

# China Green Bond Market Newsletter H1 2021

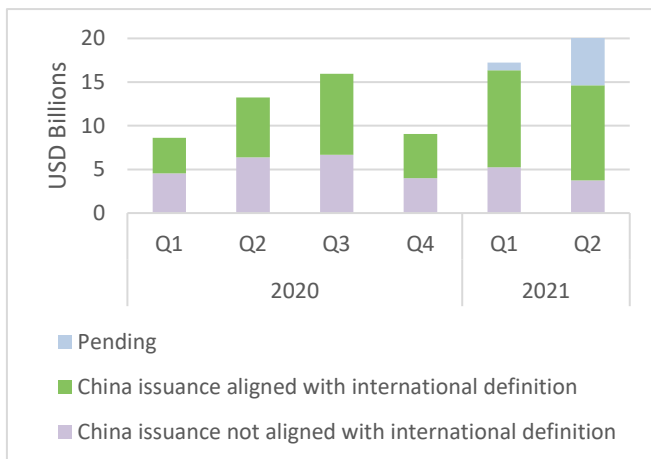
## 中国绿色债券市场简报 2021 上半年度

January-June 2021/2021 年 1 月- 6 月

### Market overview

#### Green bond market boomed in H1 2021

China's green bond market was active in the first six months of 2021. It showed a speedy recovery from the impact of COVID. The USD37.6bn worth of total green bonds from China represent a 58.1% surge year-on-year. Fifty eight percent USD22bn of H1 volume from Chinese green bonds is in line with international green bond definitions. Another 24% was excluded in accordance with [CBI Green Bond Database Methodology](#). The rest 17.6% was in the pending list mainly due to insufficient information.



#### USD22bn Chinese green bonds meet CBI green definition

The total amount of China green bonds that are aligned with Climate Bonds Initiative's green definitions reached USD 22bn in H1 - more than doubled the USD9.54bn achieved from the same period last year. China Development Bank's USD3bn/CNY20bn Certified Climate Bond, as one of the largest single deal in March, contributed to the momentum.

#### Four Certified Climate Bond from China's domestic market

They account for 9.1% (USD3.43bn) of total H1 issuance. This is a huge increase from 0.69% (USD148.9m) and the 0.92% (USD127m) achieved in H1 2019 and H1 2020 respectively.

Jinneng Group issued their first USD78m (CNY500m) Certified Climate Bond in June. China Development bank issued a USD3bn (CNY20bn) Certified Climate bond in March both carrying verification reports from Lianhe Equator. GD Power Development Co., Ltd. issued two Certified Climate Bonds, totalling USD284m (CNY1.84bn). The use of proceeds is allocated solely towards wind projects. All of them continue to use the [Climate Bonds Standard Version 3](#) for Certification in China.

There are 33 deals on the Pending list, and they account for 17.6% (USD6.6bn) of H1 issuance. The main reasons leading to a pending decision include but not limited to 1) the lack of disclosure on power density for hydro projects, 2) the lack of disclosure on energy

#### At a glance

**Total H1 Chinese issuance:** USD37.6bn/CNY201.3bn

**Onshore issuance:** USD29.0bn/CNY187.9bn

**Offshore issuance:** USD8.6bn/CNY55.54bn

**Issuance that meets international definitions:** USD22.0bn/CNY115.5bn

**Largest issuer:** China Development Bank at USD3.1bn

**Certified Climate Bonds:** Jinneng Group, GD Power Development, China Development Bank

**Largest issuing sector:** Low Carbon Building

efficiency improvement target for green building projects and 3) the insufficient overall transparency for private placements.

For example, the green ABS issued by Shanghai Automotive Group Financing Co. is kept on the pending list due to the limited information on underlying assets. Further analysis is needed for Bank of Liuzhou as funds raised by its green bond might be linked to a CNG/LNG private vehicle project.

#### Proceeds for general corporate use remained the primary reason for exclusion

By amount issued, 69% of the overall excluded bonds in H1 failed to meet the best practice as they had proceeds allocated to general corporate purposes, not necessarily linked to green assets, projects or activities. For example, Fuzhou Linchuan Urban Construction and Development Investment Co., Ltd. allocated 50% of bond proceeds to finance water treatment facilities, while using the rest to supplement general corporate working capital.

9% was excluded for projects that are not in line with Climate Bond Initiative's green definitions. This is due to the discrepancies between China's local and international green definitions. For example, 'pollution control facilities without CCS' are eligible in China's local context but is not considered as green by international investors. The remaining 22% fail to provide sufficient information.

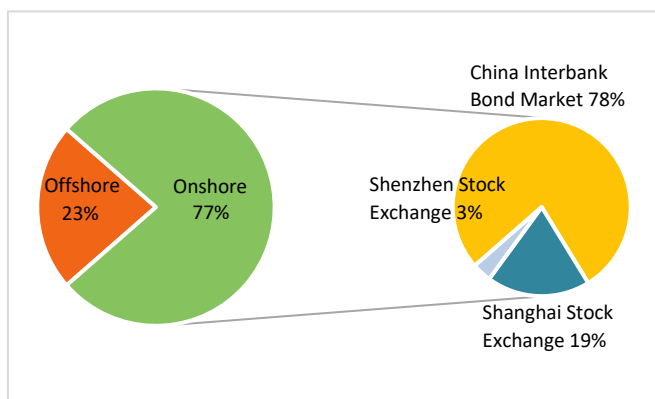
#### Green bonds on Pending list

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.

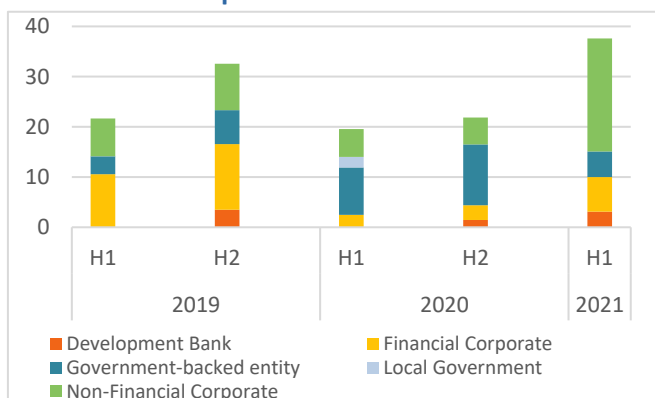
## Most Chinese green bonds were issued domestically

In H1 2021, 77% of all Chinese issuance was issued domestically. Among which, 78% were placed on the China Interbank Bond Market, followed by listing on Shanghai Stock Exchange with USD5.45bn, or 19%. The remaining 3% were listed on the Shenzhen Stock Exchange.

Hong Kong Exchange had the largest proportion of the China's offshore green bond by volume, with a total of USD5.18bn (14%), where Industrial Bank of China's USD600m/CNY4.1bn deal was listed in June.



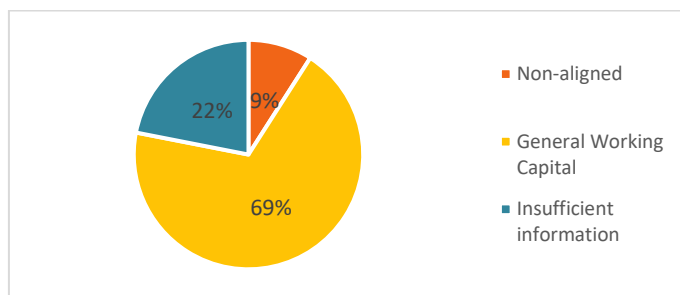
## Non-Financial corporates were active issuers



**Non-Financial corporates** replaced Financial Corporate to become the largest issuer type with 60% (USD22.5bn) of the overall issuance in H1. This is mainly due to the benchmarked-sized issuance in July by State Grid Corporation of China, China Energy Investment Corporation and China Three Gorges Group (CNY9.5bn, CNY5bn and CNY7bn respectively).

**Government-backed entities** is the 2<sup>nd</sup> largest issuer type totalled USD5.1bn, accounting for 18% of the H1 total. They tend to issue a large-sized bonds. For example, Capital Airports Holding Co. Issued a CNY3bn green bond for water treatment PPP. Guizhou Water Investment Group issued a CNY2bn green bond for wind projects. Although all 40 issuers are local government financing vehicles (LGFVs), proceeds allocation varies depending on their respective focused business areas.

**Issuance from Financial corporate** is the 3<sup>rd</sup> largest issuer type with 13% of the total issued amount. This is a significant drop from 43% in H1 2020. Twenty issuers have brought a total of USD6.8bn worth of green bonds, with 55.9% (USD3.8bn) that is not aligned with CBI green definition - mainly due to the combined heat power plants use fossil fuel as energy source.



**Development bank** accounts for 8% with USD3.1bn issuance volume, marking the highest proportion historically on a semi-annual basis. This was driven by the China Development Bank's USD3.1bn/CNY20bn Certified Climate Bond issuance in March.

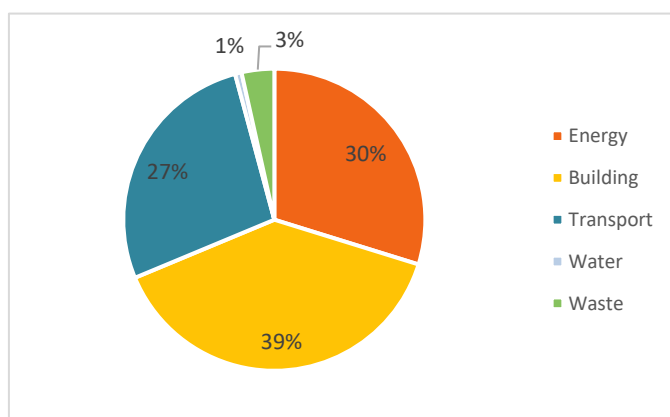
## Low Carbon Building became the dominant theme

By Climate Bonds definition, Low Carbon Building has replaced Low Carbon Transport to become the largest climate sector since 2019, representing 39% of total issued volume in H1 followed by Renewable Energy (30%) and Low Carbon Transport (27%).

**Low Carbon Building:** Twenty-three green bonds allocated proceeds towards low carbon building. Five listed offshore, with three at Paris Stock Exchange, two at HKEX and Frankfurt. All of the eligible bonds financing low carbon building had a stringent performance indicator. For example, Knowledge City (Guangzhou) Investment finance building with 3-star Green Building Certificate and Nanjing City Construction finance building with 65% energy efficiency improvement.

**Energy:** China Development Bank, with an issuance volume of USD3bn allocated to wind and solar, ranked the largest issuer in this climate sector. Also, State Grid Corporation and Three Gorges Corporation are among the top issuers by volume in China's domestic market, using green bond proceeds to finance renewable energy transmission line and hydro projects.

**Water:** Bank of Nanjing had the biggest issuance volume of USD600m dedicated to water resilience and land remediation. Other projects in water sector include water supply, water treatment facilities, rainwater management, wastewater treatment, water adaptation etc. It's worth noticing that Henan Water Investment Group issued a green bond to finance water treatment PPP project, the only type of water PPP project in H1 2021 based on public disclosure.



## Top 3 regions: Beijing, Guangdong and Jiangsu

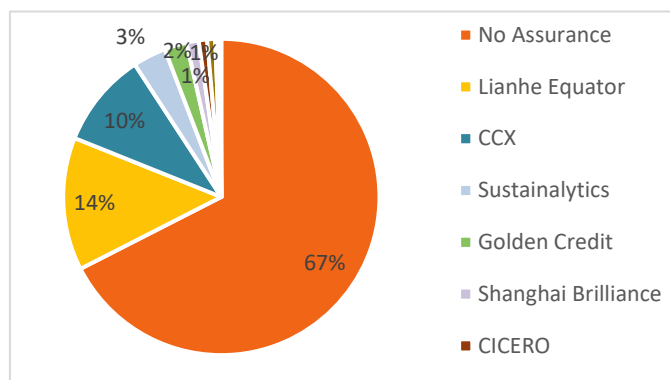
The volume of domestic green bond issuance varies from region to region, as a general trend - East China has noticeably more issuance than West China. Also, different provinces present different financing focus. For example, in Xinjiang Autonomous Region, most of the projects are financing renewable energy due to the abundance of solar and wind resources. In places like Yunna Province, proceeds

allocation is towards renewable energy, low carbon building and low carbon transport, which is in accordance with the local infrastructure development plans

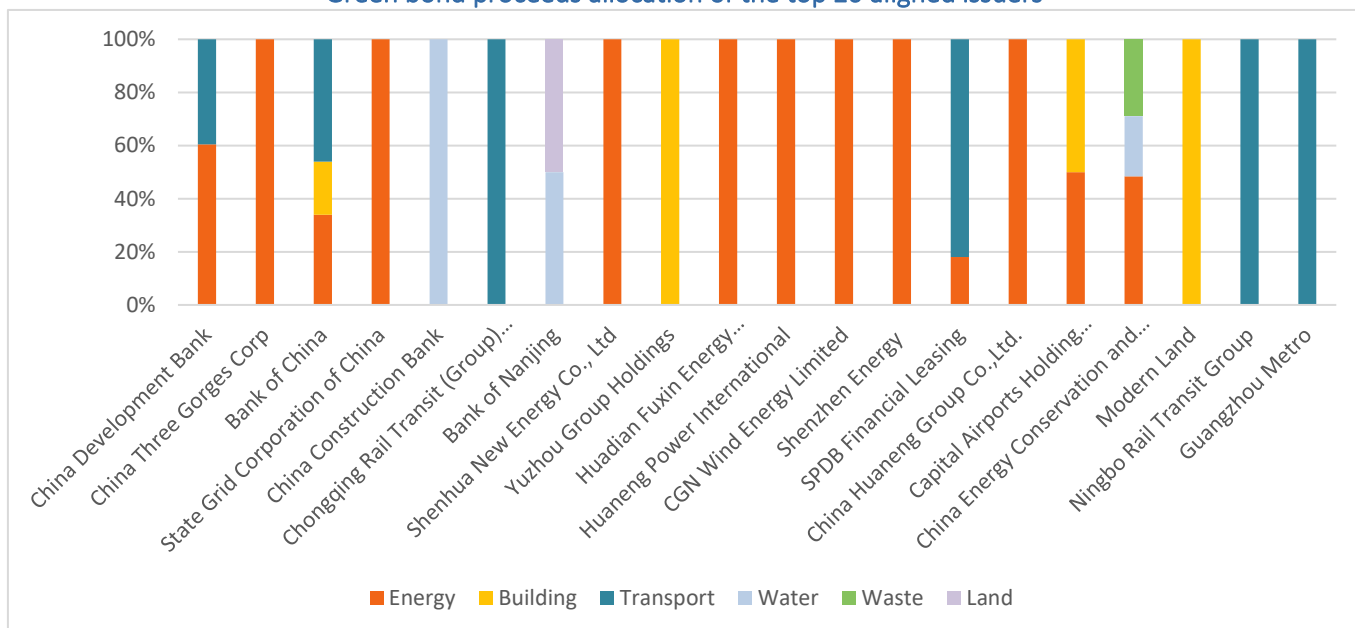
### 33% of all issuances carries an external review

Lianhe Equator was the largest external reviewer in H1 with 14% market share. CCX ranked the 2<sup>nd</sup> with USD3.7bn worth of green bonds caring its SPO. Sustainalytics, Golden Credit and CICERO had also made their way into the top 5 external reviewers. 67% of green bonds did not carry any form of external review. Most of these were NDRC-regulated green bonds.

### Lianhe Equator and CCX reviewed 24% of H1 issuance by volume



### Green bond proceeds allocation of the top 20 aligned issuers



## Policy update

### The Green Bond Endorsed Projects Catalogue (2021 Edition)

The updated 2021 Edition of the catalogue marks China's significant progress in unifying domestic green finance standards and is China's latest and clearest definition of green. In the future, the identification of the "green" attributes of bonds will be based on the new version of the catalogue, regardless of its type or issuance market. The new catalogue will take effect on July 1.

The 2021 version of the catalogue follows a four-level structure. The first three levels are consistent with the Green Industry Catalogue released by the National Development and Reform Commission. The fourth level includes more detailed descriptions of specific economic activities. Compared with the Green Bond Endorsed Projects Catalogue (2015 Edition), the scope has changed a lot. The new version of the catalogue clarifies more specific technical standards and environmental standards than the consultation draft issued in 2020 and incorporates the "Do No Significant Harm" principle, bringing it closer to the EU classification scheme and global principles.

### Several Fiscal Measures from Autonomous Region to Accelerate the Development of Nine Key Industries (provisional)

The Measures apply to Ningxia Hui Autonomous Region and encourage all types of financial institutions to increase green loans in key industries.

### Implementation Opinions of The People's Government of Hebei Province on the Establishment of a Sound Green, Low-carbon and Cyclical Economic System

The Opinions propose vigorous development of green finance, carrying out green loan performance evaluation of legal entities in the province, and improving incentive and restraint mechanisms of green finance. The Opinions support insurance institutions to establish a sound green insurance business and claims service system; encourage eligible enterprises and institutions to issue green bonds; and encourage eligible enterprises in green industries to go public and raise funds, and refinance through instruments such as additional issuance, corporate bonds and interbank debt financing tools.

### Implementation Plan on the National Eco-civilization Pilot Zone (Hainan), issued by the Central Committee of the Communist Party of China and the State Council

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refinance through instruments such as additional issuance, corporate bonds and interbank debt financing tools.

Financial institutions are rewarded for increasing green lending, with a payment of 0.003% of the increased green loans from the autonomous region's finance bureau, and preferential policies in Treasury Cash Deposits. The Measures also support key listed enterprises to issue bonds, with the finance bureau subsidizing 2% of the bond. The finance bureau awards CNY10 million to enterprises making IPOs. The Measures also propose supporting these key industries to purchase equipment through financial leasing, and leaseback plant or machinery, and the finance bureau's subsidies to a single enterprise will not exceed CNY3 million per year.



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*\* 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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