

Comparing Financial Institutions' Environmental and Social Policies: Chinese and International Development Banks

Since the "Going Out" Strategy began, China has increased its overseas investment and deepened bilateral cooperation. In the process of enterprises going abroad, policy banks have the important roles of not only serving as project funders but also providing guidance in facilitating overseas projects. In recent years, the impact of overseas investment on the environment and communities has gotten more attention. Moreover, there is growing consensus in the international community that financial institutions have the responsibility to review, assess, and control the environmental and social impacts and risks of their investment and financing activities. This information sheet discusses the roles and responsibilities undertaken by two of China's development policy banks, namely China Development Bank and China's Export-Import Bank (China EXIM Bank), in terms of the environment and society of overseas projects. The chart below also compares these two banks' environmental social policies with those of the World Bank, International Finance Corporation, and the Japan Bank for International Cooperation.

	China Development Bank	The Export-Import Bank of China	The World Bank	International Finance Corporation	Japan Bank for International Cooperation
Major financing sectors	Electricity, highway, railway, petroleum and petrochemical, coal, post and telecommunications, agriculture, forestry and water conservancy, urban public facilities, etc.	Chinese enterprises' export of mechanical and electrical products, complete sets of equipment, high-tech products exports, foreign contracted projects and overseas investment.	The World Bank supports a wide range of sectors, mainly infrastructure and services in developing countries.	Financial industry, infrastructure construction and agroforestry.	Energy and natural resources, infrastructure, manufacturing, and environmental protection.
The earliest environmental and social policies	Notice of the General Office of the State Development Bank on Implementing Credit Policy and Strengthening Environmental Protection, 1995	The Export-Import Bank of China Loan Project Environmental and Social Evaluation Guidance, 2007	Operational Manual Statement on Environmental Aspects of World Bank Work, 1984	IFC's Environmental Analysis and Review of International Finance Corporation Projects, 1993	Japan Bank for International Cooperation Guidelines for Confirmation of Environmental and Social Considerations, 2003
Current environmental and social policies	A series of documents relevant to Green Credit in 2015	Export-Import Bank of China Green Credit Guidance, 2015	The World Bank's Safeguard policies since 1997	International Finance Corporation Environmental and Social Sustainability Policy, IFC's Environmental and Social Performance Standards, International Finance Corporation Access to Information Policy, 2012	Japan Bank for International Cooperation Guidelines for Confirmation of Environmental and Social Considerations, 2015
Proposed updates of the policies	N	N	The Environmental and Social Framework, 2016 (estimated to be enforced in 2018)	N	N
The environmental and social issues addressed	Pollution control, health, immigration, etc.	Energy conservation, land acquisition and involuntary migration, biodiversity conservation and sustainable natural resource management, etc.	Current policy contains issues of environmental assessment, natural habitats, pest management, indigenous peoples, physical cultural resources, involuntary resettlement, forests, safety of dams, projects in disputed areas, projects on International Waterways. The new framework will also include issues of comprehensive protection of labor and working conditions, general principles of non-discrimination, social health and safety measures for road safety, emergency response and disaster reduction.	Environmental and social risks and impacts, labor and working conditions, resource efficiency and pollution control, community health, safety and security, land acquisition and non-resource transfer, biodiversity conservation and sustainable management of biological natural resources, indigenous residents, cultural heritage.	Environmental impact includes impact on human health and safety, as well as natural environment through air, water, soil, waste, accidents, water usage, ecosystem and biota. Social concerns include human rights issues, such as involuntary resettlement, indigenous people, cultural heritage, landscape, gender, children's rights, communicable diseases, working conditions and community healthy safety and security; There is concern that such impacts may lead to trans-boundary conflicts and global environmental problems.

Process of environmental and social risk / impact control	Project development, credit approval, contract management, post-loan management etc. Supervision will be integrated throughout the credit process.	Pre-loan investigation, loan review, contract management, loan issuance and post-loan management.	Project approval, preparation, evaluation, implementation process and after the project.	Risk control is assessed throughout the investment cycle.	Pre-loan review (provided as early as possible during the planning stage) and post-loan management.
The environmental and social standards employed	In accordance with host country's laws and policies.	In accordance with host country's laws and policies, at whose absence will defer to Chinese standards or international practice.	In accordance with host country's laws and policies and OP 4.01. If inconsistent, follow the stricter rules of the two.	The requirements in the Performance Standard shall be met, details referring to the Environmental, Health and Safety Guidelines. International practices and laws in host country should also be considered. When different standards are inconsistent, follow the strictest one.	In accordance with host country's laws and policies on environment, IFC's Environmental and Social Performance Standards, the World Bank Group Environmental, Health and Safety Guidelines.
Set up an environmental-social sector	N	N	Y	Y	Y
Pre-loan review as a basis for credit	Y	Y	Y	Y	Y
Categorize customers according to environmental and social risks	N	Y	Y	N	Y
Relevant environmental and social documents required	EIA document officially approved by host country/government.	The approval document of the competent department of the host country, the EIA report, and a written review of the client's exposure to environmental and social risks in the client's credit review (including preliminary) report.	Documents contain environmental and social evaluation.	Customers are required to provide key information about asset and environmental social risks and impact management.	Projects in category A are required to provide the EIA report and Government Environment Permit Document. Projects resulting in large-scale involuntary resettlement and those that have an impact on the aborigines shall provide the resettlement livelihood recovery plan and the original indigenous program. Projects in category F1 are required to provide the classification and evaluation results by financial intermediaries. Voluntary provision of related materials for projects in B category.

Open communication and consultation mechanism with the local community	N	Y	Y	Y	Y
Differential management of high-risk projects	Y	Y	Y	Y	Y
Field research and supervision on environmental issues in operation	N	N	N	Y	Y
Risk coping and disciplinary mechanism in project implementation	Advanced and dynamic risk warning mechanism. Weakened asset quality, loan limit and suspension of lending for enterprises observed to have violations of the law and major security accidents.	Require the borrower or project owner to take measures to eliminate the impact in time. Failure to comply with the requirements will stop being provided with credit support. The environmental and social risk management will also be considered in the non-performing loans and bad debts identification.		Disclosure of customers' violation against the Performance Standard, and help them identify opportunities to improve the environmental and social performance of the project.	Improper implementation of environmental and social protection measures require rectification; if the rectification is not in place, payment of funds will be suspended.
Specialized business supporting Green Investment	Y	Y	Y	Y	Y
Develop information disclosure policy	N	N	Y	Y	Y
Range of information to be disclosed	Not specified.	Not specified.	Information outside the exception list shall be disclosed.	Both routinely disclosed information and information provided to the public by request, mainly including project information and expected environmental, social and development impact, etc.	Basic project information. Projects in category A and B shall publish the IEA report and environment permit documents. Projects in category A, B and F1 shall disclose the environmental review results, and project implementation units shall announce the environmental and social protection measures test report.
Environmental information disclosure channels			The World Bank website, more than 100 public information centers, public application channel and complaint mechanism.	IFC website, public application channel and complaint mechanism.	JBIC website

China's policy banks have overall shown continuous improvement in their environmental and social policies since their development and have also achieved some unique advantages. First, **the procedure of setting up the banks' programming is increasingly comprehensive and normative**. Specifically, China Development Bank and China EXIM Bank have included a pre-loan investigation, review, contract management, loan issuance, post-loan management, and other procedures that each work to control the project's environmental and social risks. Second, **China Development Bank and China EXIM Bank's disciplinary measures on the violations for the environment are increasingly stringent**. Importantly, these requirements not only cover environmental violations but also any aspects of the project not in accordance with considerations of receiving the loan. In fact, there is a possibility of downgrading the credit rating of enterprises that commit environmental violations - a measure that we hope will lessen future violations. In addition, **China's policy banks are taking greater efforts to support green credit projects and to actively explore how to provide comprehensive financial services to relevant businesses**.

At the same time, there are several shortcomings in the environmental and social policies of the Chinese policy banks. It is suggested that some of the policy and practical experiences of international financial institutions can be borrowed and strengthened in the following way:

- **Policy content.** The development of independent strict and operational standards of environmental assessment should be further enriched so that more environmental issues are incorporated in the policy. Policies should also be refined and tailored to specific environmental circumstances.
- **Institutional setting.** The establishment of a dedicated environmental and social department that can assume the relevant responsibilities, so that the project's environmental and social contents can be audited, supervised, managed, and evaluated, and finally be clearly implemented.
- **Project process.** During the pre-loan review, it's necessary to strengthen the audit of the project's environmental and social programs and improve any of the project's defects. In the post-loan management and supervision steps, it's important to put more efforts to field surveys and enlist the help of professional third-party institutions to research and evaluate the project's environmental and social impact.
- **Mechanism construction.** Improve the information disclosure system, strengthen the disclosure of relevant documents and information included within the scope of the law, and improve the transparency of the project; implement a complaint mechanism to protect public access to information channels; establish contact with the local community and consultation mechanism for a two-way communication system guarantee.

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