Chinese Finance in Latin America: Brown or Green?

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International Union for the Conservation of Nature (IUCN)
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Abstract

The enormous rise in Chinese financial lending to major infrastructure and heavy industry projects has raised concerns regarding the environment. Over the past twenty years, civil society has pushed for the inclusion of social and environmental guidelines regional and government development banks’ guidelines. As a result, multilateral and Western banks have established a set of internationally agreed upon lending practices. These practices have shaped the rise of social and environmental protection within the developing world by tying the availability of loans to these policy conditions. China has been a relatively newcomer in establishing similar environmental guidelines for its development banks. Although China has made some significant progress, China still has a ways to go to meet internationally established environmentally responsible lending practices.

I. Chinese Lending: Large and for Environmentally-Sensitive Projects

Chinese lending abroad is large and concentrated in environmentally-sensitive projects. Our recent report entitled “The New Banks in Town: Chinese Finance in Latin America” analyzes the volume, composition, and scope of Chinese finance in Latin America and the Caribbean. Since 2005, Chinese loan commitments to Latin America totaled $75 billion (Figure 1). China’s loan commitments of $37 billion in 2010 were more than those of the World Bank, Inter-American Development Bank, and the United-States Export-Import Bank combined for that year. China overtook the World Bank and Inter-American Development Bank despite the fact that, from 2006-2010, both these banks had doubled their lending to the region (Gallagher, Irwin, and Koleski 2012, 5-7). The CDB made up responsible for 82 percent, and the China Ex-Im Bank and Industrial and Commercial Bank of China contributed 12 percent and 6 percent, respectively (Gallagher, Irwin, and Koleski 2012, 3). Moreover, according to the U.N. Economic Commission for Latin America and the Caribbean, China is the world’s fifth largest foreign direct investor country (Economic Commission, 17). These figures signal the rise of a new major source of funding for development aid.
These loans focus on infrastructure and heavy industry, while the Western loans span a range of governmental, social, and environmental purposes (Table 1). Chinese banks channel 87 percent of their loans into the energy, mining, infrastructure, transportation, and housing (EMITH) sectors. Only 29 percent of IDB loans and 34 percent of World Bank loans go to the EMITH sectors. Instead, the IDB and World Bank direct more than a third of their loans toward the health, social, and environment sectors, which are devoid of Chinese investment. According to the Chinese banks themselves, they give more EMITH loans because they seek to directly support economic growth rather than social welfare. China Ex-Im Bank’s website states that its projects must “be able to generate foreign exchange revenue and create jobs in the borrowing country. The [loans] focus on supporting infrastructure such as energy, transportation, telecommunication projects, and high-efficiency sectors such as manufacturing, processing, and agriculture in the borrowing country.”

Deborah Bräutigam of American University states from 1946 to 1961, three-quarters of World Bank lending funded transportation and electrification (Bräutigam 2009, 133). Today, that share has plummeted owing to Millennium Development Goals that focus donors’ attention on indicators of social welfare (2009, 77). Chinese banks, on the other hand, copy Japanese banks’ focus on infrastructure and transportation because they credit it with spurring Chinese development in the 1970s (2009, 48). Interestingly, China Ex-Im Bank’s lending philosophy is showing signs of change. The bank’s 2010 annual report notes: “In accordance with the Central Government’s foreign investment guidelines, requiring wise and effective use of foreign investments, the Bank gave full support to projects in key areas, such as infrastructure, medical and health care, education, [and] environmental protection” (Export-Import 2010, 28). While loans targeting social indicators may be gaining ground within China, we have not seen evidence of them in China Ex-Im Bank’s international portfolio.
Table 1: Bank Loans to Latin America by Sector, 2005–2011

<table>
<thead>
<tr>
<th>($ million)</th>
<th>Total</th>
<th>World Bank</th>
<th>IDB</th>
<th>Chinese</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>$17,926</td>
<td>$8,463</td>
<td>$9,463</td>
<td>$-</td>
</tr>
<tr>
<td>Education</td>
<td>$7,008</td>
<td>$4,389</td>
<td>$2,619</td>
<td>$-</td>
</tr>
<tr>
<td>Water, Environment</td>
<td>$16,144</td>
<td>$7,061</td>
<td>$9,084</td>
<td>$-</td>
</tr>
<tr>
<td>Public Administration</td>
<td>$19,105</td>
<td>$11,013</td>
<td>$8,092</td>
<td>$-</td>
</tr>
<tr>
<td>Finance, Trade</td>
<td>$18,328</td>
<td>$7,170</td>
<td>$9,858</td>
<td>$1,300</td>
</tr>
<tr>
<td>Housing, Infrastructure</td>
<td>$38,098</td>
<td>$-</td>
<td>$4,397</td>
<td>$33,701</td>
</tr>
<tr>
<td>Transportation</td>
<td>$27,693</td>
<td>$7,192</td>
<td>$8,821</td>
<td>$11,680</td>
</tr>
<tr>
<td>Energy, Mining</td>
<td>$30,061</td>
<td>$2,565</td>
<td>$7,576</td>
<td>$19,920</td>
</tr>
<tr>
<td>Other</td>
<td>$10,651</td>
<td>$378</td>
<td>$2,028</td>
<td>$8,614</td>
</tr>
<tr>
<td>Total</td>
<td>$185,383</td>
<td>$48,231</td>
<td>$61,937</td>
<td>$75,215</td>
</tr>
</tbody>
</table>


*Rising Concern Regarding Chinese Environmental Practices*

Chinese financial lending has concentrated in environmentally-sensitive industries such as mining or dams, which have a higher impact on the local community and environment. In response to the rise of lending to these areas, various local and environmental advocacy organizations have raised concerns. Three main concerns are: 1) transfer of Chinese firms’ lax adherence to environmental regulations domestically and abroad; 2) financing of projects rejected by international financial institutions (IFIs); 3) degrading of compliance to domestic and international environmental regulations.

First, environmental advocacy organizations have expressed concern about the potential for Chinese firms to transfer their lax adherence to domestic environmental regulation to construction projects in Latin America and Africa. In *Foreign Firms, Investment, and Environmental Regulation in the People’s Republic of China*, Phillip Stalley finds that home country environmental governance and standards affect the behavior of multinationals abroad (Stalley 2010, 185-187). Given the weak enforcement of domestic environmental regulations, the ability of Chinese companies to adhere to stricter environmental standards abroad is a concern.

Within China, environmental regulations are constantly circumvented. In 2009, the Ministry of Environmental Protection reported that 15.5 percent of projects started construction without approval, 9.6 percent of enterprises that were closed for environmental reasons resumed production without permission, and 25 percent of the main sources of pollution were not operating properly (McElwee 2009). To add to this concern, a majority of Chinese loans are in environmentally sensitive industries, such as mining, or on infrastructure projects in developing countries with low environmental standards. In Latin America, 87 percent of Chinese lending went to the energy, mining, infrastructure, transportation and housing (EMITH) sectors in contrast to 34 percent of World Bank and 29 percent of Inter-American Development Bank loans (Gallagher, Irwin, and Koleski 2012, 17). As these projects are more environmentally-sensitive, the impact of lax adherence on the local community is magnified.
Already, there have been documented international labor and environmental violations of Chinese-led investments in Angola and Zambia (Kotschwar, Moran, and Muir). In Peru, poor environmental and labor practices factor into a nearly two-decade long conflict between the Chinese mining firm Shougang and its workers and the local population. First, Shougang failed to conduct mandatory annual examinations of its mine workers for lung disease, and in 2006, an inspection by Peru’s mining investment regulatory agency found that 12 percent of Shougang’s workforce had unreported lung disease. These poor labor practices have angered local residents. According to Hermilia Zamudio, a local resident: “The Chinese see us as little more than slaves. They deem it beneath them to talk to us, and when they need to address problems here, they do so with their thugs” (Romero 2010). Beyond labor concerns, Shougang was fined for environmental damage following the contamination of water supplies to the local community and surrounding areas (Kotschwar, Moran, and Muir 2011). The negative relationship between Shougang and the community has led other communities to fear similar practices.

There has also been concern regarding China’s lending to projects that were rejected by IFIs and other financiers due to social and environmental impact considerations. International Rivers and Friends of the Earth, two environmental advocacy organizations, noted in July 2004 that the Export-Import Bank of China (Ex-Im Bank of China) financed projects that other financial institutions had refused to fund. For example, in December 2003, the Ex-Im Bank of China financed the Merowe Dam in Sudan, a project that had attracted little funder interest in part due to the resulting displacement of 50,000 people (Bosshard 2010). Furthermore, China has several proposed or ongoing projects that will or would impact national parks such as Belinga Dam in Gabon, Gui Dam in Ghana, and Mpanda Nkuwa Dam in Mozambique (Corkin, 6).

These practices have raised concern both internationally and domestically. In 2007, the Organization Economic Co-operation and Development (OECD) recommended that China “improve governmental oversight and environmental performance in the overseas operations of Chinese corporations” (OECD 2007, 12). Even Chinese officials have echoed these concerns. Cheng Siwei, a leading member of the People’s Congress, in January 2007 stated: “Even in developing countries, foreign companies that turn a blind eye to their social responsibilities will be kicked out of the market.” (Bosshard 2008, 11)

Financers play an important role by ensuring social and environmental guidelines are adhered to and practiced. But the lure of large loans to needed areas has led some government officials in host countries to skirt domestic regulations, inclusive social engagement, or government policies (Woodruff 2012; Zhouri 2010; Miller 2011). For example in Argentina, Heilongjiang Beidahuang State Faros Business Trade Group Co. Limited and the Río Negro provincial government signed an agreement in 2010. This agreement awards Heilongjiang the lease of 320,000 hectares of land for agricultural production in Patagonia and the right to build a needed irrigation system for $1.45 billion. However, this agreement has sparked sharp criticism from Raúl Montenegro, president of the Environment Defense Foundation. Montenegro and winner of the prestigious Alternative Nobel Prize. He has accused the Río Negro government of violating national
and provincial environmental laws because of the loan (Hanks and Lopez-Gamundi 2011). In Peru, the national government signed two agreements with China National Petroleum Corporation (CNPC) for oil exploration in a known territorial reserve of uncontacted indigenous communities (Matisoff 2012, 38). Therefore, Chinese banks’ adherence to internationally-agreed upon social and environmental guidelines will have a positive impact on reassuring local communities that are impacted by major infrastructure and heavy industry projects.

II. The Rise of Environmental Guidelines in Development Financing

MDBs are now the leaders in creating a majority of the social and environmental guidelines followed by a majority of private and public aid agencies today. However, IFIs were not always at the forefront of this issue; instead, many of the projects were very disruptive to the social and environmental well-being of developing countries. Concerns regarding the impact of development projects in the 1980s eventually led to the creation of social and environmental guidelines that are now intrinsically linked to aid and loans for projects in developing countries.

Despite its interest in aiding developing counties, the protection of the environment by IFIs such as the World Bank is relatively new. Environmental reform really began at the end of the 1980s and early 1990s led by the United States. Concerns regarding the environmental impact of development aid project by the World Bank within the United States led the U.S. Congress passed the “Pelosi Amendment” in 1989. This additional provision within the International Development and Finance Act of 1989 tied funding to “review the potential environmental impacts of development projects for which they provide funding and to make these environmental assessments publicly available” (Bank Information Center). With the United States as a controlling shareholder and major contributor of funding to IFIs, this requirement led to significant restructuring of IFI practices and has been credited to refocusing the role of IFI’s aid to more sustainable development practices (Bank Information Center).

Furthermore, the World Bank has made an effort to increase its funding for renewable energy and energy efficient projects. As Roger Morier, a World Bank spokesman, stated that "Our [World Bank] energy portfolio is increasingly oriented to renewable energy and energy efficiency. We are fulfilling our mandate of responding to the urgent needs of our client countries for access to efficient, reliable, affordable electricity, while also helping those countries to get on a low-carbon development path as soon as possible" (Jowit 2010). This shift may also be a reason behind the World Bank’s decreasing loans to the EMITH sector. However, the World Bank’s record on lending less to fossil-fuel projects has been severely criticized due to its continued investment on fossil-fuel intensive projects such as coal-fired power stations and oil and gas drilling (Jowit 2010; Swann 2008; Berger 2010). In response to such criticism, Roger Morier added that coal plants were only subsidized when there were "exceptional circumstances where countries have few or no prospects for other energy sources" (Jowit 2010).
This global focus on environmental and socially responsible investment practices led to the creation of the Equator Principles in July 2006 by the private banking sector. The principles incorporate World Bank practices and guidelines and are voluntarily adopted and applied to projects with over US$10 million in capital costs. For adopting institutions, these principles are a “credit risk management framework for determining, assessing and managing environmental and social risk in project finance transactions” (Equator Principles 2006). Although non-binding, the requirement for annual public reporting of its implementation of these principles ensures some level of transparency. Currently, there are 76 adopting institutions, covering over 70 percent of international project finance debt in emerging markets (Equator Principles 2006).

In 2010, the Equator Principles began an internal review process to update and revise the principles with completion expected in late 2012. As part of the process, it has sought input from various civil society organizations. One of its leading critics, BankTrack, has submitted comments that seek to further increase transparency and disclosure requirements, strengthen accountability measures, and expand the scope of the principles to include financial services and issues such as climate change and human rights (BankTrack 2011). The Equator Principles represent an additional mechanism to influence environmentally responsible lending on both private and public sector banking (Wright 2012).

Outside of banking, individual investors have sought to shape new norms of corporate behavior by creating “investor-driven governance networks.” These networks are motivated around specific public goods issues or issue areas such as the climate change or environmental sustainability. Through leveraging their financial power, these investors seek to promote responsible investing as fiduciary responsibilities of the financial community (MacLeod and Park 2011, 54).

**Chinese Lending to Developing Countries**

China has emerged as a leader in development aid with lending coming mainly from the China Development Bank (CDB) and the Export-Import Bank of China (Ex-Im Bank of China). Within the last five years, the Chinese government has sought to incorporate social and environmental guidelines into its banks’ procedures to improve both domestic and international lending practices.

China’s development aid is built upon three pillars established in 1964 by Premier Zhou Enlai. These pillars are equality, mutual benefit, and noninterference in each other’s domestic affairs (Global Environmental Institute 2011, 41). Although these remain core components of aid, China’s adherence to environmental guidelines in its lending practices is a relatively new trend (Aizawa and Yang 2010).

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2 For a full review on the effectiveness of the Equator Principles on international lending practices and policies see: Wright, Christopher. “Global Banks, the Environment, and Human Rights: The Impact of the Equator Principles on Lending Practices.” *Global Environmental Politics.* 12:1, February 2012.
The CDB and the Ex-Im Bank of China are the two main banks responsible for lending money to developing countries. The CDB is China’s leading foreign investment and financing bank (CDB “Strategic Focus”). It was founded in March 1994 under the direct control of the State Council with the responsibility to support for China’s macroeconomic policies laid out in the Five-Year Plans (CDB). The CDB focuses on eight areas of development: electric power, road construction, railway, petroleum & petrochemical, coal, postal & telecommunications, agriculture & related industries, and public infrastructure. An estimated 73.7 percent of CDB’s total new loans went to these sectors (CDB “Strategic Focus”). In addition, the CDB has financed numerous projects that support Chinese companies increasing their international presence such as China Minmetal Corporation’s acquisition of Chile’s copper-mining assets. Within Latin America, the CDB has lent an estimated $61.5 billion since 2005 to support Chinese companies’ growth abroad (Gallagher, Irwin, and Koleski 2012, 5). The CDB has also sought to work together with regional development and international banks such as the African Development Bank and World Bank.

The Ex-Im Bank of China was founded in 1994 and is a state bank solely owned by the Chinese government. Its mandate is to:

“facilitate the export and import of Chinese mechanical and electronic products, complete sets of equipment and new-and high-tech products, assist Chinese companies with comparative advantages in their offshore contract projects and outbound investment, and promote Sino-foreign relationship and international economic and trade cooperation” (Export-Import Bank of China “A Brief Intro”)

It achieves these set objectives through: export or import credit; loans to overseas construction contracts or overseas investment projects; Chinese government concessional loan; international inter-bank loans; etc. (Export-Import Bank of China “A Brief Intro”). The Ex-Im Bank of China also supports Chinese companies growing their business abroad. Since 2005, the Ex-Im Bank of China has lent $8.3 billion to Latin America (Gallagher, Irwin, and Koleski 2012, 7).

The Chinese government’s “Going Global” policy has brought this amalgamation of commercial and policy lending to the international stage. In 1998, President Jiang Zemin championed the internationalization of Chinese investment and lending. He argued: “Regions like Africa, the Middle East, Central Asia, and South America with large developing countries [have] very big markets and abundant resources; we should take advantage of the opportunity to get in” (Chen 2009). As Erica Downs, a Fellow at Brookings Institution, points out, CDB is the main bank supporting this strategy with loans to Chinese and foreign companies overseas (2010, 9). Bräutigam adds that “the Exim bank has been at the center of China’s strategy of ‘going global’” (2009, 112). Over the last five years, both banks have reached new heights in international lending (Bräutigam 2009, 112, 116).
Since the 1970s, the State Council has gradually pursued increased environmental protection (Table 2). The 1979 “Law on Environmental Protection (Provisional)” and the 1989 “Law on Environmental Protection of the People’s Republic of China” created the framework for environmental protection and environmental impact assessment (EIA) procedures within China (Global Environmental Institute 2011). These laws were further strengthened by the State Council’s passage of the “Environmental Impact Assessment Law of the People’s Republic of China,” effective September 1, 2003. This law specifically expanded the role of EIA from pollution assessment to overall eco-assessment.

### Table 2: Major Environmental Guidelines of Chinese Banks

<table>
<thead>
<tr>
<th>Regulations</th>
<th>When Adopted</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State Council</strong></td>
<td></td>
</tr>
<tr>
<td>Law on Environmental Protection (Provisional)</td>
<td>1979</td>
</tr>
<tr>
<td>Law on Environmental Protection of the People’s Republic of China</td>
<td>1989</td>
</tr>
<tr>
<td><strong>Ministry of Commerce</strong></td>
<td></td>
</tr>
<tr>
<td>Provisions on the Authorization of Investment to Run Business Abroad</td>
<td>2005</td>
</tr>
<tr>
<td><strong>China Banking Regulatory Commission</strong></td>
<td></td>
</tr>
<tr>
<td>Opinion on Strengthening the Corporate Social Responsibility of Banking Institutions</td>
<td>November 2007</td>
</tr>
<tr>
<td><strong>China Development Bank</strong></td>
<td></td>
</tr>
<tr>
<td>Guidelines on Environmental Protection Project Development Review</td>
<td></td>
</tr>
<tr>
<td>Environmental Impact Assessment Framework for Lending to Small or Medium-Sized Enterprises (SMEs)</td>
<td></td>
</tr>
<tr>
<td>Guidelines on Special Loans for Energy Conservation and Emission Reduction</td>
<td></td>
</tr>
<tr>
<td>Work Plan on Loans for Pollution Control and Emission Reduction</td>
<td></td>
</tr>
<tr>
<td><strong>Ex-Im Bank of China</strong></td>
<td></td>
</tr>
</tbody>
</table>


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In subsequent years, the State Environmental Protection Administration (SEPA) has taken a leading role in implementing the “Environmental Impact Assessment Law of the People’s Republic of China.” In February 2004, SEPA and the Ministry of Personnel jointly established a certification system for professional EIA engineers and strengthened requirements on professional EIA practitioners (Zhu and Lam 2009, 55). This effort was further strengthened when SEPA adopted the Equator Principles in January 2008 (Bräutigam 2010, 36). These efforts were further complemented through the issuance of the “Guidelines on Corporate Social Responsibility of Financial Institutions” by the China Banking Association for domestic banks. These guidelines specifically outlined requirements for environmental responsibility such as: research and analysis of the Equator Principles, environmental protection training for staff and clients to include EIA procedures, and creation of a department on resource conservation and environmental protection (Yu 2011, 48).

China’s development banks have also followed suit with their own guidelines. The most important guidelines for each are CDB’s “Guidelines on Environmental Protection Project Development Review” and Ex-Im Bank of China’s 2007 “Guidelines on Environmental and Social Impact Assessment of Loan Projects” (Global Environmental Institute 2011, 61-63). Under these guidelines, lending practices at China’s leading development banks incorporate social benefits and environmental protections.

The CDB’s “Guidelines on Environmental Protection Project Development Review” focuses on client suitability review, ex-ante EIA, and ex-post environmental monitoring. The CDB conducts a client suitability review by evaluating the environmental record of the company requesting the loan. Then the CDB conducts an ex-ante EIA review to ensure that resource and environmental protection costs are incorporated into the project’s operational costs. After the project is completed, the CDB will also conduct ex-post environmental monitoring. This monitoring includes consultations with environmental agencies and review to see if the project’s implementation methods complied with environmental protection requirements (Global Environmental Institute 2011, 62-63).

In addition to strengthening internal guidelines, the CDB engaged the international community to enhance its domestic lending practices. For example, the CDB partnered with the World Bank on loan projects, leading to creation of the “Environmental Impact Assessment Framework for Lending to Small or Medium-Sized Enterprises (SMEs).” This framework is only applicable within China, but spillover due to familiarity with such lending practices may occur. The CDB is currently considering adoption of the Equator Principle, which would further strengthen its social and environmental procedures (Global Environmental Institute 2011, 62-63).

The Ex-Im Bank of China has been a domestic leader in adopting environmental policies. Shortly after passage of the “Environmental Impact Assessment Law of the People’s Republic of China” in 2003, the Ex-Im Bank of China drafted its own internal guidelines. The “Guidelines on Environmental and Social Impact Assessment of Loan Projects” were
instituted in 2004 and later updated and released to the public in August 2007. These guidelines strengthened requirements for consideration of the environmental and social impact during the loan approval process, requiring EIA both prior and after the project, and regular review of the implementation of the project. More specifically, the guidelines stated that the EIAs must adhere to four key principles:

1) Conduct ante and post EIA and monitor project implementation
2) Base EIA on host country’s environmental standards
3) Respect indigenous people’s land and resources rights
4) Solicit public opinion for projects with potential for serious adverse impact on the local environment

Violations can result in the Ex-Im Bank of China halting its lending or demanding early repayment from lenders (Global Environmental Institute 2011, 61-62).

The Ex-Im Bank of China has also worked with IFIs in establishing international social and environmentally responsible lending practices abroad. In 2007, the Ex-Im Bank of China signed two Memorandums of Understanding with the World Bank and International Finance Corporation (IFC). These agreements strengthened cooperation efforts in energy and transport projects in Africa, IFC equity investments, and advisory services on environmental issues (Bosshard 2008, 13). This progress is due to pressure by the Chinese central government and by non-governmental organizations. In conversations between the president of Ex-Im Bank of China and Deborah Brautigam, the president stated that Ex-Im Bank of China only works with Western agencies for EIAs as these organizations had better credibility. Furthermore, the Ex-Im Bank of China wanted to avoid making environment the central issue, indicating both internal and external pressure to adhere to social and environmental guidelines (Bosshard 2010).

Common Social and Environmental Guidelines

Over the past twenty years, social and environmental guidelines have been incorporated into many regional and government development banks, establishing a set of internationally agreed upon lending practices. These practices have shaped the rise of social and environmental protection within the developing world by tying such values to availability of loans. These common guidelines include:

1. 

Ex-ante EIA: An EIA “involves a systematic assessment of the potential environmental impacts of a proposed project and its alternatives” (Europe Aid). Similar to international definitions, China’s State Council specifically defined an EIA as “the methods and institutions for analyzing, predicting and appraising the

5 An excerpt (unofficial translation) of the Guidelines for Environmental and Social Impact Assessments of Loan Projects by the Global Witness can be found at: http://www.google.com/url?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=1&ved=0CB8QFjAA&url=http%3A%2F%2Fwww.globalwitness.org%2Fsites%2Fdefault%2Ffiles%2Flibrary%2FChinese%2520guidelines%2520EN.pdf&ei=kRrVT0_UHqWP0QOGkIGCAg&usg=AFQjCNEmMR0OFgHG33CvroLTwyzYKo4pg.
impacts of programs and construction projects that might incur after they are carried out so as to propose countermeasures for preventing or mitigating the unfavorable impacts and make follow-up monitoring” (Zhu and Lam 2009, 26).

2. *Project Review of the EIA*: Once the ex-ante environmental impact assessment is complete, the bank needs to make sure the EIA findings are addressed and mitigate the environmental and social impact of the project.

3. *Industry-Specific Social and Environmental Standards*: The project should adhere to the relevant industry-specific standards. These standards are generally accepted as the ones defined by the World Bank and the IFC.

4. *Ensure Compliance with Host Country Environmental Laws & Regulations*: The bank needs to ensure the project is in compliance with host country’s environmental laws and regulations.
   a. *Ensure Compliance with International Environmental Laws & Regulations*: The bank needs to ensure the project complies with international environmental laws and regulations, usually set by the World Bank or the IFC.

5. *Public Consultations with Communities Affected by the Project*: The government, borrower, or third party expert needs to publicly consult with the affected communities and incorporate their concerns into the project as much as possible. Early release of relevant information regarding the project and the results of the EIA is crucial.

6. *Grievance Mechanism*: It requires that the borrower provide a mechanism to receive, facilitate, and address concerns raised by the affected communities during the duration of the project.

7. *Independent Monitoring and Review*: To ensure due diligence, an independent social or environmental expert not associated with the borrower will review the EIA, the project review, and consultation process (Equator Principles 2006).

8. *Establishing Covenants linked to Compliance*: The loans need to link environmental guidelines through covenants. Violation of the set guidelines will lead to review or possible cancellation of funds.

9. *Ex-post EIA*: Once the project is complete, the borrower will conduct a final EIA to review the project’s overall impact on society and the environment.

III. **Comparative Analysis of Environmental Guidelines**

Using the nine common guidelines listed above, we conducted comparative analysis of official guidelines to see the degree that the CDB and Ex-Im Bank of China have incorporated these social and environmental guidelines into their current lending practices. First, since the CDB is most similar to a development bank, we compared CDB guidelines with those of the World Bank, International Finance Corporation, and IDB (Table 3). Then we compared the guidelines of Ex-Im Bank of China to US Ex-Im Bank as both promote their domestic corporations abroad (Table 4).

**Table 3: Comparative Analysis of IFIs with CDB**
<table>
<thead>
<tr>
<th>Environmental Guidelines</th>
<th>World Bank</th>
<th>International Finance Corporation (IFC)</th>
<th>InterAmerican Development Bank (IADB)</th>
<th>China Development Bank (CDB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ex-ante Environmental Impact Assessment</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Project Review of Environmental Impact Assessment</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Industry-specific Social and Environmental Standards</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ensure Compliance with host country environmental laws and regulations</td>
<td>X</td>
<td></td>
<td>X</td>
<td>X*</td>
</tr>
<tr>
<td>International environmental laws and regulations</td>
<td>X</td>
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<tr>
<td>Public Consultations with Communities Affected by the Project</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Grievance Mechanism</td>
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<td></td>
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<tr>
<td>Independent Monitoring and Review</td>
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<tr>
<td>Establishing Covenants linked to Compliance</td>
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<td>X</td>
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</tr>
<tr>
<td>Ex-post Environmental Impact Assessment</td>
<td></td>
<td></td>
<td>X</td>
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</tr>
</tbody>
</table>

*The CDB requires that if the host country's environmental standards are inadequate, the firm follow Chinese standards or international best practices.

The CDB currently incorporates four of the common social and environmental guidelines into its lending practices. These guidelines include: environmental impact assessment, project review, public consultations with communities affected by the project, and an ex-post environmental impact assessment. Interestingly, CDB is the only development bank among the three in Table 10 above (World Bank, IFC, and Inter-American Development Bank) that requires an ex-post environmental impact assessment. This requirement is an improvement over current IFI guidelines in that it creates a formal review process on the project’s overall effect on the community and environment, allowing for future corrective action.

The CDB has also worked to increase transparency by publishing an annual corporate social responsibility report on its website in both English and Chinese. As a result of its efforts, the CDB has won numerous domestic awards, including the “People’s Social Responsibility Award” (consecutively for the past five years), “Most Socially Responsible
Bank of the Year” in 2010, and “Most Socially Responsible Corporation in 2010” (CDB 2010).

However, the CDB does not incorporate into its process four widely-accepted guidelines: a grievance mechanism, a requirement for adherence to international environmental laws and regulations, an independent review and assessment, or the establishment of covenants linked to compliance. A grievance mechanism and an independent review and assessment are important avenues for addressing public concerns and ensuring transparency throughout the process. Furthermore, the overall environmental standards applied are the host country’s standards, which are generally lower and less restrictive than the international environmental laws and regulations (Global Environmental Institute 2011, 62-63).

Table 4: Comparative Analysis of Ex-Im Bank of China with U.S. Export-Import Bank

<table>
<thead>
<tr>
<th>Environmental Guidelines</th>
<th>Export-Import Bank of China</th>
<th>U.S. Export-Import Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ex-ante Environmental Impact Assessment</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Project Review of Environmental Impact Assessment</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Industry-specific Social and Environmental Standards</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Ensure Compliance with host country environmental laws and regulations</td>
<td>X*</td>
<td>X</td>
</tr>
<tr>
<td>and International environmental laws and regulations</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Public Consultations with Communities Affected by the Project</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Grievance Mechanism</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Independent Monitoring and Review</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Establishing Covenants linked to Compliance</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Ex-post Environmental Impact Assessment</td>
<td>X</td>
<td>X*</td>
</tr>
</tbody>
</table>

*The Ex-Im Bank of China requires that if the host country's environmental standards are inadequate, the firm follow Chinese standards or international best practices.

"Members of the Equator Principles are required to submit annual public reports for review."
The Ex-Im Bank of China has also incorporated EIA, project review, public consultations with communities affected by the project, and an ex-post EIA into its social and environmental guidelines. An unofficial translation of Ex-Im Bank of China’s 2007 “Guidelines on Environmental and Social Impact Assessment of Loan Projects” cites the requirement of an ex-ante EIA and further states that “those projects that are harmful to the environment or do not gain endorsement or approval from environmental administration will not be funded.”

Like the CDB, the Ex-Im Bank of China requires an ex-post EIA. Based on the findings of the ex-post EIA, Ex-Im Bank of China “will revise the measures taken before and during the project implementation for similar projects. If necessary, the related requirements and policies will be fully revised.” Ex-Im Bank of China, in contrast to other IFIs or the US Ex-Im Bank, does not cite any financial threshold to applying its EIA. This omission could broaden the EIA screening process to cover a greater number of projects (Environmental Defense 2007). Ex-Im Bank of China has also made efforts to increase transparency by publishing an overview of major projects and a corporate social responsibility section in its annual report, available on its website in both English and Chinese.

The Ex-Im Bank of China goes beyond the CDB by requiring project review during the duration of the loan and establishing covenants linked to compliance. Therefore, the discovery of negative environmental impacts prior and during the course of the project will lead the Ex-Im Bank of China to “require the implementation unit to take immediate remedial or preventive measures. Otherwise, they will discontinue financial support” (Environmental Defense 2007). These additions are a step forward for socially and environmentally responsible loans because they directly link the loans to adherence to guidelines.

Still, despite these additions, Ex-Im Bank of China’s guidelines remains relatively limited. Ex-Im Bank of China has yet to require adherence to international environmental laws and regulations, a grievance mechanisms, or independent review and assessment. These additional requirements would provide an avenue for mitigating any potential social and environmental concerns that emerge during the duration of the project.

IV. Implementation of Environmental Guidelines

Although China has made significant progress over the past five years, measuring the degree with which Chinese development banks have implemented these environmental guidelines is difficult. This difficulty is most likely due to the relative newness of the laws, lax adherence to domestic environmental laws, language and cultural barriers in conducting consultations with affected communities, and lack of publicly available information.

Based on the duration of time in the development lending industry, the CDB and Ex-Im Bank of China are young players and their adoption of social and environmental guidelines is relatively new. In comparison with the World Bank in the 1980s, the CDB and Ex-Im Bank of China are ahead of history, starting implementation guidelines much earlier. Many of these projects have long construction periods with work still ongoing. The newness of
these loans makes it difficult at this point to evaluate the effectiveness of the guidelines on Chinese lending practices. For example, China has loaned Latin America $75 billion since 2005 with more than half of that total issued after 2009 (Gallagher, Irwin, and Koleski 2012, 1).

A complicating factor is lax adherence to domestic environmental laws. In 2004, a joint investigation by the SEPA and Ministry of Land and Resources found that only 30 to 40 percent of the mining construction projects went through the EIA procedure (Gu 2005). This investigation occurred after the implementation of the State Council’s new law, indicating that there are conflicting goals when it comes to rapid economic growth versus environmental protection. Casual adherence to environmental protection has continued as evidenced by the severe impact pollution has on cities across China. In Beijing, the US Embassy has assessed that air quality is unhealthy 80 percent of time, causing health concerns for the city’s population (Andrews 2011). In 2010 alone, there were an estimated 171 environmental accidents within China (Rong, Ying, Yuan 2011). Domestic and international environmental accidents have raised concern that, given weak domestic enforcement, Chinese companies’ adherence to another country’s environmental guidelines will remain low. This poor compliance with domestic regulations could potentially transfer to construction projects done by Chinese firms in Latin America and Africa, where a majority of Chinese loans are in environmentally sensitive industries such as mining or infrastructure.

Language and cultural barriers are an additional obstacle in measuring implementation of environmental guidelines. Language barriers can hamper efforts to conduct consultations with affected communities, can limit understanding of the host country’s environmental laws and regulations, and can weaken communication between the Chinese company and the host government. Specifically with CNPC, several organizations have cited language issues and lack of interest or understanding on engagement with non-governmental organizations or investors. However, engagement efforts that have occurred at the subsidiary level have had limited success (Matisoff 2012, 29).

Finally, due to the sensitive nature of loans in China, there is an overall dearth of publicly available information. This is further restricted by the lack of website information: neither CDB nor Ex-Im Bank of China websites list EIA findings for their major projects in either Chinese or English.

Despite this, some Chinese firms are adhering to social and environmental practices. In Peru, Chinalco has taken steps toward following social and environmental guidelines. The company conducted an EIA and held public hearings with the local community. In December 2010, its environmental impact assessment was approved, and the company has since contracted with a Canadian firm to implement an Environmental Information Management System (Kotschwar, Moran, and Muir 2011). The CNPC also received positive reviews for engagement with indigenous rights groups in Peru to address oil exploration in a known territorial reserve of uncontacted indigenous peoples. Eventually, this engagement led to a commitment by the CNPC subsidiary to stay out of the protected area (Matisoff 2012, 38-39). Moreover, Ex-Im Bank of China suspended funding for a
hydropower dam in Gabon after local NGO Brainforest raised environmental concerns over its location in a national park (Bosshard 2010).

Further research is needed to assess how deeply Chinese development banks have implemented these environmental guidelines, particularly on larger infrastructure and mining projects. These projects are the most environmentally sensitive and, as such, are more likely to face EIA scrutiny at home and abroad.

V. Conclusion

In conclusion, Chinese banks’ adherence to international environmental guidelines is relatively new, beginning approximately five years ago. In comparison to other development-focused banks, the CDB and Ex-Im Bank of China incorporate the core principles of EIA, but both have a ways to go to meet internationally established environmentally responsible lending practices. Furthermore, evaluating the overall implementation of these guidelines is hampered by the newness of the loans, lax domestic enforcement of environmental laws, language, and lack of publicly available information.

Thus the answer to the question “Brown or Green,” is hard to answer. On paper the Chinese have a set of guidelines that is much stronger than the guidelines of their Western counterparts when those Western counterparts were at China’s current level of development. However, there is little to no record of the actual enforcement of these guidelines and the guidelines themselves are lacking on China’s end when compared to global standards.

We hope this paper is just the beginning of a new strand of research tracking the environmental implications of emerging market donors and actors in the world economy. Rather than the last word, we hope to start a discussion.
Bibliography


