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China's Green Bond Market: How is it performing?

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Key Questions

Where is finance
flowing?

How is the market
functioning?

Who are key players
and how are they
incentivized?

Is there
additionality?

What actions could
increase
effectiveness and
impact?

What data are
available to
evaluate green
bonds and what
are the deficits?

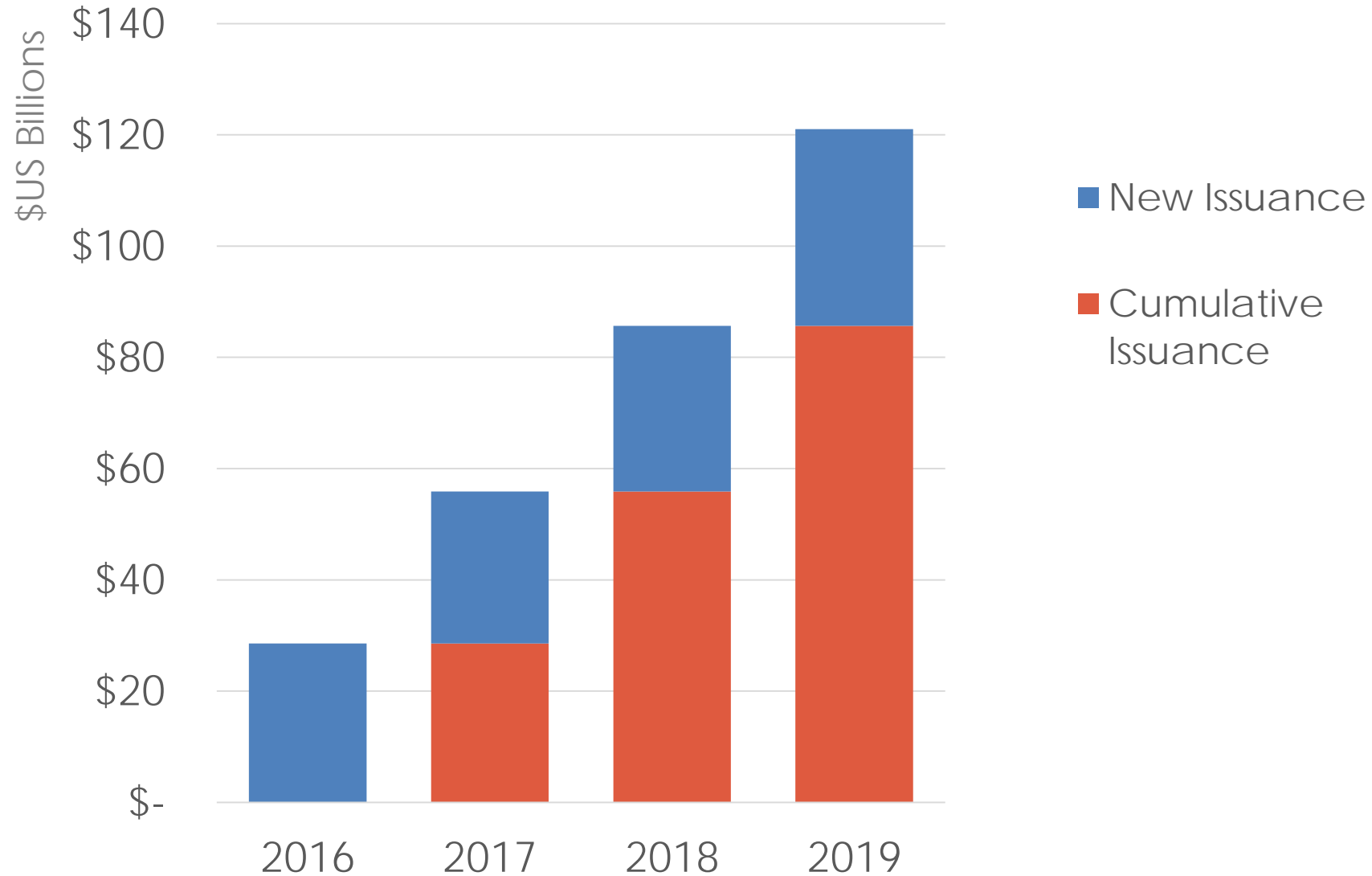
Green Bonds: A central part of China's drive to green the financial system

- Guided by high-level framework for building an “Ecological Civilization,” first introduced in 2007
- Rapid growth supported by high-level political buy-in and national efforts to green the financial system
- RMB 3-4 trillion (USD 420-560bn) yearly investment needed for China to meet Paris Agreement commitment

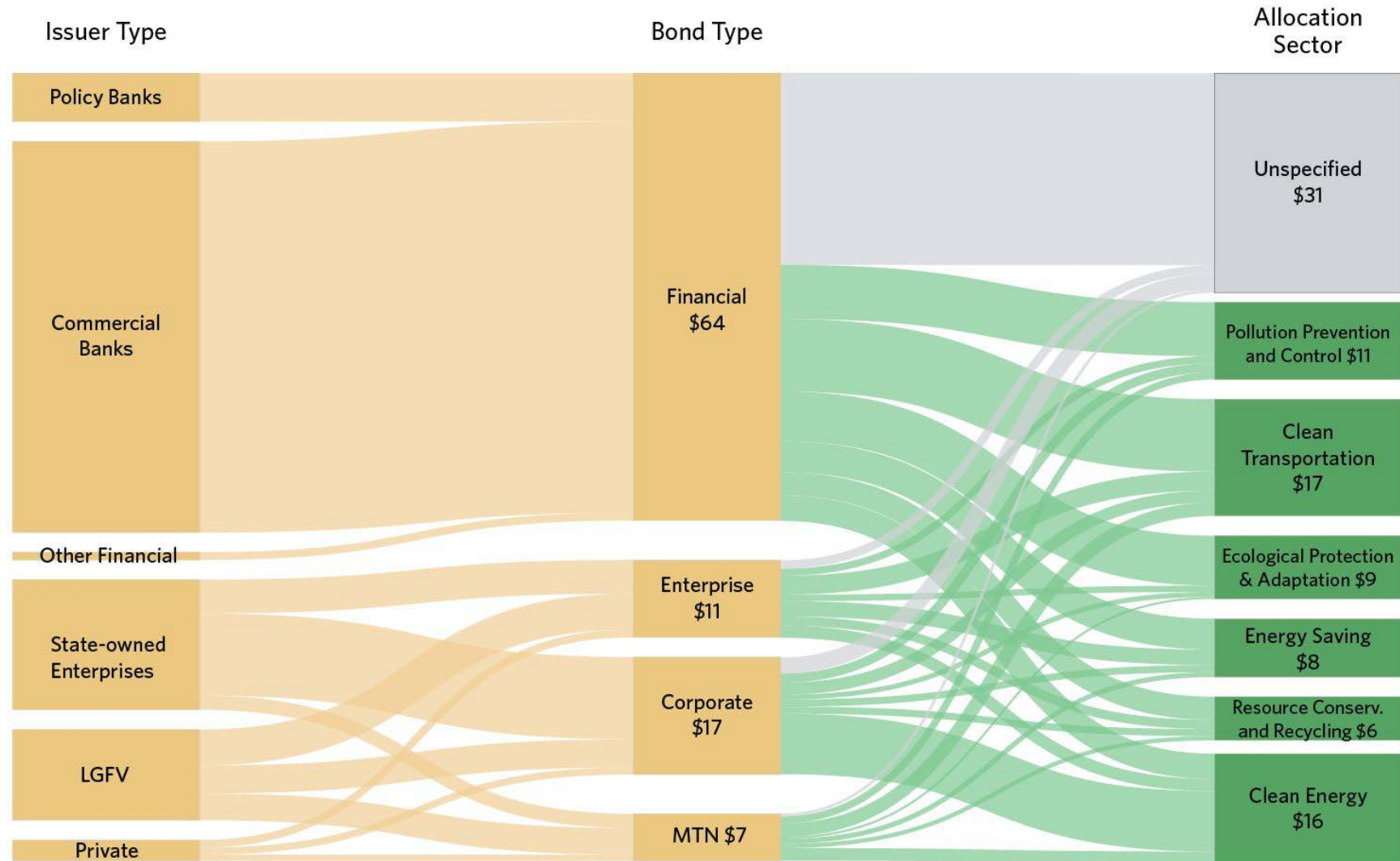


Trends in Investment

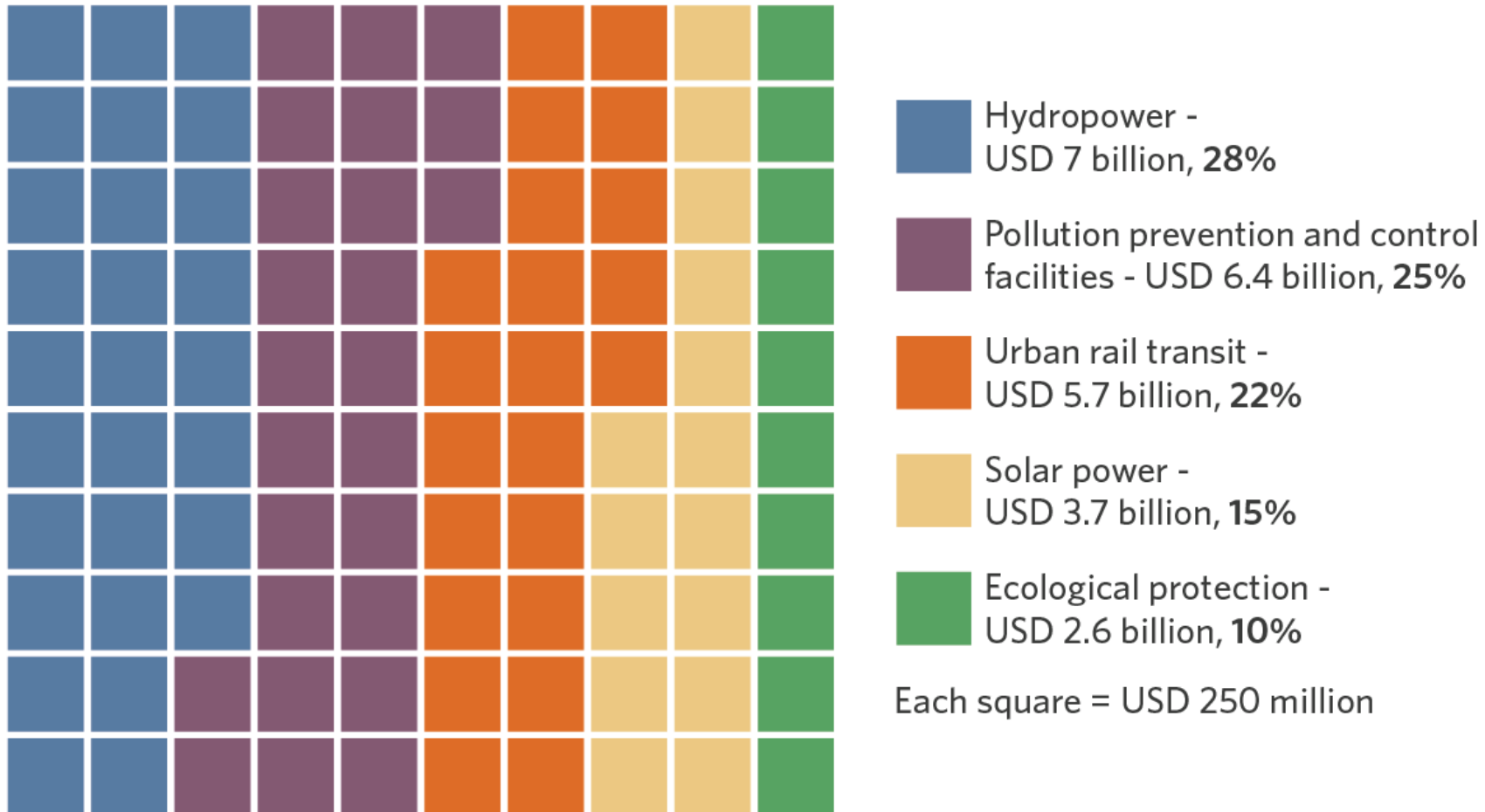
Cumulative issuance reached \$US 120bn in 2019



Clean energy and transport: largest share of finance

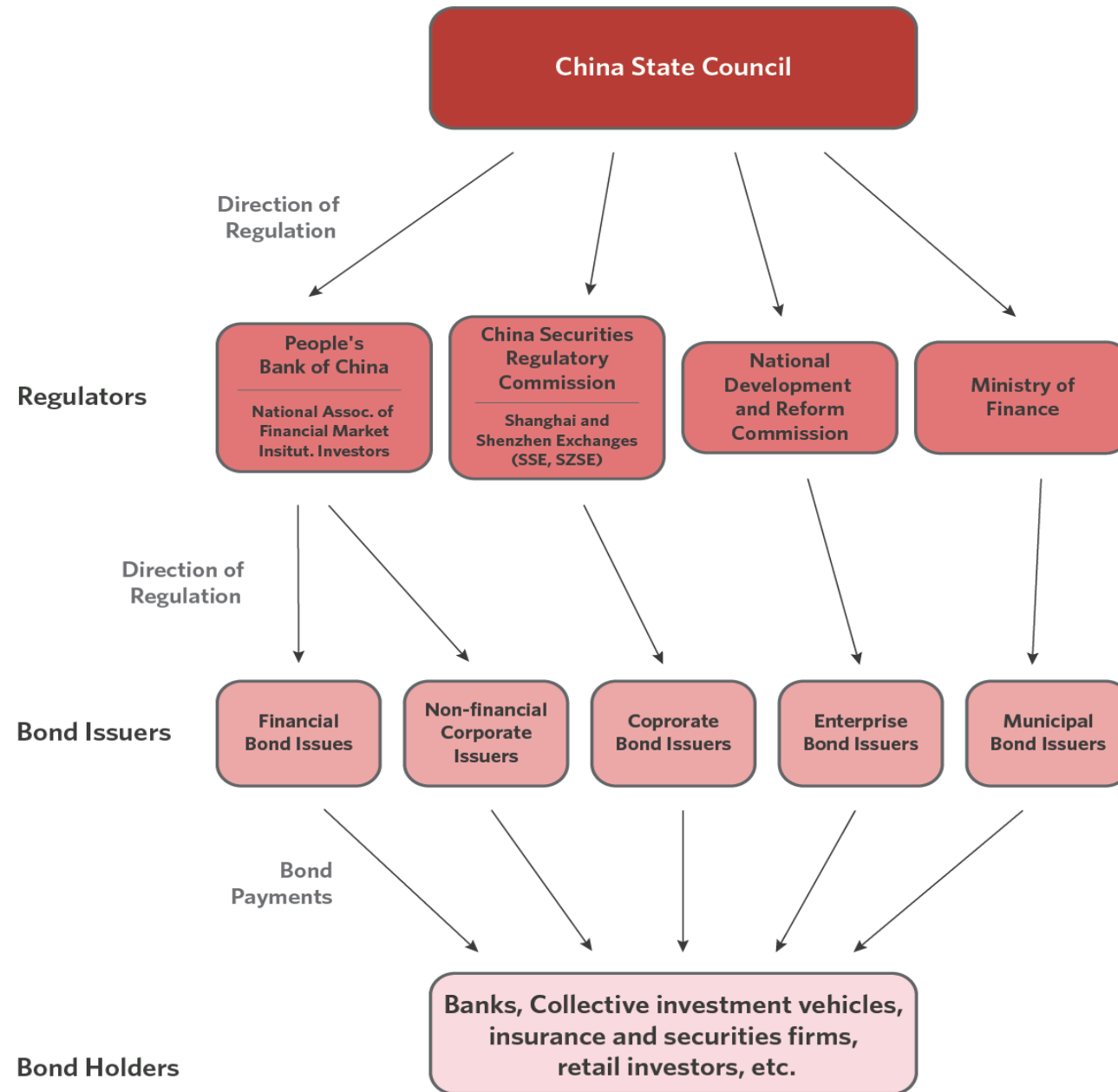


Large Hydropower: biggest share at subcategory level



State and functioning of the market

Regulatory segmentation poses challenges



Different authorities regulate different types of issuers, with varying MRV rules

	People's Bank of China (PBoC)	China Securities Regulatory Commission (CSRC)	National Association of Financial Market Institutional Investors (NAFMII)	National Development and Reform Commission (NDRC)
Bond Type	Financial bond	Corporate bond	Non-Financial Corporate Debt Instrument	Enterprise bond
Allocation of Proceeds	100% of proceeds are required to be invested in green projects	Issuers can use up to 30% of the bond proceeds to repay loans and invest in working capital.	100% of proceeds are required to be invested in green projects	Issuers can use up to 50% of the bond proceeds to repay bank loans and invest in working capital.
Issuance Limits	N/A	N/A	N/A	Green bonds are exempt from quotas for bond issuance and granted special review process
Use of Proceeds Monitoring	Separate accounts	Separate accounts	Separate accounts	No requirement
Environmental Monitoring	Required monitoring for green projects above a certain threshold amount	Targets disclosed at issuance; monitoring required	Targets disclosed at issuance; monitoring encouraged	No requirement
Use of Proceeds Reporting	Quarterly disclosure	Annual disclosure	Biannual disclosure; Changes to use of proceeds announced publicly	No requirement
Environmental Reporting	Required for green projects above a certain threshold amount	Targets disclosed at issuance; reporting required	Targets disclosed at issuance; reporting encouraged	No requirement
Standardized Reporting	Template available	Not available	Template available	Not available
Pre-issuance Verification	Encouraged	Encouraged	Encouraged	No requirement
Post-issuance Verification	Encouraged	Encouraged	Encouraged	No requirement

Reporting quality varies across bond types

387 issuances (347 onshore and 40 offshore) assessed across five dimensions: ease of finding information; granularity; impact reporting; external review; reliability of 3rd party

	EASE OF FINDING INFO AND CLARITY	GRANULARITY	ENVIRONMENTAL IMPACT REPORTING	PRE-, POST- ISSUANCE, OR BOTH (3RD PARTY)	RELIABILITY AND ROBUSTNESS (3RD PARTY)	TOTAL
Financial	Green	Green	Green	Green	Yellow	Green
Corporate	Pink	Yellow	Pink	Pink	Yellow	Pink
Enterprise	Yellow	Green	Pink	Pink	Pink	Pink
Mid-term Note	Pink	Green	Yellow	Yellow	Yellow	Yellow

COLOR SCALE			
PER CRITERIA		OVERALL SCORE	
0-1 points	Low	0-5 points	Low
1-2 points	Medium	5-10 points	Medium
2-3 points	High	10-15 points	High

Ongoing efforts to increase coordination and alignment

- **Green Bonds Standards Committee** as a new self-regulatory authority and coordination mechanism for green bonds
- New version of the **Green Bond Endorsed Project Catalogue 2020** released for comments

Environmental impacts and additionality

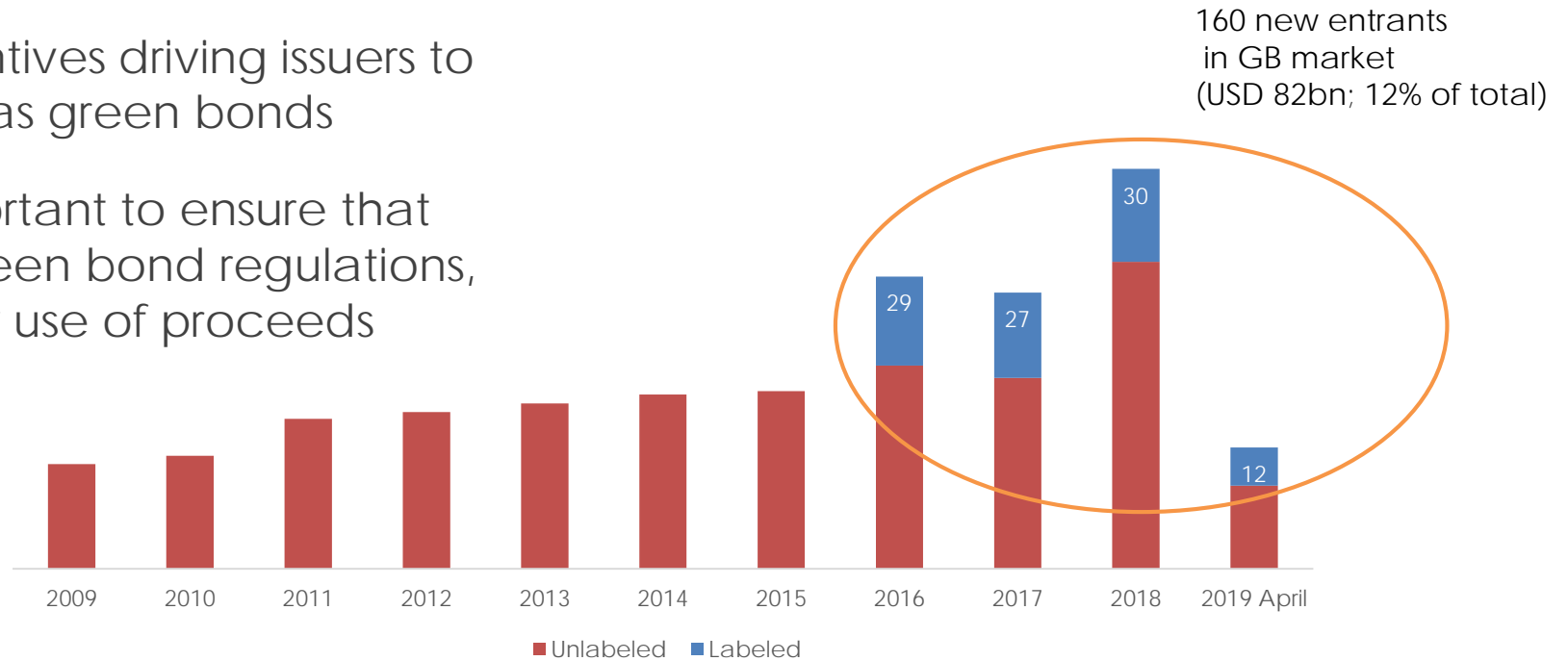


Environmental impact

Sector	Metric	Impact	Unit
Climate	Annual CO2 reduction	52.6	Million tons
	Annual reduction of fossil fuel use	20.2	Million tons standard coal equivalent
Energy	Installed capacity	11,197	MW
	Annual energy production	80,903,228	MWh
Pollution Prevention	Annual SO ₂ emissions abatement	1,413	Thousand tons
	Annual particulate matter abatement	54,653	Tons
Resource Conservation	Annual water treatment	128,068	Thousand tons
	Annual water use reduction/conservation	250,990	Thousand tons
Clean Transport	Annual ridership	19.3	Million persons
	Length of rail/subway line constructed	3,022	Km
Waste Mangement	Annual waste processed	1,280,680	Thousand tons

Publication of the Green Bonds catalogue increased number of issuers and activity in green debt market

- China investing in green projects through bonds for a long time (~USD 950bn since 2009); of these, only 11% have been officially labeled as green bonds (~USD 100bn)
- Regulations and incentives driving issuers to explicitly label bonds as green bonds
- Labeling 'green' important to ensure that issuers comply with green bond regulations, which track and verify use of proceeds



Annual Issuance of labeled and unlabeled green bonds (USD Billions)

Conclusions and recommendations

Conclusions

- Impressive ambition and growth of green bonds in China
- Green bonds have contributed **significant investment in key sectors** like energy, transport, and environmental protection, but more is needed
- **RMB 3-4 trillion annually in green investment needs**
- Market must expand even faster in the coming decade
- Definitions and standards of 'green' are continually evolving
- Robust MRV system is critical to ensure impact

Recommendations

Continue growing the market through clear incentives and guidelines

Market segmentation created by different authorities and regulatory frameworks impacts the efficiency of the market

Diversify the issuer and investor base

Loosening credit rules could help increase the participation of entities that have less access to credit

Strengthen the monitoring, reporting and verification system

A robust MRV system will help enforce transparency and boost credibility in the green bond market

Increase incentives

Monetary incentives and technical assistance to reduce cost burden of MRV requirements, raising the profile of green investments

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