China Green Bond Market Newsletter H1 2020

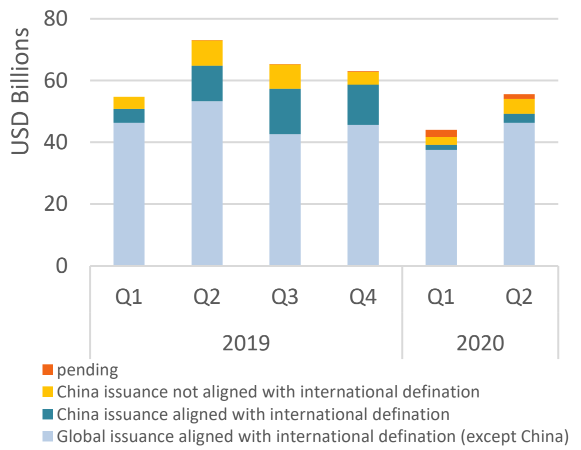
中国绿色债券市场季报 2020 上半年度

January-June 2020/2020 年 1 月 6 月

Market overview

Green bond market slowed down in H1 2020

Not only China's but also the global green bond market witnessed a slow-down year on year. This is largely due to impact of COVID to the economy and financial market as a whole, especially in the first half of 2020. In China, the decrease in green bonds issuance was also a result of the surge of other labelled bonds – specifically Pandemic Prevention and Control bonds which stood just under USD60bn by the end of H1. The total amount of labelled green bonds that is aligned with international definitions reached USD4.5bn in H1 - a 58% decrease from the same period last year.



Chinese green bond market fell 28% in H1 2020

The USD15.7bn worth of green bonds from China shrank by 28% year-on-year. Only less than one third (or USD4.5bn) of H1 volume from Chinese issuers is in line with international green bond definitions. Another 46% has been excluded in accordance with CBI Green Bond Database Methodology.

Two Certified Climate Bond from China's domestic market

The CNY490m deal from Nanjing Jiangbei New Area Public Assets Investment & Development (NJPAID) is one of the two certified Climate Bonds issued domestically (see more on page 4). Being a state-owned enterprise in Nanjing, NJPAID owns and operates municipal infrastructure, including water supply and treatment facilities. iGreenBank is the verifier of this deal. It is also the first time the Climate Bonds Standard Version 3 has been used for a Certification in China.

Closed in June, the CNY 400m deal from Anhui Maanshan Rural Commercial Bank became the second Chinese Certified Climate Bond in the first half of 2020. This deal also became the first Certified Climate Bond issued by an onshore financial institution. Lianhe Equator is the verifier of this deal. As the Anhui Maanshan Rural Commercial Bank serves the City of Maanshan which is known as a steel city, this deal helps to adjust the industrial structure of Maanshan to enhance green development.

At a glance

Total H1 Chinese issuance: USD15.7bn/RMB97.0bn

Onshore issuance: USD14.8bn/RMB95.9bn

Offshore issuance: USD924mn

Issuance that meets international definitions: USD4.5bn/CNY31.4bn

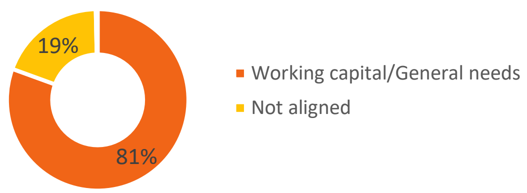
Largest issuer: Huaxia Bank at USD1.4bn

Certified Climate Bond: Nanjing Jiangbei New Area Public Assets Investment & Development NJPAID, Anhui Maanshan Rural Commercial Bank

Largest issuing sector: Low Carbon Transport

Proceeds for general use remains primary reason for exclusion

By amount issued, 81% of the overall excluded bonds in H1 fail to meet best practice as they allocate more than 5% of proceeds to general corporate purposes, not necessarily linked to green assets or projects. For example, Jinjiang Industrial Park Development & Construction Co Ltd allocated 50% of bond proceeds to finance eligible wastewater treatment facilities, while using the rest to supplement general corporate working capital.



19% was excluded for projects that are not in line with international green definitions. For example, all hydropower facilities are eligible in China's local context, but are not considered as green by international investors if the power density does not meet certain threshold.

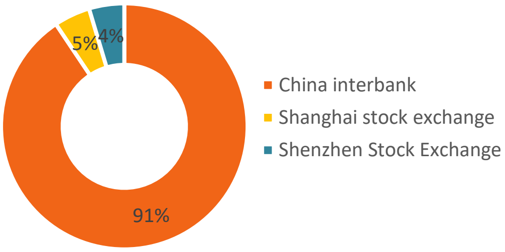
Green bonds on Pending list

In some cases, use of proceeds details are not available at issuance. Thus we cannot make an immediate judgement on the green credentials of the bond, the bond is marked as Pending and further research is needed. The investigation process is carried out by the end of the next quarter. If no further information is made available or the information obtained does not show alignment with taxonomy, the bond is added to the excluded bond list.

Note: due to the change of the green bond methodology and the lack of disclosure, 25% (or USD21.9bn) of total H1 issuance is on the Pending list.

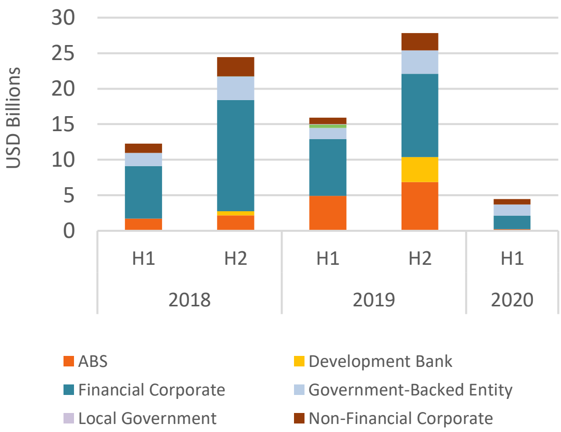
China interbank market remained the largest venue

In H1 2020, 91% of all onshore green bonds were placed on the China Interbank Bond Market. Despite the slow-down of onshore issuance, the size of total green bonds listed on China Interbank Bond Market increased more than three times in H1 2020 which was largely driven by the finical institutions. The remaining 9% were listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange respectively.



In addition to this, there were also USD924m worth of Chinese green bonds issued offshore.

Financial corporates were active issuers



Financial corporates remained the largest issuer type accounting for 43% (USD1.9bn) of the overall issuance in H1. This is mainly contributed by Huaxia Bank's USD1.4bn (CNY10bn) deal.

Government-backed entities is the 2nd largest issuer type with 35% of the total issued amount. Among these 10 bond issuances that totalled USD1.5bn, five (USD1.2bn) of which had all proceeds allocated to the construction of public passenger transport. These green infrastructure projects in the transport sector contribute to 79% of issuance from the government-backed entities.

Issuance from **non-financial corporate** reached USD780m, accounting for 17% of the H1 total. 40 issuers have brought a total of USD6.3bn worth of green bonds, accounting for 40% of the total H1 Chinese issuance. However, only 12% is aligned with CBI green definition, mainly due to a large proportion of proceeds being earmarked for working capital.

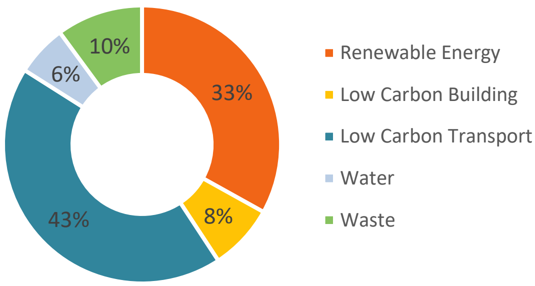
One **green ABS** deal issued by China Longyuan Power Group accounts for 5% (USD 780m) of the total aligned green bonds. Collateral type is the feed-in-tariff backed by renewable energy infrastructures. This has dropped for more than 90% year-on-year, following the declining overall bond issuance of the Chinese green bond market over the H1 2020 period.

Low Carbon Transport remains the dominant theme

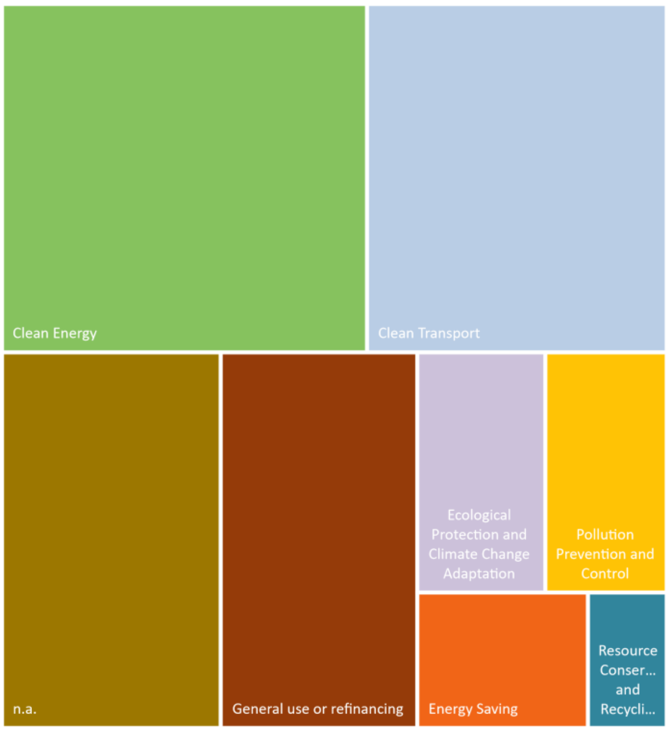
By Climate Bonds definition, Low Carbon Transport has been the largest climate sector since Q4 2018, representing 43% of total issued volume in H1 followed by Renewable Energy (33%) and Waste (10%).

Transport: In addition to dedicated regional railway and urban transit operators such as Nanjing Metro, Ningbo Rail Transit, and Wuhan Metro who have brought a total of USD1.6bn green bonds, commercial banks including Huaxia Bank and Bank of Ganzhou have also contributed to the sector with USD299m worth of proceeds allocated to passenger rail and metro line projects. Among a totalled USD1.9bn proceeds dedicated to the transport sector, the largest issuance came from Nanjing Metro at USD398m.

Energy: Huaxia Bank, with 41% of its USD1.4bn deal allocated to renewable energy, which ranked the largest issuer in the climate sector, contributed to USD568.3m of proceeds allocated to eligible renewable energy projects. The second-largest renewable energy proceeds allocation at USD1.4bn is contributed by Jiangsu Financial Leasing company, which using green bond proceeds to purchase solar and wind equipment for leasing.



According to China's local green bond definitions, the top two categories are Clean Energy at USD4.1bn, Clean Transport at USD3.3bn, and General use of refinancing also accounted for USD2.4bn.



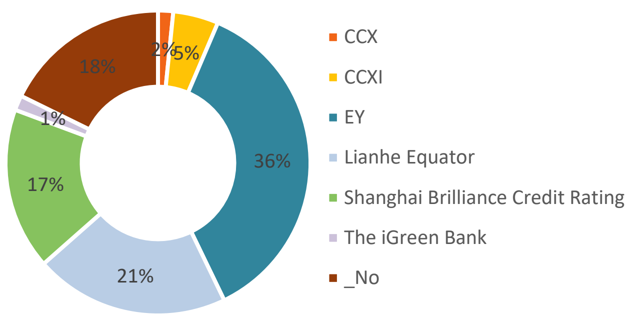
82% of all issuance carries an external review

Comparing to H1 2019 (74%), a higher percentage of green bonds issued in the Chinese market carries an external review. EY was the largest external reviewer in H1 2020 with 36% market share. It provided assurance for bonds issued by two financial corporations, Huaxia Bank and Bank of Ganzhou, which totalled USD1.6bn worth of green bond. Lianhe Equator ranks 2nd with USD923.6m worth of green bonds, providing external reviews for six issuances with proceeds allocated to the renewable energy and transport sectors. The 3rd largest external reviewer is Shanghai Brilliance Credit Rating. 18% of green bonds did not carry any form of external review.

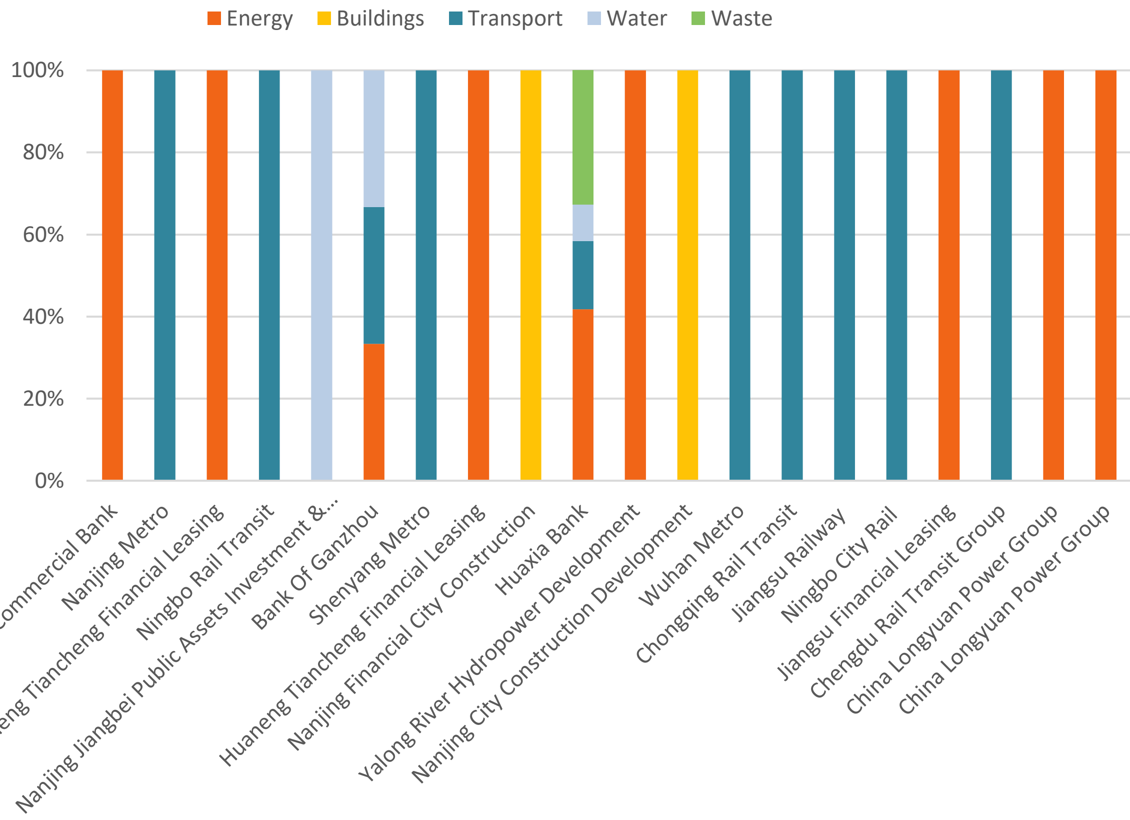
Top 3 regions: Beijing, Jiangsu and Zhejiang

There are noticeable clusters in terms of issuance. East China (led by Jiangsu, Zhejiang, Jiangxi), Central North China (led by Beijing, Tianjin), as well as Guangdong province in South China and Sichuan and Chongqing province in Central West China dominate volumes. Beijing, Jiangsu and Zhejiang provinces rank at the top with USD1.6bn, USD1.1bn and USD428.7m respectively. Green bond issuance from Jiangsu Province has a more than 50% increase over H1 2019.

EY and Lianhe Equator reviewed 57% of H1 issuance by volume



Green bond proceeds allocation of the top 20 aligned issuers



News and events

Shenzhen city to release green fund standards in 2020

At the Sustainable Finance Forum held in Shenzhen on 14th July, the president of China Emissions Exchange, Ge Xing'an, revealed that Shenzhen is developing green finance sub-standards, including green funds and carbon finance products, environmental equity products, green guarantees and environmental information disclosure, etc., of which the green fund standard has been drafted and may be officially released next year.

China to open up finance sector to more foreign investment in 2020

Launch of CSI-Zhongcai Shanghai and Shenzhen 100 ESG Leading Index

The new ESG index will create a localised assessment system, making up for some of the shortcomings in the existing ESG assessment methodology for Chinese shares. Internationally, as Chinese A-shares have been included in the MSCI Emerging Market Index and thus gained wider, more direct exposure in portfolios, the new CSI-Zhongcai Shanghai Shenzhen 100 ESG Leading Index will work as a potential verification tool for ESG conscious investors.

According to a statement released by Financial Stability and Development Committee, shareholding limits on foreign ownership of securities, insurance and fund management firms will be removed in 2020.

Foreign investors will be encouraged to set up wealth management firms, currency brokerages and pension management companies.

Foreign-owned credit rating agencies will also be allowed to evaluate a greater number of bond and debt types, the statement said. The announcement signals accelerated inter-country green capital flows between China and the rest of the world.

If everything goes according to plan the index will also be tradeable on the Luxembourg Stock Exchange that already hosts the China green bond connect program.

ADBC & Climate Bonds Initiative sign MoU on developing green agriculture in China

Agricultural Development Bank of China (ADBC) and the Climate Bonds Initiative have signed a Memorandum of Understanding (MoU) signifying a mutual consensus on the importance of developing green agriculture projects and green bonds in China, and the need to direct private capital to support China's transition towards a green economy.

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This newsletter is produced by **Climate Bonds Initiative**. **HSBC** as a supporting organisation.

** Figures used in this report refer to both onshore and offshore green bonds issued by entities domiciled in mainland China, and green panda bonds unless otherwise stated. Internationally aligned green bonds are those aligned with both local and international definitions of green.*

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