About the GIP

China’s Belt and Road Initiative (BRI), first proposed in 2013 as a global initiative involving trillions in investment and trade, is focused on mobilising capital for infrastructure investments and improving economic connectivity between nations, including many low-income, developing countries.

The Green Investment Principles (GIP) for the Belt and Road was launched as a voluntary set of principles to accelerate green investments in the Belt and Road region by the Green Finance Committee of China Society for Finance and Banking and the City of London’s Green Finance Initiative (now UK-China Green Finance Centre). The seven principles are:

**Principle 1:** Embedding sustainability into corporate governance  
**Principle 2:** Understanding Environmental, Social and Governance Risks  
**Principle 3:** Disclosing environmental information  
**Principle 4:** Enhancing communication with stakeholders  
**Principle 5:** Utilizing green financial instruments  
**Principle 6:** Adopting green supply chain management  
**Principle 7:** Building capacity through collective action

From their launch in November 2018, the Principles have received strong backing from major financial institutions in China, the UK, Europe, and across the Belt and Road. They are joined by global and regional BRI investors and project developers. Combined, these institutions hold or manage assets in excess of USD 41\(^1\) trillion, and are major lenders to Belt and Road projects.

The GIP is becoming a global platform for action and to date has 37 signatories and 12 supporting institutions, representing 14 countries and regions. Ambitions to scale impact of the GIP along BRI regions are summarised in the report.

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\(^1\) Calculated from annual reports published by signatories.
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Foreword

Belt and Road countries have a critical role to play as the world charts a course to a recovery, and to a sustainable, resilient, and prosperous future. Without clear decarbonisation trajectories, we cannot meet the Below 2-degree goal of the Paris Agreement.

To turn the tide, we need to rely on tools that work, notably the transformative potential of green finance. That is why we first set up the Green Investment Principles for the Belt and Road – to harness finance to tackle the great decarbonisation challenge for investments along the Belt and Road.

Since we started on this journey in November 2018, the GIP has grown into one of the world’s largest sources of green financing, with strong support from both private and public sectors, including the governments of China, the UK and those along the Belt and Road.

By the end of 2019, the total assets held by the 37 signatory institutions globally exceeded USD 41 trillion, a major source of financial lending to the BRI. Committed to ensuring financial decision takes into account climate and environmental risks and to increasing green investment flows, GIP signatories have demonstrated their willingness to support countries along the Belt and Road to achieve green growth and bring the goal of the Paris Agreement closer to reality.

We have spent the past year focused on building the foundations for the future success of the GIP, clarified our governance rules and implementation and performance expectations of signatories. Our working groups have supported financiers on critical topics including climate and environmental risk assessment, environmental information disclosure, and innovative green financial instruments.

Crucially, we launched our annual reporting process for signatories. This has yielded the first climate disclosures from some of our signatories and reaffirmed the green financial leadership that the GIP brings to bear on the BRI. Using this data as a baseline, we have set a three-year strategy for the GIP, including clear targets for signatories to meet and exceed. By 2022, we expect all signatories will have integrated climate and environmental risks into their governance structures. By 2023, we expect all signatories to have made their first environmental information disclosures. Responding to feedback from signatories we will also extend our focus to demand-side concerns, working closer than ever with Belt and Road country governments on their green growth and decarbonisation priorities. We intend to launch a number of regional chapters, bringing GIP signatories and policymakers together to increase green investment flows.

Our shared mission is to become a network of world-leading sustainable investors and inspire market-based solutions for low-carbon and green growth, especially along the Belt and Road.
Through collective efforts from both signatory and supporting institutions, we will ensure continued progress by sharing experiences in environmental risk management, enhancing disclosure, reducing carbon footprint of their investments and operations, and making more green investments.

Dr. Ma Jun  
Co-chair of the GIP Steering Committee  
Chairman of China Green Finance Committee

Sir Roger Gifford  
Co-chair of the GIP Steering Committee  
Chairman of Co-chair of UK-China Green Finance Centre
Executive Summary

The carbon intensity in the development of the countries along the Belt and Road is critical to the success of the Paris Agreement. The growth and emissions trajectory of these economies to 2050 will be set in the coming months and years. The carbon lock-in decided now will determine emissions for decades to come. COVID-19 has intensified this challenge, with capital flight and debt restructuring lessening capacity of local governments to engage with the opportunities of green growth and create a supportive enabling environment to scale green finance.

The GIP, founded by major financing institutions, seeks to accelerate green investment flows into the region to address the infrastructure financing gap and the carbon and environmental challenge. Our central proposition is that as investors integrate climate and environmental risks into their investment decisions, the cost of capital for green and low carbon projects will reduce. This provides governments and project developers with the incentives they need to rapidly accelerate the deployment of sustainable infrastructure, spurring growth, reducing pollution, and avoiding costly carbon lock-in.

The GIP relies on signatories taking five key steps to drive change. First, signatories need to assess their exposure to climate and environmental risks. Second, signatories should disclose their strategies for managing these risks. Third, signatories commit to setting green investment targets and to phasing out carbon-intensive investment. Fourth, signatories invest in the growing pipeline of green projects along the Belt and Road. Finally, signatories work together to grow the overall capability and reach of the GIP.

In pursuit of these goals, the GIP Secretariat and signatory-led working groups have been hard at work. Highlights over the past year include growing green bond and green loan issuance, the development of a new climate risk assessment tool for signatories, compilation of a case book of successful green transactions, and capacity-building workshops. Over this period, GIP signatories have won major green finance awards and received recognition for their work driving the transition to a sustainable future.

The GIP has also undertaken its first annual reporting exercise with signatories, which is a mandatory requirement. The process has evaluated progress on key metrics, including governance and strategy, climate and environmental risk capabilities, disclosures, and exposure to green and carbon-intensive assets. This exercise will repeat annually to align with the reporting cycle of most signatories.

The results, set out in Chapter 4, show strong implementation progress across the assessed signatory base:

- The vast majority of signatories have robust governance structure for ESG in place and many have already developed and published strategies to manage exposures.

- GIP signatories are leading the way in Environmental Risk Analysis, as recommended by NGFS. Over a third of signatories are piloting this approach within their portfolios.

- Just over half of GIP signatories who reported are TCFD supporters, with a subset of these having already released a TCFD-aligned disclosure.

- Almost three quarters of signatories are actively increasing their exposure to green assets and deploying innovative financial products. However, only a third have set quantitative targets for green asset growth.
Between a third and a half of signatories have taken steps to reduce investment in emission intensive assets, including by restricting the financing of coal projects.

This baseline highlights the green credentials of the GIP signatory base, and the pace at which climate and environmental factors are translating into investment decisions. It also highlights areas for signatories and the working groups to focus on for 2021. In response to feedback, four priorities have emerged:

1. Clarifying performance expectations for signatories. These are set out in Chapter 5.
2. Developing an implementation guide for Environmental Risk Analysis methodologies, drawn from existing NGFS guidance.
3. Clarifying green investment standards, including those internationally recognised taxonomies, such as the common taxonomy between China and the EU.
4. Developing a green project database to increase green investment opportunities.

Drawing on the baseline created by signatory reporting, the Steering Committee has developed a three-year strategy – Vision2023 – for the GIP, set out in detail in Chapter 6. This strategy is intended to give current and prospective signatories clarity regarding the future trajectory of the GIP, and to motivate action. The strategy is forward-looking and ambitious. It is more important than ever that investors engage with decarbonisation challenge of the BRI. Signatories must move with pace and purpose.

**Vision 2023 sets annual targets for each of the five steps to change. These include:**

- **Assess:** all signatories will have integrated climate risk into their governance structures.
- **Disclose:** all signatories to have made their first climate disclosures.
- **Commit:** 60% of signatories will have set quantitative green investment targets
- **Invest:** green investment flows to the BRI will have risen by over 35% from a 2020 baseline.
- **Grow:** the GIP will have more than 70 signatories.

The strategy also recognises financiers can only affect change through the real economy. Until now the GIP has concentrated on the supply side, by focusing on the providers of capital, a vital lever in greening the BRI investments. However, in order for the GIP to create the impact needed within BRI countries to shift the emissions trajectory below 2-degrees, the demand side must also be engaged.

Through this strategy, the GIP Secretariat will work with relevant government authorities through regional chapters along the Belt and Road on a small number of pilot projects, bringing GIP signatories and policymakers together to increase green investment flows. These regional chapters offer a chance to put the principles into practice, and practically scale capital into green projects.
Why we need to green the Belt & Road

1.1 Greening the Belt and Road is critical to realising the Paris Agreement

The Belt and Road Initiative (BRI) represents an unparalleled level of investment into economic infrastructure at a virtually global scale. Reflecting the evolving nature of cooperation agreements between China and Belt and Road countries (B&RCs) and data on project status, investment stands at USD 4 trillion across about 3,100 BRI projects in 126 countries.

Almost half (47%) of recognised BRI projects are in transportation, just under a quarter (25%) are in the energy and water sectors, and a further 10 percent are oil and gas projects. The majority retain carbon-intensive business models.

An analysis of the development path of B&RCs published last year – most of which are developing economies – showed that under a business-as-usual growth trajectory, B&RCs could account for 66% of global greenhouse gas emissions by 2050 (from just 28% in 2015). This would result in global emissions double the 2-degree scenario (2DS) level necessary to limit dangerous levels of global warming. In essence, the Paris Agreement will not be met if B&RCs progress on their current growth pathways.

1.2 Supportive green finance frameworks along the B&R are required

Countries along the B&R must determine the sustainability of infrastructure development, which will require significant levels of public and private capital investment. However, there is a critical gap between the financing needs of emerging economies and the enabling policies and systems to unlock green investment.

In a short space of time, some B&RCs have made rapid progress. Work by the IFC-supported Sustainable Banking Network (SBN), bringing together 34 emerging markets, shows 8 countries have actions in place to scale up sustainable finance and are starting to report on results and impacts, another 6 are beginning to implement policies, while a further 20 countries have a demonstrated ambition but have not yet established an enabling framework to translate commitment into action. Across all markets, an enormous gap remains on green finance definitions, data and reporting, in relation to private sector participation.

---

1 Refinitiv, 2020. Impact of pandemic on infrastructure projects. 4th Edition. Of these, 1,590 projects valued at $1.9 trillion were BRI projects, while 1,574 projects with a combined value of $2.1 trillion were classified as projects with Chinese Involvement. Chinese Involvement projects are those not officially disclosed as BRI projects, but have direct Chinese participation as either the owner, consultant, contractor or financier.


3 Vivid Economics, Tsinghua University Center for Finance and Development & Climateworks Foundation, 2019. Decarbonising the Belt and Road: A Green Finance Roadmap. Note that the modelling of B&RCs emission contributions assumes the rest of the world follows a 2-degree scenario.

4 Ibid.

5 SBN 2020 Global Progress Report.
1.3 COVID-19 reinforces the importance of green finance

Pressures on public spending from COVID-19 will intensify the carbon lock-in challenge. Pre-crisis, many B&RCs were already struggling to stabilise their debt. Capital flight, debt restructuring, and the depressed price of oil and other commodities will limit the capacity and willingness of governments along the Belt and Road to focus on green investments. There is an immediate risk that further carbon lock-in is reinforced by recovery packages centred on ‘cheap’ fossil fuel energy.

However, the latest analysis from the International Energy Agency offers an alternative perspective; the current crisis presenting B&RCs a unique opportunity to unlock growth through a green recovery⁷. The IEA’s blueprint highlights actions to catalyse investment into electricity, transport, industry, buildings, fuels and emerging low-carbon technologies.

Private finance has a critical opportunity here to finance infrastructure that is socially and environmentally sustainable. The Paris Agreement helped open up nearly USD 23 trillion in opportunities for climate-smart investments in emerging markets through to 2030⁴. There is now, more than ever, a clear role for private financial institutions to support B&RC governments as they grapple with the challenge of the recovery.

⁴IEA, 2020, World Energy Outlook Special Report: Sustainable Recovery
2 How the GIP can support the greening of Belt & Road investments

The BRI has unrealised potential to support the UN Sustainable Development Goals (SDGs) and the Paris Agreement in developing the infrastructure that will touch up to 4.6 billion people, or 61 percent of the world’s population. Bringing together major financiers of Belt & Road projects, the GIP has a unique opportunity to influence the

2.1 Introducing the steps to change

As they stand, the GIP emphasise responsible investment practices in Belt and Road projects, aligned with international standards. Efforts to date have focused on developing investors’ capacities (described in Chapter 3). However, we have previously stopped short of an overall strategy describing how GIP implementation can accelerate the low-carbon transition.

To address this gap, our new ‘steps to change’ approach aligns the Principles under 5 sequential actions to support signatories to drive change and scale the GIP’s impact (Figure 1). First, signatories need to assess their exposure to climate and environmental risks. Second, signatories should disclose their strategies for managing these risks. Third, signatories commit to setting green investment targets and to phasing out carbon-intensive investment. Fourth, signatories invest in the growing pipeline of green projects along the Belt and Road. Finally, signatories work together to grow the overall capability and reach of the GIP.

Facing the intensified challenge by the global pandemic to achieve the Paris Agreement on climate, the GIP Secretariat has developed a three-year implementation plan to measure progress against each of these: Vision 2023. Vision 2023 takes the 2020 Annual Report as a baseline and sets target outcomes, measures and milestones, presented in full in Chapter 6.

Here we briefly outline the logic of the steps to change and the many preconditions the GIP has in place already to effectively deliver it.

---

2.2 Intervention logic

An increasing concern among financial regulators is ensuring climate change is factored into investment decisions. However, among signatories, the risks and impacts of climate change are not yet consistently integrated into their governance and assessed as part of their risk management processes. Without dedicated resources to analyse how these risks could manifest, the extent of potential impacts and financial exposure is difficult for institutions estimate. A lack of disclosure of such information means markets are likely to misprice carbon-intensive sectors and highly exposed assets, dampening growth and investment incentives to commit capital to financing low-emission projects.

Tackling this information asymmetry and integrating climate and environmental risk into the cost of capital for BRI projects will reduce the financing costs for lower-emission projects. Ensuring project development aligns with international social and environmental standards fills a gap in some emerging economies’ regulatory requirements. In these regions, bringing together financiers, project developers and local actors can de-risk investment, and support the development of enabling policy frameworks to attract innovative low-carbon investments.

In essence, the steps to change explains how the GIP work to accelerate the transition from carbon-intensive business models to green and low-carbon investment.

2.3 Success at scale: An overview of the GIP Signatory Base

As of July 2020, 37 global institutions have officially signed up as signatories (listed in Annex II). This includes 34 financial institutions (banks and a small number of stock exchanges), two non-financial firms, and one industrial association. The number of supporting institutions, including third-party service providers and non-profits now stands at 12 (Figure 2).

The GIP’s diversified membership base from 14 economies in Asia, Europe, and Africa, and practitioner-led Working Groups mean the GIP is in a unique position to build institutional capacity. Integration and alignment with other international principles and standard-setting organisations, senior members of whom sit on the GIP Steering Committee, enables the GIP to tap into other networks and expertise to work towards green capital mobilisation.

Figure 2 – Growth in GIP Membership

- Supporting Institutions
- Signatory Institutions

<table>
<thead>
<tr>
<th>Month</th>
<th>Supporting Institutions</th>
<th>Signatory Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apr 2019</td>
<td>8</td>
<td>27</td>
</tr>
<tr>
<td>Aug 2019</td>
<td>33</td>
<td></td>
</tr>
<tr>
<td>Nov 2019</td>
<td>35</td>
<td></td>
</tr>
<tr>
<td>Aug 2020</td>
<td>37</td>
<td></td>
</tr>
</tbody>
</table>
GIP members collectively have great potential to contribute to scaling green project financing along the Belt and Road. Combined global assets held by the 37 signatory institutions are in excess of USD 41 trillion. The majority of signatories who reported are actively engaging in developing or expanding their green financing activities and capabilities, and encouragingly close to 90% refer to national and/or international reference standards and taxonomies for defining what constitutes ‘green’ investing. This is discussed further in Chapter 4.

Based on data reported to the Secretariat, the outstanding balance of green loans by GIP signatories amounted to over USD 754 billion in 2019\(^\text{a}\) and total issuance of green bonds in excess of $138 billion\(^\text{b}\) (Figure 3). Increasing quantitative reporting on green transactions is one of the priorities identified in this report.

\(^{a}\) Data collated from 11 signatories.
\(^{b}\) Data collated from 7 signatories.
Figure 4 – Total volumes of green transactions reported by signatories \(^\text{12}\)

\[
\begin{array}{c|c|c}
\text{Volume (billion USD)} & \text{Green Bond Annual Issuance (8 Signatories)} & \text{Green Loan Balance (10 Signatories)} \\
\hline
\text{2018} & 88.0 & 663.4 \\
\text{2019} & 110.9 & 753.1 \\
\end{array}
\]

\(^{12}\text{Data aggregated from signatories that have reported data for both 2018 and 2019.}\)
Reflecting the dynamism and pace of development in green financial products among signatories and in industry more broadly in recent years, several GIP members have been nominated for awards over the course of the past 12-18 months (Table 1).

<table>
<thead>
<tr>
<th>Year</th>
<th>Recipient</th>
<th>Award title</th>
<th>Awarding institution</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>HSBC</td>
<td>World's Best Bank for Sustainable Finance</td>
<td>Euromoney</td>
</tr>
<tr>
<td>2019</td>
<td>BNP Paribas</td>
<td>World's Best Bank for Corporate Responsibility</td>
<td>Euromoney</td>
</tr>
<tr>
<td>2019</td>
<td>ICBC</td>
<td>Best Green Bank, Best Green Chinese Bank in Overseas Market</td>
<td>Asiamoney, China Green Finance Awards</td>
</tr>
<tr>
<td>2019</td>
<td>Industrial Bank</td>
<td>Best Green National Commercial Bank, Best Green Bond Bank</td>
<td>Asiamoney, China Green Finance Awards</td>
</tr>
<tr>
<td>2019</td>
<td>Credit Agricole CIB</td>
<td>Largest green bond underwriter</td>
<td>Climate Bonds Initiative</td>
</tr>
<tr>
<td>2019</td>
<td>Industrial Bank</td>
<td>Largest emerging markets bond to a trillion market</td>
<td>Climate Bonds Initiative</td>
</tr>
<tr>
<td>2019</td>
<td>Bank of China</td>
<td>Largest emerging markets green bond underwriter</td>
<td>Climate Bonds Initiative</td>
</tr>
<tr>
<td>2019</td>
<td>Luxembourg Stock Exchange</td>
<td>Green bond listing venue 2018</td>
<td>Climate Bonds Initiative</td>
</tr>
<tr>
<td>2020</td>
<td>Industrial Bank</td>
<td>Green Bank of the Year</td>
<td>Asiamoney, China Green Finance Awards</td>
</tr>
<tr>
<td>2020</td>
<td>Agricultural Bank of China</td>
<td>Best Green Bond Bank</td>
<td>Asiamoney, China Green Finance Awards</td>
</tr>
<tr>
<td>2020</td>
<td>Bank of China</td>
<td>Green Deal of the Year</td>
<td>Asiamoney, China Green Finance Awards</td>
</tr>
<tr>
<td>2020</td>
<td>Ernst &amp; Young</td>
<td>Best Green Finance Verification Agency</td>
<td>Asiamoney, China Green Finance Awards</td>
</tr>
<tr>
<td>2020</td>
<td>Société Générale</td>
<td>Best Green Belt and Road Project</td>
<td>Asiamoney, China Green Finance Awards</td>
</tr>
<tr>
<td>2020</td>
<td>HSBC</td>
<td>Western Europe’s Best Bank for Sustainable Finance, Asia’s Best Bank for Sustainable Finance</td>
<td>Euromoney</td>
</tr>
<tr>
<td>2020</td>
<td>BNP Paribas</td>
<td>Western Europe’s Best Bank for Corporate Responsibility</td>
<td>Euromoney</td>
</tr>
<tr>
<td>2020</td>
<td>DBS</td>
<td>Asia’s best bank for corporate responsibility</td>
<td>Euromoney</td>
</tr>
<tr>
<td>2020</td>
<td>Industrial Bank</td>
<td>Largest Financial Corporate Green Bond Deal of 2019 &amp; Largest Financial Corporate Green Bond Issuer over the last 10 years</td>
<td>Climate Bonds Initiative</td>
</tr>
<tr>
<td>2020</td>
<td>Commerzbank</td>
<td>Global 100 Most Sustainable Corporations in the World</td>
<td>Corporate Knights</td>
</tr>
</tbody>
</table>
3 Progress in 2019/20

The first full operational year of the GIP over 2019 focused on putting in place structures and setting priorities to allow the GIP to start implementation and capacity-building activities. The sequence of milestone events is shown in Figure 5, with the pace of activities accelerating significantly after the first Plenary Meeting in mid-2019.

Figure 5 – GIP Milestones

Practical elements of progress on governance implementation in 2019 included:

- Establishing Secretariat and Working Groups 1, 2 and 3 at first GIP Plenary Meeting (Figure 6).

- Development of a baseline maturity assessment to inform the development and review of Working Group 2019/20 business plans.

- Review of other Principles-based institutions to develop GIP Governance Structure, and in particular the reporting requirements and enforcement mechanism.

These were further elaborated in 2020, as outlined in the next section.

Figure 6 - First GIP Plenary Meeting, 16 August 2019
3.1 Setting up robust governance and strategy

The GIP Secretariat has given specific attention to developing robust GIP governance, including the appointment of highly experienced advisors from affiliated and unaffiliated organisations to guide the direction of the GIP. The Steering Committee has the authority to plan, lead, and commission work or activities related to the administration, management, and development of the Principles on behalf of the signatories.

Among the major measures taken at the first Steering Committee meeting in April 2020 were the adoption of a formal GIP Governance Structure (Terms of Reference), which outlines roles and responsibilities of the Secretariat, Steering Committee, Working Groups and member institutions. The Governance Structure sets an expectation for Working Groups to mobilise resources and organise activities to implement specific aspects of the GIP. To ensure relevance to GIP membership, the three Working Groups are signatory-led and chaired by at least one GIP member, with support from a Working Group Secretary.

To support progress by all signatories and maintain the GIP and signatories’ credibility, the Steering Committee members also endorsed the introduction of performance expectations, in parallel with providing tools and technical assistance.

At the second Steering Committee meeting in July 2020, the essential elements of the GIP future strategy were endorsed. The GIP also welcomed the World Economic Forum in joining the Secretariat.

3.2 Active working groups and projects

Three working groups (WGs) were established during the 2019 Plenary Meeting, respectively on Climate and Environmental Risk Assessment (WG1), Climate and Environmental Information Disclosure (WG2), and Green Financial Product Innovation (WG3). Since the First Plenary Meeting, Working Group leaders have drafted business plans. Although this programme of work has been disrupted by COVID-19, the WGs have delivered the first round of capacity-building webinars on climate and environmental information disclosure and green financial instruments:

- **Working Group 1: Risk Management and Assessment**
  
  The GIP Working Group on Climate and Environmental Risk Assessment (WG1) is chaired by the Industrial and Commercial Bank of China, with PwC as WG secretary. In its 2019/20 business plan, WG1 set objectives to identify, share, promote, and develop a risk assessment toolbox for financial institutions to identify and measure environmental and climate risks at the project, portfolio, and strategic levels.

  A carbon calculator tool developed by WG1 forms part of the ‘GIP Climate & Environmental Risk Assessment Toolbox (CERAT)’. The tool integrates existing methodologies that map environmental and climate risks based on project-level technical information.

  In the first phase, it provides carbon accounting for existing and new projects in industry sectors with high emissions intensity potential, including energy, construction and transportation. Based on project

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13 The Steering Committee consists of two Co-Chairs, namely Dr. Ma Jun, Chairman of Green Finance Committee of China Society for Finance and Banking and Sir Roger Gifford, Chairman of UK’s Green Finance Institute, and other drafting members of the GIP and host countries (China and the UK). See Annex III for the GIP Steering Committee membership.
information and anticipated or actual performance, it examines compliance with existing international and national standards, then calculates the carbon emission intensity of the project, benchmarking it against regulatory requirements.

A limited trial of the tool has just been launched, offered in both Chinese and English, and is currently open to testing by GIP members and external experts. A workshop to explain the methodology and bring together feedback was held in early September. Refinements to the tool will be evaluated before the Phase 1 tool is launched.

The Secretariat will also work with WG1 to assess how emissions intensity information generated at a project level by the tool can be integrated into the Green Project Database.

Figure 7 - User Interface of GIP Climate & Environmental Risk Assessment Toolbox

- Working Group 2: Disclosure and Engagement

The Working Group on Climate and Environmental Information Disclosure (WG2) is co-chaired by Credit Agricole and China Industrial Bank, with Ernst & Young as Secretary. In its 2018/19 business plan, WG2 set objectives to promote and enhance the capacity of consistent environmental/climate information disclosure for GIP signatories, aligned with TCFD.

In June 2020, it ran a Webinar on ESG disclosure which covered different jurisdictions’ regulations and leading practices of ESG disclosure, presenting two case studies from Working Group leaders.

WG2 has also helped develop a preliminary GIP disclosure framework while drafting questions accordingly for the annual reporting questionnaire. See Webinar WG2 (chapter 3.4).

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14 The tool includes the EU Sustainable Finance Taxonomy, the Climate Bonds Initiative (CBI) Taxonomy, China Green Industry Guidance Catalogue and the MDB/IDFC Common Principles for Climate Mitigation Finance Tracking.
19

- **Working Group 3: Green Financial Product Innovation**
  The Working Group on Green Financial Product Innovation (WG3) is co-chaired by Bank of China and Standard Chartered, with the International Finance Corporation (IFC) as Secretary. In its 2019/20 business plan, it set out objectives to increase awareness and build capacity by providing education and training on green financial instruments to stakeholders, and actively explore the possibility of a GIP blended financing facility to invest in B&R infrastructure projects.

  In July 2020, WG3 ran two webinars on innovative green financial instruments, which centred on how different types of market players (public and private financial institutions, as well as third-party verifiers) have a role to play in facilitating innovation. The webinars were attended by representatives from almost all GIP members. See Webinar WG3 (chapter 3.4).

- **Green Project Database**
  The GIP Secretariat is taking forward the development of a green project database, working closely with GIP members and external experts, including Refinitiv on the technical development of the database, CHINCA on the provision of some green projects along the Belt and Road and Lianhe Equator on the development of a harmonised standards for green projects.

  In its first phase, the database will cover a relatively small number of green projects and be shared among selected financial institutions to improve the reporting framework and data infrastructure on both the supply and demand side. In time, the objective remains to integrate into the user interface other useful tools – or tool-generated data – such as from CERAT, to gain more granular analysis on the environmental and climate performance of B&R projects.

- **Green Supply Chain Research Project**
  Following initial discussion at the first GIP Plenary Meeting in August 2019 the Secretariat has overseen a research project focused on green supply chain management.

  The APEC Green Supply Chain Cooperation Network Tianjin Pilot Centre (TGCC), one of the GIP supporting institutions, led the analysis and a series of discussions, drafted a concept note, and established a study group. The final draft of the research report is expected to be released in late 2020.

### 3.3 Day-to-day management of the GIP

As outlined in the Governance Structure, the GIP Secretariat is responsible for day-to-day operations and management of the GIP. Its core responsibilities include:

- Hosting bilateral or multilateral meetings, with relevant stakeholders and prospective members, to promote the GIP, and managing the admission process of new members.

- Supporting the WGs to develop business plans, tools and guidance, and supporting access to these by GIP members.

- Engaging with external experts and connecting WG leaders with other GIP members, as well as facilitating capacity-building events.

- Managing funding to support the operations of the Secretariat and WGs.
● Leading the Annual Progress Reporting process and preparing the GIP Annual Report based on signatory submissions.

● Providing periodic reporting to the Steering Committee, and convening it for strategic decisions on the continued evolution of the GIP.

Figure 8 - Staff members of the GIP Secretariat’s Beijing and London offices

3.4 Ongoing outreach and engagement

GIP Website – The official website of the GIP (http://gipbr.net) was launched in February 2020. Acting as the official digital window on the GIP, it provides updates on membership, working groups, and events. The integration of more advanced functions is expected later in 2020, and member institutions will be provided with login credentials to access member-focused content.

GIP Newsletters – GIP Newsletter issues are circulated on a quarterly basis, to notify all members of the latest progress as well as news related to green investment. The newsletter will become an essential part of the GIP digital platform where members can consult new B&R research findings, contribute written opinions or institutional news, and share best practice. It has already featured articles and reports from a few signatories.

GIP Webinars – To date, four Working Group webinars have attracted over 300 representatives from almost all GIP members dialling into the virtual events from Asia, Europe, and Africa.
Webinar WG2 - Key observations on ESG integration and disclosure, 23 June 2020

Co-hosted by Crédit Agricole CIB (CACIB), Industrial Bank of China, and Ernst & Young (EY), the webinar touched upon regulations and leading practices of ESG disclosure, with two cases from working group leaders.

Introduced by Judy Li, Partner from the Climate Change & Sustainability Services Dept. at EY, ESG disclosure is required by an increasing number of stock exchanges worldwide, with a “comply or explain” mechanism and guidelines issued to formalise the content and format of disclosure. ESG factors are also increasingly factored proactively into pre-investment decision-making within financial institutions.

A key focus and component in establishing an ESG management system is to engage the decision-makers (the board of directors) to pay attention to sustainable development and ESG issues. While this may initially be prompted by policy or regulation, for real progress to be made, business line engagement and operational measures must be developed.

Quan CHEN, Senior Manager from the Green Finance Department at China Industrial Bank pointed to the regulatory requirement released by the CSRC in 2014 has been a major push in getting the Board of Directors to agree to disclose ESG information, especially the environmental performance of their businesses.

Roles and responsibilities should flow from governance at the highest decision-making level, to senior management and departments, and ultimately to the working level for execution. Once the management policy and structure are in place, more granularity is needed in frameworks, standards, and indicators, as well as the formalisation of the data collection process.

ESG criteria – including measurement of CSR performance of clients, as well as climate and environmental risks - are rapidly evolving. Dominique Duval, Head of Sustainable Banking APAC and Carmen Tsang, Vice President of Sustainable Banking at CACIB emphasised its ESG criteria – including evaluation of CSR performance of clients, as well as climate and environmental risks - are continually developing. Based on all the data collected, it utilises its customised methodology to assess the materiality of climate risks, aligning with TCFD recommendations.

While observing that the journey on ESG disclosure takes time, and challenges remain regarding data availability and institutional capacity, WG2 leaders re-emphasised a commitment to helping GIP members improve performance, and welcomed suggestions from members on how WG2 can continue to assist.

Webinar WG3 – Key observations on Innovative Green Financial Instruments, 16 July 2020

Hosted by Bank of China, with the support from Standard Chartered, AIIB, EBRD, Credit Agricole CIB and Lianhe Equator, the webinar centered on how different types of market players (public and private financial institutions, as well as third-party verifiers) have played a role in facilitating the innovation of green financial products.
The past years have seen the great momentum of green and sustainability bond issuance around the world. Financial institutions like the Bank of China and Standard Chartered have been active players in this field, keeping a high level of issuance annually while innovating bonds that serve very specific climate and environmental purposes, such as green transition.

With the globalisation of RMB, the opening up of the Chinese capital markets, and the rapid evolution of the BRI, **panda bonds may provide new opportunities for global institutions looking to invest in green projects in the BRI region**, as panda bonds help to diversify financing channels for bond issuers and manage financing costs for those with a need of cash and assets denominated in RMB.

**Domenico Nardelli, Treasurer of the Asian Infrastructure Investment Bank**, commented that there are two dynamics behind the growth of panda bonds: one is the improvement of market infrastructure, such as the “Bond Connect”, and the other is the relatively high interest rates of government bonds in China, comparing to other large economies.

The international development institutions, such as the AIIB and EBRD, play a more comprehensive role in scaling up green finance in emerging economies. On one hand, **they engage and assist local authorities in assessing the challenges and making new policies**; On the other hand, **they are usually the anchor investor in many green projects**. The issuance of a few green bonds in some emerging economies have not only supported green sectors, but also prompted the discussion on setting up national green taxonomies and policy incentives.

Experts from Lianhe Equator, a third-party verifier in China, also pointed out that **the consistency between the EU taxonomy and the Chinese green bond taxonomy can imply great opportunities for cross-border green capital flows and investments**. These two taxonomies share similar environmental goals and categories, and have left out the usage of coal, though the difference lies in the technical standards under different country circumstances.

The speakers agreed that **it is essential to align new green financial products with the UN SDGs, while paying attention to the risks associated with new asset categories**. Active participation to this webinar also indicated that this is one of the most popular topics among QIP members.
GIP Signing Ceremonies
Two signing ceremonies have been held for the GIP. On April 25, 2019, the GIP inaugural signing ceremony was held in Beijing as part of the Second Belt and Road Forum (see Figure 9). The importance for green development in the BRI regions was identified by Chinese President Xi Jinping in his keynote speech.

Figure 9 - Inaugural Signing Ceremony of the GIP, April 2019

On November 28, 2019, a second GIP signing ceremony was held to welcome five new members: Bank of Africa – BMCE, BNP Paribas, Commerzbank AG, Société Générale, and Refinitiv (Figure 10).

Figure 10 - Second Signing Ceremony of the GIP in Paris on 28 November 2019
Initiating annual reporting
Since its launch in 2018, the GIP has grown considerably and taken steps to strengthen governance and undertake research, disseminate knowledge and forge working collaborations to help signatories implement the Principles.

Building on the momentum so far, the preparation and publication of Annual Reports is intended, moving forward, to evaluate where progress is made, identify the gaps and further actions needed to accelerate greening investment along Belt & Road.

In late 2019, the Secretariat ran an initial baseline survey to understand the starting point among signatories prior to joining the GIP. This served to validate the first round of business plans of the Working Groups for 2019/20, and inform how to best target capacity-building and ensure this is reflected in GIP strategy.

Consistent with the terms of the Governance Structure endorsed in April 2020, the Secretariat was mandated by the GIP Steering Committee to initiate annual reporting of GIP signatories.

After the first Steering Committee meeting, the Secretariat developed a draft reporting questionnaire, with assistance from WG2. Following consultation, the questionnaire was revised and circulated to all members in early May, with a reporting time window of a month. The methodology and key findings of the reporting exercise are outlined in Chapter 4.

As agreed at the first and second meetings, the Steering Committee also gave support to establishing GIP awards. The awards recognise leading performance on implementation and evaluate green transaction cases submitted by signatories, aiming to encourage further progress across GIP members.
4 GIP Annual Performance Review

4.1 Background
To ensure GIP signatories implement the principles and steadily raise their ambition and practice of environmental risk management and green investment, an annual reporting process was introduced. 2019 was selected as the baseline year.

Participation in the annual reporting process is a requirement of membership of the GIP, and signatories can expect individual feedback to support their development and implementation of the principles.

This is the first exercise and will be repeated each year. Signatories are invited to share their comments and views ahead of the next reporting cycle in January 2021.

4.2 Methodology
To develop the Annual Report, the Secretariat prepared and circulated a reporting questionnaire to signatories, consisting of 41 questions. This approach structured the questions under four overarching evaluation themes, with the seven principles matched under each (Figure 11).

Figure 11 - Green Investment Principles and annual reporting themes

<table>
<thead>
<tr>
<th>Governance and Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principle 1: Embedding sustainability into corporate governance</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risk Assessment and Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principle 2: Understanding Environmental, Social and Governance Risks</td>
</tr>
<tr>
<td>Principle 6: Adopting green supply chain management</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Investment and Corporate Footprint</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principle 5: Utilising green financial instruments</td>
</tr>
<tr>
<td>Principle 7: Building capacity through collective action</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Engagement and Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principle 3: Disclosing environmental information</td>
</tr>
<tr>
<td>Principle 4: Enhancing communication with stakeholders</td>
</tr>
</tbody>
</table>

Its focus was informed by a review of other reporting frameworks, including the Taskforce on Climate-related Financial Disclosure (TCFD) and the Transition Pathway Initiative (TPI) that use similar themes to structure reporting. To promote consistency and facilitate reporting, the questionnaire was designed to:

- Use indicators that link to, or build on, existing initiatives and disclosure frameworks;
- Encourage signatories to point to existing disclosures, for efficiency and documented examples of performance; and

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A draft questionnaire was initially circulated for comment and updated considering signatories' feedback.
Understand the drivers/challenges signatories encounter with the first round of GIP reporting.

The Annual Report questionnaire uses signatory data relating to activities up to and including the 2019 calendar year. Changes in policies and practices and announcements made in 2020 were noted, but not factored into the evaluation.

4.3 Performance evaluation

Questions under the four reporting themes were grouped under sub-themes and evaluated against thresholds determined for each sub-theme. Drawing on existing reporting frameworks, five levels of performance were identified:

- “Laggards” – Environmental and social (E&S) issues are not recognised or not considered (Level 0)
- “Business as Usual” - E&S issues acknowledged and considered as part of general due diligence (Level 1)
- “Building Capacity” – Corporate structures/decision frameworks updated and starting to use or develop mechanisms and tools to assess/manage risk (Level 2)
- “Leading by Example” - E&S issues start to be integrated into group strategy, with differentiated approach in a number of key areas (Level 3)
- “Best Practice” – Strategic and holistic approach to risks and opportunities across all areas of business activity, targets and quantitative progress reporting (Level 4).

A detailed overview of the performance levels is included Annex IV.

4.4 Future reporting expectations

The 2020 reporting exercise provides a baseline from which to measure year on year progress.

In line with the annual reporting requirement and enforcement clause provided under the GIP Governance Structure and endorsed by the GIP Steering Committee, the Secretariat is also tasked with introducing minimum performance expectations, discussed in Chapter 5.4.

In addition to engaging over expectations, the Secretariat will review and consult with signatories to understand how the questionnaire format, timing and content can be enhanced in future years – e.g., by tailoring questions to other types of institutions (e.g. stock exchanges), aligning with institutions’ usual annual reporting windows, and by setting up an online reporting system.

4.5 Summary Findings

In the 2020 reporting year, 28 signatories made submissions to the Secretariat. The Annual Report evaluates data provided by 23 institutions, or just under two thirds of the signatory base14. The list of institutions who responded is provided in Annex V.

The sections that follow describe the distribution of GIP signatories’ performance on sub-indicators under the four reporting themes. The top-level observations structured around the overarching themes are briefly summarised here.

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14 Submissions from one service provider (Ant Financial Services) and two stock exchanges, Hong Kong Exchanges and Clearing Limited (HKEX) and Astana International Exchange (AIX) were acknowledged but not considered in the baseline, as the nature of their business activities differed too substantially from the main focus areas of the questionnaire. Delayed submissions from The Export-Import Bank of China and Habib Bank of Pakistan could not be analysed in time for consideration in the Annual Report baseline.
The majority of signatories acknowledge E&S issues and related risks in corporate governance and most have developed and published a sustainability strategy. For what are likely to be a number of reasons however, a small minority do not yet address climate change as a source of risk or opportunity and define the roles and responsibilities. If Executive Level/Board consideration, or resource allocations, to E&S issues are limited it is likely to be difficult for such institutions to dedicate resources to building strategic and operational capacity to adopt more sophisticated tools and systems to manage risks, increase disclosures or develop strategies to drive a shift in sustainable capital allocations.

Over half of signatories describe the governance and systems for managing E&S risks, including risk reporting is provided up to investment committee, and areas of operational risk management e.g. monitoring and management of risks beyond financial close. Just over half (57%) align to the Equator Principles or IFC Performance Standards that set expectations around management of project E&S risks. With respect to strategic assessment of financial risks from climate change, just under half (48%) of GIP signatories report undertaking some form of ERA – some as preliminary analysis at a specific sector or asset class level, others are extending scenario analysis or stress testing to multiple sectors, but none have applied ERA at a pan-portfolio level.

All signatories measure the environmental impact of their corporate operations but are less advanced in terms of disclosing portfolio information. Most signatories use international and/or national references or standards for defining green assets (83%) and have a focus on increasing green investments, around 70% have disclosed their balance of green assets but less than half (around 40%) disclosed disaggregated data on green BRI investments. Only a handful of signatories disclose the exposure of their lending portfolio to carbon intensive and polluting assets. However, their experience of piloting emerging measurement tools may be valuable to other institutions for moving in this direction.

To a large extent, performance on disclosure mirrors maturity on the three other reporting areas, with Governance and Strategy disclosures generally the best performing area among
signatories. In contrast, portfolio disclosures remain limited, and there is a lack of consistency in reporting metrics. While 13 institutions are TCFD supporters, only half currently appear to align their reporting to TCFD recommendations. Wider adoption and continued work to better report against the framework is a core recommendation. On engagement, around 70% signatories report having developed stakeholder grievance mechanisms for their investments.

**Governance and strategy**
This reporting area assesses whether and how climate change and sustainability are integrated into corporate governance, the extent to which it informs and is embedded into strategic and operational decision-making processes, from whether signatories acknowledge sustainability as an issue for consideration, to whether sustainability-based performance incentives and exist at a Board level. This relates primarily to Principle 1: Embedding sustainability into corporate governance.

**Overview of performance**
The majority of signatories acknowledge sustainability/climate change presents both risks and opportunities. However, institutions integrate these factors into their corporate governance structure to varying degrees.

A small proportion (8%) of signatories are at the stage of having yet to define the roles and responsibilities of senior management and committees/sub-committees in managing E&S issues. Though almost all institutions at this stage describe the hierarchy of corporate governance, responsibility for E&S issues are not clearly defined as either a standalone Committee or between existing group functions.

![Figure 13 – Performance of Signatories: Governance and Strategy](image)

**Performance on Governance and Strategy**

![Graph showing performance on governance and strategy](image)
Just under a fifth (17%) of signatories are at ‘Business as Usual’ overseeing E&S issues with established reporting procedures. Nearly half (48%) are ‘Leading by Example’, where there is a committee in charge of developing and reviewing policies and guidelines in key sectors and projects that may have higher E&S risks. Around a quarter of signatories are going the extra mile and set out clearly how implementation of sustainability strategy, strategic reviews and management decisions are allocated between business units.

Case study 1: Mainstreaming Environmental and Social Risks into Corporate Governance – Société Générale

Société Générale is one of several signatories demonstrating how sustainability is mainstreamed into the responsibilities of Executives and the bank’s strategy, risk, compensation and compliance functions.

- The Group Risk Committee (CORISQ), chaired by the Chief Executive Officer, reviews environmental challenges;

- The Responsible Commitments Committee (CORESP), chaired by a Deputy Chief Executive Officer, reviews any E&S issue with an impact on the Group’s responsibility or reputation;

- The Group Strategy Committee and the Business and Service Units’ Strategic Management Committees, the Compensation Committee, and the Group Compliance Committee also regularly discuss sustainability issues as part of their respective mandates;

- A Deputy Chief Executive Officer, more particularly responsible for supervising the control functions also supervises sustainability issues;

- The Corporate Secretary supervises in particular the development and consideration of sustainability within Société Générale;

- The Head of CSR, reporting to the Corporate Secretary, is responsible, together with her team, for proposing a dedicated policy within the Group, which reflects discussions with stakeholders, and for monitoring sustainability actions.

Some institutions specified additional initiatives designed to reflect climate and environmental performance in the institution’s incentive structures. Examples identified include linking sustainability performance to Executive remuneration, and introducing a carbon price to incentivise internal competitive dynamics.

On the strategy level, the majority of signatories have developed sustainability strategies, but these differ in level of detail and ambition. The thematic focus of institutions’ corporate strategies is also observed to vary, partly reflecting the client base and markets served. For example, a social lens is particularly strong among some institutions, where poverty alleviation (for example by way of lending to support agricultural mechanisation) is a key focus of their sustainability strategy.

With respect to the lock-in risk of the BRI which the GIP is concerned with, 17% of signatories have not yet made public statements in corporate strategic documents to shift operations or investments to address climate risks explicitly. Around a quarter have developed CSR/sustainability...
strategies that acknowledge climate risks and opportunities in a broad sense, while looking to make changes in response to the evaluation of these risks. Around a fifth (21%) set out qualitative targets and measures to manage climate risks, through strategy and other forms of official documents. A third have set quantitative goals for green financing, such as setting quantified targets on green bond issuances. One institution also puts in place sector-specific transition strategy that marks important milestones from year to year.

Some signatories have described how responsibilities for strategy development, operational analysis and evaluation/audit are allocated and interconnect within the institution. For example:

- Deutsche Bank has a Group-wide Sustainability Council mandated by the Board to drive the integration of sustainability throughout the bank. The Council also reviews and signs off E&S due diligence required for climate-intensive sectors, such as oil and gas, metals, and mining, as well as utilities.

- Standard Chartered’s CEO, Corporate & Institutional Banking, is responsible for Sustainable Finance, which incorporates environmental and social risk management. The Group Head, Corporate Affairs, Brand & Marketing, Conduct, Financial Crime & Compliance leads a cross-business Sustainability Forum to develop and deliver broader sustainability strategy and champions sustainability across the bank.

- ICBC’s strategic committee, audit committee and remuneration committee are in charge of, respectively, supervising green financial strategies, auditing E&S risks, and overseeing the implementation of green financial performance, which is linked to executive remuneration.
Focus area 1: Institutions’ climate change/sustainability strategies

All institutions have published a statement on sustainability in some form.

The environmental and social themes that institutions’ strategies focus on differ among institutions. The majority (79%) identify risks and opportunities associated with climate change. 30% of signatories have set clear metrics and targets to guide and measure performance of green finance over time, but less than fifth have set sector-specific transition policies to manage environmental and climate risks.

In addition to the specificity of climate-related strategies, almost 70% of signatories have mentioned participating in industry initiatives, such as the UK-China TCFD pilots, Principles for Responsible Banking, domestic associations, etc., to build capacity.

Figure 14 - Level of detail in signatory strategies on climate change/sustainability

Most GIP signatories report having incorporated environmental and sustainability considerations into corporate governance and strategy. However, the amount of information on implementation processes, policies and guidance that have been developed varies considerably.

For example, position statements on emission-intensive sectors or sector guidelines for projects due diligence are not present in all CSR reports or strategic documents.

As institutions tailor their approaches to E&S risks and opportunities, the systems to manage sustainability issues evolve and typically see greater involvement of other corporate functions to take accountability for various dimensions of strategy and risk management.

Among more advanced institutions there are still opportunities to incentivise progress. For example, very few institutions are linking Group climate change and financing targets to Senior Executive performance goals and compensation.

Risk assessment and management

The risk assessment and management reporting theme assess how and to what extent signatories are measuring and managing sustainability risks. This includes whether they are using advanced
decision-making tools to develop future strategy and manage exposure to climate risk and the extent to which they are incorporating sustainability standards into their supply chain.

Overview of performance

Figure 15 - Performance of Signatories: Risk Management and Assessment

Performance on Risk Management and Assessment

Signatories’ performance on risk management and supply chain risks is clustered around ‘Building Capacity’ and ‘Leading by Example’. There is a wide gap in performance on advanced risk assessment, relevant to the capacity-building focus of the Working Groups.

Risk management processes
Institutions’ governance structures provide the foundation for E&S risk management.

Consistent with the findings above, a relatively small fraction (13%) of institutions are ‘Laggards’ (Level 0) and do not provide a minimum of information about whether social and environmental issues are factored into risk management. Just under a fifth (17%) are at ‘Business as Usual’ and only go a little further in confirming in simplistic terms that they do integrate environmental and social risks into their risk management policies and processes.

Most signatories are ‘Building Capacity’ or ‘Leading by Example’ on risk management controls. Around a quarter (26%) are at Level 2, integrating risk reporting up to investment committee (at least irregularly), monitoring and management of risks beyond financial close, including use of covenants, and ‘Building Capacity’ in their risk management systems by, for example, referring to global climate tools as part of investment decisions, or investing in technology e.g. AI and big data to help monitor and respond to emerging risks. Several institutions have enhanced their risk management processes around E&S risks. For example, reviewing and updating their credit guidelines.
Currently just under a third (30%) are ‘Leading by Example’ (Level 3), aligning their risk management frameworks to international standards on project finance, systematically outline their risk reporting and management procedures for higher risk investments (typically through policies and sector-specific guidelines), and have or are developing more sophisticated/bespoke tools to assess and manage risk.

**Focus area 2: Adopting and aligning with international project finance standards**

Currently, 57% of members confirm their risk management systems align with the IFC Performance Standards and/or the Equator Principles, in which the IFC Performance Standards are enshrined.

One of the key expectations of the IFC Performance Standards is management of risks throughout the project lifecycle by developing and maintaining an Environmental and Social Management System, and have regard to project impacts on labour and working conditions, human health, socio-economic impacts from land acquisition and community displacement, effects on biodiversity, Indigenous Peoples and cultural heritage.

The IFC standards provide a holistic framework for managing project finance risks, for example Industrial Bank reports having comprehensively reconstructed the environmental and social risk management system and business processes according to the approach enshrined in the Equator Principles.

A number of signatories also indicated that increasing GIP signatory base alignment with the IFC Performance Standards/Equator Principles would improve the comparability of due diligence on project finance, and facilitate sharing of information and management of risks after financial close between BRI lenders.

Less than a fifth (13%) of signatories are operating at current ‘Best Practice’ (Level 4). Here, institutions are using the outcomes of risk analysis to develop sector-level strategies - case study below and further discussed in Chapter 4.5. Performance at this level also considers whether institutions who are collaborating on sophisticated tools and sharing these through industry-led initiatives with other institutions. Intuitively, many of these institutions are also scoring higher on Advanced Risk Assessment, which assesses the extent to which signatories are using more complex climate risk tools, typically as part of ERA and scenario analysis.

**Advanced risk assessment**

The most significant effects of climate change are likely to arise over the medium to long term for many investors. While the timing and magnitude remain uncertain, climate change has the potential to generate direct impacts and act as a risk multiplier, exacerbating existing resource and sustainability challenges such as food scarcity and water stress. This makes it challenging to understand the implications from an investment perspective.

The advanced risk assessment sub-indicator looks at whether institutions are identifying and assessing how various combinations of climate-related risks (transition risk and physical risk) may affect their business and financial performance.

By advanced risk assessment, we refer to the tools and techniques that financial institutions are developing to understand exposure to environmental risks (see Focus area 3). A wide spectrum of performance is observed, as this is an area where data availability and types of specialist knowledge are required.
Just under a third of the signatory base are ‘Laggards’ (Level 0), and are not evaluating how to undertake any form of ERA – the associated challenges are discussed in Focus area 3.

Between a quarter and a fifth of signatories (22%) are operating at ‘Business as Usual’ (Level 1) and not yet undertaking ERA but at the scoping stage of determining how this could be carried out.

Just under half (48%) of GIP signatories do however report undertaking some form of ERA. A small proportion (9%) have undertaken some preliminary analysis and are Building Capacity (Level 2). This is typically in the form of a single pilot study and sample of clients in a specific sector or asset class. Case study 2 and Case study 3 provide examples of emerging practice. Building on pilot approaches, nine signatories (39%) are ‘Leading by Example’ (Level 3) and are extending scenario analysis or stress testing to multiple sectors. Consistent with other evaluations, signatories typically only provide very high-level reporting on the outcomes of scenario analysis.²⁴

Currently no signatories are at Level 4 ‘Best Practice’ and have applied scenario analysis methods across all sectors of their investment portfolios.

²⁴ TCFD 2019 Status report. Taskforce on Climate-Related Financial Disclosures. June 2019
Case study 2: Stress testing studies - analysing the impact of potential policy, climate and price factors – Industrial and Commercial Bank of China (ICBC)

Since 2016, ICBC has carried out studies to stress test the effect of exogenous factors on various sectors, in collaboration with a number of partners (Figure 16). These studies evaluate industry-level effects, not the sector-level effects for a portion of their investment portfolio.

The study into the effect of policy change on the aluminium industry, in collaboration with Trucost, listed below has been published online:

Table 2: Overview of stress tests undertaken by ICBC, PRI 2020

<table>
<thead>
<tr>
<th>Stress factor</th>
<th>Object</th>
<th>Time</th>
<th>Partner</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy</td>
<td>Thermal power industry</td>
<td>March 2016</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Cement industry</td>
<td>March 2016</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Electrolytic aluminum industry</td>
<td>March 2017</td>
<td>Trucost</td>
</tr>
<tr>
<td></td>
<td>Steel industry</td>
<td>September 2017</td>
<td>China Lianhe Equator Environmental Impact Assessment Co., Ltd.</td>
</tr>
<tr>
<td>Climate</td>
<td>Drought</td>
<td>March 2018</td>
<td>Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Risk Management Solutions (RMS)</td>
</tr>
<tr>
<td>Price</td>
<td>Carbon emission trading</td>
<td>May 2019</td>
<td>China Beijing Environment Exchange</td>
</tr>
</tbody>
</table>

Focus area 3: Environmental Risk Analysis (ERA)

Although environmental events (e.g. hazards) have long been factored into risk analysis, traditional approaches and historic experience is considered insufficient to adequately assess the changes in the scale, likelihood and interconnectedness of environmental risks as a result of climate change.

Environmental risk analysis tools that have gained traction over the last few years include ‘stress testing’, rooted in scenario analysis, which aims to support decision-makers in understanding the possible effects of future climate scenarios, at a client/investee, sector or portfolio level.

The spectrum of experience on ERA described above points to opportunities to facilitate peer-to-peer exchange and focus in on some of the challenges institutions face in conducting ERA, as well as the need for ongoing collaboration with other initiatives to improve various aspects of climate-related scenario analysis (e.g. TCFD).

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28 Trucost, 2017 Internalisation of Environmental Costs and Investment Stress Testing: Aluminium Sector in China

The main challenges in undertaking ERA are:

- Specialist knowledge required for credible analysis of manifestation of risk scenarios.
- Knowledge gaps particularly in the interactions within the natural world or in how risks could propagate through sectors (difficulty connecting climate scenarios to business requirements).
- Lack of comprehensive and consistent data and tools to support scenario analysis e.g. on likelihood of risk (e.g. drought), pathways for impact (e.g. ownership rights) and level of resilience/exposure (e.g. water intensity of operations).
- Challenges around how to characterise resilience.
- Under-application of environmental risk analysis in the market, meaning risks may be systematically under-priced forcing a ‘race to the bottom’, with adverse effects to firms’ competitive position in disclosing a greater level of risk exposure than the market expects.

Case study 3: Transition Risk pilot: measuring carbon intensity of clients across sectors - DBS

In 2018, DBS conducted a pilot study on transition risk, representing between 25% and half of the bank’s exposure in five sectors. In 2019, the work was expanded by deepening our transition risk assessment and introducing a limited physical risk assessment for some of our borrowers.

DBS selected 368 listed customers for the study. Collectively, they accounted for about 10% of exposure in the institutional banking group (IBG), as at June 2019. The carbon intensity of each customer was measured using the metric “carbon to revenue”, which is the amount of carbon produced (in metric tonnes) for every SGD 1 million of revenue generated by each customer. This metric provides an indication of the risks a company faces from future regulations to curb carbon emissions.

The results of the pilot study indicated the following for transition risk:

- Certain carbon-intensive customers in DBS’ key markets may be negatively affected by transition risk, especially if the increase in carbon-related costs cannot be passed on to their customers; and
- DBS’ overall exposure to customers in the study most impacted by transition risk is not material to its overall loan book.

Further information is provided in its 2019 sustainability report, and the previous 2018 sustainability report.

Supply chain risk management

While for many financial institutions supply chain risks, in the traditional sense, may not be considered an area of high risk due the nature of their purchasing decisions, institutions’ downstream activities are an area of potential exposure to ESG issues. From a BRI development perspective, it is important that banks have processes in place to screen and request from clients, that produce or construct assets, evidence that they are managing their supply chain properly.

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22 Completed questionnaire submitted to GIP Secretariat by DBS.
Although there are fewer questions under Supply Chain Risk to differentiate performance, signatories are broadly clustered around Level 2 and 3. This reporting area links across to the use of international principles in risk management.

Key performance measures are whether they reflect sustainability targets/policies into supply chain management, e.g. through a procurement code or supplier review forms or carry out more in-depth due diligence to screen and engage with suppliers over sustainability concerns, and disclose quantitative data on this as part of their annual reporting (Level 4).

**Case study 4: Examples of supply chain due diligence processes.**

**Deutsche Bank**

In 2019, Deutsche Bank implemented a new vendor screening process that includes more specific human rights controls on new vendors or to review existing vendors. The process manages ES risks relating to the vendors Deutsche Bank works with globally. A risk-based approach is used, focusing on vendors that provide services often associated with environmental and social risks and in countries with an elevated risk of human rights issues.

If a vendor meets certain criteria for more detailed ES analysis, the vendor will have to fulfill specific environmental and social vendor control requirements (VCRs), explain their approach and provide adequate evidence for their responses. In 2019 only a negligible percentage of vendors were in scope for this specific ES analysis.

**Ping An**

Ping An has formulated a Sustainable Supply Chain Policy and integrated ESG requirements into supply chain management. This focuses on suppliers’ performance on environmental protection and employee rights. ESG requirements are built into existing supplier contracts, including contract articles on anti-bribery, information security and privacy protection, labour rights protection, low-carbon and green technology transformation and development etc.

Ping An has reported on the ESG performance of suppliers in its 2019 disclosure under the UK-China TCFD Pilot (excerpt below).

**Table 3: ESG Performance of Suppliers, disclosed by Ping An**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average score of supplier assessment (100-point scale)</td>
<td>68.8</td>
</tr>
<tr>
<td>Total number of suppliers eliminated in 2019</td>
<td>11.3</td>
</tr>
<tr>
<td>Coverage rate of ESG related trainings for suppliers (%)</td>
<td>3.29</td>
</tr>
</tbody>
</table>

Source: PRI, 2020

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A small number of institutions identified supply chain risks as an area in which they have limited capability and that GIP may be able to support on. This is picked up in Chapter 5.

**Investment and Corporate Footprint**
This reporting theme assesses the extent to which signatories are measuring and managing their exposure to carbon-intensive assets, and actively working to increase market penetration of green financial products. This reporting area relates to Principle 5: Utilising green financial instruments and Principle 7: Building capacity through collective action.

**Overview of performance**

**Performance on Investment and Corporate Footprint**
![Graph showing performance on investment and corporate footprint]

**Data and performance on green investments**
Questions in this sub-section focused on understanding the extent to which institutions are active in green financing, have set a clear vision and targets, and are disclosing information about their green investments.

The reporting shows almost three quarters of signatories (74%) are ‘Building Capacity’ (Level 2) and actively working to develop green products. Most institutions report engaging in developing green financial products, including but not limited to green guarantees, green insurance, sustainable deposits, green funds, green trusts, and green ABN/asset-backed securities.

Combined data from 9 GIP signatories indicates a total green loan balance of $1030 billion and an annual green bond issuance of $78.6 billion globally. Four signatories have also invested 4.6 billion in green bonds. Currently, few signatories put this in the context of their overall balance sheet. For example, UBS discloses that climate-related sustainable
investments increased from $87.5 billion in 2018 to $108 billion in 2019, representing a change of 2.8 to 3% of clients’ invested assets. While the numbers of institutions engaged in developing green financial products is positive, given the critical role banks play in mobilising private capital, far fewer institutions set out a clear roadmap and targets finance the low-carbon transition. **Around 13% of institutions are ‘Leading by Example’ and provide a clear outlook in their climate/sustainability strategy and set quantitative targets for scaling green financing.**

Among signatories who have developed green finance roadmaps or frameworks, many map investment priorities to UN SDGs, and/or reference a focus on scaling green investment activities globally. However, it is unclear the extent to which institutions are actively aligning their investment policies to B&RCs’ climate change commitments (NDCs) and green investment priorities.

Moreover, although almost two thirds (65%) of signatories report having made green investments (e.g., loans or equity investments) or helped mobilise green financing (e.g. as an underwriter) for green projects in 2019, few institutions provided a quantified estimate or breakdown of their BRI green financing activities.

A lack of quantified reporting on BRI financing is likely in part to be due to the scale and numbers of B&RCs, and BRI being an unfamiliar unit against which to aggregate data and report, as well as technical difficulty to aggregate data from overseas branches as some signatories suggested, or among some a reluctance to disclose this information. It may also indicate however competing definitions of what investments can be considered ‘green’. This is a key metric in Vision 2023, and the GIP Secretariat will also need to evaluate the extent to which different green finance definitions/standards can be reconciled for future reporting (Focus area 4).

A similar recommendation (on the need to collect quantitative information) has been made for emerging markets so as to accurately track and monitor the efficiency of green investments25. The development of regional chapters and a Green Project Database are key opportunities to support better BRI green investment data.

**Focus area 4: Defining green investments and measuring benefits**

**Green definitions:** The majority of signatories (83%) refer to published Green Bond standards or definitions in explaining their institution’s view on what are considered ‘green’ assets. Currently just under three quarters of the signatories who use published definitions refer to international standards, although where national guidance has been issued (as in China and Mongolia), this is consistently quoted as the main reference point by those countries’ financial institutions.

As cross ref Figure 18 shows, the most commonly-used green finance definitions and standards are People Bank of China’s Green Bond Endorsed Catalogue (17%), CBI Climate Bond Standard (15%) and International Capital Market Association Principles and Guidelines (14%). Note the chart shows the frequency by which each is reported as being used around 40% signatories use two or more standards or definitions.
The analysis above highlights 8 commonly used reference criteria among GIP signatories for defining and reporting on green assets. The existence of multiple definitions and standards is a commonly acknowledged challenge within the green finance sector. It is an issue that the GIP Secretariat in collaboration with Working Group 2 will need to consider given the development of a baseline to measure progress on green financing, and the development of a Green Project Database.

Consideration will need to be given to the extent to which the same standards across global operations – i.e. both domestic and international investments. While developing a new or blended taxonomy or standard is not desirable, the GIP should give consideration to whether a clear framework exists or can be developed, that allows key differences between standards to be evaluated and disaggregated in quantitative reporting.

**Green benefits:** Currently around 43% institutions measure the environmental benefits of green investments. This is a key requirement of industry principles e.g. Green Bond Principles and Green Loan Principles. Of the institutions who do report, many publish standalone Green Bond reports, although some include this data in their integrated annual reporting.
Case study 5: Reporting green financial products and benefits – Agricultural Bank of China

In late 2015, Agricultural Bank of China issued green bonds at an equivalent of USD1 billion on the London Stock Exchange.

The Bank reported net proceeds from the green financial bonds were fully invested in two categories of green industry projects including clean transportation (subway construction projects) and renewable energy (wind power, photovoltaic and biomass power generation projects).

The estimated environmental benefits from the investment in renewable energy instead of fossil fuel projects were a reduction in carbon dioxide emissions of around 3.1 million tons per year.

Data and performance on carbon-intensive and polluting investments

In addition to understanding where signatories are performing on the issuance of green products and scaling capital allocations to green projects, the Report also considers how institutions are approaching investments and assets in carbon-intensive sectors. This sub-indicator assesses the extent to which signatories are actively managing and shifting their portfolios out of carbon-intensive assets.

Just over a quarter (26%) signatories are classed as ‘Business as Usual’ (Level 1) and do not reference any focus on reducing the proportion of carbon-intensive investments in their portfolio. The GIP Secretariat noted that signatories reporting is influenced by their client base and the types of projects they invest in – e.g. some institutions’ lending activities appear particularly focused on agricultural mechanisation and poverty alleviation and it is not clear the extent to which they are invested in pollution-intensive assets. Nevertheless, this does not prevent signatories from collecting and disclosing data on level of exposure to such assets.

A higher proportion (39%) of signatories are ‘Building Capacity’ (Level 2) and starting to collect data on exposure to carbon-intensive assets. Measurement of carbon exposure underpins management efforts and allows the market to assess risks associated with a rapid low-carbon transition, in which such assets might lose value very quickly, and the extent to which institutions are contributing to climate change.

Currently only around a quarter of institutions reportedly track carbon-intensive assets in the BRI region. This is likely to be partly due to a first reporting year data collection challenge, but also due to the lack of any standards or taxonomies for ‘non-green’ assets. In absence of baseline data for the whole of signatories asset base, the Secretariat should consider adopting current TCFD guidance and include reporting on the energy and utilities sectors (excluding water utilities and independent power and renewable energy production activities) – both in terms of absolute exposure and the percentage of total assets. This would allow the GIP to develop a common baseline, and signatories to benchmark their position relative to peers over time.

26 Agricultural Bank of China, 2019 Annual Report
27 TCFD, 2017 Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures.
**Around 35% signatories are a step further and ‘Leading by Example’ (Level 3), setting out policies to divest from financing new coal projects as part of their commitment to tackling climate change (see Focus area 5). The Secretariat noted several institutions are also restricting lending to coal and other energy-intensive sectors, on the basis of domestic oversupply concerns.**

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**Focus area 5: Financing for fossil-fuel intensive industries and coal projects**

Specific focus in the questionnaire was given to institutions’ policies on investing in coal mining and coal-fired power plants, as an indicator for their wider approach to fossil-fuel financing.

As the most carbon-intensive source of energy generation, coal use will need to decline rapidly to meet global commitments under the Paris Agreement. As such, increased ambition from GIP Signatories on coal divestment is a key intervention proposed under Vision 2023 (Chapter 5).

Currently, just over 40% of signatories have policies to restrict the financing of coal projects. The wording and quantitative commitments among signatories vary, but their approaches can be broadly classified as follows:

- Partial coal exclusion policy: A small number of signatories have a partial exclusion policy, where investment decisions are made on country-specific or performance-based criteria.

- Global coal exclusion policy: Around 40% have a policy that explicitly commits to no financing for new coal mines or coal-fired power plants (CFPP) anywhere in the world.

- Zero exposure target: Only a small proportion of institutions analysed (13%) have published a complete phase-out date by which portfolio exposure to coal financing will be zero. All institutions who have set a zero-exposure target have set out the progressive ‘ratcheting down’ milestones.

Analysis shows that signatories with a coal financing policy have generally revised and increased the scope of the policy over time, in part as a means of managing transition risk. For example, by committing to not refinance or support extensions to existing coal projects and by introducing and gradually tightening lending criteria based on the extent to which clients’ balance sheets were reliant on coal revenues.

Anecdotal feedback from more advanced institutions indicated developing a coal finance policy was time-consuming but that working with other organisations was key to developing a credible roadmap. This indicates strong potential to leverage prior experience within the GIP, from Supporting Institutions and associate organisations, to support other institutions to assess their exposure and transition potential on coal.

Few institutions are currently at Level 4 as they lack a full phase-out target on coal investing, and interim targets to progressively drawdown investment exposure. To achieve Level 4 institutions are also expected to be measuring the emissions intensity of investments in key carbon-intensive sectors – see Case study 6 and have developed a transition strategy, and tracking financing in their investment portfolio.
Case study 6: Approach to measuring emissions intensity in key sectors - Standard Chartered

In late 2018, Standard Chartered began work to measure, manage and ultimately reduce emissions related to client financing, in line with the Paris Agreement.

Emissions measurement efforts have focussed on piloting the 2 Degrees Investing Initiative (2dii) PACTA tool for banks in seven sectors that significantly contribute to global carbon emissions, at different points in the value chain. As part of this analysis, it has been testing the Sustainable Development Scenario (SDS), the Beyond 2 Degree Scenario (B2DS), the Current Policies Scenario (CPS) and New Policies Scenario (NPS).

Figure 18 – Focus of PACTA pilot, dark blue denotes focus of current analysis.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Upstream</th>
<th>Trading</th>
<th>Midstream</th>
<th>Storage</th>
<th>Downstream</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil &amp; Gas</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Power</td>
<td></td>
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<td></td>
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<tr>
<td>Automotive</td>
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<td></td>
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<td></td>
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<tr>
<td>Shipping</td>
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<tr>
<td>Aviation</td>
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<td></td>
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<tr>
<td>Cement</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mining Iron</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Transport</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Production</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>End Users</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

For some sectors, the methodology was also developed to estimate emission intensity at a client-level, key to understanding the financed emissions profile and to set targets.

As at 2019, two sectors were baselined and work is ongoing to develop emissions baselines and targets for the other five sectors. The disclosed baselines for its portfolio in the automotive and cement sectors disclosed in its 2019 TCFD report were:

- Automotive - simple average emissions-intensity of 221.4 g CO2/km, marginally below the global market average of 225.3 gCO2/km (based on all companies in the PACTA database).

- Cement - simple average emissions-intensity of 0.67 t CO2/t cement, below the global market average at 0.70 t CO2/t cement.

Standard Chartered have appointed an academic advisor and have been working towards developing complete scenario analysis capabilities in time for the 2021 Biennial Exploratory Scenario (BES) stress test, noting this may be delayed due to the impacts of COVID-19.

Among the GIP signatory base, BNP Paribas, Société Générale and UBS have also been testing the PACTA tool.

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29 Standard Chartered. 2019 Climate Change / Taskforce on Climate-related Financial Disclosures (TCFD) report
30 The PACTA tool provides a client-level view of emissions intensive industry sectors, namely Automotive, Power Generation, Fossil Fuels Extraction, Shipping, Aviation, Steel and Cement Manufacturing, which can then be compared against specific scenario benchmarks to measure alignment. The tool is still in development.
Environmental impact of corporate operations
Questions relating to corporate footprint sought to assess whether institutions have developed in-house environmental management capabilities.

For many institutions, collection and reporting of data on corporate footprint of their operations is the first step in starting to allocate resources to monitor and manage environmental impacts.

The analytical framework scores signatories according to whether or not they are collecting and disclosing this data, not according to their total footprint or the quantum of annual progress. The data provided shows 91% of signatories are collecting and disclosing information about their corporate footprint, and 83% are taking measures to manage the impact of their operations.

In future reporting periods, the analysis could go further to consider whether signatories are reporting Scope 1,2 and 3 emissions, and whether data is third party audited.

Disclosure and engagement
Environmental information disclosure, particularly climate-related financial disclosure, is expected and increasingly demanded by financial regulators. Information disclosure supports informed policy decision-making and decisions on institutional lending. It enables investors to better understand the materiality of such risks for investment decision-making, and price in risks associated those assets and their operations, and provides a channel by which institutions convey to regulators, shareholders, customers and other stakeholders, how their activities align with the transition to a more sustainable financial system.

Critically, efforts to move towards international consistency on climate and environmental disclosure will strengthen global financial markets and support the alignment of financial flows with the goals of the Paris Agreement.

This reporting area assesses how and the extent to which signatories are communicating information about their climate/sustainability governance and strategy, risk management processes and tools, and green and carbon-intensive assets. It also evaluates how signatories are currently approaching engagement on BRI investments.

Forms of public disclosures analysed by the GIP Secretariat include, but are not limited to, annual reports, non-financial reports, climate and sustainability strategies, codes of practice, green bond impact reports, and information listed directly on institutions’ webpages.
Overview of performance

Figure 19 – Performance of Signatories: Disclosure and Engagement

Performance on Disclosure and Engagement

While all institutions disclose some information about how they manage sustainability issues, reporting varies significantly among institutions – in terms of metrics used, the way information is presented and the level of detail provided.

As anticipated, there is an opposite trend in performance on Governance and Strategy disclosures, most of whom score at L3 and above, versus performance on their investment portfolio, where the majority score at Level 2 or below. This is expected because institutions typically need to have in place a clear Executive mandate on climate/sustainability issues to collect and disclose data on investments.

Drawing on the observation that almost all signatories structure their annual reports around the Global Reporting Initiative (GRI) framework, indicating that signatories perceive benefits in aligning financial reporting with a consistent standard. With the TCFD reporting framework becoming industry standard, and reinforced by increasing numbers of regulators, the GIP supports signatories working towards increasing alignment, consistent with Principle 3.

Governance and Strategy disclosure

All signatories disclose at least basic information that confirms that climate and/or sustainability issues are considered in corporate governance. As outlined in Chapter 4.3, however, they vary considerably in the extent of resources dedicated to these issues, and particularly, how clearly communicate the organisational structures that are in place, and the remit that climate and environmental expertise has in the organisation, so that analysis consistently informs both strategic and operational decision-making processes by the Board and other core Group functions (e.g. risk, corporate strategy, customer engagement etc.)

Some 9% of signatories are ‘Laggards’ (Level 0), and do not indicate any consideration of climate and/or sustainability issues in corporate governance or strategy.

17% of institutions are at ‘Business as Usual’ (Level 1) and confirm in their disclosures that sustainability is incorporated into corporate governance, but do not provide further information...
on the processes by which sustainability and climate issues are managed and reflected in decision-making by business functions. Institutions may have developed a sustainability strategy, internal processes and guidance, but this is not disclosed in their reporting.

Around a fifth (22%) of institutions are at Level 2 ‘Building Capacity’. To reach this performance level, institutions must have a published strategy that explains what issues the institution considers material, and its approach to associated risks and opportunities, noting that institutions may give greater weight to one or the other, and climate/sustainability strategies are typically updated periodically.

Over a third of signatories (35%) are ‘Leading by Example’ (Level 3) and go a step further and disclose detailed information about the policies and processes used to manage environmental and social risks. This typically includes E&S guidelines, position statements and specific guidance for higher risk sectors. At Level 3 the GiP also looks for evidence that institutions’ strategies include commitment to reducing investment to high-carbon and emissions intensive sectors.

At Best Practice (Level 4), currently 17% of signatories, we observe a shift from signatories publicly committing to reduce or ban new coal financing, to setting interim targets and a timeframe for total phaseout.

### Case study 7: Integration and allocation of climate and sustainability responsibilities in corporate governance - Crédit Agricole.

Strategic oversight of climate and environmental issues within Crédit Agricole rests with the Sustainable Development division, which proposes and coordinates the bank’s sustainable development actions with its business lines and support functions and reports up to the Corporate Secretary.

The Committee for the Assessment of Transactions with an Environmental or Social Risk (CERES), chaired by the Head of Compliance, acts as a top-level committee responsible for evaluating and managing environmental and social risks related to Group activities. The remit of the CERES committee includes:

- Issuing recommendations prior to Credit Committee meetings, for all transactions whose environmental or social impact it feels requires close monitoring.
- Validating the ratings of transactions in accordance with the Equator Principles, issuing opinions and recommendations on transactions classified as sensitive in respect of environmental and social aspects.
- Approving CSR sector policies prior to their validation by the Strategies and Portfolios Committee.

The CERES committee met seven times in 2019 to discuss issues including the review of transactions signed-off during the year, the approval of ratings according to the Equator Principles, the monitoring of sensitive transactions, and implementation of a vigilance plan.

Specifically reviewed 46 transactions before they were sent to the Credit Committee, given their importance and the sensitivity of the potential environmental or social impacts identified. Its recommendations led in 13 instances to imposing special environmental and social risk management conditions.

In addition to the above, a Scientific Committee made up of the Group experts, with the support of academic partners, is in charge of conducting high-level scientific analysis, supported by an information management system that monitors group data, to direct strategic decisions.
Risk management disclosure

Disclosure on risk management processes and tools is spread rather evenly among ‘Laggards’ (26%), signatories who are ‘Building Capacity’ (17%), those that are ‘Leading by Example’ (35%), and at current ‘Best Practice’ (22%).

Many signatories mentioned that the Equator Principles and the IFC performance standards contribute to the framework of their Environmental and Social Management System. In other areas however, there is not enough granular detail about the tools used to manage E&S risks. Some institutions disclose snapshots of tools used to assess climate risk but this is not widespread.

Disclosure on supply chain risk management and sustainability targets is not yet a common practice among signatories (24%). However, signatories have mentioned considerations of certain sustainability factors in the client evaluation and supplier review process, where unsatisfactory environmental performance of suppliers may lead to their exclusion in the bidding process.

Analysis of risk management disclosures indicates generally that management structures, processes and tools tend to evolve over time, as signatories build capacity and develop more sophisticated governance structures, detailed strategies and internal implementation guidance, matched to their risk appetite.

Investment footprint disclosure

Signatories are generally at a less advanced stage in disclosing their investment footprint, with just under half (48%) of signatories at Level 2 ‘Building Capacity’ of the performance framework. The framework essentially looks at whether institutions are providing granular data that evidences a portfolio transition towards climate alignment.

A specific focus for the GIP is whether institutions are making green investments in BRI regions. Around 40% or 9 out of 23 institutions submitted a regional breakdown of green investment activity. This may be due to capacity and/or confidentiality concerns, or as discussed earlier that in global institutions, governance is divided across different regional and business-based reporting lines, and it was too difficult to collect and verify the data in the time available.

Green assets are slightly more often disclosed than brown assets, likely related to the fact that this avoids any potential reputational risks. It is also likely due to the lack of industry standard definitions for ‘brown’ assets, whereas there are several definitions and standards for green assets. This is demonstrated in Focus area 6. To enable to track progress on Vision 2023, encouraging more signatories to improve and standardise portfolio reporting with TCFD recommendations will be key.
Focus area 6: Tracking and reporting exposure to carbon-intensive sectors

Currently, institutions do not report their exposure to carbon-intensive sectors according to consistent metrics. Examples from Société Générale, UBS and Industrial Bank were selected for illustrative purposes.

Société Générale’s 2019 TCFD report identifies the sectors in which it has the highest exposure to transition risk, and has started to provide year-on-year reporting on the percentage composition of its energy portfolio, by type:

Table 4: Electricity mix financed by Societe Generale

<table>
<thead>
<tr>
<th>Scope</th>
<th>Unit</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>Midi-2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal</td>
<td>Corporate credit portfolio</td>
<td>%</td>
<td>-</td>
<td>-</td>
<td>20.4</td>
</tr>
<tr>
<td>Oil</td>
<td>Corporate credit portfolio</td>
<td>%</td>
<td>-</td>
<td>-</td>
<td>1.5</td>
</tr>
<tr>
<td>Gas</td>
<td>Corporate credit portfolio</td>
<td>%</td>
<td>-</td>
<td>-</td>
<td>31.4</td>
</tr>
<tr>
<td>Nuclear</td>
<td>Corporate credit portfolio</td>
<td>%</td>
<td>-</td>
<td>-</td>
<td>5.3</td>
</tr>
<tr>
<td>Hydro</td>
<td>Corporate credit portfolio</td>
<td>%</td>
<td>-</td>
<td>-</td>
<td>6.0</td>
</tr>
<tr>
<td>Renewables</td>
<td>Corporate credit portfolio</td>
<td>%</td>
<td>-</td>
<td>-</td>
<td>35.3</td>
</tr>
</tbody>
</table>

UBS’s Sustainability Report records exposure to carbon-related assets on banking balance sheet at 0.8% or USD 1.9 billion as of 31 December 2019, down from 1.6% at the end of 2018 and 2.8% at the end of 2017.

Industrial Bank reports quantitatively its loan balance and proportion of corporate loans within sectors characterised by ‘high pollution and energy consumption, and industries with overcapacity’ as specified by the China Banking Regulatory Committee (see snapshot to the right).

Although the questionnaire did not ask how institutions are approaching engagement with clients over the climate transition, a number of signatories do disclose how they are starting to engage in these discussions (Case Studies 8 and 9 below).

Case study 8: Engaging with clients on transition risk – HSBC

HSBC state that engagement with investee companies and other issuers is an important element in ESG integration and stewardship. Engagement with with investee companies and other issuers is to understand them better, to monitor clients’ investment, and to encourage them to be pro-active and transparent in the management of ESG and other risks. (P1, HSBC Global Asset Management Engagement Policy)

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32 UBS, 2019 Sustainability Report 2019
33 Industrial Bank Annual Sustainability Report 2019
34 These industries are classified according to the ‘Notice on Adoption of Key Evaluation Indicators for Green Credit’ of the China Banking Regulatory Committee (CBRC) and include chemical manufacturing, coking, steel, cement, amongst others.
35 Questionnaire response submitted to GIP Secretariat.
In 2019, to better understand how HSBC’s clients are managing transition risk, it held more than 3,000 engagements with customers through meetings or phone calls, across all sectors, to discuss their approach to climate change. A questionnaire was also developed to improve their understanding of customers’ climate transition strategies.

HSBC received responses from over 750 customers within the six higher risk transition sectors, which represented 34% of its exposure. HSBC are using this information to inform decision making and strategy. For instance, this information is helping to understand which customers need to adapt, their readiness to change and identify potential business opportunities to support the transition. This information is also being used to supplement the management of transition risk in credit risk management processes.

Case study 9: Engagement on coal divestment and the energy transition – BNP Paribas

In 2019, BNP Paribas strengthened its existing policy to no longer finance any projects in the thermal coal sector. To work towards its zero coal exposure goals, it has increased engagement with corporate clients and specified it will not do business with new clients who derive more than 25% revenues from coal, and will terminate relations with any companies developing new coal-based electricity generation capacities.

As a result of making this commitment, BNP Paribas has excluded 124 corporations in the coal mining and coal-based power generation sectors, including power generation companies in Poland, whose power mix is highly dependent on coal and following a two-year commitment, had no intention of changing their strategy. Starting in 2020, the implementation of this policy is expected to quickly lead to a reduction of around half of the number of BNP Paribas corporate customers.

The Group’s global finance policy that applies to the exploration, manufacture and transport of unconventional hydrocarbons has also led to discontinuation of funding of a number of energy corporations in the United States, generating income losses of around €100 million.

In addition, the GHG emissions criteria have been tightened in its sectoral policies as well as specific credit policies. Under the Group’s sector-level policies, 418 companies were placed on blacklist or watchlist in 2019.

Engagement disclosure

Questions related to this topic focused on the extent to which signatories engage with stakeholders, including affected communities, as part of their Belt & Road project transactions and share due diligence information with peer lenders. Just over a third of signatories score at Level 0 or 1, indicating very limited external engagement on climate and environmental risk. Around 30% are at Level 2 ‘Building Capacity’, and a slightly higher proportion (35%) are at Level 3 ‘Leading by Example’, demonstrating better-developed processes for undertaking and utilising key information from engaging with stakeholders to manage risk and inform corporate strategy. Sharing due diligence information with peer lenders is not a common practice, partially due to confidentiality concerns.

35 BNP Paribas, 2019 TCFD Report
Focus area 7: Approach to engagement on BRI investments

Given the regional focus of the GIP, specific questions on how institutions are undertaking engagement and appropriate due diligence with stakeholders were asked of signatories:

- Just under three quarters of signatories have set up feedback mechanisms, such as grievance mechanisms, to enhance the communication with local stakeholders.
- Just over half (57%) require covenants in financial documentation linked to minimum E&S standards for infrastructure projects.
- Just over 40% of signatories have an engagement policy on BRI investments.

Variability in performance on disclosure metrics suggests that the adoption of an integrated reporting framework, such as TCFD, could be a key opportunity to enhance performance.

Around half of signatories are supporters of the Taskforce on Climate-Related Financial Disclosures (TCFD) but only half of this number appear to be publishing dedicated TCFD reports or explicitly aligning to TCFD in their reporting. Supporters should be encouraged to align their reporting, and non-supporters evaluate their capacity to start to disclose against the framework.
The Road Ahead: A strategy to accelerate green financing across the Belt and Road

Although 2020 is the first year for the annual reporting of the GIP, it has been clear from the outset that signatories are at different stages of implementation and on the pathway to the transition towards a more sustainable financial system.

The aim of the 2020 reporting exercise was therefore to generate a baseline, evaluate implementation (both individual and overall GIP performance) and inform a strategy that focuses efforts to raise levels of performance and scale impact.

5.1 Steps to change

The consistent implementation gap among both signatories and BR&Cs on the resources, policies and measures to assess and manage climate risk, track and report data and develop green financial instruments is slowing capital allocations to green projects.

The GIP needs to link immediate capacity development activities to a wider strategy to scale green investment along the BRI. As introduced in Chapter 2.1, to accelerate progress on implementation and address the lock-in risk of the BRI, the GIP Secretariat is introducing a five-part steps to change.

Supply-side: closing the implementation gap

This 2020 Annual Report identifies important differences among signatories on:

- Use of environmental risk analysis methodology such as the climate scenarios to evaluate risk exposure and inform portfolio strategy;
- Strategic review of financing and developing a differentiated approach to carbon-intensive projects and sectors;
- Guarantees, as financiers, that projects adopt best practice of social and environmental performance standards;
- Alignment of green finance aspirations to BR&Cs’ investment needs, and setting quantitative financing targets;
- Integrated disclosures on corporate strategy, risk management measures and investment outcomes to be able to point to progress and enable markets to price in risk.

Key interventions to catalyse and support signatories’ progress are summarised by reporting theme:

1. Governance & strategy on climate and sustainability are not fully incorporated into business lines

While all signatories acknowledge sustainability as an investment issue, the risks and opportunities from climate change is not consistently reflected in all signatories’ sustainability strategies. This indicates limited integration of climate risks into corporate governance reviews, meaning it is likely that the physical and transition risks associated with climate change do not inform lending policies.

GIP interventions:

- Guidance on governance structure models already adopted by GIP members that support deeper integration into business lines and weight to E&S issues in the institution’s strategic and operational decision-making processes, that enable them to progress risk, portfolio investing and disclosure recommendations.
2. Varying capacity and alignment in risk assessment and management

A significant number of institutions do not yet disclose the substantive components of their risk framework – policies, processes or templates – making it difficult to gauge their risk appetite and management framework.

There is also a performance gap among institutions in their level of familiarity and application of advanced risk assessment (e.g. ERA), including scenario analysis and stress testing. Certain institutions do not have in-house tools and capabilities to conduct ERA, or the data is too sparse for such analysis.

Over half of institutions do not yet align risk management systems to the IFC Performance Standards and/or the Equator Principles for social and environmental risks mitigation across the project lifecycle. It is also notable that around a quarter signatories do not have feedback mechanisms for stakeholders (e.g. grievance mechanisms).

GIP interventions:

- Providing information on, or access to, tools to undertake project-level environmental and climate risk assessment for investments.
- Guidance on investing in strategic analytical capability – data and expertise – for conducting environmental risk assessment, so that GIP’s Fi members quantify financial risks arising from exposure to polluting and carbon-intensive assets.
- Setting expectations that GIP members will align to the Equator Principles or IFC Performance Standards, consistent with Principle 3, and clarify the project risk appraisal and management approaches that existing member report having benefited from.

3. Transition pathways remain nascent, green investment targets are patchy

Quantitative targets or interim metrics on reducing brown investments/increasing green ones are generally not in place, let alone phase-out goals.

Many of the institutions are still at the qualitative phase that claim to limit the addition of new loans or investments to carbon-intensive sectors, but not assessing transition pathways of existing assets.

Few institutions disclose data on green finance flows by BRI region. This significantly limits the extent to which the GIP can baseline and track performance on green investment along the BRI, one of the overarching ambitions of the GIP.

GIP interventions:

- Setting expectations that GIP members will measure and increase green investments along the Belt & Road. Firms could do this in line with their existing measurement and reporting activities.
- Building to contribute best practice to a handbook of how to develop, structure and deploy green financial instruments – including blended financing solutions – for projects.
4. Lack of granularity and comparability in disclosures

Almost all institutions align to the Global Reporting Initiative (GRI) framework for corporate reporting, indicating benefits to providing information in a consistent form for investors. However, the format and level of detail in their sustainability/CSR reports on environmental governance, risk management and investment activity differ widely between institutions.

- Setting expectations that GIP members will enhance the quality, detail and consistency of environmental and climate information disclosure by aligning to a common environmental and climate disclosure framework (TCFD).

5.2 Performance Expectations: 2020-2021

While the GIP are voluntary for financial institutions to sign up to, implementation and reporting is a mandatory requirement of membership. In April the GIP Steering Committee gave its endorsement to set expectations for all members to make continual progress.

The Secretariat acknowledges differences in capacity and institutional background and therefore proposed a set of differentiated performance expectations. It will engage and support signatories on the expectations in the following ways:

- Communicate with all signatories on Vision 2023 of the GIP, highlighting the expectations on all members on green investment growth, risk management and disclosure, and on annual reporting and participation as contained in the GIP’s Governance structure.
- Share with individual signatories their performance on implementation, in a manner similar to that provided by other institutions such as Principles for Responsible Investing, on a confidential basis, to help each signatory assess how it performs relative to its peer group, and the whole GIP membership.
- Encourage each signatory to set specific targets, having regard to Vision 2023, on how they will move up along the performance curve and foster engagement with the Secretariat and WGs on actions they need to take.
- Support signatories to connect or consult with professional third-party service-providers, including GIP Supporters (many of whom advise financial and non-financial institutions on climate and sustainability strategy, management systems etc.), should they wish to do so.

Demand-side: unlocking green investment through regional chapters

As the concept of and need for green and sustainable development has spread along the Belt & Road, demand for the knowledge and capacity to increase green investments, and develop local green financial systems, is on the rise as well. Local financial institutions are increasingly aware of the climate and environmental risks on their balance sheet through international and regional platforms like the NGFS, the G20 and many others, while project owners and communities...
are aware that cleaner energy and greener infrastructure can really help reduce pollution without significantly increasing costs. The GIP shall go to those places much deeper and reach out to them via local resources, and therefore need to create regional chapters.

Regional chapters provide an opportunity for the GIP to support mobilisation of global capital at scale, and create an enabling environment to attract green investment. Regional Chapters would facilitate understanding, alignment of interests, investment discussions between public and private finance to support regional decarbonisation efforts.

For investors, this could offer a ground-up understanding of infrastructure needs and local context. It would promote engagement with existing finance-focused policy and initiatives, as well as global efforts that may have a regional/country focus, to scale effectiveness.

For emerging economies, this would help support the development of green investment foundations, and investment that applies the international standards for sustainable growth promoted by the GIP community (including, but not limited to, the Equator Principles, IFC Performance Standards, OECD common approaches).

Each regional chapter would seek to:

- **Engage** with local stakeholders for infrastructure investments, including public and private sector players, as well as local civil societies;
- **Accelerate** the maturation of local policy frameworks (climate risk and planning);
- **Develop** regional finance roadmaps to align private investors and catalytic public capital behind preparation and procurement of green projects;
- **Disseminate** tools and methodologies for climate and environmental risk analysis and management by the GIP working groups, and best practices in implementation and green investments; and
- **Cultivate** regional networks to build capacity among local financial institutions and project developers, amplifying the reach and impact of GIP-championed approaches.

Regional chapters would also act as local access points to connect into mainstream global sustainability initiatives (CA100+, IIGCC, NGFS, IRENA).
Vision 2023: A roadmap for the next three years

The steps to change sets out the supply-side and demand-side interventions that can, combined, bring about transformative change in green investment.

The steps to change narrative is made specific by a three-year plan that uses the baseline reporting data to set Key Performance Indicators for tracking overall membership progress: Vision 2023. Designed to align with the Global Stocktake of the Paris Agreement, Vision 2023 specifies the target outcomes, and the year-on-year progress expected across the GIP.

Table 5 – Vision 2023: Key Performance Indicators

<table>
<thead>
<tr>
<th>Intervention</th>
<th>Target outcome</th>
<th>Measures</th>
<th>’19</th>
<th>’20</th>
<th>’21</th>
<th>’22</th>
<th>’23</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Assess: Support signatories to evaluate exposure to climate and environmental risk along the B&amp;R.</td>
<td>The GIP adopts leading tools and methodologies to measure and manage climate risk.</td>
<td>Signatories with appropriate governance and oversight of environmental and climate risk. Percentage of signatories undertaking ERA. Number/share of signatories developing policies on coal/fossil fuel divestment and increasing ambition of existing commitments towards total phase-out.</td>
<td>48%</td>
<td>60%</td>
<td>70%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>2. Disclose: Provide common disclosure standard for GIP members and work for greater disclosure among its members.</td>
<td>The GIP aligns with emerging global standard for Climate and Environmental reporting.</td>
<td>Percentage of signatories having made their first environmental risk disclosure, aligned to TCFD. Percentage of signatories quantifying and disclosing their exposure to carbon intensive sectors.</td>
<td>34%</td>
<td>50%</td>
<td>60%</td>
<td>80%</td>
<td>100%</td>
</tr>
<tr>
<td>3. Commit: Create momentum within signatories to set green investment targets and phase out fossil fuel investment along the BRI, while embedding responsible project financing practices.</td>
<td>The GIP demonstrates portfolio shift - increased green financing, and reduced exposure to emissions-intensive sectors.</td>
<td>Number of signatories aligning BRI transactions with IFC Performance Standards/Equator Principles. Number/share of signatories with quantitative green investment targets.</td>
<td>65%</td>
<td>70%</td>
<td>80%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>4. Invest: Through a series of &quot;regional chapters&quot; create demand for green investment, collect better regional data and create a pipeline of green investment projects.</td>
<td>The GIP supports better connectivity between financial institutions and investment needs in emerging markets, and supports development of regional/national green financing policies and frameworks.</td>
<td>Number of Regional Chapters rolled out. Number of green transactions supported by Regional Chapters. Year on year increase in green investments along the Belt and Road by GIP signatories.</td>
<td>-</td>
<td>0°°</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>-</td>
<td>N/A</td>
<td>Baseline developed</td>
<td>-</td>
<td>-</td>
<td>5</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>5. Grow: Continue to expand the GIP’s reach.</td>
<td>The GIP includes all of the major BRI financing institutions. The membership reflects the geographic reach of the BRI in emerging markets.</td>
<td>Number of institutions signed up to the GIP. Number of countries represented by GIP signatories.</td>
<td>37</td>
<td>40</td>
<td>50</td>
<td>60</td>
<td>70</td>
</tr>
</tbody>
</table>

°° At Level 3 or above.
°°° Development in progress.
6.1 Business Plan Priorities: 2020-21

To support the Vision 2023 targets, and signatories work towards performance expectations, the Working Groups are in the process of developing new Business Plans for 2020-21.

Current Working Group proposals are mapped below against the Steps to change interventions:

<table>
<thead>
<tr>
<th>Interventions</th>
<th>Measures of Success</th>
<th>2020/21 Business Plan Proposal</th>
<th>Lead</th>
</tr>
</thead>
</table>
| “Assess”: support signatories to evaluate exposure to climate and environmental risk along the B&R, while embedding responsible project risk management practices. | Signatories with appropriate governance and oversight of environment and climate risk<sup>46</sup>  
Number of signatories aligning to the global mainstream standards.  
Percentage of signatories undertaking ERA | Drafting a set of best practices for risk identification, assessment, mitigation, and monitoring, aligning with global mainstream standards.  
Promote adoption of global mainstream standards through transaction case studies and webinars on use in planning and after financial close.  
Development of the Climate and Environment Risk Assessment Toolbox (CERAT), including launch of the carbon calculator. Invite signatories to share the most useful tools used to include in the Toolbox.  
Encourage GIP members to share approaches to measuring climate risk, in particular the enabling/priority systems and resources that needed to be put in place to undertake and extend application of ERA. | Secretariat  
WG1  
WG1  
WG1 |
| “Disclose”: Support alignment with common disclosure standard and work towards greater disclosure among members. | Number/share of GIP signatories registered as supporters to and working towards alignment with TCFD reporting. | Support GIP members to select and disclose environmental and climate-related information, in alignment with the TCFD reporting framework. | WG2 |
| “Commit”: create momentum within signatories to set green investment targets and phase out fossil fuel investment along the B&R. | Number/share of signatories with quantitative green investment targets  
Number/share of signatories developing policies on coal/fossil fuel divestment and increasing ambition of existing commitments towards total phase-out. | Mobilise more private capital into green projects along the B&R by developing and sharing Green Transaction Case Book<sup>47</sup>.  
Encourage GIP members to share best practice energy policies & stranded asset risk projections. Assess the viability of a coal retirement mechanism. | WG3  
Secretariat |
| “Invest”: through a series of regional chapters, build demand for green investment, collect better regional data and create a pipeline of green investment projects | Number of Regional Chapters rolled out.  
Number of green transactions supported by Regional Chapters  
Year on year increase in green investments along the B&R by GIP signatories | Achieve further progress on blended finance facility, such as the possibility of creating a green guarantee fund.  
Build capacity for signatories and supporters in green financial products innovation through continued webinar, training, and knowledge sharing.  
Launch Green Project Database | WG3  
Secretariat  
WG3 |
| “Grow”: continue to expand the GIP’s reach along the B&R. | Number of FIs signed up to the GIP.  
Number of countries represented by GIP signatories | Engage with potential members through one-on-one meetings, international events and related green/sustainable finance networks.  
Cover more countries and regions through the regional chapters, especially those in South East Asia and Africa. | Secretariat  
Secretariat |

<sup>46</sup> At Level 3 or above.

<sup>47</sup> The Green Project Database would support financiers and project developers on current or emerging BRI projects. The Casebook would collect good practices from GIP members on their green investments and analysis of financial and environmental performance of these projects.
6.2 Next steps
Continued progress on implementation of the GIP towards Vision 2023 will require commitment and collective actions to accelerate progress.

The Secretariat will continue to support the Working Groups, including greater collaboration between Working Groups, particularly in light of the interdependencies between reporting areas.

As the WGs are signatory-led, those institutions who have not yet made meaningful contributions are encouraged approach the Secretariat on how they could participate. This could include, for example submitting green transaction cases to development of casebook, contributing experience of applying risk assessment tools, developing exclusion or screening criteria for high-risk sectors, or engagement approaches for clients in carbon-intensive sectors.

The Secretariat also encourages all signatories to share BRI project transactions, as part of development of Green Project Database. Over the coming months the Secretariat will be dedicating resources to the roll-out of regional chapters, will share more information as these plans develop.
Annex I - GIP Principles

Principle 1: Embedding sustainability into corporate governance
We will embed sustainability into our corporate strategy and organisational culture. Our boards and senior management will exercise oversight of sustainability-related risks and opportunities, set up robust systems, designate competent personnel, and maintain acute awareness of potential impacts of our investments and operations on climate, environment and society in the B&R region.

Principle 2: Understanding Environmental, Social and Governance Risks
We will strive to better understand the environmental laws, regulations, and standards of the business sectors in which we operate as well as the cultural and social norms of our host countries. We will incorporate environmental, social and governance (ESG) risk factors into our decision-making processes, conduct in-depth environmental and social due diligence, and develop risk mitigation and management plans, with the help of independent third-party service providers, when appropriate.

Principle 3: Disclosing environmental information
We will conduct analysis of the environmental impact of our investments and operations, which should cover energy consumption, greenhouse gas (GHG) emissions, pollutants discharge, water use and deforestation, and explore ways to conduct environmental stress test of investment decisions. We will continually improve our environmental/ climate information disclosure and do our best to practice the recommendations of the Task Force on Climate-related Financial Disclosure.

Principle 4: Enhancing communication with stakeholders
We will institute stakeholder information sharing mechanism to improve communication with stakeholders, such as government departments, environmental protection organisations, the media, affected communities and civil society organisations, and set up conflict resolution mechanism to resolve disputes with communities, suppliers and clients in a timely and appropriate manner.

Principle 5: Utilising green financial instruments
We will more actively utilise green financial instruments, such as green bonds, green asset backed securities (ABS), YieldCo, emission rights-based financing, and green investment funds, in financing green projects. We will also actively explore the utilisation of green insurance, such as environmental liability insurance and catastrophe insurance, to mitigate environmental risks in our operations.

Principle 6: Adopting green supply chain management
We will integrate ESG factors into supply chain management and utilise international best practices such as life cycle accounting on GHG emissions and water use, supplier whitelists, performance indices, information disclosure and data sharing, in our investment, procurement and operations.

Principle 7: Building capacity through collective action
We will allocate funds and designate personnel to proactively work with multilateral organisations, research institutions, and think tanks to develop our organisational capacity in policy implementation, system design, instruments development and other areas covered in these principles.
# Annex II - GIP Members

As of end August 2020, the GIP membership comprises 37 signatory institutions and 12 supporting institutions from 14 countries and regions.

## Signatory Institutions

<table>
<thead>
<tr>
<th>Agricultural Bank of China</th>
<th>Agricultural Development Bank of China</th>
<th>Al Hilal Bank</th>
<th>Ant Financial Services Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>中国农业银行</td>
<td>中国农业发展银行</td>
<td>阿尔希拉尔银行</td>
<td>阿里金融服务集团</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>阿斯塔纳国际交易所</td>
<td>非洲银行</td>
<td>盘谷银行</td>
<td>中国银行</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank of East Asia</td>
<td>BNP Paribas</td>
<td>China Construction Bank</td>
<td>China Development Bank</td>
</tr>
<tr>
<td>东亚银行</td>
<td>法国巴黎银行</td>
<td>中国建设银行</td>
<td>国家开发银行</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China International Capital Corporation (CICC)</td>
<td>China International Contractors Association (CHINCA)</td>
<td>China Merchants Port</td>
<td>Commerzbank AG</td>
</tr>
<tr>
<td>中国国际金融股份有限公司</td>
<td>中国对外承包工程商会</td>
<td>招商局港口集团股份有限公司</td>
<td>德国商业银行</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Agricole-CIB (CACIB)</td>
<td>DBS Bank</td>
<td>Deutsche Bank</td>
<td>Export-Import Bank of China</td>
</tr>
<tr>
<td>法国东方汇理银行</td>
<td>新加坡星展银行</td>
<td>德意志银行</td>
<td>中国进出口银行</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>First Abu Dhabi Bank (FAB)</td>
<td>Habib Bank (HBL)</td>
<td>Hong Kong and Shanghai Banking Corporation Limited (HSBC)</td>
<td>Hong Kong Exchanges and Clearing Limited (HKEX)</td>
</tr>
<tr>
<td>阿联酋阿布扎比第一银行</td>
<td>巴基斯坦哈比银行</td>
<td>香港上海汇丰银行有限公司</td>
<td>香港交易所及结算所有限公司</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial and Commercial Bank of China (ICBC)</td>
<td>Industrial Bank</td>
<td>Khan Bank</td>
<td>Luxemburg Stock Exchange</td>
</tr>
<tr>
<td>中国工商银行</td>
<td>兴业银行</td>
<td>蒙古国可汗银行</td>
<td>卢森堡证券交易所</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Supporting Institutions

<table>
<thead>
<tr>
<th>APEC Network on Green Supply Chain Tianjin Pilot Center</th>
<th>Beijing Green Exchange</th>
<th>Carbon Trust</th>
<th>CDP Worldwide</th>
</tr>
</thead>
<tbody>
<tr>
<td>青年经济组织绿色供应链天津示范中心</td>
<td>北京绿色交易所</td>
<td>碳信托</td>
<td>CDP世界范围</td>
</tr>
<tr>
<td>Climate Bonds Initiative</td>
<td>Deloitte</td>
<td>Ernst &amp; Young</td>
<td>Fasset</td>
</tr>
<tr>
<td>气候债券倡议</td>
<td>德勤</td>
<td>安永</td>
<td>Fasset</td>
</tr>
<tr>
<td>KPMG</td>
<td>PwC</td>
<td>Refinitiv</td>
<td>Starquest Capital</td>
</tr>
<tr>
<td>毕马威</td>
<td>普华永道</td>
<td>路孚特</td>
<td>星界资本</td>
</tr>
</tbody>
</table>
Annex III – GIP Steering Committee Members

- Dr. MA Jun, Chairman, Chairman, China Green Finance Committee
- Sir Roger Gifford, Chair, UK Green Finance Institute
- ZHU Jun, Director General, People’s Bank of China (PBOC)
- Robert Ward, Deputy Director, Global Financial Markets, UK Treasury
- ZHANG Weiwu, Head, Belt and Road Bankers’ Roundtable (BRBR)
- Fiona Reynolds, CEO, Principles for Responsible Investment (PRI)
- Dominic Waughray, Senior Director and Head of Environmental initiatives, World Economic Forum (WEF)
- Randall Riopelle, Country Manager for China, Korea and Mongolia, International Finance Corporation (IFC)
- Deborah Lehr, Vice Chairman and Executive Director, Paulson Institute

Annex IV - GIP Working Groups

At the first GIP plenary meeting held in August 2019, it was decided that three working groups would be established to lead the work on development of relevant tools and methodologies for enhancing environmental risks analysis, environmental information disclosure as well as sharing best practice to scale up green investments. Details of these working groups are as follows:

<table>
<thead>
<tr>
<th>WG</th>
<th>Co-Chairs</th>
<th>Secretary</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Environmental and Climate Risk Assessment</td>
<td>Industrial and Commercial Bank of China (ICBC)</td>
<td>PwC</td>
</tr>
<tr>
<td>II. Environmental and Climate Information Disclosure</td>
<td>Credit Agricole - CIB</td>
<td>Industrial Bank</td>
</tr>
<tr>
<td>III. Green Financial Product Innovation</td>
<td>Standard Chartered</td>
<td>Bank of China</td>
</tr>
</tbody>
</table>
Annex V – Submissions to 2020 Reporting

The GIP Governance Structure sets a mandatory requirement that all GIP signatories report annually to the Secretariat on their progress and performance against the principles.

At the time of publication, 28 signatories had responded to the 2020 reporting request, and the Annual Report baseline ultimately reflects data from 23 signatories. Institutions who responded are listed in alphabetic order (those in bold form part of the 2020 baseline):

Agricultural Bank of China
Agricultural Development Bank of China
Ant Financial Services Group
Astana International Exchange (AIX)
Bank of China
Bank of East Asia
Bank of Africa - BMCE Group
BNP Paribas
China Construction Bank
China International Capital Corporation (CICC)
China Merchants Port
Commerzbank AG
Credit Agricole-CIB (CACIB)
DBS Bank
Deutsche Bank
Export-Import Bank of China
Habib Bank of Pakistan
Hong Kong and Shanghai Banking Corporation Limited (HSBC)
Hong Kong Exchanges and Clearing Limited (HKEX)
Industrial and Commercial Bank of China (ICBC)
Industrial Bank
Khan Bank
Ping An
Silk Road Fund
Société Générale
Standard Chartered Bank
Trade & Development Bank of Mongolia (TDB)
UBS Group AG

42 Responses from stock exchanges and project developers were not included as their business activities varied from the focus areas of the Annual Report. Late responses from two signatories could not be evaluated in time for publication of the 2020 report.
Annex VI – Analytical Framework

The GIP reporting questionnaire was informed by existing frameworks that are increasingly acknowledged as the industry standard. Principles enshrined in the TCFD framework, and supplementary banking guidance (below) were reflected in the analytical framework.


<table>
<thead>
<tr>
<th>Governance</th>
<th>Strategy</th>
<th>Risk Management</th>
<th>Metrics and Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disclose the organisation’s governance around climate-related risks and opportunities.</td>
<td>Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning where such information is material.</td>
<td>Disclose how the organisation identifies, assesses and manages climate-related risks.</td>
<td>Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.</td>
</tr>
</tbody>
</table>
| **Recommended Disclosures:**  
1. Describe management’s role in assessing and managing climate-related risks and opportunities.  
2. Describe the board’s oversight of climate-related risks and opportunities. | **Recommended Disclosures:**  
3. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long terms.  
4. Describe the impact of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning.  
5. Describe the resilience of the organisation’s strategy, taking into consideration different climate-related scenarios, including a 2C or lower scenario. | **Recommended Disclosures:**  
6. Describe organisation’s processes for identifying and assessing climate-related risks  
7. Describe organisation’s processes for managing climate-related risks.  
8. Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation’s overall risk management. | **Recommended Disclosures:**  
9. Describe Scope 1, Scope 2, and, if appropriate Scope 3 greenhouse gas (GHG) emissions, and the related risks.  
10. Describe the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.  
11. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets. |

**Complementary guidance for the banking sector (summary view)**

- Banks should describe processes and frequency by which the board and/or board committees are informed about climate-related issues.
- Banks should describe how the board monitors and oversees progress against goals and targets for addressing climate-related issues.
- Banks should describe significant concentrations of credit exposure to carbon-related assets.
- Banks should consider disclosing climate-related risks (transitional and physical) in lending and other financial intermediary business activities.
- Banks should consider characterizing their climate-related risks in the context of traditional banking industry risk categories such as credit risk, market risk, liquidity risk, and operational risk.
- Banks should consider describing any risk classification frameworks used.
- Banks should provide the amount and percentage of carbon-related assets relative to total assets, the amount of lending and other financing connected with climate-related opportunities.
- Banks should provide metrics to assess the impact of climate-related risks on their financing activities, considering industry, geography, credit quality and average tenor.
<table>
<thead>
<tr>
<th>Governance and Strategy</th>
<th>Laggards (Level 0)</th>
<th>Business as Usual (Level 1)</th>
<th>Building Capacity (Level 2)</th>
<th>Leading by Example (Level 3)</th>
<th>Best Practice (Level 4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance and Strategy</td>
<td>Sustainability not considered in corporate governance or Group strategy.</td>
<td>Governance structure to manage E&amp;S risks – roles and responsibilities are defined. A sustainability strategy has been developed, acknowledging climate risks and opportunities.</td>
<td>Oversight, escalation and reporting processes for E&amp;S issues. Strategy and/or other guidance (charter, white paper etc) communicates targets and management of risks and opportunities.</td>
<td>A Committee (or similar) advises Board and develops and reviews policies on key project risk areas and operational guidelines for implementation. Strategy includes quantitative targets for green financing</td>
<td>Performance embedded into corporate incentives (divisional and/or Executive remuneration). Resilience of the Group’s strategy to climate-related challenges. Sector-level transition strategies in place.</td>
</tr>
</tbody>
</table>

| Risk Management and Assessment | Environmental and social risks not considered in investment decisions. | Consideration of ESG factors in screening processes. Frequency of reporting and nature of how risks are managed not disclosed. | Risks managed according to international standards, with use of covenants. Scoping use of Environmental Risk Analysis (ERA) to understand physical and transition risk. | Sustainability objectives and metrics integrated into supply chain management ERA piloted and starting to inform risk policies. Development of bespoke risk management tools | ERA applied at a portfolio level. Sharing of bespoke risk management tools. |

| Investment and Corporate Footprint | No measurement of environmental impact of own operations. No definitions of green products or financing activities. | Measurement and disclosure of environmental impacts of own operations. Development of green products. | Measures to reduce exposure to brown assets. Targets and strategy to increase financing for green projects/sectors. | Policy to restrict fossil fuel intensive projects e.g. new coal financing. Quantitative tracking of green investments against financing targets. | Full phase out from coal financing with timetable and interim targets. |

| Disclosure and Engagement | No engagement or disclosure on sustainability issues. | Published reporting demonstrating integration of sustainability into corporate Governance. Grievance mechanism in place for project financing. Endorsement of climate and ESG initiatives e.g. Equator Principles, SDG, PRI etc. | Disclosure of risk management framework and investment standards. Sharing of due diligence with peer lenders. | Climate risk management tools disclosed. Quantitative reporting of green assets and environmental benefits. Engagement policy developed for investments. | Quantitative reporting of outcomes of integrating sustainability into supply chain management. |
Annex VII – Green Transaction Cases

We have received cases from the following signatories (in alphabetic order):

1. Agricultural Bank of China  
2. Bank of China  
3. China Construction Bank  
4. China Industrial Bank  
5. China Merchants Port  
6. Deutsche Bank  
7. Export-Import Bank of China  
8. HSBC  
9. Silk Road Fund  
10. Société Générale  
11. Standard Chartered Bank  
12. UBS