

where it's due (2)

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China's commercial banks are making strides in domestic green finance but failing to show the same commitment abroad. In the conclusion of her article on sustainable credit, Adina Matisoff calls for new standards.



In the three years since the Chinese government introduced the [Green Credit Policy](#), progress has been made in sustainable finance on China's home front. While green finance is gaining traction domestically, however, there are no such policies governing the investments of Chinese commercial banks beyond the nation's borders. This is the time, as China's financial powerhouses are increasing their overseas transactions and grappling with the associated environmental and social risks, to institute such policies.

Up to now, Chinese commercial banks have not played an influential role in financing Chinese business activities abroad. Instead, Chinese policy banks have filled this financing space, often with deals arranged at the highest political level. For example, [China Export-Import \(Exim\) Bank](#) recently loaned the government of Ecuador US\$1.68 billion (11.38 billion yuan) to finance Sinohydro's construction of the [Coco-Coda Sinclair](#) hydropower dam, and China Development Bank provided a US\$30 billion (203 billion yuan) line of credit to [China National Petroleum Corporation](#) for the oil giant's global expansion.

However, not all overseas investments are on such a large-scale or so complex. In cases where the Chinese government is not directly involved, Chinese commercial banks such as [Industrial and Commercial Bank of China](#) (ICBC), [China Construction Bank](#) or [Bank of China](#) are increasingly willing to step in, and hence better compete with their international peers. "We are no HSBC or Citi," says [Xiao Shaolin](#), head of China Construction Bank (London), "But we are following our clients as they go global."

This is especially true in services such as financing the outward mergers & acquisitions (M&A) of Chinese companies, where the input of commercial banks is making possible more deals like China's Minmetals' purchase of a [US\\$1.2 billion stake](#) in Australia's OZ Minerals in 2009. In late 2008, the government introduced regulations allowing China's commercial banks to

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help Chinese firms acquire companies abroad. Since then, such deals have seen a boost. According to Cai Ersheng, a vice-chairman at the [China Banking Regulatory Commission](#), Chinese commercial banks loaned Chinese companies [US\\$400 million](#) (2.7 billion yuan) in the first five months the government allowed them to carry out such transactions. According to [financial analysts in Beijing](#), this helped outward M&A deals account for close to 25% of all M&A activity in the first three quarters of 2009, compared with just 8.5% in 2007. But, says Cai, "Improving risk management remains a key challenge for the healthy development of merger and acquisition loans."

Despite domestic progress, the three top banks mentioned above and other Chinese commercial banks do not yet have policies to address the environmental and social risks of their overseas investments. In contrast, China Exim Bank's "[Guidelines for Environmental and Social Impact Assessments of the China Export Import Bank's \(China Exim Bank\) Loan Projects](#)" provides a basic synopsis of how environmental and social issues are taken into consideration by the institution and how concerns are addressed. It highlights that host country laws must be followed, impact assessments must be conducted and that the bank has the right to investigate environmental concerns at any point during the lending cycle and call in loans on environmental grounds if need be.

The policy's eight paragraphs pertaining to overseas investments are far from comprehensive, but have shown potential to deter environmental and social risks abroad. In 2008 China Exim Bank was considering financing the China National Machinery Export-Import Company to build the [Belinga Iron Ore Mine](#) in Gabon. This project was a favorite of Gabon's late president, [Omar Bongo](#), but part of the project was to be built (illegally) in [Ivindo National Park](#), which, according to Marc Ona of the Gabonese environmental organisation [Brainforest](#), is home to "the most spectacular waterfalls in Central Africa... [that] have become the symbol of nature conservation in Gabon."

When presented with information about this project's violations of Gabonese laws and negative impacts on the environment and local communities depending on its natural resources, China Exim Bank announced that it was [freezing financing](#) on the project until the results of environmental impact assessments could be verified. In the absence of China Exim Bank's financing, the detrimental project stalled.

Without even basic policies to address environmental and social issues abroad, commercial banks are ill equipped to address similar risks in other international deals. The [Rio Blanco mine](#) in the mountainous [Piura region](#) of northern Peru is one project that deserves more careful environmental and social consideration by Chinese banks. Bank of China, China Construction Bank and ICBC made it possible for Chinese copper miner Zijin to buy this mine and its other global projects. [Zijin](#) bought the mine from UK-based [Montericco Metals](#) in 2007 amid allegations that the mine's management tortured local community members who opposed the scheme.

Zijin has had its own issues with the project. Peruvians opposed to the mine say it will pollute the already meagre water resources used for farming and drinking in this rugged highland. As a result, says Javier Jahnke from the [Ecumenical Foundation for Development and Peace in Peru](#), "Polluting this area could bring about an environmental disaster for the entire region." There have already been breaches of Peruvian environmental laws, for which Zijin was fined, and local consent to operate the mine – required by Peruvian law – was never obtained. Jahnke and other Peruvians concerned about the project wrote to Zijin's financiers earlier in 2010 asking for a review of the scheme, but have not received a response. They are not aware of any measures the company or banks have taken to address the environmental and social risks that threaten the communities of the Piura region.

Citizen groups in Gabon, Peru and other countries on the receiving end of Chinese ventures have made suggestions for how to improve Chinese investment methods in their countries. High on some of their lists has been respecting local laws, local land and the decisions of

local people. Implementing those concepts would most likely include environmental and social impact assessments, environmental planning, community development and other measures. Better communication and engagement with civil society, especially local communities, could also inform project decisions that impact on the local environment and people and diffuse possible tensions.

If Chinese banks adopt environmental and social standards such as these in their overseas lending systems, they would be able to help companies such as Zijin avoid or mitigate these project risks. The Chinese government, which has helped banks address environmental and social issues at home through the enactment of the Green Credit Policy and other measures, should work quickly to develop similar guidelines and supervision for banks in their overseas financing decisions. This would be a new take on the international model, where voluntary standards such as the [Equator Principles](#), preferred by banks, have been the norm. However, it would follow the precedent set by the Green Credit Policy domestically. There are [rumors](#) that China's [Ministry of Environmental Protection](#), [Ministry of Commerce](#) and [Banking Regulatory Commission](#) are already in the process of developing environmental guidelines for Chinese overseas investments; however such has been the talk for years, with no a draft or timeline yet publicly released.

As Chinese commercial banks follow their corporate clients overseas, developing environmental and social standards for lending abroad – like they are starting to do domestically – could keep the related risks at bay and demonstrate commitment from China to sustainable finance globally. The Chinese government should lay the framework to bring responsible Chinese investments abroad to fruition as soon as possible.

[Part one](#): Progress at home

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Homepage image by [Lengai101](#) show the Kongou falls in Ivindo National Park, Gabon.

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