

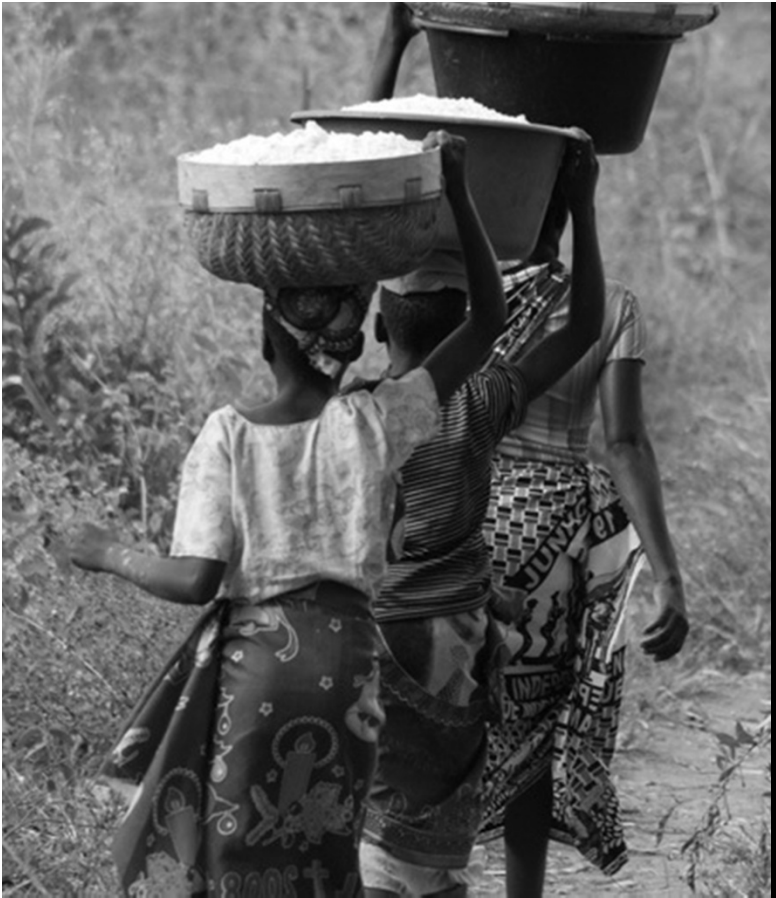
# Emerging Actors in Development Finance

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## PROMOTING ENVIRONMENTAL AND SOCIAL SUSTAINABILITY IN FOREIGN INVESTMENTS

Xiaomei Tan & Kirk Herbertson  
International Financial Flows and the Environment Project  
World Resources Institute

Feb. 24<sup>th</sup> 2011 at Woodrow Wilson Center



## TOPICS

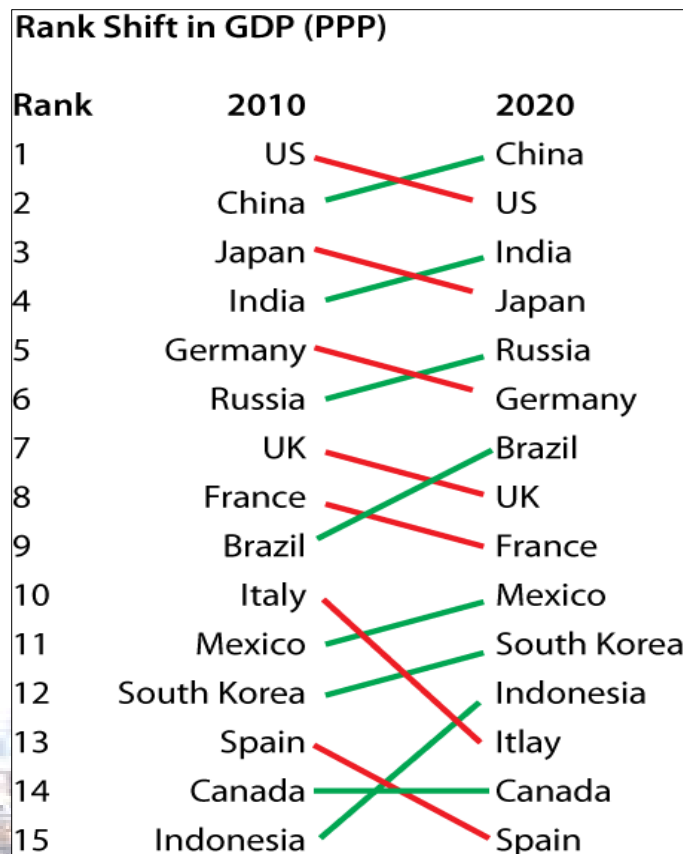
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# The Changing Global Landscape

## Key Trends: Growth Gap



Source: Euromonitor International

- Emerging countries have been growing faster than developed economies
- Of the top 10 economies in 2010 (GDP, PPP adjusted), four are emerging economies
- By 2020, China is likely to surpass the US as the world's largest economy

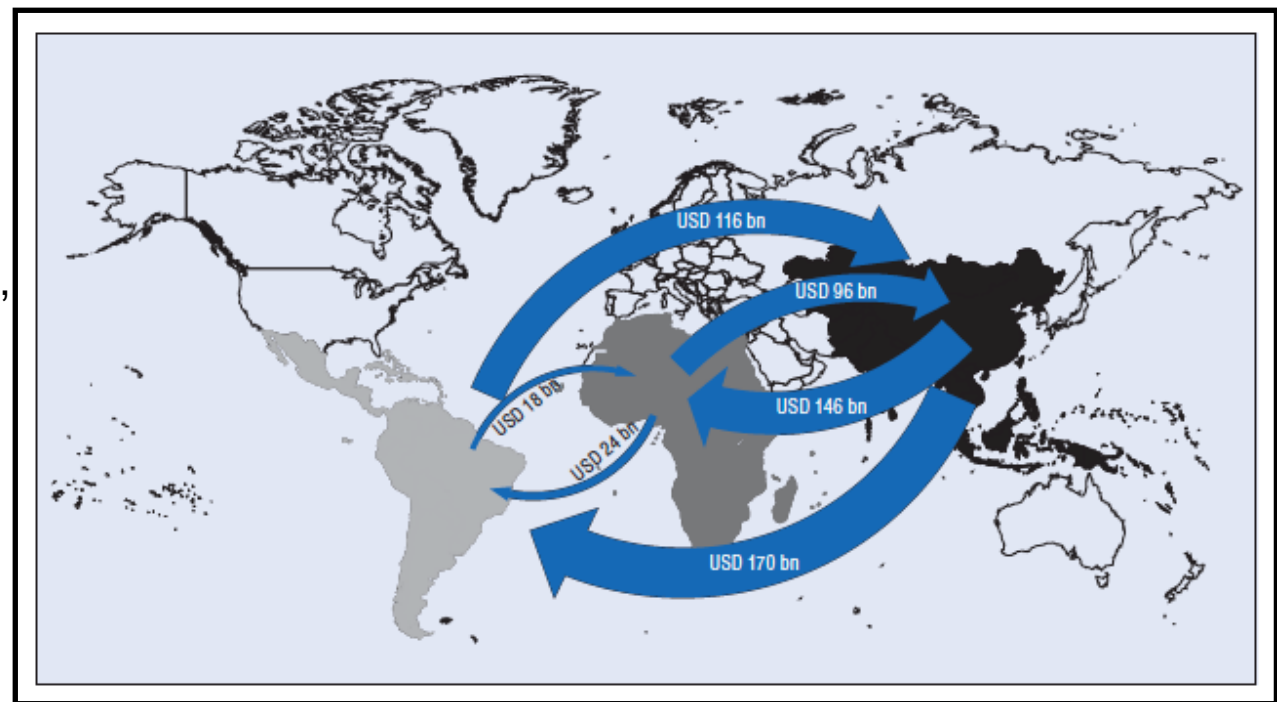


# The Changing Global Landscape

## Key Trends: South-South Trade

While world trade expanded four-fold between 1990 and 2008, South-South trade grew more than ten times.

Inter-regional South-South trade flows, 2008 (US\$ billions)



Source: OECD, *Shifting Wealth*, p. 72



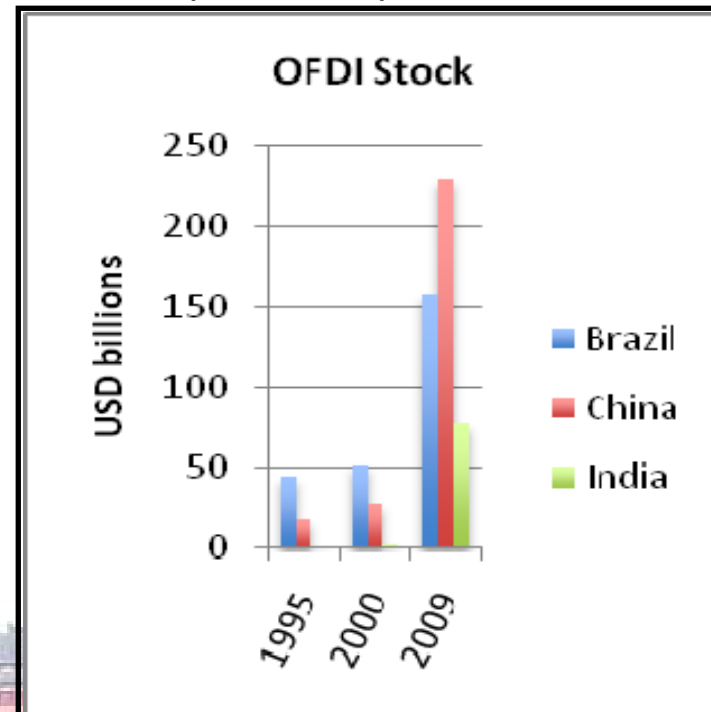
# The Changing Global Landscape

## *Key Trends: Foreign Direct Investment*

Between 2000 and 2009:

- Global FDI inflows - from nearly 20% to almost 50%;
- Global FDI outflows -11% to 25%.

Outward FDI of Brazil, China, and India, 1995-2009 (US\$ billions)



Source: UNCTAD, *World Investment Report 2010*



# The Changing Global Landscape

## *Key Trends: Political Groupings*

The number of Southern political partnerships and forums has expanded as South-South trade and investment has increased. In addition to the traditional G-77 grouping (formed in 1964):

- **BRIC:** Brazil, Russia, India, and China.
- **BASIC:** Brazil, South Africa, India, and China.
- **IBSA:** Brazil, India and South Africa.
- **Initiatives in Africa:** There has also been a proliferation of initiatives in Africa. The Forum on China-Africa Cooperation (FOCAC) was launched in 2000, for example, and has become the primary platform for coordination of Africa-China relations. India, Turkey, and Korea have organized similar summits.



# Sustainable Finance in China's Foreign Investments



# Sustainable Finance in China's Foreign Investments

## *Overview*

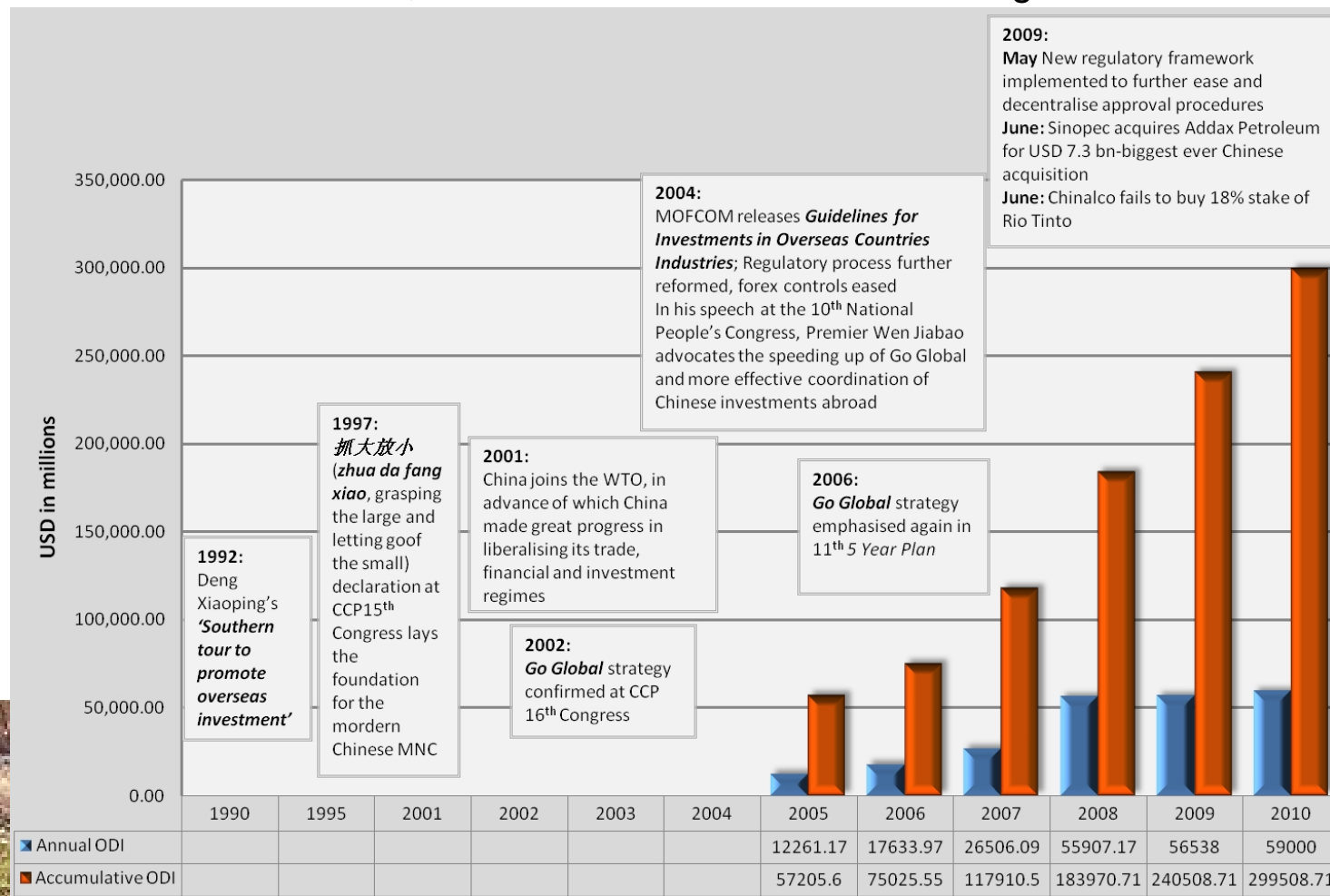
- How significant are China's foreign investments?
- Where are these investments going?
- What are the drivers of China's foreign investments?
- Who are the emerging financial actors?
- What are China's environmental & social standards for foreign investments?
- What are the challenges for environmental and social sustainability?





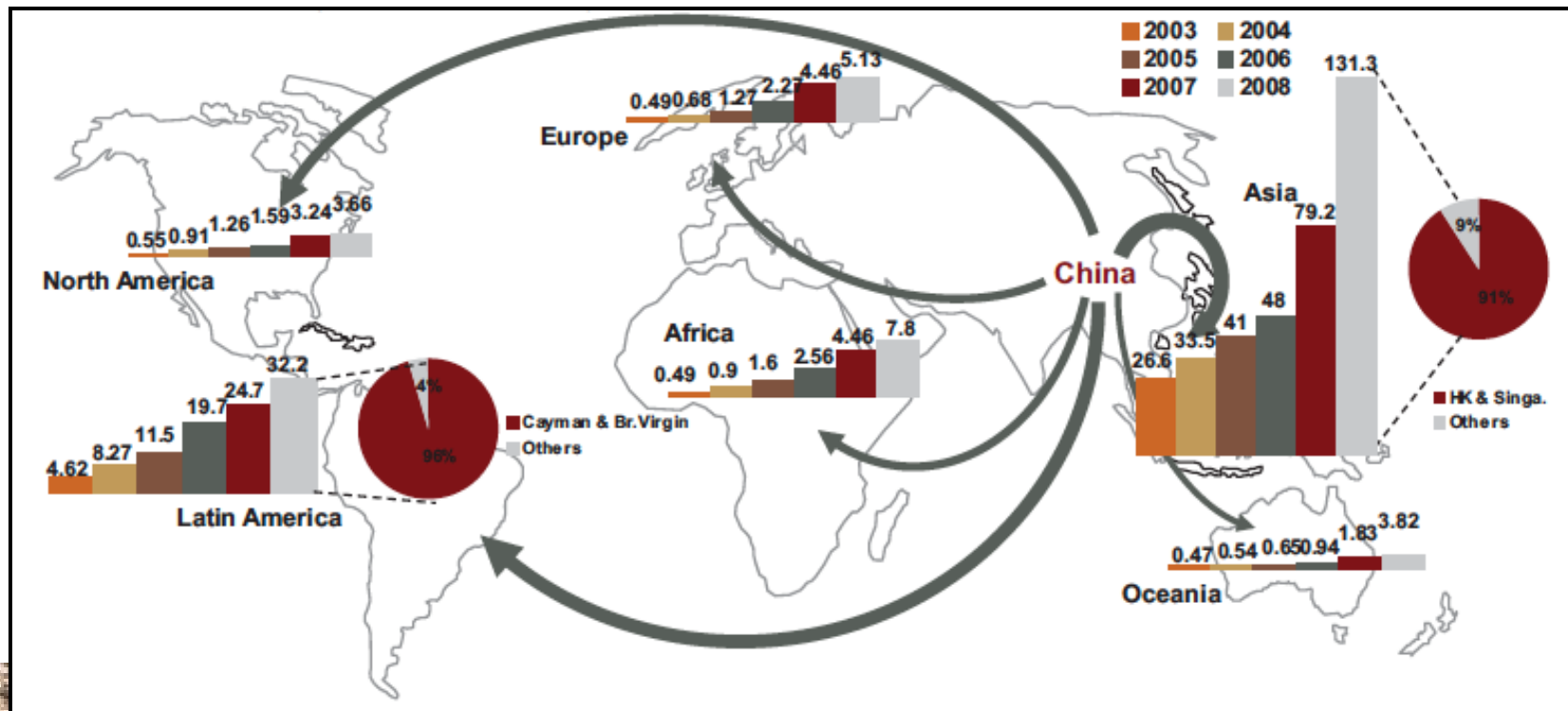
# How significant are China's foreign investments?

The “go global” strategy delivered quick results. Even while overall global FDI fell over 2008-2009, China's outward FDI continued to grow.

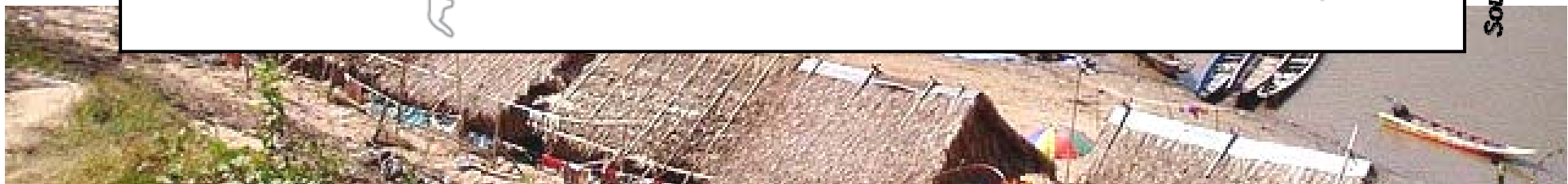


# Where are these investments going?

China's outward FDI stock by region, 2003-2008



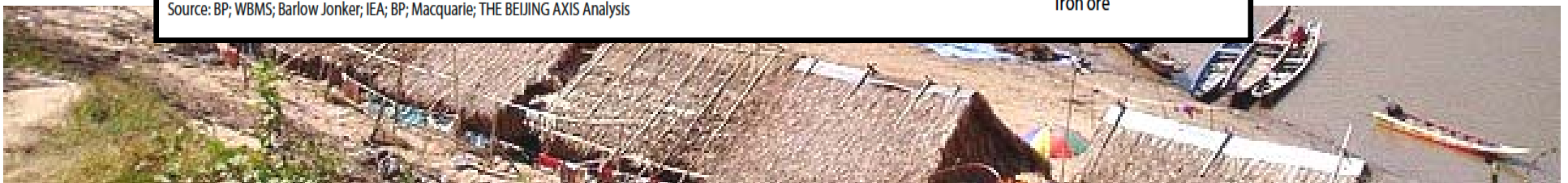
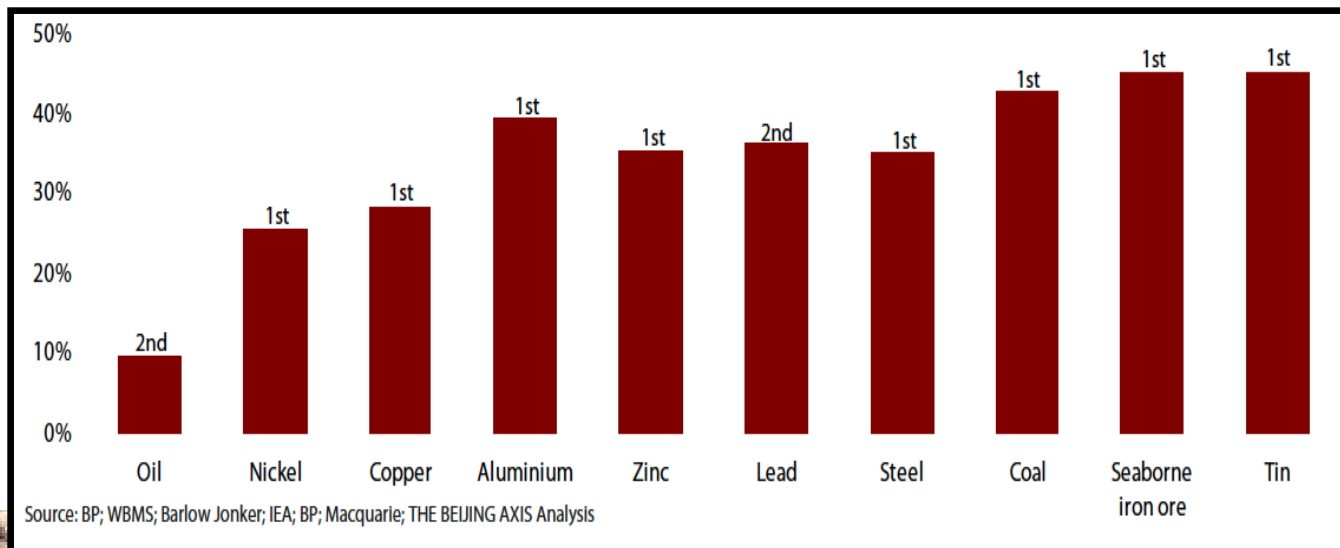
Source: Pieterse, Impact of China Going Global



# What are the drivers of China's foreign investments?

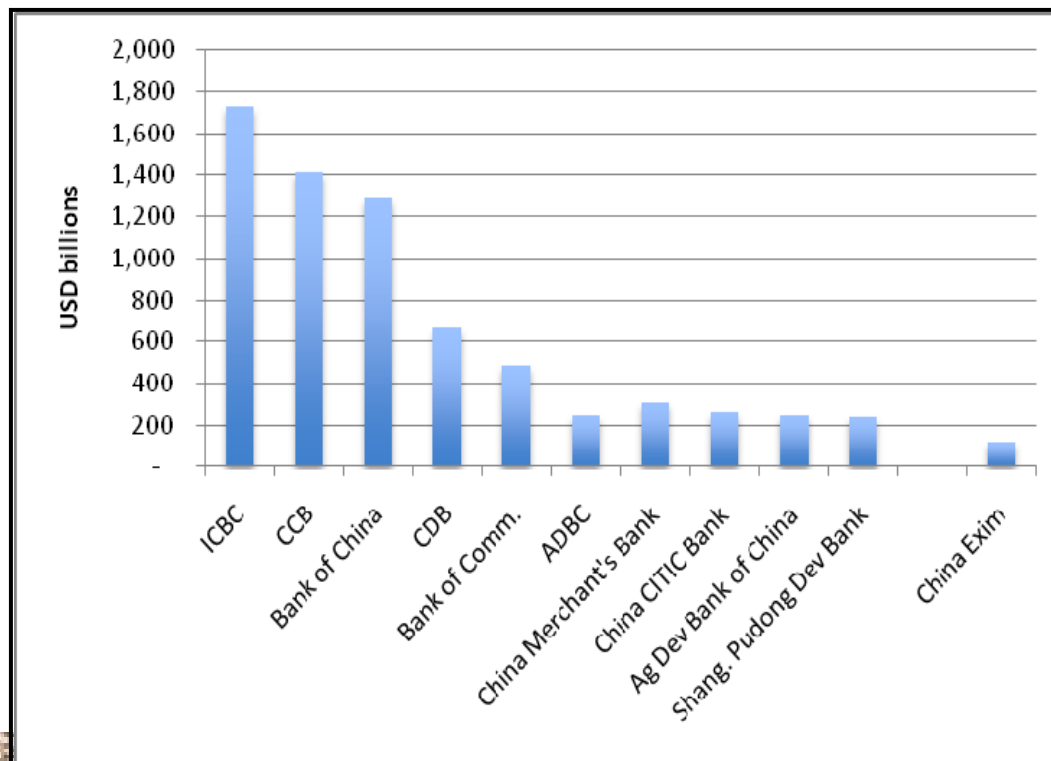
- Need for new markets, technology, and brands.
- Demand for energy and natural resources.
- By-passing trade barriers and tariffs also a motive.

China's consumption of commodities as a share of world total, 2008 (% and world ranking)



# Who are the emerging financial actors?

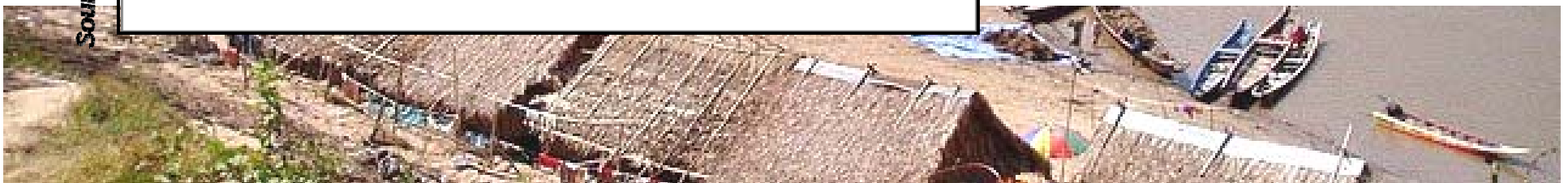
China's largest banks by total assets, 2009 (US\$ billions)



Source: KPMG Mainland China Banking Survey 2010

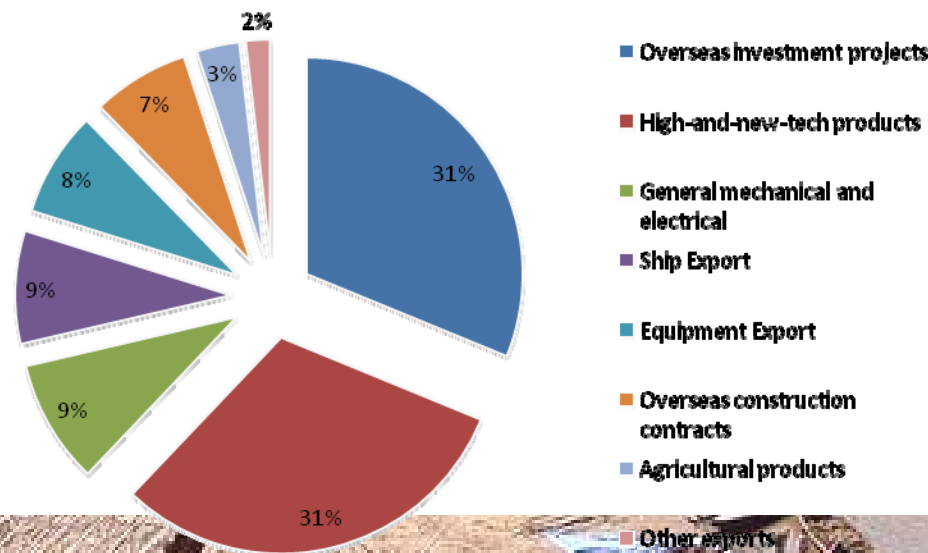
China's "go global" strategy is largely financed by its foreign aid program and its state-owned policy banks, namely the **Export-Import Bank of China** and the **China Development Bank**.

Large, state-owned commercial banks are also promoting internationalization of Chinese firms through loans and equity investments..

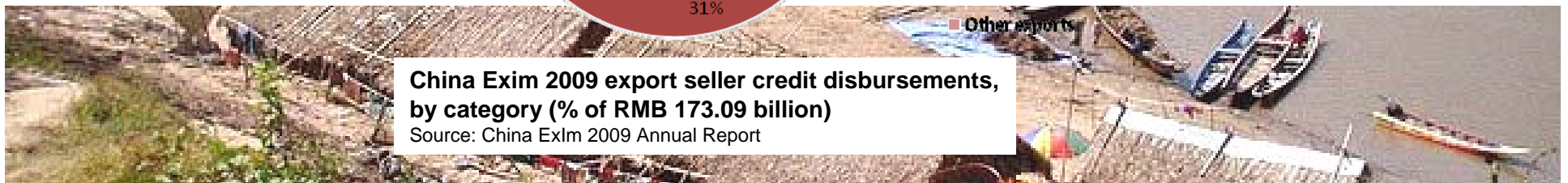


# Emerging financial actors: China ExIm Bank

- **Mission:** finances and implements the government's trade and overseas investment policies.
- **Tools:** export seller's credits; buyer's credits; and international guarantees.
- **Scale:** by far the largest export credit agency in the world. In 2009, it approved over US\$70 billion in new lending, more than the U.S., Japanese, and Brazilian export credit agencies combined.



**China Exim 2009 export seller credit disbursements, by category (% of RMB 173.09 billion)**  
Source: China ExIm 2009 Annual Report



# What are China's environmental and social standards for foreign investments?

- Domestically, strengthened environmental and information disclosure standards
- Internationally, Developing guidelines for overseas lending and investments

## China's Emerging Standards for Banks & Enterprises' Domestic/Foreign Investments (2004-2010)

**2004**  
Brief environmental guidelines by China ExIm: Impact assessments/monitoring/project impacts review required

**2005**  
China Development Bank states it has an environment policy

**2007**  
China ExIm significantly expands environmental guidelines

China adopts a **Green Credit Policy** restricts lending to polluting companies

**Guide on Sustainable Overseas Silviculture** by Chinese Enterprises introduced standards for activities in forest ecosystems

**2007/2008**  
**Corporate social responsibility guidelines** issued for banks and state-owned enterprises

**2008**  
Landmark **Open Government Information Regulations and Measures for Environmental Information Disclosure** went into effect

**Industrial Bank** became the first Chinese **Equator Principle** financial institution

**2010**  
**Proposed Guidelines for Environmental Practices in Foreign Investment Activities of Chinese Enterprises**, requiring compliance with Chinese and host country laws, greater transparency, community consultation, and grievance mechanisms

2004

2005

2007

2008

2010

# What are the challenges for environmental and social sustainability?

China has made tremendous progress, however, many challenges remain:

- **Monitoring green finance policies overseas**
- **Developing overseas standards**
- **Implementing standards**
- **Providing access to information**



# **Case Study: China's investments in Uganda's oil and gas sector**

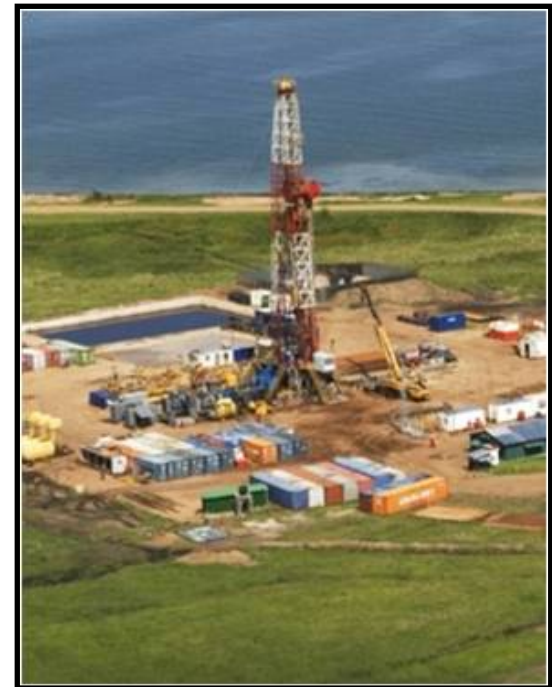




# Case Study: Uganda oil and gas

*Uganda becomes Africa's newest oil producer*

- Uganda began to develop oil reserves in mid-2000s
- Could produce up to 350,000 barrels per day
- 40 wells so far, operations are expanding rapidly
- China's CNOOC will drill in Lake Albert, the most biodiverse area in Africa
- Other Chinese companies have expressed interest in additional oil blocks, pipeline, and refinery



# Case Study: Uganda oil and gas

*Environmental and human rights risks can harm the bottom line*

Types of Risk	Examples
Reputational risk	International and local media criticism
Legal risk	Company enters long, costly litigation
Construction and operational risk	Local conflict slows operations
Host government risk	Government withdraws permits and licenses
Political risk	National opposition to the company prevents future business opportunities



# Case Study: Uganda oil and gas

## *“The Environment Trap”*

- Loss of biodiversity leads to loss of tourism
- Disoriented elephants migrate through villages and damage crops
- Water pollution or oil spill becomes trapped in Lake Albert
- No clear emergency response plans for oil spill or other disaster



© Flickr woychukb

# Case Study: Uganda oil and gas

## *“The Community Trap”*

- Oil drilling will expand, but where?
- Reduced access to clean water
- Impacts on fishing livelihoods
- Conflict spillover from neighboring countries?
- Land-grabbing to profit from oil expansion



© Flickr Jussi Mononen

# Case Study: Uganda oil and gas

## *Avoiding the environment and community traps*

Engaging local civil society groups and communities can help to identify these risks. A constructive relationship with Ugandan civil society could provide:

- **Communication channels** with affected communities
- **Watchdogs** for corruption in oil revenues
- **Technical expertise** on biodiversity in Lake Albert region
- **Understanding** of local political dynamics
- **Third party perspectives** on company performance



# Case Study: Uganda oil and gas

*An opportunity for dialogue*

**Demand from communities and civil society** for interaction with  
Chinese companies...

+

**Demand from Chinese companies** (in Beijing) for greater capacity to  
avoid the “environment” and “community” traps...

=

**Is this an opportunity for mutually beneficial dialogue?**



对此presentation的任何评论意见请致作者本人：

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谢谢！