

# Sustainable Finance in China

Newsletter #6, November 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. Big 5 Commercial banks Q3 reports limited public disclosure on green credit performance

China's banks extended [RMB 8.92 trillion](#) in loans in the first 10 months of the year, according to the People's Bank of China, leaving them on course to lend nearly 10 trillion in all of 2009, equivalent to a third of China's annual output. Not surprisingly, some large commercial banks reported that the majority of lending increases went to [infrastructure projects](#), including for railway, power grid and nuclear power industries. China Construction Bank (CCB), was the only one of the Big Five commercial banks to give an update on its green credit implementation, reporting that it voluntarily withdrew [RMB 55.8 billion](#) in loans from highly-polluting or energy-intensive industries in the first three quarters of the year. This is up from [RMB 29.43 billion](#) in retracted loans in the first half of the year. Additionally, the bank noted that it improved its polluters blacklist management.

### 2. SRI Index launched in China

On 7 November, the Chinese Federation for Corporate Social Responsibility (CFCSR) and the China Corporate Development Academy of Shanghai's Jiaotong University launched a social responsibility investment ([SRI](#)) index in China. The index includes three categories for "Harmonious Competiveness" in listed companies, multinational companies and Chinese cities. Each list is comprised of 20 companies.

This index follows two earlier announcements of SRI indexes introduced in China. In August the [Shanghai Stock Exchange](#) (SSE) and China Securities Index Co. Ltd launched an SRI Index on the SSE.

Additionally, the "[Cninfo-CBN-AEGON-INDUSTRIAL](#) Fund CSR Index" was introduced by AEGON-INDUSTRIAL Fund Management Co., Ltd, Shenzhen Securities Information Co., Ltd and China Business Network Co. on 4 November.

### 3. ICBC includes Green Credit in high-level financing deal with Shanghai

In 2009, the State Council launched the "Two Centers" plan for Shanghai, in hopes of transforming the city into a center of finance and international shipping. To implement this plan, in September 2009, ICBC and the Shanghai Municipal Government signed a Strategic Cooperation Memorandum to provide financing for the city's economic restructuring, including the financing of key industrial and infrastructure projects. According to the bank, ICBC will ensure that the Green Credit Policy is implemented, and that it will prioritize financing for projects that save energy, reduce pollution and protect the environment. (Source: "ICBC Bolsters the Construction of Shanghai into 'Two Centers'," ENP Newswire, 22 Sept 209)

## POLICY DEVELOPMENTS

### 4. Syntao and MEP launch Green Credit Policy advisory project in Sichuan

Syntao Co. Ltd., a responsible investment consulting firm in China, was awarded a grant from the British Embassy in China to formulate a policy advisory project in collaboration with the Policy Research Centre for Environment and Economy (PRCEE) of the Ministry of Environmental Protection (MEP). The project is an effort to close the gap between China's national Green Credit Policy and its practical implementation at the local levels. The project aims to promote closer collaboration and communication between environmental authorities, banking regulators and commercial banks through the development of a green credit guideline for the iron and steel sector (one of China's most polluting industries). The pilot project will be carried out in Sichuan.

Throughout the summer Syntao and PRCEE conducted fact-finding trips, training needs analyses and searched for experts to participate in the project. The project was formally launched in Beijing on 8 September and was attended by officials from relevant



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ministries and provincial-level offices, as well as other stakeholders. By the end of the year, Syntao expects to hold a training program and information-sharing workshop in Sichuan for selected companies and local officials. Additionally, draft studies on opportunities for increased energy efficiency and investment on a national and provincial level in the iron and steel industry is expected to be completed in late November. For more information, contact [Ms. Ni Huan](#), Project Manager of the Green Credit Policy Advisory Project, SynTao Co, Ltd.

## **5. Spending on environmental protection in China to reach RMB 1 trillion**

The annual growth rate of China's [environmental protection industry](#) has reached 12 to 15 percent, and its output value is expected to exceed RMB 1 trillion by the end of the 11th Five-Year Plan period, reported the People's Daily. Main efforts have focused on pollution control and ecological protection. According to Liu Zhiquan, an official with the Ministry of Environmental Protection, since the beginning of the 11th Five-Year Plan period, China has significantly increased investment in green infrastructure construction such as sewage treatment and garbage disposal in urban areas. At present the industry's challenges include limited investment and financing channels, an unreasonable investment structure, low industry concentration and unreasonable sewage treatment and garbage disposal fee collection system.

## **CIVIL SOCIETY ACTIVITIES**

### **6. Chinese NGOs to hold green finance trainings in 2 Chinese cities**

Workshops on green finance advocacy and the role of NGOs will be held from November 29<sup>th</sup> to December 5<sup>th</sup>, 2009 in Chongqing and Guangzhou. The trainings are being hosted by Green Watershed and co-organized by Chongqing Volunteer Union, Institute for Civil Society of Sun Yat-sen University and Syntao Co. Ltd. The aim of the workshops is to share knowledge about green finance and China's

'Green Credit' policy and mobilize NGOs to advocate for it. Both Chinese and international NGOs will participate in the workshops. For more information, contact [YU Xiaogang](#) of Green Watershed.

### **7. BankTrack benchmarking report to include 5 Chinese banks**

BankTrack, the international network of NGOs monitoring private banks, has commenced its bi-annual research initiative to compare about 50 international banks on their environmental and social financing policies. The forthcoming report, *Close the Gap*, follows 2007's *Mind the Gap*. This year's benchmarking includes five Chinese banks: Industrial and Commercial Bank of China, Bank of China, China Construction Bank, Industrial Bank and China Export-Import Bank. In 2007, the three Chinese banks surveyed [scored at the bottom of the list](#), in part because of their lack of transparency. However, this time more Chinese banks are publicly disclosing their environmental and social information, and Industrial Bank, China's leading sustainability bank, has made efforts to collaborate in the initiative.

## **INTERNATIONAL COOPERATION AND SUSTAINABLE FINANCE DEVELOPMENTS**

### **8. Study tour shares China's Green Credit Policy with Vietnamese banking industry**

Chinese banking regulators downloaded their experience with the Green Credit Policy to Vietnamese regulators and banks in August. The study tour, which was facilitated by the International Finance Corporation (IFC), State Bank of Vietnam and the China Banking Regulatory Commission, brought 7 Vietnamese government agencies and 4 Vietnamese banks to China to learn about the Green Credit Policy and environment and social (E&S) risk



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management. According to the IFC, the Vietnamese policy makers and banks expressed their strong interest in developing/strengthening their own E&S risk management policies and practices along the lines of the Chinese model and international experience. A similar study tour is being planned for Bangladeshi banks and regulators to visit China this summer. For more information, please contact [Zhang Rong](#), Program Officer in the Environmental and Social Development Department of the IFC.

## **9. IFC and BSR release report on sustainable investing in China**

Business for Social Responsibility (BSR) released the report [Sustainable Investment in China 2009](#) in November. The report, which was the third in a series commissioned by the International Finance Corporation (IFC), investigates and provides recommendations for the development of sustainable investment in China. Among other findings, the report notes that due to limited public disclosure of information in China, the role of information disclosure and monitoring by civil society is more important than in other countries, and can serve as an important means to corroborating information.

A report launch was hosted by BSR in Beijing on 10 November, which included discussions with the United Nations Principles for Responsible Investment (PRI), leading investors in China and globally. The discussion touched on issues of information disclosure, quality of companies and the role of government. For more information, contact [Adam Lane](#), Associate of Advisory Services at BSR.

## **10. Chinese banks attend UNEP-FI 2009 Global Roundtable**

UN Environment Program Finance Initiative (UNEP FI) held its 2009 Global Roundtable in Cape Town, South Africa, 22 - 23 October. Mr. Li Renjie, President of China's Industrial Bank, made a keynote speech at the opening plenary introducing the Bank's practice and

achievement in sustainable finance development. Senior executives from China Merchants Bank were also among the conference's 450 international participants. For more information, please contact [PENG Wei](#) at the UNEP FI.

## **11. Former Ministry of Finance Official Calls for International Green Finance Association**

Victor Zhikai Gao, formerly with the Ministry of Foreign Affairs, and currently head of the China National Association of International Studies called for the creation of an International Green Finance Association at a United Nations Industrial Development Organization (UNIDO) conference on green industry in Asia. Elaborating on this idea in an [Opinion Editorial](#) carried on CNN, Gao maintained that "green finance" is one missing link between 'knowing' and 'doing' in the transition to green industry." He calls for NGOs, international organizations, and banking associations to come together to create an International Green Finance Association to support the growth of green finance, and therefore promote the green economy. He also called for individual countries to form National Green Finance Associations.

## **12. Global Alliance for Banking on Values Launched**

In September 2009, a group of eleven sustainable banks from around the world launched an ambitious commitment to extend USD 2 billion in new lending to underserved communities and green projects around the world. Called the [Global Alliance for Banking on Values](#), most banks in this group are relatively small "ethical banks" which were created to specifically lend to poor and marginalized communities. The banks include ShoreBank Corporation, the first community development and environmental bank holding company in the U.S., and BRAC Bank, which is part of the world's largest microfinance institution.