

# Sustainable Finance in China

NEWSLETTER 5, August 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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# SUSTAINABLE FINANCE IN CHINA

## SUSTAINABILITY IN CHINA'S FINANCIAL SECTOR

### 1. Chinese banks loan US\$ 850 billion in first half of 2009

Chinese banks issued a record [US\\$ 850 billion \(RMB 5.84 trillion\) in new loans](#) in the first half of 2009, almost triple the amount loaned in 2008. Much of that money was spent on government infrastructure projects, real estate developments and urban construction and some environmental projects, including a [RMB 176.2 billion syndicated loan package](#) signed by ten Chinese banks to support 18 government stimulus projects on 25 June. The projects include highway and rail construction in eight provinces and municipalities, as well as a PVC project in Anhui Province, a solar energy project in Jiangsu Province and an urban sewage treatment project in Yunnan.

Following the mid-term report, People's Bank of China Governor Zhou Xiaochuan reportedly told the media that some of the stimulus projects were wasteful and ordered lenders to cut new loans. As a result, new bank loans in July were at [RMB 355.9 billion](#) (US\$ 52 billion), down from RMB 1.53 trillion (US\$223.7 billion) in June. Instead, the government is encouraging companies to seek financing through the country's [corporate bond markets](#) in order to avoid the growing risk of bad loans in the banking sector.

### 2. Industrial Bank wins two sustainable banking awards

In August, China's Industrial Bank received the [Green Banking Innovation Award](#), presented by Chinese NGOs as part of the *Economic Observer* magazine Best Chinese Banks ceremony. The award was given to Industrial Bank for the second year in a row in recognition of its early integration of sustainability issues into its core business strategy, and making progress in the implementation of its sustainability policies, such as the establishment of the "Environmental and Social Risk Management" policy and the Center for

Sustainable Finance. (For more about this award, see #8, below).

In June, Industrial Bank also won the ["Emerging Markets Sustainable Bank of the Year – Asia" award](#) from the *Financial Times*, for which it had been runner-up in both 2007 and 2008. The bank was also nominated for the FT "Sustainable Bank of the Year" award, however that went to Triodos Bank in the Netherlands, which lends to clients and projects with a social, environmental or cultural benefit and invests in like-minded institutions in emerging markets.

### 3. China Development Bank releases 2008 CSR report

On 12 August, China Development Bank (CDB) [announced](#) that it was releasing its [2008 corporate social responsibility report](#), the first since it began restructuring. According to the report, in 2008 CDB increased its lending for environmental protection and energy efficiency projects by 42% over the previous year, amounting to RMB 276.1 billion. The report also said the bank curbed its lending to highly-polluting and energy-intensive projects, but it did not say how much or give specific examples. The full report is available [here](#) in Chinese and English.

### 4. SSE launches first social responsibility index

On 5 August, the Shanghai Stock Exchange and China Securities Index Co., Ltd. launched a new [social responsibility index](#) that will track companies with high social responsibility performance. The index is comprised of 100 stocks that will be chosen based on their corporate governance. If at some point the stocks no longer meet the index's social responsibility criteria, they can be removed from the index.

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## POLICY DEVELOPMENTS

### 5. MEP sanctions major power companies for environmental violations

In June, the Ministry of Environmental Protection (MEP) published an [update on the country's environmental situation](#). The MEP [announced](#) that from November 2008 to May 2009, it approved 365 projects worth RMB 1,442 billion. Of that, 125 were infrastructure construction projects for transportation, water conservancy, and power transmission and transformation. The MEP also suspended environmental impact assessment (EIA) approval of 29 projects in some energy-intensive and high polluting industries.

Although the Chinese government considers hydroelectric dams to be clean energy, the MEP suspended [EIA approval](#) for two notable dam construction projects on the middle reaches of the Jinsha River because the construction companies had either begun to dam the river without first receiving EIA approval, or had made environmentally harmful changes to the project after the EIA was approved. In addition, the MEP suspended all projects of the two companies involved - China Huaneng Group and China Huadian Corp. - except for new energy and pollution control projects. The MEP said on its website that the move was to warn the two business giants, which own many energy-intensive and high polluting construction projects, to enhance their environmental management, and urge the businesses belonging to them to strictly follow environmental protection laws and regulations; adjust to industrial standards; and carry-out their social responsibilities and environmental duties.

Both companies are clients of Industrial and Commercial Bank of China (ICBC), however ICBC had not invoked the green credit policy to halt financing for either company. In an effort to help banks better implement green financing policies, MEP said it issued a [Circular](#) on Further

Improving Information Sharing to Fully Implement the Green Credit Policy and published the 2009 list on recommended companies for environmental checkup and investigation of completed construction projects.

### 6. Former PBOC official lays out ideas for improving Green Finance Policies

China should better leverage its [green finance policies](#) in order to address climate change and spur economic growth, said Jing Xuecheng, the former deputy director at the research department of the People's Bank of China (PBOC) and current professor at the China Financial Institute, Peking University. Jing suggested improvements such as bank regulators to be more flexible for loans to low carbon projects, for example lowering capital adequacy requirements for those deals; giving preferential interest rates to environmentally friendly sectors; raising interest rates for polluters; keeping environmental impact assessment procedures strict but accelerating loan procedures for green enterprises; fast-tracking initial public offerings and bond issuances for green companies; and requiring enterprises in energy-intensive or high-polluting sectors to buy environmental performance bonds to pay for potential damages they may cause.

### 7. MEP officially approves APP IPO application after long investigation

On 8 July, according to Chinese media reports, the Ministry of Environmental Protection (MEP) posted an official announcement on its website stating that it [approved the application of the Gold East Paper Co.](#), a Jiangxi-based subsidiary of Asia Pulp & Paper (APP), to list shares on China's stock markets. The initial public offering was held up for almost a year as the MEP investigated the company's violations of China's pollution laws. These violations were reported to the MEP by Chinese NGOs during a public consultation period in 2008. The MEP reportedly concluded that the company was taking

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steps to address its environmental wrongdoing, including spending RMB 100 million on clean-up. However, Chinese NGOs, citing on-going environmental issues, were concerned that the company [had not reformed its environmental practices](#).

In June, the Gold East Paper Co reportedly said it received the MEP's approval and [expected to list shares on China's stock markets in early 2010](#). The announcement came as the China Securities Regulatory Commission lifted a [9-month moratorium of initial public offerings \(IPOs\)](#) on the Shanghai and Shenzhen Stock Exchanges after releasing what Xinhua News Agency said was final guidelines for new IPOs.

## **8. MEP opens national hotline for environmental complaints**

On 5 June, the Ministry of Environmental Protection (MEP) opened a [national hotline](#) for the public to report environmental emergencies and file complaints about environmental pollution. The complaints will be sent to provincial-level environmental protection authorities to address. The hotline will also be used for the public to report local authorities if they do not adequately and appropriately address the pollution issues. The MEP also uses a national complaint hotline to consult the public in the approval of companies in certain highly-polluting and energy-intensive sectors seeking to list shares on the country's stock markets.

## **CIVIL SOCIETY ACTIVITIES**

### **9. Chinese NGOs give second annual Green Innovation Award for banks in China**

On 1 August nine Chinese NGOs presented the second annual [Green Banking Innovation Award](#) as part of the *Economic Observer* magazine Best Chinese Banks ceremony. Chinese NGOs established this award in 2008 in order to encourage banks and other financial institutions to take an active role in environmental protection. The nine renowned NGOs nominating and voting on the award were

Green Watershed, Friends of Nature, Institute of Public & Environmental Affairs, Green Earth Volunteers, Global Environment Institute, Civil Society Watch, China Development Brief, Green Volunteer League of Chongqing and Hengduan Mountains Research Society. Additionally, consulting firm SynTao Co. Ltd., acted as an advisor.

The award was given to China's Industrial Bank in recognition of it as an early adopter of sustainable finance policies in China (see #2 above for more information about why Industrial Bank received this award). For more information, contact [YU Xiaogang](#), Green Watershed or [GUO Peiyuan](#), Syntao Co. Ltd.

### **10. BankTrack launches Chinese-language version of website**

In July, BankTrack, the international network of NGOs monitoring the private financial sector, added a [Chinese language section](#) to its website that it said will cater to an increasing number of Chinese visitors and make information about BankTrack and sustainability more accessible to Chinese banks. The Chinese language section will feature basic information about the BankTrack network, Chinese translations of some BankTrack publications, links to relevant sites and profiles of top Chinese banks. In the near future this section will also highlight how the environmental policies of Chinese banks compare with those of leading international competitors. These rankings are part of BankTrack's *Mind the Gap II* report, which will be released by the end of 2009.

### **11. Pacific Environment and FoE-US promote financial advocacy to Chinese NGOs**

Pacific Environment's China office and Friends of the Earth-US are introducing materials about using financial advocacy to its grantees in China. The materials include some introductory reports on China's green credit policy and the

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environmental policies of Chinese banks, a training manual on using financial advocacy and case studies from projects around the world. For more information, please contact [Adina Matisoff](#), FoE-US.

## INTERNATIONAL COOPERATION AND DEVELOPMENTS FOR SUSTAINABILITY

### **12. Mizuho hosts Industrial Bank for EPs training**

Mizuho Corporate Bank of Tokyo hosted two trainees from China's Industrial Bank - the first bank in China to adopt the Equator Principals (EPs) - for 5 weeks during June and July 2009. The trainees learned about Mizuho's internal procedures and experiences with EP implementation. They also had an opportunity to review actual international transactions and discuss how to apply the EPs to real scenarios in China. For more information, contact [Osamu ODAWARA](#), Sustainable Development Department, Global Structured Finance Division, Mizuho Corporate Bank.

### **13. Citi hosts CBRC for environmental and social risk management training**

Citi's Environmental and Social Risk Management (ESRM) Unit in New York hosted a China Banking Regulatory Commission (CBRC) official for a month-long secondment. The CBRC secondee learned first-hand how Citi integrates environmental and social risk assessment into its lending decisions, including the Equator Principles and its broader ESRM Policy. For more information, please contact [Shawn Miller](#), Environmental and Social Risk Management, Citi.