

Sustainable Finance in China

Newsletter 4, 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 AT CHINESE BANKS

1. Chinese banks release CSR reports in-line with new industry guidelines

In-line with China Banking Association's 2009 guidelines promoting Corporate Social Responsibility (CSR) reporting, some banks have issued their 2008 CSR reports. In May, [Agricultural Bank of China](#) (ABC) released its second CSR report, which highlighted its compliance with the country's green finance policies and stated how many loans were rejected due to environmental factors. In March, [ICBC](#) released one of the most detailed CSR reports in the Chinese banking sector. [Industrial Bank](#), which has taken the lead among Chinese banks in terms of its environmental policies, released its 2008 CSR report, which heavily focused on energy efficiency loans. [China Merchants Bank](#) and [Bank of China](#) also released their 2008 CSR report in May, as did the China Banking Association itself. As with most Chinese bank CSR reports in 2007, these reports mostly focus on donations and charity made by banking institutions, as opposed to environmental and social issues as a core business concern.

2. Green Finance Policy implementation

China's suite of Green Finance Policies is at various stages of implementation, according to a recent Sinocast article. A China Banking Regulatory Commission spokesperson noted that the insurance sector, which has relatively new green finance policies, is lagging behind. According to Yang Chaofel, director of the MEP policy department, local environmental protection departments are still working on implementing the Green Credit Policy.

A few individual banks have reported that they are implementing the Green Credit Policy. According to the ICBC, in 2008 they "exited" loans from 152 companies valued at RMB 3.5 billion. Similarly, Agricultural Bank stated that it rejected 167 project loans as a result of implementing the Policy in 2008.

3. Banks deny loosening lending standards for stimulus spending

Chinese banks have enthusiastically responded to the Chinese government's calls to increase lending in support of the government's RMB 4 trillion stimulus plan. Premier Wen Jiabao told lenders to boost loans by at least RMB 5 trillion in 2009 and some analysts believe Chinese banks will provide as much as 70% of stimulus financing. So far in the first four months of the year Chinese banks extended [RMB 5.17 trillion](#) of new loans, more than in all of 2008. Bank of China, the nation's third-largest bank, has speculated that its lending may top [RMB 8 trillion](#) by the end of 2009.

Although banks have substantially increased their lending, they say they have not compromised environmental protection and energy-efficiency standards to do so. [Industrial and Commercial Bank of China](#) testified that "We have never loosened our risk-control assessment, not even for government-stimulus projects and infrastructure lending." Chinese policymakers attest that they have not slackened on upholding standards and enforcement either. China's [State Council](#) maintains that although capital restrictions for companies partaking in infrastructure projects were being relaxed, restrictions on high energy consuming or heavily polluting industries remain stringent.

However, some credit rating agencies point out that banks are much more focused on quantity than quality right now. They worry that pressure from the government to lend is leading to an increase in [bad loans](#), and that if the economy does not improve, Chinese banks will again be faced with unsustainable amounts of non-performing loans.

4. China Exim Bank delays controversial mining project

The [Belinga Iron Ore Mine Project](#) is a massive effort to develop an iron ore deposit in the interior of Gabon, along with associated infrastructure such as hydroelectric dams, roads, railways and a port. Local NGOs, particularly Brainforest, have expressed various



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environmental and social concerns about the project, and have been harassed as a result of their advocacy. Following a [letter](#) sent to the China Exim Bank by Brainforest in late 2008, China Exim Bank has decided to hold off on financing for the project. The letter asked the bank to investigate allegations that its client, CMEC, was violating China Exim's environmental policy. Subsequently, China Exim Bank decided to pull financing from the Belinga project until the results of the project's impact assessments were verified. According to Marc Ona, head of Brainforest, the Chinese Ambassador to Gabon later told him that civil society issues and environmental impacts had prominently factored in Exim Bank's decision to pull financing, at least until the results of the impact assessments.

5. Bank of China, other IFIs rule out financing Gunns' pulp mill

In April 2009, BankTrack and The Wilderness Society [took out a Financial Times advertisement](#) which listed leading banks, including Bank of China, which have committed to not finance Gunns' environmentally destructive pulp mill in Australia. Last year, after successfully campaigning to get ANZ bank to withdraw from the project, the groups wrote Bank of China and other international banks who were rumoured to be possible replacement financiers. The Bank of China replied that it was not planning to finance the deal, the first time a Chinese bank had replied to an NGO inquiry about a controversial project. The advert also pointed out why other banks should follow their lead and commit to not financing the pulp mill.

POLICY DEVELOPMENTS

6. China to develop stimulus for alternative energy

In May, the National Energy Administration announced that the government intended to create a stimulus package to develop the country's [renewable energy sector](#). Up to this point China had pledged to spend RMB 2

trillion on the sector between 2006 and 2020. Now it is seeking to add another RMB 1 trillion to that in order to double the nation's 2007 output of alternative energy by 2020. The government is currently looking into ways to finance the stimulus package, which may include solar, wind, hydropower and biomass projects.

Meanwhile, the National Development and Reform Commission (NDRC) gave an environmental accounting of how the government's 2008 stimulus package funds are being spent. According to the NDRC, RMB 23 billion, or [10%](#) of stimulus money spent so far went to infrastructure, ecological and environmental sectors, quake relief and other areas. In total, RMB 13 billion went to improving urban water treatment facilities, RMB 4 billion to pollution prevention projects on the Huai River and other big rivers, RMB 3.5 billion to forest planting projects, and finally RMB 2.5 billion to key energy saving projects. It did not account for how the other 90% of funds were spent.

7. Publicly-listed companies to receive guidance on CSR reporting

[China's Security Index Company](#) announced that it will be releasing guidance on issuing corporate social responsibility (CSR) reports to Chinese listed companies in July. The guidance will cover how to report on CSR issues and give case studies. China Security Index Co.'s efforts follow those of the China Banking Association and the Shanghai Stock Exchange, both of which announced similar guidance earlier this year.

Draft regulation on environmental protection in overseas investments complete

The Ministry of Environmental Protection and Ministry of Commerce have completed a [draft of mandatory environmental measures](#) for Chinese companies involved in overseas projects. Highlights of the regulations include: environmental impact assessments before the start of projects; environmental protection measures included in all existing and planned projects; adherence to environmental laws of the host countries unless China has higher



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standards, in which case international or Chinese standards will apply; and compensation for environmental damages caused by the project. The draft regulations still must be approved by relevant authorities, but may go into effect by as soon as July.

8. State establishes Chinese overseas mining private equity fund to counter foreign resistance to Chinese M&A deals

The third forum on Chinese Mining investment & financing and the 'going out' policy was held 23-24 May 2009 at Beijing's Tsinghua University. At this meeting, representatives from the National Development and Reform Commission (NDRC), China Mining Association and others addressed the perception of a 'China threat' Chinese overseas mining companies are encountering to acquisitions of local firms. For example, some Australian lawmakers are opposed to the Aluminum Corporation of China (Chinalco)'s buy up of Rio Tinto, the Australian mining giant. In order to circumvent political setbacks, the NDRC and State Administration for Industry and Commerce have approved the first [private equity fund](#) for China's overseas mining sector and are actively planning new policies to implement the investment fund.

In related news, on 20 May, the China International Mining Group (CIMG) sponsored a seminar on managing risk in overseas mining investments. The seminar sought to increase understanding among Chinese government and mining companies about the risks and implications of going global.

CIVIL SOCIETY ACTIVITIES

9. WWF, Chinese government co-host green banking forum in Beijing

In May, the World Wildlife Fund (WWF) organized the Finance, Environment and Development Forum (FED) along with the National Development and Reform Commission (NDRC), Ministry of Environmental Protection (MEP), and the People's Bank of China (PBoC). The forum was a platform for high-level exchange aimed to enhance

cooperation among government, the financial sector, academia and NGOs to comprehensively address finance, environment and development issues in China. Issues covered included green credit and environmental risk assessment mechanisms, as well as sustainable overseas investment and how China is supporting new green enterprises. Roughly 200 participants from domestic and international governments, financial institutions, private sector, academia and civil society attended the forum. For more information about this event, please contact [Zhou Lidong](#) in WWF's China office.

The forum is part of WWF's on-going efforts to engage with China's banking and finance sector. Over the past year, WWF has been working with a range of international financial institutions (including the German Development Finance Agency Euler Hermes, Unicredit ANZ, Standard Chartered and West LB) to develop practical training materials and case studies for Chinese banks to use when developing and implementing environmental policies. The materials will focus on key areas such as recognizing environmental risks, high-level executive trainings, and implementing environmental management throughout the banks. The materials are being developed in collaboration with China's Ministry of Environmental Protection. For more information about the training materials, please contact [Mark Eckstein](#).

10. NGO; launch next round of benchmarking Chinese banks

The *Economic Observer* financial journal, in cooperation with local Chinese NGOs, has started its research and assessment process for the 2009 Green Banking Innovation Award. The award will be given this summer, and will be followed by the release of a benchmarking report comparing Chinese banks on their environmental performance.

Internationally, BankTrack is also preparing to begin its bi-annual *Mind the Gap* report, which compares about 50 international banks on their environmental and social financing policies. In 2007, the three Chinese banks



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surveyed [scored at the bottom of the list](#), in part because of their lack of transparency.

INTERNATIONAL COOPERATION AND SUSTAINABLE FINANCE DEVELOPMENTS

11. Foreign investors cash out shares from Chinese banks

International banks are continuing to offload their strategic stakes in Chinese banks, largely in an effort to raise much-needed cash. Early in the year UBS and Royal Bank of Scotland (RBS) sold all of their shares in Bank of China. Around the same time Bank of America (BoA) sold part of its stake in China Construction Bank (CCB). Then in April, Allianz and American Express announced that they each [sold half of their stakes](#) in Industrial and Commercial Bank of China (ICBC) for a total of \$1.9 billion. Reportedly, the total of such sales has reached [US\\$ 6 billion](#) since January 2009. Speculation of additional divestment continues. BoA was reportedly gearing up to sell an additional 6% of its stake in CCB after a [four-month lock-up period](#) ended on 7 May. Finally, Goldman Sachs announced on 1 June that it is selling [20% of its stake](#) in ICBC. Some of the foreign banks were trying to avoid upsetting the Chinese government during the offloading by holding private sales to select investors instead of selling publicly.

12. Chinese banks participate in IFC's annual training

A high-level delegation of Chinese officials and bank representatives attended the IFC's annual Community of Learning event, held in Washington DC on 12-13 May. The annual meeting is an opportunity for financial institutions working with the IFC to share their experiences with implementing the IFC Performance Standards. The Chinese delegation comprised of representatives from China's Banking Regulatory Commission (CBRC), Ministry of Environmental Protection,

China Exim Bank and China Industrial Bank. The representative from CBRC made a key-note speech as well.

The IFC meeting preceded the annual meeting of the Equator Banks and a meeting between Equator Banks and international NGOs. The Chinese delegation did not attend these meetings, although Industrial Bank is the first and only EPFI to include China Exim Bank in their activities as well, as China Exim Bank is China's leading financier for international projects.

For more information about the IFC Community of Learning event, please contact [Zhang Rong](#), Program Officer, Environment & Social Development Department, IFC Policy and Standards Unit.

13. China Development Bank to participate in UN meeting on conflict zones

According to a representative from the United Nations Global Compact, the China Development Bank will participate in the UNGC Local Networks Annual Meeting, 9-10 June in Istanbul. CDB, which became a member of the UNGC in 2006 and issued its first corporate social responsibility report in-line with UNGC standards in 2008, is expected to send four or five representatives to attend the two-day meeting. CDB representatives are also expected to attend a one-day side meeting immediately preceding the annual meeting to discuss a new UNGC initiative on developing policy guidance on responsible investing in conflict areas. For more information about the events in Istanbul, click [here](#).