



IATI Report on UK-PACT Project

Sustaining Growth of China's Green Bond Market and Facilitating Inter-Country Green Capital Flows

A project delivered by:

Climate Bonds Initiative (February 2019 to Sept 2020)

With funding provided by BEIS (UK Government Business, Enterprise & Industrial Strategy Dept.) under the UK-PACT Programme

Project still in progress

The purpose of this project has been to achieve further harmonisation of green definitions and green bond standards in China with international standards.

CBI's means to achieve this were by:

- 1. Identifying green investment opportunities,**
- 2. Scaling up green bond issuance at local level,**
- 3. Facilitating green capital flows between the UK and China.**

China faces vast investment needs - RMB 2-4 trillion annually - for transition to a low-carbon, climate resilient economy. Harmonising green definitions and green bond standards are key for China to attract overseas green capital, which is addressed in this project.

China's green bond market has begun to deepen. China has a vast territory, where the economic development of each region is uneven with own characteristics. The development of local green bond markets needs to align with local economic conditions and urban development plans, and with China's environmental policies. This project has aimed to scale up local green bond issuance to support the prevention and control of air, water and soil pollution as an effort to improve the climate resilience of the ecosystem.

To ensure continued market expansion and improved market liquidity in China, the project will help increase green bond issuance, and develop innovative financial products, in particular green asset-backed securities. The implementation of international best practices of green bonds will also be promoted to further attract both domestic and international investors.



The scheduled project outputs were:

Output 1 Harmonising green definitions and green bond standards

- improving the appeal of China's green bonds to UK/international investors through harmonising green definitions and standards across markets.

Output 2 Scaling up green bond issuance at local level and connecting with international markets

- scaling up local green bond issuance aligned with both international green definitions and China's environmental policies.

Output 3 Developing green asset-backed securities (ABS) and tracking the progress of China's green bond market

- delivering green bond market review and guidance on how to develop green ABS in China.



ACTIVITIES

Activities linked to Output 1

Harmonising green definitions and green bond standards

- improving the appeal of China's green bonds to UK/international investors through harmonising green definitions and standards across markets.

1.1 Reviewing China's green definitions; (Month 1 - 2)

Completed

1.2 Mapping the differences between China's green definitions and the internationally accepted green definitions;(Month 3 - 6)

The project conducted a comparison of the NDRC Green Industry Guiding Catalogue, the PBC Green Bond Endorsed Project Catalogue, and the CBIRC green credit reporting form against the EU Sustainable Finance Taxonomy in four key areas: i) guiding principles, ii) users, iii) classification of economic activities and iv) screening criteria.

The mapping of Chinese green definitions against the international ones consists of multiple phases: i) establishing a correspondence of sub-categories and activities, ii) comparing technical standards, eligibility criteria, and thresholds for each sub-category and activity and iii) providing recommendations on how to harmonize based on the comparisons undertaken. The project has conducted the first two steps.

Through this project CBI has been playing a crucial role in facilitating the harmonization of Chinese and international definitions of 'green' to pave the way for international green investors to invest in green assets in China's domestic market, as well as facilitate cooperation between China and the UK around green development.

1.3 Providing a roadmap on how to harmonise green definitions and standards in China and those in the international market; (Months 7 - 9)

In progress, CBI with CECEP has finished updating mapping out, and comparing, leading taxonomies (under the guidance of GFC).

1.4 Providing recommendations and support for Chinese regulators to build a certification scheme based on the harmonised green definitions and standards; Months 10 – 12)

The project has been introducing CBI's sectoral standards (e.g. building, transport, climate adaptation/resilience, agriculture) to relevant Chinese stakeholders. They have also



translated Climate Bonds Standards 3.0 into Chinese and are in the process to introduce it to regulators, verifiers and issuers from China. The project has also produced a couple of articles and discussion papers that initially outline the comparison between Chinese and international green taxonomies. The final set of recommendations is expected to be achieved in the second quarter of 2020, due to the delay in the release of the new China Green Bond Catalogue (consultation draft released in July 2020) jointly released by China's PBOC, NDRC and CSRC and the EU Taxonomy (consultation draft released in March 2020).

As the topic of green/sustainable finance gets more mainstreamed in China, many policymakers and market actors are acknowledging the need for a set of granular, scientifically robust and internationally aligned definitions of 'green' – this includes a taxonomy and sector standards around public utilities, transport, water infrastructure, manufacturing, etc. - to guide the use of government's resources and the flow of private capital, and to prevent 'green washing'. Implementable green finance standards and incentive structures will also address the growing concerns in China around how the financial sector can better support the 'real' economy.

1.5 Hosting quarterly assurance roundtable for Chinese verifiers, and providing capacity building for them.

Provide capacity building to Chinese verifiers through quarterly assurance roundtables.

We have hosted 3 quarterly assurance roundtable to China-based green finance verifiers on the principles, approaches and practicalities of the Climate Bonds Standard & Certification Scheme. Other topics in the field of green bond certification, such as the upcoming EU Taxonomy and Climate Bonds Standards 3.0 were also discussed. (with even split of female and male participants)

The assurance roundtables have emphasized capacity building to verifiers on Climate bond Standards and Certification Scheme, eligibility of low-carbon project/activities, and development of the Green Bond Policy and Market in China. Attendees belonged to the following organisations: Deloitte, CCX, CECEP, EY, CBI, Golden Credit, SinoCarbon, PwC, Lianhe Equator, iGreenBank, HKQAA, CQC, Sustainalytics, Syntao GF, Zhongcai Green Finance, and the British Embassy.

The Quarterly Climate Bonds Assurance Roundtables have provided a collaborative platform for CBI-approved verifiers and prospective verifiers to share first-hand experiences and discuss the principles, approaches and practicalities of the Climate Bonds Standard & Certification Scheme. Salient topics in the field of green bond certification, as such the EU Taxonomy and Climate Bonds Standards 3.0, progress on various sectoral standards, requirements around disclosure and post-issuance reports were also discussed.

The Quarterly Climate Bonds Assurance Roundtables have been vital to ensure that green/climate bond verifiers continue to improve the robustness of their practice and the green bond market in China becomes more liquid and transparent.



Activities linked to Output 2

Scaling up green bond issuance at local level and connecting with the international market

- Scaling up local green bond issuance aligned with both international green definitions and China's environmental policies.

2.1 Providing monthly report about central/local green finance/bond policies and maintaining policy database;

2.2 Conducting research to identify green investment opportunities in China;

In progress, we are finalizing a draft report on local green investment and green bond opportunities, including a discussion on the challenges to Financing Chinese Green Projects and policy recommendations

2.3 Hosting capacity building and market education workshops for 5-6 cities in China (such as Beijing, Shanghai, Huzhou, and Shenzhen, etc.);

Hosting capacity building and market education workshops for five or six cities in China (such as Beijing, Shanghai, Huzhou, and Shenzhen, etc.)

Two workshops were delivered during 2019: one in April, and one in December.

1) Workshop on green building investment opportunities

This workshop was carried out in Shanghai in April 2019, and was jointly organized by CBI with Lujiazui Financial City, Shanghai Banking Association, and Shanghai Green Building Association.

A total of 30 participants attended the workshop, out of which 10 were female. Participants were representatives from leading financial institutions (Bank of Shanghai, Shanghai Pudong Development Bank, China Ag. bank), Shanghai Banking Association, Shanghai Green Building Association, real estate developers, law firms and real estate service agencies based in Shanghai. This workshop was delivered one month after China released its new 'Green Industries Guidance Catalogue' to help promote green development through clarifying the definition of 'green industry' as well as harmonizing differing standards for sustainability. Indeed, in March 2019,

Ministries came together to launch the catalogue, including the National Development and Reform Commission, the People's Bank of China, and the Ministry of Ecology and Environment. These government bodies touched upon the key aspects of green industry



from finance to buildings, energy, and new technologies. The workshop organized by CBI therefore aimed to capture the momentum of the policy push, and actively promote the development of green buildings and green real estate, as well as green finance standards and green technologies among the potential green building developers, dealers, and green bond issuers in the Yangtse river delta region. It helped to kick start an enthusiasm among the market stakeholders to use green finance/bond to support their green building portfolio.

2) Workshop on Green bond market development and innovation

Jointly conducted by CBI with Syntao Green Finance, Lianhe Equator, and ICMA as part of the China SIF week in Beijing in December 2019, this workshop targeted Chinese green bond issuers and potential issuers, green finance advisors, green bond verifiers, and potential investors. The event was attended by approximately participants from the industry (35 male, 25 female). It helped to further stimulate the market enthusiasm in green bond issuance and helped revitalize the conversation around green finance in China with innovative practices and latest updates from the market.

2.5 Carrying out research and provide policy recommendations on policy incentives to local governments.

The project provided recommendations to two local governments to help them build their local green bond markets and scale up green bonds' issuance at the local level. The recommendations have focused mainly on definitions around 'green' projects and/or assets, and also included information from international green standards and their practicality in the China/local context.

The focus on local and municipal-level policy actions have been a much-needed 'bottom-up' mobilization to complement the often 'top-down' approach in China's economic decision making. It has allowed decision-makers to move from national-level planning to providing more evidence-based, tailor-made policies and incentives at the local level to better direct capitals to the low-carbon sector. These policy recommendations have better equipped local governments in setting up robust standards that better guide fiscal resources and private capital to green investment.



Output 3: Developing green asset-backed securities (ABS) and tracking the progress of China's green bond market

- delivering green bond market review and guidance on how to develop green ABS in China.

3.1 Collecting data and maintaining the database about China's green bond market, including green ABS;

Collecting data and maintaining the database about China's green bond market, including green ABS.

CBI's database and data analytics on global/Chinese green bonds market has been widely recognized as the primary source of information for policymakers, regulators and market actors to make evidence-based informed decisions. The project has continued to monitor market development by tracking and analysing every single green bond/ABS from the Chinese market and inform market/regulators in a timely fashion.

3.2 Producing research paper about the current progress, challenges and opportunities of developing green ABS in China, and include recommendations for ABS uptake

In progress, we have completed a first draft report on China's green ABS market development based on our data analysis and policy research evidence documents.

3.3 Publishing market quarterly newsletter and annual report

Published to schedule

3.4 Publishing market blogs in both Chinese and English.

The project has undertaken ongoing dissemination of products on China's Green Bond market.

- 1) China Green Bond Market Annual Report 2018
- 2) Three market quarterly newsletters for 2019.
- 3) Between two and three blog posts per month.
- 4) An initial discussion paper on comparison of Chinese and EU green definitions in November 2019.
- 5) A draft report on China's green ABS market development based on our data analysis and policy research

Communication products have been vital for the project to publicize the important development in the global/Chinese green finance and green bond field - it is one of the few windows for the world to keep track of China's development in green finance/bonds and to allow Chinese stakeholders keep abreast of international development in the green bond space.