Civil Society comments on the China Banking Regulatory Commission's
Green Credit Guidelines (9 Mar 2012)

Honorable China Banking Regulatory Commission:

As civil society organizations working on environmental protection, we pay close attention to how banks fulfill their environmental and social responsibilities and implement China's Green-credit policies. We would hereby like to send our warmest congratulations to the China Banking Regulatory Commission (CBRC) for issuing the Green Credit Guidelines.

The issuing of the *Green Credit Guidelines* (hereafter referred as *Guidelines*) promotes the implementation of Green Credit policies to a new level. It is financial innovation for sustainability. On reviewing the Guidelines we have observed a number of important characteristics:

1. The *Guidelines* introduce for the first time the idea of risk assessment and precaution, which not only accords with international standards and practice, but is also in agreement with China's need for a harmonious society. Through assessment of social risks, the vulnerable are better protected in the course of social development.
2. The term of the "related parties", has covers some of major stakeholders involved in Green Credit.
3. The *Guidelines* require that banking and financial institutions should establish specific credit guidelines targeting certain industries that are either restricted by national regulation and control or involve huge environmental and social risks. This will lead to more specific and detailed regulations for loans in different industries.
4. The *Guidelines* define the responsibilities and accountability of banking boards of directors and management personnel in the field of Green Credit, and require to set up a special department responsible for Green Credit. This will change the current lack of accountability of banks in their Green Credit management, which will enable Green Credit policies to function long-term and in a professional manner.
5. The *Guidelines* require openness of financial institutions' Green Credit strategies and policies, and full disclosure of Green Credit information. They insist that for credit granting involving significant environmental and social risks, information should be disclosed according to relevant laws and regulations. Additionally, supervision from the market place and stakeholders is necessary. This will increase the transparency of banking information and thus facilitate accountability amongst stakeholders.
6. The *Guidelines* require banking and financial institutions to enhance environmental and social risk management of overseas projects before issuing credit in order to ensure that the implementers of those projects abide by local country's or area's relevant laws and regulations related to environmental-protection, land, healthcare, security, etc. Furthermore, the *Guidelines* maintain that

banking and financial institutions should openly commit to adopt international practices or international norms for overseas projects applying for loans. This reflects the urgent environmental needs of China's "going out" strategy and complies with the host countries' requirements and the call from local people.

7. The *Guidelines* makes it clear that banks should establish assessment and evaluation as well as rewards and punishments mechanisms for Green Credit and set up internal reporting and accountability systems for clients with significant environmental and social risks. They also states that regulators should fully assess the effectiveness of banking and financial institutions' Green Credit and that the results of assessment should be taken into serious consideration in rating of financial institutions, entry of approval for institutions and operations as well as evaluation of senior management personnel. These regulations enhance the accountability of banks' Green Credits.
8. The *Guidelines* demand banking financial institutions' supervision throughout all links and portals of Green Credit, including organization establishment, policy making, client screening, issuing and approving credit, allocating funds, and after-loan management.

Green Credit policies cannot be fully implemented without public oversight and without the supervision of stakeholders such as non-governmental organization and the general public. Therefore, we have gathered opinions and suggestions from local NGOs and list them below:

1. <u>Identifying and Rating of Green Credit</u>: The practices of identifying and rating of Green Credit among banks are still varied. We suggest the CBRC further unify the standards for classifying and rating industries with environmental and social risks.

2. <u>Involvement of Stakeholders</u>: We noticed that although the *Guidelines* mention the relationship between banks and the "related parties", it ignores important relationships between major stakeholders. Firstly, the relationship between the borrower and the concerned community is not considered. For projects imposing significant adverse effects on the local community, the borrower should ensure community involvement and a clear channel and mechanism for complaints. Banks should examine the establishment and functioning of such a mechanism as one of the conditions of issuing credit. The second issue in need of consideration is banks' assessment of Green Credit responsibility and public involvement. Whether in assessing banks' investment projects and their social impacts or in accessing banks' performance on fulfilling environmental and social responsibilities, opinions from the public who are impacted by the projects are very important assessment indicators and should be taken into consideration when financial supervisors are evaluating banks. We suggest evaluation and accountability of banks should include opinions from impacted people and communities. We hope that more stakeholders will be invited to propose their ideas and suggestions when guidelines are formulated in the future.

3. <u>Overseas Investment</u>: Article 21 of the *Guidelines* mentions the environmental and social risks of issuing overseas credit, but it is unclear about how this will enhance banking financial institutions' management

of overseas credit and information disclosure. We suggest the main articles in the *Guidelines* can also be applied to banks' overseas investment and financing.

4. Disclosure of Environmental Information: The current practice is that environmental protection bureaus at all levels regularly provide information of enterprises which violate environmental laws to the People's Bank of China's credit system. We suggest relevant departments' credit centers disclose such information on a regular basis in order for the public to monitor bank's issuing of credit to enterprises involved. Banks should also disclose information regarding loans involving major environmental accidents.

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