

INVESTING IN A GREEN BELT AND ROAD?

ASSESSING THE IMPLEMENTATION OF CHINA'S GREEN CREDIT GUIDELINES

Friends of the Earth US

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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.

Our forthcoming June 2017 report examines seven case studies to assess Chinese banks' compliance with the GCG in their overseas lending practices. In light of China's wide-reaching Belt and Road Initiative (BRI), case studies were 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.

This report evaluates Chinese banks' implementation of the GCG based on the China Banking Regulatory

Commission's official Key Performance Indicators for green credit, which were published in 2014.

Key findings of this report are:

- Similar to the findings of our 2014 study published by Friends of the Earth, 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 ensuring clients submit high-quality environmental and social impact assessments, in addition to complying with the practice of Free, Prior and Informed Consent.
- Chinese banks continue to have weak channels of communication and engagement with the public and local stakeholders, which undermine implementation of the Guidelines.
- The CBRC's publication of the KPIs is a positive first step in promoting better implementation of the GCGs, but currently some KPIs (relating to

international practices and norms, and resolving local conflicts) remain underdeveloped and do not relevantly advancing the spirit and objectives of the Guidelines.

- As written, the Guidelines and KPIs miss an important opportunity to serve as a valuable tool in the global fight against climate change. In particular, KPIs should promote one of the banking sector's leading climate-related financing norms: curbing coal sector financing.
- Better bank-level and project-level disclosure, including making KPI self-assessments public, would promote stronger implementation of the Guidelines and better environmental and social risk management by banks.
- Particularly in developing countries, Chinese banks should better leverage the GCG in order to identify and assess how environmental and social risks may undermine the financial viability of a project, especially in the infrastructure sector.