

Sustainable Finance in China

Newsletter #9, August 2010

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. Progress report on Green Credit Policy implementation in the Chinese banking sector

July marked the third anniversary of China's Green Credit Policy, an initiative of the Ministry of Environmental Protection, China Banking Regulatory Commission and People's Bank of China to limit bank lending to energy-intensive and high-polluting enterprises in China. This prompted *ChinaDialogue*, the bilingual online publication about China and the environment, to host a week-long series on the topic of green finance in China. Articles covered [public disclosure](#) issues in domestic implementation, environmental standards for [overseas projects](#), voluntary standards such as the [Equator Principles](#), and green finance schemes in [China](#) and [abroad](#).

The China Banking Association (CBA) has also been charting the progress of the Chinese banking sector in its green finance implementation. According to the [CBA's](#) 2009 corporate social responsibility report, in 2009 Chinese banks exited loans from 2,348 clients operating in energy-intensive and high-polluting industries, an increase of 823 compared to the year before. The CBA also reported that the sector's lending to energy saving projects reached RMB 856 billion in 2009, accounting for 8.93% of the total loan portfolio and benefiting 4099 enterprises.

2. ICBC: Lending to Ethiopia Gibe 3 Dam still "Under Review"

On June 26, Industrial and Commercial Bank of China's Chief Risk Officer, [Wei Guoxiong](#), revealed in an interview with China Business News that ICBC "has yet to agree and is reviewing" the loan for the controversial Gibe 3 Dam project in Ethiopia. "Although ICBC is a commercial bank, we are not mercenary," said Mr. Wei, adding that "As a global bank, for those projects affecting the environment, whether domestically or abroad, ICBC will not support them." Earlier reports stated that ICBC

was in talks to provide 85% of the needed US\$ 500 million for the project that would generate 1,870 megawatts of energy and would be the largest hydropower project in Ethiopia. Local communities and international NGOs have raised concerns about the project's massive resettlement and environmental problems with international financiers for years. So far no international banks have agreed to finance Gibe 3. ICBC is expected to announce whether it will finance the project or not shortly.

ICBC's Wei Guoxiong spoke more broadly about the bank's environmental policies and their implementation in [this](#) *ChinaDialogue* article.

3. CDB releases 2009 Corporate Social Responsibility report

In June, China Development Bank, one of China's three large-scale and policy lenders and also one of China's largest lenders internationally, released its 2009 annual [corporate social responsibility \(CSR\) report](#). The report uses the Global Reporting Initiative reporting guidelines, including the Financial Sector supplement and is independently verified by Ernst & Young Hua Ming. The report notes that the bank increased funding for clean energy projects by extending RMB 58.6 billion to ten major energy-saving projects throughout the year. This included solar and wind power projects, and also nuclear projects, which CDB classifies as clean energy although this is debated internationally. The bank did not provide further information about these energy projects. In contrast to CSR reports from Industrial Bank, China Construction Bank and other commercial banks, the CDB CSR report does not mention any activities related to its Green Credit Policy implementation, or how much lending it cut to energy-intensive or high-polluting sectors.

4. Sichuan commercial banks weigh-in on Green Credit Policy guidelines

A workshop on implementation of the Green Credit Policy in Sichuan's iron and steel sector was held for commercial banks in Chengdu in late April. The meeting brought together representatives from eight provincial-level



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commercial banks and local scholars to get their input on how the guidelines should be implemented. For more information about the event or the guidelines, please contact Ms. [Ni Huan](#), Project Manager of Syntao Co. Ltd, which is involved in the development of the sectoral guidelines.

POLICY DEVELOPMENTS

5. CBRC bans new loans to high-polluting industries

At a press conference held on 21 June, China's [banking regulator](#) ordered China's financial institutions to stop extending new loans to projects already under construction that conflict with the country's energy-saving and emission reduction goals. The China Banking Regulatory Commission (CBRC) asked financial institutions to inspect their lending to energy consuming and high-polluting industries or industries with backward production capacities and submit that information to the CBRC. In May, the CBRC, along with the People's Bank of China, also instructed banks to [enhance financial support](#) for major pollution source control projects as well as energy-saving and emission-cutting projects.

6. MEP requires annual environmental report disclosure for listed companies

China's Ministry of Environmental Protection published a [notice](#) calling for more stringent environmental verification management systems, according to the Shanghai Securities News. The July 2010 statement requires provincial environmental protection departments to push locally listed companies to disclose their annual environmental reports. According to the notice, companies will have to report on their environmental policies and assessments, as well as management of pollution control systems. Based on this information, the MEP will publish a list of companies whose reports it verifies each quarter. The notice was released shortly after the scandal broke that Zijin Mining Group covered up for nine days a major chemical spill at its mine in Fujian Province.

7. MEP discusses national Green Credit guidelines for the iron and steel sector

The research department of the Ministry of Environmental Protection (MEP) held a workshop in Beijing to discuss the initial draft of national Green Credit guidelines for the iron and steel sector in May. The purpose was to finalize basic qualitative criteria and quantitative standards for commercial banks to review loan applications from companies in the iron and steel sectors. Representatives from the China Banking Regulatory Commission, as well as several top Chinese banks, attended the meeting. According to the Syntao Co. Ltd, which has been actively engaged in the process, a draft of the Green Credit guidelines for the iron and steel sector were to be finalized in August (both national and provincial level). For more information, contact [Ni Huan](#), the Syntao project manager.

8. Development of Green Credit guidelines in Hebei Province

[Hebei University of Economics and Finance](#) is developing Green Credit standards for implementation by local banks, according to the *21st Century Business Herald*. Wang Xiaojiang, the director of the university's green finance research center, reportedly said the purpose of the project is to develop a uniform standard and implementation because this has been lacking at the sub-national level. The draft regulations may be completed in September or October 2010 and will first be piloted in Hebei province before reported to the national level.

CIVIL SOCIETY ACTIVITIES

9. Chinese NGOs call for stock markets to take action against Zijin Mining after spill

In the aftermath of the Zijin Mining chemical spill in early July and the company's nine-day delay in disclosing the accident, eleven Chinese environmental groups issued an [open letter](#) to the Hong Kong and Shanghai Stock Exchanges calling for greater environmental transparency for listed companies on 23 July (English translation available [here](#)). The accident—declared the worst chemical spill in China in

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two years—discharged 2.4 million gallons of toxic chemicals, contaminating the Ting River and poisoning 2,000 tons of fish. The eleven NGOs, which include Beijing-based groups such as Friends of Nature and Institute of Public and Environmental Affairs, as well as other groups from around the country, raised their concerns about inadequate corporate disclosure on environmental and social issues by Zijin.

The Shanghai Stock Exchange did not respond to the open letter; however The Hong Kong Stock Exchange (HKSE) [responded](#) within a week, defending its regulatory policies. It noted that it cannot comment on regulatory actions against specific companies, but it would take the NGOs' concerns into consideration. In early August, the NGOs published [comments](#) pointing out that, according to the listing rules of the HKSE, the regulator has the right to take action against a company if it violates the disclosure clause of the Listing Rules.

10. GEI releases book on Chinese overseas investments

On 8 July 2010 the Global Environmental Institute (GEI), a Beijing-based NGO, released a [book](#) on the environmental behavior of Chinese enterprises investing overseas entitled “Environmental Policies on China’s Investment Overseas.” The book provides background and policy guidance for Chinese enterprises investing overseas in an effort to address some of the environmental problems and challenges that have arisen abroad. It stems from research GEI conducted to inform government policy in this area along with the Chinese Academy for Environmental Planning and the University of International Business and Economics over the past few years. China’s Ministry of Commerce, in collaboration with the Ministry of Environmental Protection, Ministry of Foreign Affairs and China Banking Regulatory Commission, is expected to release guidelines for overseas investing in the near future, although a timeframe has not been set. GEI’s book contains a draft of these guidelines.

The book is available in Chinese from GEI’s Beijing office, and the English translation should be available in 2011.

11. NGO launches third 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 2010 Green Banking Innovation Award, which seeks to promote improved environmental policies and performance among the Chinese banking sector. According to the NGO *GreenWatershed*, which serves on the judging panel, there will be some changes to the awards from years past: First, several more Chinese banks submitted information for evaluation; Also, this year’s evaluation will use a few more indicators and a relatively more quantitative method for comparing bank information. The judges have already finished with bank interviews and data collection, and the awards ceremony to announce the winner should take place in mid-September. For more information, contact [XIANG Hongmei](#) of GreenWatershed.

International Cooperation and Developments in Sustainability

12. Standard Bank hosts Industrial Bank to learn about risk management

South Africa-based Standard Bank announced in June that it would receive a high-level delegation from China’s Industrial Bank so the Chinese lender can get a better understanding of how the African bank manages environmental and social risks. The delegation from Industrial Bank was to include the Vice President and many other officials. Standard Bank particularly planned to focus on how it implements the Equator Principles. For more information about the activities of the Chinese outreach group of the Equator Principles Financial Institutions, please contact [Karen Wendt](#), of HVB – UniCredit Group.

13. UNEP FI hosts seminar on energy efficiency financing for Chinese delegation

The [United Nations Environment Program – Finance Initiative](#) (UNEP-FI) hosted a seminar on promoting green finance for high-level



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Chinese officials. An 18-person delegation from China Export-Import Bank and the State Council attended the seminar on 19 July in Geneva, joined by guests from the University of Amsterdam, Holland Financial Center and UNEP FI member Sustainable Development Capital, LLP (SDCL). The delegation introduced the Chinese government's policies on energy efficiency and conservation, and efforts the China Exim Bank has made to provide financing and technical support for energy-efficiency projects for industrial facilities in China. The guest speakers from Europe shared with their Chinese peers the various experiences in energy-efficiency financing by their institutions, as well as in their countries.

indexes on 10 September 2010. The event, which will feature presentations from financial research and data providers, stock indexes and investment funds, will be held immediately following a dialogue on Sustainable Stock Exchanges at the United Nations Conference on Trade and Development's World Investment Forum in Xiamen. For an event agenda and contact information, click [here](#).

This event came on the heels of a visit by Mr. Paul Clements Hunt, director of the [UNEP-FI](#), to China in June to meet with officials from the Ministry of Environmental Protection, financial institutions and Chinese media. UNEP-FI is planning to open a representative office in China by the end of 2010.

14. WWF leads study tour for Chinese financial sector to Africa

WWF China brought Chinese financial institutions and regulatory agencies to [Mozambique](#) in May as part of a sustainable banking program to enhance capacity in green lending policy and practice within the Chinese banking sector. The trip focused on the environmental impacts of Chinese investments abroad and included a series of meetings and visits to major infrastructure and extractive projects in Mozambique. The delegation met Mozambique government officials, international financial institutions and companies as well as representatives from international organizations, aid agencies, local communities and NGOs.

15. ASrIA to host briefing on responsible investing and sustainability indexes

The Association for Sustainable & Responsible Investment in Asia (ASrIA), a Hong-Kong based association promoting responsible investing, will sponsor a Sustainable and Responsible Investment (SRI) briefing focusing on sustainable stock exchanges and sustainability