, the bank provided data about its green loans and controlling lending to highly polluting and energy intensive projects. By the end of 2010, ABC provided RMB 59.713 million to 367 projects, which supported energy-saving and consumption reduction, while withholding RMB 27.22 million in loans from 42 credit applicants. It did not provide a breakdown of the types of projects for which it provided or withheld loans. In terms of environmental policy development, the report noted that ABC created new credit policies for the coal chemistry, coal carbonization and shipbuilding industries, bringing its total industry-specific credit policies to nine.

Since April, [China Construction Bank](#), [Bank of Communications](#) and [Shanghai Pudong Development Bank](#) have also released their 2010 annual CSR reports. Only CCB's was available online as of June 2011.

### **2. Chinese banks beef up sustainability policies**

Some Chinese banks have taken steps to integrate the green credit policy and other sustainability measures into their businesses. In March, [Bank of Communications](#) stated that it developed the "2011 green credit policy guideline" to promote the inclusion of environmental factors into its lending decisions. In April, the [Industrial and](#)

[Commercial Bank of China](#) (ICBC) followed suit, stating that it provided streamlined green credit policy and implementation guidance to all its branches throughout China. Neither policy document was publicly available on the banks' websites.

Ninety Chinese banks promised to further their sustainability efforts at a conference held by the China Banking Association during June in Beijing. The "Joint Declaration of China's banking sector social responsibility," an [aspirational statement](#), promises that signatory institutions will further promote social responsibility work within their banks.

According to *ifeng* news website, by the end of 2010 the total assets of the Chinese banking sector had grown to RMB 9.53 billion, a nearly [20% increase](#) from 2009.

### **3. Chinese banks provide US\$10 billion for solar power in Europe**

Two Chinese banks are providing as much as US\$10 billion in funding to a group of three Chinese makers of solar equipment to build sun-powered energy projects in Europe, according to [Bloomberg](#). China Merchants Bank and China Development Bank are backing the efforts of Goldpoly New Energy Holdings Ltd., TBEA SunOasis Co. and China Technology Development Group Corp. (CTDC) to expand in Europe, CTDC said in a statement. The solar companies say their goals align with the Chinese government's policies on promoting renewable energy, and that the German government's plans to abandon nuclear power by 2022 will drive up demand for solar energy in the region. Lending by China Development Bank for clean energy projects exceeded US\$35.5 billion last year, according to a February report by Bloomberg New Energy Finance.

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## **4. China Exim Bank-financed hydropower investments stoking civil war in Burma**

In June, a 17-year ceasefire ended between Burma's military and an ethnic militia, in part caused by the development of Chinese-backed hydropower projects in the region, according to the Burma Rivers Network. Fierce fighting erupted between the Burmese military and the Kachin Independence Organization (KIO) at the sites of two hydropower projects in northern Myanmar (Burma). "The conflict is closely related to the dams. The government has sent in troops because it wants to gain control of a region that hosts major Chinese investments in hydropower," Sai Sai, of the Burma Rivers Network, told the [Guardian](#).

Chinese companies including [China Datang Corporation](#) and China Power Investment are currently constructing up to nine dams in northern Burma. China Export-Import (Exim) Bank is providing financing for at least one of the projects, the [Upper Paunglaung Dam](#). The [Myitsone dam](#), which is the northernmost dam to be built along the Irrawaddy River in Burma, is one of the most controversial because of the potential environmental, social and cultural impacts. Before fighting broke out, the KIO reportedly sent a letter to the Chinese government warning that further development of the contested dam would cause unrest, according to Burma Rivers Network.

The Burma Rivers Network said in a statement, "Mega dams in Burma have severe negative social, economic and environmental impacts while the majority of electricity generated is exported to neighboring countries or used by the military. Most of the dams are located in

ethnic states and allow the expansion of Burma Army control into these areas."

## **POLICY DEVELOPMENTS**

### **5. China Banking Association presents the sustainability performance of Chinese banks in 2010**

In June, the China Banking Association (CBA) held an event to release its 2010 China banking sector social responsibility report, held in Beijing. According to summaries of the event, participants noted that in 2010 the banking industry pushed forward green finance policies and phased out lending to highly polluting, energy-intensive industries. However no figures were provided and the report was not available to the public on the CBA website. In addition to the report launch, the CBA presented awards to Chinese banks in 7 categories related to sustainable finance, with almost half of China's 67 eligible banks receiving accolades. A full list of awardees is available [here](#).

### **6. Chinese research institute instructs Chinese companies about writing CSR reports**

The Chinese Academy of Social Sciences Research Center for Corporate Social Responsibility [released a set of corporate social responsibility \(CSR\) report writing guidelines](#) 《中国企业社会责任报告编写指南（CASS-CSR 2.0）》 in Beijing on March 31<sup>st</sup>. The 'Guidelines 2.0' seeks to improve the quality of CSR reporting by Chinese companies. It builds off of earlier guidelines released by CASS in December 2009 that sought to introduce Chinese companies to CSR report writing standards that would be easier to implement than international standards such as the Global Reporting Initiative (GRI). According to a



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[website](#) that was set up about the guidelines, CSR reports should be fair and objective when disclosing both positive and negative corporate information in the reporting period, to ensure that stakeholders can correctly evaluate the overall performance of the enterprise. The 'Guidelines 2.0' has different reporting instructions for various sectors, for example the [oil and petrochemicals industries](#), which include specific examples from companies in those sectors.

Meanwhile, the GRI also updated its reporting guidelines in March. The [G3.1 Sustainability Reporting Guidelines](#), along with a technical protocol that will help companies determine what to report on, "will enable all organizations to be transparent about a wide range of important, but often neglected, issues," according to Nelmara Arbex, Deputy Chief Executive of the GRI.

## CIVIL SOCIETY ACTIVITIES

### 7. Green Watershed publishes second assessment of Chinese banks

In April, Kunming-based NGO Green Watershed released its 2<sup>nd</sup> benchmarking of the environmental performances of major Chinese commercial banks. <<[2010 中国银行业环境记录](#)>> (*China's Banking Sector Environmental Record 2010*) examined the environmental policies and practices of 14 Chinese publicly listed banks, including major financiers such as Industrial and Commercial Bank of China, China Construction Bank and Bank of China, as well as medium-sized banks such as Industrial Bank and China Merchants Bank. The study assessed each bank's environmental policies, implementation

measures, lending reductions to energy-intensive and polluting sectors, information disclosure, overseas lending and more. The authors used data from the banks' 2010 CSR reports, publicly-available bank policies, and questionnaires sent to the banks. An English translation of the report is forthcoming and will be posted on the [BankTrack](#) website.

### 8. Greenpeace East Asia files complaint over APP China bonds

Greenpeace filed complaints to the National Association of Financial Market Institutional Investors (NAFMII), China's bond market regulator, regarding RMB 5bn in bonds sold by Asia Pulp & Paper (APP) China earlier this year. The filing claimed that NAFMII should not have allowed the company to sell bonds on environmental grounds, and warns that the bonds will eventually hurt the stability and healthy development of China's financial market. APP China launched two bond issuances in March and May 2011 to replace bank loans and replenish the company's capital. Both tranches were priced higher than what was recommended by NAFMII given the company's rating and tenor. As of late June 2011, NAFMII had not publicly responded to the complaint.

APP is the biggest corporate defaulter in Asian history, a title it earned after it collapsed owing about US\$14bn to bondholders during the Asian financial crisis. The company since restructured, but still has a record of environmental mismanagement, including in China where its subsidiaries have incurred numerous water pollution violations. For more information, contact [Calvin Quek](#) at Greenpeace East Asia.

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## **9. FoE-US and BankTrack train Chinese NGOs about financial advocacy**

BankTrack and Friends of the Earth-US provided a two-day training on how to effectively monitor the environmental performance of banks and companies for Chinese NGOs in Beijing on April 21-22<sup>nd</sup>. The training introduced basic financial concepts, explained how the financial sector works, and compared China's banking sector with banks internationally. About 35 trainees participated, mostly from NGOs in the Beijing area. Guest speakers from banks, the media and CSR consultancies also contributed. The event was sponsored by Greenpeace East Asia. For more information, contact [Michelle Chan](#), Economic Policy Program Director, Friends of the Earth-US.

## **International Cooperation and Sustainable Finance Development**

### **10. ADB partners with SPDB to finance energy efficiency projects**

In May, the Asian Development Bank announced that it would provide the Shanghai Pudong Development Bank (SPDB) [RMB 300 million](#) in partial credit guarantees to help the commercial lender make loans for greening buildings. Under the ADB's Energy Efficiency Multi-project Financing Program the two banks will share the financial risk of lending for retrofitting old buildings and constructing new 'green buildings.' ADB plans to partner with additional Chinese commercial lenders to eventually provide RMB 800 million in energy-efficiency loans.

### **11. IFC and SSE study CSR reporting requirements for Chinese listed companies**

From November 2010 to March 2011, IFC and the Shanghai Stock Exchange jointly commissioned the Sustainability Reporting Guidelines Mapping and Gap Analysis to compare and understand good practices in CSR reporting in China and around the world, with an aim to upgrade SSE's CSR reporting requirements. This is part of IFC's support for China's Green Securities Program. IFC works with multiple stakeholders in China to upgrade ESG standards and practices for Chinese listed companies. For more information, contact [ZHANG Rong](#), Program Manager for East Asia and Pacific Region, Environment, Social and Governance Department of the IFC.

### **12. CBRC, UNEP-FI and WWF-China host sustainable finance meeting**

Environmental and social sustainability is the key to increasing international competitiveness for China's banking and finance sector. This was the outcome of the China Sustainable Banking Strategy Forum, a one-day conference on green lending practices, jointly organized on April 20<sup>th</sup> by the China Banking Regulatory Commission (CBRC), United Nations Environment Program Finance Initiative and WWF-China. WWF has [recommended](#) that sustainability should be part of a bank's core business and that Chinese banks could learn about environmental and social risk management from international standards such as the IFC, Equator Principles and 62 issue or industry-specific sustainability guidelines, such as the Extractive Industry Transparency Initiative.