INVESTING IN A GREEN BELT AND ROAD?

ASSESSING THE IMPLEMENTATION OF CHINA'S GREEN CREDIT GUIDELINES ABROAD

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ACRONYMS

BRI	Belt and Road Initiative
BOC	Bank of China
CDB	China Development Bank
CBRC	China Banking Regulatory Comission
China Exim Bank	China Export-Import Bank
EIA	Environmental Impact Assessment
ESIA	Environmental Impact Social Assessment
GCG	Green Credit Guidelines
ICBC	Industrial and Commercial Bank of China
IFC	International Finance Corporation
KPI	Key Performance Indicator
MEP	Ministry of Environmental Protection
MOFCOM	Ministry of Commerce
UNESCO	United Nations Educational, Scientific, and Cultural Organization
WB	World Bank

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EXECUTIVE SUMMARY

In 2012, China's Green Credit Guidelines (GCG) set a precedent in the world of sustainable finance by obligating banks to comply with host country law and international norms in their overseas lending. Five years since its publication, the GCG still stands as one of the most progressive and interesting examples of a sustainable finance policy in the world.

Since then, however, consistent and effective implementation remains a key challenge in realizing the full potential of the GCG. This report evaluates Chinese banks' implementation of the GCG in overseas investments based on the China Banking Regulatory Commission's recently published Key Performance Indicators for green credit. This study is the first of its kind to consider the efficacy of the KPIs in assessing and improving the environmental and social performance of Chinese overseas investments.

In light of China's wide-reaching Belt and Road Initiative (BRI), case studies are selected from BRI related countries, including Afghanistan, Indonesia, Kenya, Russia, India, and Sri Lanka. These examples span across the pulp and paper, mining, energy, and infrastructure sectors.

Key findings of this report are:

- Similar to the findings of a 2014 study published by Friends of the Earth US[i], Chinese banks still struggle to comply with host country laws and regulations, let alone international norms and standards. Of particular concern are international norms related to banks requiring high quality environmental and social impact assessments from their clients, in addition to ensuring that public consultations are conducted based on Free, Prior and Informed Consent.
- Chinese banks continue to have weak channels of communication and engagement with the public and local stakeholders, which significantly undermine the implementation of the Guidelines.
- The CBRC's publication of the Key Performance Indicators (KPIs) is a positive first step in promoting better implementation of the GCGs; however, some KPIs (i.e. relating to international practices and norms, and resolving local conflicts) remain under-developed in regards to advancing the spirit and objectives of the Guidelines.
- As currently written, the KPIs miss an opportunity to serve as a valuable tool in the global fight against climate change. In particular, KPIs should promote one of the international banking sector's leading climate-related financing norms: curbing coal sector financing.
- Better bank-level and project-level disclosure, including requiring that banks publicly disclose their KPI self-assessments, would promote stronger implementation of the Guidelines and thus better environmental and social risk management by banks.
- In developing countries, Chinese banks should better use the GCG as a means to screen and assess how environmental and social risks may in fact undermine the financial viability and feasibility of a project, especially in the infrastructure sector.

INTRODUCTION

As early as 2007, the China Banking Regulatory Commission (CBRC) began promulgating policies to align the activities of the financial sector with the country's domestic environmental objectives. In 2012, the CBRC intensified these efforts by upgrading, expanding, and internationalizing one of its most progressive sustainable finance policies, the Green Credit Guidelines (GCG). The policy calls on banks to "strengthen the environmental and social risk management for overseas projects to which credit will be granted[,] and make sure project sponsors abide by applicable laws and regulations".

Furthermore, Article 21 of the Guidelines uniquely obligates banks to follow "appropriate international practices or international norms ...as far as such overseas projects are concerned, so as to ensure alignment with good international practices"[ii]. The inclusion of Article 21 marked a new high point in the realm of sustainable finance, as no other country has published national policies regulating a bank's environmental and social impacts abroad. Article 21 states:

> *Banking institutions shall strengthen the environmental and social risk management for overseas projects to which credit will be granted and make sure project sponsors abide by applicable laws and regulations on environmental protection, land, health, safety, etc. of the country or jurisdiction where the project is located. The banking institutions shall make promise in public that appropriate international practices or international norms will be followed as far as such overseas projects are concerned, so as to ensure alignment with good international practices.*

However, implementing the GCG has proven challenging. Two years after the launch of the GCG, Friends of the Earth US published *Going Out, But Going Green? Assessing the Implementation of China's Green Credit Guidelines Overseas* (2014). Based on an analysis of seven case studies, the report found that there was limited evidence that Chinese banks were actively implementing Article 21. These findings were echoed by the Independent Expert on the Effects of Foreign Debt (part of the United Nations High Commissioner for Human Rights) who raised concerns regarding the increasing environmental, social, and human rights impacts of Chinese overseas investment. The United Nations Independent Expert noted that, "The Green Credit Guidelines provide an opportunity to enhance respect for human rights in Chinese project financing and foreign investment. The Independent Expert is nonetheless concerned about the implementation of the Guidelines by Chinese banking institutions in overseas projects given that the mechanisms for monitoring and enforcing compliance still appear to be weak"[iii].

In addressing this challenge, in 2014 the CBRC began requiring Chinese banks to submit to bank regulators a self-evaluation based on "Key Performance Indicators for Implementing Green Credit". The Key Performance Indicators (KPIs) aim to provide more detailed guidance to banks by encouraging them to incorporate "the green credit concept into banking operations, increase the awareness of extending green credit to boost the ecological development, actively develop innovative green financial products, and give more support to green economy, circular economy and low-carbon economy"[iv].

KPIs were developed for each relevant article of the GCG. For instance, the overseas component of the GCG, Article 21, has five KPIs which are used to measure green credit implementation.

With the publication of the KPIs, banks must provide a self-evaluation regarding whether they met, barely met, or failed to meet KPIs for each article of the GCG, and they also are required to submit these self-evaluations to bank regulators each year[v]. However, these self-evaluations are not publicly disclosed, and are designed to reflect broad, institutional compliance, rather than project level compliance.

SCOPE AND METHODOLOGY

As the KPIs have been in effect for three years now, the objective of this report is to evaluate Chinese banks' compliance to the overseas components of the GCG based on official KPI metrics. The report uses the five KPI metrics developed for Article 21 as the basis for evaluation. In doing so, the report hopes to shed light on current challenges facing Chinese banks abroad, and shares observations on the efficacy of the KPIs in accurately measuring the environmental and social performance of overseas Chinese bank investments. Ultimately, we hope that this research can serve to further strengthen GCG implementation, especially as Chinese banks accelerate their investments in Belt and Road countries.

Part 1 of the report examines case studies from the pulp and paper, infrastructure, mining, energy, coal, and transportation sectors. Geographically, the projects span across Indonesia, Sri Lanka, Afghanistan, Kenya, India, and Russia. In this first section, the report includes information on each case study's general background, financing, environmental and social impacts, and level of compliance with host country and international standards, which is the core obligation of Article 21.

We specifically selected these case studies in light of China's Belt and Road Initiative, which called on Chinese industries and businesses to invest in economic corridors linking China to Central Asia, Southeast Asia, the Middle East, Africa, and Europe. Although it is beyond the scope of this report to comprehensively assess all Chinese overseas investments, or even those in the BRI region[vi], the ability of Chinese banks to implement robust, measurable green credit practices on a project level carries, we believe, significant implications for helping Chinese banks to manage environmental, social, and political risks in Belt and Road investments.

Part 2 examines each of the five official KPIs for Article 21, which aims to ensure that banks have strong internal processes and capabilities to understand overseas environmental and social issues. For each indicator, we look at bank implementation in the seven case studies and use the KPIs as our primary metric of bank performance.

In this report, we directly reproduce the compliance categories from the original KPI documents. Our only revision to the official KPIs was substituting the "N/A" column with an "Unclear" Column. The "Unclear" category was needed as we were at times unable to adequately assess KPIs based on publicly available information.

Our evaluation is then followed by Part 3, which discusses the opportunities and limitations of the KPIs themselves in promoting and measuring green credit implementation.

Finally, our report concludes with a final discussion of key findings and policy recommendations for Chinese banks and policy makers.

Article 21 KPIs					
Article	**Core Indicator**	**Meet**	**Barely Meet**	**Fail to Meet**	**Unclear*** *Column added due to lack of publicly available information*
21.1	The banking institutions shall ensure the staff conducting overseas project financing acquire sufficient knowledge of law and regulations in the host countries concerning environmental protection, land, safety and health and gain sufficient experience of the environmental and social risk management in overseas projects. Where necessary, with the experts' support, the bank shall make appropriate judgment to the environmental and social risk management of the projects to be granted credit, and the risk management willingness and capacity of the project initiator.				
21.2	The banking institutions shall implement whole procedure management to the environmental and social risks of projects to be granted credit.				
21.3	The banking institutions shall make promise in public that appropriate international practices or international norms will be followed as far as such overseas projects are concerned, such as:				
	-- Make promise to adopt "Equator Principles";				
	-- Sign and join the "Global Compact" initiated by the United Nations;				
	-- Sign and join the United Nations Environment Programme Finance Initiative (UNEP FI)				
21.4	The banking institutions shall make in-depth understanding of international best practice of the assessment and control of environmental and social risks for international financing projects and ensure alignment with good international practices in essence.				
21.5	The banking institutions shall hire qualified and independent third-party to make assessment and examination of environmental and social risks to the overseas financing projects which arouse disputes in terms of their said risks.				

Source: "Notice of the China Banking Regulatory Commission on Key Performance Indicators of Green Credit Implementation", China Banking Regulatory Commission General Office, June 27, 2014. http://www.cbrc.gov.cn/EngdocView.do?docID=C5EAF470E0B34E56B2546476132CCC56

The Significance of Chapter 4 of the Green Credit Guidelines

KPI 21.2 requires that banks "implement whole procedure management to the environmental and social risks of projects to be granted credit". This is in reference to Chapter 4 of the Green Credit Guidelines, which includes Articles 15 – 21. Importantly, the reference to Chapter 4 confirms that Chinese bank regulators expect Chinese banks to use the same environmental and social risk procedural management process for both domestic and overseas loans. Prior to the publication of the KPIs, it was unclear if GCG risk management processes equally applied to Chinese banks' overseas investments.

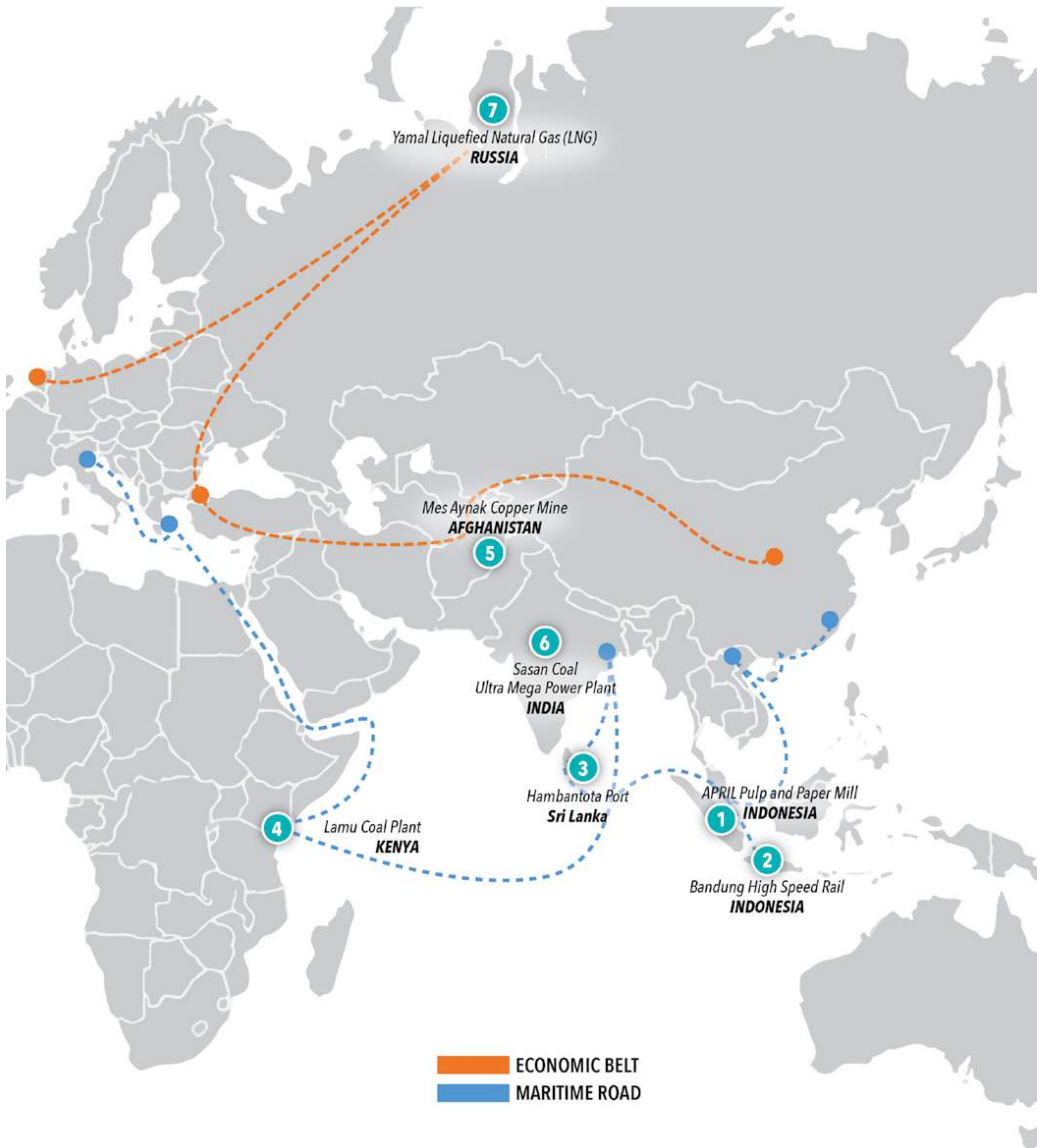
Chapter 4 of the Green Credit Guidelines sets out Chinese bank regulatory expectations regarding how banks should manage environmental and social issues in the loan management process. These include conducting due diligence, examining client compliance to relevant environmental and social requirements, assessing environmental and social risks, examining the environmental records of clients, and conducting post-loan management. It also obligates banks to suspend or terminate financing where "major risks or hazards are identified" (Article 19).

Where possible, this report attempts to reference Articles 15-21's KPIs in evaluating the environmental and social performance of a project. However, due to a lack of publicly available information, we are unable to fully assess case studies based on KPI metrics for Articles 15-20.

PART I:
CASE STUDIES

- **APRIL Pulp and Paper Mill, Indonesia**
- **Hambantota Port, Sri Lanka**
- **Jakarta-Bandung High Speed Rail Project, Indonesia**
- **Lamu Coal Plant, Kenya**
- **Mes Aynak Copper Mine, Afghanistan**
- **Sasan Coal Ultra Mega Power Plant, India**
- **Yamal Liquid Natural Gas Export, Russia**

MAP OF CASE STUDIES



The Belt and Road Initiative (BRI) is a national Chinese initiative calling for increased economic and political cooperation via an economic "belt" and maritime "road" between China and the Eurasian continent. The initiative was proposed as a long-term development strategy by the Central Committee of the Communist Party in China and calls for the country's business, industrial, and financial sectors to invest abroad and deepen China's integration with the world. According to the Belt and Road Progress Research Team at Renmin University, Chinese policy banks will play a pivotal role in serving "as the backbone for financial cooperation", with "domestic commercial banks serv[ing] as the follow up driver for commercial cooperation". Chinese academics have characterized BRI as "China's grand strategy of deepening its reform and opening up as well as practicing its ideas of win-win cooperation"[vii]. Projects included in this report are highlighted in the map above.

Located in Sumatra, the Kampar Peninsula is a key conservation site for the Sumatran tiger. However, APRIL pulp and paper plantations are directly contributing to ongoing habitat loss. In Riau province, peatland destruction caused by APRIL plantations have also led to the loss of traditionally owned forests and livelihoods of local communities.

APRIL Pulp and Paper Mills, Indonesia

Background

Asia Pacific Resources Limited (APRIL) is a member of the conglomerate RGE Group, founded and controlled by billionaire tycoon Sukanto Tanoto, who has been found guilty of tax evasion in Indonesia[viii]. APRIL is a major concession holder on the Kampar Peninsula, which is located on the island of Sumatra[ix]. Its Pangkalan Kerinci operations on the Kampar Peninsula are capable of producing 2.8 million tons of pulp and 850,000 tons of paper annually[x].

The Kampar Peninsula contains the largest and thickest deposit of peatland in Indonesia[xi,xii]. Spanning across approximately 700,000 hectares, the area consists of mostly peat swamp forests which are valued for their vital role in storing carbon and regulating climate change. Collectively, APRIL and its subsidiaries manage more than 265,000 hectares of the region[xiii]. APRIL subsidiaries include PT Riau Andalan Pulp & Paper (RAPP), PT Riau Andalan Pulp & Paper (Riaupulp) and PT Riau Andalan Kertas.

Since the establishment of its first mill in 1993, APRIL has long attracted controversy for the adverse impacts of its mills and plantations. In response to intense international outcry, APRIL published its first Sustainability Report in 2003. In 2005, the company further announced they would voluntarily use High Conservation Value assessments[xiv] in land use planning for its concessions. In turning a new leaf, APRIL signed the Principles of the UN Global Compact and has become a member of various forestry standards and certification programs[xv]. In May 2015, APRIL further committed to a new sustainability policy[xvi]. However, APRIL continues to struggle in resolving social conflicts, managing peatlands, and complying with Indonesian laws.

Project Financing

APRIL has received loans from nine Chinese banks:

- Ping An Bank provided a corporate loan of 130 million USD
- Industrial and Commercial Bank of China (ICBC) provided a corporate loan of 100 million USD and project finance debt of 1.8 billion RMB
- China Development Bank provided two corporate loans totaling $800 million USD
- China CITIC Bank provided four corporate loans totaling $713 million USD
- Bank of China provided $253 million USD in corporate loans and $1.8 billion RMB in project finance
- Agricultural Bank of China provided $1.8 billion RMB in project finance
- China Construction Bank provided $1.8 billion RMB in project finance
- Bank of Communications provided a corporate loan of $53 million USD
- Shanghai Pudong Development Bank provided a corporate loan of $53 million USD[xvii]

Summary of Environmental and Social Impacts

Destruction of peatlands	Peatlands function as important storage sinks for carbon and other greenhouse gas emissions such as methane, and their destruction has been shown to accelerate climate change[xviii,xix]. APRIL and its suppliers have repeatedly been shown to have illegally destroyed peatlands; in 2016, the Indonesian government placed sanctions and froze two super concessions because of APRIL's role in massive peat fires[xx]. The company has also been investigated for its role in starting illegal forest fires[xxi]. Furthermore, APRIL has violated its own sustainability policies[xxii] by illegally converting forest land into acacia plantations and creating drainage canals in peatlands[xxiii]. The string of illegal activity eventually led to the suspension of APRIL's NGO partnership with the World Wildlife Federation and Greenpeace[xxiv], with APRIL eventually apologizing for "an erosion of trust" with NGO stakeholders[xxv].
Biodiversity	The Kampar Peninsula is a key conservation site for endangered species such as the Sumatran tiger. It is a "Regional Priority Tiger Conservation Landscape" for the conservation of Sumatran tigers, whose population has dipped to 400-500 due to habitat loss and deforestation[xxvi]. According to a study published by Wildlife Conservation Society, World Wildlife Federation, and the Smithsonian National Zoological Park, Riau province should be considered as one of the "highest priority places in the world for conservation of extant tiger populations"[xxvii]. In addition to tigers, pulp and paper production has directly contributed to the loss of other biodiversity, such as elephants and orangutans[xxviii].
Climate Change	The draining or burning of peatlands is responsible for up to five percent of anthropogenic carbon emissions in the world, and in Indonesia, "the worst days of the peat forest fires resulted in emissions greater than the daily emissions from the entire United States economy"[xxix]. In 2014, forest fires in Riau province were responsible for 52% of fire alerts in the whole country[xxx]. In 2016, Riau province continued to be the source of roughly half of all forest fires in Indonesia[xxxi]. With the importance of peatlands increasingly recognized globally[xxxii], in December 2016 Indonesian President Joko Widodo placed a moratorium banning any activities which damage or drain peatlands[xxxiii]. Furthermore, protecting peatlands and primary forests plays a critical role in allowing Indonesia to meet its Intended Nationally Determined Contribution (INDC)[xxxiv]. As referenced earlier, APRIL has been repeatedly linked to peatlands destruction.
Loss of traditionally owned forest, livelihood, and land	The clearance of peatlands in Riau province has caused long-standing social conflicts over the loss of traditionally owned forest and land. The international and Indonesian NGO coalition Eyes on the Forest has continuously documented numerous social conflicts over forest clearance and communities' land rights[xxxv]. Findings show that local communities have continuously reported that APRIL and its subsidiaries repeatedly cleared natural forest on traditionally owned land, thus compromising their ability to sustain local livelihoods while causing a host of human rights violations[xxxvi,xxxvii].

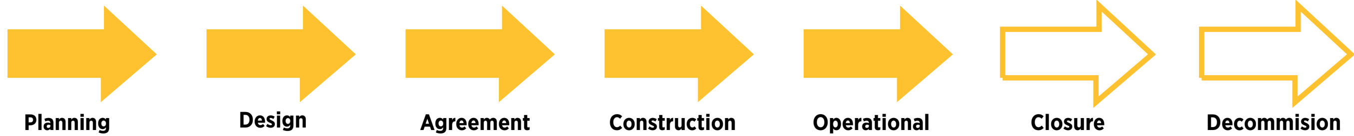
Assesing Compliance

Host Country Law and Regulations	Since 2009, APRIL has repeatedly cleared peat soil, thus violating Government Regulation 26 of 2008. This law requires that peatlands which have a peat depth of three meters and are located upstream should be protected and designated as a "National Protection Area". However, APRIL did not take the appropriate measures to protect such peatlands in Riau province. A subsequent law passed in 2016, Government Regulation 57 of 2016, further requires that peatlands be protected. According to the Environmental Paper Network, "PT. RAPP keeps draining the peat with canals in order to plant acacia, leading to massive erosion. A research done by JMGR together with one University in Riau found that in the depth of peat of Pulau Padang assessed subsidence to 9-10 cm / year. This mean the entire island of Pulau Padang, its ecosystems and its communities may disappear" [xxxviii].

<table>
<tr><td rowspan="3">Host Country Law and Regulations</td><td>Any fires on company-owned concessions are the responsibility of the concession holder; as such, the concession holder must take steps to adequately prevent and manage fires under Indonesian law per Article 49 of Law 41 of 1999[xxxix]. Because of the high rates of unmanaged fires in Riau province, NGOs have collected first hand documentation that APRIL has not adequately fulfilled this legal obligation[xl]. Furthermore, Articles 47, 60, 67, 68, and 70 codify communities' rights to utilize the forest and forest produce, be made aware of forest designation plans, offer information or suggestions regarding forestry development, and supervise the implementation of forestry development, whether directly or indirectly[xli]. However, affected communities are unable to exercise these rights in APRIL concessions and have reported being assaulted or even beaten by company staff[xlii]. In the most extreme effort to suspend APRIL subsidiary PT RPAP's operations, 28 Indonesians protested by sewing their mouths shut and initiating a hunger strike in 2012[xliii].</td></tr>
<tr><td>Article 76 of Law No. 6 of 2014 on Villages allows local communities to manage its own village resources, including forests[xliv]. Environmental watchdogs have documented how at least one APRIL concession was not obtained in accordance with this law, nor did the company allow communities their rights to utilize the forest for their livelihood[xlv]. As a result, local communities repeatedly urged local and national government to oppose the concession, sending multiple petitions, issuing several community statements which rejected the company's operation, and filing lawsuits[xlvi].</td></tr>
<tr><td>Law No. 20 of 2001 on the Eradication of the Criminal Act of Corruption and its amendment Law No. 20/2001 prohibits and penalizes corruption (per Article 12.5)[xlvii]. Civil society organizations, such as environmental watchdog network WALHI, have long documented how APRIL "knowingly pulped natural forest wood from concessions whose licenses were issued through corrupt practices"[xlviii].</td></tr>
<tr><td rowspan="2">International Norms and Best Practices</td><td>In operating concessions located on land owned by indigenous peoples[xlix], APRIL failed to conduct meaningful consultations with affected communities under the international best practice of Free, Prior, Informed Consent (FPIC). FPIC is codified under the United Nations Declaration on the Rights of Indigenous Peoples, of which China and Indonesia voted in favor for[l]. NGOs have documented APRIL's longstanding abuse of local communities, which includes violence and intimidation[li]. Local communities have repeatedly stated their rejection of APRIL operations, protesting the company's failure to uphold stated commitments and respect community rights[lii]. International and Indonesian NGOs have in the past raised concerns regarding the failure of Chinese banks to employ FPIC in their APRIL investments[liii].</td></tr>
<tr><td>China Development Bank (CDB), Ping An Bank, and ICBC have signed on to the United Nations Environmental Programme Finance Initiative (UNEP FI) Statement of Commitment by Financial Institutions on Sustainable Development as members of UNEP FI. The statement publicly commits financial institutions to take a "precautionary approach" and "compl[y] with all applicable local, national, and international environmental regulations applicable to our operations and business services"[liv]. It also commits banks to "foster openness and dialogue relating to environmental matters with relevant audiences"[lv]. However, APRIL's extremely inconsistent environmental and social performance reflects a fundamental failure on the part of banks to successfully observe this international commitment.</td></tr>
</table>

The Hambantota Port is located less than 40 km away from Bundala National Park, the country's first RAMSAR site. The region is known as an important stopover for migratory birds like the Greater Flamingo. Local environmental groups, such as Center for Environmental Justice, have voiced concerns that the Hambantota Port caused the destruction of the Karagan Levava Lagoon, an "important refuge" for migratory birds according to Sri Lankan government documents.

Hambantota Port, Sri Lanka



Background

Known for wildlife sanctuaries, nature reserves, and unspoiled beaches, Hambantota is a small town located on the southern tip of Sri Lanka. In 2002, the Sri Lankan government announced plans to develop the region into an international industrial and commercial hub despite there being no local demand for such projects[lvi]. The plan originated from former Sri Lankan President Mahinda Rajapaksa's vision of transforming his hometown into the country's second most prestigious city through the construction of several large infrastructure projects[lvii].

HAMBANTOTA PORT

N

Elephant Corridor

Bundala National Park

Hambanthota Port

Bundala National Park
Elephant Corridor

SRI LANKA

Located at the southern tip of Sri Lanka, the Hambantota Port has failed to generate a profit since becoming operational in 2010. In addition to the lack of financial return on the project, the port has led to significant environmental and social impacts, such as the destruction of the Karagan Levava Lagoon, an important wetland refuge for migratory birds, and the resettlement of hundreds of families, many of which were forced to relocate to an area with poorly constructed or installed infrastructure such as roads, drains, and pipes. Moreover, the port's close proximity to the country's first RAMSAR site, Bundala National Park, and an active elephant corridor has led Sri Lankan groups, such as Center for Environment and Justice, to question the port's long term impact on local wildlife and wetland ecosystems.

One of these projects is the Hambantota Port which became operational in 2010. Although there was at the time legitimate need to relieve congestion at Sri Lanka's largest and busiest port (Colombo Port), the Hambantota Port is extremely under-utilized due to the continued lack of local demand[lviii]. For instance, only six ships docked at the port in 2011, and in 2013, there were less than 100 ships[lix]. In an attempt to boost the port's traffic and profitability, the Sri Lanka Port Authority began redirecting shipments of vehicles from Colombo Port to Hambantota Port. Although the decision increased port traffic, it has not improved the port's profitability[lx].

The port's unprofitability, coupled with loans from other major Chinese financed infrastructure projects, has contributed to Sri Lanka's soaring foreign debt[lxi]. Loan repayment for the infrastructure projects has become so dire that it even forced the government to take out an additional $1.5 billion loan with the International Monetary Fund to help cover the payments crisis[lxii]. In an effort to manage the severe debt crisis, the government decided to lease 80% of the port and 15,000 acres of an adjacent industrial zone to the Chinese project developers[lxiii],[lxiv], causing a wave of local protests and discontent over fears of a "Chinese colony" developing in the country[lxv]. Although the project commenced well before the announcement of the BRI, it is strategically located along sea routes to the Middle East and Africa, and is now seen as a major component of the Belt and Road's Maritime Route[lxvi].

Project Financing

China Exim financed Phase 1 and 2 of the Hambantota Port. Phase 1 cost $ 361 million USD[lxvii], and Phase 2 cost $810 million USD[lxviii].

In Phase 1, eighty five percent was financed by China Exim Bank via loans; the remainder was financed by the Sri Lanka Port Authority (SLPA)[lxix]. China Exim provided a $306 USD million loan to the Sri Lankan government with a 15 year tenor and four year grace period[lxx]. The loan agreement was signed in 2007, and construction began in 2008. Two Chinese contractors, China Harbour Engineering Company (CHEC) and Sinohydro, were hired to build the port[lxxi,lxxii].

The project was completed ahead of schedule in part to coincide with former president Rajapaksa's birthday[lxxiii]. However, opening ahead of schedule led to an inability to remove large rocks near the port mouth, as these rocks blocked large ships from entering the port. This required Chinese contractors to resort to underwater blasting of rock, forcing the SLPA to take an additional $82 million USD loan from China in order to remove the rock without damaging existing infrastructure[lxxiv]. Consequently, the increased cost of materials raised the total cost of construction to $145 million USD[lxxv]. The final cost has not yet been calculated, but according to Sri Lankan officials, in the "worst case[,] Phase I total cost may be US$ 508 million"[lxxvi].

Despite the high price tag of Phase 1 and lack of port traffic, in 2015 the Sri Lankan government decided to expand the Hambantota Port, with China Exim Bank again financing it. Through a government concessional loan, China Exim Bank bankrolled the second phase of the $808 million USD project, which included plans for a main container berth, a multi-purpose berth, two feeder container terminals, transition berth, new oil terminal and yard area, an artificial island of 50 hectares, and a 60 hectares yard adjacent to the quay wall[lxxvii].

Controversially, China Communications Construction Company (CCCC) and China Merchants Group were given exclusive operating rights to an industrial zone and four berths for a period of 35 years. The companies will have majority control with 53 per cent of shares, while the SLPA would retain 47% equity in the port[lxxviii]. In particular, Chinese ownership of the port and industrial zone has stoked local fears that China plans to relocate its domestic, polluting factories overseas to Sri Lanka[lxxix]. In January 2017, the controversial deal sparked violent protests during its opening ceremony, drawing hundreds of people and injuring several[lxxx].

Although the project still remains unprofitable, the government has raised the possibility of a third phase of port expansion in order to add a container oil terminal and additional berths and oil wharfs[lxxxi].

Summary of Environmental and Social Impacts

Wildlife Impacts	The Hambantota Port is located less than 40 km away from Bundala National Park, a nature reserve spanning 6216 hectares. It is one of the country's most important wetland sanctuaries and home to 32 mammal species, including leopards, spotted deer, and civet cats. In 1991, UNESCO designated the park as the country's first Ramsar site for its international significance in migratory waterfowl and wetland conservation[lxxxii]. Because the port is located near the national park, Sri Lankan environmental groups like Center for Environmental Justice have raised concerns that the EIA did not sufficiently study the port's potential impacts on wildlife[lxxxiii]. In particular, it did not account for impacts on the Karagan Levava lagoon, an important wetland ecosystem for migratory birds[lxxxiv].
Dredging	Furthermore, siting the Hambantota Port within the naturally existing Karagan Levava lagoon essentially destroyed the lagoon and its wetland ecosystem, as the port construction required dredging 40,000 cubic meters from the lagoon[lxxxv]. The destruction of the Karagan Levava lagoon is especially concerning since wetlands are considered to be one of the country's most valuable wildlife habitats[lxxxvi]. In particular, the Sri Lankan government has noted that the Karagan Levava lagoon was an "important refuge" for migratory birds, in addition to being an elephant corridor connecting the nearby Bundala, Lunugamvehera and Udawalawe National Parks[lxxxvii].
Resettlement	The Hambantota Port required the relocation of 270 families[lxxxviii]. The relocation process was controversial for offering below market compensation amounts, and for assigning communities to Siribopura, an arid, inhospitable area where basic infrastructure such as roads, drains, and pipes were incorrectly installed or constructed. In Siribopura, resettled families fear herds of wild elephants, which have already damaged or destroyed houses. According to one report, "it would be suicidal to live there" without an electric fence, of which there are none[lxxxix].

Assessing Compliance

Host Country Law and Regulations	The **National Environmental Act, No. 47 of 1980** establishes rules regarding conducting and soliciting public feedback on EIAs, of which the construction of ports and harbors are included[xc]. However, the port project did not adequately allow for public feedback on the EIA because no in-person consultations were conducted, as required by this law.
	According to the **Land Acquisition Act No. 9 of 1950**, compensation to resettled land owners must be calculated based on market value[xci]. However, resettled peoples have reported that they were not compensated based on market values, as referenced earlier.
International Norms and Best Practices	The Bundala Wetlands was named as the first Ramsar site upon Sri Lanka joining the **Ramsar Convention in 1990**. Ramsar sites are selected based on "account of their international significance in terms of ecology, botany, zoology, limnology or hydrology" (Article 2.2). In 2005, it was also named as a UNESCO Biosphere in recognition as a core refuge for resident and migratory birds such as the Greater Flamingo[xcii], in addition to the endangered Sri Lankan elephant[xciii]. Ensuring the appropriate study of the port's impacts on the lagoon was especially critical since as of 2006, the lagoon's threat status was already designated as high[xciv]. By overlooking impacts on the Bundala Ramsar site and Karagan Levava lagoon, **the EIA did not identify and account for all relevant environmental impacts**, contrary to international best practices[xcv].

<table>
<tr><td rowspan="2">International Norms and Best Practices</td><td>Free, prior informed consent is codified in the United Nations Declaration on Indigenous Rights. Although originally conceptualized as a means of ensuring the rights of indigenous and forest dwelling peoples, today, it is considered best practice to apply FPIC as the basis for meaningful consultation in all projects impacting local communities[xcvi]. However, the project did not conduct public consultations based on FPIC standards[xcvii].</td></tr>
<tr><td>In cases of requiring involuntary displacement, numerous financial institutions have developed involuntary resettlement policies, such as the World Bank, IFC, Asian Development Bank, African Development Bank, and Equator Principles banks. All these institutions require that the assets of resettled communities are compensated at higher or equal value.

In the Hambantota case, however, resettled communities did not receive fair compensation for their land or houses based on market value. Moreover, the fact that communities were settled in an unsafe area under worse conditions ultimately exacerbated problems in the resettlement process.</td></tr>
</table>

Hambantota countryside

© Indi Samarajiva

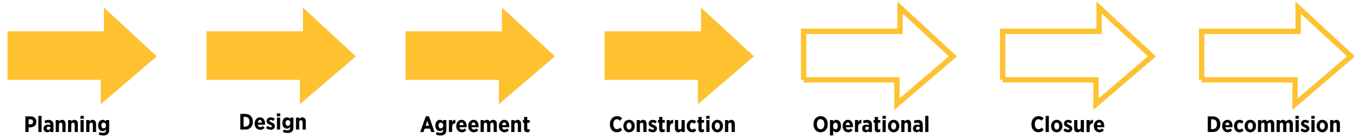
Although the Jakarta-Bandung High Speed Rail project has been touted by the government as a means to reduce traffic in Jakarta, the rail line, being designed to bring riders in and out, and not through the city, will not likely reduce traffic congestion within Jakarta.

The high speed rail line between Jakarta and Bandung has been criticized for being too high cost for too little social benefits. For instance, a train line between Jakarta and Bandung already exists. Picture below is a train station in Bandung.

The project has become extremely controversial due to its failure to comply with Indonesian laws, such as the requirement to incorporate public participation in the environmental impact assessment. Local communities living along the proposed rail line have strongly opposed the high speed rail, as it would require hundreds of households to relocate. In this picture, local communities protest the project in May 2017, calling for affordable housing rather than a high speed rail.

© Meiki Paendong

Jakarta-Bandung High Speed Rail Project, Indonesia

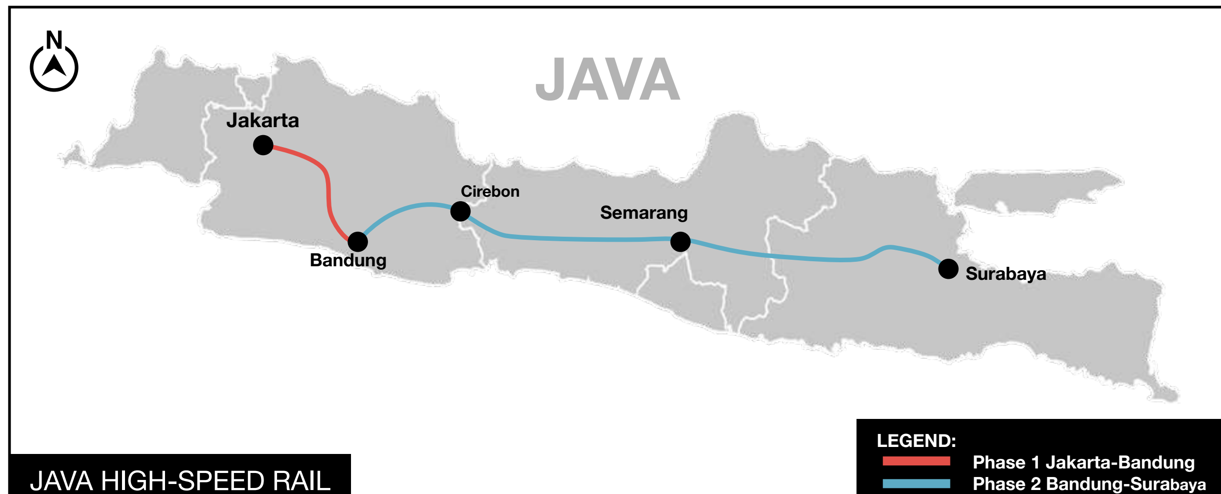


Background

The Jakarta-Bandung High Speed Rail (Bandung HSR) is a $5.5 billion USD project that will construct a 142 km bullet train between the cities of Jakarta and Bandung. Although Japan had pursued the concept of a high speed rail in Java since 2008, the contract for the project was eventually awarded to China in 2015 after an intense bidding process[xcviii].

The project is being developed by the Indonesian-Chinese consortium PT Kereta Cepat Indonesia China (KCIC). The consortium was created by state-owned China Railway International Co. Ltd (CRIC) and PT Pilar Sinergi BUMN Indonesia (PT PSBI), which is a separate joint venture led by the Indonesian construction firm, Wijaya Karya (WIKA) [xcix]. CRIC holds 40% ownership in the consortium.

The project is touted as a "landmark in the implementation of the One Belt One Road Initiative"[c], but over the past year, it has stalled due to the failure of the project sponsors delivering a spatial plan and acquiring 100% of needed land[ci]. According to one academic analysis, "China is doing more projects overseas, some of which have encountered massive problems. China now needs a model that runs smoothly and develops well. And President Xi wants the high-speed rail project to serve as this model"[cii].



Originally conceived as a route to connect the east and west sides of Java island, the rail line was ultimately shortened to connect just the cities of Jakarta and Bandung, as an early feasibility study showed that a rail line across the island would be too cost prohibitive, in part due to engineering challenges caused by the route's steep gradient of up to 30%. As a result, the project was at first cancelled by the Indonesian government in September 2015, who instead called for the development of a medium speed train between Jakarta and Bandung. However, the project was unexpectedly revived a few weeks later when China waived the requirement of a government guarantee on the project. Although initially hailed as one of the first major Belt and Road projects in Indonesia, the Jakarta-Bandung high speed rail has since become a controversial investment due to its failure to comply with Indonesian laws. Furthermore, a rail line already exists between Jakarta and Bandung and would not improve traffic in Jakarta.

In 2016, WALHI West Java, which is part of the largest environmental network in Indonesia, called on the project financier China Development Bank to cancel financing to the project due to the project's failure to comply with local laws and international standards. In a letter, WALHI West Java stated that: "The HSR project will cause environmental and social problems for the people of Indonesia, and will in turn cause Indonesians to question the 'win win' relationship the Chinese government so often seeks to cultivate in foreign countries"[ciii]. In June 2017, a second letter from WALHI was sent to China Development Bank reiterating local concerns[civ]. However, despite confirming receipt of the letters, CDB has not responded to these concerns.

Project Financing

China Development Bank (CDB) is financing 75% of the project, which is estimated to cost a total of $5.5 billion USD. CDB provided a $3.94 billion USD[cv] loan, with the remaining financing to be raised via equity by Indonesian consortium partners[cvi,cvii]. China did not require a sovereign loan guarantee from the Indonesian government[cviii].

Summary of Environmental and Social Impacts

Water, Geologic, and Agricultural Impacts	Much of the region between Jakarta and Bandung consists of community farms and rice fields. The rail line would dramatically alter land use in the region, as the project calls for the creation of a large rubber plantation in a water catchment area[cix]. The cultivation of monoculture crops like rubber[cx] will likely lead to overexploitation of local water resources, and the proposed corresponding development for cities, residential housing, or industries along the rail line will further stress local water resources by driving up demand[cxi]. The project would disrupt the water supply of the region, affecting irrigation to rice paddies in West Java; it may also lead to a rise in earthquakes and landslides, as the rail line will pass through Purwakarta, an area with numerous geological faults[cxii].
Resettlement	The HSR project will adversely impact local communities currently living along the rail route. According to the West Java chapter of WALHI, 727 farming households and 113 non-farming households currently live in the region, and with the construction of the rail line, they will likely lose their homes and farming based livelihoods. Research conducted by WALHI West Java further found that the project sponsor did not host a public consultation under FPIC (free, prior, informed consent) standards; furthermore, the majority of local communities did not wish to resettle[cxiii]. Purchasing land rights from the community has already proved to be a major barrier to the project, as CDB repeatedly delayed loan disbursement due to the slow land acquisition process[cxiv]. According to media accounts, CDB required 100% of necessary land to be acquired prior to loan disbursement[cxv].

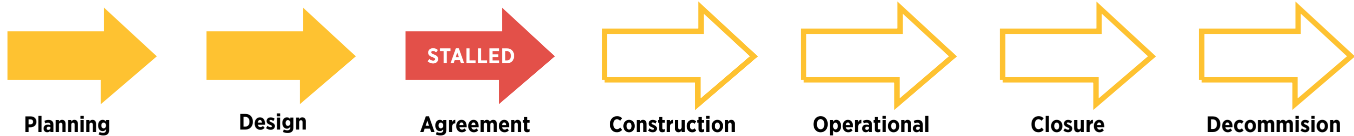
Assessing Compliance

Host Country Law and Regulations	**Country Law No. 32 of 2009,** regarding environment management and control requires that an EIA of a project this size should take at least 1-1.5 years. However, the EIA was conducted in just seven days. As a result, the EIA contains inaccurate and flawed data analysis regarding the project's actual environmental impacts. For instance, the EIA did not include analysis on cross province/district impacts, or cumulative, long term impacts on the region[cxvi]. Furthermore, adequate analysis could not possibly have been conducted in such a short period.

Host Country Law and Regulations	The **Government Regulation 27 of 2012** regarding environmental permits requires public participation in the drafting of an environmental impact assessment (EIA). The law requires project sponsors to incorporate public participation and concerns in the EIA, and that EIA documents be completed in no less than 75 days. However, this did not occur. WALHI West Java has documented that public participation and concerns were not integrated into the EIA[cxvii]. The regulation also requires that the environmental permitting process take at least 100 days so environmental authorities have adequate time to review the EIA. Although the EIA was approximately 300 pages, the environmental permit was approved in just one day, which is insufficient time to have credibly reviewed a complex document[cxviii].
	Law 26 of 2007 regarding spatial arrangement stipulates that spatial plans can only be updated or changed every five to twenty years, depending on the local government, or only in times of extraordinary circumstances such as a natural disaster. Once the project was awarded to China, however, the central Indonesian government reportedly pressured provincial and regional governments to immediately adjust their spatial plans to accommodate the Bandung HSR, overriding local authorities and rushing the local approvals process[cxix].
	Similarly, by ordering provincial, district, and municipal areas to change their spatial plans, the national government violated **Government Regulation No.15/2010** regarding spatial planning management, as only provinces, districts, and municipalities, not national government, have the authority to arrange, control, and manage local spatial planning.
	According to the **Transportation Ministerial regulation No. 43/2011** regarding the masterplan of national railways system, development of the high speed train should begin in the year 2030. However, the central government ignored this regulation and accelerated the timetable so that construction could begin in 2016[cxx].
	The HSR project consortium has demanded exclusive rail rights[cxxi], which would create a rail monopoly and thus violate **Country Law No.5/1999** about monopoly practical and unfair business dispute[cxxii].
International Norms and Best Practices	According to the International Association for Impact Assessment, **EIAs should be credible, integrative, participative, and systemic**[cxxiii]. Conducting an EIA of this size and scale cannot be credibly completed within seven days. The extremely expedited process in this case clearly falls short of international best practices for preparing a valid, high quality EIA.
	Affected communities were not consulted under **free, prior, informed consent**, which is codified under the **United Nations Declaration on the Rights of Indigenous Peoples**. Free, prior, informed consent (FPIC) aims to ensure that affected communities are provided all relevant project information in order to freely (without threat or coercion) agree or disagree to an activity before it commences. It also frames consultations with affected communities as a *process* rather than an *objective* in it of itself. In this case, local communities did not consent to the project[cxxiv].

Construction of the Lamu Coal Plant in Kenya would likely have significant impacts on Old Lamu Town, located on Lamu Island, which is a UNESCO World Heritage Site.

Lamu Coal Power Plant, Kenya



Background

The 1050 MW Lamu coal power plant is a proposed $2 billion USD project developed by Amu Power, a joint venture between Centum Investment, Gulf Energy, China Huadian Corporation Power Operation Company, Sichuan Electric Power Design and Consulting Company, and Sichuan No. 3 Power Construction Company[cxxv]. If built, the plant would be the first coal plant in the country[cxxvi],[cxxvii].

The Lamu coal plant is designed to include 3 x 350 MW units and use super-critical coal technology. It would entail the construction of a large coal terminal, as coal currently cannot be sourced locally. Approximately 3,600,000 tons of coal from South Africa, Mozambique, Indonesia, or Australia, would have to be shipped to Lamu until domestic Kenyan coal deposits in Kitui are developed[cxxviii], which according to the project's environmental social impact assessment (ESIA), "may or may not happen" in the next 5 – 10 years"[cxxix]. The project will also require the construction of a 15 km coal conveyer belt at the port, a coal stock yard, ash yard, desalination facilities, and a permanent worker compound[cxxx].

LAMU COAL PLANT

N

Lamu Coal Plant

Jipe

Hindi

Primary School

Mokowe

UNESCO

LAMU ISLAND

KENYA

The Buffer Zone for Lamu Old Town (UNESCO World Heritage Site)
Access route to the project site from Mokowe jetty
Lamu Power Plant Construction Site

Although located on the mainland, the Lamu coal plant may nonetheless impact Old Lamu Town, a UNESCO World Heritage site on Lamu Island due to negative impacts on mangroves, marine life, in addition to environmental health impacts on Lamu communities. The Lamu coal plant would also be approximately just eight kilometers from a primary school.

The ESIA describes the coal plant as part of the Lamu Port, South Sudan, Ethiopia (LAPSSET) transport corridor, a massive infrastructure initiative which aims to connect Kenya, Ethiopia, and South Sudan via railways, highways, gas pipelines, airports, and a port based in Lamu[cxxxi]. In contrast, according to local organizations such as Save Lamu and Natural Justice, Amu Power has described the power plant as a means to meet domestic electricity demand. However, Kenyan and international experts have argued that the coal plant may in fact "create unnecessary capacity" by the time it becomes operational[cxxxii].

Currently, the project has stalled due to ongoing an ongoing lawsuit and a legal complaint being filed against the project at the National Environmental Tribunal and High Court of Kenya, respectively.

Project Financing

Industrial and Commercial Bank of China (ICBC) is arranging 900 million USD in export credit financing to two Chinese contractors, Power Construction Corporation of China (PowerChina) and Sichuan No. 3 Power Design & Consulting Company, for the construction of the Lamu coal plant[cxxxiii]. ICBC will also serve as lead financial advisor to the project. The agreement was made in June 2015.

At the time of writing, African Development Bank (AfDB) is considering providing a $100 million USD partial risk guarantee[cxxxiv].

Summary of Environmental and Social Impacts

Preservation of UNESCO Heritage Site Lamu Old Town	Construction of the coal plant has raised concerns regarding the impacts of dust, pollution, and increased activity on the UNESCO Heritage site. Lamu Old Town is the oldest and best preserved Swahili town in East Africa, spanning sixteen hectares. Built of coral, lime, and mangrove poles, Lamu Old Town was once the most important trade center in Eastern Africa, and is known as the "cradle of Swahili civilization"[cxxxv]. Its unique architecture reflects a mix of Swahili, Arabic, Persian, Indian and European influences. According to the UNESCO Mission report in 2015, the coal plant may have negative impacts on the preservation of the site[cxxxvi].
Impacts on Mangroves and Marine Life	The project is located on Kwasasi, public land known for robust mangrove forests and marine life. Mangroves are one of the most carbon rich ecosystems in the world and serve an important role in regulating climate change impacts since they are able to store roughly 1000 tons of carbon per hectare. The coal plant would likely degrade the mangroves, as warm water that is discharged by the coal plant would disrupt the delicate balance of mangrove swamps[cxxxvii]; according to the project's ESIA, "dredging activities during the construction phase are projected to cause significant and serious damage to the neighboring mangroves, sea grasses and coral reefs habitats"[cxxxviii].
Resettlement Free, Prior, and Informed Consent	Contrary to international best practice[cxxxix], a resettlement action plan (RAP) was not completed with the submission of the ESIA. Since the project site is located on public land, it would have to be leased to Amu Power from the Kenya Ports Authority. Moreover, local communities have established strong generational ties with the land, using it for seasonal farming of fruit, grains, and other crops[cxl]. Furthermore, the region contains traditional fishing areas that are used by over 3000 indigenous fisher folk from the nearby Pate Island, Lamu Island, and mainland. These communities generally lack formal titles to the land, and concerns regarding whether a resettlement process will account only for residents who can prove spiritual or ancestral ties to the land, and not those who will be economically displaced due to their customary use of the land, remain unaddressed[cxli]. Although some local residents and farmers have received compensation[cxlii], fishing communities were not properly consulted and were allegedly coerced into signing compensation forms[cxliii]. Kenya-based NGO Save Lamu also have concerns that planned compensation for fisherman may only include fishing nets, which is clearly inadequate[cxliv].

Pollution and Environmental Health impacts	The plant will create significant air, water, and soil pollution – well known impacts of coal power plants[cxlv]. In addition to the negative impacts on marine biodiversity, the Lamu coal plant will likely lead to significant environmental health impacts. According to the project's EIA, about one third of the project site will be used to dispose of dry ash across 100 hectares. Dry ash causes air pollution and exposes humans to a variety of toxic particulate matter and heavy metals such as mercury, lead, and cadmium[cxlvi]. Even if fly ash is instead disposed of as wet ash, it still carries significant environmental health impacts, as toxins may then leach into the water system[cxlvii].

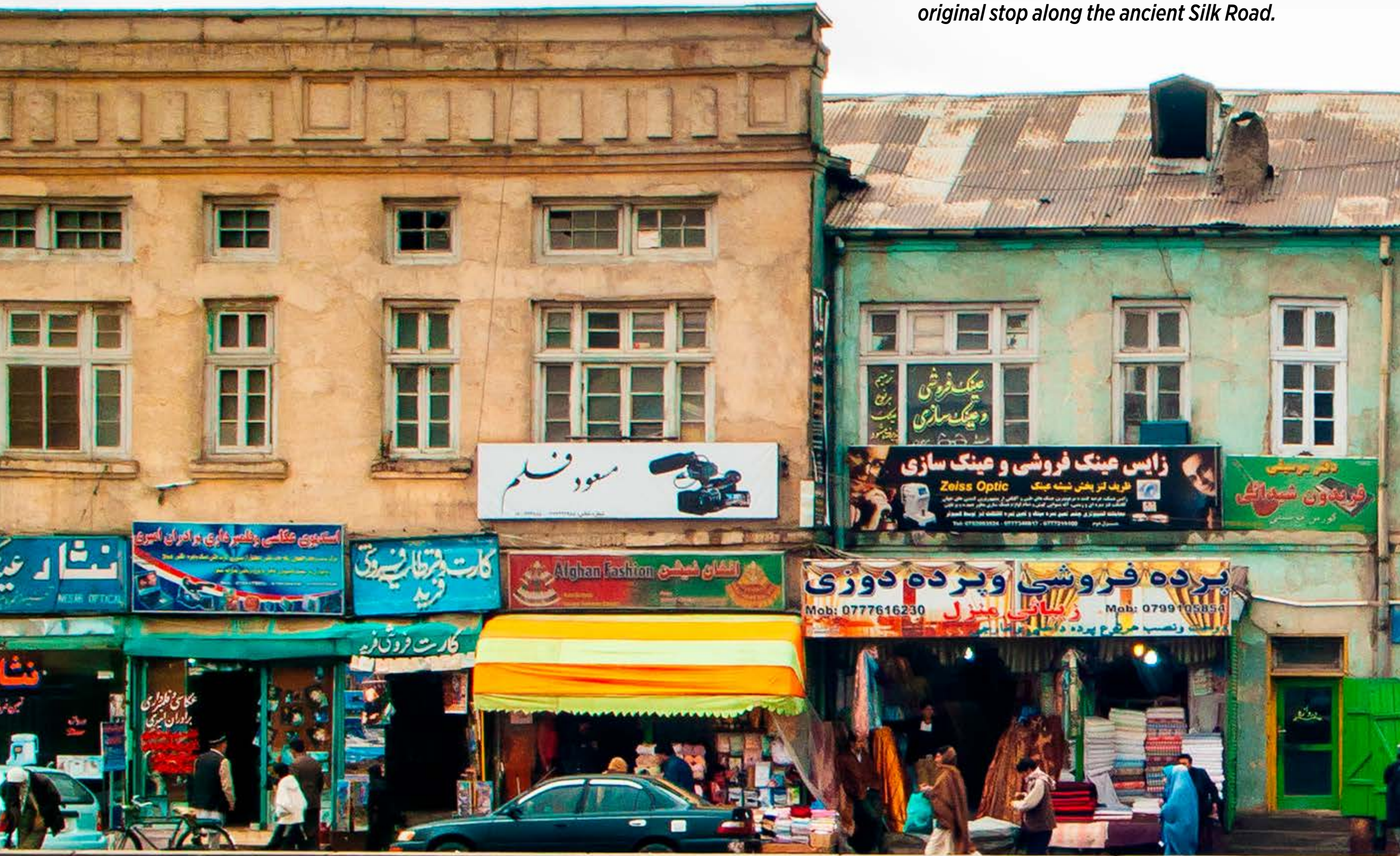
Assessing Compliance

Host Country Law and Regulations	**The Land Act (Section 12)**[cxlviii] prohibits the government from allocating public lands located on environmentally sensitive areas. Due to the project's negative impacts on mangroves, fishing areas, and watersheds, this law establishes the government's duty to refrain from allocating land to a development projects with inherent environmental and social impacts.
	According to the **Environmental (Impact Assessment and Audit) Regulations** (per section 17.1), project sponsors must seek the views of affected communities when conducting an EIA[cxlix]. According to Save Lamu and Natural Justice, public meetings were not conducted according to these regulations[cl].
	In terms of climate change impacts, the Lamu coal plant may potentially violate **Kenya's National Climate Change Plan and its Intended Nationally Determined Contribution (INDC)** under the United Nations Framework Convention on Climate Change (UNFCCC). According to Save Lamu and Natural Justice's analysis, "Although the EIA approximates the amount of CO2 emission, there is no analysis, either in the ESIA or in the Climate Change and GHG Specialist Study, of whether the proposed project, which would add 8.8 million tons of CO2eq per year in 2030, is consistent with Kenya's commitment under the UNFCCC."[cli]
International Norms and Best Practices	*At the time of this writing, the AfDB may provide a risk guarantee for the project. If approved, the Lamu coal plant would be required to observe African Development Bank Safeguards. Receiving a risk guarantee from the AfDB would also require that the project comply with the IFC Performance Standards[clii]. Currently, the project would not comply with either safeguard system.*
	According to Save the Lamu and Natural Justice, the project would currently violate **AfDB's Safeguards 1, 2, and 4** based on client's failure to submit a resettlement action plan with submission of the ESIA, the failure to conduct meaningful consultations under free, prior, informed consent standards, in addition to the omission of key analysis in the ESIA, such as pollution prevention and control in relation to the UNESCO World Heritage site[cliii].
	Furthermore, based on the project's improper EIA process and violation of local laws, the project would not comply with **IFC Performance Standard 1** regarding the assessment and management of environmental and social risk impacts (section 8), **Performance Standard 5** regarding land acquisition and involuntary resettlement (section 9-29), and **Performance Standard 7** regarding indigenous peoples (section 12). Due to the project's destruction of mangrove forests, the project would not comply with **Performance Standard 6** on biodiversity conservation. The project's adverse impacts also would violate **Performance Standard 8** because of the inherent damage that would be caused to the cultural heritage and integrity of the UNESCO site area (section 14).

International Norms and Best Practices	The ESIA does not follow international best practice as it does not provide meaningful **site alternatives**. For instance, The proposed alternative locations for the coal plant also fall within the UNESCO World Heritage site[cliv]. Save Lamu has critiqued the ESIA for failing to conduct all necessary marine surveys, evaluate impacts on bird life, and failure to assess cumulative impacts outside the immediate vicinity of the project. The ESIA also did not fully conduct and incorporate public feedback, as required by local law[clv]. According to international best practices, EIAs should be cumulative, participatory, and include project alternatives[clvi].
	An increasing number of multilateral and private banks are **shifting financing away from coal activities**. The World Bank, the US Export Import Bank, European Investment Bank, the European Bank for Reconstruction and Development, and OECD export credit agencies all have now established policies which restrict coal financing or require the use of best and cleanest technologies[clvii]. This is not the case in the Lamu coal plant, as it calls for super critical coal technology, which is not the most clean or efficient of coal technologies . Private banks such as J.P. Morgan Chase and Wells Fargo have also pledged to restrict support to coal projects, and the Brazilian National Development Bank has committed to no longer finance coal and oil projects[clviii]. As such, ICBC's decision to finance a coal plant starkly contrasts the increasing international trend away from coal financing.

Mangroves are one of the most carbon rich ecosystems in the world and serve an important role in regulating climate change impacts. Pollution from the coal plant would likely degrade mangrove swamps in the region.

The Mes Aynak copper mine is located just 40 km southeast of Kabul, causing concerns regarding water pollution as both the mine and city share the same water supply. The copper mine has drawn international attention as its development would require the destruction of Buddhist ruins, an original stop along the ancient Silk Road.



Mes Aynak Copper Mine, Afghanistan

Background

Mes Aynak is a copper mine located in Logar province. Approximately 40 km southeast of Kabul, the mine is the largest copper reserve in Afghanistan and estimated to be the second largest copper deposit in the world[clix]. It contains 11-17 million metric tons of copper, 7,700 metric tons of silver, 600,000 metric tons of cobalt, and an unidentified amount of gold[clx]. The project is the largest private sector investment in the country and was widely seen as a bellwether for catalyzing future foreign investments following the US War in Afghanistan[clxi].

In 2007, the Mes Aynak project was awarded to Metallurgical Corporation of China (MCC) and Jiangxi Copper Company Ltd (JXCC), both state owned enterprises. In 2008, the companies established a joint venture called MCCJCL Aynak Minerals Company to explore and exploit Mes Aynak, in addition to another mining concession in western Afghanistan. MCC holds 75% of the shares, and JXCC owns 25%. MCC-JCL purchased a 30-year lease on the entire Mes Aynak site for $2.9 billion USD[clxii].

Company	MCC	Hunter Dickinson Inc.	Kazakhmys Corporation, LLC	Phelps Dodge Corporation, LLC	Strikeforce Limited Cyprus
Total Investment	2.9 BIllion USD	1.7 BIllion USD	2.2 BIllion USD	0.9 BIllion USD	2.4 BIllion USD
Production Process (Phases)	All production Concentration, Smelting, and Cathode Copper to be Processed in Afghanistan	Initial Production of Concentration and Cathode Cu via SX/EW in Afghanistan, Potential for Proprietary Concentration Leach	All Production-Smelting, and Cathode Copper to be Processed in Afghanistan	Initial Production of Concentration and Cathode Cu via SX/EW in Afghanistan, Potential for Proprietary Concentration Leach	Production of Concentration in Afghanistan
Start of Production	Initial Heap Leach, SX/EW, Year Five, Based On REF Year Six	Year Seven	2 Years Heap 4 Years Concentration	Year Six	Year Four
Maximum Royalty Percentage	19.5%	15%	18.1%	12.5%, Capped at 100M USD/year 19.5%	7,5%
Energy Production	400 Mw	100 Mw	350 Mw	15 Mw	Import Power from outside
Environment	World Bank Equator Standards	World Bank Equator Standards	No Commitment	World Bank Equator Standards	World Bank Equator Standards
Bonus to Government of Afghanistanin Millions	$808 3 Installments	$100 Multiple Installments	$2 1 Installments	$243 Multiple Installments	$238 Multiple Installments
Infrastructure (Railway Investment)	Yes	No	Yes	No	No

This table illustrates the varying bid offers for the Mes Aynak copper mine. MCC's bid included rail investment, in addition to offering the highest royalty percentage and bonus payments to the Afghan government. Similar to nearly all other bidding companies, MCC's bid also required World Bank and Equator Principle Standards to manage environmental issues.

Project Financing

Chinese foreign aid and bank loans have partially financed the project. According to MCC's 2015 prospectus, a portion of China's $ 2 billion USD foreign aid to Afghanistan from 2014 – 2017 was used to promote the Mes Aynak project[clxiii]. Chinese media have also reported that China Development Bank and China Exim provided bank loans to the project[clxiv]. According to the Aynak Mining Contract, MCC was required to produce a full bankable feasibility study, which at the time of this writing did not appear to be publicly available[clxv].

According to the mining contract, the project must comply with World Bank Environmental and Social Safeguards Policy, the Equator Principles, and Voluntary Principles on Security and Human Rights[clxvi].

Summary of Environmental and Social Impacts

Cultural Heritage and Archaeological Ruins	The copper reserve sits atop a major archaeological site known for its ruins of Buddhist temples and stupas with influences from ancient Greece, India, China, Southeast Asia, and Uyghur cultures. During the fifth and seventh century AD, Mes Aynak was a stop along the ancient Silk Road, being located midway between Rome to China[clxvii]. Spanning across 100 – 400 hectares, the Buddhist ruins of the Mes Aynak project was first documented in the 1960s[clxviii]. Given the site's cultural and historical importance, archaeologists and the general public have repeatedly tried to register Mes Aynak as a UNESCO World Heritage site[clxix]. Since the mining contract was awarded to the Chinese companies, a small team of dedicated archaeologists have scrambled to excavate and preserve artifacts; so far, only ten percent of the site has been excavated[clxx].
Security	Security is one of the main reasons preventing the project from moving forward, as the region is long known for terrorist activity. Al-Qaeda once used Mes Aynak as a training base, and it is believed that Osama bin Laden planned the September 11, 2011, attacks on the United States there[clxxi]. More recently, Taliban insurgents have taken control of the area, threatening both archaeologists and company workers[clxxii]. Fifteen hundred Afghan police were assigned to protect the MCC mining compound from the Taliban[clxxiii]. However, police protection appears to have been inadequate. According to one account, "In 2011, an SUV full of MCC workers hit a land mine on one of the winding gravel roads, killing all passengers in the vehicle. The compound itself is often a target for rockets fired from the surrounding mountains"[clxxiv]. With the increasing number of abductions and death threats, rocket attacks, and land mines, the security situation deteriorated so badly that by 2014 MCC was forced to evacuate all its workers[clxxv].
Water, Pollution, and By-products	Copper mining is highly water intensive, and even the process of conducting initial studies have impacted the fragile environment by lowering the water table[clxxvi]. If the project moves forward, the project will consume approximately 548,000 cubic meters of water per day[clxxvii]. There are also concerns that since Kabul and Mes Aynak share the same water supply, chemicals used in the mining process may expose not only local villagers but also Kabul residents to water contamination[clxxviii]. Copper mining produces toxic waste known as tailings, which are a slurry of pulverized rocks, chemical additives, and heavy metals. Tailings are typically disposed of in massive pits, or tailings dams, and pose an inherent environmental and health risk due to its toxicity. Improper management can also cause leaks either above or underground and impact the already stressed local water supply[clxxix]. Furthermore, heavy rains, winds, or flooding can rupture a tailings dam, thus allowing toxic waste to leak into nearby soil or water table. The original tailings dam site was found to have a high possibility of breach. However, although the site was moved to the Tobagia Desert, copper has also been found there, raising uncertainty regarding the ultimate placement of the tailings dam[clxxx].

Indigenous Peoples, Involuntary Resettlement, and Land Acquisition	The concession is located on land traditionally used by indigenous nomadic tribes. Some land also belongs to those who fled the area due to the recent wars and conflicts, but are now slowly moving back to their ancestral homes[clxxxi]. Five villages located in the concession area have already been resettled, and if the project moves forward, more villages will be involuntarily displaced[clxxxii]. Because there was no community consultation process, the Afghan NGO Integrity Watch Afghanistan reported an increasing number of disputes regarding what constitutes adequate compensation and the validity of land titles[clxxxiii]. In fact, no public consultation took place, and no mechanism allowing for regular consultations have been established[clxxxiv]. Furthermore, the project developers did not develop an environmental and social impact assessment, and although a grievance mechanism exists on paper, it was never implemented on the ground[clxxxv]. There have also been recurring concerns of the local government intimidating dislocated communities who opposed the project[clxxxvi].

Assessing Compliance

Host Country Law and Regulations	**Article 19 of the Environmental Law** requires that affected communities must be meaningfully consulted at each stage of a project, and that the National Environmental Protection Agency (NEPA) cannot "reach a decision on any application for a permit" until there is demonstrable proof that project developers have informed the public[clxxxvii]. However, in the Mes Aynak case, the project developer did not conduct public consultations with communities[clxxxviii].
International Norms and Best Practices	*According to the Mes Aynak mining contract, the project must comply with the World Bank Environmental and Social Safeguard Policy, the Equator Principles, and Voluntary Principles on Security and Human Rights.*
	The project failed to comply with **World Bank Environmental and Social Safeguard Policies** due to failures in conducting a proper Resettlement Action Plan and Resettlement Policy Framework (OP4.12). The World Bank has also documented problems in the resettlement process and safeguard compliance[clxxxix].
	The failures to conduct a proper resettlement process and develop a functional grievance mechanism violates **Principles 5 and 6 of the Equator Principles**, respectively.
	Mes Aynak's mining contract calls for the application of the **Voluntary Principles on Security and Human Rights**. The document is broad and does not offer specific guidance, but it does call for companies to "consult regularly with...civil society to discuss security and human rights"cxc. However, the longstanding secrecy surrounding the project caused by the government's failure to disclose the mining contract, in addition to the failure to hold regular consultations with civil society and the public, reflects an inconsistency with these principles.
	The resettlement process did not incorporate the principles of **free, prior, informed consent**, as no consultation took place[cxci].

International Norms and Best Practices	Although the Afghan government has increasingly published many mining contracts, with the mining minister claiming in 2012 that "from now on....no contract shall be kept secret"[cxcii], the Mes Aynak contract was not published until 2015[cxciii]. In fact, much of the controversy surrounding the Mes Aynak case stems from the lack of transparency, which was compounded by the long standing failure of the government to disclose the mining contract until several years later[cxciv]. The lack of contract transparency in turn fueled other concerns regarding the disclosure of Chinese payments to the Afghan government[cxcv]. Today, there is an **increasing international trend towards requiring project sponsors to disclose and publish mining contracts**. Host country governments, companies, and other stakeholders are increasingly encouraging and recognizing the value of contract disclosure, with 27 governments now legally requiring contract transparency, and the IFC and European Bank for Reconstruction and Development requiring contract disclosure as a condition for project finance[cxcvi]. According to industry experts, "the trend is clear: natural resource contracts are increasingly being disclosed and the sky isn't falling. Rather, there is emerging evidence that contact disclosure improves trust and lays the groundwork for collaboration that benefits governments, companies and communities"[cxcvii].

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The Sasan Ultra Mega Power project is located in the province of Madhya Pradesh and bears a long history of violence and oppression on the region's Scheduled Tribes, who are recognized under Indian law as the most socially disadvantaged groups in the country. Numerous NGO reports have documented Sasan UMPP's poor treatment of Scheduled Tribes and local communities, many of whom still live outside the coal plant and trek through coal mines in order to collect traditional plants.

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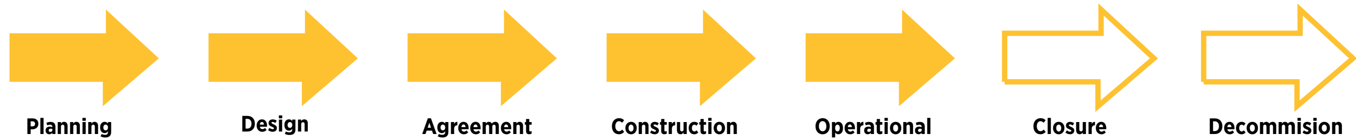
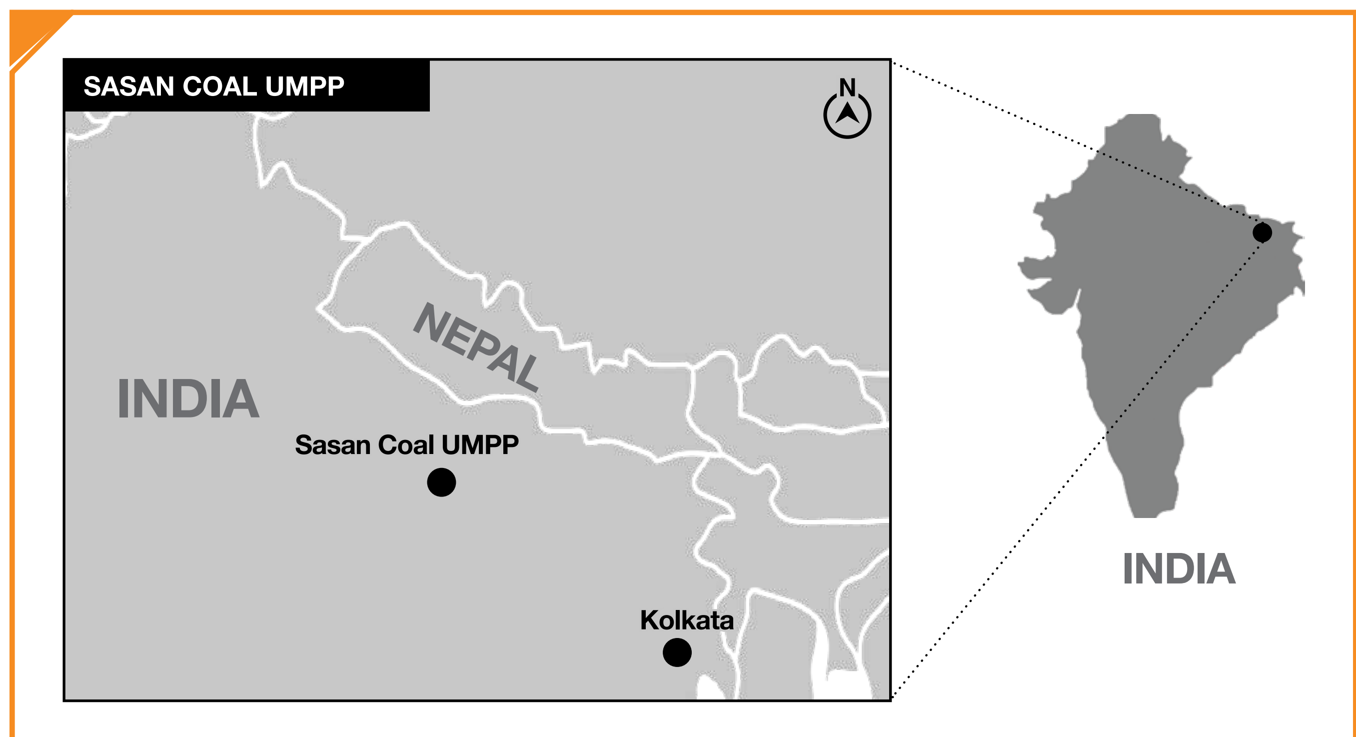
Sasan Ultra Mega Coal Plant, India



Background

The Sasan Ultra Mega Coal Power Project (Sasan UMPP) was built in the Singrauli district in Madhya Pradesh, which contains the largest coal reserves in India[cxcviii]. It is a 3960 MW (6x660) pit-head coal power plant which will source coal from three adjacent coal mines: Moher, the Moher Amlori extension, and Chatrasal. The three adjacent coal mine blocks spread across 7,000 acres[cxcix] and collectively contain over 750 million tons of coal. The mines are expected to produce roughly 25 million tons of coal per year, and water is sourced from a dam near the Govind Vallabh Pant Sagar Lake[cc]. With the commissioning of its last unit in March 2015, it is now operating at full capacity. According to the project owner Reliance Power, the region has an "operating capacity of more than 10,000 MW and projects under construction totaling up to another 15-20,000 MW, making the region the largest hub for power generation in the country"[cci].



Project Financing

In July 2012, Reliance Power secured $1.1 billion USD project financing from China Development Bank, China Exim Bank, and Bank of China to purchase a boiler, turbine, and generators from the power equipment manufacturer, Shanghai Electric Group Co[ccii]. According to Reliance Power, the loan agreements for Sasan UMPP represent the largest project financing provided to an Indian project from a Chinese bank to date[cciii]. The loans are financed on a non-recourse basis, maturing over thirteen years[ccvi].

The project has received financing from the U.S Export-Import Bank and Clean Development Mechanism (CDM). IFC is also connected to the project via financial intermediary lending[ccv]. Because of financial support from U.S. Export-Import Bank, in addition to indirect lending from the IFC, the project is required to comply with the IFC Performance Standards, OECD Common Approaches, and Equator Principles[ccvi].

Sasan Ultra Mega Coal Plant = 15 Olympic Soccer fields

With a capacity of 3960 MW, the Sasan Ultra Mega Coal Plant is a massive coal plant with three adjacent coal mines. Spanning across 7000 acres, the coal plant and mines are approximately the same size as fifteen Olympic soccer fields.

Summary of Environmental and Social Impacts

Resettlement and Inadequate Compensation	Construction for Sasan UMPP required the relocation of four villages and one tribal area[ccvii]. Residents have reported that their homes and land were forcibly taken, with houses and streets even being demolished in the dead of night[ccviii]. Furthermore, some relocated residents and families continue to live in temporary housing since Reliance Power has not yet moved them to the resettlement colonies[ccix]. Resettled communities were supposed to have been relocated to colonies in Surya Vihar, an unpopulated, barren area. Numerous reports have documented that colonies lack basic amenities, such as pumped water and schools, rendering them virtually unlivable[ccx]. Another common problem is the failure to provide adequate compensation at or above the legal requirement for community land. In some cases, no compensation was provided[ccxi].
Violence and Oppression	Numerous international and local NGOs, and even the U.S. Office of Inspector General of the U.S. Export-Import Bank, have documented how the development of Sasan UMPP has led to violence against local communities[ccxii]. For instance, one fact finding mission found that residents who refused to move due to inadequate compensation were intimidated, threatened, and disappeared by government officials[ccxiii]. In other cases, residents who protested forced relocations were reportedly abducted and never found[ccxiv].
Poor Labor Safety and Hiring Standards	Unsafe labor practices have led to the deaths of nineteen people[ccxv]. Furthermore, due to the lack of appropriate safety equipment, workers were regularly exposed to toxic materials such as coal ash, which caused skin diseases among coal plant workers[ccxvi]. Besides poor safety measures, many residents have reported extreme difficulty obtaining jobs despite company promises. In cases when local workers are hired, the company does not provide compensation in cases of injury or even death. For instance, according to multiple NGO reports, irregularities in worker time stamps allowed Reliance Power to claim that injuries and deaths occurred outside the project site. The company is alleged to have prioritized hiring contract workers from other provinces in order to make "it easy to cover accidents, as families do not reach Singrauli to look for lost love[d] ones until long after these incidents occur"[ccxvii].

Impact on Indigenous Peoples	Since the construction of the Rihand Dam in 1954 and subsequent discovery of coal deposits in the area, Singrauli residents have been repeatedly displaced involuntarily[ccxviii]. Decades of rapid industrial and coal development since the 80s may have transformed the region into India's energy capital, but it has also severely degraded the environment and impoverished indigenous communities[ccxix]. The Singrauli district is home to diverse indigenous "dalit" and "adivasis" communities. Also known as "Scheduled Tribes", they are the most socially disadvantaged peoples in India. As a result, Sasan UMPP's poor treatment of workers and indigenous communities has exacerbated the lingering trauma of recurring involuntary resettlement from previous projects, loss of forest-based livelihoods, forced disappearances, extreme pollution, and local corruption. Although the project's ESIA states that "Scheduled Tribes (ST) population residing in the area have minimum dependence on the Minor Forest Produce for their sustenance", NGOs have found this to be incorrect: even after relocation, many indigenous tribes continued to make "the long trek to the mine on foot, through the clear-cut forests and past their destroyed homes, in order to collect traditional plants"[ccxx].
Environmental Pollution and Public Health Impacts	As a mega coal power plant, Sasan UMPP has intensified environmental pollution and health problems in the region. There are no publicly available reports on air quality near the coal conveyer belt, but local residents have reported that a heavy layer of coal dust covers nearby vegetation and that coal dust and ash can be overwhelming[ccxxi]. Access to clean water is a serious problem since contaminants from ash ponds have seeped into the ground water[ccxxii]. According to one environmental lawyer, "When Reliance was planning to set up a plant in Singrauli, they knew that area already had severe poisoning and massive industrial pollution issues ... Yet, they went ahead and set up their plant. They are adding to the damage, and not doing anything to control it"[ccxxiii].

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The Central Pollution Control Board (CPCB) is tasked to prevent, regulate, and reduce water and air pollution. It created the Comprehensive Environmental Pollution Index (CEPI) in order to rank and evaluate critically polluted areas across India. CEPI scores of 70 and above are considered extremely critically polluted. The CPCB ranked the Singrauli District as the 9th most Critically Polluted Area in India, with a Comprehensive Environmental Pollution Index score of 81.73. This led to led to the Ministry of Environment, Forest and Climate Change placing a temporary moratorium for projects in the Singrauli District in order prevent further pollution[ccxxix]. However, the moratorium was lifted in June 2011 even though the CPCB stated that pollution levels in Singrauli had increased to 83.35. Lifting the moratorium essentially allowed coal development to move forward[ccxxx]. Picture above is the Sasan UMPP.

Assessing Compliance

Host Country Law and Regulations	The project violates key national laws and principles enshrined in the country's Constitution. First, **the Forest Rights Act** codifies the rights of Gram Sabha[ccxxiv], which includes people who primarily reside in the forest, depend on forest lands for their livelihood, or are a Scheduled Tribe[ccxxv,ccxxvi]. Approximately 946.58 hectares have been acquired from Dalit, Adivasai, and other Scheduled Tribes[ccxxvii]. However, the project did not correctly observe the rights of Gram Sabha as their land was acquired without proper consent[ccxxviii].
	The Ministry of Environment, Forest and Climate Change (MoEF&CC) and Ministry of Coal developed a **"Go – No Go Zone"** categorization system for all of country's forested areas. Mining projects which fall in forested "No Go" Zones are banned on environmental grounds. One of Sasan UMPP's coal sources, Chatrasal coal mine was blocked from being developed in January 2012 by the MoEF&CC since the mine fell in a "No Go" Zone. But because of a controversial intervention from the Prime Minister's office, the Chatrasal coal mine received Stage I Forest Clearance in November 2012. Since then, Stage II Clearance remains pending[ccxxxi].
	The **Madhya Pradesh Rehabilitation Policy** stipulates that one person in every displaced family must be employed in the project. Sasan Power's Resettlement Action Plan also guarantees this. However, Sasan Power has hired predominantly migrant workers for both skilled and unskilled labor from neighboring districts and states[ccxxxii].
International Norms and Best Practices	*The IFC Performance Standards, OECD Common Approaches, and Equator Principles are required due to financing support from U.S. Export Import Bank.*
	Due to impacts on the livelihood of indigenous peoples, resettlement process, pollution, and labor violations, the project violates virtually all **IFC Performance Standards** (except Standard 6).
	The project violates the **OECD Common Approaches** for failing to meet host country legal requirements[ccxxxiii].
	The project violates **Equator Principle 3** for failing to meet compliance with the IFC Performance Standards. It also violates **Equator Principle 4** for failing to produce a robust environmental and social management plan for Category A projects[ccxxxiv], and **Equator Principle 5** for not conducting public consultations in a culturally appropriate manner with all affected communities and stakeholders. The project also contravenes **Equator Principle 6** for failing to establish a functional grievance mechanism.
	Furthermore, the project did not conduct meaningful consultations or obtain **free, prior, informed consent**. FPIC is also required under the **IFC Performance Standards**.
	As referenced in the Lamu coal plant case, there is an **international shift away from coal financing**. Numerous multilateral, export credit, and private banks are developing policies to ban or curb their lending away from coal projects, such as the World Bank, European Bank for Reconstruction and Development, Brazilian National Development Bank, J.P. Morgan Chase, and Wells Fargo.

Ash ponds outside the coal plant are ineffectively contained, thereby exacerbating the region's extreme air and water pollution. In this image, local cattle drink water from an ash pond.

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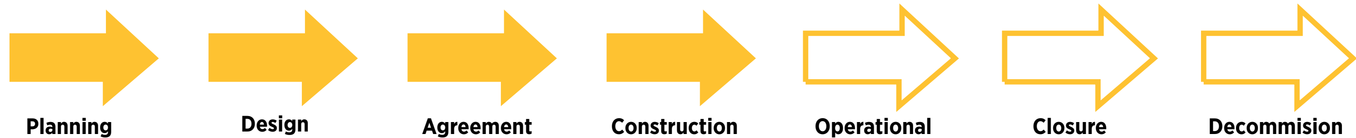
The Yamal LNG project is a liquefied natural gas project with a capacity of 16.5 million metric tonnes. Being located in the Russian Arctic, the project raises significant concerns, such as the increased likelihood of shipping accidents, oil spills, noise pollution on marine life, in addition to increasing environmental degradation in the extremely fragile arctic region.

Yamal LNG Project, Russia



Background

The Yamal project is a liquefied natural gas plant in the Russian Arctic. As one of the largest gas reserves in the world[ccxxxv], the liquefied natural gas (LNG) plant will have an annual capacity of 16.5. million metric tons[ccxxxvi]. The project commenced construction in 2014 and is scheduled to be built in three phases, with operations slated to begin at the end of 2017 or early 2018. The project will exploit oil and gas in the South Tambey field and require three liquefaction trains, which are used to process and purify natural gas into a commercially viable form for transport[ccxxxvii]. In the first phase, Yamal LNG will develop 68 wells and construct four LNG tanks, four gas turbines, water treatment facilities, and the first of the three liquefaction trains. The second phase will entail the construction of 29 additional wells, an LNG loading jetty, and a second LNG train. The third phase calls for the development of 40 more wells and the final liquefaction train[ccxxxviii]. Currently, there is only one other natural gas project in Russia, Sakhalin II. Constructing Yamal LNG will allow Russia to double its LNG output by 2020[ccxxxix].

In response to public pressure from Russian NGOs, Yamal LNG published the project's environmental and social impact assessment (ESIA)[ccxl]. However, the ESIA still contains significant gaps on the project's impacts regarding climate change, cumulative impacts, and indigenous peoples, among others[ccxli].

The project is being developed by JSC Yamal LNG, a joint venture by Novatek (50.1%), Total (20%), China National Petroleum Company (CNPC) (20%), and Silk Road Fund (9.9%). It is the first Belt and Road project in the Arctic.

Development of the Yamal LNG project would rely on the Northern Sea Shipping Route, which requires the use of ice breaking ships in order to access and navigate in winter. Currently, there is a lack of proven technologies that are able to operate and withstand extreme arctic conditions during the winter season.

Project Financing

Yamal LNG is a $27 billion USD project which required $18-19 billion USD in external financing[ccxlii]. In 2014, project developer Novatek began conversations with international lenders[ccxliii], but Western sanctions against the company abruptly jeopardized the project. Although the project was able to raise some funds through Russian investors, lack of access to Western capital markets caused the project to stall.

In 2016, Yamal LNG was revived after securing financing China Development Bank and China Exim Bank[ccxliv]. China Development Bank loaned $1.5 billion USD, and China Exim Bank provided $10.6 billion USD[ccxlv]. Both loans are 15-year contracts. As of June 2017, the project is on schedule.

According to the ESIA, the project must observe the Equator Principles, OECD Common Approaches, World Bank Environmental and Social Safeguards, and IFC Performance Standards.

Summary of Environmental and Social Impacts

Impact	Description
Dredging	Dredging is the process of removing debris or soil in order to create or maintain waterways. It is an extremely environmentally disruptive process, as dredged material can become toxic, disturb marine life and the seabed, increase sedimentation and turbidity, and generally degrade water quality. In the case of the Yamal project, over 40 million cubic meters of soil must be removed in order to create a 50 km access channel to the port. The soil will be dumped in the Gulf of Ob, the longest estuary in the world[ccxlvi]. Moving this massive amount of dredged materials is unprecedented in the Russian Arctic. In addition, the creation of navigation channels in the area will cut through protective barriers in the estuary of the Ob River and allow for seawater intrusion[ccxlvii].
Impacts on Marine and Arctic Biodiversity	The Yamal LNG project is located in the vast Yamalo Nenets Autonomous District (YNAD), spanning across 750,000 km of arctic tundra and continuous permafrost zones[ccxlviii]. In a recent national report submitted to the Convention on Biological Diversity from Russia, increased oil and gas exploitation in the region is negatively affecting the region's biodiversity. There are eighteen protected nature areas in the region, one being the Ramsar-designated Islands in the Ob Estuary off the Kara Sea, about 500 km south of the project site. Ramsar sites are designated under the Convention on Wetlands of International Importance (also called the Ramsar Convention). It is the intergovernmental treaty that provides the framework for the conservation and wise use of wetlands and their resources[ccxlix]. According to the Ramsar Secretariat, the Islands in Ob Estuary is "one of the richest water bird breeding and molting areas in the northern hemisphere"[ccl]. According to the ESIA, six threatened bird species are present in the project area[ccli]. Moreover, according to WWF Russia, although the ESIA identifies noise pollution as a negative impact to marine wildlife, it does not provide information on what measures will or should be taken to address it[cclii].
Shipping Accidents and Oil Spill Response Plan	As an LNG export center, the Yamal LNG project will inevitably increase the likelihood of liquefied gas, heavy bunker fuel, oil, and condensate spills, in addition to shipping accidents in the Arctic. However, the ESIA does not provide sufficient analysis or information on how Yamal LNG will manage or mitigate shipping accidents[ccliii]. Extreme weather and harsh physical conditions of the Yamal peninsula further complicate the project's ability to effectively manage spills or accidents. Currently, there is a lack of proven technologies that are able to operate and withstand extreme arctic conditions during the winter season. The coldest days hover between 41 – 45 degrees Celsius below freezing, thus exacerbating the risks of permafrost from heave and thaw, snow cover, flood risks, and high wind pressure[ccliv]. In spite of these significant risks, Yamal LNG has not published an emergency response plan, as required by Russian laws.

Impacts on Indigenous People's Livelihoods and Culture	The Yamalo Nenets Autonomous District (YNAD) is inhabited by the Nenets, nomads who rely on fishing and herding reindeer as the basis of their livelihood[cclv]. The ESIA provides very limited information and analysis on how Yamal LNG intends on mitigating harmful impacts on indigenous peoples such as the Nenets.

Assessing Compliance

Host Country Law and Regulations	Although the ESIA recognizes the likelihood of emergency spills and accidents, Yamal LNG has not developed a detailed emergency oil and chemical response plan. As a result, the project violates the **Federal Law on the Continental Shelf of the Russian Federation**, which requires the project sponsor to submit "Information about measures to prevent and eliminate the consequences of accidents" for a license[cclvi].
	The **Law On Internal Waters, the Territorial Sea and The Contiguous Zone Of The Russian Federation** further establishes the need for project developers to prepare a "plan for the prevention and elimination of oil spills[cclvii].
International Norms and Best Practices	*According to the ESIA, the project must observe the Equator Principles, OECD Common Approaches, World Bank Environmental and Social Safeguards, and IFC Performance Standards.*
	The ESIA's failure to adequately prepare an oil spill response plan, and to consider impacts on indigenous peoples, shipping accidents, and climate change, violates the **Equator Principles** (per Principles 1, 2, 3).
	For the same reason, the project violates the **OECD Common Approaches** per articles 11, 13, 26, 27, in addition to **IFC Performance Standards** 1, 3, 6, and 7.
	Furthermore, the project does not comply with **World Bank Environmental and Social Safeguards** (OP4.01), for failing to fully consider the environmental and social risks outlined above.
	The ESIA further fails to provide comprehensive analysis and management plans on key issues, such as addressing biodiversity, fishing, indigenous peoples, shipping accidents, and in particular, a robust oil and chemical spill response plan. Per international best practices, **an EIA should address cumulative impacts and mitigation measures**[cclviii].

PART II:
BANK PERFORMANCE BASED ON GCG KEY PERFORMANCE INDICATORS

In 2014, the Chinese Banking Regulatory Commission (CBRC) published key performance indicators (KPI) to promote banks' operationalization of the Green Credit Guidelines[cclix]. They provide guidance on how banks should measure and assess their level of green credit implementation, even providing suggested environmental and social contract clauses, an appendix of clients and projects classified as Category A and B, and a suggested list of industries considered to be "high pollution, high emission, and overcapacity"[cclx].

These KPIs apply to all Chinese policy and commercial banks. The CBRC requires that banks use the KPIs to conduct an institutional self-assessment every year.[cclxi] However, banks are not required to publicly publish these self-assessments, nor are the KPIs required to be applied on a project level.

KPI metrics for Article 21 include the following:

- **KPI 21.1: Bank Staff Capacity in Ensuring Compliance with Host Country Law**
- **KPI 21.2: Implementing Environmental and Social Risk Management**
- **KPI 21.3: Observance of International Practices and Norms**
- **KPI 21.4: Ensuring Alignment with International Practices**
- **KPI 21.5: Hiring Independent Third Parties to Resolve Local Conflicts**

Article 21's overall objective is to help banks "strengthen the environmental and social risk management for overseas projects to which credit will be granted"[cclxii]. For the purposes of this report, we use Article 21's KPIs as a rubric for measuring implementation of Article 21 in the aforementioned projects. In this way, we can evaluate and compare each bank's performance for a project.

In doing so, the goal of this analysis is to evaluate the strength and quality of the KPIs as a meaningful metric system in helping banks to accurately identify and address environmental and social risks, and by doing so, to ultimately offer recommendations as to how these KPIS can be used to improve environmental and social compliance of a project "on the ground".

KPI 21.1: Compliance with Host Country Law

KPR 21.1 states, *"The banking institutions **shall ensure the staff conducting overseas project financing acquire sufficient knowledge of law and regulations in the host countries** concerning environmental protection, land, safety and health and gain sufficient experience of the environmental and social risk management in overseas projects.*

Where necessary, with the experts' support, the bank shall make appropriate judgment to the environmental and social risk management of the projects to be granted credit, and the risk management willingness and capacity of the project initiator."

Project	Meet	Barely Meet	Fail to Meet	Unclear
APRIL Pulp and Paper Mills			China Development Bank ICBC Ping An Bank China CITIC Bank of Communications Agricultural Bank of China China Construction Bank	
Bandung HSR			China Development Bank	
Hambantota Port			China Exim	
Lamu Coal Plant			ICBC	
Mes Aynak			China Development Bank China Exim	
Sasan UMPP			China Development Bank China Exim Bank of China	
Yamal LNG			China Development Bank China Exim	

This KPI intends to ensure that bank staff have sufficient knowledge of host country law and regulations. However, in each of the seven case studies, we found no publicly available evidence that banks were successfully ensuring that their staff had adequate knowledge of host country laws in order to appropriately assess environmental and social risks. Because project sponsors violated at least one host country law or regulation in each project, this suggests that banks either currently do not possess, or have not yet developed, sufficient institutional mechanisms or processes for ensuring their staff are essentially capable of verifying borrower reports of legal compliance.

For instance, in the case of Bandung HSR, the project violated six Indonesian laws prior to construction. In the case of APRIL, the company violated at least seven Indonesian laws throughout its lifetime. The hugely controversial Sasan UMPP also violated at least four laws and regulations throughout its development and operations, and in the Hambantota Port, the project failed to conduct public consultations communities according to local regulations. In addition, the Yamal LNG case did not follow Russian laws regarding the development of an emergency response plan, and the Lamu coal plant did not conduct public consultations according to Kenyan law.

The common failure to observe host country laws reflects a common challenge for banks – ensuring compliance with host country law can be difficult. There is no easy or fast solution for conducting due diligence. For example, even if a bank hires an expert to conduct legal due diligence, banks must still have some internal expertise in order to properly evaluate the quality of outside experts and their analysis, in addition to establishing processes to ensure that clients actually comply with local laws.

Chinese banks' lack of in-house expertise on local legal environments is further exacerbated by the fact that Chinese banks generally do not engage with host country NGOs who can offer valuable information on local laws and context,

in addition to independent monitoring of project sponsor behavior. In four out of the seven case studies, local and international NGOs wrote letters to alert Chinese banks of serious environmental and social concerns[cclxiii]. However, no Chinese bank ever responded. A simple first-step solution towards improving staff awareness of environmental and compliance problems would be to engage NGOs and respond to public inquiries for information.

Furthermore, another key challenge with ensuring host country compliance is that governments and borrowers cannot always be relied upon to provide all relevant and key information regarding project risks. As a result, bank staff who lack knowledge of local context and laws may be unable to verify the accuracy of government or borrower claims.

In the Mes Aynak case, for instance, MCC, stated in Chinese media that it was not aware of the Mes Aynak archaeological site until only after construction had already commenced[cclxiv]. However, the Buddhist ruins have been publicly documented since at least the 1960s, and archaeologists have regularly visited the site since 2004[cclxv].

In addition to ensuring staff knowledge of host country laws, this KPI also looks at the ability of the bank to assess the "willingness and capacity of the project initiator" to manage environmental and social risks. However, it is very difficult to "truth-test" the willingness and capacity of a borrower to uphold environmental standards and laws without having an independent perspective on the company. This too is another example of how Chinese banks could benefit from engaging knowledgeable NGOs.

For example, had Chinese banks been willing to engage with NGOs like WALHI, Eyes on the Forest, Banktrack, or the Environmental Paper Network, they might have known that APRIL, despite its corporate social responsibility pledges, was still violating environmental laws. In contrast, the banks Santander and ABN AMRO cut financing to APRIL in February 2015 and March 2015, respectively, after NGOs informed them of the company's broken promises[cclxvi]. Both banks have developed and published their own set of environmental and social policies, and by engaging with stakeholders, gained a valuable source of independent information about their client, which ultimately informed their decision to terminate financing.

In sum, Chinese banks will be much better placed to "ensure the staff conducting overseas project financing acquire sufficient knowledge of law and regulations in the host countries," as required by KPI 21.1, if they develop more robust internal country expertise or trainings, in addition to being willing to engage with knowledgeable NGOs.

KPI 21.2: Implementing Environmental and Social Risk Management

KPI 21.1 states, *"The banking institutions* ***shall implement whole procedure management to the environmental and social risks of projects*** *to be granted credit."*

Project	Meet	Barely Meet	Fail to Meet	Unclear
APRIL Pulp and Paper Mills			China Development Bank ICBC Ping An Bank China CITIC Bank of Communications Agricultural Bank of China China Construction Bank	
Bandung HSR			China Development Bank	
Hambantota Port			China Exim	
Lamu Coal Plant			ICBC	
Mes Aynak			China Development Bank China Exim	
Sasan UMPP			China Development Bank China Exim Bank of China	
Yamal LNG			China Development Bank China Exim	

Implementing "whole procedure management" means implementing a comprehensive environmental and social risk management system (ESRM) and the Guidelines require ESRM for both domestic and overseas lending. Articles 15-20 of the GCG focus on various components of an ESRM system, including due diligence, compliance examination, credit approval, contract management, and post-loan management.

By referencing the GCG's procedure management, the KPI confirms that Chinese banks are indeed required to review and assess their domestic and overseas investments under the same ESRM. Based on the projects' impacts, however, none of the banks met this KPI.

Although it is not possible to examine how each banks' internal ESRM system worked (or did not work) in the seven case studies, what is apparent is the end result – seven projects which violated host country laws and international norms. This suggests that either the banks' ESRM systems were not implemented, or were themselves deficient.

For example, in the Sasan UMPP case, Reliance did not provide compensation to workers who were injured on site due to lack of safety equipment[cclxvii], and neither did the company provide compensation to the families of nineteen workers who died on the job[cclxviii]. According to one of the GCG's KPIs (KPI 19.3 relates to loan disbursement), Chinese banks should suspend or cancel their loans in response to such serious allegations; however, we did not find evidence of this occurring. In fact, we were not able to find any public evidence that Chinese banks suspended or cancelled loans in response to a client's failure to uphold host country laws or international standards in any of our cases.

In addition, several cases raise the question of whether and how Chinese banks apply their own environmental and social policies and procedures when there are other co-financiers who also demand adherence with international standards. For example, because the Sasan project received financing from international peers such as Mizuho Bank, Standard Chartered and the US Export-Import Bank, it was required to comply with the Equator Principles, IFC Performance Standards, and the OECD Common Approaches on Environment. The Yamal LNG project committed itself to international environmental and social standards prior to receiving Chinese financing[cclxix]. For the Lamu coal plant, the IFC Performance Standards are required as a condition of African Development Bank's partial risk guarantee.

Compared with the Chinese financiers, these international institutions have a longer track record in overseas financing, more fully developed ESRMs, and larger environmental teams. However, as evidenced by each of the projects' poor environmental performance, having an established ESRM is a necessary, but not a stand alone condition for ensuring borrower compliance with relevant standards.

So the question is: are Chinese banks doing their part to require and promote adherence to local laws and international norms? Unfortunately, it appears Chinese banks are, in fact, not doing their fair share, and based on our case studies, if higher international norms and standards are required in a Chinese financed project, it is because of involvement from another financial institution.

All of the cases which require borrowers to comply with higher sustainable banking or financing standards are not due to Chinese bank involvement. For example, according to the Lamu project's ESIA, it appears ICBC did not require any additional or higher environmental or social standards. The borrower would be required to comply with the IFC Performance Standards if it received financial support (via a partial risk guarantee) from the African Development Bank, not ICBC. Furthermore, in the Mes Aynak case, although the mining contract required compliance with World Bank environmental and social policies, the requirement appears to have been recommended by the World Bank, not Chinese banks, since the World Bank was serving as an advisor to the Afghan government in promoting environmental and social capacity for the Aynak concession at that time[cclxx]. As such, the role of Chinese banks in requiring World Bank standards is doubtful.

In transactions with large international financing consortiums such as these, there may be added complexity in deciding "whose environmental standards apply," which bank is taking the lead on environmental risk management, and who is responsible for monitoring compliance and requiring corrective action of borrowers. At this time, however, these cases demonstrate that Chinese banks do not appear to be the driving force in requiring borrowers to adopt or comply with international environmental standards.

KPI 21.3: Observance of International Practices and Norms in Overseas Investments

KPI 21.3 states: *"The banking institutions shall promise in public that* ***appropriate international practices or international norms will be followed as far as such overseas projects are concerned,*** *such as:*

- *Make promise to adopt "Equator Principles";*
- *Sign and join the "Global Compact" initiated by the United Nations;*
- *Join the United Nations Environment Programme Finance Initiative (UNEP FI)*
- *Sign the UNEP Statement of Commitment by Financial Institutions on Sustainable Development."*

Project	Meet	Barely Meet	Fail to Meet	Unclear
APRIL Pulp and Paper Mills	China Development Bank ICBC Ping An Bank		China CITIC Bank of Communications Agricultural Bank of China China Construction Bank	
Bandung HSR	China Development Bank			
Hambantota Port			China Exim	
Lamu Coal Plant	ICBC			
Mes Aynak	China Development Bank		China Exim	
Sasan UMPP			China Exim Bank of China	
Yamal LNG	China Development Bank		China Exim	

This KPI obligates banks to commit to follow international practices and norms in their overseas investments. Some of the Chinese banks involved in our case studies have publicly signed on to the international standards mentioned in the Indicators. For example, CDB and ICBC have signed the Global Compact, and CDB, ICBC, and Ping An Bank are members of UNEP FI.

Following international norms is at the heart of Article 21, yet KPI 21.3 identifies four international norms that vary widely in terms of relevance and potential for managing environmental and social risk at the project or transactions level.

Only one, however, the Equator Principles (EP), is designed to be applied on the transaction-level. The Equator Principles involves a detailed set of procedures and standards, largely for project finance lending. Based on the IFC Performance Standards, the EPs outline clear technical and procedural standards which borrowers must uphold, and (assuming banks comply with the EPs) consequences for what happens when such standards are breached. Only two Chinese banks have committed to the Equator Principles: Industrial Bank and Bank of Jiangsu[cclxxi]. No Chinese bank with significant overseas lending has adopted the EPs.

Although about half of the banks covered in this report have adopted either the United Nations Global Compact, the United Nations Environment Programme Finance Initiative (UNEP FI), or the UNEP Statement of Commitment by Financial Institutions on Sustainable Development, these three norms are not well-suited to reflect whether Chinese banks are adopting international norms and standards on a transaction level. All three norms are vague and aspirational, especially the Global Compact. While the Compact's ten simple commitments are admirable, they lack specific, industry-specific guidance for companies' environmental or social performance. They therefore provide little utility for banks in making decisions on financing overseas projects.

The United Nations Environment Programme Finance Initiative (UNEP FI) is specific to the financial sector, but the Initiative is more of “club,” a resource for banks seeking to learn about a range of sustainability issues. Although such venues provide valuable educational opportunities for banks, they offer little relevance when it comes to ensuring specific transactions meet minimum environmental and social performance standards. Similarly, the UNEP Statement of Commitment by Financial Institutions on Sustainable Development, which UNEP FI banks must sign to become a member, is broad and lacks transaction-specific standards and obligations.

While statements like UNEP FI and the Global Compact help point banks in the right direction, the CBRC should modify KPI 21.3 by deleting reference to the Global Compact and UNEP FI. Instead, it should reference other existing or emerging international norms – such as free, prior, informed consent, “no go zones” in or near UNESCO Heritage or Ramsar sites, requiring contract transparency, and banning the financing of coal projects abroad. These norms would be helpful for banks considering whether to extend credit and how to manage risks for particular projects. Such an amendment would better fulfill the intent of the KPIs, which are to ensure that overseas projects are enriched and improved upon by the observance and adoption of international practices and norms.

In sum, although Chinese banks may indeed be signing onto some standards, the ones they are currently endorsing tend to be the least robust and do little to ensure that banks’ overseas projects are actually meeting international expectations. In doing so, banks are choosing to pursue “easy commitments” that are less effective managing credit risk and less likely to minimize the environmental and social impacts caused by their financing activities.

KPI 21.4: Ensuring Alignment with International Practices

KPI 4.21.4 states, *"The banking institutions* ***shall make in-depth understanding of international best practice*** *of the assessment and control of environmental and social risks for international financing projects and* ***ensure alignment with good international practices in essence."***

Project	Meet	Barely Meet	Fail to Meet	Unclear
APRIL Pulp and Paper Mills			China Development Bank ICBC Ping An Bank China CITIC Bank of Communications Agricultural Bank of China China Construction Bank	
Bandung HSR			China Development Bank	
Hambantota Port			China Exim	
Lamu Coal Plant			ICBC	
Mes Aynak			China Development Bank China Exim	
Sasan UMPP			China Development Bank China Exim Bank of China	
Yamal LNG			China Development Bank China Exim	

This KPI aims to increase banks' institutional knowledge and capacity in ensuring that their overseas investments align with international practices. Based on case studies' impacts, however, Chinese banks are lagging in implementing good international practices.

The case studies suggest that Chinese banks particularly struggle with several international best practices, including those related to transparency (see **PART iii**).

One area of concern relates to the quality of Environmental and Social Impact Assessments, which were a serious problem in four out of our seven cases studies. For instance, in the Bandung HSR case, the EIA for the massive infrastructure project was developed in just seven days. Despite what should have been considered a fatal flaw in the EIA process, CDB (which evaluates environmental and social risks across departments[cclxxii]) accepted the EIA as a valid document in the loan application, allowing the project to move forward.

Similarly, in the Lamu coal plant case, ICBC moved forward with the transaction despite the fact that the ESIA contained significant gaps and did not include public consultations as required under Kenyan legal requirements. In this case, it is unclear whether or not ICBC was made aware of the EIA's inadequacy, whether an ICBC consultant failed to alert the bank, or whether the bank proceeded with the loan in breach of its own policies, which require valid EIAs to be included with the loan application. In both cases, it appears that the environmental and social impact assessments were either shoddily drafted or not properly reviewed. These cases beg the question of whether Chinese banks have staff on hand with the expertise and knowledge to differentiate between high or low quality ESIAs, in addition to actually assessing the information presented in the document. Because ESIAs are crucial documents to help bank staff understand the environmental, social, financial, and reputational risks of a project, it is imperative that banks require clients to submit high quality ESIAs.

Another international norm that Chinese banks seem to have particular difficulty in implementing and upholding is Free, Prior, and Informed Consent (FPIC). FPIC is an established international principle, and is recognized in the IFC

Performance Standards and UN Declaration on the Rights of Indigenous Peoples. In the seven case studies, FPIC was the most commonly violated international practice, as exemplified in the Bandung HSR, Mes Aynak, Lamu coal plant, Sasan UMPP, and APRIL pulp and paper projects. Given the significant consequences of failing to obtain free, prior, informed consent from local communities, banks should consider strengthening their institutional capacity in this regard, as clients and host country governments cannot always be relied upon in ensuring that FPIC is incorporated appropriately, especially in controversial resettlement cases.

Two of the case studies, the Lamu and Sasan coal plants, also point to a major area in which the Green Credit Guidelines could be strengthened: climate change. Climate change is one of the most pressing global environmental issues of our time, and any bank sustainability effort that fails to address it is missing a major opportunity. Within the field of sustainable banking, there is a wide range of climate-related lending policies and practices that international banks are adopting. Some of the most common, emerging policies include financing restrictions for the coal sector, which is the single largest source of human-made greenhouse gas emissions.

An increasing number of banks like Deutsche Bank, BNP Paribas, Société Générale, Crédit Agricole, Standard Chartered, JPMorganChase and others have committed to reduce or end financing for new coal fired power plants. These commitments vary in quality and detail. Furthermore, an OECD Member Export Credit Agency (ECA) agreement requires that export credit agencies restrict coal power plant financing, and when financing is provided, they must notify and demonstrate to other OECD member ECAs that an evaluation of less carbon-intensive energy alternatives has been carried out, and that such alternatives are demonstrated as not viable; export credit agencies must further demonstrate that the proposed project is compatible with the host country's national energy policy and climate mitigation policy and strategy.

These initiatives increasingly point towards a global trend away from overseas coal financing. Chinese banks now stand as the top players in global coal finance, with four private Chinese banks (China Construction Bank, ICBC, Bank of China and Agricultural Bank of China) ranked in the top 20. As part of their commitment to upholding international norms, Chinese banks should end financing for new coal-fired power plant and mining projects, and adopt and move beyond the OECD coal power financing restrictions.

Finally, another emerging international norm is contract transparency, especially for resource extraction projects. Many companies and governments are already publicly reporting on the revenues generated by extractive projects, but according to the Extractive Industries Transparency Initiative (EITI): "The benefits of contract disclosure are becoming increasingly evident: transparency can lead to increased investment stability, improved revenue collection and enhanced trust between all parties. It can ultimately lead to more balanced and sustainable deals[cclxxiii]". Requiring borrowers to disclose the contracts between companies and host governments, particularly with respect to environmental, community, labor, and other obligations, would enhance the durability of these deals and help banks mitigate risks associated with overseas extractive projects.

KPI 21.4 is aims to ensure that overseas Chinese lending aligns with good international social and environmental practices. These case studies reflect that Chinese banks and regulators should focus on adopting international norms related to ensuring transparency and contract disclosure, Free, Prior and Informed Consent, high quality Environmental and Social Impact Assessments, and phasing out financing for the coal sector.

KPI 21.5: Hiring Third Parties

KPI 21.5 states, *"The banking institutions* ***shall hire qualified and independent third-party to make assessment and examination of environmental and social risks*** *to the overseas financing projects* ***which arouse disputes in terms of their said risks.****"*

Project	Meet	Barely Meet	Fail to Meet	Unclear
APRIL Pulp and Paper Mills				China Development Bank ICBC Ping An Bank China CITIC Bank of Communications Agricultural Bank of China China Construction Bank
Bandung HSR				China Development Bank
Hambantota Port				China Exim
Lamu Coal Plant				ICBC
Mes Aynak				China Development Bank China Exim
Sasan UMPP				China Development Bank China Exim Bank of China
Yamal LNG				China Development Bank China Exim

This KPI essentially aims to ensure that, if a bank has already disbursed a loan to a project whose environmental or social risks is creating public controversy, the bank hires an independent third party to investigate. Each of the case studies indeed involved environmental and social impacts that spurred controversy, but based on publicly available information, it is not known whether or to what extent banks hired third parties to look into those disputes. As such, it is unclear if banks met this KPI.

Although hiring third parties can be helpful, over-relying on a third party to conduct an ex-post investigation on a controversial project is not necessarily an effective approach to resolving local conflicts. For instance, in all these case studies, many of the environmental and social risks could have been prevented or mitigated early on by requiring borrowers to conduct proper stakeholder consultation and upholding the principle of Free, Prior and Informed Consent. By listening to the concerns affected communities, companies can modify project design or timetables, increase community compensation and benefits, and take other steps to prevent conflict. Companies that uphold FPIC may ultimately decide not to pursue projects that fail to gain a social license to operate. As such, while hiring third parties can be beneficial in managing conflict resolution, assessing a bank's performance based on the number of third parties it has hired does not actually measure, let alone encourage, bank's ability to prevent and resolve conflicts between clients and affected communities. It merely indicates the number of third parties the bank has hired. Furthermore, the KPI does not allow space for nuance, such as explaining whether the hiring of a third party investigator ultimately improved environmental and social compliance or led to a decrease in grievances.

An alternative strategy banks can use for dealing with social conflict is to require borrowers to establish a project-level community grievance mechanism. Both the IFC performance standards and Equator Principles require grievance mechanisms for projects that pose high social or environmental risks/impacts on an ongoing basis. When designed well, these mechanisms can provide an accessible, culturally appropriate venue for communities to raise disputes and to have them resolved.

For their own part, banks can also reduce public controversy by increasing its own scrutiny of borrower-provided reports and data. For instance, in the Mes Aynak case, MCC hired a consultant to assist in developing a resettlement plan, but the consultant only engaged a small number of affected people, which in turn contributed to widespread disappointment and discontent regarding Chinese investment in the copper mine[cclxxiv]. In addition, banks can prevent and potentially resolve social conflict by seeking out and being receptive to community and NGO concerns about a project. As discussed earlier, in four out of seven cases, NGOs attempted to flag key environmental and social risks to banks early on, but no bank ever responded to concerns.

It is important to note that when NGOs reach out to banks, they tend to be keenly interested in supporting bank management of environmental and social issues. In their letter to CDB, WALHI West Java noted that, "As China continues to invest in our country, we hope that Chinese investment can in fact be on mutually favorable terms"[cclxxv]. In writing to CDB, China Exim, and the Silk Road Fund, Russian organizations did not call for an end to the project, but instead stated that they hoped to encourage Yamal LNG to draw upon the highest international standards in avoiding environmental impacts, and would "welcome a proactive and productive partnership with China Exim Bank and other Chinese stakeholders"[cclxxvi].

Interestingly, optional indicators in the GCG KPI already ask banks to report on the number of interactions and communication events of the institution with media and environmental NGOs, but given the lack of disclosure of KPI self-assessments, the public remains in the dark as to whether these kinds of interactions are documented and investigated within banks.

In sum, this KPI could be more meaningful if instead of simply measuring the hiring of third-parties to investigate, it is developed into a more comprehensive measurement of banks' problem-solving systems, which takes into account banks' capacity for employing both preventative and remedial solutions. For example, it could also measure the number of projects that establish grievance mechanisms, and track the outcomes of borrower and bank engagement with the public, both prior to and during project implementation.

PART III:
STRENGTHENING THE KPIS

Five years after the publication of the Green Credit Guidelines, Chinese banks are falling short in fulfilling the GCG's mandate to comply with host country law and international standards in overseas lending. In particular, banks continue to struggle in localizing their environmental and social risk assessments to host countries' legal system, and still have a long way to go in building institutional capacity, understanding, and applying international norms and standards. The publication of the GGC's Key Performance Indicators in 2014 were a welcome step in fostering better compliance with the Guidelines. As a well-known management adage states, "What gets measured, gets managed" – meaning the mere collection and tracking of data within an organization spurs internal conversations, management attention, and better performance on that data. At the same time, implementation of the GCG can be strengthened in two key ways:

First, a few KPIs should be re-focused in order to make them more useful to the Guideline's goal of upholding international best practice in overseas lending. In particular, KPI 21.3 on international practices and norms should not focus on vague statements such as the UN Global Compact or the UNEP Financial Initiative statement, but rather on project specific norms such as Free, Prior and Informed Consent, and the creation of effective project-level grievance mechanisms. In particular, the CBRC could make a major contribution to averting climate change by promoting Chinese bank adherence to international norms which curb financing for the coal sector. Similarly, the KPI regarding the hiring of independent third parties to resolve local disputes could be improved by emphasizing ways to create a robust system which can take both preventative and remedial measures when conflicts may emerge throughout a loan cycle.

Second, these case studies, as well as our 2014 report[cclxxvii], demonstrate that on multiple levels, banks have significant struggles in communicating and engaging with the public, which undermines the implementation of the GCGs. Based on our analysis, there are a number of things the CBRC could do to improve public communication and engagement in the Chinese banking sector.

Promote better bank-level disclosure

Requiring banks to conduct a self-assessment is a welcome step in the right direction, as it is a way that the CBRC can promote stronger implementation even if the GCG itself is not legally binding. However, they are not disclosed to the public. Requiring banks to disclose their self-assessments and information on their clients and projects could significantly help ensure bank accountability in implementing the GCG. The agency should also clarify that that the GCG requirements regarding internal controls and information disclosure apply to overseas investments, not just domestic lending.

The CBRC should also increase the usefulness of the institution-level information that banks provide to the public. For example, one KPI regarding information disclosure requires that banks "publish institution's green credit report/ corporate social responsibility (CSR) report/sustainability development report and disclose to stakeholders the information concerned", including "institution's strategy and policies on green credit". Although many banks now publish corporate sustainability reports, very few have published their actual environmental and social policies. The only Chinese bank in this report to have published its institutional, environmental policies is China Exim Bank.

Promote international norms in project-level disclosure

Chinese banks do not provide enough project-level disclosure, which is a major limitation to the efficacy of the GCGs. One KPI requires the banks to publish a "list of clients classified as Category A"; this is a good start but other international financiers go much further. For example, the World Bank, IFC, the Asian Development Bank, and African Development Bank disclose their lending decisions publicly and post-project EIAs on their websites. And although the CBRC provides helpful suggestions for incorporating client commitments in loan covenants, the agency should further

encourage banks to disclose these environmental loan covenants for projects. Publicly disclosing such commitments would not only be of great help to communities, who would then know what environmental commitments borrowers are obligated to uphold; but it would also encourage banks to follow through on their environmental and social commitments.

Finally, banks should promote better public disclosure by their clients. One international norm, which has been adopted by the IFC and the Equator Principle banks, require clients to consult and disclose project environmental documents locally in the appropriate language and cultural context well before construction occurs. Banks should also require that companies disclose to the community other project documents at least 90 days in advance, such as resettlement plans or social and environmental action/management plans (or other commitments or changes the company promises to make to ensure that they will meet specific standards).

Encouragingly, the GCG KPIs provide banks and regulators with an additional tool for evaluating performance and promoting stronger compliance; they also help Chinese banks sector become more sophisticated in assessing and regulating their environmental and social impacts abroad. However, our findings point towards a continued failure of banks to fully implement the GCG in overseas investments.

At this time, the KPIs remain a blunt instrument in encouraging green credit implementation on a project level, let alone across a bank's entire lending portfolio. More comprehensive disclosure would allow regulators and researchers to better verify and study the information provided in bank self-evaluations. Improving the KPIs and developing additional supporting documents, like the KPIs annex materials, could foster better environmental performance from the Chinese banking sector.

Implications for Belt and Road Investments

Given the immense geographical, political, and economic scope of the Belt and Road Initiative (BRI), the Chinese banking sector should learn from past overseas experiences in order to meet the challenges and opportunities of implementing BRI. As discussed in this report, BRI's proposed economic corridors traverse through some of the most politically fraught and environmentally sensitive regions in the world. Thus, the capacity of banks to adequately identify and preferably prevent – and if not, then mitigate – risks early on will be crucial for influencing the success or failure of investments.

As China prioritizes the BRI, Chinese banks are expected to serve "as the backbone for financial cooperation", with "domestic commercial banks serv[ing] as the follow up driver for commercial cooperation"[cclxxviii]. As such, Chinese banks should recognize their role and impact as influential drivers of both sustainable and non-sustainable investments, and make a concerted effort to promote development that is sustainable both in principle and practice.

In this report, the selected case studies exemplify new challenges and pitfalls that may be associated with BRI investments. For example, the BRI's emphasis on supporting international development via infrastructure investment poses some potential challenges. Although the model of development vis a vis infrastructure did indeed foster economic and industrial growth in China, that growth is now largely understood to have been uneven, sometimes resulting in "ghost cities" which are not former boom towns but cities that have yet to come to life[cclxxix]. Although large, unprofitable infrastructure programs on a provincial level can be kept alive by the central government in China, host country governments may not be able to afford to indefinitely support projects with limited financial returns. In particular, the Bandung HSR and the Hambantota Port demonstrate the potential pitfall of failing to fully consider the lack of local demand for infrastructure projects, resulting in not only environmental and social conflicts, but financially unfeasible projects which saddle host country governments with immense foreign debt.

As referenced in the One Belt, One Road Vision Statement, there is indeed an infrastructure gap in Asia[cclxxx]. However, that should not lead to the misguided assumption that all infrastructure projects will have beneficial economic or development impacts. In the case of the Bandung HSR, the Indonesian government at one point cancelled the project, citing the project's high cost and lack of demand; instead, the Indonesian government called for the development of a medium speed train. However, CDB's offer to forego the requirement of a sovereign risk guarantee, an unusual decision for a project of this scale, in essence allowed the Indonesian government to shift all financial risk to Chinese developers. Of course, doing so enabled China to continue with plans of constructing a high speed rail, rather than the medium speed train proposed by the Indonesian government. This example reflects a dynamic where Chinese interest in cultivating demand for large infrastructure projects may not necessarily align with the local realities of the actual kinds of infrastructure needed by host countries[cclxxxi].

In the same vein, as a sleepy beach town, Hambantota had no need for an international port. Since its opening, the Hambantota Port has not led to any meaningful economic growth to the region. Instead, the port (and other Chinese financed infrastructure projects such as the infamously empty Mattala Rajapaksa International Airport) have mired Sri Lanka in Chinese debt[cclxxxii]. In 2016, Sri Lanka sought a $1.5 billion USD loan from the International Monetary Fund in order to help the country repay its swelling foreign debt, a significant amount of which is owned to China[cclxxxiii].

Given the initiative's massive scale and scope, Chinese banks and investors will need to consider the climate and carbon impacts of their BRI investments, especially in the coal sector. Although China is making progress domestically in curbing emissions, the same cannot be said of its overseas investments. Both the Lamu and Sasan UMPP coal projects reflect a treacherous disconnect between China's commitment to fighting climate change at home versus abroad. In particular, as the One Belt, One Road Vision document identifies energy infrastructure as a key area for cooperation, Chinese banks ought to

consider the long-term impacts of coal investment in “locking in” countries to a fossil fuel based energy economy.

Furthermore, when financing the export of coal technologies overseas, banks should consider whether such projects support or jeopardize a host country’s ability to meet its Nationally Determined Contributions (NDC) targets under the Paris Agreement of the United Nations Framework Convention on Climate Change. According to analysis from *China Dialogue*, the gap between China’s approaches to climate change at home and abroad has led to concerns that China will “export its carbon emissions as it moves up the global value chain, threatening any fragile international progress on emissions reduction”[cclxxxiv]. China has already developed stringent standards in regards to domestic coal financing, and so applying those standards to overseas investments could be a first step towards ensuring banks are not complicit, let alone active, in financing projects which hamper international efforts to fight climate change.

Lastly, perhaps the most pressing challenge facing Chinese banks is the lack of public communication channels. Given the high profile of the BRI, Chinese investors will be judged not only on their environmental and social performance, but by their ability to work with affected communities and civil society groups. The BRI hopes to unite the world through networks of mutual economic self-interest and “people to people bonds”, but this cannot be accomplished without meaningful communication with local communities, civil society groups, and other stakeholders.

In each of our case studies, open channels of communication with affected stakeholders could have prevented or at least mitigated negative impacts. Local communities and organizations have attempted to communicate their concerns to Chinese financiers in at least four projects discussed in this report. However, no bank ever responded to their concerns. If Chinese banks are to succeed in fulfilling their sustainable finance policy obligations, creating accessible public channels of communication will be a critical first step towards building a green – and not brown – Belt and Road.

POLICY RECOMMENDATIONS

As China encourages banks to boldly increase their project lending in Belt and Road countries, both banks and the CBRC should act decisively to strengthen compliance with Article 21 of the Green Credit Guidelines. Ensuring that Belt and Road projects adhere to relevant laws and uphold international best practice has benefits for Chinese banks, host countries, local communities, and China's image abroad.

Recommendations for Chinese Bank Regulators

General Recommendations

- Establish public channels of communication, including specific staff or departments to manage public inquiries or requests for information.
- Develop supporting documents to foster GCG compliance, such as common definition of terms.
- Require banks to publicly publish their institutional environmental and social financing policies, as well as a list of current clients and their environmental and social obligations or loan covenants.
- Publish policies which set clear thresholds and limitations for curbing financing away from high carbon, high emission investments overseas in the energy sector

Recommendations for Improving KPIs

- Publish banks' KPI self-evaluations.
- Promote Chinese bank adherence to the international norm of phasing out coal financing.
- Confirm that KPIs applying to risk management, internal controls and information disclosure apply equally to overseas investments.
- Refocus KPI 21.3 and 21.4: Rather than encourage banks to sign onto statements such as the UN Global Compact or UNEP Financial Initiative, encourage them to adopt stronger international banking standards such as the Equator Principles, and international best practices such as FPIC.
- Adjust KPI 21.5 by emphasizing robust ex-ante public consultation as a way of addressing controversial projects, and the development of project grievance mechanisms.

Recommendations for Chinese Banks

- Establish public channels for stakeholder engagement, including specific staff or departments to manage public inquiries or requests for information.
- Improve project due diligence by conducting site visits, communicating with project stakeholders, including local people, and seeking independent information about borrower environmental management systems and practices.
- Require borrowers to publish project ESIAs within 80 days of completion, and to ensure that ESIAs are conducted according to international best practice.
- Require borrowers to establish a project level grievance mechanism and redress fund for high environmental and social risk investments
- Formally adopt international banking standards such as the Equator Principles, and adopt international best practices such as FPIC and phasing out of financing for the coal sector.
- Publish KPI self-evaluations; the text of all institutional-wide environmental and social policies, and a list of current clients and their environmental and social obligations or loan covenants.
- Uphold international best practice in requiring clients to disclose environmental and social information to communities.

APPENDIX 1: EVOLVING INTERNATIONAL NORMS AND STANDARDS

International norms and best practices are constantly evolving. This appendix provides a brief overview of the most cutting edge standards and trends applicable to the international banking sector.

Environmental and Social Impact Assessments (ESIA)

International best practices require that an environmental and social impact assessment should take into account cumulative impacts and be conducted in a transparent and participatory manner.

Resources

- "Principles of environmental Impact Assessment Best Practice", International Association for Impact Assessment in cooperation with Institute of Environmental Assessment, UK[cclxxxv]
- Frank Vanclay, "International Principles for Social Impact Assessment", Impact Assessment and Project Appraisal, Volume 21: Number 1, March 2003[cclxxxvi]
- "Biodiversity in Impact Assessment", International Association for Impact Assessment, July 2005[cclxxxvii]
- International Best Practices Principles Series, International Association for Impact Assessment[cclxxxviii]

Free, Prior, and Informed Consent

Free, prior, and informed consent (FPIC) is codified under the United Nations Declaration on the Rights of Indigenous Peoples. It provides a framework for ensuring that indigenous peoples are: **free** from intimidation or coercion from companies or governments in making decisions; given sufficient time to consider projects **prior** to any construction or development; informed about all potential project impacts; and have the right to **consent** or reject a project.

Institutions such as the International Finance Corporation also require clients to follow FPIC for indigenous peoples and groups which are "separate from those of the mainstream society or culture". FPIC is also referenced in Chinese policies governing overseas investments, such as the Guidelines for Social Responsibility in Outbound Mining Investments, published by the China Chamber of Commerce for Minerals, Metals, and Chemicals.

Today, it is considered international best practice to apply FPIC principles to all project affected communities.

Resources

- "United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP)", adopted by General Assembly of the United Nations September 13, 2007[cclxxxix]
- "IFC Performance Standards on Environmental and Social Sustainability", IFC, January 1, 2012[ccxc]
- "Guidelines for Social Responsibility in Outbound Mining Investments", China Chamber of Commerce for Minerals, Metals, and Chemicals, October 2014[ccxci]

Information Disclosure and Transparency

Transparency is a critical tool in fostering good governance and fighting corruption. The majority of multilateral financial institutions have developed varying levels of requirements regarding access to information and transparency policies. For instance, the Asian Development Bank is required to post online draft EIAs for Category A projects at least 120 days before Board consideration, in addition to resettlement plans and a project's updated or final EIAs. The Equator Principles require bank clients to, at minimum, post an online summary of ESIA information and GHG emissions on a project level. Furthermore, the OECD Common Approaches require that environmental and social impact information be made public at least 30 days prior to final commitment to grant official support. Although

many financial institutions can further improve their information disclosure and transparency practices, it is generally considered common practice for banks to publicly disclose environmental, social, and financing information regarding their project financing and corporate loans well in advance of decision-making points, and often in locally relevant languages.

Resources

- "Public Communications Policy 2011", Asian Development Bank, 2011[ccxcii]
- "Equator Principles III", Equator Principles, June 201[ccxciii]
- "Recommendation of the Council on Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence ('The Common Approaches')", OECD Council, April 6, 2016[ccxciv]

In addition to disclosing key environmental and social documents, there is an increasing recognition of contract transparency as an emerging international norm. For instance, the Extractive Industries Transparency Initiative (EITI) encourages contract disclosure, and during an EITI sponsored event with government, corporate, and civil society stakeholders, contract transparency was noted as a best practice linked to improving investment stability, improved revenue collection, and enhanced trust.[ccxcv]

Resources

- "The EITI Standard 2016", Extractive Industries Transparency Initiative, 2016[ccxcvi]
- "Open Contracting Partnership: Global Principles", Open Contracting Partnership[ccxcvii]

International Shift Away from Coal and Other Fossil Fuels

The increasing public outcry over the banking sector's large role in financing climate change has led to an international shift away from public and private sector coal and other fossil fuel financing. Institutional public financiers such as the World Bank, European Investment Bank, European Bank for Reconstruction and Development, U.S. Export-Import Bank, and most OECD-member export credit agencies have pledged to restrict coal power plant projects except in rare cases. The Brazilian National Development Bank has also committed to no longer fund coal or oil power plants[ccxcviii].

Private banks such as Bank of America, Credit Agricole, Natixis, Citigroup, Goldman Sachs, Société Générale, BNP Paribas, Morgan Stanley and Wells Fargo have also developed coal policies[ccxcix]. According to an analysis conducted by BankTrack, although some banks have reduced their exposure to the coal sector, four Chinese banks (Bank of China, China Construction Bank, ICBC, and Agricultural Bank of China) are among the world's top ten private bank financiers of coal[ccc].

Resources

- "The Coal Test: Where Banks Stand on Climate at COP 21", BankTrack, December 2015
- "Banking on Climate Change: Fossil Fuel Finance Report Card 2017", Banktrack, June 2017.

Establishing "No-Go" Zones in or near internationally recognized landmarks, such as UNESCO World Heritage or Ramsar Wetlands Sites

In light of increasing threats to World Heritage Sites, especially from extractive industries, in 2013 the World Heritage Committee adopted Decision 37, which calls on "all States Parties to the Convention and leading industry stakeholders, to respect the 'No-go' commitment by not permitting extractives activities within World Heritage properties, and by making every effort to ensure that extractives companies located in their territory cause no damage to World Heritage properties, in line with Article 6 of the Convention"[ccci]. The decision was supported by the International Union for Conservation of Nature (IUCN) and International Council on Mining and Metals (ICMM).

Private banks and companies have adopted policies which establish various levels of "no-go" zones to protect internationally recognized regions[cccii]. For instance, HSBC has adopted a policy that precludes financing to projects

which may result in a World Heritage Site being downgraded to “in danger”, or threaten a Ramsar designated area[ccciii]. In 2014, seven private banks also pledged not to finance a massive coal terminal located just outside the Great Barrier Reef[ccciv]. Even some Chinese state-owned enterprises, such as Sinohydro, have designated UNESCO World Heritage Sites, Ramsar Wetlands, and habitats of endangered species as “no-go” zones[cccv].

Resources

- “Respecting World Heritage Sites”, International Union for Conservation of Nature[cccvi]
- Ivo Mulder, “Biodiversity, the next challenge for financial institutions ? A scoping study to assess exposure of financial institutions to biodiversity business risks and identifying options for business opportunities”, International Union for Conservation of Nature, 2007[cccvii]
- “Sinohydro Environmental Policy”, Sinohydro[cccviii]

Grievance Mechanisms

The obligation of business enterprises to address and remedy grievances among affected and potentially affected communities is codified in the Guiding Principles on Business and Human Rights. Principle 29 states that operational level grievance mechanisms must perform two functions:

> *“First, they support the identification of adverse human rights impacts as a part of an enterprise’s ongoing human rights due diligence. They do so by providing a channel for those directly impacted by the enterprise’s operations to raise concerns when they believe they are being or will be adversely impacted. By analysing trends and patterns in complaints, business enterprises can also identify systemic problems and adapt their practices accordingly;*
>
> *Second, these mechanisms make it possible for grievances, once identified, to be addressed and for adverse impacts to be remediated early and directly by the business enterprise, thereby preventing harms from compounding and grievances from escalating”[cccix].*

Most public financial institutions have their own project level grievance mechanisms and/or require clients to have such redress mechanisms. Multilateral banks such as the World Bank, the African Development Bank, Asian Development Bank, European Investment Bank, European Bank for Reconstruction and Development, and the Inter-American Development Bank have each developed various forms of inspection panels, ombudsman offices, accountability mechanisms, and/or compliance review panels to ensure access to remedy among project affected communities. The IFC also requires clients to establish grievance mechanisms for projects and operations which “involve ongoing risk and adverse impacts on surrounding communities”. In an effort to support clients develop productive, legitimate grievance mechanisms, the IFC has published a series of notes and best practices on the matter[cccx]. Significantly, grievance mechanisms must be easily accessible by affected and potentially affected communities.

Furthermore, numerous national development banks, development finance institutions, and export credit agencies have established various channels to ensure project accountability. Examples include Brazilian Development Bank, Export Development Canada, U.S. Export-Import Bank, Japan Bank for International Cooperation, Japan International Cooperation Agency, Nippon Export and Investment Insurance, Netherlands Development Finance Company, and the U.S. Overseas Private Investment Corporation. Although the majority of grievance mechanisms among public and private banks still require significant improvement in offering meaningful remedy, the increasing adoption of such accountability mechanisms indicate a growing recognition in the international banking sector of the importance of resolving affected communities’ concerns.

Resources

- “Addressing Grievances from Project-Affected Communities: Guidance for Projects and Companies on Designing Grievance Mechanisms”, International Finance Corporation, 2009[cccxi]
- “Guiding Principles on Business and Human Rights: Implementing the United Nations “Protect, Respect and Remedy” Framework”, United Nations Human Rights Office of the Commissioner, 2011[cccxii]
- “Accountability Resource Guide: Tools for Redressing Human Rights and Environmental Abuses in International Finance and Development”, Accountability Counsel, August 2015[cccxiii]

APPENDIX 2:
GREEN CREDIT GUIDELINES KPIs

Part I: Qualitative Performance Indicators

CHAPTER2: ORGANIZATION AND MANAGEMENT						
	Project		Meet	Barely Meet	Fail to Meet	N/A
Responsibilities of the Board of Directors	**Article 7** The board of directors or supervisory board of a banking institution is responsible for developing green credit development strategy, approving the green credit objectives developed by and the green credit report submitted by senior management, and monitoring and assessing the implementation of green credit development strategy.					
	Objective: Ensure the effective setup of green credit strategy and objectives Core Indicators:					
	2.7.1	The board of directors approves the strategy to support green, low-carbon and recycling economy, to strengthen environmental and social risk management, and to improve institution's environmental and social performance.				
	2.7.2	The board of directors approves annual and medium-to-long term objectives of implementing green credit strategy.				
	Objective: Ensure the effective monitoring and implementing of green credit strategy Core Indicators:					
	2.7.3	The board of directors shall, based on its due responsibility, monitor the implementation of green credit strategy and ensure that its requirements and objectives are met.				
		(1) The board of directors shall, based on the approved green credit strategy and goals, make requirements and responsibility to the management team for the reporting.				
		(2) The board of directors shall appoint an ad hoc committee to monitor the implementation of the green credit strategy and the achievment of its goals.				
		(3) The board of directors should be equipped at least one member with expertise in green credit.				
		(4) The audit committee of the board of directors shall invite third-party auditing firms or commission bank's internal auditing department to conduct a specific auditing for environmental and social risks management to some typical projects selected by sample.				

		(5) The salary committee of the board of directors shall strengthen monitoring to make sure that the implementation of the green credit be appropriately reflected in the overall performance evaluation of the senior management and other related employees.				
Responsibilities of the Senior Management Team	**Article 8** The senior management of a banking institution shall, pursuant to the resolutions of the board of directors or supervisory board, develop the green credit objectives, have in place relevant mechanisms and processes, define clearly the roles and responsibilities, conduct internal checks and appraisal, annually provide report to the board of directors or supervisory board on the development of green credit, and timely submit relevant reports to competent supervisory authorities.					
	Objective: Ensure the effective setup of senior management mechanism necessary for implementing green credit strategy Core Indicators:					
	2.8.1	The senior management shall develop the strategy to support green, low-carbon and recycling economy, to strengthen environmental and social risk management, and to improve institution’s environmental and social performance.				
	2.8.2	The senior management shall set annual as well as medium-and-long term goals of implementing green credit strategy. The goals should be itemized and implemented by geographical and functional business units.				
	2.8.3	The senior management shall approve the polices and procedures of implementing green credit strategy.				
	2.8.4	The senior management shall well define the responsibilities of geographical and functional business units for implementing green credit strategy.				
	2.8.5	The senior management shall conduct internal control and performance appraisal relevant to the key objectives of green credit strategy.				
	2.8.6	The senior management shall report to the board of directors periodically (at least once each year) the implementation of green credit strategy.				
Dedicated Green Credit Team	**Article 9** The senior management of a banking institution shall assign a senior officer and a department and configure them with necessary resources to organize and manage green credit activities. Where necessary, a cross-departmental green credit committee can be set up to coordinate relevant activities.					
	Objective: Ensure dedicated officer and department to implement green credit strategy and configure with necessary resources Core Indicators:					

Dedicated Green Credit Team	2.9.1	The senior management shall develop the strategy to support green, low-carbon and recycling economy, to strengthen environmental and social risk management, and to improve institution's environmental and social performance.				
	2.9.2	The senior management shall set annual as well as medium-and-long term goals of implementing green credit strategy. The goals should be itemized and implemented by geographical and functional business units.				
	Optional Indicator(s)					
	2.9.3	A cross-departmental green credit committee can be set up to coordinate relevant activities.				
CHAPTER3: POLICY, SYSTEM AND CAPACITY BUILDING						
Policy Development	**Article 10** Banking institutions shall, as per national environmental protection laws and regulations, industrial policies, sector entry policies, and other applicable regulations, establish and constantly improve the policies, systems and processes for environmental and social risk management and identify the directions and priority areas for green credit support. As for industries falling within the national "restricted" category and industries associated with major environmental and social risks, they shall customize credit granting guidelines, adopt differentiated and dynamic credit granting policies, and implement the risk exposure management system.					
	Objective: Develop concrete polices to support green, low-carbon and recycling economy, to strengthen environmental and social risk management, and to improve institution's environmental and social performance Core Indicators:					
	3.10.1	The banking institutions shall formulate relevant policies on the directions and priority areas for green credit support				
	3.10.2	The banking institutions shall formulate relevant policies on the environmental and social risk management, including process and operation procedure.				
	3.10.3	As for industries falling within the national "restricted" category, associated with major environmental and social risks, and having been granted significant lending amount, the banking institutions shall customize credit-granting guidelines (please refer to Appendix I for the industries recommended to develop customized guidelines), adopt differentiated and dynamic credit granting policies, and implement the risk exposure management system.				
	3.10.4	The banking institutions shall formulate relevant policies on fulfilling corporate environmental-and-social responsibilities and on improving institution's environmental and social performance.				

Categorized Management	**Article 11** Banking institutions shall develop client environmental and social risk assessment criteria, dynamically assess and classify client environmental and social risks, and consider the results as important basis for credit rating, access, management and exit. They shall adopt differentiated risks management measures concerning loan investigation, review and inspection, loan pricing and economic capital allocation. Banking institutions shall prepare a list of clients currently faced with major environmental and social risks, and require these clients to take risk mitigation actions, including developing and having in place major risk action plans, establishing sufficient, effective stakeholder communication mechanisms, and finding a third party to share such risks.					
	Objective: Develop concrete polices to support green, low-carbon and recycling economy, to strengthen environmental and social risk management, and to improve institution's environmental and social performance Core Indicators:					
	3.11.1	The banking institutions shall define the contents of environmental and social risks of clients concerned and formulate the (benchmarking) standard of environmental and social risk appraisal to the clients.				
	3.11.2	The banking institutions shall develop categorization standard and classify the clients according to their environmental and social risks:				
		Category A: Clients whose construction, production, and business activities may dramatically change the environment status quo and bring irreversibly adverse environmental and social results. The clients, who run the development and operation of the following projects, shall be categorize as A in principle:				
		Nuclear power station; large-scale hydropower station and water resources projects; resource extractive projects; large-scale infrastructure projects in environmental and social sensitive area; large-scale infrastructure projects in minority nationality residence; large-scale industrial projects in the neighborhood of populous residence or water supply sources.				
		Category B: Clients whose construction, production, and business activities have adverse environmental and social risks but largely reversible through mitigation measures. The clients, who run the development and operation of the following projects, shall be categorize as B in principle:				
		Petroleum refining, coking and nuclear fuel processing; chemical material and product manufacturing; ferrous metal smelting and rolling processing; non-ferrous metal smelting and rolling processing; nonmetallic mineral products; thermal power generation, heat power generation and supply, gas generation and supply; large-scale infrastructure and building; long-distance transportation (including pipeline transport), intra-city and inter-city rail-transit.				
		Category C: Clients whose construction, production, and business activities have little environmental and social risks.				
		(Please refer to Appendix II for the industrial sector classification)				

	3.11.3	The bank shall conduct dynamic evaluation to the clients in Category A and B of their progress towards controlling environmental and social risks. The assessment result should be served as important criteria in making related decisions of credit grading as well as credit access, management and withdrawal. Based on the result, the bank shall adopt differentiated risk management measure in "due diligence before loan-granting, risk assessment during loan-granting and risk management examination after loan-granting", loan pricing and economic capital allocation.				
		Please refer to Appendix III for the methods of implementing dynamic assessment to clients in Category A and B of their progress towards controlling environmental and social risks.				
	3.11.4	The bank shall better manage risks by preparing such a watch list of clients who are faced with significant environmental and social risks as:				
		(1) the clients classified as Category A in terms of environmental and social risks and those in Category B but lacking risk mitigation measures;				
		(2) the enterprises which are confirmed by relevant national and provincial authorities as severely violating related laws and regulations in environmental protection and safety production;				
		(3) the enterprises which are confirmed by relevant national authorities as requiring closely monitoring and supervision in energy conservation, water saving, emission reduction, environmental protection and safety production.				
		(4) Other clients which are identified by the banking institution as requiring closely monitoring and supervision in environmental and social risk management.				
	3.11.5	To the clients in the watch list, the bank shall take risk mitigation measures to address the environmental and social risks specific to the clients, including developing and implementing action plan in response to significant risks, establishing sufficient and effective stakeholder communication mechanism, seeking for environmental and social risk sharing facility by the third-party.				
Green Finance Innovaiton	**Article 12** Banking institutions shall create a mechanism that encourages green credit innovation. banking institutions shall promote innovation in green credit business process, products and services under the premises of effective control of risks and sound commercial viability.					
	Objective: Encourage green credit innovation Core Indicators:					

	3.12.1	The banking institutions shall provide support for the development of green credit products and services, which should enjoy high priority through effective mechanism, such as reasonably allocating economic capital and credit resources.				
	3.12.2	The banking institutions shall streamline internal work flow so that a "green" channel is established to facilitate the R&D, review & approval, and promotion of green credit products and financial services.				
	3.12.3	The banking institutions shall actively develop financial products and services related to green, low carbon and recycling economy.				
	3.12.4	In align with relevant regulatory directives, the bank shall actively develop green credit products and financial services to support "rural area, agriculture and peasants" and small and mini- enterprises.				
	3.12.5	The banking institutions shall actively develop e-banking and other emerging banking services.				
Self Performance	**Article 13** Banking institutions shall improve E&S performances of its own operations, put in place relevant systems, emphasize green credit awareness raising, standardize business conducts, promote green office and improve resources efficiency.					
	Objective:Improve environmental and social performance of its own operations Core Indicators:					
	3.13.1	Enhance green credit concept education and promote green action involved by all staff:				
		(1) Integrating green credit concept into the institution's core value;				
		(2) Developing and implementing the institution's social volunteer action plan and encourage staff to actively participate in environmental and social activities organized by the institution or other social organizations.				
	3.13.2	The banking institutions shall develop relevant policies and establish corresponding mechanism to standardize business behavior and consciously safeguard consumers' interest.				
	3.13.3	The banking institutions shall develop plan and strengthen communication and interaction with community where the institution is located to promote community development				
	3.13.4	The banking institutions shall promote green office and raise the level of intensive management through:				
		(1) Establishing internal environmental footprint management program, benchmarking the consumption of electricity, water, paper & gasoline and setting quantified saving target;				
		(2) Recycling the waste, such as waste paper, waste battery, waste lighting utensil, and waste furniture;				

		(3) Using video conference, conference call and other electronic office system to replace unnecessary business travel;				
		(4) Strictly leading an economy working style, reducing hospitality and other business-related expenditure and prohibiting business-related wasting;				
		(5) Promoting green procurement;				
		(6) Paying attention to the public building energy conservation with energy efficiency meeting the national advanced standards.				
	3.13.5	The banking institutions shall care about employee's ask and safeguard their legal right and interest:				
		(1) Establishing an employee recruitment system highlighting "transparency, fairness, and equity", prohibiting bias in any aspect;				
		(2) Paying attention to employee's demand for career development and other reasonable claim and establish appropriate employee support scheme;				
		(3) Giving priority of the career development opportunities to the female, the minority and the disability who have the same qualification as others;				
		(4) Developing and implementing behavior norm for the management personnel to create a respected working environment.				
	3.13.6	The banking institutions shall implement social responsibility, providing appropriate positions for the disability.				
Capacity Building	**Article 14** Banking institutions shall strengthen green credit capacity building, establish and improve green credit labeling and statistics system, improve relevant credit management systems, enhance green credit training, develop and employ related professionals. Where necessary, they can hire an eligible, independent third party to assess environmental and social risks or acquire related professional services by means of outsourcing.					
	Objective:Build and strengthen the capacity of the institutions to implement green credit Core Indicators:					
	3.14.1	The banking institutions shall strengthen green credit capacity building and take the green credit knowledge and expertise requirements into account of the new professional and managerial positions.				
	3.14.2	The banking institutions shall establish labeling system to identify clients' environmental and social risk category, which shall be integrated into banking institutions' credit management system, IT system and client statistics system.				
	3.14.3	According to the regulatory requirements, the banking institutions shall establish and conduct green credit statistics system.				

	3.14.4	The banking institutions shall strengthen staff capacity building, develop green credit training programs, cultivate and recruit relevant professionals, through:				
		(1) Considering and cultivating multi-disciplinary education and working background and experience of the staff so that the technical, economic and social knowledge for promoting energy-saving and environmental protection can be effectively supplemented among staff;				
		(2)Enhancing the circulation, communication and sharing of knowledge and information on environmental and social responsibilities, through the ways of developing internal website and interactive platform, organizing on-site lectures and video training, etc.				
		(3) Integrating green-credit related courses into employee's orientation and on-job training program.				
		(4) Providing green credit training courses to newly appointed member of the board of directors, the board of supervisory and the senior management team;				
		(5) Collecting and summarizing green credit cases for study and discussion, as a way to make green credit training more focused and effective;				
		(6) Cultivating and hiring relevant professionals according to the development priority of institutions' green credit strategy.				
	3.14.5	The bank shall enhance team buildup to form collective actions working on green credit:				
		(1) Establishing environmental and social risk management team to lead the environmental and social risk management of the institution and equipping for the functional departments or business units with dedicated (for large-scale institutions) or adjunct (for small-and-medium institutions) staff for environmental and social risk management;				
		(2) Establishing a cross-departmental team responsible for the research, development and promotion of green credit products, consisting of members from relevant departments of research & development, corporate banking, risk management and credit management.				
		(3) Establishing a cross-department team responsible for improving the institution's own environmental and social performance, consisting of members from relevant departments of public relations, risk management, corporate banking and credit management.				
	3.14.6	Where necessary, the bank shall assess the environmental and social risks of the clients in the following categories, through commissioning to qualified and independent third-party or other effective outsourcing services:				

		(1) Clients in Category A in terms of environmental and social risks;				
		(2) Clients in Category B but the banking institutions lack sufficient information or make no confident judgment to their environmental and social risks;				
		(3) Other clients the banking institutions expect high environmental and social risks.				
CHAPTER4: PROCESS MANAGEMENT						
Due Diligence	**Article 15** Banking institutions shall strengthen due diligence in credit granting. The scope of due diligence on environmental and social risks shall be defined according to characteristics of the sector and region in which the client and its project is located, so as to ensure the due diligence is complete, thorough and detailed. Where necessary, the banking institutions can seek for support from en eligible, independent third party and competent authorities.					
	Objective: Strengthen due diligence on environmental and social risk to banking institution's clients and their projects. Core Indicators:					
	4.15.1	The banking institutions shall define relevant system and procedure to make sure that environmental and social risk assessment be integrated, as an important part, into the process of due diligence before making credit-granting decision.				
	4.15.2	The banking institutions shall ensure that employees conducting due diligence are equipped with required knowledge and expertise of environmental and social risks. They can, with the support from experts if necessary, make appropriate judgment on the extent of the environmental and social risks of the firms and projects to be granted credit.				
	4.15.3	The banking institutions shall define the scope of due diligence on environmental and social risks according to characteristics of the sector and region in which the client and its project is located:				
		(1) Labor and working condition;				
		(2) Explosive and chemical management;				
		(3) Pollution prevention and control;				
		(4) Community health, safety and security;				
		(5) Land acquisition and involuntary resettlement;				
		(6) Biodiversity conservation and sustainable management of living natural resources				
		(7) Indigenous peoples				
		(8) Cultural heritage				
		(9) Supply chain				
		(10) Clients' environmental and social risk assessment and management system				

	4.15.4	The banking institutions shall develop and use standardized environmental and social risk due diligence checklist customized for different industrial sectors and for different types. A supplementary checklist is required for uncommon clients.				
	4.15.5	The banking institutions shall well compare the environmental and social risk information provided by the clients with that acquired from other resources (such as supervisory authorities, industrial association, credit-rating agencies, regulators, media, and communities) so that the bank can accurately assess client's environment and social risks.				
	4.15.6	Based on the comprehensive, in-depth and in-detail assessment of client's environmental and social risks, the banking institutions shall make overall evaluation on the client's willingness, capacity and track-record of its environmental and social risk management and make preliminary classification of client's environmental and social risk category.				
	4.15.7	For those clients and projects in which environmental and social risks are difficult to identify for their complexity and severity, the banking institutions can seek for support from an eligible, independent third party and competent authorities.				
Compliance Examination	**Article 16** Banking institutions shall examine the compliance of clients to whom credit will be granted. As for environmental and social performance, compliance checklist and compliance risk checklist shall be developed according to the characteristics of different sectors, so as to ensure compliance, effectiveness and completeness of the documents submitted by the clients, and make sure they have paid enough attention to related risk points, performed effective dynamic control, and satisfied the requirements on substantial compliance.					
	Objective: Strictly examine the environmental and social risks of clients and their projects to ensure compliance both in documentation and in substanc Optional Indictors:					
	4.16.1	The banking institutions shall define relevant system and procedure to integrate environmental and social risks into, as an important part, the compliance examination.				
	4.16.2	The banking institutions shall ensure that employees examining the compliance are equipped with sufficient knowledge and expertise of environmental and social risks. They can, with the support from experts if necessary, make appropriate judgment that projects to be granted credit meet the compliance requirement both in documentation and in substance.				

Compliance Examination	4.16.3	As for environmental and social performance, compliance checklist and compliance risk checklist shall be standardized according to the characteristics of different sectors, so as to make sure the clients have paid enough attention and make sufficient explanation to related risk points in their compliance review documents submitted.				
	4.16.4	According to the characteristics and severity of the environmental and social risks the clients and their project will face, the bank shall require clients to submit compliance examination documents. The bank shall review the documents and ensure that they meet the compliance requirement in formality with authoritativeness, completeness and following related legal procedures. The compliance documents may include but not limit the following contents:				
		(1) Industrial sector policies and market access standards, including the implementation of retaining "high-pollution, high-emission and overcapacity" projects (please refer to Appendix IV for details) and of eliminating outdated industrial capacities.				
		(2) Project examination, approval and filing				
		(3) Preliminary review or approval of land use				
		(4) Environmental impact assessment, including the impacts to the community and communication with impacted communities. The bank shall pay more attention to the authenticity, representativeness, compliance in procedures, and validity of the community involvement.				
		(5) Social stability risk assessment				
		(6) Energy-saving evaluation and energy-saving monitoring results of national and provincial level energy-saving enterprises				
		(7) Safety production and sanitation/health standard implementation				
		(8) Urban planning examination				
		(9) Other important compliance requirements				

	4.16.5	The banking institutions shall make necessary and appropriate efforts to make sure that the clients have paid enough attention to related environmental and social risk points and performed effective dynamic control, and satisfied the requirements on substantial compliance. The banking institutions shall ensure that projects granted credit should, in essence, meet the requirements of national industrial policies and follow the technological and economic trend of industrial development. The banking institutions shall make sure that the projects meet the overall requirements of project and planning environmental impact assessment. The bank institutions shall ensure that the technological and economic standard of the project enjoy leading status in China and meet international level.				
Credit Approval	**Article 17** Banking institutions shall strengthen credit approval management, and define reasonable level of credit granting authority and approval process according to the nature and severity of environmental and social risks faced by the clients. Credits may not be granted to clients whose environmental and social performance fails to meet compliance requirements.					
	Objective: Strengthen credit-granting approval management and implement risk-mitigation measure to address clients' environmental and social risks Core Indicators:					
	4.17.1	The environmental and social risk management team of banking institutions shall conclusively indentify the nature and severity of environmental and social risks faced by the clients, and then classify them into applicable category and manage the risks in a dynamic way.				
	4.17.2	To clients classified as Category A or Category B, the environmental and social management team shall prepare a written assessment which can be referred by credit-granting and other related departments. The environmental and social risk assessment shall cover:				
		(1) the potential environmental and social risk points of clients(projects);				
		(2) proposed follow-up measures for clients (or projects) to manage environmental and social risks;				

		(3) A comprehensive evaluation to client/ project's environmental and social risk status				
	4.17.3	Based on the clients' environmental and social risk category, the banking institutions shall establish differentiated credit-granting procedure and permission:				
		(1) The banking institutions may go through regular credit-granting procedure for clients classified as Category C in terms of environmental and social risks.				
		(2) The banking institutions shall suspend credit-granting procedure for those clients classified as Category A or B and with a negative assessment given by environmental and social risk management team.				
		(3) For Category B clients with a positive assessment given by the environmental and social risks management team, the credit granted for medium-and-long term projects, such as project financing, fixed-asset loan, shall be approved by at least branch-level and above.				
		(4) For Category A clients with a positive assessment given by the environmental and social risk management team, the credit granted for medium-and-long term projects, such as project financing, fixed-asset loan, shall be approved by headquarters who enjoy the highest credit-granting limit.				
	4.17.4	The credit applications for supporting green, low-carbon and recycling economies enjoy priority for approval under the same conditions with other projects.				
	Optional Indictors:					
	4.17.5	For Category A or B clients and their projects to which the banking institutions set to grant credit, the following risk-mitigation measures are recommended to be adopted:				
		(1) Require clients to raise the capital ratio;				
		(2) Require clients to issue medium-and-long term corporate bond (enterprise bond);				
		(3) Require clients to add technology-improvement projects and investment-transformation scheme related to energy-saving, environmental protection and safety production.				
		(4) Require to control effectively project's assets, cash flow and operation rights.				
		(5) Require projects to be covered by construction-in-process insurance and insurances offsetting environmental and social risks, such as engineering liability insurance, environmental liability insurance, product liability insurance. At the appropriate time, the lender(s) shall be the beneficiary enjoying highest priority in insurance compensation.				

		(6) Require clients to purchase personal-injury and medical insurances for employees who are vulnerable to potential safety and health damages.				
		(7) Strengthen management and diversify risks through syndicated loan.				
		(8) Adopt other risk-mitigation measures.				
Contract Management	**Article 18** Banking institutions shall, by improving contract clauses, urge their clients to strengthen environmental and social risk management. As for clients involving major environmental and social risks, the contract shall provide for clauses that require them to submit environmental and social risk report, state and avow that they will strengthen environmental and social risk management, and promise that they are willing to be supervised by the lender; the contract shall also provide for clauses concerning the remedies banking institutions can resort to in the event of default on environmental and social risks made by the clients.					
	Objective: Leverage binding contract clauses to urge clients to strengthen environmental and social risk management. Core Indicators:					
	4.18.1	In credit-granting contracts with clients of Category A or Category B, a separate article is required to urge clients to strengthen environmental and social risk management.				
	4.18.2	In addition to credit-granting contract, a supplementary contract concerning strengthening environmental and social risk management is required for Category A clients.				
		A template of contract concerning environmental and social risk management is provided in Appendix V for your reference.				
Disbursement Management	**Article 19** Banking institutions shall enhance credit funds disbursement management and regard how well clients have managed environmental and social risks as important basis for credit funds appropriation. As for projects to which credit is granted, all stages, including design, preparation, construction, completion, operation and shutdown shall be subjected to environmental and social risk assessment. Where major risks or hazards are identified, credit funds appropriation can be suspended or even terminated.					
	Objective: Leverage credit funds disbursement management to urge clients to strengthen environmental and social risk management Core Indicators:					
	4.19.1	The banking institutions shall regard how well clients have managed environmental and social risks as important basis for credit funds appropriation.				
	4.19.2	Credit funds appropriation can be suspended or even terminated where major risks or hazards are identified.				

	4.19.3	The banking institutions shall attach importance to and enhance credit funds disbursement management of project construction. They shall develop system and procedure of project fund disbursement and management so as to ensure that the following requirements can be implemented:				
		(1) The banking institutions shall not disburse fund in advance to support startup preparation and construction, if the projects fail to get approval of required assessments in terms of environmental impact, safety production and vocation health.				
		(2) Where the design, construction and operation of the facilities for environmental protection, safety production, and vocation health fail to run simultaneously with the project, the banking institutions shall suspend the fund disbursement for main project construction, until such simultaneity is met.				
		(3) The banking institutions shall not disburse operation fund to a project that is ready to be put into production, if it fails to get approval of assessment of environmental impact, safety production and vocation health for the completion of the project.				
Post-loan Management	**Article 20** Banking institutions shall strengthen post-loan management. As for clients involving potential major environmental and social risks, relevant and pertinent post-loan management actions shall be developed and implemented. They shall watch closely the impact of national policies on the clients' operation, step up dynamic analysis, and make timely adjustment to asset risk classification, reserve provisioning and loss write-off. They shall establish and improve internal reporting system and accountability system concerning major environmental and social risks faced by the clients. Where major environmental and social risk event occurs to the client, the banking institution concerned shall timely take relevant risk responses and report to competent supervisory authorities on potential impact of said event on itself.					
	Objective: Take comprehensive measures to enhance post-loan management to clients involving potential major environmental and social risks. Core Indicators:					
	4.20.1	For clients classified as Category A in terms of environmental and social risks, the environmental and social risk management team in bank's headquarters shall develop specific post-loan management measure, including but not limited to the following requirements:				
		(1) Require clients to report, at least once every six-month, system of environmental and social risk management and implementation of risk-response scheme.				

		(2) Loaner shall, at least once every six-month, make on-site examination to client's system of environmental and social risk management and implementation of the risk-response scheme.				
		(3) Where necessary, loaner may invite qualified and independent third-party to make examination and evaluation to the client's system of environmental and social risks and implementation of risk-response scheme.				
	4.20.2	For clients classified as Category B in terms of environmental and social risks, the branches of the banking institutions shall, under the supervision of headquarters' environmental and social risk management team, develop specific post-loan management measures, including but not limited to the following requirements:				
		(1) Require clients to report, at least once every year, system of environmental and social risk management and implementation of risk response scheme.				
		(2) Loaner shall, at least once every year, make on-site examination to client's system of environmental and social risk management and implementation of the risk-response scheme.				
		(3) Where necessary, loaner may invite qualified and independent third-party to make examination and evaluation to the client's system of environmental and social risks and implementation of risk-response scheme.				
	4.20.3	Watch closely the impact of national policies on the clients' operation, step up dynamic analysis, and make timely adjustment to asset risk classification, reserve provisioning and loss write-off.				
		(1) To the clients failing to meet the national environmental and social standards, the banking institutions shall take alarm, and downgrade their category in terms of environmental and social risks if said risks are worse off.				
		(2) In sensitivity analysis, the banking institutions shall consider the impacts on the project's cash flow of such factors of levying environmental and resource tax and fees, raising the existing duties, or increasing resource prices.				
		(3) In macroeconomic or industrial sector stress tests, the banking institutions shall integrate into environmental and social risks as an important risk driving forces.				
		(4) The banking institutions shall reserve special provision for high-environmental and high-social risk industries.				

	4.20.4	Establish and improve internal reporting system and accountability system for significant environmental and social risks. Where major environmental and social risk event occurs to the client, the banking institution concerned shall timely take relevant risk responses and report to competent supervisory authorities on potential impact of said event on itself.				
Overseas Project Management	**Article 21** Banking institutions shall strengthen the environmental and social risk management for overseas projects to which credit will be granted and make sure project sponsors abide by applicable laws and regulations on environmental protection, land, health, safety, etc. of the country or jurisdiction where the project is located. The banking institutions shall make promise in public that appropriate international practices or international norms will be followed as far as such overseas projects are concerned, so as to ensure alignment with good international practices.					
	Objective: Strengthen the environmental and social risk management for overseas projects to which credit will be granted. Core Indicators:					
	4.21.1	The banking institutions shall ensure the staff conducting overseas project financing acquire sufficient knowledge of law and regulations in the host countries concerning environmental protection, land, safety and health and gain sufficient experience of the environmental and social risk management in overseas projects. Where necessary, with the experts' support, the bank shall make appropriate judgment to the environmental and social risk management of the projects to be granted credit, and the risk management willingness and capacity of the project initiator.				
	4.21.2	The banking institutions shall implement whole procedure management to the environmental and social risks of projects to be granted credit.				
	4.21.3	The banking institutions shall make promise in public that appropriate international practices or international norms will be followed as far as such overseas projects are concerned, such as:				
		'-- Sign and join the "Global Compact" initiated by the United Nations;				
		'-- Sign and join the United Nations Environment Programme Finance Initiative (UNEP FI)				
		'-- Sign and join the UNEP Statement of Commitment by Financial Institutions on Sustainable Development.				
	4.21.4	The banking institutions shall make in-depth understanding of international best practice of the assessment and control of environmental and social risks for international financing projects and ensure alignment with good international practices in essence.				

Overseas Project Management	4.21.5	The banking institutions shall hire qualified and independent third-party to make assessment and examination of environmental and social risks to the overseas financing projects which arouse disputes in terms of their said risks.				
CHAPTER5: INTERNAL CONTROLS AND INFORMATION DISCLOSURE						
Internal Control	**Article 22** Banking institutions shall incorporate green credit implementation into the scope of internal compliance examination, and regularly organize and carry out internal auditing on green credit. Where major deficiencies are identified, investigation shall be conducted to determine whom to be held accountable as per applicable regulations.					
	Objective: Strengthen internal control and examination to the green credit implementation Core Indicators:					
	5.22.1	The banking institutions shall define the examination scope of internal control to green credit implementation:				
		(1) Support green, low-carbon and recycling economies, strictly retain the lending to "high pollution, high emission and overcapacity" projects (exclude technology transformation and upgrade projects) as well as to outdated industrial capacity.				
		(2) Require clients to strengthen environmental and social risk management so as to strictly control various credit risks				
		(3) Examine institution's environmental and social performance				
	5.22.2	The banking institutions shall enhance the examination of internal control and compliance to manage significant environmental and social risks				
		(1) For industries and/or areas which are identified by related environmental protection and safety production authorities as priorities for addressing law and regulation violation, the banking institutions shall conduct specific internal control examination based on the client risk evaluation.				
		(2) For clients and/or projects which are identified by related environmental protection and safety production authorities as existing significant law and regulation violation activities, and to which the banking institutions have extended lending, the banking institutions shall conduct specific internal control examination.				
		(3) The banking institutions shall conduct specific internal control examination periodically to projects classified as Category A.				
		(4) The banking institutions shall conduct internal control examination periodically, by sample, to projects classified as Category B.				

	5.22.3	The banking institutions shall integrate the green credit system, procedure and implementation performance into the contents of internal auditing and conduct specific auditing as necessary.				
	5.22.4	For significant problems unearthed by internal control compliance examination or internal auditing, the banking institutions shall take action to require related departments or branches/sub-branches to make correction and improvement. For individuals who are to blame for the deficiencies, the banking institutions shall keep on the file and make them take responsibility and report to the regulator if those are member of senior management.				
Check and Evaluation	**Article 23** Banking institutions shall establish effective green credit appraisal and evaluation system and reward and penalty system, and have in place incentive and disciplinary measures, so as to ensure sustained and effective offering of green credit.					
	Objective: Strengthen green credit appraisal and evaluation Core Indicators:					
	5.23.1	The banking institutions shall integrate green credit indicators into the overall performance appraisal and evaluation system and conduct related review periodically to relevant functional and geographical business units, including:				
		(1) Appraisal and evaluation indicators relevant to business function;				
		(2) Appraisal and evaluation indicators relevant to environmental and social risk management;				
		(3) Appraisal and evaluation indicators relevant to institution's own environmental and social performance.				
	5.23.2	The banking institutions shall enhance the application and management of green credit evaluation results and establish reward and penalty system, thus optimizing credit structure, improving the quality of services, and facilitating the transformation of development mode.				
	5.23.3	The banking institutions shall publish within the institution or communicate with specific stakeholders the green credit evaluation indicators and appraisal results.				

Information Disclosure	**Article 24** Banking institutions shall make public their green credit strategies and policies, and fully disclose development of their green credit business. As for credit involving major environmental and social risks, the banking institutions shall disclose relevant information according to laws and regulations, and be subjected to the oversight by the market and stakeholders. Where necessary, an eligible, independent third party can be hired to assess or audit the activities of banking institutions in performing their environmental and social responsibilities.					
	Objective: Strengthen green credit appraisal and evaluation Core Indicators:					
	5.24.1	The banking institutions shall publish institution's green credit report/corporate social responsibility (CSR) report/sustainability development report and disclose to stakeholders the information concerned:				
		(1) Institution's ideology, value, vision and goal of its environmental and social performance				
		(2) Institution's strategy and policies on green credit				
		(3) Institution's progress of supporting green, low-carbon and recycling economies and of strictly retaining "high-pollution, high-emission and overcapacity" projects (excluding technology transformation and upgrading projects) and outdated industrial capacities.				
		(4) The quantified impacts of energy conservation and emission reduction contributed by institution's support to green, low-carbon and recycling economies, such as data of total amount of energy saved, reduced amount of pollutant from CO2, SO2, COD (Chemical Oxygen Demand), and nitrogen oxides.				
		(5) A list of clients classified as Category A				
		(6) The progress and activities of institutions to improve its own environmental and social performance				
	5.24.2	The banking institutions shall disclose relevant information of credit-granting progress to projects with significant environmental and social impacts, according to laws and regulations, and subject to the oversight of the market and stakeholders.				
	5.24.3	The banking institutions shall keep communication and interaction with stakeholders through various effective ways so that the banking institutions can improve its environmental and social risk management by accepting suggestions and opinions developed by the stakeholders.				
	5.24.4	The banking shall hire qualified and independent third-party to conduct assessment or auditing to institution's implementation of environmental and social responsibility.				

CHAPTER6: MONITORINGAND EXAMINATION						
Self-Assessment	Article 26 Banking institutions shall, pursuant to the provisions hereof, perform overall green credit evaluation at least once every two years, and submit the self-evaluation report to CBRC.					
	Objective: Ensure the green credit be thoroughly, systematically and persistently carried on Core Indicators:					
	6.26.1	The banking institutions shall establish a cross-departmental green credit evaluation team and if necessary, invite external expert to join the task force. The banking institutinos shall perform overall green credit evaluation at least once every two years and submit the self-evaluation report to CBRC.				
	6.26.2	The banking institutions shall, according to the evaluation results and guiding opinions from the regulator, develop rectification and improvement measures to sustainably strengthen the weak link of the green credit implementation and increasingly raise the green credit performance.				

Part II: Quantified Evaluation Indicators

Core Indicators:		Balance	Changes during the year	Growth year over year	NPL Ratio	Units	Proportion to Total Loans
	1. Credit to proejects and services of environmental protection and emission reduction						
	2. Credit to emerging strategic industries of energy saving & environmental protection, and new energy, new energy automobile						
	3. Total amounts of said two items						
	4. Credit to industries related to "high-pollution, high-emission and overcapacity" (excluding loans to the part of technology transformation)						
	5. Credit to the enterprises related to obsolete industrual capacity						
	6. Credit to the enterprises violating law and regulations on environmental protection						
	7. Credit to the enterprises violating safety production						
		Year-end Number	Volume at the end of previous year	Changes during the year	Growth year over year		
	8. Emission Reduction of CO2 Equivalent of every RMB 100 million loan						
		Transaction Amount	Changes during the year	Growth year over year	"Transaction Numbers	Numbers of Clients Opened Account (00,000)	Substitution Ratio of Transaction Number
	9. Development of Main e-banking Business						
Optional Indicators:		Year-end Number	Volume at the end of previous year	Changes during the year	Growth year over year	Percentage of total employee	
II. Institution's environmental and social performance	10. Carbon emission (tons) per person of employee generated during business activities						
	11. Average power consumed by employee (kw-h)						

	12. Female members in middle-and-senior management team						
	13. The disability in the employee						
III. Green Credit Training and Education	14. Hours of green credit training per employee in a year						
	15. Hours of green credit training per new employee in a year						
	16. Hours of green credit training per middle-and-senior manager						
IV. Interaction with the Stakeholders	17. Number of interaction and communiction events of your institutions with media and environmental NGOs						

Appendices:

1. Industrial Sectors Required to Develop Credit Policy;
2. National Economy Code for Projects and Clinets Classifed as Category A & B ;
3. Dynamic Assessment to Clients' Environmental and Social Risk Management;
4. Suggested List of Industries related to "high-pollution, high-emission and overcapcity";
5. Suggested Contents of Environmental and Social Risk Management Contract

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persons registered in the electoral rolls relating to a village comprised within the area of Panchayat at the village level”. Gram Sabhas bear the right to protect wildlife, forest, biodiversity, ensure water sources and catchments are protected, ensure that the habitat of Scheduled Tribes and traditional forest dwellers are preserved from any form of destructive practices, and to stop any activity which affects wild animals, the forest, or biodiversity. Full text of the Constitution of India can be found at: http://lawmin.nic.in/olwing/coi/coi-english/coi-4March2016.pdf
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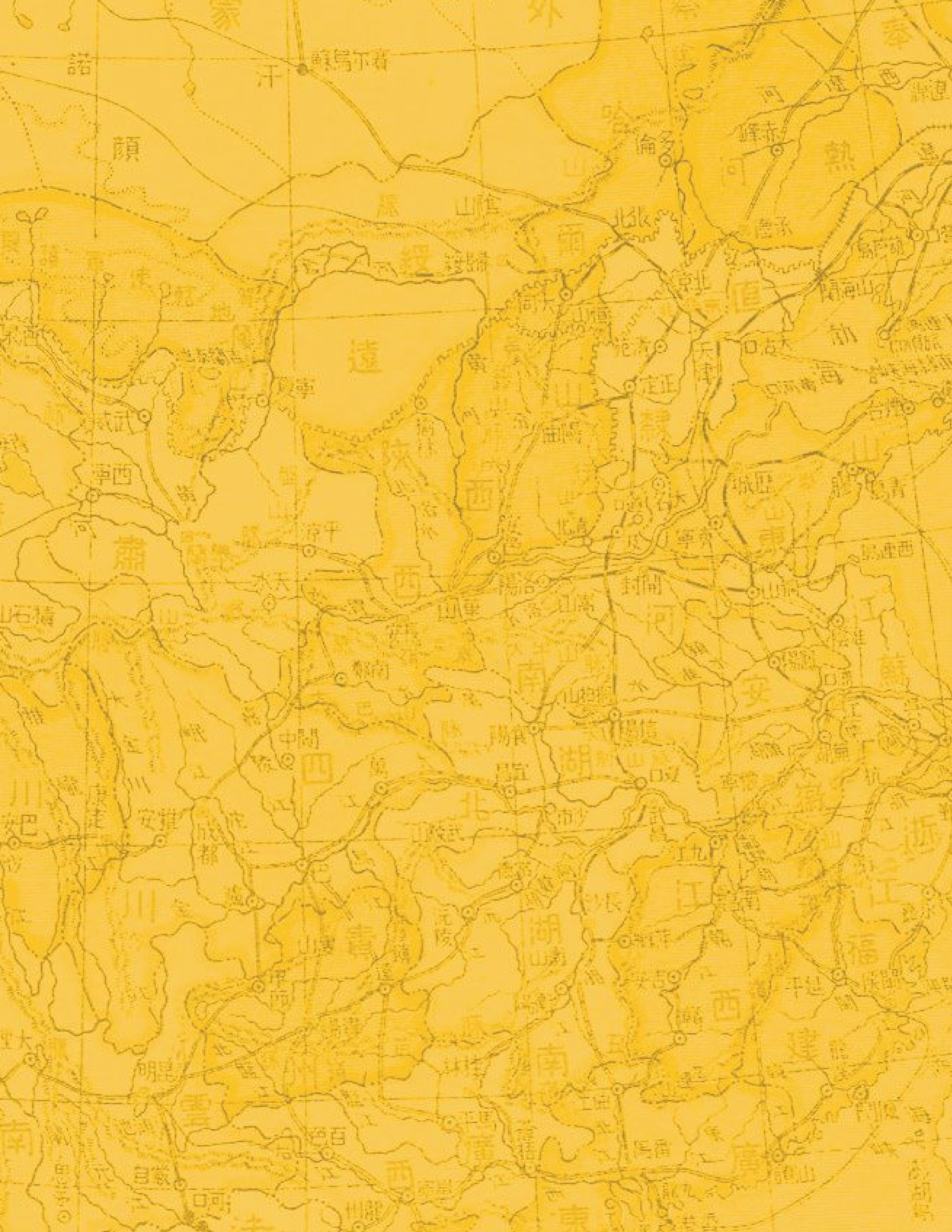

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