



# Towards Sustainable Development: The Role of China's Financial Sector



A summary of the joint research report Toward Sustainable Development:  
Reform and Future of China's Banking Industry

World Wide Fund for Nature (WWF)  
People's Bank of China (PBoC)

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# **Towards Sustainable Development: Reform and Future of China's Banking Industry**

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## EXECUTIVE SUMMARY

The People's Bank of China (PBoC) and World Wide Fund for Nature (WWF) have jointly prepared this report which provides the first analysis of the state of sustainable banking in China. We believe the report is both timely and important given the rapid evolution and growth of the Chinese financial sector, the increasing expectation on the sector to incorporate environmental and social issues within investment decision making, and also the significant changes that appear likely to be felt throughout the global financial sector in the light of current market turbulence.

The Chinese financial sector is evolving rapidly and adapting modern/ international practices into the development model that China is pursuing. Over the past few years, PBoC has been influencing the evolution of sustainable banking through its monetary, interest rate and credit policies. In 2007, it developed an environmental database of Chinese companies, requiring commercial banks to review and weigh each applicant's environmental history before approving credit applications. In the same year, PBoC along with the Ministry of Environmental Protection (MEP) and the China Banking Regulatory Commission (CBRC) established a green credit system which aims to restrict the availability of credit to companies in violation of environmental laws.

These requirements need to be viewed in the light of broader adjustments to China's financial sector which is addressing a range of legacy issues (including issues of capital adequacy, better credit and risk management, transparency and non performing loans). It is within this context that the sustainability agenda is beginning to find a foothold.

Although there are a few national pioneers and several Chinese commercial banks that have established their own environmental policies, the report concludes that most institutions are at an early stage in the implementation of sustainable banking practices and many have yet to take concrete action.

Nevertheless there are signs of progress and in particular, the combination of state (Policy) and market models is a unique and powerful combination that can be used to leverage better and more consistent environmental risk management. Importantly as the global financial sector picks itself up from the fallout of the credit crisis, there will be a chance to look at the credit risk role and make adjustments so that the materiality of risks (and opportunities) are more adequately recognized. In this process, environmental and social issues will be factors that are likely to receive more attention.

Notwithstanding the current turmoil in the international financial markets, the report also concludes, that international best practice (such as the Equator Principles), support from the international community (particularly the International Finance Corporation) and the experiences of institutions such as HSBC, Citi group and others provide valuable "lessons learnt" for the Chinese financial sector. These lessons include the need to:

- focus on key risks and issues (for example climate change, the sustainable use of natural resources including water and forests, and the interaction of social and environmental issues);
- develop capacity and tools within the sector (and specifically within individual institutions) so that more sustainable investment practices can be delivered in a cost effective, efficient and timely manner;
- demonstrate the impact of investment decisions and to develop credible and meaningful mechanisms for disclosing information to a range of interested stakeholders.

The timing and emphasis that PBoC and the Chinese financial sector are putting into environmental requirements (e.g. the green credit and security regulations etc) forms an important precursor and



- swift, consistent and cost effective integration of these requirements across a broad range of financial institutions and financial products;
- that there are appropriate tools and guidance for banks and other financial institutions to use in the implementation of more sustainable investment practices;
- the building of national capacity to service the needs of sustainable banking (including specifically consultants, finance training institutions, engineering and legal firms).

The authors welcome feedback and comments on the report, which we see as the first step in a joint journey to support the continuing evolution of a competitive, transparent and more sustainable financial sector in China.

## Prelude

This report is a summary of the longer and more detailed report that was launched by the People's Bank of China (PBoC) and World Wide Fund for Nature (WWF) in September 2008<sup>①</sup>. The original report was commissioned because both parties saw an opportunity to:

- assess the progress that the Chinese financial sector has made in enabling and supporting investment in sustainable development;
- make recommendations based on Chinese government policy<sup>②</sup> and the experiences of international financial institutions as they begin to incorporate sustainability in their operations.

This report and its sister publication assess the state of the environment in China, and the response that government policy and direction is promoting to address unsustainable resource use and growing pollution of the water, soil and air. Central to these efforts are China's financial institutions, whose role and influence is growing. Efforts to incorporate sustainability in the products and services of the financial sector need however to be seen in the context of a larger and still evolving transition that this sector is making to modern banking and finance practices.

The report was prepared and launched during a period of intense and significant turbulence in the world's financial sector. The full ramifications of this are still uncertain, but are likely to be longstanding and profound. Better risk management and greater state influence (through ownership and regulation) seem likely. The authors wonder whether this will represent a harmonizing of China's and western financial models – potentially capturing the best of both models. The turmoil also represents a significant and unique opportunity to reframe the role of finance so that it fully incorporates the environmental and social aspects of sustainability – addressing externalities such as climate change and biodiversity loss – in a new global framework for finance that is credible, transparent and equitable in the delivery of costs and benefits.

This report reviews progress towards more sustainable investment practices and identifies a range of challenges and opportunities that the sector will need to address. Our intention is to promote better understanding of the state of play in the financial sector and to identify key areas where continuing evolution might be focused.

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① The full Chinese report is available here: [http://www.wwfchina.org/wwfpress/publication/policy/08bankreport\\_cn.pdf](http://www.wwfchina.org/wwfpress/publication/policy/08bankreport_cn.pdf)

② Initially put forward in a document presented at the Third Plenary Session of the 16th National Congress of the CPC Central Committee and fully interpreted in Hu Jintao's Report given at the 17th National Congress of the CPC.

# 1 China's Development Trajectory

The scale and speed of economic development in China has been one of the defining features of the past 20 years. No country has ever brought more people out of poverty in a shorter time than China has achieved. However along with this growth and prosperity have come associated environmental and social (E&S) impacts.

Balancing development and E&S impacts on this scale has proved challenging and in recent years these challenges have been the subject of explicit government policy and direction that have emphasized the need to protect natural resources, reduce pollution and increase energy use efficiency as part of a balanced development process.

Natural resource exploitation for economic development has resulted in increasing pressure on water resources, land (particularly forests and grasslands), and energy demand has created unsustainable trends in green house gases and affected local air quality<sup>③</sup>.

A variety of policy measures has been developed to support the management and protection of these national assets and resources, and to address growing environmental health issues. Of particular note are the efforts to manage impacts to natural habitats and to reduce green house gas emissions<sup>④</sup>. Nevertheless, although positive progress in environmental protection has been made in China, there are still grave and significant challenges. Targets have been set to address some of the key risks (Figure 1).

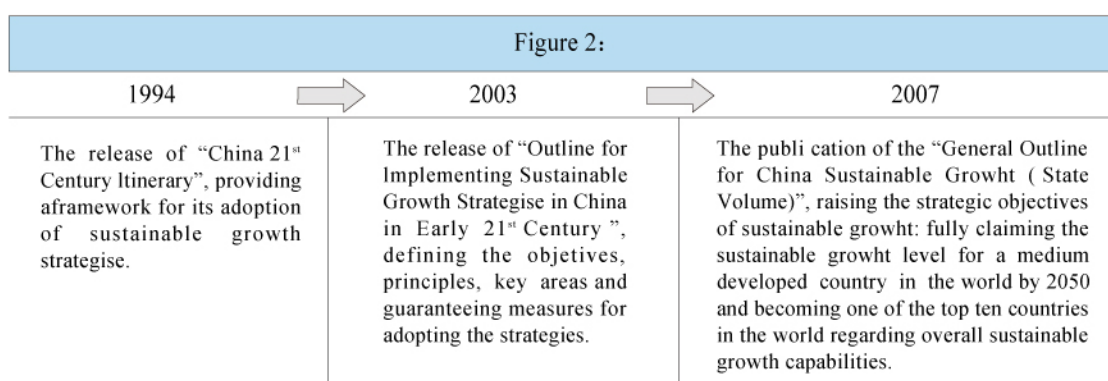
Figure 1: Key Environmental Targets and Indicators of the "Eleventh Five-Year Plan"			
Indicators	2005	2010	Changes during the period
Overall discharge of chemical oxygen demand (10,000 tons)	1414	1270	-10%
Overall discharge of sulfur dioxide (10,000 tons)	2549	2295	-10%
Ratio of V-grade water quality for surface water section under the state monitor (%)	26.1	<22	-4.1 percentage points
Ratio of the section under the state monitor above the III grade in the seven major water systems (%)	41	>43	2 percentage points
Ratio of key cities with more than 292 days during a year with air quality better than the II grade (%)	69.4	75	5.6 percentage points

Source: the Eleventh Five-Year Plan on State Environmental Protection

This process has been part of commitments that China has been promoting since the 1990's (Figure 2).

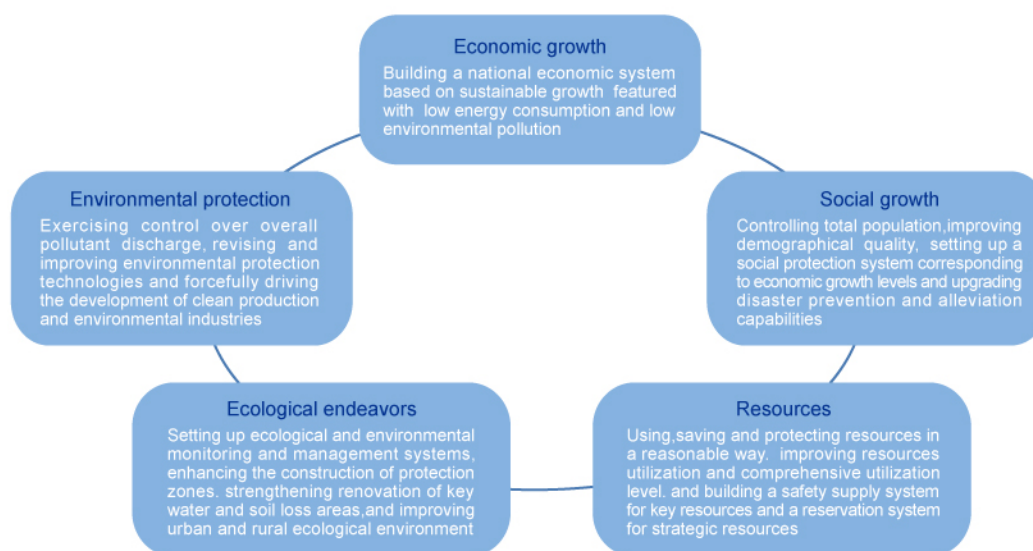
③ These trends have been summarized in a recent report prepared by the China Council for International Cooperation on Environment and Development (CCICED) and WWF: Report on Ecological Footprint in China (2008). The full report is available here: [www.wwfchina.org/english/downloads/China%20Footprint/chna\\_footprint\\_report\\_final.pdf](http://www.wwfchina.org/english/downloads/China%20Footprint/china_footprint_report_final.pdf)

④ In view of severe energy and resources shortage, the Chinese Government is promoting energy efficiency and waste reduction initiatives in an effort to create an "environmentally friendly society". Based on the "Consolidated Work Program on Saving Energy and Reducing Discharge" formulated by NDRC in conjunction with other relevant authorities and released by the State Council in June 2007, by 2010 China's energy consumption per RMB 10,000 GDP will decline to below 1 ton coal equivalent from 1.22 tons coal equivalent in 2005, down by about 20%; and water consumption per unit of industrial value added will decline 30%. The urban waste water processing ratio shall not be below 70% in any city and the comprehensive utilization rate for industrial solid waste shall exceed 60% in China.



Sustainable Development is a strategic necessity for both developed and developing countries alike. But for a developing country like China, the precondition for Sustainable Development is development and poverty alleviation, and China's Sustainable Development strategies have until recently emphasized economic development over environmental protection. The most recent plans have more clearly articulated the environmental and social dimensions of China's development (Figure 3).

**Figure 3 Key areas and targets for Sustainable Development strategies in China in early 21<sup>st</sup> century**



Confronting the growing pressure on environmental resources, the Chinese Government has proposed a “scientific development approach” which will direct and control overall economic and social development, and that within this approach the evolution of resource-efficient (cleaner production) and environmentally friendly technologies should be accelerated through:

- (1) Improving innovation capabilities and promoting the use of technology to minimize pollution and resource inefficiencies;
- (2) Accelerating the transition of economic development such that the basis for development moves from investment and export to a more balanced model of consumption, investment and export underpinned by significantly greater value adding to domestic and export goods;
- (3) To increase food security;



- (4) Increasing energy use efficiencies and promoting ecological conservation measures (including specifically “clean technologies” and other technological innovations and better management of renewable natural resources such as forests, water, air quality), and managing resource degradation (specifically desertification) and climate change risks;
- (5) Driving well-coordinated regional development and optimizing land use and development in China.

In summary an integrated approach to economic development and land use planning will be promoted and these efforts will be set in the context of global experiences of promoting sustainable development (Figure 4).

Figure 4: Consistent Aspects of Sustainable Development

- Recognize that economic activities are part of sustainable development, but that they need to be promoted within environmental and social constraints
- Integration of environmental and social externalities in economic development and sustainable resource use
- Sustainable development is based on the fair and equitable allocation of resources for society—both current and future generations

These efforts are set within a broad policy and planning framework which is attempting to integrate more sustainable development across China through a combination of land use planning, economic structural adjustment and economic policy (Appendix 1).

This approach underpins the efforts that China's financial sector is making towards sustainability. Specifically:

- (1) Environmental protection requirements will be taken into consideration in the reform of the tax base (resources tax, consumption tax and import and export tariffs), and an environmental taxation system will be set up that promotes and supports the construction of energy-saving and environmentally sustainable development through the use of taxes and tax revenues;
- (2) The role of “price levers” will be brought into play. A pollutant discharge price and charging system that reflects pollution cleanup costs will be established. Trading systems for sulfur dioxide and other pollutants will be developed in areas subject to poor air quality. Environmental costs will be incorporated into the “operating” costs of individual companies (with the assumption that this will encourage an enterprise to reduce pollution). Policies (including the development of price premiums for better environmental performance), will be developed for power generated with renewable energy or other environmental benefits (desulfurization and alternative fuels such as garbage).
- (3) Disposal and processing charges for urban waste water, garbage, hazardous waste and medical waste, and radioactive waste collection and storage charges will be fully levied to ensure costs are covered in the management and disposal of these wastes. Pollutant discharge charges will be levied with tougher efforts and enforcement measures and the pollutant discharge charging system will be further improved. Municipal utilities reform will be accelerated to increase implementation efficiencies and impacts and various types of enterprises will be encouraged to participate in the construction and operation of environmental infrastructure facilities, and pollution cleanup will be further market-oriented.

- (4) Credit policies will be improved. Banks, especially policy banks, will be encouraged to extend credit support to environmental infrastructure facilities construction projects and enterprise pollution cleanup projects. The establishment of environmental liabilities insurance and environmental risks investment will be sought and sources of foreign investment will be encouraged to support these initiatives. More efforts will be made to procure free assistance and preferential loans from global organizations and foreign governments.
- (5) In line with the principles of “*he who develops a project is responsible for the corresponding environmental protection; he who damages the environment assumes the restoration duties; he who benefits from the environment is liable for compensating the due parties; and he who discharges pollutant pays the bill*”, the Three Gorges reservoir area, the water source area of the South-to-North water diversion project, key energy development zones and state-level natural protection zones will be covered as an extended list for pilot projects for improving ecological compensation policies and setting up an ecological compensation mechanism.

## 2 China's Financial Sector – Green Shoots

### Overarching issues that the Chinese financial sector needs to address

China's efforts to incorporate sustainability into the activities of its financial sector need to be seen in the context of a rapidly evolving sector that is addressing a range of legacy issues (such as non performing loans, narrow income structure and limited risk management capacity) and the authors of the report identify a range of key reforms and major structural adjustments that are required (Figure 5).

Figure 5 Summary of Structural and Overarching Reforms that are Underway in the Chinese Financial Sector

- Liberalizing interest rates to reflect market trends rather than state policy;
- Reform of foreign exchange policy and markets to open China's financial markets and economy to global markets;
- Addressing legacy problems of non-performing loans;
- Promoting the development of direct financing, and improved market orientation of banking institutions;
- Develop broader and more robust capital bases and capital adequacy assessment;
- Promoting better credit and risk management;
- Enhancing transparency and disclosure commitments;
- Implementing Financial Services Agreements in the light of WTO accession and increasing competition between Chinese banks and foreign banks;
- Gradual diversification of corporate financing channels and increasing trends for financial disintermediation;
- Financial supervision that reflects market orientation, encourages and supports financial innovation.

The factors identified above (including specifically interest rate liberalization, the release of foreign exchange management, the development of capital market and the increasing competition after entry to WTO) all create new opportunities and challenges for the Chinese financial sector and commercial banks in particular need to adapt themselves to global trends and drivers, new operational environments, new customer demands and new sources of competition. The response of the China's financial sector to these challenges is described in Figure 6.

Figure 6 A Selection of Institutional Action and Reforms

- Reorganizing businesses with a stronger focus to client needs and promoting revenue structure transformation and a clear focus on emerging client demands
- Build the service offer (mainly with investment banking businesses) to satisfy emerging needs from large corporate and high net worth individuals through providing financial consulting, banking syndicate, bond issuance, short-term financing bill, project financing, and asset based securitization, M&A, asset management
- Develop internal control measures and risk management systems and capacity as part of broader corporate governance reforms

The emphasis on enhancing risk management is important and noteworthy here – especially in the context of emerging materiality of impacts associated with environment and social risks (especially climate and water supply related).

## International Perspectives

China's development model now recognizes the role that financing and investment can play in promoting sustainable development. The implementation of sustainable development strategies calls for joint efforts by all relevant parties, including government, enterprises, social organizations and the public; and within this, financial institutions play a key role, both in assessing and pricing environmental risks and also in deploying capital more effectively and in larger volumes to deliver environmental benefits (from new technology, better pollution control and more efficient resource use).

As part of this report, the authors explored lessons learnt outside China—as commercial and multi-lateral institutions begin to incorporate environmental and social management in to their decision making (Figure 7).

Figure 7 Advocates for “Sustainable Finance” in the International Context

In the past ten years there has been a concerted effort to build the business case for more sustainable financing (based around better risk management and also capitalizing on the emerging opportunities to finance environmentally focused activities). Key actors and activities include:

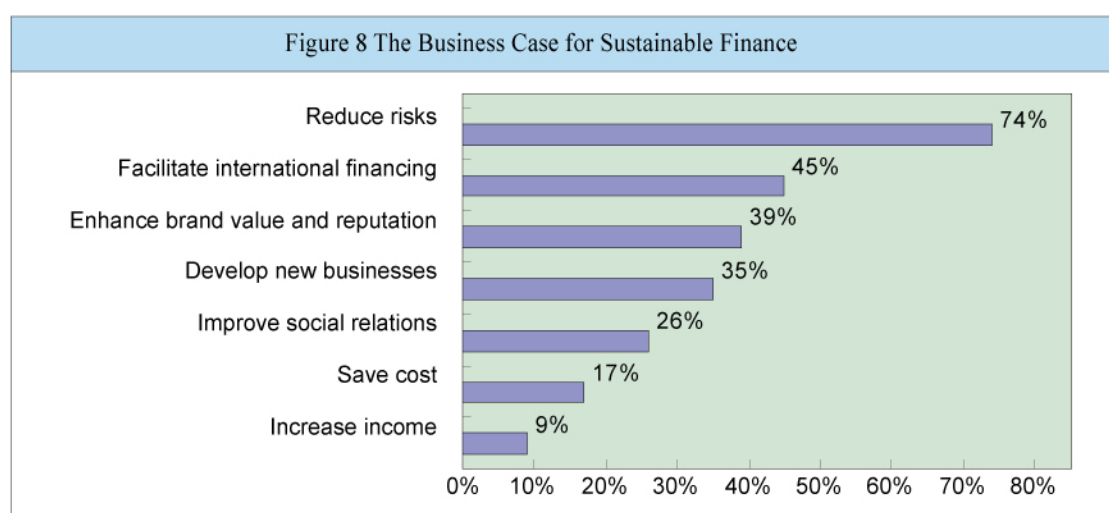
- (1) The social and environmental performance standards developed by the International Finance Corporation (IFC). In particular that the adverse impacts of economic development should not fall upon the poor or the weak in other than a proportional way, that the environment should not be significantly damaged as a consequence of development activities, and that effective and consistent management should be exercised over natural resources.  
(<http://www.ifc.org/sustainability>)
- (2) The Equator Principles (EPs). The EPs are a package of voluntary environmental and social principles formulated for project financing initiatives based on the IFC's Performance Standards. The EPs were launched in June 2003 by ten leading global banks and by June 2008, 61 banks had adopted the EPs accounting for approximately 85% of the total project finance market  
(<http://www.equator-principles.com/index.shtml>)
- (3) The United Nations Environment Programme's (UNEP) Financial Initiative. Sponsored by UNEP in 1992, UNEP FI promotes and drives the concept of sustainable finance, advocates a common understanding and codes of conduct within the sector, and supports the transition of financial institutions towards more sustainable financing decisions. Currently over 170 financial institutions around the world have been involved in the UNEP initiatives, including banks, insurance companies, and fund managers (<http://www.unepfi.org/>)

Although pioneers have made innovative efforts in developing sustainable development activities, and many banks have formulated corresponding policies and principles, most banks have not effectively implemented widespread consistent sustainable business models, in part because of mixed regulatory messages and direction, and in part because of the continuing difficulties that financial institutions have found in pricing “environmental and social sustainability”. There is a strong case for governments, non-governmental organizations and the banking sector to work together to address these two challenges and in supporting and encouraging commitments to action.



The authors conclude that while leadership has been shown by some international institutions a large group of banks still do not see the role they can and could play towards a sustainable development, with the majority of banks still at an early stage in the implementation of more sustainable banking and investments.

A key impediment to implementation appears to be that the business case for sustainable finance still needs to be proven (despite emerging evidence – Figure 8 – which suggests that environmental performance can deliver financial and other business benefits) .



IFC Sustainability Survey of Financial Institutions (2005)

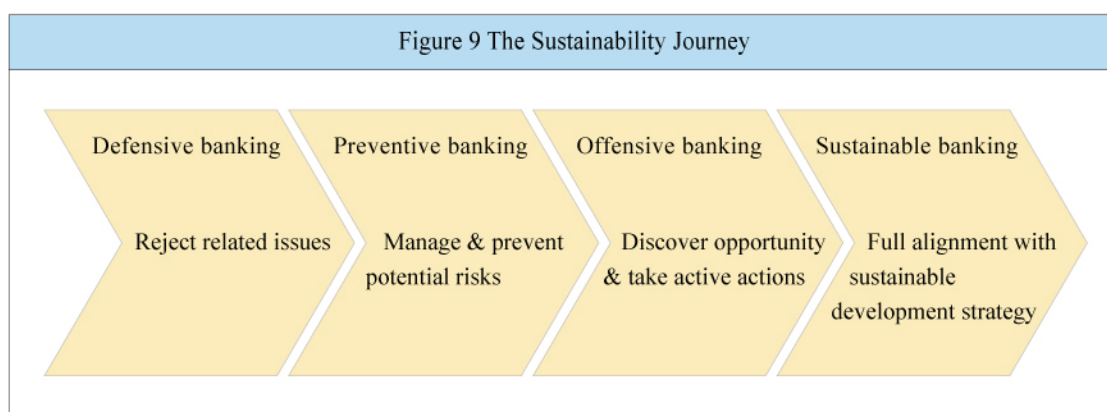
## Common components and aspects

For those international institutions that have embarked on the road towards more sustainable financing and investment, what are the lessons learnt?

Effective and efficient progress towards more sustainable financing can be achieved through:

- (1) The establishment of an environmental management and reporting systems that define process and performance standards (i.e. compliance expectations) and disclose them to interested parties;
- (2) Effective and comprehensive assessment of environmental risks (initially these tended to be associated with pollution liabilities, but this has now spread to a wider range of environmental and social risks) and development of risk guidelines and tools (e.g. investment screens and check-lists);
- (3) Development of business products and services that support more sustainable businesses and technologies. Interest in “green funds” is growing and these trends are set to continue and likely accelerate even in the midst of financial sector re-structuring and credit crisis. Opportunities include the provision of environmental credit or micro-credit, the development of environmental protection funds, the engagement of lease holding or insurance business related to the environment, environmental advisory services, products related to the climate, and venture capital related to the environmental industries;
- (4) Philanthropic support and sponsorship for Sustainable Development. 60% of global banks are positively involved in sponsorships related to environmental and ecological projects, and widely involved in community activities, including voluntary support projects, investment or sponsored community activities.

The journey that these institutions make is often represented as a series of steps from “understanding environmental risks to developing business services and products that address client needs” (Figure 9). No financial institution has fully incorporated all the aspects of a sustainable bank - but some at least are now engaged in the journey.



Trends in the commitment and capacity that international financial institutions have shown towards sustainability are also now evident in the Chinese financial sector. However, in China there is an additional and important aspect of the journey that is largely absent from the market driven responses of the global financial community – that of active State direction and leadership.

### The role of the regulatory agencies in supporting and enabling more sustainable banking practices

While it may be transitioning to a new model (that recognizes market drivers and expectations) the role that the state (including MEP) plays in directing and informing China's financial sector will remain an important and influential factor in accelerating and directing progress towards more sustainable banking.

Currently, policy guidance and regulation is needed from the central bank and the banking regulatory authorities to:

- (1) reinforce commercial banks' awareness in relation to sustainability needs in the financial sector;
- (2) encourage banks to consciously involve themselves in these trends, so as to fully engage the banks' resources allocation function in sustainable development.

In achieving these objectives PBoC has provided financial guarantees and services for sustainable development through a mix of money and credit policies.

- Monetary policy focuses on aggregate control, regulating the total money and credit supply through interest rate, exchange rate, and other instruments in order to maintain equilibrium in the social supply and demand and to maintain the stability of the RMB.
- Credit policy focuses on addressing structural economic problems, (e.g., promoting industrial restructuring and balanced regional economic development) through guiding the direction and volume of credit (including interest rate subsidies) and adjusting credit structure and terms. Secondly, guidance is provided to commercial banks to adjust credit lines, risk rating and risk compensation, and to restrict credit from being invested in highly pollution and resource inefficient companies.

In achieving these objectives, the PBoC, MEP and the CBRC have jointly worked together:

- (1) December 2006, the PBoC and the SEPA (now MEP) jointly issued a notice<sup>⑤</sup>, which required enterprises to incorporate environment-related information such as environmental approval, environmental accreditation, and clean production auditing in decisions about investments;
- (2) Since April 1, 2007, environmental protection-related information has been included in company credit reports. Financial institutions are required to scrutinize environmental protection-related information listed in these credit reports, and refer to environmental compliance as an important basis for issuing loans;
- (3) June 2007, the PBoC released guidelines on financial services for energy saving and environmental protection<sup>⑥</sup>, requiring financial institutions to reasonably allocate credit resources in the principles of differentiated treatment for different industries.

For projects in which investment is encouraged, financial institutions should simplify the loan application procedure and improve the speed and terms of financial services; and financial institutions should take into full account factors such as resources conservation and environmental protection when extending loans to them in accordance with lending principles.

The guidelines reiterated that banking institutions should adhere to the central government's environmental protection policies, strictly manage lending activities, include environmental approval as one of the conditions for loan provision, rigorously control the credit supply to highly energy-consuming and highly polluting industries, and speed up the withdrawal of credit support to antiquated production capacity and production techniques.

Banking institutions of various kinds were required to study the characteristics of energy saving and environmental protection industries, make innovations in financial products and credit management systems so as to establish a long-term mechanism that supports the innovation and updating of energy saving and pollution reduction technologies.

The guidelines also required various PBoC branch offices to enhance supervision and analysis of the credit fund structure, strengthen guidance and risk warning in a well-targeted manner, guide financial institutions within their administered regions to reasonably control the scale and growth of credit supply, strictly constrain lending to highly energy-consuming and highly polluting industries and industries with overcapacity as well as antiquated technologies, to improve the efficiency of credit resources allocation so as to promote the economic restructuring and the shift of the economic growth mode within their administered regions.

In July 2007, the PBoC, the CBRC and the SEPA (now MEP) worked together to set up a green credit mechanism<sup>⑦</sup>, which requires all commercial banks to focus on supporting environmental protection and limiting credit extended to polluting enterprises; strictly limit credit extended to polluting enterprises listed by environmental protection authorities, and adjust credit management in a timely manner to prevent credit risks caused by changing environmental protection requirements for enterprises and construction projects; when issuing loans to enterprises and individuals, inquire into the credit information databases for enterprises and individuals correspondingly, and make environmental compliance a prerequisite for granting loans.

<sup>⑤</sup> Notice of the People's Bank of China and the State Environmental Protection Administration on Sharing Enterprises' Environmental Protection-related Information (PBoC Document [2006] No. 450)

<sup>⑥</sup> Guiding Opinions of the PBoC on Improving Financial Services for Energy Saving and Environmental Protection (PBoC Document [2007] No. 215)

<sup>⑦</sup> The SEPA, the PBoC and the CSRC jointly issued Opinions on Implementing Environmental Protection Policies and Regulations and Preventing Credit Risks in July 12, 2007.



The green credit mechanism also requires banking regulatory offices at various levels to urge commercial banks to include environmental compliance as one aspect in pre-lending examination, and tighten the approval procedure and credit management; to supervise over commercial banks' behaviors in the implementation of environmental protection-related policies and regulations, to assist environmental protection authorities in law enforcement, and to control credit risks of polluting enterprises; try to find out bad loans due to the loan-receiving enterprises' environmental problems. It is proposed in the mechanism that environmental protection authorities, financial regulatory authorities and related commercial banks could establish an inter-disciplinary conference system, designate internal departments directly responsible for the conference system and appoint contact people, meet regularly to exchange information; formulate guideline catalogues for credit management and environmental protection; organize trainings and consultations on environmental protection policies and regulations to improve the ability of financial institutions in identifying environmental risks.

### Chinese commercial banks response

The Chinese government policy is directing financial institutions to consider this new and broader range of services which will enable more sustainable private sector activities.

- (1) Responding to opportunities (particularly carbon and energy use);
- (2) Restricting access to capital for companies that cannot comply with the law;
- (3) Recognizing global drivers and trends.

Commercial banks, as the major capital provider, play a critical role in delivering these objectives in line with the direction intended by the government's sustainable development strategies to promote economic restructuring, shift the economy from "high consumption, heavy pollution and low efficiency" to "low consumption, low pollution and high efficiency", and alleviate the pressure on resources and environment.

Banks are also being directed to take part in the government's strategy of regional structural adjustment to support the initiatives of developing west China, revitalizing the northeast, developing central China and increasing financial support to less developed regions and disadvantaged groups to help them reduce poverty, improve education and medical conditions.

Thus on the one hand, commercial banks should manage environmental and social risks by evaluating those risks during the pre-lending assessment to better manage their asset portfolio, and lend to or invest in companies and projects with sound environmental, social and financial performance. On the other hand, efforts should be made to tap new opportunities in sustainable development-related areas (e.g energy efficiency, sustainable agriculture and advisory services to corporates) so as to develop related products and services.

Currently, it is fair to say China's banking sector is still at an initial stage in their understanding of these requirements and of the broader merits and importance of environmental protection. Most banks have not yet formulated definite environmental strategies / policies of risk management procedures and tools. Priorities therefore are for China's commercial banks to:

- build capacity and develop procedures to deliver government requirements and enhance risk management (absorbing relevant international experiences where appropriate);
- develop and support the implementation of effective environmental impact assessment systems (with particular reference to consultation and scope of assessment aspects) during the decision-making process regarding lending and to ensure effective and ongoing management of environmental risks over the course of the transaction;
- work out practical environmental policies that support "green banking".



Engagement in these opportunities can accelerate China's sustainable development planning and also generate benefits to individual institutions including:

- (1) reducing non-performing assets;
- (2) enhancing reputation;
- (3) increasing support from stakeholders;
- (4) improving the sustainable development capacity of banks themselves (the bank's footprint).

While some Chinese banks have started to implement these changes<sup>8</sup> there is a pressing need for policy guidance and supervision from the central bank and regulators to ensure consistent, cost effective and rapid scale up of implementation so that Sustainable Development gradually becomes part of a bank's conscious action and that the role of banking functionalities in resources allocation.

The PBoC and financial regulatory agencies have begun to address these needs. PBoC has been providing financial guarantee and services in favor of Sustainable Development by employing money credit policies in a comprehensive way. Specifically:

- (1) Guiding capital flow into areas in favor of more Sustainable Development by way of interest discount for loans or other means;
- (2) Through guidance and instructions issued to commercial banks, restricting credit to industry sectors and technologies that have an adverse impact on (e.g. readjusting credit lines, credit risks ratings and risk premiums for polluting industries).

## Practical evidence of change and impact

The report notes that there have been valuable lessons in the adoption of more sustainable banking practices in recent years which are summarized below and in more detail in appendix 2.

- (1) Industrial and Commercial Bank of China (ICBC) has adjusted the structure of its credit policies so that responsibilities and requirements for environmental protection are defined and explicit in investment decision making (Annex 2.1).
- (2) Agricultural Bank of China (ABC) has developed new financial services to support sustainable development through new business products and services that focus on sustainability (supporting agriculture and farmers in rural areas and farmers). China Development Bank (CDB) has also undertaken similar activities. (annexes 2.2. and 2.3).
- (3) Philanthropic and sustainability activities based on a bank's physical footprint For example, the Bank of China (BOC) has been actively engaged in social welfare activities that promote sustainable development such as poverty reduction, disaster relief, education and arts and sports undertakings, playing an active role in building a harmonious society and promoting sustainable development (Annex 2.4).

In addition, commercial banks are encouraging their staff to be more environmentally conscious for example, the BOC educated its employees to save water, electricity and paper, and the China Construction Bank (CCB) recommended its shareholders to use business reports in electronic forms. These efforts can help mainstream concepts of sustainable development among employees and shareholders.

<sup>8</sup> ICBC, for instance, has adopted a one vote veto practice in respect of environmental protection, built a green credit dynamics tracking and monitoring system, and increased the supply of "green products".

### 3 Conclusions

China's financial sector is undergoing rapid and substantial reform and moving towards a market based model, albeit one with significant continuing state control and direction. Sustainability is seen as an important aspect of this evolution. This report identifies a number of key requirements that need to be put in place to ensure an efficient and effective transition including:

- Implementation of investment and lending practices that reflect environmental and social issues (sustainable financing practices). This will take time and should begin with the establishment of environmental management and reporting systems for individual institutions;
- Development of environmental policies and procedures that reflect the industry sectors and locations in which these institutions operate;
- Capacity building and training of staff so that they are better able to implement new sustainability policies and procedures;
- Implementation of environmental risk evaluation for transactions with recognized risks, and guidance to clients on the scope and business implications of these risks.

Commercial banks will probably move from this "risk" model to one in which new business opportunities and products are developed potentially including:

- Environmental loans as well as small-amount credit loans;
- Environmental protection funds, leasing businesses, assurance business as well as advisory businesses;
- Climate change mitigation and adaption funds and advisory services;
- Environmental industry venture capital.

A summary of the drivers for change that are facing the Chinese financial sector – and the ways in which sustainability can be dovetailed into these changes is provided in Figure 10

Figure 10 Drivers for Change in the Chinese Financial Sector and Sustainability Opportunities		
Drivers for change	Comment	Sustainability opportunities and drivers
Diversify income base	To achieve necessary adjustments of yield structure, the proportion of margin income has to be adjusted, from an emphasis on interest income revenues to laying equal stress on non-interest income; second, further diversify the sources of intermediary businesses to raise the proportion of emerging businesses such as investment banking, electronic banking, bank insurances, asset custody.	Defining sustainability criteria and requirements (collectively across the financial sector and within individual institutions) that allow for a rapid, consistent integration of sustainability within the new (non-interest) income streams – and particularly corporate and investment banking services.

Figure 10 Drivers for Change in the Chinese Financial Sector and Sustainability Opportunities

Drivers for change	Comment	Sustainability opportunities and drivers
Restructuring	Rethink, design, simplify and optimize the business processes of China's commercial banks. Potential areas of focus include (i) the development of differentiated and diversified business processes and improved core competitiveness. Differentiated and diversified business processes should focus on increasing cost and risk control and innovation abilities. (ii) Greater efficiency in the organizational structure and communications within institutions. The continuing reform of policy banks and State Owned Enterprises so that they reflect commercial and market needs and realities (but continue to deliver policy) is seen as particularly important.	Look at the potential of new sustainability products and services within new business lines and activities. Provide training and business case materials to staff so that they understand sustainability drivers in the banks business and can consistently represent and describe these drivers to clients and others.
Governance	Strengthen the internal control systems of the banking industry and improve corporate governance and the development of the scientific risk management & internal control organizational framework. Encourage responsibility and accountability across all employees for risk management and decision making. Improve continuity and the systematic nature of internal control. Establish effective information communication and feedback channels and construct long-term internal control systems. Establish internal audit systems with powerful independence and authority.	Ensure that environmental and social risks are built into the evolving risk management tools and that there is specific identified accountability for sustainability at senior management and board levels in all institutions. Commit to monitor and disclose the impact of sustainability initiatives and programs. Undertake internal assessment of the materiality of sustainability risks and develop pricing models that reflect these risks. Identify specific sustainability goals and report them.
Small and Medium Sized Enterprises (SME)	The development of globally competitive SMEs will be an important aspect of China's continuing growth in to a 21 <sup>st</sup> century economic superpower, but this sector is currently poorly and inefficiently served by many Chinese financial institutions-yet they hold enormous potential and promise should financing products and services be developed. This will require active effort and innovation in the development of credit ratings and credit management methods.	Micro credit and small scale financing models and approaches that have been developed and successfully introduced into the market in Latin America and elsewhere in Asia hold promise. Credit tools and ratings that reflect the application of modern technologies and resource efficient production measures that support key Chinese targets (including climate, energy and water). Supporting the capacity of SMEs to manage sustainability in their business so that they are more attractive suppliers to large Chinese and international corporate (supply chain sustainability).
Client Focus and Service	Improve the personal financial services businesses that are dominated by personal retail businesses, consumption credit and credit card services so that they include a broader range of banking service (including private and corporate retail banking and investment banking).	As part of the transition consider the development of advisory services and supporting guidance that helps corporate and investment business clients understand and respond to key sustainability business drivers (by industry sector).



The timing and emphasis that PBoC and the Chinese financial sector are putting into environmental requirements (e.g. the green credit and security regulations etc) forms an important precursor and framework for more sustainable banking practices. The challenge will be to ensure:

- swift, consistent and cost effective integration of these requirements across a broad range of financial institutions;
- that there are appropriate tools and guidance for banks and other financial institutions to use in the implementation of more sustainable investment practices;
- the building of national capacity to service the needs of sustainable banking (including specifically consultants, finance training institutions, engineering and legal firms).

The report also concludes, that international best practice (such as the Equator Principles), support from the international community (particularly the International Finance Corporation) and the experiences of institutions such as HSBC, Citi group and others provide valuable “lessons learnt” for the Chinese financial sector. These lessons include the need to:

- focus on key risks and issues (for example climate change, the sustainable use of natural resources including water and forests and the interaction of social and environmental issues);
- develop capacity and tools within the sector (and specifically within individual institutions) so that more sustainable investment practices can be delivered in a cost effective, efficient and timely manner;
- demonstrate impact of investment decisions and to develop credible and meaningful mechanisms for disclosing information to a range of interested stakeholders.

These changes will be taking place in the context of a period of intense and significant turbulence in the world's financial sector. The full ramifications of this are still uncertain, but are likely to be longstanding and profound. Better risk management and a greater state influence (through ownership and regulation) seem likely.

Notwithstanding the current challenges in the financial markets of Europe and America, institutions from these regions have important roles and skills to play and China's financial sector can continue to learn from the good (and bad) practices that are found in these markets.

The turmoil represents a significant and unique opportunity to reframe the role of finance so that it fully incorporates the environmental and social aspects of sustainability – addressing externalities such as climate change and biodiversity loss – in a new global framework for finance that is credible, transparent and equitable in the delivery of costs and benefits.



Appendix 1 A Summary of China's Policy and Land Use Planning Efforts to Promote More Sustainable Development

Land use planning	<p>State direction and policy will help to inform industrial and other development and to help achieve this land use will be divided into four broad zones:</p> <ol style="list-style-type: none"> <li>1. <b>Optimized development zones</b> where environmental requirements will be insisted upon, industrial structure and layout optimized, and the development of high and new technologies encouraged. The upgrade of traditional industries and technologies will be accelerated.</li> <li>2. In <b>focused development areas</b>, coordinated development between the environment and economy will be insisted upon, environment tolerance is utilized in a scientific and reasonable way, and industrialization and urbanization be forcefully driven. Environmental infrastructure construction will be advanced with strict control over the overall pollutant discharge volume.</li> <li>3. In an area subject to <b>restricted development policies</b>, protection will be required with a reasonable selection of development direction. Advantageous industries with special features will be developed, the construction of key ecological function protection zones sped up, and the restoration and cultivation of ecological functionalities ensured. Ecological balance will be gradually restored.</li> <li>4. In a region subject to a <b>development sanction</b>, compulsory protection will be required. Strict regulatory exercises will be performed in accordance with law, provisions and relevant planning. Development activities beyond the key function positioning will be prohibited and the interference in and damage on natural ecology on account of articulate factors controlled.</li> </ol>
Economic structural adjustment	<p>Optimizing industrial infrastructure and efficiencies structure will be encouraged, clean production promoted, and a cyclic economy developed. Pollution will be reduced from the source and the construction of an environment-friendly society advocated for.</p> <p><b>Enforcing environmental access</b> Environmental protection requirements will be taken into full consideration in determining the access conditions for such key industries as steel, non-ferrous metal, construction materials, power, and light industry. New projects must comply with the access conditions and discharge standard stipulated by the state. In areas without further environmental capacity, the construction of new projects that may result in an increase in pollutant discharge will be prohibited. In accordance with the state industrial policies and environmental protection regulations, the elimination of backward processes, equipment and enterprises causing heavy pollution will be more prioritized and the elimination of the backward would serve as a key means to building an environment-friendly society.</p> <p><b>Speeding up cyclic economy</b> Based on the requirements for developing cyclic economy, relevant supporting regulations will be formulated, and an assessment indicator system improved. Economic policies in favor of resource efficiency will be adopted. Economic pilot projects will be carried forward with key industries, industrial parks and at the provincial or municipal level, advanced and applicable technologies and typical experiences in developing cyclic economy will be promoted, and pilot and demonstrative projects in building cyclic economy will be worked on. The establishment of the clean production criteria, the assessment indicator system and the technical guidance for the compulsory clean production review and examination will be accelerated for key industries. A technical support system will be set up for driving the implementation of clean production. Enterprises will be further encouraged to actively adopt a clean production program. Enterprises that discharge pollutants in excess of the state and local criteria or overall volume control indicators or that use hazardous materials or discharge poisonous materials will be subject to the compulsory clean production review and examination in accordance with law.</p> <p><b>Advocating for saving resources and consolidated utilization</b> Based on the principle of low investment and high output, low consumption and less discharge, cyclicity and sustainability, the objective for cutting key pollutant discharge as part of the "Eleventh Five-Year Plan" will be fulfilled by integrating energy-saving, water saving and land saving with the reduction of the overall pollutant discharge volume in an organic way, with the improvement of the utilization efficiency of energy resources as key measures. Overall planning will be made for synchronous implementation.</p>

# Appendix 1 A Summary of China's Policy and Land Use Planning Efforts to Promote More Sustainable Development

## Improving environmental economic policies

Environmental protection requirements will be fully taken into consideration in the reform of resources tax, consumption tax and import and export tariffs. An environmental taxation system will be sought to set up and the construction of energy-saving, environment-friendly society will be promoted by employing tax revenue as a lever.

The role of price lever will be brought into full play, a pollutant discharge price and charging system that reflects pollution cleanup costs will be set up. Sulfur dioxide and other pollutant discharge right can be traded in areas with due conditions or between accessible units. Environmental costs will become part of internal costs of an operation, making an enterprise reduce pollutant discharge and improve the effect of environment pollution cleanup. Preferential policies, including commissioning priority or better prices, will be exercised over power generated with renewable energy, desulfurization power plant and garbage burning power plant. Dynamic management of desulfurization power prices will be adopted.

Disposal and processing charges for urban waste water, daily garbage, hazardous waste and medical waste, and radiating waste collection and storage charges will be fully levied to ensure normal operation of the cleanup facilities and collection and storage devices. Pollutant discharge charges will be levied with tougher efforts and enforcement measures and the pollutant discharge charging system will be further improved. Municipal utilities reform will be accelerated. Various types of enterprises will be encouraged to participate in the construction and operation of environmental infrastructure facilities, and pollution cleanup will be further market-oriented.

Credit policies will be improved. Banks, especially policy banks, are encouraged to extend credit support to solvent environmental infrastructure facilities construction projects and enterprise pollution cleanup projects. The establishment of environmental liabilities insurance and environmental risks investment will be sought. Source of foreign investment will be positively expanded for utilization. More efforts will be made to procure free assistance and preferential loan from global organizations and foreign government.

In line with the principles of "he who develops a project is responsible for the corresponding environmental protection; he who damages the environment assumes the restoration duties; he who benefits from the environment is liable for compensating the due parties; and he who discharges pollutant pays the bill", the Three Gorges reservoir area, the water source area of the South-to-North water diversion project, key energy development zones and state-level natural protection zones will be covered as an extended list for pilot projects for improving ecological compensation policies and setting up the ecological compensation mechanism.

## Appendix 2

### Annex 2.1

**Implementing Green Credit Policies-ICBCs Experiences:** The ICBC regarded the promotion of “green credit” as an important component in fulfilling its corporate social responsibilities. In its “green credit” policy, the ICBC focused on the compliance of environment-protection, defined strict entry standards and implemented the “one ballot against the veto system”.

The ICBC employed classified management of its borrowers, strictly controlled total credits to high energy-consumption, high-pollution industries including steel, ferroalloy, cement, aluminum, copper smelting, calcium carbide and coke industries, and withdrew from the potentially high risky industries.

In line with this policy:

- quality of loans to enterprises that breached environment protection regulations or punished by environment-protection authorities will be managed as concerned category and below;
- new loans in any forms will be suspended for enterprise breaching environment-protection regulations including discharging pollutants above the prescribed amount or the aggregate amount, without legal permission, breaching the permission and enterprise that do not complete the rectification within certain deadline;
- new credit will not be given to companies or projects without stably functioning environment protection facilities in spite that the energy consumption and pollutant emission reach the standards or companies/projects without clear target in energy-saving and reduction of pollutant emission and feasible management measures;
- credit support in any form will be cut off for enterprises or projects located in “restricted regions or river areas”;
- and new credit will not be given to enterprises that are on the supervision list of the SEPA or punished, required to reform and ceased production to rectification.

In 2007, RMB6.3 billion of loans was exited from high energy-consuming and high polluting enterprises. Meanwhile, at the head office level, more than RMB10 billion of loans were vetoed due to their potential risks to environment and incomplete environment protection formalities.

#### **Establishing a dynamic green credit monitoring system**

Efforts were made to add the management of environment protection risks to the daily credit management gradually, to improve the early-warning management procedure, to clarify each element from environment protection information collection, analysis, verification, early warning to monitor the relevant enterprises in environment protection reform process, and to conduct entire-process evaluation and risk monitor.

The ICBC made full use of the information technology in green credit by timely inquiring the Credit Registration System of the PBoC in daily credit management to update enterprise's environment protection information, marking “enterprise's environment protection information” in its comput-

erized assets management system, establishing credit clients environment protection information database and classifying credit clients in nine grades of four categories as environment-friendly enterprises, environment protection compliant enterprises, environment protection concerned enterprises and potentially risky enterprises in environment protection according to the environment protection standards and punishment clauses set by the SEPA and environment protection risk level, locking credit clients in high energy consumption and high pollution industries in the computerized system and making great efforts to terminate lending to them.



Upon full-fledged monitor and analysis, the ICBC established the early warning system and monitored projects in the “restricted regions” or suspended by the SEPA and enterprises in the released “green credit” blacklist and coal mines that violated the environment protection regulations according to the joint notice of the State Development and Reform Commission and the State Administration of Work Safety and alerted relevant risks in the whole bank. In addition, to further strengthen its monitoring on enterprises’ environment protection loans, the ICBC established periodical visiting system to prevent credit risks from violations in environment protection regard.

### **Strengthening the supply of “green products”**

Along with the promotion of one ballot against the veto system, the ICBC strengthened the supply of “green products” as another important channel to become a “green credit” bank. The bank gives preference for environment-friendly, clean energy projects, high quality projects included in circular economy and pollution reduction, and assembling projects that strictly follow the environment-protection approval procedure, or implement advanced techniques and are capable to save energy and reduce energy-consumption, and if necessary, the bank launches joint evaluation and approval process to enhance credit approval efficiency. In 2007, the ICBC strengthened credit support to the 10 important energy-saving projects, reduction of water pollution programs, sulphur dioxide reduction programs in coal-fired power plants, comprehensive resources utilization projects, sample projects in industrialization of energy-saving and pollutant-reduction technology and actively supported relevant enterprises to increase environment-protection equipment investments, comprehensively reduce pollution source and enhance sustainable development capacity. The ICBC also actively innovated financial products and credit management modes, strengthened innovation in credit and derivative products in investment financing, financial advice, structured financing and financial leasing services and provided various financial support in energy-saving and environment protection.

In 2007, the total credit in supporting energy saving and pollution reduction, circular economy enterprises or projects of the ICBC reached more than RMB40 billion. The ICBC attached importance to the support for pilot enterprises in circular economy, projects in comprehensive resource utilization, and the development of new energy, energy saving, energy consumption reduction and other environmentally friendly projects, such as sewage treatment projects. The ICBC supported its clients in steel, electricity, papermaking and other high energy-consumption, high pollution industries, especially leading enterprises to implement energy-saving and environment protection technology transformation, for example, giving priority in approving the desulphurization transformation projects of power production enterprises that meet the requirements for “green credit” in line with the national requirements that new power units must install desulphurization equipment.

The ICBC made full use of the information technology in green credit by timely inquiring the Credit Registration System of the PBoC in daily credit management to update enterprise’s environment protection information, marking “enterprise’s environment protection information” in its computerized assets management system, establishing credit clients environment protection information database and classifying credit clients in nine grades of four categories as environment-friendly enterprises, environment protection compliant enterprises, environment protection concerned enterprises and potentially risky enterprises in environment protection according to the environment protection standards and punishment clauses set by the SEPA and environment protection risk level, locking credit clients in high energy consumption and high pollution industries in the computerized system and making great efforts to terminate lending to them.

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## Annex 2.2

**Serving the agricultural economy to support the construction of new countryside** The ABC has always taken serving agricultural economy as its major responsibility, and promoted the rural development, efficiency enhancement in agriculture, and income increase of farmers through providing financial services. From 2003 to 2007, the ABC accumulatively granted RMB1671.211 billion agricultural loans. Through issuing poverty-reduction loans, the ABC directly gave help to 25 million poor farm households, indirectly helped 50 million rural households and attracted nearly RMB70 billion from the developed regions to participate in the construction of poverty-stricken areas. Main measures of the ABC to promote financial services for agricultural sector include:

***Strengthen organizational guarantee to guide resources to tilt to rural sector:** The ABC established Financial Business Department for Rural Economy to conduct independent resources allocation, accounting and evaluation of rural financial services. Efforts were made to improve risk control system and establish five monitoring and examining teams, improve risk control methods, develop electronic credit management systems and realize risk control over the credit business nationwide with no time and space constraint. Efforts were also made to establish a discipline mechanism with equal rights and responsibilities, and define award and punish conditions. Rural micro-credit business was conducted with well-defined responsibilities in credit issuance, management and recovery, and staff's performance salary was linked with business profits. Normal risk level in agricultural financial business was clarified and due diligence clause was formulated as well for losses incurred at normal risk level. Efforts were made to strengthen outgoing auditing and set threshold for moral hazard and serious violations.*

***Promoting "green credit" to support energy saving and environment protection** Based on industrial policies and energy saving and environment protection policy of the government, the ABC strengthened the correlation between credit policy and the national industrial policy and tightened the credit entry standards. Six prerequisites for launching a project (namely in line with industrial policies and market entry standards, project examination and approval and filing for record procedure, land-use pre-approval, evaluation and approval of impact on environment, energy saving evaluation and regulations and requirements on credit, safety and urban plan) were strictly In the head office of the ABC, Financial Service Promotion Committee for Rural Economy was established along with the establishment of Rural Economy Policy and Plan Department, Corporate Banking for Rural Economy Department, Private Banking for Rural Economy and 5 management centers for credit, risk control, accounting, appraisal and evaluation and human resources in the rural economy. Funds absorbed in county level should be used for rural economy and the local county in general. The incremental credits in county institutions should account for above 50% of the whole bank. Lending for sub-branches of the ABC in less-developed regions will be granted preferential interest rate or charged with lower requirement ratio. The ABC increased the commission of financial services for rural economy, implemented preferential policy in salary and resources allocation and arranged special resources for the infrastructure reform in the key outlets in county level to ensure their services meet the needs of the rural economy.*

***Stress the importance of financial supports for rural economy and increase loans provision** The ABC identified production and supply of agricultural products, farmers' production and consumption, agricultural industrialization and the establishment of commodity circulation system, agricultural infrastructure construction projects, rural small hydropower plants and tourism as the 8 key areas to be supported, carried out the national macro-adjustment policy though its credit quota was tight, and differentiated credit clients to ensure to meet the demands of the rural economy.*

***Formulate credit policy that benefits serving rural economy and enhance credit efficiency** Because clients in the rural sector lack of standard financial information, the ABC used more qualitative indicators to evaluate clients' credit-worthiness. Furthermore, efforts were made to streamline business procedure to increase approval efficiency. Endeavors were made to consolidate the rating, credit-granting and credit-using procedures for lending in the rural sector and reduce the intermediate links. Efforts were made to promote Internet credit approval system to reduce time lag due to long distance.*

***Innovate service modes and improve service quality** Efforts were made to innovate guarantee modes by adding multi-guarantee, pledge with forest ownership or agricultural machinery and tools and other new guarantee modes to solve the lack of effective guarantees. In remote areas in the central and western regions, mobile financial service groups were set up to provide financial services for farmers and herdsmen. The agro-card was developed for farmers, and it can provide deposit, lending and remittance services for farmers and provide a channel for governments at various levels to allocate subsidies directly.*

Strictly control risks to enhance the sustainability of the financial services for rural economy checked and the minimum requirements for compliance examination before granting credit is that a project should be approved by relevant authority.

The ABC carried out a differentiated credit policy towards different credit clients. The ABC strongly supported the development of green industry including circular economy, enterprises producing environment protection equipments, energy-saving project and sewage treatment companies, green agriculture and the tertiary industry.

On April 17, 2008, the ABC jointly launched with the All-China Environment Federation the first environment protection theme credit card, the Kin-environment-protection card. Compared with other credit cards, the kin environment protection credit card is made of new biodegradable material, its key design concept is to safeguard cardholders' environment-protection rights, facilitate cardholders' environment protection consumption and realize cardholders' environment protection wishes.

### Annex 2.3

#### China Development Bank and Bank of China initiatives China Construction Bank

The China Development Bank (CDB) was an early comer in terms of its engagement in environmental protection and other sustainable development projects. As a policy bank, the CDB has actively supported the key economic and social development strategies of the government. In recent years, the CDB has beefed up support to regional economic development, small- and medium-sized enterprises and environmental protection, including the following projects: (1) environmental protection projects. In 2005, the CDB signed an agreement with the State Administration of Environmental Protection (SEPA), according to which, the CDB would provide RMB 50 billion loans in the next five years to key environmental protection projects at the state level. (2) Desert control projects—Salix psammophila planting projects. Salix psammophila planting project is a pure ecological project with the purpose to improve the ecology of Inner Mongolia. Because salix psammophila is a good-quality feed for animals, the project can generate economic returns. The CDB has issued RMB63 million loans to the first phase of the project and committed RMB 72 million additional loans to the second phase. At present the first phase of 1.5 million mu (1 mu=1/15 hectare) salix psammophila has been completed. After the second phase of the project is over, all the 3 million-mu salix psammophila will cover 16 townships of two counties of the Erdos city. The whole project, upon completion, can benefit about 200,000 households and increase their income by RMB1,500. The salix psammophila project is a good example of combining environmental protection with poverty alleviation.

#### ◆ The BOC: protect the environment and care about society

##### ◆ Protect the environment

The BOC adjusts its credit structure, supports small- and medium-sized innovative enterprises and innovative projects that save energy and protect the environment, check the environmental compliance of new borrowers, and conduct more rigorous evaluation of enterprises' anti-pollution capacity based on the central government's industrial policies and environmental protection and energy saving policies so as to tighten the assessment of environmental impact when issuing loans. The BOC pays great attention to coordination and cooperation with the environmental protection authority and the regulatory authority, strengthen supervision over the environmental impact of construction projects, follow up on the use of loans, check environmental protection of borrowing enterprises on a regular basis and withdraw loans if the borrowing enterprises are found to be heavy polluters.



The BOC calls on all its employees to save water, electricity and paper, educates them on ways to save water and ink, create a company-wide office automation system to save human power and consumable materials. Recycling boxes are placed in offices to collect and dispose of used batteries and electronic products to reduce pollution.

In 2003, the BOC cooperated with China Environmental Protection Foundation and developed the first financial product in China that supports environmental protection—"green deposits" whose accrued interests will be used through China Environmental Protection Foundation for environmental protection projects in western China, building ecology theme parks in cities and reaching out to the general public.

### Care about society

BOC's efforts in poverty reduction, disaster relief, education and contribution to communities have positive influence on the promotion of sustainable social development. The BOC has constantly increased investment in less developed regions and poverty-stricken mountainous regions, supporting road building, portable water, basic education, and farming and animal husbandry projects based on the actual situation of different regions. The BOC also has donated in cash and in kind and participated in post-disaster reconstruction after major natural disasters.

The BOC actively carries out the state's policies for education development and educational equality. For example, it issues student loans to poor students, set up scholarships to support outstanding students; earnestly supports education in poor regions and builds several "Hope Primary Schools" to improve the schooling conditions. In order to beef up support for poverty-reduction and education, the BOC is now preparing to set up a "BOC Poverty Reduction and Education Promotion Foundation".

The BOC reaches out to communities to publicize financial knowledge, to care about old widows and widowers, and to support the development of communities through its nationwide branch offices. For example, BOC Hong Kong is actively involved in supporting education, advocating cultures and arts, donating to medical projects, arousing environmental protection awareness of the public, promoting social work, and raising funds for disaster relief and other various social welfare activities through the BOCHK Charitable Foundation.

### The CCB: give priority to environmental protection projects and economize use of resources Priority given to environmental protection projects

The CCB stipulates in its credit policies as follows: no loans should be issued to projects or enterprises that are prohibited by the government and do not conform to environmental protection regulations; credit support should be rendered to projects that protect or improve environment. Pre-lending evaluation must include ad hoc assessment of environmental protection; and the reports on environmental impact are a major reference when approving loans. After loans are issued, the CCB follows up to check whether the borrowers treat pollution and other hazardous substances as required.

In 2006, the CCB promulgated the Five Basic Principles Governing Credit Approval to Large- and Medium-sized Clients, which clarified once again that meeting environmental protection standards was an important basis for approving credit lending to large- and medium-sized clients, and required all projects that received loans from the CCB conform to the government's environmental protection policies. Concerning government authorities must approve the potential impact of the project on social and ecological environment and solutions to the impact; otherwise, no loans will be made.

Between 2005 and 2006, the CCB supported several projects such as urban wastewater treatment and green energy projects with loans amounting to RMB10.139 billion.

### Economize use of resources

According to Hong Kong Stock Exchange's requirements, the CCB must provide every shareholder with a biannual report and an annual report in both Chinese and English every year. As a result, hundreds of thousands of volumes are printed each year, consuming a lot of paper. In order to protect the environment and save resources, in 2006, in the principle of conforming to regulatory requirements and respecting the rights of investors, the BOC circulated a letter among its shareholders, recommending them to receive reports in electronic forms. With the cooperation of its shareholders, the CCB trimmed 90,000 volumes of biannual reports in 2006. A lot of resources were saved.

### Participate in public welfare activities

Since 1996, the CCB made several donations to poor college students, out-of-school children, disaster relief and other social welfare activities, a sign of its corporate social responsibility that has generated positive feedback from all walks of life. For example, in 1996, about 300,000 CCB employees donated money to set up "CCB Love Foundation" to help poor college students. As of end-2006, a total of RMB 22 million was donated to 16,203 students from 86 colleges. Between 1996 and 2006, the Foundation donated RMB 500,000 to the China Youth Development Foundation to award those who helped others for a just cause.





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