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# China's Green Credit Policy: *Building Sustainability in the Financial Sector*

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# IFC's Climate Change Agenda

## Objectives

- Grow climate-related business to 20-25% of annual commitments by 2013, i.e., from about \$1 billion/year in FY10 to \$3 billion/year by FY13.
- In Financial Markets sector, IFC will work through FIs to finance small/medium green investments and climate-related projects for a total IFC commitment of \$1 billion/year by 2013.

## Financial Innovation

- Leverage and adapt existing financial products
- Develop new innovative financial products
- Develop efficient mechanisms to leverage public funds with private investment: tap into new climate finance
- Scale up through intermediation with financial institutions and funds

## Thought Leadership

- Methodologies for setting and monitoring climate goals and standards across all sectors
- GHG intensity accounting, impact assessment and efficiency guidelines
- Capacity building for private and public clients related to climate business/policy
- Engagement with DFIs, institutional investors, academia and civil society

## Business Opportunities

- Support IFC investments with global knowledge and technical expertise
- Develop scalable climate business models
- Invest in new and transferable technologies
- Develop relations with global and local climate technology companies
- Stay abreast with climate-related business solutions and markets

# IFC's China Strategy

## Climate Change

- Using its investment and advisory services to demonstrate market-based approaches to reduce energy intensity of domestic production and to increase efficient use of water resources, with a focus on energy efficiency, renewable energy, water management and green finance

## Equitable Rural-Urban Growth

- To reduce the gap in living standards between urban and frontier/rural areas, principally through investments and advisory work in micro and SME finance, agribusiness, infrastructure and food safety

## Global China

- To help China contribute sustainably to global economic development, particularly in Africa through enhancing the social, environmental and economic impact of Chinese engagement, and mobilize Chinese resources

# IFC's Climate Change Interventions in China

## Market-Driven Solutions

- Creating and demonstrating the viability of market-driven approaches to climate change mitigation such as the CHUEE Program. The next generation of the Chuee program will focus on EE financing by SMEs (this project), whole-sale approach to support small renewable energy projects and water efficiency.

## Renewable Energy

- Supporting the sustainable energy sector through investment in renewable energy producers and manufacturing supply chain to reduce the cost of electricity generated by these sources. Notable recent examples include IFC's financing of Suntech, a solar manufacturing company and China WindPower, a wind farm developer in Gansu province.

## New Technology

- Facilitating the deployment of new technologies where commercial sources typically perceive high risks. One example is Shuoren, an energy efficiency business geared towards carbon abatement for heavy industries.

## Policy and Advisory Assistance

- Providing policy and advisory assistance, complementing the World Bank's climate change program and strengthening incentives to choose lower-carbon options. A good example is IFC's collaboration with the China Banking Regulatory Commission to develop the "Green Credit" policy.

# The Green Credit Policy - the Domestic Context

- Pattern of rapid economic growth characterized by:
  - High consumption of energy and natural resources
  - Environmental pollution & biodiversity loss
  - Growing social tension and inequality
- Recognition that administrative measures need to be coupled with market-based policies
- Turning to the power of the market: *Environmental economic policies*
  - Environmental Tax
  - Ecological Compensation Mechanism
  - Green Trade Policy
  - Green Government Procurement
  - Green Insurance
  - Green Securities
  - **Green Credit**

# China's Green Credit Policy

- Context: Banks provide 80-90% of funding to Chinese enterprises
- Dual Purpose:
  - Direct credits *away* from highly polluting and high energy-consuming enterprises and projects
  - Direct credits *toward* energy conservation and emission reduction at preferential terms
- Launched in July 2007 by three agencies:
  - *Ministry of Environmental Protection (MEP)*
  - *China Banking Regulatory Commission (CBRC)*
  - *People's Bank of China (PBOC)*
- New feature: Inter-agency collaboration with clear implementation responsibilities
  - Based on lessons learned from the 1995 policy experience

# Implementation Challenges

- Policy Makers

- Learning to work together
  - Environmental agencies learning about market instruments
  - Financial agencies learning about environmental protection
- Understanding incentives

- Financial Institutions

- Systems & procedures to embed environmental risks into bank credit reviews
- Knowledge and practical tools to assess the E&S risks and identify business opportunities
- Overcoming the barriers for EE/RE projects
- Understanding incentives



# Partnership with Chinese Agencies on Green Credit

- Collaboration Framework
  - IFC-MEP Cooperation Agreement / IFC-CBRC Cooperation Agreement
- Policy dialogue and implementation guidance
  - MEP/IFC Green Credit Handbook: *The International Experience in Promoting Green Credit: Equator Principles and IFC Performance Standards and Guideline*
  - Recent support to MEP in its *China Green Credit Policy Annual Report*
  - Technical assistance to CBRC's *Guidelines* to enhance monitoring and evaluation of the Green Credit Policy implementation
- Awareness Raising, Training, Creating Networks
  - IFC/PBOC International Symposium on Sustainable Finance
  - Series of IFC/CBRC training events
  - Study tours / south - south knowledge sharing (e.g., China-Vietnam)
- Complementary activities on Green Securities Policy

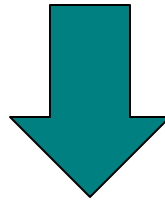


# Strategic Advice to Chinese Banks

- IFC also acts as a resource institution to provide strategic advice and technical information on EP, PS, EHS Guidelines
- Connects Chinese banks with IFC networks of Equator Banks
- Examples:
  - China Industrial Bank: adopted the EP in Oct. 08, becoming the first Equator bank in China
  - IFC/China Exim Bank MoU on E&S Sustainability capacity building: China Exim's E&S Risk Assessment Guidelines make reference to IFC's Environmental and Social Review Procedure (ESRP)

## Green Credit Policy - Progress To Date

- Enhanced accessibility of environmental compliance data
- Active participation of provincial and local governments
- Active participation of the financial sector
- Partnership with the international community
- Collaboration with the media



Credits are denied or curtailed  
Leading banks improve systems  
The first Chinese EPFI  
Emerging transparency

## Looking Ahead: Opportunities and Challenges

- ✓ Enhance availability of information & updates
- ✓ Issue guidelines and tools for implementation
- ✓ Create local capacity that banks can engage
- ✓ Create real incentives
- ✓ Create enabling environment through green securities, green insurance
- ✓ Build E&S sustainability into China's growing overseas finance

