

SUSTAINABLE FINANCE IN CHINA

NEWSLETTER #1, NOVEMBER 2008

This is the first edition of 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 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 at amatisoff@foe.org.

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SUSTAINABILITY AT CHINESE BANKS

1. Industrial Bank becomes first Chinese bank to adopt EPs

On 31 October Fujian-based Industrial Bank became the first Chinese bank to adopt the Equator Principles, which are considered international best practice for addressing the social and environmental impacts of financing for development projects. The bank's Board of Directors began the process of becoming an Equator Bank in July 2008 and subsequently applied for permission from the China Banking Regulatory Commission (CBRC). Between July and October, Industrial Bank investigated some concerns raised by the CBRC about the bank's capacity to implement the Principles.

Reportedly, the Principles will apply to a very small part of Industrial Bank's total investment portfolio and will have a minimal impact on its business. According to *China Daily*, the bank will bring existing lending procedures and related systems in-line with the Equator Principles within a year. The publication also quoted an official from the Ministry of Environmental Protection (MEP) as saying that Chinese authorities will draft regulations that encourage more Chinese financial institutions to adopt the Principles.

(http://www.syntao.com/E_Page_Show.asp?Page_ID=10434 and http://www.syntao.com/E_Page_Show.asp?Page_ID=10447)

2. China Development Bank releases first-ever CSR report ahead of commercial reforms

China Development Bank released its 2007 Corporate Social Responsibility (CSR) report in early October. Although the bank publicly-disclosed its environmental policy in a 2005 bond prospectus report, this was the first time it released an update on its corporate social responsibility record. It uses the Global Reporting Initiative (GRI)

disclosure format and the GRI Financial Services Sector Supplement, an international standard for financial sector CSR reporting. The report focuses on compliance with government regulations to curb lending to energy-intensive and highly-polluting industries and increasing lending to green projects. The report was externally verified by Det Norske Veritas, which stated that the report "provides a fair representation of the level of implementation of CSR policies..." but "need(s) improvement in disclosing some of the core indicators as stipulated by the GRI Financial Services Sector Supplement." The bank stated that it was "actively exploring ways to adopt the Equator Principles." (Full text of the report: <http://www.cdb.com.cn/WebSite/cdb/UpFile/srr2007/web/bgsy-en.html>)

The CSR report was released about one month before an announcement that CDB's commercial restructuring reforms were almost complete. On 6 November the bank stated that, pending State Council approval, it would debut as early as 10 November. The Ministry of Finance and China Central Huijin Investment Co. were reportedly going to each take a 50% ownership stakes. CDB will offer mid and long-term credit, as well as investment banking business. (<http://www.tradingmarkets.com/site/news/Stock%20News/2003368/>)

3. Agricultural Bank of China restructuring plan moving forward

Xinhua reported in mid-October that the Chinese State Council approved the Agricultural Bank of China's (ABC) restructuring plan, which will enable the bank to become a publicly-traded commercial bank. Following approval, the government-owned Central Huijin Investment Company injected RMB 130 billion (USD 19 billion) into ABC on 6 November, clearing ABC's books of bad loans and preparing for its initial public offering in the second half of 2009. Central Huijin Investment Ltd. and the Ministry of

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Finance each hold a 50% stake in the bank. ABC is the last of China's Big Four commercial banks to be bailed out. (<http://english.people.com.cn/90001/90776/90884/6519596.html> and <http://www.tradingmarkets.com/site/news/Stock%20News/1999233/>)

4. China Exim Bank releases environmental guidelines

The China Export-Import Bank, one of the most important banks providing overseas financing for Chinese companies, publicly released the 2007 updated environmental guidelines entitled "Guidelines for Environmental and Social Impact Assessments of the China Export and Import Bank's (China EXIM Bank) Loan Projects," in July 2008. The regulations replaced a November 2004 version that was only publicly disclosed in April 2007.

The guidelines were developed in accordance with China's Environmental Impact Assessment (EIA) Law, Environmental Protection Law, and Environmental Management for Construction Project Ordinance, and drew from the experience of international banks.

Although the export credit agency clarified and refined its policy in the last 28 months, the scope has not expanded significantly on the environmental front. However, the 2007 Exim policy has newly referenced social issues, including land rights and resettlement, issues which most Chinese banks have not integrated on a financing level.

For an unofficial English translation of the China Exim Bank EIA guidelines, please see: <http://www.internationalrivers.org/en/node/3139>

POLICY DEVELOPMENTS

5. Update on MEP implementation of sustainable finance policies

Pan Yue, China's Vice-Minister of Environmental Protection, gave a progress

report on the implementation of green finance policies in China at a forum on environmental economic policies in Shenzhen in September. The Vice-Minister noted that 20 out of 38 IPO or bond issuance applications were unable to get through MEP's initial review process, and also noted that the IFC's Environmental, Health and Safety standards for lending had been adopted into green lending policies extending into 63 industries.

(http://www.mep.gov.cn/hjyw08/200809/t20080916_128720.htm)

6. WWF and Central Bank issue green banking report

On 5 October World Wildlife Fund (WWF) – China and the People's Bank of China released a high-level report on sustainable development in China's banking sector. The report, entitled "Towards Sustainable Development: Reform and the Future of China's Banking Industry," outlines the role commercial banks can take to further the country's sustainable development goals and provides specific recommendations on environmental policy changes, with reference to international standards. (<http://www.wwfchina.org/english/loca.php?loca=544>)

7. CBRC urges banks to improve risk management capabilities

Xinhua reported on 18 October that the China Banking Regulatory Commission (CBRC) urged the Chinese banking sector to safeguard their investments in the face of the turbulent international financial environment. Among the steps the CBRC outlined were strengthening banks' risk control and internal management, especially for overseas investments; and to learn from the mistakes of the US financial crisis.

(http://news.xinhuanet.com/english/2008-10/18/content_10215717.htm)

8. Commercial banks to offer more financial services in rural China

The People's Bank of China and China Banking Regulatory Commission (CBRC) issued a guideline to commercial banks on

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18 October calling for improved financial services in rural areas. The improved services were to include more small and group guarantee loans to farmers, as well as creating more loan guarantee methods. The guideline was to be adopted, on a trial basis, in nine provinces that exhibit solid economic development. It is part of the government's goal to double the per-capita disposable income of rural residents from the current level by 2020. (http://news.xinhuanet.com/english/2008-10/18/content_10213004.htm)

CIVIL SOCIETY ACTIVITIES

9. Chinese NGOs announce Green Bank Award

Chinese NGOs, in cooperation with *Economic Observer* (a financial newspaper in China which ranks Chinese banks) awarded the first annual Green Banking Innovation award to Industrial Bank on 26 July 2008. Green Watershed, Friends of Nature, Institute of Public & Environmental Affairs, Green Earth Volunteer, Global Environmental Institute, Civil Society Watch, China Development Brief, Green Volunteers League of Chongqing and SynTao Co. Ltd., served on the jury.

The judging emphasized minimizing banks' indirect environmental impacts through its financing activities, and exploring new opportunities for green business.

According to sources, this award will be given annually, and may be accompanied by a report on the state of environmental sustainability at Chinese banks.

For more information about the first award, please see: <http://www.banktrack.org/index.php?show=news&id=162>

10. NGO Coalition Urges Careful Consideration of APP IPO

In August 2008, six Chinese NGOs, including Friends of Nature and Greenpeace-China, raised concern about the environmental

record of Golden East Paper Co., a subsidiary of Asia Pulp & Paper (APP), in response to the company's IPO application to China's Ministry of Environmental Protection (MEP).

The Chinese government requires enterprises in energy-intensive and high-polluting industries to undergo an environmental assessment by MEP before initiating an IPO or obtaining refinancing from banks. During a 10-day public evaluation period, the groups submitted comments to MEP using information gathered from more than five years of research on APP-China. They highlighted the company's poor environmental track record and recommended that MEP carefully consider the company's many environmental violations as it decided whether the company met the country's environmental standards required to list shares on the domestic stock market.

As of October 2008, the groups had sent MEP two letters raising concern about the company's environmental record and MEP was investigating the claims.

For more information about the APP IPO, please see: <http://www.banktrack.org/index.php?show=news&id=166>

11. Three Gorges Dam construction finished ahead of schedule, despite continued protests

Residents of Wushan County, Sichuan Province, who have been displaced by China's Three Gorges Dam, participated in a large-scale protest on 15 July related the project's resettlement issues. The protest took place after several residents who had petitioned the local authorities over land lost to the dam were assaulted by thugs allegedly hired by the authorities. *Xinhua* reported that, as of June, 1.24 million residents had been relocated for the project.

(<http://www.rfa.org/mandarin/yataibaodao/wushan-07162008113911.html>)

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Despite protests, the final construction of the Three Gorges Dam was completed on 29 October, almost one year ahead of the projected November 2009 construction deadline. Final safety checks and connection of a generator to the power grid were still underway. Additionally, final financial accounting for the estimated USD 22.5 billion project was pending. (http://news.xinhuanet.com/english/2008-10/29/content_10274590.htm)

12. Greenpeace and CIFOR hold training on sustainable investing in Hong Kong

On 8 October Greenpeace-China and the Center for International Forestry Research (CIFOR) held the "Forum on Deforestation and Sustainable Business Opportunities." The forum provided an opportunity for investors and traders to learn about global deforestation and how this crisis can be addressed in the stock market. Discussion covered deforestation and trade links with Hong Kong, recent forestry listings in the Hong Kong market, legal cases and new issues in due diligence for trade and finance, and regulatory trends and sustainable business opportunities. Participants included NGOs, CSR consultants, analysts and bankers concerned with environmental issues and future trends in forestry sector regulations.

For more information about the event, please contact TAM Man-kei at m.k.tam@hk.greenpeace.org

13. Friends of the Earth-US and BankTrack to release second report on the state of environmental sustainability at Chinese banks

In November, Friends of the Earth (FOE)-US and BankTrack will jointly release 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" will

overview key updates on efforts to green Chinese finance, including the government's Green Credit Policy, and examples of environmentally and socially-sensitive projects Chinese banks are financing around the world.

The report will be available on the FoE-US and BankTrack websites, or by contacting Adina Matisoff at amatisoff@foe.org

14. Civil society groups respond to the global financial crisis, call for radical transformation

In response to the unfolding global economic crisis, civil society groups are calling for a sweeping overhaul of the world economic system. Organizations gathered on the sidelines of the 7th Asia-Europe People's Forum (AEPF) in Beijing on 13-15 October released a declaration entitled "The Global Economic Crisis: An historic opportunity for transformation." This statement represents the collective concerns of social organizations and movements throughout Asia and Europe who fear being hit first and hardest by economic downturn, and call for new financial regulations to be 'people-centered.' (<http://www.casinocrash.org>)

BankTrack, a network of organizations tracking the operations of the private financial sector, released "Bank to the Future: El Escorial Statement on Banks and the Financial Crisis," during its annual strategy meeting, held in El Escorial de San Lorenzo, Spain at the beginning of November. The statement stresses the need for a 'New Green Deal' that seeks not just to stabilize the economic system as it is, but also to transform it into one that helps solve the pressing social and environmental problems the world is facing. (http://www.banktrack.org/site2008/download/bank_to_the_future/escorial_declaration_final.pdf)

INTERNATIONAL COOPERATION AND

SUSTAINABLE FINANCE IN CHINA

DEVELOPMENTS FOR SUSTAINABILITY

15. IFC and MEP release handbook on promoting Green Credit

On 6 November the International Finance Corporation (IFC) and Ministry of Environmental Protection (MEP) launched a handbook on Green Credit, titled "International Experience in Promoting Green Credit: Equator Principles and IFC Performance Standards and Guidelines." The handbook is part of a cooperation agreement between the two institutions that began in January 2008. The agreement aims to introduce China's financial sector to the IFC's expertise and experience in environmental and social standards. In particular, reviewing and adapting international standards to the Chinese context and requirements. More information about the handbook will be available on the IFC website (<http://www.ifc.org/sustainability>) the week of 10 November.

16. Mizuho Corporate Bank promotes the EPs among Chinese banks

Mizuho Corporate Bank, which belongs to the Equator Principles' China Outreach Group, has been actively supporting the introduction of the EPs in China and fostering their understanding by China's banking sector. Mizuho participates in various kinds of conferences and bi-lateral meetings introducing the Equator Principles to Chinese society and works with China's universities and NGOs to promote its adoption. The most recent presentation was held in October 2008 and hosted by The Development Research Center of the State Counsel. Mizuho states, "Almost every month for the last 15 months has found us in China explaining and teaching about the EPs to all levels of government, banking and civil society."

In particular, Mizuho assisted Industrial Bank to prepare for adopting the EPs. Industrial Bank became the first

Chinese bank to adopt the EPs on 31 October.

Mizuho is working with Tsinghua University to develop environmental standard checklists for ten industrial sectors. Tsinghua is using Mizuho's EP environmental checklists as its baseline. This project will contribute to a gap analysis to understand the differences between IFC and domestic standards.

For more information about Mizuho Corporate Bank's sustainability activities, please contact Mr. Osamu ODAWARA, Head of Sustainable Development Dept, Global Structured Finance Division, Mizuho Corporate Bank, osamu.odawara@mizuho-cb.co.jp

17. Citi supports sustainability training for China's financial sector

Citi (formerly Citigroup), which is a founding member of the Equator Principles and an active member of the EPFI Steering Committee, has been promoting the Equator Principles and its own Environmental and Social Risk Management (ESRM) Policy within the Chinese financial community. On 17-19 September 2008, Citi participated in a large-scale environmental training session organized by the China Banking Regulatory Commission in Fuzhou, Fujian Province. Over 68 financial institutions were represented at the workshop.

Previously, in June Citi hosted a delegation of representatives from Chinese banks, the CBRC and MEP at its headquarters in New York City for presentations about the bank's environmental and social risk management policies. The delegation was in the United States to attend a seminar on the Green Credit policy that was organized by the International Finance Corporation (IFC).

Reporting on Citi's implementation of the Equator Principles and its ESRM Policy can

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be found at:
http://www.citigroup.com/citi/citizen/data/citizen07_en.pdf

For more information about Citi's environmental initiatives, please contact Shawn D. Miller, Director, Environmental & Social Risk Management, Citi, shawn.d.miller@citi.com

18. ADB initiates energy-efficiency program with Chinese banks

The Asian Development Bank (ADB) announced that it is setting up a RMB 800 million credit guarantee program that will support private sector-led energy efficiency projects in China. The Energy Efficiency Multi-Project Financing Program will provide financing in partnership with financial institutions such as Standard Chartered for improving the energy emissions of existing buildings and constructing new energy-efficient green buildings. It seeks to improve access to domestic financing and assist commercial banks develop technical expertise for evaluating these types of projects. (<http://www.chinacsr.com/en/2008/10/13/3332-ADB-initiative-to-make-buildings-energy-efficient/#more-3332>)

19. China becomes member of the Inter-American Development Bank

China became the 48th member of the Inter-American Development Bank (IDB) on 23 October. The IDB is the single largest source of long-term financing in Latin America and the Caribbean. As part of the deal, China will contribute USD 350 million to IDB investment projects, including USD 125 million for the Fund for Special Operations, which provides soft loans to certain countries. It also provides USD 75 million for each of three programs, including: grant funds for state and private sector institution-building; the Inter-American Investment Corporation equity fund for small and mid-sized businesses;

and the Multilateral Investment Fund, which lends to microenterprises. China will hold .004% of IDB shares and .16% of Inter-American Investment Corporation shares. China will hold a seat on the Board of Executive Directors and Board of Governors.

China's investment in the IDB is expected to facilitate its trade with the region, which reached USD 110 billion in 2007. China is now the region's second largest trade partner. (<http://www.iadb.org/NEWS/detail.cfm?id=4828>)

20. UNEP-FI and GRI release financial services supplement

The United Nations Environment Programme-Finance Initiative (UNEP-FI) and Global Reporting Initiative (GRI) released the GRI Financial Services Sector Supplement on 20 October. The finance sector specific guidelines for sustainability reporting are considered an international standard. They were developed by multi-stakeholder working groups over the past five years. (Now available on the UNEP-FI website:

http://www.unepfi.org/work_streams/reporting/index.html)

21. US-China Green Tech Summit in Shanghai

The US-China Green Tech Summit will be held in Shanghai on 12-14 November. The event will bring together US and China business leaders working on renewable energy and clean technology. Among the agenda topics will be commercializing clean energy technologies and financing strategies such as venture capital, private equity and other alternatives. Some companies attending will be *Shui On Development*, *BP Solar and Wind*, and *GM China*. For more information about this event, please visit: http://www.bayareacouncil.org/events/Green_Energy_Brochure.pdf