WWF

REPORT

CHINA

2015

THIS PUBLICATION HAS BEEN PUBLISHED IN PARTNERSHIP BY:

CAEC

Serial Report on Belt and Road Initiative and Green Finance

Research on International Experience of Environmental and Social Management Framework for Multilateral Development Banks

November, 2015

Table of Contents

Abbreviation

ADB	Asian Development Bank
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
ASEAN	Association of Southeast Asian Nations
CHSS	Community Health, Safety and Security
EBRD	European Bank for Reconstruction and Development
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EPs	Equator Principles
EPFIs	Equator Principles Financial Institutions
ESA	Environmental and Social Assessment
IDB	Inter-American Development Bank
IFC	International Finance Corporation
MDB	Multilateral Development Bank
TPP	Trans-Pacific Strategic Economic Partnership Agreement
TTIP	Transatlantic Trade and Investment Partnership
WBG	World Bank Group
WWF	World Wildlife Fund

Executive Summary

Ever since the Initiative of jointly building the "Silk Road Economic Belt and 21st-Century Maritime Silk Road" (hereinafter referred to as "Belt and Road" Initiative) put forward by the Chinese government in 2013, China has conducted a series of pragmatic cooperation with countries along the Belt and Road. In April of 2015, the National Development and Reform Commission (NDRC), Ministry of Foreign Affairs and Ministry of Commerce of China jointly issued the Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road. As countries along the Belt and Road have their own resource advantages, and their economies are mutually complementary, there is a great potential and space for cooperation. Focused on the major goals of policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds, the Belt and Road Initiative would create numerous opportunities for industrial production cooperation and investment and financing.

In a bid to promote the green development of Belt and Road Initiative in China, the China-ASEAN Environmental Cooperation Center and WWF made a joint research on the international experience of environmental and social management framework for multilateral development banks. The research aims to summarize the experience of Multilateral Development Bank (MDB) on environmental and social risk management during the entire process of financing, investment and implementation through the study of relevant policies, guidelines, guiding principles and measures of existing MDBs during the process of green finance and sustainable investment so as to provide policy reference to the investment activities and financial cooperation under the Belt and Road Initiative for China.

The environmental and social security policies of existing MDBs (also known as sustainable development policy for some banks, no differentiation hereafter) are the essence extracted from the experience of coping with environmental and social risks and enforcement of sustainable development strategies, which can facilitate financial institutions to identify, contain and avert the negative impact of their investment and operational activities to the environment and the society. The research has selected some typical MDB including ADB, WBG and IDB to sort out the environmental management framework adopted in their investment process, summarize relevant international experience and further make analysis over the best practice of sustainable investment and environmental performance. Based on the analysis, the research put forward the basic orientation of green finance reform and practice under the Belt and Road Initiative, which is to adhere to the five development concepts proposed by the Fifth Plenary Session of the 18th CPC Central Committee, including innovation, coordination, green development, opening-up and sharing, and to promote the institutional establishment and practice of green finance under the Belt and Road Initiative, from the aspects of building green financial system, promoting green investment and green capital, preventing environmental risks, enhancing environment performances, innovating market-oriented mechanism and promoting sustainable investment of natural capital, so as to provide green support to the Belt and Road Initiative of China.

Hereby we would like to make an acknowledgement to all the participants and experts supporting the writing of this report, among whom Mdm. Zhou Guomei and Ms. Li Xia from China-ASEAN Environmental Cooperation Center and Mr. Sun Yiting from WWF Beijing Office take charge of the technical part; Ms. Li Xia, Mr. Sun Yiting, Mr. Han Chunwei and Mr. Wu Yanyang take charge of the actual drafting; Ms. Ni Huan, Ms Liu Ting and Ms. Lu Diyin take charge of case study and data analysis; and Mdm. Zhou Guomei and Ms. Li Xia finalized the report.

Our special thanks also go to Mr. Li Ning from ADB, Ms. Yuan Wei and Ms. Zhou Rong from International Finance Corporation, Mr. Emmanuel Andre Boulet and Ms. Li Fan from Inter-American Development Bank, Director General Li Haisheng, Deputy Director General Song Xiaozhi, Director Li Yonghong, Ms. Hu Yunfang from the Department of International Cooperation of MEP, Director General Guo Jing from China-ASEAN Environmental Cooperation Center, Mr. Lo Sze Ping, Ms. Li Lin and Ms. Guo Lina from the WWF China, Ms. Zhang Xin from the Department of Planning and Finance of MEP and Mr. Shi Yulong from the Academy of Macroeconomic Research Institute of NDRC for their guidance and research support during the drafting process of this report.

Chapter 1 Environmental Challenges and Opportunities for Foreign Investment of China under the Initiative of Belt and Road Initiative

With the proposition of the Belt and Road Initiative in 2013, the economic and trade relationship between China and countries and regions along the way is becoming closer and is further deepened with rapid growth in investment. During the first half of 2015, the volume of total direct investment of Chinese enterprises in 48 countries along the Belt and Road reached 7.05 billion US$, up by 22% than the same period of last year and accounting for 15.3% of non-financial FDI of China[1] . In 2013, the investment flow of China in Hong Kong SAR, ASEAN and Russia mounted to 62.824 billion, 7.267 billion and 1.022 billion US$, marking the growth of 22.6%, 19.1% and 30.2% respectively compared with the previous year. The similar figure for Georgia and Kyrgyzstan stood at 59.5% and 26%, representing a rather high growth[2] . However, it is worth noting that along with the rapid growth of investment in these regions, various types of problems regarding ecological environment pollution appeared, making environmental issue one of the major factors in the investment of China in these regions.

1 Major Investment Problems and Environmental Challenges

1.1 Diverse national conditions of target investment country increasing the uncertainty of foreign investment

Green movement started rather on an early date in developed countries, and the issue of CSR has already become the social consensus and code of conduct for enterprises. While in contrast, the awareness of CSR for certain Chinese enterprises is quite weak, and some enterprises lack the self-consciousness in fulfilling their CSR, which also provide the evidence for the hyping of "the theory of environmental pollution caused by Chinese investment" in the international community.

Since the political, economic, cultural and social conditions of countries along the Belt and Road are quite diverse, insufficient pre-stage preparation and the lack of policy and necessary market research would definitely lead to deviation of investment activities of Chinese enterprises. This is especially true in countries of complex political scene and experiencing social turmoil and lots of uncertainties, where the forces of various parties could easily carry out political manipulation through the hype of environmental issues, forcing the investing enterprise being involved in local conflict and consequently huge economic loss. In other situations, the uncertainty as a result of the unsophisticated environmental legal and administrative system of some countries greatly heightens the investment risk and the difficulty of evaluating the operational cost for the enterprise. In many countries, NGOs and local communities are quite influential while the government lacks necessary credit and is incapable of handling issues such as information transparency and communication with the community properly, thus leading to the situation that environmental problems tend to become the hotspot or even be exaggerated.

1.2 China lacking specific laws on environmental protection responsibilities of enterprises "going global" and mainly holding an encouraging and guiding attitude

The concern over "Chinese eco-environmental hot money" in the international community during the process of foreign investment by China has a deep-rooted origin domestically. It mainly display itself as the lack of systematic environmental laws, regulations and instruction opinions supporting foreign investment at the national level, the sided emphasis on short-term economic profit and the negligence of long-term environmental benefit at the local level and within enterprises, and the combined expression of insufficient importance attached to the environmental impact of foreign investment and inadequate measures or control.
Chinese governmental departments and large-scale SOEs or even listed companies stick to the "principle of investment following the dependent territory" (i.e. investment activities should observe the relevant laws, regulations and policies of the target country of the investment), which tends to make enterprises follow their usual way of thinking to consider their relationship with the local government of the dependent territory as a major criterion for judging the importance of investment decision-making while ignoring environmental risks and cutting the cost on environmental protection for the project. In this case, relevant enterprises won't be punished accordingly at home when environmental problems occur from investment activities, resulting in adverse international influence and direct economic loss. Although Chinese Ministry of Commerce and Ministry of Environmental Protection have jointly issued the Guidelines for Environmental Protection of Foreign Investment and Cooperation[3] , it has no compulsory force over Chinese enterprises making foreign investment so far, and enterprises are only encouraged and guided to fulfil their social environmental responsibilities.

1.3 Imbalance in investment region and industry leading to outstanding regional environmental problems

The countries and regional along Belt and Road are of rich natural resources and highly sensitive environment with high risks in investment activities. While promoting local economic development, the augment of direct investment in these countries by China has expanded the exploration of relevant resources, and the pollution consequently produced would cause adverse environmental impact if without proper treatment.
Meanwhile, the industrial distribution of foreign investment by China is quite unbalanced, focusing mainly on

industries of mining, construction, timber and infrastructure construction in countries along Belt and Road. In recent years, the investment ratio of resource industries, particularly the mining industry, is ever mounting. If we turn a blind eye to environment protection, investment of these resource-intensive industries would inevitably exert negative impact on local environment, causing the economic activities of Chinese enterprises facing ecological environment risks. The issues and cases of unsustainable investment due to improper handling of ecological environment problems indicate that protection of ecological environment has become one crucial factor in foreign investment.

2 The Opportunity for Regional Development Financial Institutions under the New Situation

Under the Belt and Road Initiative, China will heighten investment in countries along the Belt and Road, carry out international capacity cooperation and map the layout of some labor-intensive and technology-intensive industries in these countries through the integration of domestic and international market while taking the chance of domestic industrial and technological upgrade so as to promote the quality betterment of "Made in China" products while enhancing the industrial development of these countries. China would advance the innovative transfer of Chinese foreign investment and at the same time participate in the formulation of international investment rules, which are of great significance to driving the economic growth of China and elevating its international position. Against this backdrop, China has initiated the setup of regional development organizations like Asian Infrastructure Investment Bank(AIIB), New Development Bank BRICS(BRICS Bank) and Silk Road Fund Co. Ltd., providing investment and financing support to sectors relevant to connectivity including infrastructure construction, resource development and industrial cooperation.

2.1 Establishment of the green investment and green finance mechanism as requested by Silk Road

Belt and Road initiative clearly unveils the concept of “Jointly Building Silk Road Economic Belt” and related requirements, including highlighting the concept of ecological civilization in investment and trade, and strengthening cooperation on ecological environment, biodiversity and addressing climate change. While encouraging enterprises to participate in infrastructure construction and industrial investment of countries along the Belt and Road, the Initiative clearly states enterprises should bear social responsibilities positively and strictly comply with the requirements for protecting biodiversity and ecological environment, and a number of key environmental protection projects are also planned.

The Initiative lists strengthening ecological environmental protection cooperation as one of the important areas to actively promote pragmatic cooperation, emphasizes on ecological civilization and cooperation-driven building of green Silk Road, calls for coordinating the promotion of regional ecological construction and environmental protection, and requires attaching great importance to ecological environment protection during cooperation in various fields. Ecological environment protection’s serving as an important support for the Belt and Road Initiative will effectively promote intercommunication of policy, facility, trade and capital, and benefit countries along the Belt and Road. Meanwhile, the Belt and Road Initiative lays a foundation and sets up a platform for China to further participate in South–South Cooperation where China’s experiences in ecological civilization building and environment protection can be shared with other countries. However, if the requirement for environment protection is neglected, the implementation and cooperation will probably be severely impacted by ecological environment issues, resulting in losses.

Through in-depth analysis, the connotation of ecological environment protection in building Silk Road is reflected in three levels:

(1) The resources-saving and environment friendly principle should be given a priority in the concept, economic activities and project design of the Belt and Road Initiative so that the concept of ecological civilization and green development will reflected in the overall design and the whole process of the Belt and Road Initiative. Economic, trade and infrastructure construction activities should be carried out following the requirements of green development and ecological civilization, based on a green and low-carbon model and meeting the resource-saving and environment-friendly principles.

(2) The ecological environment risks should be prevented in an active manner. Ecological environment protection provides service support for the Belt and Road Initiative, and thus relevant regional environmental protection criteria or guidelines need to be formulated to serve as environmental guidelines for the implementation of the Silk Road Economic Belt.

(3) Countries along the Belt and Road should cooperate with each other in the fields of environment and development, to promote the harmonious development between environment and economy, enhance the sustainable carrying capacity of regional environment and achieve common green development.

Which key areas should be covered by the green development concept during implementation of the Belt and Road Initiative? Generally speaking, these key areas include: (1) the strategy and policy-making process where the green development principles should be adhered to; (2) the international capacity cooperation and infrastructure construction process where the resources-saving and environment friendly technical standards and guidelines should be stuck to; (3) the process of economic, logistic, product and service trading of countries along the Belt and Road where green environment standards should be introduced; (4) the process of integrating green industries into the design of important tasks and projects associated with international capacity cooperation and the Belt and Road Initiative. This process requires fostering green and low-carbon technologies and industries into the technological cooperation direction and content supporting the Belt and Road Initiative, through pilot programs and industrial park cooperation.

To sum up, the implementation of a green Silk Road requires the green investment and green finance mechanism to be formulated and introduced, which should reflect the high standard requirements for environmental protection, encourage investment enterprises to fulfill their social environmental responsibilities, and establish a exclusion list and blacklist system for enterprises violating environment laws and regulations.

2.2 Environmental rules and standards in economic and trade activities being improved

With the ending of the Ministerial-level negotiation in Atlanta of the US, TPP, together with the existing North America Free Trade Area (NAFTA), the Free Trade Area of the Americas (FTAA) under negotiation and the TTIP would heavily hit international economic and trade pattern under the framework of WTO Agreement, especially to China featuring high percentage of export in GDP. According to World Bank statistics, export accounted for 22.6% in its GDP of China in 2014 . The formation of new economic and trade pattern would pose a challenge not only to China's economic growth mode depending on export but also to its industrial upgrade and transfer. As sitting on the upstream of the largest supply chain of the world, China is bound to get rid of a large portion of export-oriented manufacturing industry in the future.

Aiming to promote free trade and investment, TPP specially includes a chapter on environment and puts forward to promote the compatibility of trade and environment policies, which indicates: firstly, the trading activities must not damage ecological environment and the environment problems related to trade should be resolved through cooperation; secondly, environment protection policy must not become a new barrier preventing free trade, and member of each countries must not restrict free trade and investment taking advantage of environment laws and regulations (original or new). Therefore, TPP articles related to environment actually proposes to formulate related rules in accordance with international environment standards and the environment protection not only can not hinder free trade but also helps to achieve green trading. In addition, relevant TPP articles put forward to promote trading of environment friendly products and services, eliminate tariff and non-tariff barriers for free trade of such products and services, and promote the production, application and trade activities of such products and services through bilateral and multilateral cooperation, which has been applied under the framework of the Asia-Pacific Economic Cooperation.

TPP and TTIP indicate that global supply chain will expand to relatively new areas. For example, ASEAN countries will become the priority destination for transfer of manufacturing industry of developed countries, while some low-cost manufacturing industry will surely be transferred to Africa. If we say that Belt and Road Initiative fills in the geological vacuum between TPP and TTIP, regional development organizations led by China are the most crucial instrument for supporting the implementation of the Initiative. It is fair to say that the series of regional development financial institutions set up under the proposal of China such as AIIB, BRICS Bank as well as the envisioned SCO Development Bank, together with the existing China Development Bank and China Import and Export Bank will constitute the core components in China’s strategy of coping with changes in international economic and trade landscape and stabilizing its central position in global supply chain.

However, we should also be aware that relevant environmental norms and standards have been elevated to an unprecedented position either in the official response of the US and Japan to the establishment of AIIB or the response of US government over China’s accession to TPP. The international “green barrier” is ever-forging and has become an unavoidable issue for China. The international community has already reached the consensus that environmental governance is both a corporate responsibility and a commercial opportunity, and multilateral development organizations can play a crucial role in connecting the two. Presently, a lot of international organizations including UNEP, WB, OECD and other multilateral organizations are vigorously promoting the formulation of management guidelines or cooperation plans over CSR, sustainable environmental management of the financial service industry and specific resource-based industries, which have won the support from and been highly recognized by various countries around the globe.

As a new party participating in the formulation of international economic order, the series of emerging regional development organizations proposed by China has no precedents to follow in terms of environmental governance. At the setup stage, they can consider to learn from the experience of existing multilateral development organizations to actively following the doctrine of “taking and copying” as well as the principle of taking the “path with Chinese Characteristics”, compare and analyze the present status and national conditions of various international financial institutions, absorb the core thought for well-developed environmental securing mechanism of existing international financial institutions and then tailor-make the articles with flexibility based on regional development status. By doing so, environmental performance would no longer be the short board, but the featured basic requirements and cornerstone of sustainable operations, becoming the core competitiveness and strategic development motility of institutions.

Chapter 2 Overview and Comparative Analysis of Environmental and Social Safeguards Policies of International Multilateral Financial Institutions

The chapter will retrospect environmental and social safeguards policies of current international multilateral financial institutions, such as World Bank Group and Asian Development Bank, as well as their experience in and lessons from implementation of the same and make an inductive analysis of criticisms and suggestions from different stakeholders on these policies, so as to provide reference for China-led emerging multilateral financial institutions in the future.

1. IDB's Environmental and Social Safeguard System

Inter-American Development Bank (IDB) is a multinational development bank initiated mainly by developing countries, which focuses on sustainability issues in addition to economic growth at the early stage, e.g., social development, social justice, environmental protection and climate change, and it is the first multilateral development bank to incorporate environmental regulations. IDB issued Environmental Protection Policy (OP-703) as early as 1979. It also actively supported and accepted Sustainable Development Principle and incorporated it into its own environmental regulations from the late 1980s to the early 1990s. IDB's environmental protection policy, formulated under the principle of sustainable development, originates from "Rio Declaration" and "Agenda 21" in 1992. Objectives of sustainable development include both social and economic development objectives as well as long-term ones targeting environmental sustainability. In the eight supplementary environmental regulations in 1994, IDB confirmed environment, poverty reduction and social equality as its top priorities.

IDB's environmental regulations intend to fulfill the following: firstly, increase long-run developmental benefits to its member states by underlining the importance of environmental management in all IDB-funded projects and activities, improving borrowers' ability to manage environment and improving the long-term development profits of its member countries; secondly, ensure the environmental sustainability of all of its projects and activities; thirdly, encourage enterprises to perform environmental responsibilities under its framework. In order to bring about these intentions, IDB stresses the significance of environment in all relevant activities and attempts to mainstream environmental awareness.

IDB's environmental regulations are divided into two main categories, i.e., those for mainstreaming of environmental protection and those for environmental safeguards. The former is applicable to projects and activities with respect to public sectors and aims at increasing motivation of public policies to expedite market opportunities for environmental protection; while the latter is applicable both to public and private sectors designed to safeguard environmental quality of IDB-related projects and activities. All IDB-funded projects should meet the requirements in environmental safeguards.

Specifically, IDB's environmental and social safeguard system, also known as sustainable development framework, consists of the following parts[4]:

1) Mandate, including IDB's articles of association and strategies;

2) Sector Strategies and Priorities, including sector strategies and frameworks in core areas such as agriculture, management of natural resources, tourism and biodiversity;

3) Safeguards Policies and Process, including policies on conformity of environmental safeguard safeguards, policies on indigenous people, policies on involuntary resettlement, policies on disaster risk management and gender equality in development;

4) Measurement of Results, i.e., assessment of regional development objectives, performance of safeguard system, etc.;

5) Capacity Building and Knowledge.

IDB's sustainability framework contains relatively comprehensive policies, which involve climate change in addition to policies adopted by common multilateral development banks. However, there are no policies related to community influence and working environment for labor force.

2. WBG's Environmental and Social Safeguard System

World Bank Group, WBG or World Bank, exerts important influence on borrowers' economic, social and environmental policies as well as their investment projects through loan projects and policy suggestions. Since the late 1970s, World Bank (International Bank for Reconstruction and Development and International Development Association) has approved a series of internal policies to guide selection and design of its projects and policy reform. In 1998, World Bank combined its major environmental and social policies and developed the "Safeguards", which intend to provide the minimum protection for environment and vulnerable groups so that they can be free from adverse impacts of WBG-funded projects. WBG's International Finance Corporation and Multilateral Investment Guarantee Agency (MIGA) also abide by these processes and accept most internal policies made by World Bank.

Though these policies still have many defects, they can provide minimum guarantee for environment and venerable groups against adverse impacts of WBG's investment activities. WBG's safeguards provide mandatory standards and processes, to which borrowers and WBG itself are required to abide by when preparing and implementing projects. The safeguards establish minimum procedural rights and provide the public with important channels to participate in decision-making and acquire information. Non-governmental organizations once employed the safeguards to change project design of WBG-funded projects, which relieved environmental and social impacts and allowed communities to participate in more project benefits. If WBG and borrower governments fail to live up to WBG's policies, communities may complain to independent investigating organization of WBG.

Most safeguards consist of Operational Policies (Ops), including core requirements and processes that must be observed. WBG's operating policies related to environmental safeguard can be specifically divided into the following categories of Ops:

1) Environmental Evaluation (OP 4.01), which can help confirm potential environmental and social impacts and bring about measures to relieve such impacts. The evaluation process can also confirm whether other safeguards (e.g., the policy of involuntary resettlement) should be used. WBG requires its clients to construct Environmental and Social Assessment and Management System (ESMS) to identify and manage potential environmental and social risks.

2) Natural Habitat (OP 4.04), which prevents WBG-funded projects from affecting areas with high density of animals and plants that have essentially not been influenced by human activities.

3) Pest Management (OP 4.09), for which WBG encourages the use of biological or environmental control methods to reduce dependence on chemical insecticides and limit access to and use of insecticides. WBG will provide funds only when insecticides are properly used according to comprehensive pest management.

4) Indigenous People (OP 4.10), which provides standards and processes for projects influencing indigenous communities and procedurally make these communities entitled to agree with or vote down proposed projects.

5) Involuntary Resettlement (OP4.12), which provides standards and processes for projects concerning resettlement or causing economic resettlement due to lose of land, property or sources of income.

6) Forestry (OP4.36), which provides the minimum standards for forestry projects funded by WBG and offers financing for conditional commercial deforestation and farm development.

It should be noted that WBG's safeguards are applicable to investment-oriented projects only, such as construction of public utilities, industrial development plans, agricultural projects and exploitation of natural resources. Though WBG-funded policy reform, e.g., legal, rule and institutional reform of a country, will also cause great social and environmental influence, the safeguards are not applicable to policy-related loans. Besides, WBG's safeguards often cannot quote international conventions and standards on rights that can provide a stronger guarantee for affected communities.

3. IFC's Environmental and Social Safeguard System[5]

International Finance Corporation (IFC), founded in 1956, is a private sector branch of WBG and headquarters Washington DC, the US. IFC's Sustainability Framework clearly expresses its strategic commitments to sustainability and regards sustainability as an important risk management method, which consists of the following:

1) The Policy on Environmental and Social Sustainability, which defines IFC's commitments, roles and responsibilities related to environmental and social sustainability.

2) The Performance Standards, which define clients' responsibilities for managing their environmental and social risks, guide and help clients to avoid, mitigate, and manage risks and impacts, strengthen disclosure of information on stakeholder engagement and achieve sustainable operation. In the case of its direct investments (including project and corporate finance provided through financial intermediaries), IFC requires its clients to apply the Performance Standards in management of environmental and social risks and impacts so that development opportunities can be enhanced.

3) Access to Information Policy, which articulates IFC's commitment to transparency, reflects its commitment to transparency and good governance on its operations, and outlines the Corporation's institutional disclosure obligations regarding its investment and advisory services.

IFC's Sustainability Framework has profound significance. This is not only because IFC influences other financial institutions through its lending and investment activities, but also because IFC exerts important influence on social and environmental standards of more than 40 lending institutions (mostly commercial banks). These institutions undertake to abide by social and environmental standards initiated and led by IFC, i.e., "Equator Principles (EPs)" in their project loans.

In general, IFC's Sustainability Framework is welcomed by many environmental organizations for the following reasons:

1) Constant update and improvement: IFC updated its Sustainability Framework in 2006 and 2012. IFC is now assessing its current Sustainability Framework.

2) Broad participation: IFC encourages stakeholders, including governmental and environmental NGOs, to actively participate in setting and updating polices and standards regarding sustainability.

3) Strict information disclosure: IFC has explicit policies on information disclosure in place to guarantee transparency of consultation and investment activities. The policy is also constantly updated to improve management and audit.

4) Extensive influence: the Sustainability Framework is applied in IFC's consultation and investment activities to make its concept and practice of sustainable development a mainstream in commercial activities of IFC's global partners from different industries.

4. ADB's Environmental and Social Safeguard System

As a core safeguard of Asian Development Bank (ADB), ADB's safeguards aim at guaranteeing environmental security and sustainability of projects and support overall consideration of environmental factors in project decision-making process. These requirements are applicable to all sovereign and non-sovereign projects funded and/or managed by ADB as well as components of these projects.

ADB requests environmental assessments against specific projects before approving loans. ADB divides projects into four categories with different environmental evaluation standards, i.e., Environmental Impact Assessment (EIA) for Category A, Initial Environmental Examination (IEE) for Category B, Environmental and Social Assessment and Management System (ESMS) for Category FI and exemption from environmental assessment for Category C. In order to understand the importance of possible impacts and risks of a project, determine organizational resources required by assessment level and safeguards and confirm requirements for information release, it is required to collate and classify the project in the early stage of project preparation. Detailed classification levels should be determined by the most sensitive part of the project to environment. Each proposed project can be divided according to its type, site, scale and size of possible impact on environment as follows:

Environment-oriented Classification Method for ADB's Investment Projects and Detailed Rules for Environmental Evaluation

Environmental Evaluation Standards	Project Classification	Detailed Rules for Environmental Evaluation
EIA	Category A projects: If a project in discussion might impose great, irreversible, diversified or unprecedented adverse impacts on environment, the project will fall into Category A. Scope of these impacts may go beyond the scope of the site of the project or of the tool it uses. Such projects should be subject to EIA.	1. Identification of impacts 2. Environmental Management Plan 3. Due diligence and review 4. Monitoring and review
IEE	Category B projects: If a proposed project has possible adverse impacts on environment lower than those of Category A, it will fall in Category B. Such projects have environmental impacts that are limited within the site of the project and hardly have irreversible impacts; compared with Category A projects, mitigation measures can be immediately made and taken in most cases. Such projects should be subject to preliminary environmental review.	1. Examination of preliminary environmental conditions 2. Environmental Management Plan 3. Due diligence and review 4. Monitoring and review
ESMS	Category FI projects: If a project in discussion involves ADB's investment to or via financial intermediaries, the project will fall into Category FI*.	1. Environmental and social policies 2. Impacts identification process 3. Organizing ability and competitiveness 4. Staff training needs 5. Monitoring and review
Exemption	Category C projects: If a planned project has only mild or no adverse impacts on environment, the project will fall into Category C. Though such projects should not be subject to environmental evaluation, its impacts on environment should still be evaluated.	N.A.

*According to ADB's Safeguard Policy Statement: if a Category FI investment project bears no or few environmental and social risks, FI projects will be regarded as Category C projects which should not be subject any other specific requirements.

In order to meet the requirements of environmental safeguards, ADB and its borrowers/clients will assume different responsibilities and tasks. ADB is responsible for explaining policy requirements to clients and help them meet these requirements during project preparation and implementation via due diligence, assessment, supervision and capacity building. Clients need to carry out environmental and social evaluation, formulate and implement safeguard plans through information disclosure and consultation with affected groups and communities, monitor implementation of these plans, write and submit monitoring reports. ADB undertakes to finance neither projects that fail to meet the requirements of environmental safeguards nor those going against laws or regulations in jurisdiction, including projects for which the countries where they are located are responsible under international laws.

ADB's safeguards are not systematically established from the very beginning; instead, after three main Ops such as environment, indigenous people and involuntary resettlement were introduced in succession, the unified Safeguard Policy Statement has been released based on the three policies. On the one hand, these policies have been established based on demands in practice, so they are pertinent and instructive to investment activities of ADB; on the other hand, its safeguard system is not perfect in terms of systematicness and uniformity.

In general, ADB's safeguards contain policies on environment, indigenous people and involuntary resettlement, similar to other multilateral development banks like International Finance Corporation. Additionally, safeguards of other banks, such as pollution prevention, biodiversity and culture heritage, are also involved in ADB's environmental safeguards, but fail to form a separate policy or have detailed instructions.

5. Comparison of Environmental and Social Safeguards Policies of Current International Multilateral Financial Institutions[6]

5.1. Convergence of current environmental and social safeguards

Safeguards of multilateral development banks are developed and improved constantly, allowing sustainable development of safeguards and policy systems, with continuous focus on difference between different areas and between various stakeholders. Although multilateral development banks are independently formulated, their policy systems are somewhat convergent in the process of reference to each other.

5.1.1. Sound structure of multilateral development bank safeguard systems

Diversity of multilateral development bank safeguard frameworks reflect different management systems, purposes & objectives and strategic directions of various multilateral development banks, under which lie some basic principles jointly abided by current international multilateral financial institutions. Safeguards of current multilateral development banks are well arranged and form a combined system, usually with policy statements, governance principles, operating safeguard requirements, comprehensive environmental and social assessment procedures and corresponding guidelines.

1) Policy statements: it sets out key objectives, policies, principles, scope and management framework for multilateral development banks to carry out project assessment as well as assessment of environmental and social impacts and risks. Policy statements are often used within multilateral development banks to underline key principles to be adhered to. These statements may be voluntary, mandatory or a combination of the two;

2) Environmental and social review process: it is a mandatory requirement that must be followed during due diligence by multilateral development banks, under which preparation, approval, monitoring and regulation of projects should be reviewed according to documentation requirements and disclosure principles;

3) Information disclosure policy: it requires multilateral development banks to publish issues without limitation to environmental and social safeguard; it is a mandatory requirement for institutions;

4) Guidelines, source materials, handbooks or other relevant materials that are designed to inform borrowers/clients to implement the "preferred plan" required by safeguards: the provision is commonly not mandatory, unless otherwise specifically agreed between a multilateral development bank and its borrower;

5) Independent deliberation: it can guarantee implementation of environmental and social safeguards as well as stakeholders' benefits.

The following table contains a comparison of major multilateral development bank safeguard systems in combination with these key elements above:

Elements of Multilateral Development Bank Safeguard Systems

Multilateral Development Banks	Policy Statements of Top-level Design	Operational Requirements (for clients)	Environmental and social Assessment	Information Disclosure	Best Practice Reference Materials such as Guides and Handbooks
Asian Development Bank (ADB, released in 2009)	Safeguard Policy Statement	Safeguard Requirements	Operating Handbook: Steps of Internal Safeguard Assessment	Public Communication Policy (2011)	Source materials
Inter-American Development Bank (IDB, released in 2006)	Partly contained in OP-703	Operating Policy	Guide on Implementation of Environmental and Safeguard Compliance Policy and Other Safeguards	Access to Information Policy	Tools and guides
International Finance Corporation (IFC, released in 2012)	Sustainable Policy	Performance Standards	Steps of Environmental and Social Assessment	Access to Information Policy	Guides; guidelines on environment, health and safety; explanatory documents; good practice cases
African Development Bank (AfDB, released in 2013)	Comprehensive Safeguard Policy Statement	Operating Safeguard	Steps of Environmental and Social Assessment	Information Disclosure Policy	Guides (suggestion draft)
European Bank for Reconstruction and Development (EBRD, released in 2014)	Environmental and Social Policies	Performance Requirements	Environment and Society update postponed)	Public Information Policy	Guides for clients
European Investment Bank (EIB, released in 2013)	Environmental and Social Principles and Standard Statements	Environmental and Social Handbook	Environmental and Social Practice and Steps	Transparency Policy	Materials on environmental laws, guides

5.1.2. Scope and limit on application of a sound safeguard system

1) By the nature of loans: multilateral development banks apply the same operating safeguards and requirements to public and private sectors, with some procedural difference at project level;

2) By type of loan instruments: safeguards of multilateral development banks apply to all of their investment activities, while these banks will adjust their safeguard systems to meet safeguard structures and procedural requirements of different loan instruments (e.g., various loans based on policies, guidelines and projects). In the comparison of how multilateral development banks apply their safeguard systems to different loan instruments, it is necessary to note the difference between "safeguard system" (a generalized concept) and "safeguard" (for loan operation of a single project). Safeguard systems applied to "all projects" have a different interpretation. In some cases, safeguard systems will be applied to loans other than policy development or planning loans, including special investment loans (excluding specific conditions such as emergency or disaster relief loans, technical assistance or low-risk subprojects of financial intermediaries). In some other cases, despite of procedural difference, safeguard systems will be applied to all types of loan instruments, including policy development and planning loans. In terms of the scope, most multilateral development banks treat public and private sectors equally without discrimination to apply the same safeguard systems to their projects, but adjust procedural requirements in some specific cases in private sectors.

Application of Safeguard Systems to Different Loan Instruments, Project Structures and Scenarios

Multilateral development banks	Whether there is a clear distinction among expectation, mandatory and guiding policies and processes	Whether to apply different elements to different financial instruments	Whether to apply different elements to different investment and loan instruments and scenarios	Whether safeguard requirements for public sectors are the same as those for private sectors	Whether there is a clear distinction between responsibilities of a bank and its borrower
ADB	Yes	Yes	Yes	Yes	Yes
IDB	Yes	Yes	Yes	Yes	Yes
IFC	Yes	(N.A.)	Yes	(N.A.)	Yes
AfDB	Yes	Yes	Yes	Yes	Yes
EBRD	Yes	(N.A.)	Yes	Yes	Yes
EIB	Yes	(N.A.)	Yes	Yes	Yes

On development and planning loans: in ADB, IDB and IFC frameworks collated in this report, it can be found that except for IFC which rejects "policy development" or "planning loans" due to its nature of business, ADB, IDB and other multilateral development banks apply safeguard instruments different from investment loans to policy development or planning loans, in which:

1) Policy-related loans: ADB applies project safeguard system assessment to diagnostic policy-based loans and take relevant actions to manage and reduce environmental and social impacts. This is identical with the description of planning loans in ADB's operating handbook for policy-based loans. IDB's environmental and safeguard commitment policy clarifies that "for policy-based loans", IDB requires that whether change of national policies and/or systems applicable to a project will have a serious impact on national environmental and natural resources as well as social sustainability should be analyzed in the project design stage, which should be reflected in corresponding action plan as required;

2) Planning loans: IDB requires early environmental and capacity assessment for loans based on performance standards on the basis of each specific case and according to characteristics of each project and relevant industry;

3) Investment loans: in case of operating safeguards with different project structures and in different scenarios (e.g., financial intermediaries, emergency aid loans, joint financing, technical assistance, trust fund, etc.), multilateral development banks have multiple implement approaches in place.

5.1.3. Wide coverage of safeguard systems

At present, safeguard systems of multilateral development banks are increasingly perfect, which have a relatively wide and convergent coverage. A common safeguard system contains core issues such as gender equality, climate change, ecosystem service, community health and safety, and labor, among which:

1) Gender equality: multilateral development banks have either released gender policies applied at project level or incorporated systematic overall gender considerations into their operating safeguard requirements, with promotion of gender equality and gender-specific poverty alleviation policies at the core of this issue;

2) Climate change: along with international influence development of climate change issue, safeguards of multilateral banks generally require assessment of greenhouse gas emissions and climate change effects of projects and provide more detailed and specific operating requirements for banks and borrowers in terms of project feasibility;

3) Labor rights: multilateral development banks regard the issue of labor rights as an important part of their safeguard systems, especially banks specially or primarily serving private sectors (such as International Finance Corporation and European Bank for Reconstruction and Development) have put forward core and other labor rights, typically including labor union freedom, right of collective bargaining, anti-employment discrimination, wage and working conditions, dismissal and contract, resettlement, etc. through systematic operating requirements;

4) Community health, safety and Security (CHSS): ADB and IDB have clearly proposed CHSS requirements in multilateral development bank safeguard systems according to regional characteristics, such as universal infrastructure design and safety (excluding hydropower stations), management of hazardous materials, emergency preparation and response, potential risks from project security officers, etc.;

5) Ecosystem service: multilateral development banks usually set ecosystem service (e.g., “environmental flow”) as a key measurable element in terms of environmental and social impacts;

6) Use of national systems: though ADB and IDB have been specially authorized to use national or borrowers’ systems, such authorization has not been realized in investment or lending. Accordingly, ADB system has designed and participated in technical assistance for Asian countries, supporting and strengthening national systems at national and industrial level;

7) Exclusion list: common multilateral development banks have all released an exclusion list (such as gambling, tobacco and activities and products prohibited by international laws) as a part of their environmental and social safeguards. Banks will not make direct investment or invest via financial intermediaries to projects, activities and products in the list;

8) Issue of interdisciplinary human rights: multilateral development banks, other than EIB, have no claims on "human rights" commitment. Most of them mention "human rights" in their self-help handbooks and accept that clients are responsible to respect human rights.

In terms of provisions in broad sense, it can be found that safeguard systems of multilateral development banks are consistent in coverage and safeguard issues, with nuances in these issues in their respective systems. Some issues are strategic or policy-related, while others fall within the scope of operating safeguard systems of multilateral development banks.

Safeguard systems of multilateral development banks generally involve environmental and social assessment and management, strategic environmental evaluation, protection of natural habitats, pollution prevention, control and reduction (EHS Guidelines, chemical management and pest management), physical cultural resources, rights of land expropriation and use, involuntary resettlement, indigenous people, etc.

The following table describes safeguards of main international multilateral development banks.

Comparison of Safeguards of International Financial Institutions

Field	WBG	IFC	EBRD	EIB	IDB	ADB	AfDB	MFI-WGE[1]
Environmental and Social Assessment (ESA)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Involuntary resettlement	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Pollution prevention and control	Yes	Yes	Yes	Yes	Yes	(ESA)[2]	Yes	Yes
Biodiversity	Yes	Yes	Yes	Yes	Yes	(ESA)	Yes	Yes
Community influence	No	Yes	Yes	Yes	No	(ESA)	(ESA)	Yes
Labor working environment	No	Yes	Yes	Yes	No	(ESA)	Yes	Yes
Indigenous people	Yes	Yes	Yes	Yes	Yes	Yes	(ESA)	Yes
Culture heritage	Yes	Yes	Yes	Yes	Yes	(ESA)	(ESA)	No
Analysis of environmental flow[3]	Yes	No	No	No	No	No	Biodiversity	Yes

Note 1: MFI-WGE refers to Multilateral Financial Institution-Working Group on Environment
Note 2: (ESA) refers to incorporation of this work into ESA system
Note 3: environmental flow refers to ecological environmental health and ecological service value assessment
Source: collation based on data of World Bank, International Finance Corporation and Asian Development Bank,

5.2. Significance and problem discussion

Among above-mentioned multilateral development banks, ADB and IFC are the most significant for China in consideration of project approval factors, policy implementation history and connection between domestic enterprises and financial institutions in China.

ADB focuses on Asian regions. It gives more consideration to regional development when making policies and is more flexible while implementing policies and makes adjustment to its policies more easily according to feedbacks on regional implementation; meanwhile, ADB's many environmental safeguards refer to World Bank's relevant regulations and best practices during their establishment, so the two present quite a few similarities, while ADB have carried out some localization according to actual situation in the region so as to make its environmental policies meet the so-called international best practice standards and guarantee sustainability of projects in Asia; finally, ADB, as the major regional partner of China, offers experience and lessons in environmental management accumulated from its past operations, which are more worthy of our attention.

As a subsidiary of WBG, IFC inherits relevant environmental safeguards from WBG; being one of WBG's private departments, it is an independent legal entity and implements a set of independent policies and standards on environmental and social safeguard. IFC is the first international organization to help the Chinese Government formulate and perfect the green credit policy and always maintains close cooperation with Chinese government sectors and banks to introduce good environmental and social standards and best practices and supports China's sustainable reform of financial industry. IFC's environmental and social work in China focuses on two aspects: (1) regarding national policies, IFC supports the green credit policy of the Chinese government and assists establishing the regulating framework for sustainable finance; (2) at the bank level, IFC has carried out strategic consultation about the Equator Principles and provided resources for capacity building and training of banks. IFC has introduced international best practices into implementation of the green credit policy through policy dialogue and capacity building projects and helps Chinese banking industry effectively implement the green credit policy through a series of technical support and training. As the initiator and leading institution of the Equator Principles, IFC also helps IFC-invested banks and other interested banks to adopt the principle. It was under IFC's help and support that Industrial Bank of China announced to adopt the Equator Principles in 2008 and became the first Equator Bank in China. Additionally, IFC has signed memorandum with Export-Import Bank of China to assist it with capacity building, formulate environmental and social policies regarding overseas investment (especially in Africa) and control relevant risks.

The research has noticed the following phenomenon worth pondering when focusing on environmental risk management and control systems of the two multilateral development organizations above: with ADB's environmental standards as an example, these standards are often attacked by other international organizations on the one hand, which believe that ADB's project-related environmental assessment standards have to be further improved to facilitate environmental sustainability in Asia and avoid ecological fragmentation in ecologically sensitive areas in Asia; on the other hand, however, ADB's member states often criticize that ADB's environmental and social safeguard system prejudices project loans of its members and the improvement of efficiency of infrastructure investment and financing in Asia. The dual character of such a "standard mode" determines that multilateral financial institutions, including ADB, have to make more compromises-considering construction of green investment policy system and providing guarantee for system security when making use of and perfecting environmental and social risk assessment systems to promote infrastructure investment.

Specifically, from the perspective of ADB's construction of its own policies, since it formally introduced environmental evaluation into its loan business in 1979, ADB has accumulated more than 30 years of experience in environmental evaluation and management. During this period, policy principles and environmental safeguard initially focused on the level of technical assessment and mitigation measures, but now they gradually stress development and implementation of comprehensive environmental management plans. Though compliance of operating procedures has been greatly improved compared with previous performance, there are still problems in material compliance (real integration of environmental evaluation results and suggestions in project design, clients' right to determine environmental management plans and implementing efficiency of environmental management plans). In 2006, Special Assessment Report on Environmental Safeguard by the business assessment bureau affiliated to ADB stated that safeguards in ADB's environmental policies were effective, which greatly prevented ADB-aided projects from generating great adverse environmental impacts, while high transaction cost did influence project efficiency. The report suggested revising ADB's environmental policies, so as to (1) shift the emphasis on project review and approval in early stages to result control; (2) better combine safeguard procedures and steps of different countries with environmental evaluation policies; (3) expand the focus of policy implementation on projects to capacity building; (4) effectively integrate environmental safeguard and social safeguards and promote sustainable development. The report also suggested that ADB should consider (1) strengthening professional environmental forces at representatives; (2) enabling non-governmental organizations play a better role in terms of supervision; (3) going back to classification standards for assessment of Category B environmentally sensitive projects and 120-day information announcement for Category A projects; (4) enhancing safeguard procedures in different countries; (5) developing and implementing action plans for the revised environmental policies with special attention paid to guarantee that ADB's capacity matches policy requirements.

In recent years, assessment of environmental and social safeguards within ADB has also emphasized improvement of policy performance. Problems concerning project preparation and implementation include: (1) quality of consultation and information disclosure; (2) fully assessing institutional frameworks and capacity of developing member states; (3) optimizing the sequence for making safeguard plans in project cycles; (4) varied quality of safeguard documents. Besides, it is also crucial to provide safeguards with adequate budget funds. Problems during project implementation mainly include: (1) satisfying budgets required by safeguards (adjusting design plans, compensatory payment, etc.); (2) implementation of mitigation measures; (3) guaranteeing timely update of safeguard plans according to detailed engineering design and change in scope of project impacts; (4) increasing supervisory efficiency at contractor level; (5) ensuring that ADB fully supervises and inspects whether a project meets policy requirements, especially at grassroots level.

Several safeguards in environment-related issues should be arranged in different ADB departments and policies and strategies in the charge of such departments. In the course of implementation of these other policies and strategies, safeguard requirements are treated in a scattered and planless manner and have to rely on ADB's environmental policy operating procedures to some extent. Such a scattered treatment influences overall understanding of project effect. Furthermore, current safeguards in ADB's environmental policies focus mainly on principles and procedures of environmental evaluation, but contain no clear policy principles and requirements or solve project impacts and risks pertinent to pollution prevention and control (including greenhouse gas emissions), biodiversity, management of natural resources and physical cultural resources. Environmental evaluation deals with these problems basically in a preset manner. As a consequence, ADB should integrate all environmental safeguards in policies and strategies of other departments and make clear policy principles and requirements of environmental safeguards including departmental issues, which should cover (1) environmental evaluation; (2) pollution prevention and control; (3) biodiversity and management of natural resources; (4) vocational and community health and safety; (5) protection of cultural resources.

In the course of implementation of environmental safeguards in the past, ADB has also realized little by little that it paid a lot of attention to project preparation so as to meet procedural and schedule requirements, but ignored supervision and results during project performance. In fact, premade schedules and operating sequences are not always the best, so mechanical adherence to these procedural requirements cannot guarantee that safeguards will obtain satisfactory results. For example, great efforts should be made to prepare EIA reports for environmentally sensitive projects to meet procedural requirements of information release, but environmental management plans and implementation of the same are less focused, which, in practice, serve as the basis of implementation of the whole projects though. In view of this, ADB's business assessment bureau and special assessment investigation department have noticed that more emphasis should be laid on safeguards during project implementation. Relevant policy measures include enhanced supervision by safeguards experts, establishment of complaint solving mechanism, acceptance of monitoring reports by external experts and establishment of an independent consultant team.

In contrast, safeguards of WBG, the largest development bank in the world, are applied only to investment projects rather than policy-based loans. WBG has a loose and weak policy only in place to review social and environmental impacts of policy-based loans. WBG's safeguards have many problems, e.g., the safeguards can seldom lead international conventions and standards on rights which can provide stronger safeguard for affected communities. Safeguards cannot cover all social and environmental impacts of WBG-funded projects; neither can WBG nor its borrowers comply with all policy terms and conditions. WBG's contract terms limit its member states to take legal actions against WBG. Additionally, WBG requires its member states to adopt laws that allow it to be kept from review by state courts to a large extent. Although not absolutely, WBG's liability exemption is indeed a great obstacle for communities to safeguard their legal rights though there are some exceptions. In the meantime, WBG is not a formal "signatory" of International Convention on Human Rights; therefore, even though almost all member states have signed the main convention on human rights, WBG does not think it bears specific obligations on human rights. Civil society groups and academic circles have been urging WBG to assume its obligations on human rights as an international body and adhere to human rights standards in its lending activities. WBG undertakes to reform while the primary task should be to make a thorough modification of its basic policies. WBG is now redeveloping its safeguards in order to make a difference in dozens of years to come.

Different from WBG, IFC adopts more result-oriented policies and provides private business clients with clear guidance. In this course, IFC has established some more flexible standards. This truly presents some progress, for example, taking social and environmental evaluation as a requirement for private businesses during preparation for projects and respecting all core labor standards, but some problems still exist, e.g., ambiguous wording, schedules and standards without public consultation and failure of timely information disclosure. Implementation standards increase dependence on corporate self-produced information and self-monitoring, which influences independence and objectivity of assessment reports and places comprehensiveness of mitigation measures under question. Though IFC attempts to prove that its implementation standards are advanced and sophisticated, the standards on some issues like human rights are not even as strict as other financial institutions and private businesses. Hence, even sustainable standards as perfect as those of IFC are still faced with some radical reforms:

1) IFC has no prohibitions for some projects that should not be supported, e.g., lumbering and mining in developing countries;

2) IFC's sustainable standards contain no principles and best practices in the field of climate change, e.g., promotion of zero carbon emissions or carbon balance;

3) IFC's standards do not always represent best practices, for which some banks refuse to implement higher standards or norms;

4) IFC's auditing mechanism should not be restricted to due diligence.

Chapter 3 Analysis of the Prospect of the Environmental and Social Security System of the Regional Financial Institutions and Suggestions

The proposition and implementation of the Belt and Road Initiative significantly marks a major change of China's role in international relations, namely from the previous bystander or participant to the active enforcer and maker in international community or even for international order. Objectively speaking, Belt and Road is undoubtedly a grand initiative for development and has no precedence in the diplomatic history of China in terms of the number of countries and population of people involved. The countries along Belt and Road are of complicated national conditions and diverse social forms, which all bring critical impact to the implementation of the Belt and Road Initiative. To this end, the strengthening of environmental risk control under the Initiative is a major tool to safeguarding national interest of China. The environmental and social policy framework of MDBs is of great reference significance to the Initiative, and their management framework can not only enhance the consolidation of relevant policy system, but also be beneficial to the sustainable development and risk control of Chinese financial institutions and specific investment projects.

Therefore, the essence of the green Belt and Road is a green, environmental friendly and low-carbon community, which requires each participants to reach a consensus and establish a green financial mechanism as a guarantee. Building such a mechanism should incorporate green concept into the whole process of financial reform, rather than creating another system or another disconnected system. Thus, adhering to the five development concepts proposed in the Fifth Plenary Session, that is, innovation, collaboration, greenness, openness and sharing, is set as the basic positioning to the reform and practice on green finance under the Belt and Road Initiative. We should drive the mechanism establishment and practices of green financial system under the Belt and Road Initiative from such aspects as greening of financial system, investment and capital, prevention of environmental risk, improvement of environmental performance, innovation of market mechanism, and promotion of the sustainable investment of natural capital.

Relevant suggestions are hereby made as follows:

Suggestion I: To fully facilitate the greeing of financial institution system under the Belt and Road Initiative

1. Introducing and establishing relatively high-standard environmental and social risk control system while giving due consideration to efficiency. The core of the Belt and Road Initiative is infrastructure construction and sustainable investment, which are also the focus of attention and hotspot of the international community. Chinese financial institutions and related enterprises need to introduce and set up relatively high-standard environmental and social risk control system in the investment projects under the Initiative, and the reference

of even more stringent international environmental risk control system and standards is conducive to China in promoting the involvement of Chinese financial institutions and enterprises in foreign investment, especially to the construction projects under the Initiative. In future advancement of investment and financing decision-making, China should take full consideration of potential environmental impact by integrating potential payoff, risk and cost relating to environmental conditions in the regular management of financial and investment projects, guide capital flow to areas of green infrastructure construction, development of resource-saving technology and eco-environmental protection industries and guide enterprises to attach due importance to environmental protection and to avert investment and financing moves seeking short-term profit.

2. Encouraging domestic financial institutions to join in existing international standard organizations like the EPs to beef up their capacity building in environmental and social risk control. The EPs is the set of general rules governing the financing activity of extended projects of financial institutions, which represents the industrial guidelines voluntarily drawn up and observed by commercial banks around the world. Industrial Bank of China is the only Chinese member of EPs. Chinese financial institutions can access existing international standards including the EPs as the first step of participating in international standard formulation and international investment in an effort to upgrade the capacity building of their environmental and social risk control. Through the accession of relevant international standards and the adoption of similar policy system, Chinese financial institutions can accumulate experience and build their capacity in this regard.

3. Borrowing the experience of MDBs to advance the establishment and consolidation of environmental and social security system of Chinese banks and financial institutions. With the implementation of Belt and Road Initiative and the “Going Global” strategy of China, foreign investment and international trade activities of China would be more and more vibrant with the financial industry of China more open to the outside world. The construction and consolidation of environmental and social security policy system is conducive for Chinese financial institutions to race with their international competitors, and the accession into prevailing international standards including the EPs serves as the right channel to speed up their capacity building. MDBs have already accumulated rich experience through business operation, and their environmental and social security policy system have mostly undergone several rounds of revision. Cooperation should be promoted between more Chinese financial institutions and MDBs over environmental and social security policies to learn their experience as well as bad lessons of relevant policies and real investment cases. In addition, 2 to 3 banks can be selected for conducting pilot projects on environmental and social security policy system.

Suggestion II: To establish mechanisms and platforms to promote investment greening

4. Establishing the Public-Private-Partnership (PPP) Green Industry Development Fund under the Belt and Road Initiative which would bring win-win results to all parties while combining the strategy of MDBs. MDB has limited fund for investment and financing of green industries and environmental infrastructure construction, and countries along the Belt and Road are prominently lacking relevant environmental and economic policies for supporting their green industries while facing huge potential market. During the construction process of multilateral development financial institutions participated and promoted by China, the establishment of PPP Green Industry Fund can greatly supplement the green credit of MDBs, which can energetically attract MDBs to cooperate with social capital to increase the investment in the green industries of countries along the way. The PPP should be based on the concept of achieving a win-win result of all parties involved to promote the national government of countries along the Belt and Road to improve their profit, cost and risk sharing mechanism and raise the enthusiasm of international capitals and private capitals in investing in green industries by employing open and transparent methods of franchised operation permit, rational pricing and financial subsidy. PPP shall surely become the major investment and financing model for advancing the environmental infrastructure construction in countries along the way.

5. Enhancing the participation of Chinese financial institutions in the Belt and Road Initiative and increasing investment in green and low-carbon projects and eco-environmental protection projects. Green investment stands for the investment made in green economic activities which could bring about new commercial opportunities and business growth point to enterprises and eventually create commercial and social value to the investor and the society in light of the sustainable development strategy. Under the Belt and Road Initiative, financial institutions should actively participate in green investment, comply with the sustainable development trend of domestic industrial upgrade, increase investment in green and low-carbon projects as well as eco-environmental protection projects by setting up green ecological industrial park pilots and promote the green growth of the target investment countries on the premise that commercial operation can be sustained and risks are under control.

Suggestion III: To establish a platform for assessing and managing the eco-environment risk of foreign investment and to provide policy guidance

6. Advancing the release of policy guidance for foreign investment by Chinese financial institutions over eco-environment protection risk assessment and loan in major industries. Owning to policy selection and international industrial competition, Chinese enterprises tend to choose relatively high-risk industries and regions, especially the ones of high environmental risks. In this connection, the supporting domestic financial institutions are prone to loan risk, and more credit risk is transferred to commercial risk. To cope with this situation, efforts should be made in the release of policy guidance for foreign investment by Chinese financial institutions over the investment risk assessment and loan in major industries . Specifically, environmental standards should be integrated in the credit extension in areas such as iron and steel, mining and traditional infrastructure construction so as to ensure that environmental and social risk control guidelines and green credit security measures can be introduced while China cooperates with countries along the Belt and Road in areas of production capacity advantages.

7. Setting up sophisticated and relatively transparent environmental and social risk information disclosure system. The applicable information disclosure system for existing MDBs can safeguard the interest of all parties involved and the rights and interests of all stakeholders. Chinese financial institutions are still lagging behind in the practice of information disclosure system compared with other MDBs. While making investment under the Belt and Road Initiative, Chinese financial institutions must establish complete information disclosure system according to international common practice by giving full consideration to the concern of all stakeholders and local community before, during and after the loaning of the projects. Meanwhile, information disclosure system can also act the role of overseeing the implementation of the project through all stages so as to ensure that no irreversible impact would be made to local environment and the society. It is suggested that the Roundtable on the Environmental and Social Security System for Investment Projects under the Belt and Road Initiative over the Society and NGOs can be organized for the joint exploration of ways to consolidate the construction of a relatively transparent environmental and social risk information disclosure system.

Suggestion IV: To establish green bonds to facilitate sustainable investment of natural capital

8. Exploring the release of Belt and Road investment green bond to drive the development of emerging areas including sustainable investment on natural capital. In order to fulfill the five major goals of policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds, green bond should be released over transnational or overseas projects on the investment, construction, operation and management of environmental infrastructure under the Belt and Road Initiative. The bond will be mainly open to overseas or transnational environment-friendly and climate-friendly investment projects and especially serves the goal of connectivity of environment-friendly and climate-friendly facilities and supporting

environmental facility of transnational or overseas infrastructure to ease the capital shortage during project construction and operation. Meanwhile, based on the development tendency and experience of other MDBs, special focus can be put on the sustainable investment in natural capital and the service value of ecosystem functions to explore its role in future investment under the Belt and Road Initiative, achieve the win-win result of national government, investing enterprise, financial institutions and social forces of countries involved in the Initiative and actively participate in the formulation of the investment-return rules of natural capital and supporting mechanisms.

Suggestion V: To set up comprehensive pilot sites of green finance under the Belt and Road Initiative

Promoting regional cooperation and practice of Chinese green finance globally relying on multilateral development financial institutions such as the BRICS Bank and AIIB. As green development and sustainable development dominating the mainstream of our times, the elevation of green financial practice into national strategy and policy can create new growth point and build up the sustainability of China's economic development. The advancement of green financial practice in foreign investment of China, especially the launch of green financial cooperation demonstration in selected key international regions can facilitate the construction of green foreign investment system of China. Therefore, it is suggested that by seizing the opportunity of the construction and operation of multilateral development financial institutions like AIIB and BRICS Bank, efforts should be especially made in advancing the green financial policy and sustainable investment demonstrational cooperation between China and countries in the Mekong River region, other ASEAN countries and BRICS countries to attain the regional development of environmental and social security framework and concept.

China-ASEAN Environmental Cooperation Center

Regional Hub for South-South Environmental Cooperation

With the approval of Chinese Government and support of Ministry of Environmental Protection (MEP), the China-ASEAN Environmental Cooperation Center (CAEC) was launched in 2010 and gained its second identity as the China Center for Shanghai Cooperation Organization Environmental Protection (CSEC) in 2014, serving as the MEP-affiliated think-tank to concretize initiatives proposed by Chinese leaders during major regional summits.

Our Missions

As an active player to facilitate South-South environmental cooperation and boost sustainable development at regional level, CAEC aims to establish itself into:

- A regional hub for South-South environmental cooperation;
- A think tank for environment and development;
- A demonstration base for environmentally sound technology and environmental industries;
- A knowledge center for sustainable development.

Our Mandates

- Fueling up sustainable development and South-South environmental cooperation at both regional and global levels;
- Implementing environment-related strategies, initiatives, and action plans under pan-regional, regional and sub-regional frameworks such as APEC, China-Africa, BRICS, China-Arab States, China-ASEAN, Shanghai Cooperation Organization (SCO), China-Japan-ROK, Greater Mekong Sub-region (GMS) cooperation;
- Backing up One Belt One Road initiative in the field of environment and boosting the development of green silk roads;
- Researching on major environment and development issues to inform China's own policy process and support China's pan-regional, regional and sub-regional environmental cooperation;
- Enhancing cooperation and exchange on environmentally sound technology and environmental industries;
- Supporting environmental outreach at regional level and implementing capacity building activities such as Green Envoy Program.

Contact Us

China-ASEAN Environmental Cooperation Center
China Center for SCO Environmental Cooperation
No. 5 Houyingfang Hutong, Xicheng District, Beijing 100035, China
Tel: +86-10-8226-8221
Fax: +86-10-8220-0579
E-mail: li.xia@ChinaASEANEnv.org / li.xia@mep.gov.cn
Website: www.ChinaAseanEnv.org

CHINA ASEAN ENVIRONMENTAL COOPERATION

CAEC

100%
RECYCLED

1961

WWF was founded in 1961

+100

WWF is in over 100 countries, on 6 continents

+5M

WWF has over 5 million supporters

+50M

WWF has over 5,000 staff worldwide

Why we are here

To stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature.

www.wwfchina.org