

Emerging Sustainability Frameworks

# China Development Bank and China Export-Import Bank

JANUARY 2016

A three part series examining the environmental and social policies at Brazilian and Chinese national development banks



## **PUBLICATION INFORMATION**

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## ACKNOWLEDGEMENTS

Friends of the Earth U.S. extends its appreciation and gratitude to groups who have contributed their time and expertise to this document. We thank Greenovation Hub, World Resources Institute, and Mark Grimsditch for their feedback.

We are grateful to Michelle Chan, Vice President of Programs at Friends of the Earth, for sharing insight and feedback to this paper and the *Emerging Sustainability Frameworks* series.

## ABOUT FRIENDS OF THE EARTH U.S.

Friends of the Earth U.S., founded by David Brower in 1969, is the U.S. voice of the world's largest federation of grassroots environmental groups, with a presence in 74 countries. Friends of the Earth works to defend the environment and champion a more healthy and just world. Through our 45- year history, we have provided crucial leadership in campaigns resulting in landmark environmental laws, precedent-setting legal victories and groundbreaking reforms of domestic and international regulatory, corporate and financial institution policies. Our current campaigns focus on promoting clean energy and solutions to climate change, ensuring the food we eat and products we use are safe and sustainable, and protecting marine ecosystems and the people who live and work near them.



# **EMERGING SUSTAINABILITY FRAMEWORKS**

is a three part series examining  
the environmental and social policies  
at Brazilian and Chinese national development banks.

**The Brazilian National  
Development Bank**

**China Development Bank  
and China Export-Import Bank**

**Comparing Environmental and Social Policies  
among Brazilian, Chinese,  
and International Development Institutions**

# TABLE OF CONTENTS

About the Series	7
Methodology	7
Series Introduction	8
I. Introduction	11
II. Major National Banking Policies and Relevant Environmental Laws	14
III. China Development Bank	16
IV. China Export-Import Bank of China	24
V. Ensuring Borrower Compliance	32
VI. Accountability Mechanisms	32
VII. Conclusion	33
Endnotes	34
Appendix I	36
Appendix II	45

# About the Series

This series is an outgrowth of a discussion paper produced for the conference, “Advancing Sustainable and Accountable Finance: National Development Banks and Their Emerging Role in the Global Economy”. The conference took place at the Chinese University of Hong Kong on October 21 and 22, 2013. The purpose of the discussion paper was to provide a broader political and economic context for conference participants in understanding the evolving roles and definitions of national development banks. The discussion paper sought to review the existing environmental and social policies which Brazilian, Chinese and Indian banks had established in promoting a new model of sustainable development.

This series has taken the original discussion paper and customized it for a public audience, significantly revising the content and taking into consideration new developments within the Brazilian and Chinese development banks. At this time, we have focused attention on the Brazilian and Chinese development banks due to their size and influence, but may also consider including a subsequent briefing paper on Indian development banks. We hope this series on the environmental and social policies of new, South based development banks can enrich the ongoing discussion on the nature and potential of advancing sustainability in the global economy.

## Methodology

Research for the China Development Bank and China Export-Import Bank briefing paper drew upon a variety of academic papers, online resources, CSR reports, annual reports, CSO publications, media reports, and other sources. Content was also drawn from the 2013 discussion paper privately published for the conference, “Advancing Sustainable and Accountable Finance: National Development Banks and Their Emerging Role in the Global Economy”. Greenovation Hub contributed the chapter on China Development Bank and China Export-Import Bank in the original discussion paper, and some of the content has been adapted for this briefing paper.

To supplement this information, as well as to give an opportunity to the banks to provide feedback, Friends of the Earth US sent a questionnaire to China Development Bank (CDB) and China Export-Import Bank (China Exim) asking for clarification and information regarding their environmental and social policies. Surveys were also sent to the Brazilian Development Bank (BNDES) as part of our research in the *Emerging Sustainability Frameworks* series. All surveys to the banks were sent in July 2014. BNDES was the only institution to respond to our questionnaire in a timely manner. Despite several attempts, CDB and China Exim did not respond to the survey.

As a result, there is less comprehensive information regarding CDB and China Exim’s environmental and social policies. Friends of the Earth US contacted CDB and China Exim through the official contact information posted on their website, yet we did not receive any acknowledgement that our messages were received. The lack of response from CDB and China Exim illustrates the need for Chinese banks to improve their accessibility and communication with the public.

# Series Introduction

While the practice of incorporating environmental and social financing policies may have begun with Western banks, today, financial institutions and regulators from the Global South are becoming active players in sustainable finance as well. From the New Development Bank to the Asian Infrastructure Investment Bank, a host of newly established international development banks are establishing their own green finance standards. In particular, as national development banks become major international players, there has been increasing interest about their commitment to adopting sustainable finance standards.

Due to their size and influence, this series will focus specifically on sustainability standards at Brazilian and Chinese development banks. These papers focus on the context of sustainable finance in Brazil and China, and describe Chinese and Brazilian national development banks' environmental and social financing policies; they do not assess or analyze the level of implementation or efficacy of these policies.

As part of our *Emerging Sustainability Frameworks* series, the first paper examines the Brazilian Development Bank (BNDES); the second reviews China Development Bank and China Export-Import Bank (CDB and China Exim). The final paper compares environmental and social policies of BNDES, CDB, China Exim Bank, the World Bank, and the International Finance Corporation.





# **China Development Bank and China Export-Import Bank**

# I. Introduction

China's banking sector consists of policy banks, state owned commercial banks, joint-stock commercial banks, city commercial banks, rural cooperation banks, rural credit cooperative, and foreign banks branches. China's three policy banks are the Agricultural Development Bank of China, China Development Bank, and China Export-Import Bank. These banks are responsible for executing state policies domestically and overseas.

For the purposes of this series, this working paper focuses on the environmental and social policies of two policy banks – China Development Bank and the China Export-Import Bank (China Exim). This paper also catalogues the environmental laws that promote sustainable banking in all Chinese banks.

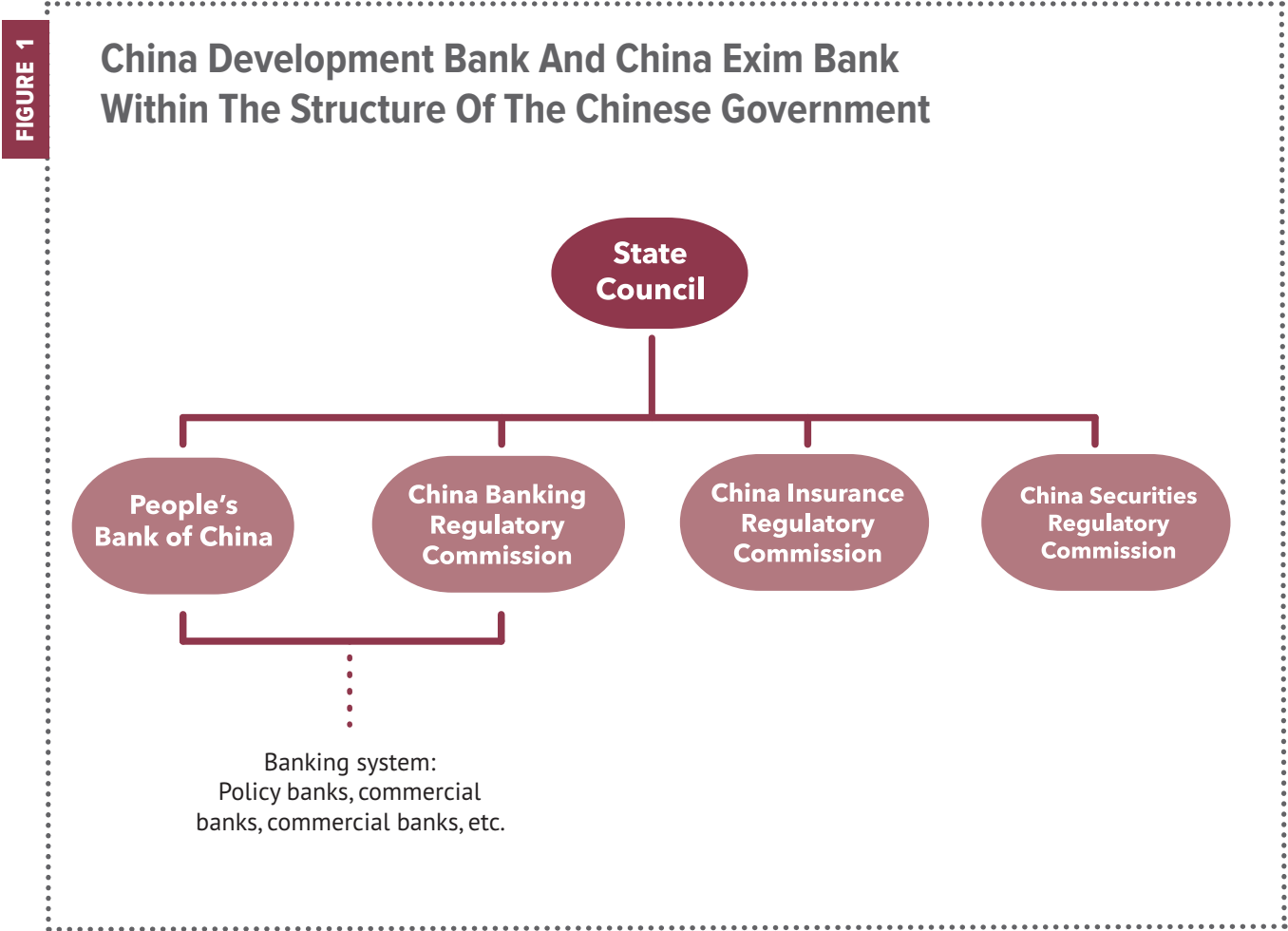
Over the past two decades, Chinese authorities have promulgated financial policies that promote environmental protection. The first set of policies, issued by the People's Bank of China and the State Environmental Protection Agency (SEPA) in 1995, encouraged financiers to be aware of environmental protection in lending practices. In subsequent years, the central government released a string of policies, opinions, circulars, and guidelines on how the financial market should promote sustainable development.

China's Banking Regulatory Commission and People's Bank of China<sup>1</sup> have taken a leading role in developing overarching rules and guidelines which require financiers to consider energy efficiency, fragile ecosystems, risk management, and other environmental issues in lending decisions and bank operations. As a result, major state owned and commercial Chinese banks have released a steady stream of corporate social responsibility policies

and environmental policies to acknowledge the new national policies on green credit, and local governments have begun experimenting with green finance schemes.

Most recently, the State Council, China's highest governing body, has called for a "market-based mechanism that channels private capital investments to the protection of the eco-environment"; the 2014 No. 69 Document of the State Council General Office states that the "People's Bank of China (PBoC), the China Banking Regulatory Commission (CBRC), the China Securities Regulatory Commission (CSRC) and the China Insurance Regulatory Commission (CIRC) should work together with the government agencies to formulate financial policies that support the development of environmental service industry"<sup>2</sup>. These policy developments reflect the central government's increasing interest in harnessing the power of the financial sector to promote sustainability and environmental protection.

Notably, a Green Finance Task force was co-convened by the Research Bureau of the Peoples Bank of China and the United Nations Environment Programme to "develop policy, regulatory and market-innovations that would better align China's financial system with the needs of green industry and sustainable development"<sup>3</sup>. In 2014, the Green Finance Task Force published a report containing 14 policy recommendations on how to green China's financial sector with special reference to development banks, in addition to establishing basic principles regarding lender liability. The report's policy recommendations include the creation of a "Green Bank" to encourage the creation of local green banks, adopting international sustainable



*In earlier years, CDB and China Exim were accountable directly to the State Council. Today they are regulated by the China Banking Regulatory Commission and People's Bank of China. The chart illustrates the current relationship of policy banks within the Chinese government.*

banking norms like the Equator Principles and establishing mandatory environmental disclosure requirements for listed companies. And in light of new finance institutions like the Asian Infrastructure Investment Bank and New Development Bank, it recommends greening the international investments of Chinese development banks: “Overseas investment and development institutions should adopt internationally consistent standards<sup>4</sup>”.

As major finance institutions, CDB and China Exim will play a powerful role in promoting sustainability and environmental protection domestically and internationally. At the same time, these policy trends have thus far not included independent accountability mechanisms and other means to ensure consistent enforcement of these green policies.

## KEY GOVERNMENT BODIES AFFECTING CHINA'S FINANCE SECTOR

**STATE COUNCIL:** The State Council is China's highest government authority. It is chaired by the Premier and includes vice-premiers, state councilors, and ministers. It “exercises the power of administrative legislation, the power to submit proposals, the power of administrative leadership, the power of economic management, the power of diplomatic administration, the power of social administration, and other powers granted by the NPC and its Standing Committee”<sup>5</sup>. The State Council directly oversees state ministries and special organizations, including the National Development and Reform Commission, Ministry of Environmental Protection, Ministry of Commerce, and the China Banking Regulatory Commission, among others. Large overseas investments over \$2 billion must be approved by the State Council<sup>6</sup>.

**NATIONAL DEVELOPMENT AND REFORM COMMISSION:** This department is responsible for the administration and planning of the Chinese economy. It formulates key policies and laws related to China's economic development, in addition to managing key infrastructure projects. NDRC promotes sustainable development through the coordination of “ecological building, energy and resource conservation and comprehensive utilization”<sup>7</sup>.

**MINISTRY OF COMMERCE:** The ministry formulates strategies for developing domestic and foreign trade. It promulgates laws and regulations governing domestic and foreign trade, foreign direct investment in China, and international economic cooperation<sup>8</sup>.

**MINISTRY OF ENVIRONMENTAL PROTECTION:** Formerly the State Environmental Protection Administration, the Ministry of Environmental Protection gained ministry status in 2008. Its role is to supervise and oversee environmental quality issues on a national and local level. The ministry is responsible for developing and implementing national standards and laws on environmental protection<sup>9</sup>.

**PEOPLE'S BANK OF CHINA:** The PBOC is the central bank of the People's Republic of China. It is responsible for developing and implementing monetary policy. It drafts laws and regulations to support the growth and health of China's financial sector<sup>10</sup>.

**CHINA BANKING REGULATORY COMMISSION:** The China Banking Regulatory Commission issues rules and regulations governing China's banking sector. The Commission aims to promote financial stability, encourage financial innovation, and enhance the competitiveness of the Chinese banking sector<sup>11</sup>.

## II. Major National Banking Policies and Relevant Environmental Laws

China has issued a series of national banking policies which offer guidance on how banks should identify, manage, and evaluate environmental risks in lending practices and improve their social responsibilities. The following list focuses on the major laws and policies which link finance to environmental protection<sup>12</sup>. Together these policies and laws serve as the foundation for sustainable finance in China.

***ANNOUNCEMENT ON CREDIT POLICY FOR ENVIRONMENTAL PROTECTION; ANNOUNCEMENT ON MAKING USE OF CREDIT POLICY FOR PROMOTING ENVIRONMENTAL PROTECTION***  
*People's Bank of China and State Environmental Protection Administration, 1995*

These documents were the first green finance policies published. Both encourage banks to “pay attention to environmental protection in their lending”<sup>13</sup>.

***LAW ON ENVIRONMENTAL IMPACT ASSESSMENT***  
*Ministry of Environmental Protection, 2002*

China's 2002 Law on Environmental Impact Assessment requires all projects with major impacts to conduct an EIA. The law sets basic standards for what should be included in an EIA report, and additional guidelines published by the MEP provide more detail. If projects have a significant risk of adverse environmental impacts, the developer must seek the opinions of relevant entities, experts and the general public<sup>14</sup>. Projects should not move forward unless the EIA report is approved by the Ministry of Environmental Protection and local government. If approved, the developer must implement the mitigation

measures set out in the EIA report. EIAs are required for loan applications.

***ANNOUNCEMENT ON FURTHER STRENGTHENING INDUSTRIAL POLICY AND CREDIT POLICY TO CONTROL CREDIT RISKS***  
*National Development and Reform Commission, Peoples Bank of China, China Banking Regulatory Commission, 2004*

This policy called on the finance sector to encourage lending towards upgrading industrial equipment and facilities in order to constrain blind expansion and excessive credit growth<sup>15</sup>.

***REGULATION ON ACCELERATING ADJUSTMENT OF INDUSTRIAL STRUCTURE; ANNOUNCEMENT ON ACCELERATING ADJUSTMENT OF INDUSTRIAL STRUCTURE WITH EXCESS CAPACITY***  
*State Council, 2005 and 2006 respectively*

This policy encouraged limiting lending to highly polluting industries. It called on local government authorities and the finance sector to limit credit to high energy consumption and high polluting industries<sup>16</sup>.

***GUIDING OPINIONS ON CREDIT SUPPORT FOR ENERGY CONSERVATION AND EMISSION REDUCTION***  
*China Banking Regulatory Commission, 2007*

The Opinions outlined requirements for banks regarding green credit management. It called for strengthening information disclosure of credit given to energy conservation and emission reduction. It also mandated energy conservation and emission reduction

as a major criteria in credit rating for banks<sup>16</sup>.

***OPINIONS ON IMPLEMENTING ENVIRONMENTAL PROTECTION POLICIES AND REGULATIONS TO PREVENT CREDIT RISKS***

***State Environmental Protection Agency, People's Bank of China, and China Banking Regulatory Commission, 2007***

The document called on environmental protection bureaus and finance institutions at all levels to work more closely and recognize the use of credit policies as environmental protection instruments. It solidified a “basic framework” for green credit in China<sup>17</sup>.

***GUIDELINES ON CORPORATE SOCIAL RESPONSIBILITY OF FINANCIAL INSTITUTIONS***

***China Banking Association, 2009***

This policy calls on financial institutions to “actively participate in the practice of environmental protection and promotion activities, to contribute to the increase of the environmental awareness of clients and society as a whole”<sup>18</sup>. Article 21 specifically asks financial institutions to “advocate for on-site investigation and audit for the environmental impacts of financed projects, and make their judgments not solely based on clients’ own environmental impact assessment report and data”. The guidelines devote two chapters to outlining banks social responsibility and environmental responsibility<sup>19</sup>.

***CATALOGUE FOR GUIDING INDUSTRY RESTRUCTURING***

***National Development and Reform Commission, 2001; amended in 2013***

This document was produced to support the industrial policy in the 12th Five-Year Plan period; it is an updated version of the 2005 “Guiding Catalogue for the Industrial Structure Adjustment”<sup>20</sup>. The Catalogue outlines key industries and sectors which should be developed or encouraged. It contains five key categories: agriculture and forests, water conservancy, coal, electric power, and new energy. Banks use this guide as a means to ensure financing

decisions align with national industry goals<sup>21</sup>.

***GREEN CREDIT POLICY AND GUIDELINES***

***China Banking Regulatory Commission, 2007; revised in 2012***

The Green Credit Policy set a high policy standard in the field of sustainable finance upon its promulgation in 2007, and has since become a major underpinning of China’s turn towards green finance. In principle, lenders have the authority to suspend and terminate credit if major environmental hazards are found during the loan cycle. The Green Credit Policy is important because it requires the banking sector to consider and proactively evaluate loan applications based on environmental and social risks, and allows banks to reject loan proposals based on environmental reasons alone. The policy holds banks responsible for supervising and assessing the environmental performance of their clients throughout all stages of a loan.

In 2012, the CBRC upgraded the Green Credit Policy to the Green Credit Guidelines<sup>22</sup>. The new Guidelines came with a notable new provision, Article 21, which requires banks to ensure that borrowers abide by international norms, in addition to host country laws, when investing abroad.

# III. China Development Bank

China Development Bank plays a key role in implementing the state's macroeconomic policy. By the end of 2012, CDB's total assets exceeded 7.5 trillion yuan, and it generated 63.1 billion yuan in annual net profit<sup>23</sup>. Current shareholders of CDB are: the Ministry of Finance which owns 50.18 percent of shares, Central Huijin Investment Ltd at 47.63 percent of shares<sup>24</sup>, and lastly the National Council for Social Security Fund at 2.19 percent of shares. Total capital contribution amounts to 3.1 trillion yuan<sup>i</sup>.

CDB invests heavily in urbanization, railroad, infrastructure, housing, and energy sectors domestically. It raises capital from overseas and domestic bond markets, and is now the second largest bond issuer in China after the Ministry of Finance. The bank supports China's "Going Out"<sup>25</sup> policy, which encourages Chinese enterprises to invest overseas in a variety of sectors, such as infrastructure, agriculture, and energy<sup>26</sup>. In 2007, CDB began converting from a policy bank to a commercial joint-stock bank; in 2008, banking regulators officially re-categorized CDB as a commercial bank. However, in 2015, the State Council's Standing Committee redefined CDB as "a financial institution for development"<sup>27</sup>. Policy and commercial banks are subject to different regulations and requirements, and so CDB's transition back to a policy bank was seen as an attempt to address critiques from commercial lenders who saw CDB as enjoying preferential treatment due to its status as a policy bank at the same time it was expanding its commercial lending<sup>28</sup>. According to the Chinese finance news agency *Caixin*, CDB operations will now be divided into three categories: for-profit commercial lending, policy-based lending, and development finance<sup>29</sup>.

## Environmental and Social Framework

In the past years, CDB has developed numerous internal environmental and social financing processes and guidelines. In 2006, CDB joined the UN Global Compact, and in 2009, it "initiated research on a social responsibility index involving 142 indicators" for investments in conflict affected and high risk areas<sup>30</sup>. The bank established a social responsibility department in 2010, and since then, has published CSR reports annually which are verified by third party auditors.

In fostering sustainable development, its growth target is "to become the world's first-class development finance institution (to provide the foundation for sustaining economic, social and environmental sustainable development and ultimately achieve common development)"<sup>31</sup>. In doing so, it has established three sustainable development objectives:

- Economic development in infrastructure and basic industries, pillar industries, and international cooperation
- Social progress via grain production, employment, housing, education, etc
- Environmental protection in climate, ecology, clean energy, and by promoting low carbon living<sup>32</sup>

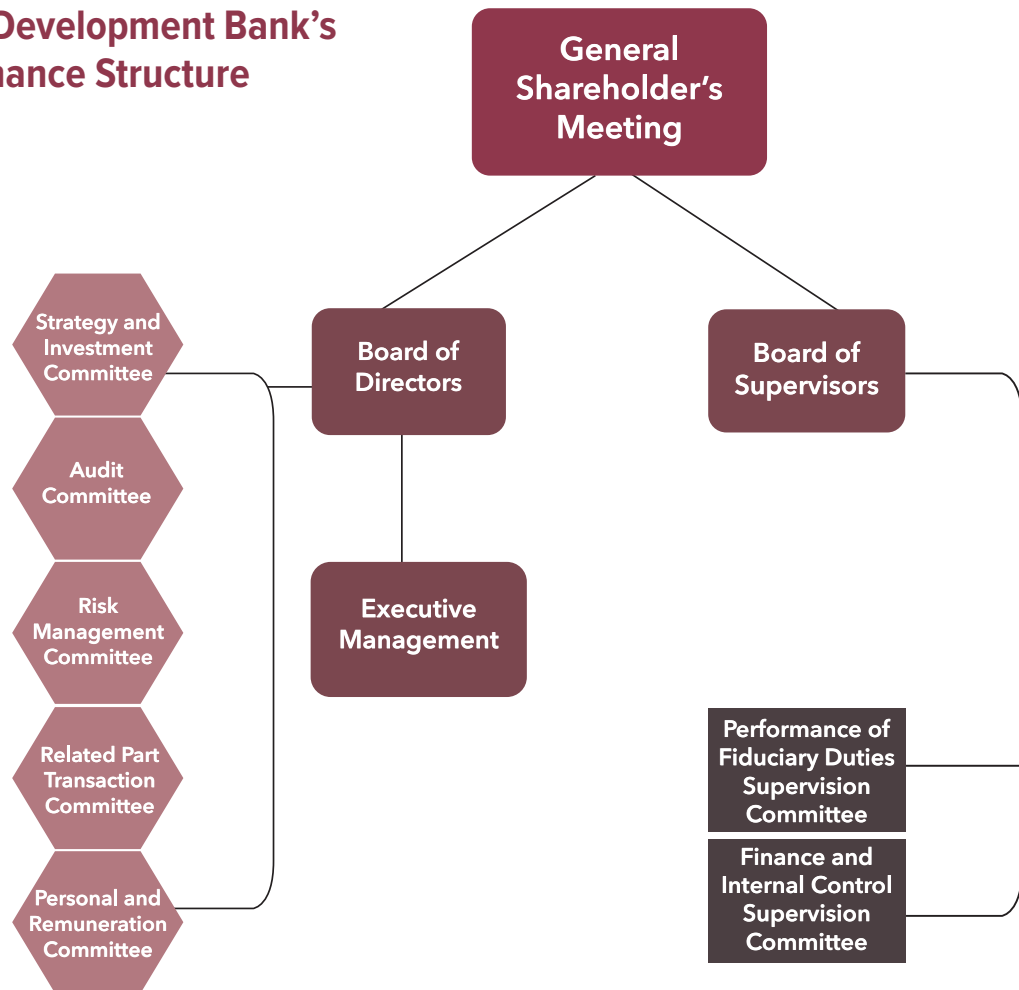
CDB describes its role as supporting China's national sustainable development strategies while promoting business sustainability<sup>33</sup>. Unfortunately, many of CDB's policies and their content are publicly unavailable. Below is a brief selection of its known environmental and social policies.

i One trillion yuan approximately equals \$156 billion USD.



FIGURE 2

## China Development Bank's Governance Structure



### *CDB Lending Assessment Handbook 2004*

In 2004, CDB issued the “CDB Lending Assessment Handbook”<sup>34</sup> which provides specific guidelines on loan procedures, ranging from assessment of borrowers, to managing the assessment group in environmental due diligence, and the financing criteria for different industries. However, this document does not appear to be publicly available.

### *Environmental Impact Assessment Framework for Lending to Small or Medium-Sized Enterprises*

Based on the World Bank’s environmental assessment policy and pertinent Chinese laws

and regulations, this policy aims to encourage environmentally friendly businesses<sup>35</sup>.

### *Guidelines on Environmental Protection Project Development Review, Guidelines on Special Loans for Energy Conservation and Emission Reduction and the Work Plan on Loans for Pollution Control and Emission Reduction*

These documents support energy conservation and emissions reductions through the promotion of environmentally friendly businesses<sup>36</sup>. However, these policies are not legally binding, and the efficacy of these initiatives is unclear.

## Sectoral Policies

China Development Bank has created credit guidelines for certain activities and industries, including:

- environmental protection
- energy saving and emission reduction
  - \* specific guidelines regarding iron and steel, power generation, eliminating outdated production capacity, and upgrades to coal fired power plants to meet national standards
- biomass power generation
- solar power<sup>37</sup>

However, no information is currently available regarding how credit is assessed or approved for projects in these sectors.

## Additional Plans and Policies

Besides joining the Global Compact, the bank has not disclosed if it follows any other international principles or standards regarding environment and society. CDB reports its compliance to Global Reporting Initiative indicators in CSR reports. However, its voluntary reporting does not consistently include responses to all indicators. For instance, in CDB's 2012 Sustainability Report, it did not include responses for six of the 30 indicators in the Environmental Performance category, five out of eleven Human Rights Performance category, and three out of the ten Society Performance Indicators. Furthermore, although some indicators are reported as partially adopted, there is no corresponding context or explanation for how CDB has already partially implemented, or plans to implement the performance indicator in the future. In another example from CDB's 2012 Sustainability Report, the "number of grievances related to human rights filed, addressed, and resolved through formal grievance mechanisms" was marked as partially adopted, though it is unknown what grievance mechanisms were used, the role that CDB played in resolving grievances, or whether CDB has an internal process for monitoring human rights issues.

CDB has incorporated environmental protection into 75 systemic financing plans related to the construction of

infrastructure facilities and industrial development<sup>38</sup>. It has also released guidelines to support the State Council's two policies, the Circular on the Publication and Distribution of a Work Plan on Energy Conservation and Emission Reduction and the Government's Eleventh Five-Year Plan on Environmental Protection.

In 2012, CDB reported other new documents on energy conservation and environmental protection. These include:

- 2012 Guidelines on Business for Energy Conservation, Environmental Protection and Emissions Reduction
- Guidelines on the Industrial Development Assessment of Energy Efficient and New Energy Vehicles
- Guidelines on Project Loans for the Comprehensive Upgrading and Renovation of Coal Fired Power Plants
- Guidelines on the Assessment of Coal-bed Methane Projects<sup>39</sup>

In 2013, CDB published additional documents regarding its progress in reducing environmental risk while promoting sustainability. For instance, it released its first sustainable development report, "CDB Program of Action on Social Responsibility", which "clarified...[the banks] sustainable development strategy and its goals"<sup>40</sup>. It also produced, "A Guide to Evaluation of Offshore Wind Power Projects", in identifying sustainable energy opportunities. According to its 2013 CSR Report, CDB "built a system for calculating the efficiency of energy conservation and environmental protection of loan products and quantified the environmental efficiency of loan projects"<sup>41</sup>.

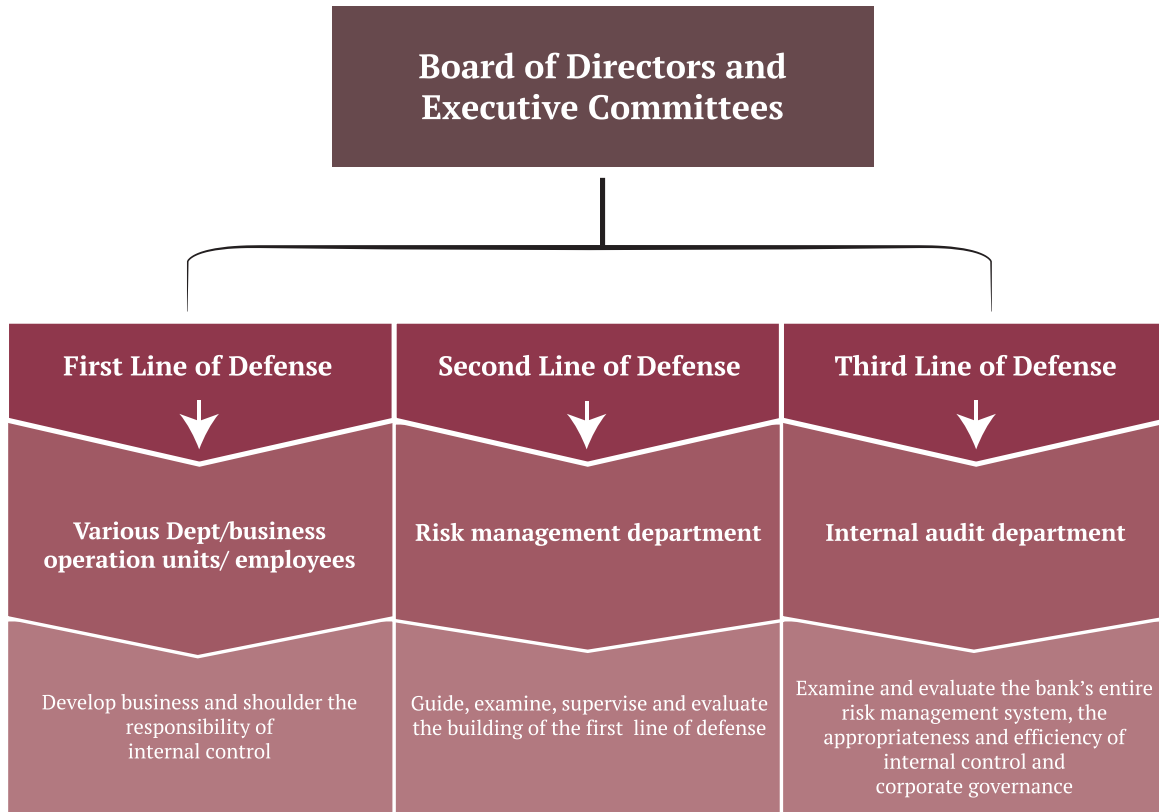
## Branch Policies and Operations

Headquartered in Beijing, CDB has numerous provincial and some overseas branches. Branch offices may develop their own policies or practices in localizing national objectives into their regional lending. Branch offices may partner with state bodies or local, Chinese governments in order to support key areas.

FIGURE 3

## RISK MANAGEMENT

The China Development Bank characterizes its risk management as “Three Lines of Defense of Comprehensive Risk Management”. Few details are publicly available as how such principles are concretely streamlined into the loan cycle. The chart below is a reproduction of its self reported process from CDB’s 2012 CSR Report.



For instance, the Suzhou branch of China Development Bank states that it supports five key areas:

- Focus on major projects and key projects
- Support for culture, logistics, water conservancy (including water environment, water source construction, sewage treatment, etc) the national policy of affordable housing, specialty agriculture and agricultural products circulation, Tibet and other project oriented areas
- Power, transportation (toll roads) and other key industry projects, as well as advanced manufacturing and strategic emerging industries
- Priority is given to key enterprises “going out” of foreign exchange financing needs,

as well as import and export and import process resources demand for foreign exchange

- The needs of the people’s livelihood and development of Taiwan funded enterprises SMEs and student loans<sup>42</sup>

Branches may also be tasked with focusing on a particular region in supporting Chinese overseas investment. According to Henry Sanderson and Michael Forsythe’s “China’s Superbank”, CDB established “work teams to go and live in foreign countries, acting much like a surrogate diplomatic service” when China announced its “Going Global” policy in 2002. Each bank branch became responsible for focusing on a particular country or region, with the Shandong branch looking after Venezuela, and the Shijiazhuang branch managing Peru. Large investments, however, must still be reviewed

by headquarters<sup>43</sup>.

Local branches may also work with overseas clients in developing ad hoc lending policies. For instance, CDB Xinjiang branch worked with the State Savings Bank of the Republic of Tajikistan to jointly develop a screening process for evaluating, reexamining, and approving risks; this risk mitigation model was used for small, medium, and micro enterprises, though it is unknown if environmental risks were measured or identified in this model<sup>44</sup>.

**CDB Environmental Guidelines in a Loan Cycle<sup>ii</sup>**

CDB is required to follow China’s national environmental law and requires environmental impact assessments (EIA) for all loan applications. In principle, CDB will not approve a loan application until applicants have obtained the appropriate licenses from environmental

agencies and have agreed to ensuring environmental compliance<sup>45</sup>. An applicants’ compliance with environmental laws and regulations is considered a major concern. However, it remains unclear to what extent how the bank ensures that environmental and social policies are complied with internally. At this time, it is unknown if the loan application process domestically is the same as those applying for loans from overseas due to lack of publicly available information.

The following describes environmental and social guidelines within a CDB loan cycle for domestic borrowers. It aims to describe as comprehensive a picture of CDB’s loan cycle as possible based on publicly available sources like CDB publications, Sustainability Reports, and NGO publications. As a result, the following chart offers a limited, but hopefully useful, picture of CDB’s environmental and social practices in a loan cycle.

**TABLE 1**

Loan Preparation	Guidelines <sup>iii</sup>
	<ol style="list-style-type: none"> <li>1. Regulatory compliance: the project should be approved by relevant departments, or be completed within a pre-determined time plan. A feasibility study on land, environmental assessment, and other administrative examinations should also be approved.</li> <li>2. Borrowing Entity: the borrower shall have proper control over the implementation of the project and have adequate sources of funds for repayments. In principle, the debt ratio should be below 80%.</li> <li>3. Sources of repayment: the borrower shall make plans and arrange how to repay the loan principle and interest after the project is completed, in principle, repayment ability should be 1.3 times more than the bank loan principle and interest.</li> <li>4. Collateral guarantees: Medium and long term loans generally require a third party to ensure surety bond or collateral to cover the loan guarantee risk. Collateral shall comply with the relevant laws and regulations. The collateral should have liquidity and comply with relevant laws and regulations. Collateral valuation should be no less than 1.4 times the loan principle.</li> <li>5. Secure capital and other funds for construction: the capital fund should be no less then 30% of the total investment. Large project financing should be set up as at least three syndicated loans, per the requirements of regulatory authorities. If the loan amount of a project exceeds 1 billion yuan, the borrower should consult the relevant banks involved to share the financing in advance. CDB may collaborate with other banks to provide the largest share of the loan.</li> </ol>

ii Information in this section does not claim to be comprehensive, as details were pulled from various sources. However, we hope it provides a basic understanding of CDB’s environmental guidelines in a loan cycle.

iii Information drawn from: “2012年国家开发银行项目贷款申请指引”，国家开发银行苏州分行, unofficial translation: January 2012.

**TABLE 1**

Loan Application	Information required at time of application <sup>iv</sup>
	<ol style="list-style-type: none"> <li>1. Project description: including project site, scale of construction, total investment, main construction components, current progress, schedule, feasibility study, and other relevant documents.</li> <li>2. Administrative approval: information on the status of approval on necessary administrative approvals, such as planning, land use, environmental impact assessment, feasibility study, and other approvals progress, or expected time of approval.</li> <li>3. Information about the borrower and actual controller of the projects (arrangements regarding the borrowing entity, whether the borrower has been established, and their current operational and financial situation, etc).</li> <li>4. Project financing scheme: information on total investment, capital and financing plan, analysis of capital investment capacity, planned term of loan, time frames of funding needs, etc).</li> <li>5. Efficiency and solvency analysis, expected profit of the project, the source of repayment of the loan principal and interest coverage, etc).</li> <li>6. Guarantee scheme (whether the bond or collateral will be adopted, capacity of third-party guarantor, valuation of the collateral, whether the collateral can be liquidized, etc).</li> <li>7. Information on whether the project is recommended by the government or is supported by relevant preferential policies.</li> <li>8. Beneficial factor analysis: information on whether there is any other bank with intention to finance the project, etc.</li> <li>9. Project contact person and phone number.</li> <li>10. The Client Division is responsible for taking applications carrying out preliminary screening of proposed projects. This division is also responsible for collecting information needed to make an assessment of the loan.</li> </ol>
Loan Examination and Review	General Guidelines <sup>v</sup>
	<p>The Credit Assessment Division is responsible for verifying the project's capacities for investment and repayment, in addition to means of collateral. This division communicates with the borrower to carry out credit investigation and review. It is unknown what general guidelines the Credit Assessment Division is required to follow.</p>

iv Ibid.

v Ibid.

**TABLE 1**

Loan Examination and Review (con't)	Environmental Review <sup>vi</sup>
	<p><i>According to China-based Global Environmental Institute, CDB's environmental policies are integrated into a two-phase examination called a "client suitability review." It reviews borrowers' environmental violations, and identifies environmental laws and regulations that companies must abide by. It supervises and manages the borrowers' environmental performance, including ex-ante environmental review and ex-post environmental monitoring.</i></p> <ol style="list-style-type: none"> <li>1. Clients must be in compliance with all environmental laws of the People's Republic of China;</li> <li>2. All loan applications require an environmental impact assessment (EIA); <ul style="list-style-type: none"> <li>• For highly polluting and energy-intensive industries such as coal mining, oil and gas exploration and development, power generation and transmission, hydropower, etc., EIAs must be approved by relevant environmental authorities;</li> <li>• EIAs must be completed by an independent evaluator;</li> </ul> </li> <li>3. Environmental standards and costs can be written into loan covenants in order to commit borrowers to environmental promises;</li> <li>4. The Bank can exercise the "one-ballot veto" procedure that allows loans to be rejected by the credit committee solely for environmental reasons;</li> <li>5. The Bank assigns two personnel to do due diligence for each loan application: one to evaluate the loan and the other to evaluate the client;</li> <li>6. The Bank also has an appraisal department to assess environmental and social risks, and also manages environmental and social issues across business units.</li> </ol>
	<p><b>Basic Environmental and Social Risk Assessment Criteria<sup>vii</sup></b></p> <ul style="list-style-type: none"> <li>• Project should be in accord with China's latest Catalogue for Industrial Restructuring and relevant environmental regulations.</li> <li>• Environmental approval procedures for the project should be completed in line with relevant regulations.</li> <li>• An initial assessment of the project's possible impact on beneficiary groups, as well as job creation and environmental improvement potential, should be made.</li> <li>• During the project development assessment process, environmental and safety accident risks should be considered key factors in determining credit access. A borrower's previous environmental and safety accidents will be included in the major risk assessment criteria</li> </ul>

vi Information drawn from: "Environmental Policies on China's Overseas Investment", Global Environmental Institute: China Environmental Science Press, 2010.

vii Information drawn from: "China Development Bank Sustainability Report 2012", China Development Bank.

**TABLE 1**

Loan Monitoring and Project Implementation	<b>Basic Environmental and Social Risk Management and Control System (con't)</b>
	<ul style="list-style-type: none"> <li>• After a loan is issued, if the borrower or projects are in violation of environmental regulations or affected by severe safety accidents, CDB may downgrade the asset quality or cancel the loans.</li> </ul>
Post-Loan	<b>Guidelines<sup>ix</sup></b>
	<ul style="list-style-type: none"> <li>• In order for loan requirements to be considered fulfilled, clients must provide proof from a relevant environmental department that the project meets environmental protection requirements.</li> </ul>

viii Ibid.

ix "Environmental Policies on China's Overseas Investment", Global Environmental Institute: China Environmental Science Press, 2010.

# IV. China Export-Import Bank

Established in 1994, China Exim Bank facilitates the export and import of Chinese machinery, electronics, and equipment, assisting Chinese companies in offshore project contracting and outbound investment. It can provide concessional loans designated by the Chinese government for China's foreign aid. From 1994 through the end of 2011, its total assets were 1.365 trillion yuan<sup>46</sup>. The bank's capital is raised by overseas and domestic bond issuing, refinancing from People's Bank of China, savings accounts of enterprises and public institutions, as well as by interbank deposits.

According to its website, China Exim provides:

- Export credit and import credit;
- Loans for offshore contracts and overseas investment;
- Chinese Government Concessional Loan;
- International guarantee;
- On-lending loans from foreign governments and international financial institutions;
- International and domestic settlement and corporate deposits under the loan facilities provided by the Bank
- Raising funds in domestic and international capital markets and money markets
- International inter-bank loans, organizing or participating in international and domestic syndication loans
- Renminbi inter-bank borrowing/lending and bond repurchases<sup>47</sup>

## Environmental and Social Framework

China Exim adopted an environmental policy in 2004, which was later released to the public in April 2007. Unlike CDB, with its various environmental programs, China Exim has formulated fewer environmental and social policies. It has jointly released circulars or measures with government bodies on various issues<sup>i</sup>, though not all pertain to environmental and social issues.

### *Environmental Policy 2007*

The Environmental Policy defines six categories: environmental management policy, environmental economic policy, environmental technology policy, environmental industry policy, international cooperation on environmental protection, and environmental protection policy. It calls for enacting environmental impact assessment in all three stages of a project, (design, construction, and operation), and to improve environmental management.

It touches on capital investment, tax breaks for corporations which reduce pollution or use corollary waste, and exemption policies. It encourages projects to adopt clean technologies, impose a phase out plan for outdated technologies, as well as use non-toxic materials during production.

The policy describes their environmental process in project financing as consisting of three stages: project review, project examination, and post-project review. When a project is being implemented, the policy states that bank staff conduct regular examinations, which include a review of the project's environmental impacts. According to the policy, "projects that

i For a broader list of documents jointly issued by China Exim Bank and government bodies, please reference: Nathalie Bernasconi-Osterwalder, Lise Johnson, Jianping Zhang, "Chinese Outward Investment: An emerging policy framework", International Institute for Sustainable Development: November 27, 2012 (page 182). [https://www.iisd.org/sites/default/files/pdf/2012/chinese\\_outward\\_investment.pdf](https://www.iisd.org/sites/default/files/pdf/2012/chinese_outward_investment.pdf)



are harmful to the environment or do not gain endorsement or approval from environmental administration will not be funded....Once any unacceptable negative environmental impacts result during the project implementation, China Exim Bank will require the implementation unit to take immediate remedial or preventative measures. Otherwise, they will discontinue financial support”<sup>48</sup>.

***Guidelines for Environmental and Social Impact Assessments of Loan Projects, 2004; revised in 2007***

In August 2007, China Exim Bank released an updated and more detailed version of its policy, “Guidelines for the Environmental and Social Impact Assessment of China Export and Import Bank’s Loan Projects”<sup>49</sup>, which applies to domestic and overseas investments. It states that in addition to economic benefits, social and environmental aspects should also be taken into consideration before a project is approved. The guidelines require that environmental assessments and social impacts are evaluated in loan applications and post-loan monitoring.

When domestic non-building projects undergo the loan review, Articles 9 and 19 of the Guidelines state that the bank will review the borrower’s environmental compliance and status of resource and energy conservation. In principle, the bank will not extend new credit to, or will gradually reduce credit to, borrowers who exceed emissions and energy consumption standards and do not meet the requirements of environmental protection and energy conservation.

China Exim policies require domestic construction projects to undergo environmental protection and energy consumption reviews. In particular, the bank relies on project developers to conduct EIAs and have them approved by proper government authorities: “China Exim Bank has the right to request that borrowers hand in the EIA report, EIA form and EIA registration form under the regulation of environmental protection departments. The projects that do not gain approval from the environmental protection department will not get credit support from China Exim Bank”. (Article 10)

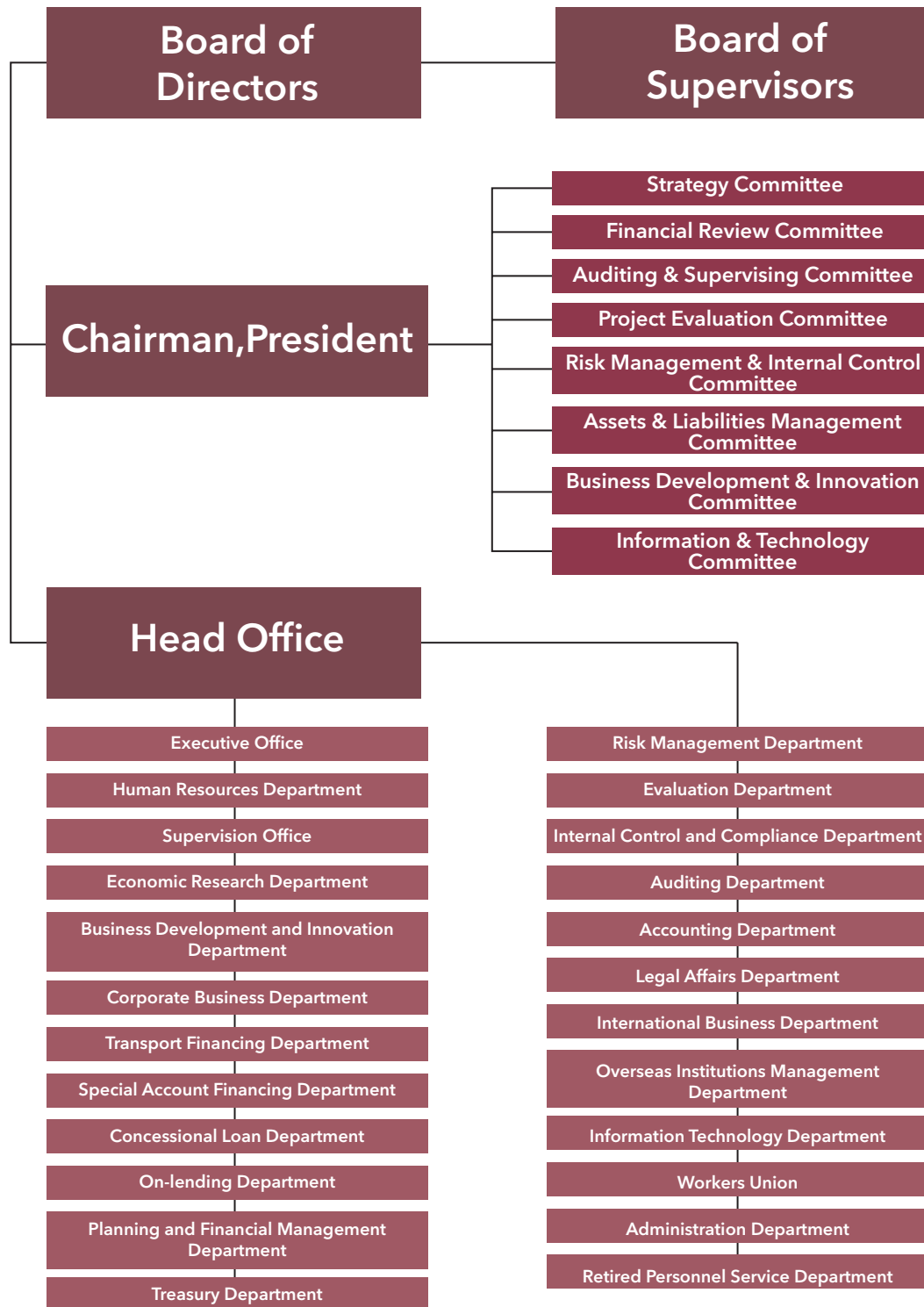
***Resettlement Policy Framework, 2011***

This policy was originally designed for domestic projects in China related to a World Bank loan given to China Exim for the “Energy Efficiency Financing III Project”<sup>50</sup>. It does not appear to be an institutional policy as it seems to have been applied only to projects and subprojects funded by the World Bank loan. However, it does show that China Exim does have some experience and knowledge of creating and implementing a resettlement policy that meets international standards.

The purpose of the project was to “improve energy efficiency of medium and large-sized industrial enterprises in China, and thereby reduce their adverse environmental impacts on climate”<sup>51</sup>. This policy establishes key principles in managing resettlement due to government land acquisition and draws upon World Bank and Asian Development Bank best practices. It created categories in which to identify and provide types of compensation and rehabilitation provisions, and requires measures such as establishing grievance procedures and consultation and disclosure.

**FIGURE 4**

**China Exim Bank's Governance Structure<sup>52</sup>**



### China Exim Environmental Guidelines in a Loan Cycle<sup>ii</sup>

Based on the Environmental Protection Policy, China Exim Bank has set three phases in assessing environmental risks.

First, the pre-finance or ex-ante project approval period requires an environmental impact assessment to be implemented as a prerequisite to project approval. The bank will not consider financing any projects that fail to obtain approval from environmental agencies. Second, during the process of implementation, the bank will conduct routine reviews of projects' environmental impacts. If a project is found to have an adverse impact on environment, the bank will urge immediate measures to be taken, and may even suspend lending. Third, the post-

completion phase or ex-post project will assess projects' final environmental impacts. In doing so, it notes that it may amend its environmental requirements accordingly.

As China Exim is tasked with the promotion of international trade of Chinese goods and services, there is a focus on requirements for overseas projects, though requirements for domestic projects are mentioned as well. As in the case of CDB, there is limited information regarding how environmental and social considerations concretely figure into China Exim's loan cycle. The chart pulls together details from publicly available sources and aims to provide a partial glimpse into environmental and social considerations in a loan cycle at China Exim.

**TABLE 2**

Loan Preparation	Guidelines <sup>iii</sup>
	<p>For Domestic Projects, documents required include:</p> <ol style="list-style-type: none"> <li>1. Feasibility study and government's approval</li> <li>2. Environmental impact assessment (including EIA report, EIA form, and EIA registration)</li> <li>3. Construction site and approval, and other relevant documents. (It is unknown if there are other documents which should be prepared).</li> </ol> <p>For offshore projects, additional documents may include:</p> <ol style="list-style-type: none"> <li>1. Evaluation of Chinese contractor</li> <li>2. Commercial/Engineering, procurement and construction contractor and approval</li> </ol>
Loan Application	Information required at time of application for overseas projects <sup>iv</sup>
	<p>Overseas projects are required to have the following documents in their application:</p> <ol style="list-style-type: none"> <li>1. Proposal or Loan Application from the borrowing country's government</li> <li>2. Recommendation issued by the Commercial Counselor's Office of the Chinese Embassy in the borrowing country</li> </ol>

ii As mentioned in regards to CDB's loan cycle, information in this section for China Exim does not claim to be comprehensive, as details were pulled from various sources. However, we hope it provides a basic understanding of China Exim's environmental guidelines in a loan cycle.

iii Information drawn from: "Guidelines for Environmental and Social Impact Assessments of the China Export and Import Bank's Loan Projects", China Export-Import Bank. <https://www.internationalrivers.org/resources/guidelines-for-environmental-and-social-impact-assessments-of-the-china-export-and-import>; "Steps on Applying Project Financing from China", Leda Greenpower, Beijing Trading and Engineering Ltd. 2012, Third version.

iv Ibid.

**TABLE 2**

Loan Application	Information Required at time of application for overseas projects (con't)
	<ol style="list-style-type: none"> <li>3. Project Proposal or Feasibility Study Report approved by the host country government, which specifies the essential significance of the project (target and objectives), content and scope of the project, investment budget, and other technical, economic, and social benefit information.</li> <li>4. Commercial contract or other types of cooperation agreements signed between the Chinese EPC contractor/ exporter and the local executing agency of the borrowing country.</li> <li>5. Materials and documents presenting the political, economic, and social status of the borrowing country.</li> <li>6. Profile statements, duplicate copy of the business license, audited financial reports of the past three years of both Chinese EPC contractor and the local executing agency, in addition to the performance records of the Chinese contractor/exporter both in China and abroad.</li> <li>7. Other required documents               <ul style="list-style-type: none"> <li>• Environmental Impact Assessment for the projects verified by the host country Environmental Protection Agency or federal government.</li> <li>• Documents proving that the financing of at least 15% of EPC contract is ready and can be paid.</li> <li>• It is recommended borrowers obtain medium or long term export credit insurance (to protect against political and commercial risks such as default, bankruptcy, etc) from Sinosure, a policy oriented Chinese insurance company.</li> <li>• Other relevant documents.</li> </ul> </li> </ol>
Loan Examination and Review	Environmental Review <sup>v</sup>
	<p>Overseas projects must meet the following requirements:</p> <ol style="list-style-type: none"> <li>1. The project shall be approved by both the Chinese government and the host country government.</li> <li>2. The borrowing country shall have sound diplomatic relations with Chinese government, and shall be politically stable and economically sound, with debt servicing capacity and reliable contract performance record.</li> <li>3. The project shall be technically feasible and shall fall within priority sectors that can contribute to the economic development and sector planning of the borrowing country while being able to yield sound economic returns or social benefits. Chinese companies shall be selected as the project contractor. For procurement projects, equipment supply shall come from a Chinese exporter in principle.</li> </ol>

v Ibid.

TABLE 2

Loan Examination and Review	Environmental Review (con't)
	<p>4. In project procurement, priority shall be given to equipment, materials, technology, or services from China. In principle, no less than 50% of total procurement shall be made in China.</p> <p>5. The counterpart funds for the project shall be already in place.</p> <p>Borrowers should provide a sovereign or bank guarantee for a loan with China Exim, which can provide up to 70%-85% of financing. Borrowers should be able to provide at least 15% in equity. Chinese Contractors and Exporters who are signed on as the EPC in a project must meet the following qualifications:</p> <ol style="list-style-type: none"> <li>1. [The company] shall be a medium and large sized company registered with the local Administration of Industry and Commerce, accredited with independent legal person status.</li> <li>2. It shall be in good operation and management and sound financial and credit status.</li> <li>3. For contracting projects, the Chinese contractor shall be authorized for the operating rights of contracting overseas projects with A-class (the top class) professional qualification for relevant specialties, and shall be experienced in contracting projects and good in performance.</li> <li>4. For export projects, the Chinese exporter shall bear export license for relevant products, and shall be experienced in foreign trade with good operation record. For overseas projects: <ul style="list-style-type: none"> <li>• China Exim reviews loan application documents and hires independent experts when necessary</li> <li>• China Exim Bank will negotiate with the project owners or borrowers to amend construction project proposal, based on environmental and social assessments.</li> <li>• China Exim can require the inclusion of environmental and social responsibilities in a loan contract</li> </ul> </li> </ol>
	<p><b>Basic Environmental and Social Risk Assessment Criteria<sup>vi</sup></b></p>
	<p>For domestic projects:</p> <ol style="list-style-type: none"> <li>1. Projects must be in line with the Catalogue for Guiding Industry Restructuring, Energy Conservation, Pollution reduction, and/or other relevant government policies.</li> <li>2. Investments which are classified as “restricted by the government” will face a different review process.</li> <li>3. Borrower’s environmental compliance and status of resource and energy conservation should be reviewed. Borrowers who exceed emissions and energy consumption standards and do not meet the requirements in principle will not receive additional credit lines, and existing credit lines may be gradually withdrawn.</li> <li>4. Lack of the required EIA documents (EIA report, EIA form, and EIA registration) will disqualify borrowers from receiving credit support.</li> <li>5. Environmental and social responsibilities of the client may be included in the loan contract to monitor and restrain borrower behavior.</li> </ol>

vi Information drawn from: Wang Qingrong, Lilian Wang, Sun Yiting, Guo Lina, “The Sustainable Performance of Chinese Banking and International Financial Institutions Comparative Study”, China Banking Regulatory Commission, WWF China, PwC: 2013. <http://www.wwfchina.org/content/press/publication/2015/greenfinanceen.pdf>;

“Steps on Applying Project Financing from China”, Leda Greenpower, Beijing Trading and Engineering Ltd. 2012, Third version;

“Guidelines for Environmental and Social Impact Assessments of the China Export and Import Bank’s Loan Projects”, China Export-Import Bank. <https://www.internationalrivers.org/resources/guidelines-for-environmental-and-social-impact-assessments-of-the-china-export-and-import>

**TABLE 2**

<b>Loan Examination and Review</b>	<b>Basic Environmental and Social Risk Assessment Criteria (con't)</b>
	<p>For overseas projects:</p> <ol style="list-style-type: none"> <li>1. EIA should be “done during the pre-loan and loan-period review”.</li> <li>2. Host country environmental policies and standards are basis for evaluation. Projects should comply with local laws and regulations, and receive necessary environmental permits. When the host country does not have a complete environmental protection mechanism or lacks an environmental and social impact assessment policy and standards, Chinese standards or international practices should be referred to.</li> <li>3. Clients should respect “local people’s rights to land and resources, and properly handle resettlement problems”.</li> <li>4. Projects which have serious negative impacts on local environment, China Exim bank states that “we[sic] should openly consult the public in accordance with the host country’s requirements”.</li> </ol>
<b>Loan Monitoring and Project Implementation</b>	<b>Basic Environmental and Social Risk Management and Control System<sup>vii</sup></b>
	<p>Reported loan management and supervision measures include:</p> <ul style="list-style-type: none"> <li>• Inspecting and monitoring project’s construction and operation, based on the results of environmental impact assessments.</li> <li>• For projects under construction, borrowers or project owners should regularly report to China Exim on actual E&amp;S impacts brought on by project construction, and the status of implementation measures in elimination and controlling the impacts.</li> <li>• For projects in the operation phase, China Exim should conduct tracking management and post-evaluation work.</li> </ul> <p>China Exim has reported that it may take the following actions in case of environmental non-compliance:</p> <ul style="list-style-type: none"> <li>• Asking the client to rectify behavior</li> <li>• Freeze unused credit</li> <li>• Issue early warnings</li> <li>• Adopt restrictions on business</li> <li>• Establish credit exit mechanism</li> <li>• Increase asset collateral requirement</li> </ul>
<b>Post-Loan</b>	<b>Guidelines<sup>viii</sup></b>
	<p>In order for loan requirements to be considered fulfilled, clients must provide proof from a relevant domestic or host country environmental department that the project meets environmental protection requirements.</p>

vii Ibid.

viii Ibid.

In the case that a borrowing nation is unable to provide a bank or sovereign guarantee, it is possible that a natural resource can be used as a replacement for a sovereign guarantee.

Within a loan proposal, a check list can be required to cover basic project, construction, and environmental

information regarding a project. According to a sample Structure of Project Feasibility Study/ Proposal for a Preferential Buyer Credit loan from China Exim Bank, the following information<sup>53</sup> can be required from the borrower. It is reported that review of a loan application can be assessed within three months<sup>54</sup>.

**TABLE 3**

### Additional Information for Overseas Project Feasibility Study<sup>55</sup>

Topic	Information
Economic and Social Benefits Analysis	<ol style="list-style-type: none"> <li>1. Economic Analysis</li> <li>2. Financing Assessment               <ol style="list-style-type: none"> <li>a. Cash flow analysis</li> <li>b. Cost and revenue analysis</li> <li>c. Key indicators and analysis</li> <li>d. Project Sensitivity analysis</li> </ol> </li> <li>3. Social Benefit Analysis and Impact               <ol style="list-style-type: none"> <li>a. Employment</li> <li>b. Taxation revenue</li> <li>c. Local economic development</li> <li>d. Human resource</li> <li>e. Inflow investment</li> </ol> </li> <li>4. Environmental Impact Assessment</li> </ol>
Investment Environment	<ol style="list-style-type: none"> <li>1. Legal</li> <li>2. Taxation</li> <li>3. Labor Union and Employment</li> <li>4. Sector Status Quo/Current Situation</li> </ol>
Risk Analysis and Mitigation Plan	<ol style="list-style-type: none"> <li>1. Economic, social and, environment risks</li> <li>2. Legal and regulation risk</li> <li>3. Market risk</li> <li>4. Construction risk</li> <li>5. Operation risk</li> <li>6. Labor union and employment</li> <li>7. Product and technical risk</li> <li>8. Implementation/ construction risk</li> <li>9. Financing and repayment risk</li> </ol>

## V. Ensuring Borrower Compliance

As described in previous sections, CDB and China Exim generally rely on loan contracts in order to ensure borrower compliance with bank policies, including environmental policies, per standard practice in the banking industry.

In cases where clients do not comply with environmental regulations, CDB may:

- Downgrade the asset quality
- Cancel the loans<sup>56</sup>

On the other hand, China Exim may take the following actions in case of environmental non-compliance with a client:

- Asks the client to rectify behavior
- Freeze unused credit

- Issue early warnings
- Adopt restrictions on business
- Establish credit exit mechanism
- Increase asset collateral requirement<sup>57</sup>
- Downgrade asset quality<sup>58</sup>
- Cancel the loan<sup>59</sup>

## VI. Accountability Mechanisms

In terms of accountability instruments which are accessible to the public, neither CDB nor China Exim have developed institutional accountability mechanisms which the public or civil society groups may access to address cases of potential noncompliance by either the borrower or the bank. Nor are there independent mechanisms to ensure consistent enforcement and implementation of sustainable finance policies.

At this time it is extremely difficult for affected communities to contact Chinese banks regarding their client's environmental or social violations. Although CDB and China Exim have general contact information on their website, it is not clear if there

are designated bank staff to manage inquiries from the public regarding their clients, or if the bank has a formal internal process for managing issues brought forth by civil society groups or communities. Over the past few years, affected communities have reported that CDB's CSR email has remained defunct for several years despite numerous attempts to contact the bank regarding their client's environmental and social compliance<sup>60</sup>.

Developing a formal procedure to increase accountability and transparency would enable Chinese banks to better align with international peers and encourage stronger environmental and social compliance from borrowers.



## VII. Conclusion

Chinese regulators and lawmakers have taken significant steps in creating a banking regulatory framework to advance environmental protection, and leading banks, like CDB and China Exim, are gradually integrating environmental and social considerations into their lending policies. As China aims to “green the finance sector”<sup>61</sup>, more opportunities should arise for policy banks to lead by example. In committing to fostering sustainable development, CDB and China Exim should demonstrate

a willingness and ability to meet the challenge. In particular, CDB and China Exim should improve institutional transparency and accountability, important prerequisites for any commitment to sustainability. Although CDB and China Exim have taken steps to move in a greener direction, more work must be done to expand, standardize, and operationalize sustainable finance principles into practice.

# Endnotes

- 1 People's Bank of China is the central bank and treasury of China. More information is available on our section, "Key Bodies Affecting China's Finance Sector".
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# Appendix I

## Environmental and Social Policy Bank Survey

**NAME:**

**TITLE:**

**FINANCIAL INSTITUTION:** China Development Bank

We selected the following indicators to reflect how and to what extent a banking institution has established and operationalized environmental and social principles into their lending process. These include:

- \* Overarching Environmental and Social Policy
- \* Required Reporting and Disclosure of Environmental and Social Risks
- \* Community Consultation Process
- \* Transparency Initiatives
- \* Compliance and Accountability Mechanisms

### Overarching Environmental and Social Policy

1. Has the bank developed an overarching environmental and social risk management policy?

- Yes, the bank has established a single overarching E&S policy.
  - If yes, please attach the text of the policy to this survey, or include it in the box below.

- No, the bank does not have a single overarching E&S policy.
- The bank has some other E&S policies. If so, please explain below:

2. Has the bank developed sectoral policies?

- Yes.

- If so, the bank has created sector policies on:

- No, the bank does not have any sector policies.

3. Does the bank have a specific unit for overseeing and ensuring environmental and social risks?

- Yes, the bank has a specific E&S unit to manage those risks.

- The name of this unit is: \_\_\_\_\_

- No, the bank does not have a specific unit to manage those risks.

4. Does the bank have dedicated staff to review and assess environmental and social risks?

- Yes.

- If so, how many staff? \_\_\_\_\_

- No.

- If so, is the bank planning on hiring E&S staff? \_\_\_\_\_

## Required Reporting and Disclosure of Environmental and Social Risks

5. Does the bank require the borrower to include all relevant impacts, including land use, social, cultural, economic, health, and safety effects, either in the EIA or other feasibility study?

- Yes, the bank requires the borrower to include all relevant impacts in the EIA or other mandatory feasibility study.

- No, the bank does not require the EIA or other feasibility study to include all relevant impacts.

- If not, which impacts are required to be assessed?

6. Are cumulative effects and changes on the nearby area, local ecosystem, and global level taken into account?

- Yes, the bank takes all cumulative impacts into account in either the EIA or other feasibility study.

- If so, these impacts are included in which reports?

- No, the bank does not take cumulative impacts into account in either the EIA or other feasibility study.

- If no, which impacts are taken into consideration?

7. Are alternatives to the project, including the design, location, demand, and proposal of activity, included in either the EIA or other feasibility studies?

- Yes, alternatives are included in the EIA/feasibility study.
- No, alternatives are not included in the EIA/feasibility study.

8. Are mitigation measures for each main impact identified?

- Yes, borrowers are required to include proposals for mitigation measures.
- No, borrowers are not required to include proposals for mitigation measures.

9. Are sustainability measures considered, such as the effect of depleted non-renewable resources, exceeding the regenerative and assimilative capacity of renewable resources and reduction of biological diversity, and the consideration of relevant international agreements?

- Yes, the bank requires that sustainability measures are required.

- If yes, which ones are considered?

- No, the bank does not require that sustainability measures are considered.

10. Does the bank require the borrower to disclose the EIA within 30 days of its submission to the lender and government agencies?

- Yes, the bank requires EIA disclosure within 30 days of submission.

- No, the bank does not require EIA disclosure within 30 days of submission.
11. Does the bank require additional environmental assessment work, such as public consultations, if inadequacies are found in the EIA?
- Yes, the bank does require the borrower to conduct additional environmental and social assessment work if inadequacies are found in the EIA.
  - No, the bank does not require the borrower to conduct additional environmental and social assessment work if inadequacies are found in the EIA.
12. Is the bank subject to national regulations or laws which require the disclosure of the EIA to the public?
- Yes, the bank is subject to national regulations and laws requiring the disclosure of the EIA to the public.
    - These laws and regulations include:
  - No, the bank is not subject to national regulations and laws requiring the disclosure of the EIA to the public.

## Community Consultation Process

The government, borrower, or third party expert should hold public consultations and incorporate the concerns of affected communities into the environmental impact assessment (EIA). A key principle of consultations should be free, prior, informed consent (FPIC), a framework “meant to allow for indigenous peoples to reach consensus and make decisions according to their customary systems of decision-making”.

13. Does the bank require the borrower to incorporate FPIC into all key decision making points of a project, from the project concept, feasibility, construction, operations, and decommissioning stages?
- Yes, the bank requires the borrower to incorporate FPIC into all key decision making points of a project.
  - No, the bank does not require the borrower to incorporate FPIC into all key decision making points of a project.
14. Does the bank require the borrower to ensure that communities are provided with adequate information of the scope, benefits and impacts of the project?
- Yes, the bank requires borrowers to ensure communities are provided with all adequate information.
  - No, the bank does not require borrowers to ensure communities are provided with all adequate information.

15. Does the bank require the borrower to include the design of a grievance mechanism in feasibility studies, in consultation of the affected communities?

- Yes, the bank requires the borrower to include the design of a grievance mechanism.
- No, the bank does not require the borrower to include the design of a grievance mechanism.

16. Does the bank require borrowers to notify communities of any construction activities or changes in advance?

- Yes, the bank requires borrowers to notify communities in advance.
  - If yes, how long in advance?

- No, the bank does not require borrowers to notify communities in advance.

17. Does the bank publicly disclose lending decisions at least 120 days in advance?

- Yes, the bank publicly disclose lending decisions at least 120 days in advance.
- No, the bank does not publicly disclose lending decisions at least 120 days in advance.
  - If no, does the bank publicly disclose lending decisions within another timeframe?

## Environmental and Social Compliance Incorporated into Loan Covenants

18. Can the bank block a loan application based on environmental reasons alone?

- Yes, the bank can block a loan application based on environmental reasons alone.
- No, the bank cannot block a loan application based on environmental reasons alone.

19. Does the bank link environmental and social compliance into loan covenants?

- Yes, the bank link environmental and social compliance into loan covenants.
- No, the bank does not link environmental and social compliance into loan covenants.



20. Are there financial penalties or consequences for borrowers who fail to comply with environmental and social requirements, as stipulated in loan covenants?

Yes.

▪ What measures can a bank take for clients who do not comply with E&S obligations?

No, there are no financial penalties or consequences for borrowers.

21. Does the bank require clients to obtain third party assurance on E&S performance?

Yes, the bank requires third party verification.

No, the bank does not require third party verification.

## Transparency Initiatives

22. Does the bank have an institutional transparency policy?

Yes, the bank has an institutional transparency policy.

▪ What is the bank's transparency policy? Please include below or attach to this survey.

No, the bank does not have an institutional transparency policy.

23. Does the bank provide public information on all financial transactions, including projects which were approved, declined, and approved with exceptions?

Yes, the bank provides publicly accessible information on all financial transactions.

▪ If so, please specify where this information can be found.

- No, the bank does not provide publicly accessible information on all financial transactions.

24. Does the bank disclose information on a client's E&S compliance and what actions the client must do to fulfill or complete it?

- Yes, the bank discloses a client's compliance and necessary actions.
  - If so, please specify where this information can be found.

- No, the bank does not disclose a client's compliance and necessary actions.

25. Does the bank require the disclosure of environmental and social loan clauses in loan covenants publicly available?

- Yes, the bank requires the public disclosure of E&S loan clauses.
  - If so, please indicate where this information can be found.

- No, the bank does not require the public disclosure of E&S loan clauses.

## Compliance and Accountability Mechanisms

We define accountability mechanisms as an office or team within an institution that is responsible for resolving disputes or ensuring compliance; these mechanisms “may resolve the dispute formally or informally, and ... use a variety of tools to resolve the dispute, including investigations or formal legal proceedings”.

26. Has the bank established any accountability mechanisms?

- Yes, the bank has established its own accountability mechanism.
  - What are the accountability mechanisms?

- No, the bank has not established any accountability mechanisms.

27. Does the bank have a process for receiving complaints about their clients?

- Yes, the bank has a process for receiving complaints about their clients.
  - What is this process?

- No, the bank does not have a process for receiving complaints about their clients.

28. Does the bank require its client to establish a grievance mechanism on the project level if necessary?

- Yes, the bank requires its client to establish a grievance mechanism on the project level if necessary.
- No, the bank does not require the establishment of a grievance mechanism.
  - Does the bank require clients to publicly disclose the existence and efficacy of such grievance mechanisms?

- Yes, the bank requires clients to publicly disclose the existence and efficacy of grievances mechanism.
  - If so, where can this information be found?

- No, the bank does not require clients to publicly disclose the existence or efficacy of grievance mechanism.

29. Does the bank require a final review from the borrower to assess the overall impact on society and the environment?

- Yes, the bank requires a final review from the borrower to assess the overall impact on society and environment.

- No, the bank does not require a final review from the borrower to assess the overall impact on society and environment.

30. Does the bank require the submission of yearly monitoring reports, including examining compliance with loan covenants, to be done by a third party?

- Yes, the bank requires the submission of post loan monitoring reports.
  - Are these required to be conducted by a third party?

- No, the bank does not require the submission of post loan monitoring reports.

Are there any other comments or feedback you would like to provide regarding your institution's environmental and social policy framework? Please provide it below.

***THANK YOU!***

# Appendix II

## Environmental and Social Policy Bank Survey

NAME:

TITLE:

FINANCIAL INSTITUTION: **China Export Import Bank**

We selected the following indicators to reflect how and to what extent a banking institution has established and operationalized environmental and social principles into their lending process. These include:

- \* Overarching Environmental and Social Policy
- \* Required Reporting and Disclosure of Environmental and Social Risks
- \* Community Consultation Process
- \* Transparency Initiatives
- \* Compliance and Accountability Mechanisms

### Overarching Environmental and Social Policy

1. Has the bank developed an overarching environmental and social risk management policy?

- Yes, the bank has established a single overarching E&S policy.
- If yes, please attach the text of the policy to this survey, or include it in the box below.

- No, the bank does not have a single overarching E&S policy.
- The bank has some other E&S policies. If so, please explain below:

2. Has the bank developed sectoral policies?

Yes.

▪ If so, the bank has created sector policies on:

No, the bank does not have any sector policies.

3. Does the bank have a specific unit for overseeing and ensuring environmental and social risks?

Yes, the bank has a specific E&S unit to manage those risks.

▪ The name of this unit is: \_\_\_\_\_

No, the bank does not have a specific unit to manage those risks.

4. Does the bank have dedicated staff to review and assess environmental and social risks?

Yes.

▪ If so, how many staff? \_\_\_\_\_

No.

▪ If so, is the bank planning on hiring E&S staff? \_\_\_\_\_

## Required Reporting and Disclosure of Environmental and Social Risks

5. Does the bank require the borrower to include all relevant impacts, including land use, social, cultural, economic, health, and safety effects, either in the EIA or other feasibility study?

Yes, the bank requires the borrower to include all relevant impacts in the EIA or other mandatory feasibility study.

No, the bank does not require the EIA or other feasibility study to include all relevant impacts.

▪ If not, which impacts are required to be assessed?

6. Are cumulative effects and changes on the nearby area, local ecosystem, and global level taken into account?

- Yes, the bank takes all cumulative impacts into account in either the EIA or other feasibility study.
  - If so, these impacts are included in which reports?

- No, the bank does not take cumulative impacts into account in either the EIA or other feasibility study.
  - If no, which impacts are taken into consideration?

7. Are alternatives to the project, including the design, location, demand, and proposal of activity, included in either the EIA or other feasibility studies?

- Yes, alternatives are included in the EIA/feasibility study.
- No, alternatives are not included in the EIA/feasibility study.

8. Are mitigation measures for each main impact identified?

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- No, the bank does not require the submission of post loan monitoring reports.

## Conclusion

Are there any other comments or feedback you would like to provide regarding your institution's environmental and social policy framework? Please provide it below.

***Thank you!***







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