Sustainable financing and investing survey 2021

China report
Regulatory, policy and market support are catalysing the sustainable finance market

HSBC | Opening up a world of opportunity

Key Findings & Overview

China has set a goal of reaching carbon neutrality by 2060 and the combination of more robust regulatory and policy support, a buoyant green and sustainable finance market, and pragmatic approach by issuers and investors point the way to a sustainable future.

The move comes as sustainable finance – and attitudes to sustainability more generally – undergo a transformation in China.

China still faces challenges. But the combination of more robust regulatory and policy support, a buoyant green and sustainable market, and a flexible and pragmatic approach by issuers and investors point the way to a bright future.

This sense of change is evident in the responses of 200 China companies – that are active in the capital markets – and institutional investors, who we surveyed on the topic of sustainable financing and investing. This is the second year we have run this China survey.

Some of the key findings from the survey are:

- **Sustainability as a key priority** – Issuers' and investors' focus on sustainability in their organisations, in industries, and across supply chains, has strengthened in the past 12 months, provoked by the experience of the pandemic, supportive government policy, and regulatory efforts to deepen and develop the sustainable finance market.For about a fifth of issuers, sustainability has become their most important strategic priority.
- **Issuers and investors seek to develop and fund net zero transition plans** – Responding to the government's net zero 2060 commitment, issuers and investors are increasing their focus and attention on what they need to do, including developing their own net zero plans, and seeking extra investment to enable their low carbon transition.
- **Sustainable finance evolves and matures but challenges remain** – Across products and markets, development continues apace, and most issuers (63%) see no obstacles to using sustainable debt financing. However, while 55% of investors say the same, 45% do see serious difficulties, including on pricing, the work involved in investing in such products, and in trading such securities on the secondary market.
- **Broad support for policy initiatives to grow sustainable finance** – Issuers and investors are showing broad-based support for various People's Bank of China's green finance and climate change mitigation initiatives, with most (30%) showing complete alignment on incorporating climate change into policy and seeing this as the most important initiative to develop green finance in China over the next two years. About a fifth of respondents say strengthening information disclosure, including developing a mandatory disclosure system, would be most important.
- **Issuers and investors see benefits in greater disclosure** – Should the government require companies to disclose more information on environmental and social issues, issuers say two of the main benefits would be helping them internally to be more sustainable, and helping their investors better understand their sustainability activities. For investors, most believe it would help them choose between more and less sustainable companies, and that it would make it easier for them to invest sustainably.
- **Barriers to investment fall but skills gap emerges** – While 59% of respondents this year say they see no obstacles to investing in the green and sustainable economy – a significant shift from last year when 55% said the opposite – some 41% do see issues, and top among them is a lack of the necessary ESG skills and understanding within respondents' organisations. Other prominent issues include the long term nature of projects, too much risk (especially for issuers), and internal investment policies preventing investment in these areas (particularly for investors).
- **Green and sustainable investment opportunities evolve** – Over the next five years, issuers and investors believe clean coal, improved electricity grids, energy efficiency in industry and in buildings, sustainable waste management, as well as recycling and the circular economy, are among the most attractive investment opportunities, replacing areas such as carbon capture and solar power generation that were in focus last year.

"Together with the green bond market being seen as the most well developed area of sustainable finance in China, the commitment to sustainable finance among companies and investors has notably improved on last year."

59%

of respondents say they see no obstacles to investing in the green and sustainable economy

Introduction
Sustainability shifts to most important strategic priority

Chinese capital markets issuers and institutional investors have intensified their focus and attention on green and sustainable finance. For some of them, it has become their most important strategic priority at a time when the world is undergoing seismic change.

Indeed, while 27% of all respondents say their focus on sustainability has not changed much in the past 12 months, some 36% say it has increased or has strongly increased and will continue to. Interestingly, 19% of Chinese issuers and 8% of investors said sustainability is now their most important priority (**Fig 1**).

In a global context, the response from China is emphatically supportive. For instance, about a third (34%) of companies and investors in our annual global survey say they have increased their attention to both environmental and social issues in the past 12 months, with half of respondents in Europe saying the same.

What's driving this?

Multiple factors. The COVID-19 pandemic has been an unwelcome reminder of the importance of sustainability for many respondents. But changing attitudes are also attributable to more supportive government policy – most notably the commitment to net zero by 2060 – and regulatory efforts to deepen the sustainable finance market.
As a result, the debate and actions around sustainability has moved up a gear. Awareness has increased, with 43% of China issuers (**Fig 2**) agreeing that climate change is an urgent problem. This is higher than the 25% of issuer respondents in our global survey who say that climate change is the most urgent threat to humanity and biggest challenge of our times.

For investors, two key drivers are government policy supporting this development and greater availability of advice and information that is helping them become more sustainable.

Importantly, this focus on sustainability extends to the companies' supply chains. Some 75% of issuers say having a sustainable supply chain is important, while 71% of investors say they do prefer to invest in companies that have sustainable supply chains (**Fig 3,4**).

Supporting this, more issuers this year (19%) than last year (13%), say they ask companies to behave in a sustainable way and require them to provide evidence.

Figure 1: Chinese participants' focus on sustainability intensifies
Is your organisation increasing its focus on sustainability?

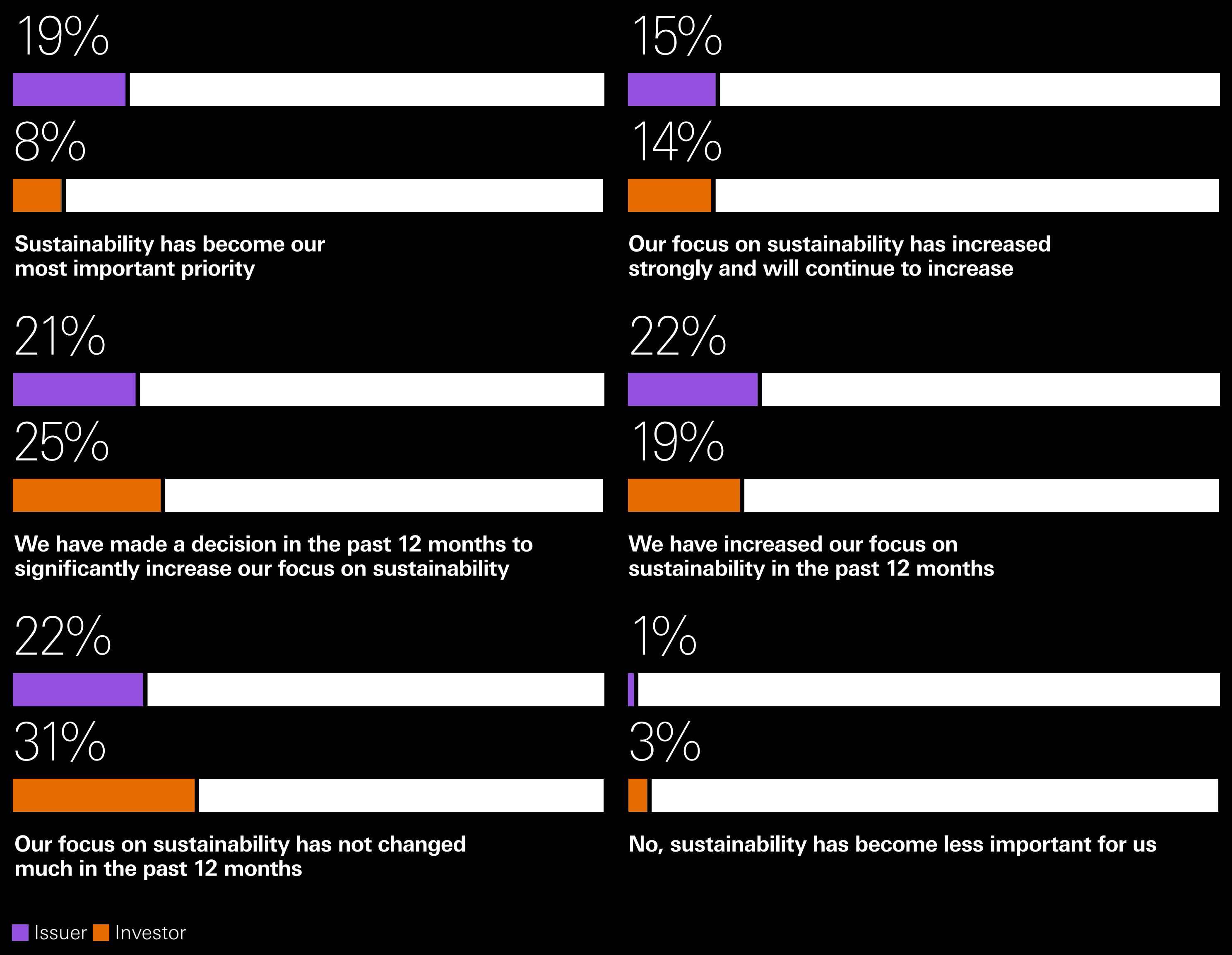


Figure 2: Multiple reasons driving this increased focus
Why is your organisation increasing its focus on sustainability?

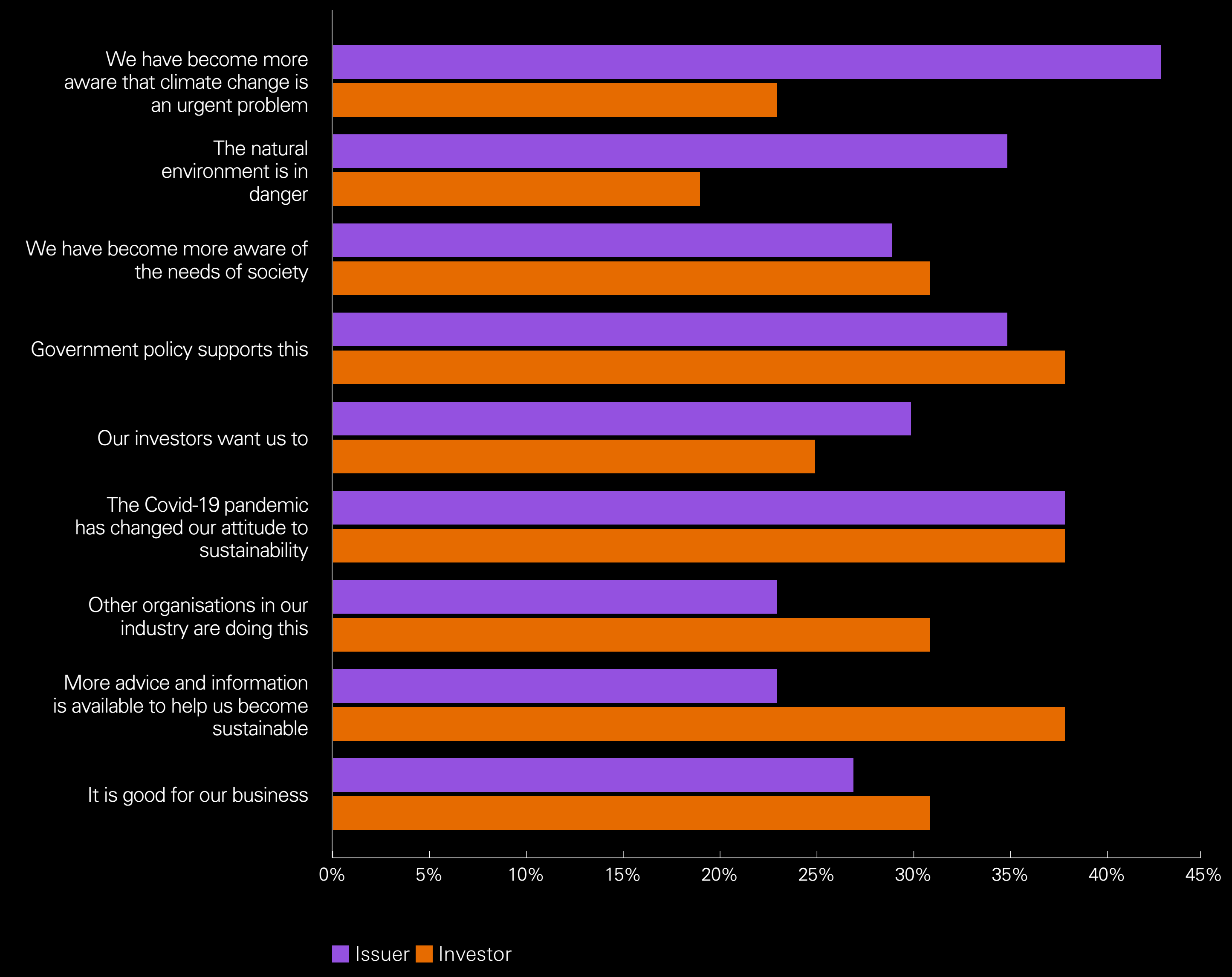


Figure 3: Supply chain sustainability is important
Is having a sustainable supply chain important to your organisation? (Issuers only)

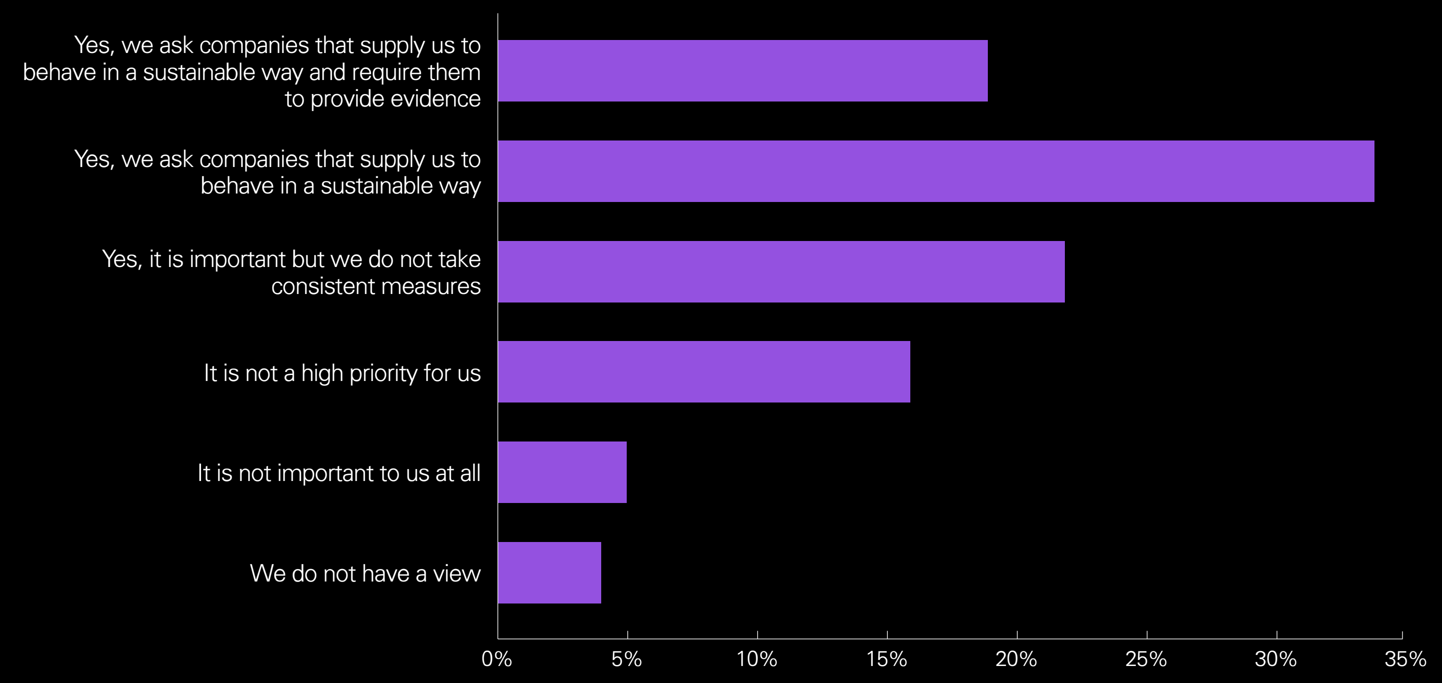
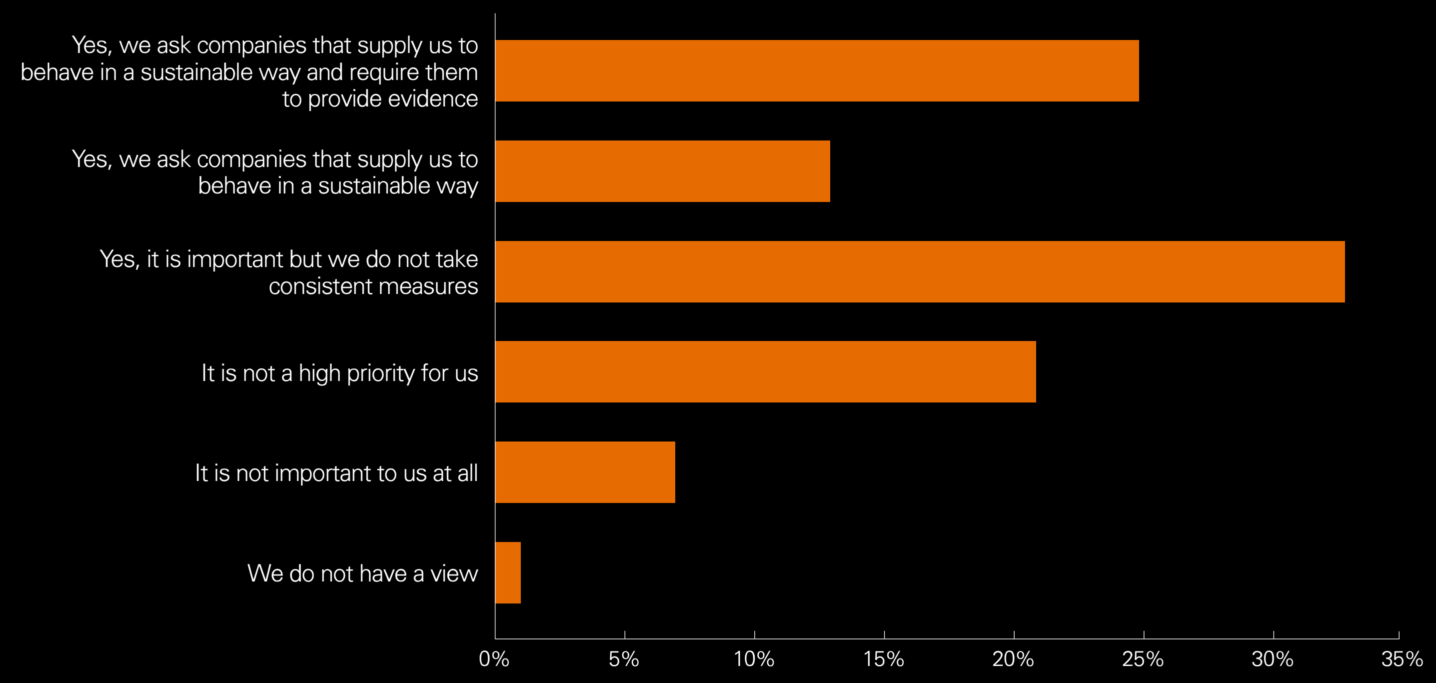


Figure 4: Investors want to see sustainable supply chains
Does your organisation prefer to invest in companies that have sustainable supply chains? (Investors only)



Net Zero Transition

Issuers and Investors stepping up planning and preparation

41%

of issuers say they will need extra investment from their investors to hit the government's 2060 net zero plans

"China's most recent five-year plan sets legally-binding targets to reduce carbon emissions per unit of GDP by 18%."

Government policy is a huge driver of sustainability efforts by corporates and investors. And no policy announcement has been more significant than China's commitment to reduce greenhouse gas emissions to net zero by 2060.

The pledge made by President Xi in September 2020 to the UN General Assembly envisages that carbon emissions will peak before 2030. China's most recent five-year plan (2021-2025) provides the crucial detail for implementation, setting legally-binding targets to reduce carbon emissions per unit of GDP by 18% in the next five years.

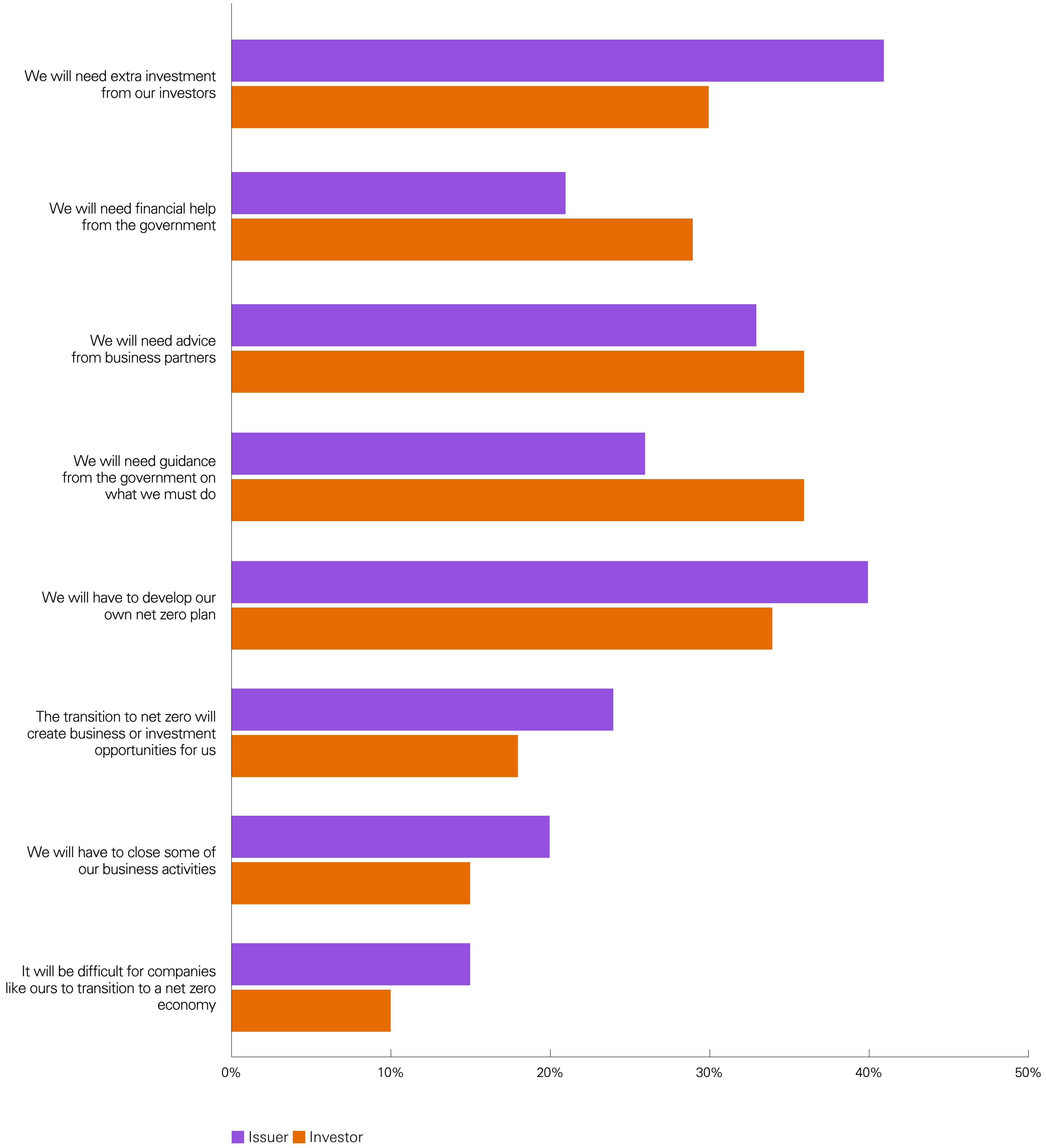
China's State Council has developed policy documents covering industrial production, logistics, infrastructure, consumption and innovation, which set out clear targets to improve energy and resource utilisation efficiency in key industries by 2035. China is also committed to raising its non-fossil fuel share of primary energy to 20% by 2025 and 25% by 2030.

For issuers and investors, the clarity provided by the 2060 target – and most importantly the various interim targets – is critical: 40% of issuers and 34% of investors recognise they need to develop their own net zero plan and this figure is certain to rise rapidly in the coming years (**Fig 5**).

Given the scale of the challenge, both issuers and investors realise that they can't go it alone: 41% of issuers believe they will need extra funds from their investors while 36% of investors are seeking guidance from government.

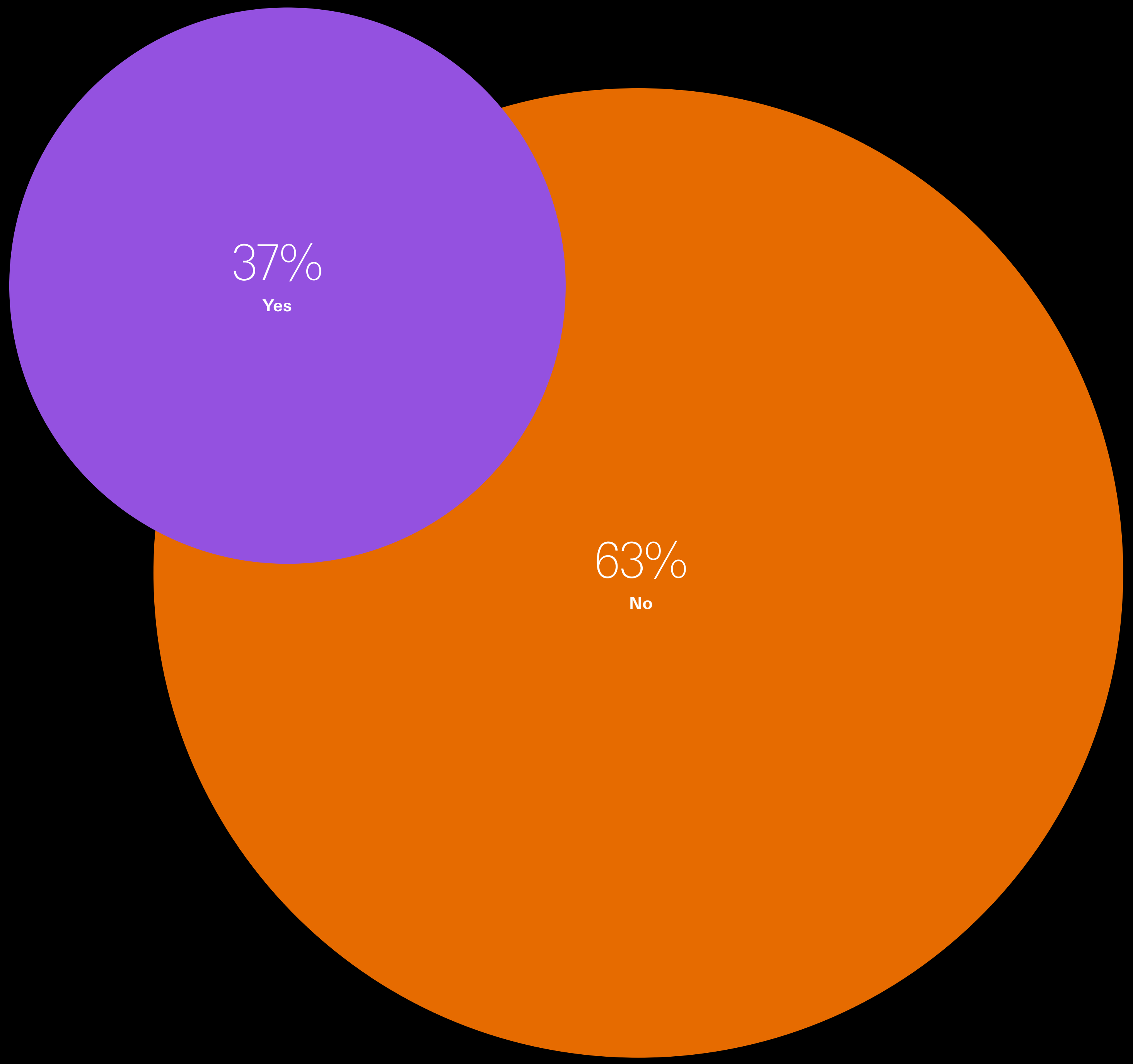
Figure 5: Market participants to increase their net zero planning

In September 2020 China said that it would reduce greenhouse gas emissions to net zero by 2060. How will this affect your organisation?



Sustainable Financing Growing
New stage of growth and maturity

Figure 6: Most issuers see no obstacles
Many companies have borrowed using sustainable finance debt products, such as green loans and bonds, social bonds or sustainability bonds. Do you think there are any difficulties or obstacles to using these products? (Issuers only)



Green and sustainable finance is developing fast in China, and at the forefront has been the country's green bond market.

This year it was once again recognised by respondents as the most well developed area of sustainable finance – 87% say so this year, up from 70% last year – a maturity that helps make it one of the world's leading green bond markets.

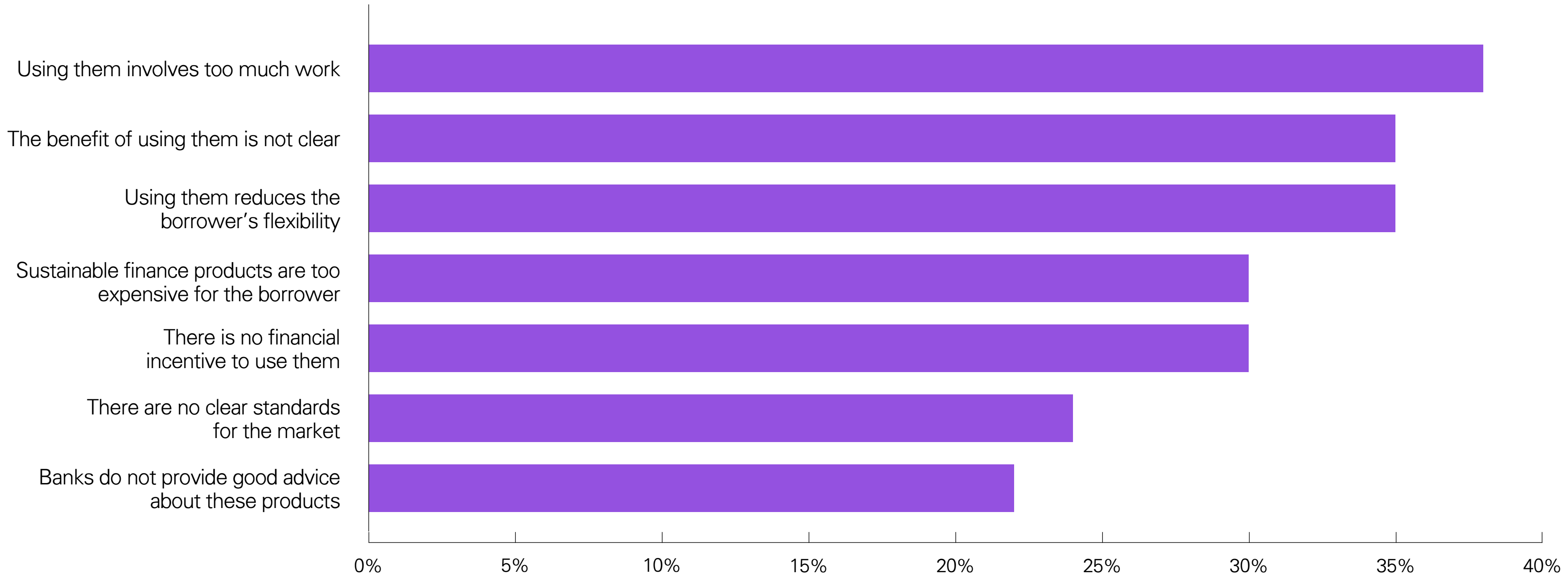
Yet development has happened in other areas too, and especially in the level of commitment to the green and sustainable finance market shown by corporates and investors. Some 50% and 43% of respondents now see that commitment from companies and investors, respectively, as well developed or very well developed – notably up from about a third of respondents who said the same last year.

Some 43% of respondents also consider banks' commitment as developed or very well developed, supported by some providers responding to the upsurge in interest in sustainable finance by launching innovative new products such as green deposits and sustainability-linked loans.

Importantly, some 63% of issuers see no obstacle to using sustainable finance debt products, such as green loans and bonds, social bonds or sustainability bonds. For those (37%) that identify difficulties, most say those issues that are most serious are: that the transactions involve too much work; the benefits of using them are unclear; and they reduce flexibility (**Fig 6,7**).

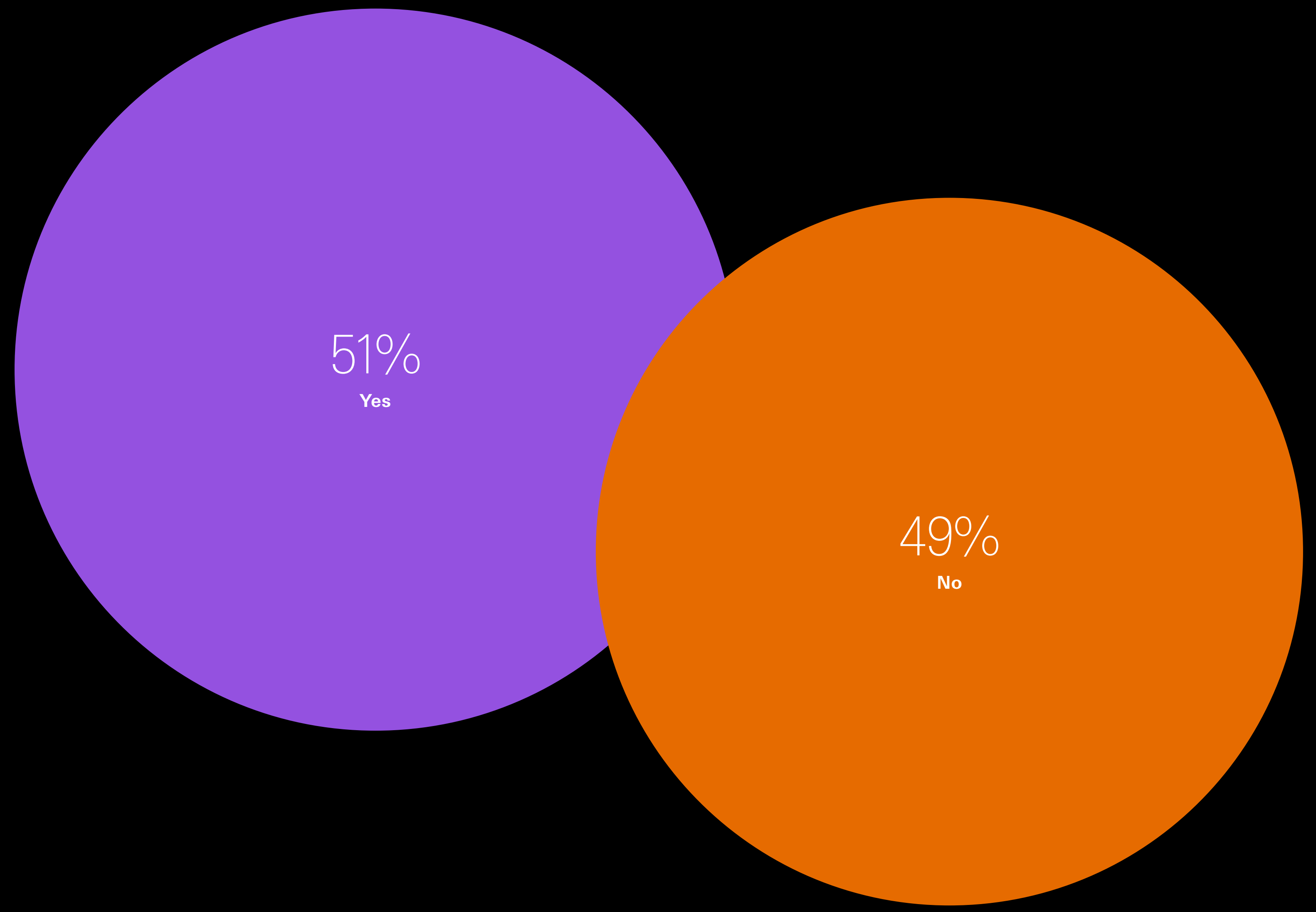
"Respondents also consider banks' commitment as developed or very well developed, supported by some providers responding to the upsurge in interest in sustainable finance by launching innovative new products."

Figure 7: Various difficulties are experienced
Which are the most serious difficulties? (Issuers only)



Obstacles to Green Investment
Investors divided

Figure 8: Investors see obstacles to investing
Many investors have invested in sustainable finance debt products, such as green loans and bonds, social bonds or sustainability bonds. Do you think there are any difficulties or obstacles to investing in these products? (Investors only)



60%

of investors who see obstacles to investing in sustainable finance debt products say the most serious issue for them is that the products are too expensive

Investors are seemingly split on the merits of sustainable finance debt products, with just 49% seeing no difficulties in their use (Fig 8,9). However, 51% of investors do see issues, and top among the most serious difficulties are the products being seen as too expensive – priced too low and/or not offering high enough returns – for investors (60%), that they require too much work (46%), and they lack secondary market liquidity (30%).

The fact that 30% of issuers believe sustainable finance products are too expensive, while 60% of investors believe the same highlights differing expectations: clearly one side must be getting the benefit from sustainable finance products.

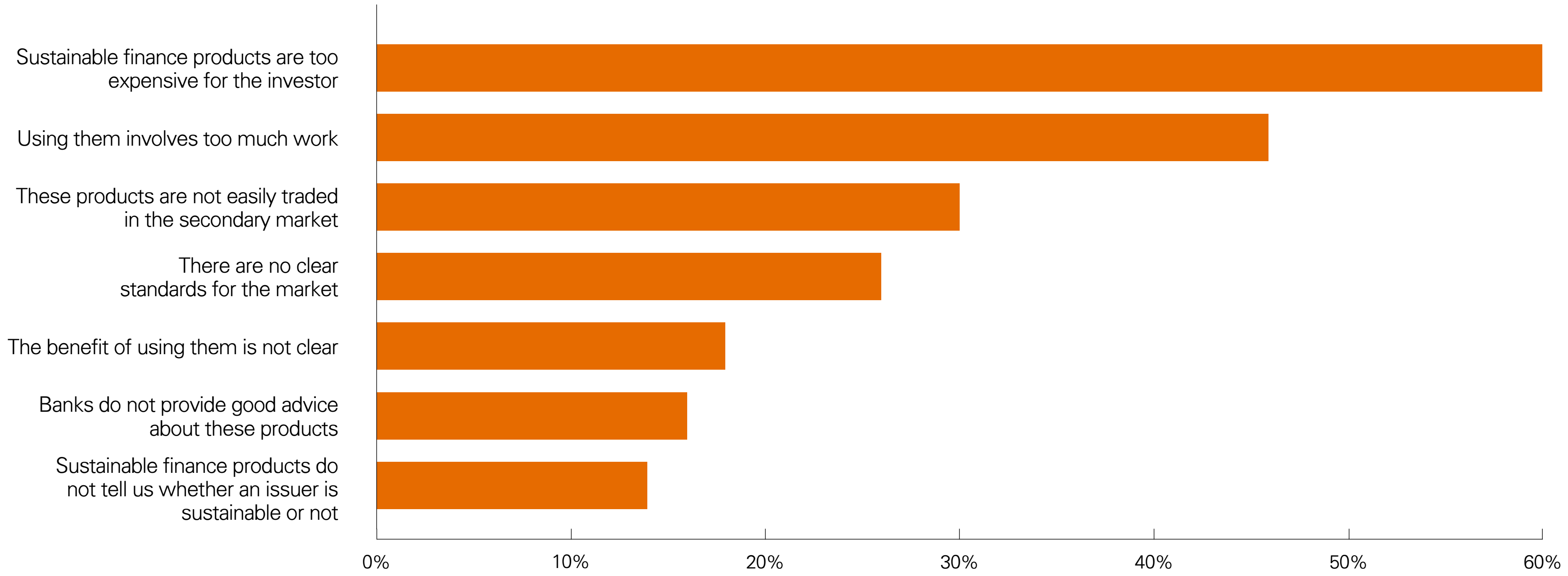
While issuers generally save a handful of basis points compared to conventional financing, higher costs associated with disclosure – as well as the necessity of fulfilling ESG responsibilities – mean that some issuers may find sustainable finance unattractive on a cost-benefit basis.

However, many issuers see the regulatory attractions of sustainable finance while the marketing value and investor relation benefits associated with issuance are growing. Given the pressure from regulators (and the general public) to improve sustainability, sustainability-related financing can be a valuable tool to enhance issuers' public profile. This is often the case with sustainability-linked bonds, where bonds require a reduction in carbon emissions to avoid an increase in yield at a certain point in the bond's life. Such bonds demonstrate the strength of an issuers' commitment to sustainability.

For investors, the fact that 60% believe sustainable finance products are too expensive indicates that at the current time issuers are getting the better side of the deal: the rapid increase in interest in ESG, and the relative shortage of supply of new products, has increased prices. While this is driving returns for existing holders, it necessarily increases costs when it comes to new products. Moreover, some investors have specific green bond targets and therefore have to identify investment targets even if they believe returns are insufficient: strong inflows in the past year support this view.

Nevertheless, despite increasing requirements to invest in sustainable finance products, investors remain discriminating when it comes to issuers – the credit of the issuer remains critical, although security (return of principal) rather than outright return is likely to be their main objective. Overall, satisfaction with green and sustainable finance is generally high. Both issuers and investors think the market can be improved further, however: 56% of them would like to see additional measures to discourage the financing of unsustainable industries in the future.

Figure 9: Perceived expense and work involved seen as key obstacles
Which are the most serious difficulties? (Investors only)



Policy Framework Needs

Support for climate change regulations to spur sustainable finance market

The PBOC is seen as one of the key drivers of the sustainable finance market in China and a spate of recent initiatives have bolstered the importance of the market for the country's issuers and investors.

In July, the PBOC announced a new series of management tools to support carbon emission reductions and product incentives, for example. Green financing assessments will now be included in macro-prudential policies and regulatory tools adopted by PBOC, including gradings of financial institutions in China. Enhanced reporting requirements and key performance indicators will need to be shared with the PBOC on a regular basis.

Of the many initiatives underway by the PBOC, both issuers and investors think incorporating climate change into policy, potentially through climate stress testing, and exploring the role of monetary policy in encouraging financial institutions to support emissions reductions, have the greatest potential to support the development of sustainable finance (**Fig 10**).

Also important, especially for issuers, is encouraging financial institutions to proactively deal with climate change risks, including asking them to measure their carbon emissions and the climate risks of their projects.

One area where there is currently considerable activity is disclosure (cited by 20% of investors and 17% of issuers as important – see **Fig 10**). The PBOC has said it plans to implement a mandatory climate and carbon emissions disclosure regime, which is expected to be applied to banks and financial institutions first before expanding to cover all listed Chinese companies.

Issuers would welcome enhanced disclosure given the clarity it would bring, its value in improving sustainability internally and its potential to help investors understand their company's sustainability activities (**Fig 11**). A total of 67% of investors believe more detailed ESG disclosures would make it easier to identify sustainable companies or investment opportunities (**Fig 12**).

Taxonomies are not high on the agenda of respondents, with less than 20% saying they are important. Nevertheless, China's central bank is reported to be co-operating with the European Union, which has one of the first established taxonomies, to converge green investment taxonomies across the two markets: 19% of investors favour deepening international cooperation and coordination with other G20 members.

Figure 10: Broad support for a range of green finance initiatives
The People's Bank of China recently identified green finance as a priority for 2021 and the next five years. Which of the following initiatives being undertaken by the central bank do you think is most important to support the development of green finance in China during the next two years?

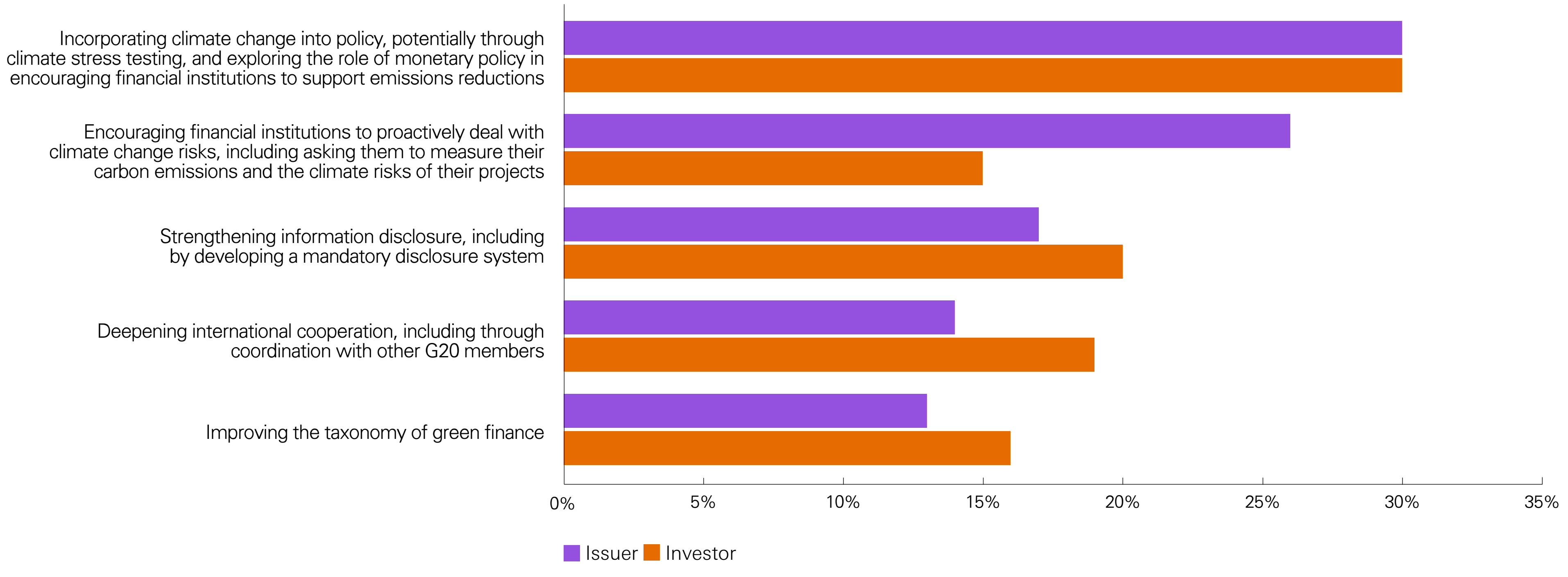


Figure 11: Issuers back greater disclosure
If the government required companies to disclose more information on environmental and social issues, how would this affect your organisation? (Issuers only)

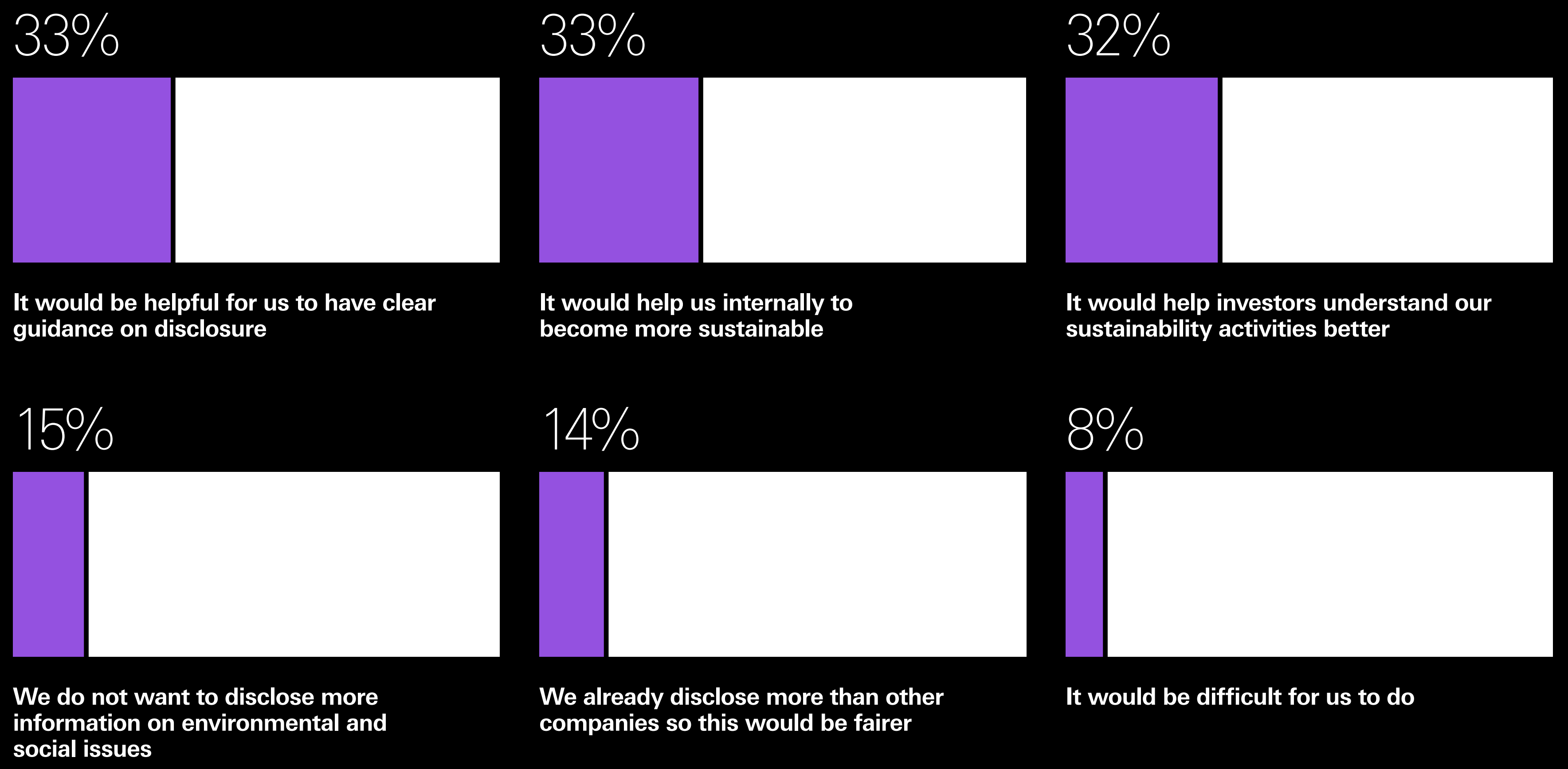
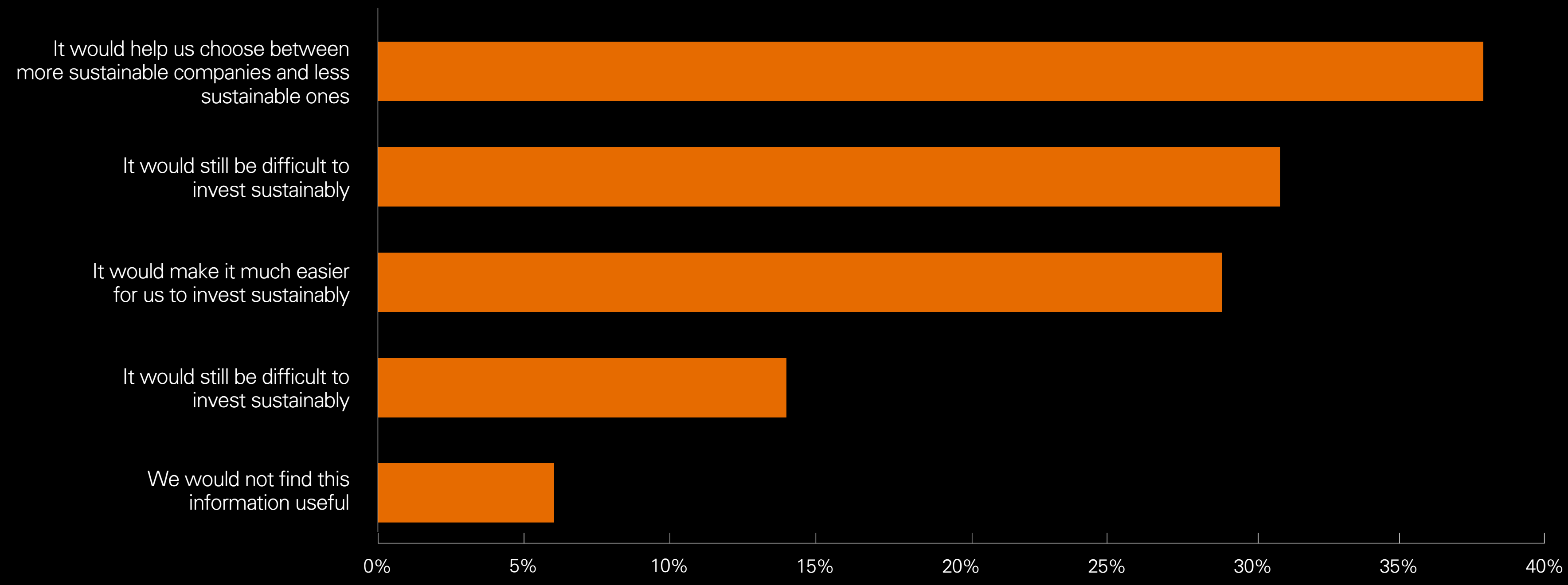


Figure 12: Greater disclosure would help investors
If the government required companies to disclose more information on environmental and social issues, how would this affect your organisation? (Investors only)



Green and Sustainable Investment
Opportunities evolve, barriers fall

Change in China can happen fast. And in its green and sustainable economy, opportunities are seemingly emerging as quickly as obstacles and barriers to investing are falling away.

This is backed-up by our survey, as 59% of respondents say this year, that they do not see obstacles to investing, which is a notable shift from last year when 56% of said the opposite (**Fig 13**).

Indeed, insufficient returns and disclosure, as well as investment opportunities not being clearly communicated are notably less of an issue this year for respondents than last year, suggesting these areas have improved.

One reason why this has changed may be because of the regulatory imperative towards sustainability: financial returns are not seen as the primary objective when it comes to sustainable investment.

However, some impediments remain, and top among them this year are organisations lacking the necessary skills and understanding (**Fig 14**). This issue is also the top obstacle globally, but the China percentage (44%) is higher than the global average (37%).

Other obstacles include the long-term nature of commitments (for both issuers and investors), high risk (especially for issuers) and internal mandates or policies that prevent investment (especially for investors).

59%

of respondents see no obstacles to investing in China's green and sustainable economy

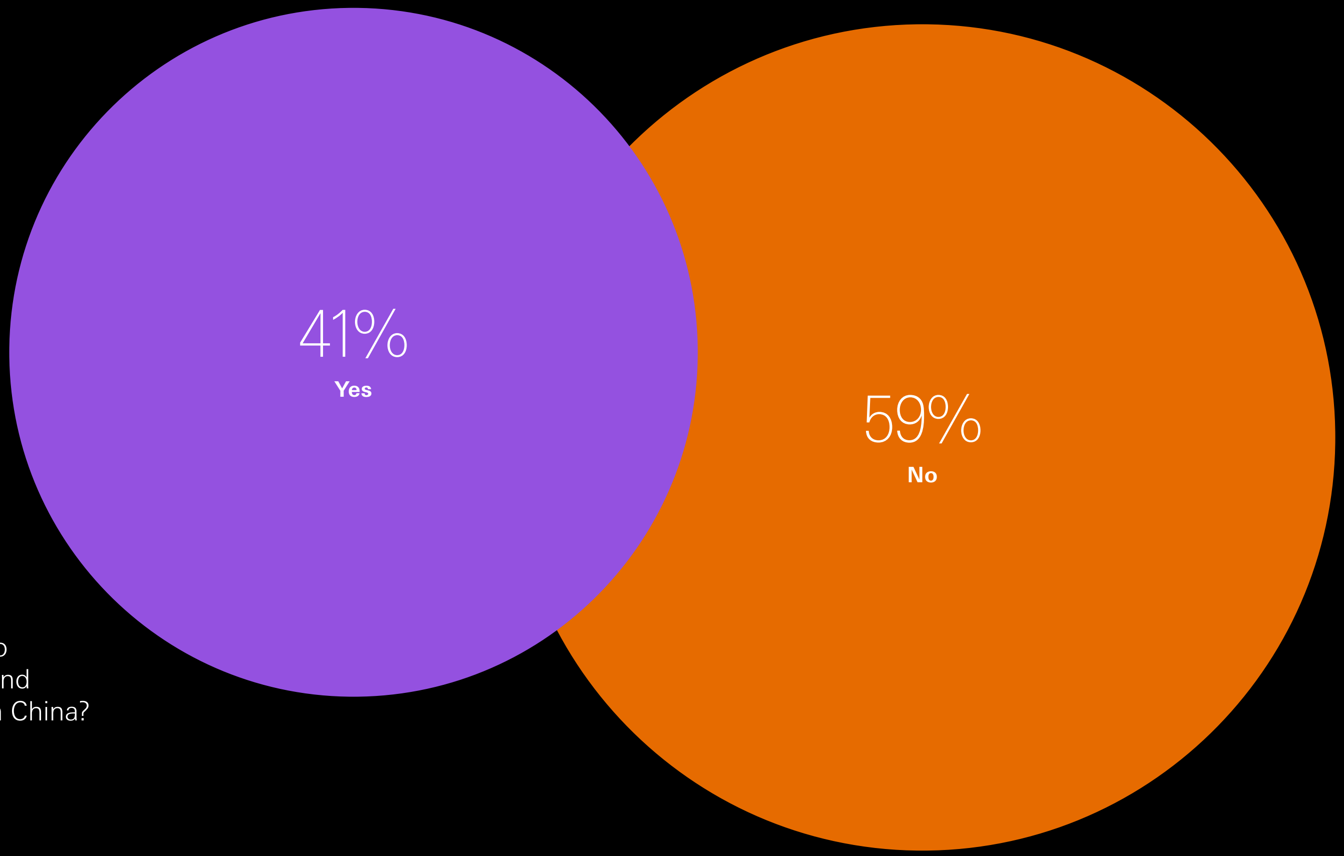
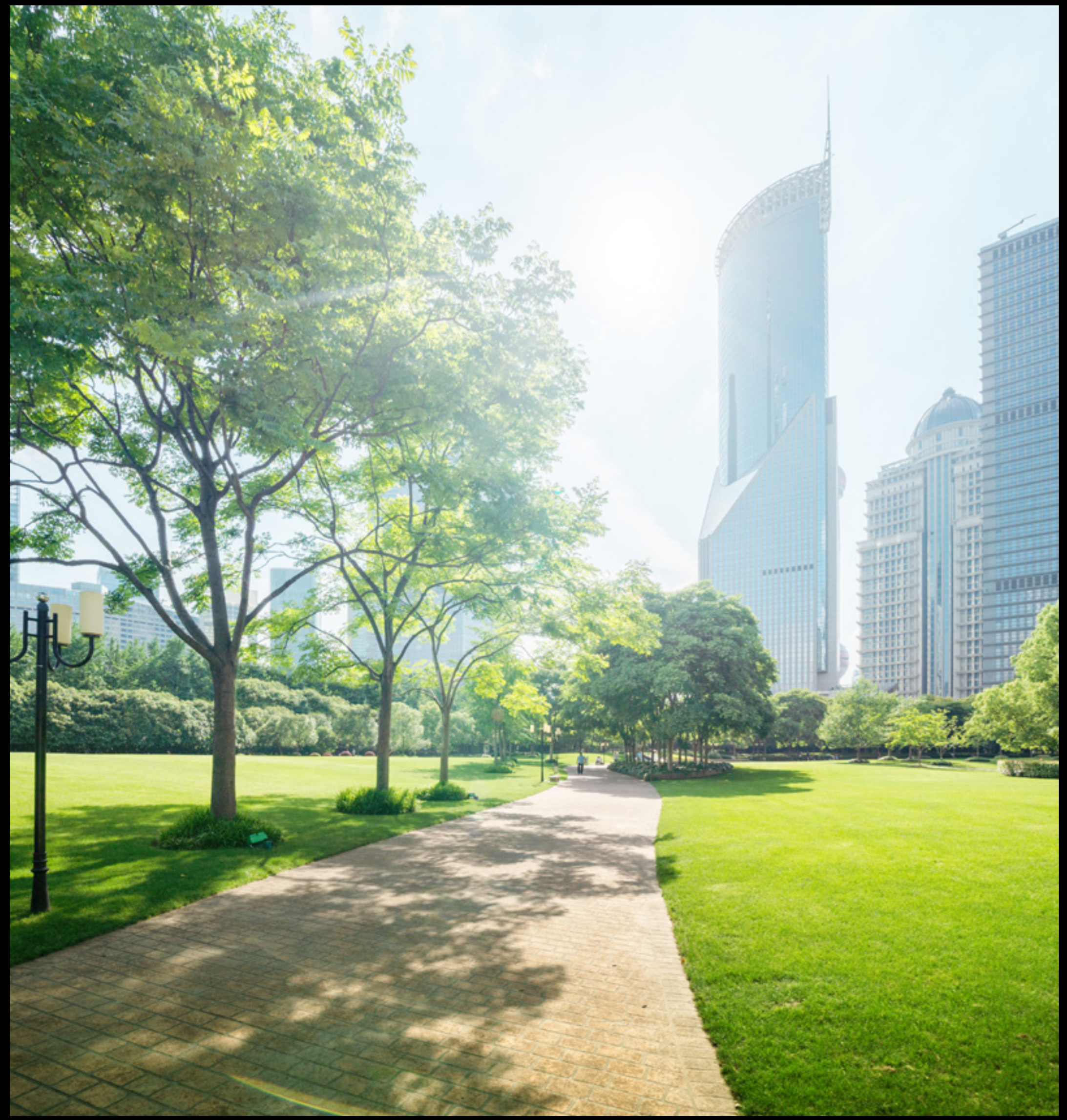


Figure 13: Barriers to investing are falling
Do you see obstacles to investing in the green and sustainable economy in China?

Figure 14: A shortage of skills is a constraining factor
Which are the main obstacles you see to investing in the green and sustainable economy in China? (Multiple choice question - select as many factors as relevant)



"Insufficient returns and disclosure, as well as investment opportunities not being clearly communicated, are notably less of an issue this year, suggesting these areas have improved."

Five Year Investment Opportunities
Broad range of options

When it comes to the most attractive investment opportunities in the next five years, the breadth of selections is impressive, indicating both farsightedness on the part of issuers and investors and the wealth of opportunities available in China.

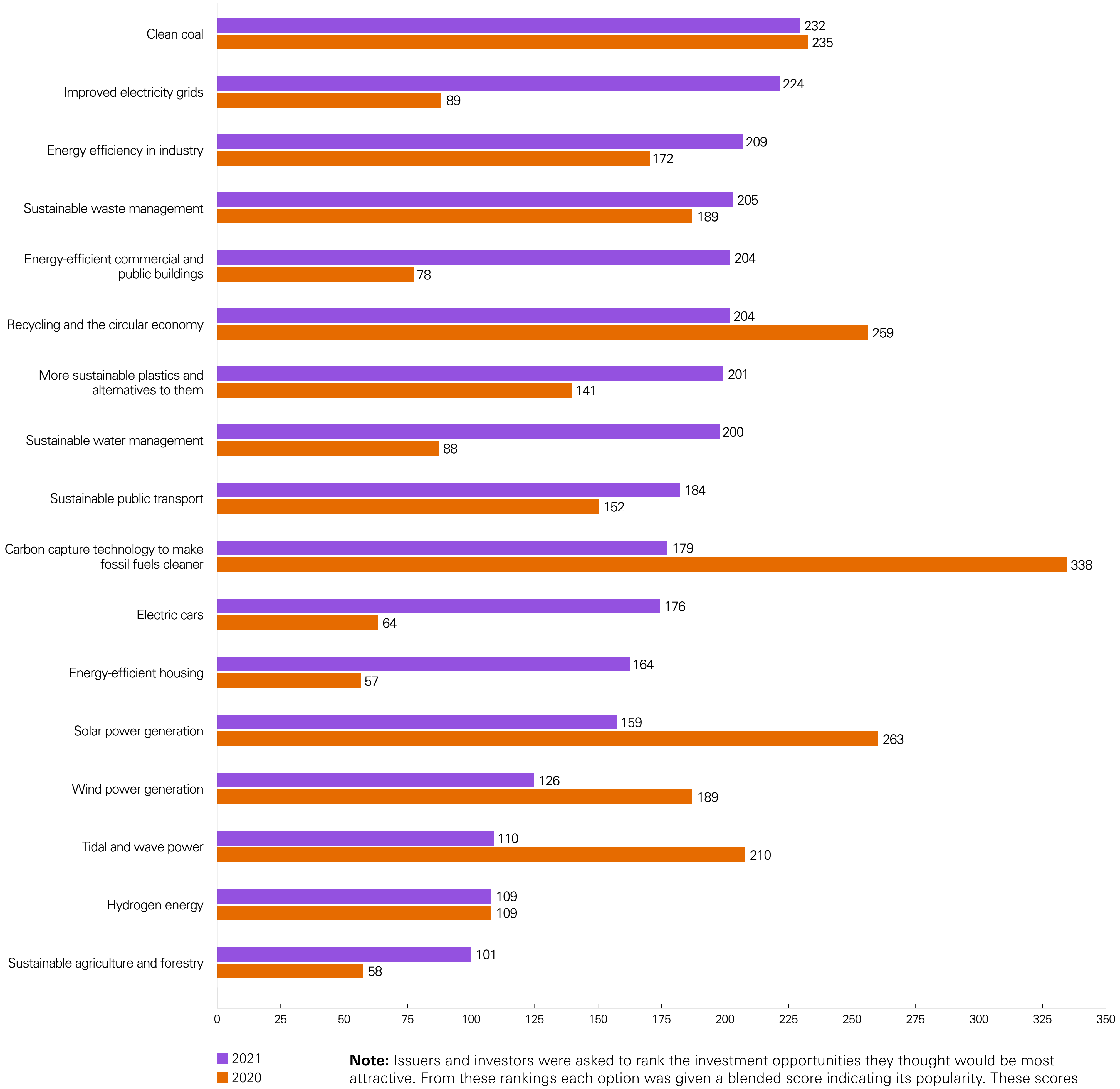
Clean coal, improved electricity grids, energy efficiency in industry, sustainable waste management, energy efficient commercial and public buildings and recycling and the circular economy, are all seen as attractive among respondents. (**Fig 15**).

While clean coal was seen as one of the most attractive in last year's survey, there are notable changes in the attractiveness of some other opportunities. Carbon capture, which was the lead investment option last year, for instance, has now fallen notably. Solar, tidal and public transport have also fallen as attractive investment opportunities in the green and sustainable economy.

To some extent, the year on year changes in the China deep dive surveys may be the result of greater awareness on the part of respondents as well as shifts in the policy environment. For example, reducing wasteful energy consumption and boosting efficiency are emphasised in the 14th five-year plan, adopted in March, possibly boosting the profile of electricity grids (which was not even a top 10 opportunity in 2020) and energy efficient commercial and public buildings (which has risen to a top five opportunity this year) as investment choices.

"The breadth of attractive investment opportunities in the next five years is impressive, indicating both farsightedness on the part of issuers and investors and the wealth of opportunities available in China."

Figure 15: The attractiveness of green and sustainable investment opportunities evolves
Which investment opportunities do you think will be the largest and most attractive in the green and sustainable economy in China in the next five years?



Note: Issuers and investors were asked to rank the investment opportunities they thought would be most attractive. From these rankings each option was given a blended score indicating its popularity. These scores are displayed in the graph.

Conclusion
From strength to strength in sustainable finance and investment

China is already a world leader in zero-emission energy technology, such as wind, solar, hydro and nuclear. Provident policy decisions have also prompted the rapid electrification of its energy and transportation systems, in many instances well in advance of other leading economies.

China has a number of objectives in pursuing these policies. Energy security – in particular, the need to reduce dependence on imported oil and gas – was a significant early driver. However, in more recent years, and especially in the five-year plan adopted in March, sustainability is in scope for many other reasons, most obviously to limit global warming and climate change.

China's adoption of a 2060 net zero carbon emissions target, while a decade after many other leading countries, crystalises this shift. The goal is extremely ambitious for a country that has historically had a high consumption of energy per unit of GDP. Most importantly, interim targets have also been set, with admissions expected to peak before 2030; detailed policies for industry sectors are being set out.

All countries around the world must now deal with the challenge of implementing their carbon emissions commitments. China has a track record of setting aggressive targets, most obviously for economic growth, and achieving them. In this regard, it has a clear advantage.

The sustainable finance market in China is already sizeable and innovative. The plethora of initiatives being undertaken by the PBOC will further enhance its value to issuers and investors. And while momentum for sustainable finance and investment in China is clearly being driven by the government, sustainability is now a priority for issuers and investors on its own merits – not least the attractive investment opportunities available across the country.

Methodology

The survey is related to the Sustainable Financing and Investing Survey, which is an annual global survey of 2,000 capital markets issuers and institutional investors. This year is the fifth year the global survey has been run.

Euromoney Institutional Investor PLC designed and executed the China and global surveys.

Respondents to the global survey were split evenly between issuers, from across 19 industries, and institutional investors, including asset allocators and asset owners. In total, respondents were based in 34 territories across the regions of Americas, Europe, MENAT, and Asia.

There were 200 respondents to the China survey, evenly split between 100 mainland China based issuers, from across industries, and 100 institutional investors, including asset allocators and asset owners.

Issuer respondents held senior positions in the CFO office, and in finance, treasury, risk and investments. Investor respondents held senior positions in the CIO and CFO office, in portfolio and fund management and investment.

The China and global surveys were run between May and June 2021.

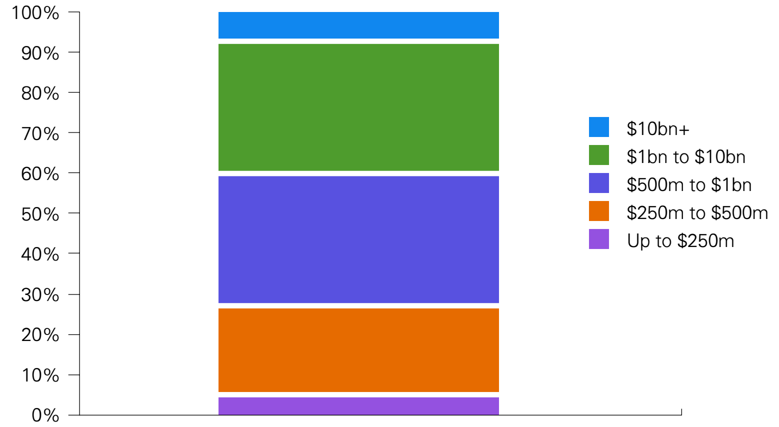
Issuers by industry/sector

Agriculture, food, beverages, tobacco	3%
Banking	8%
Building materials	4%
Business services	4%
Central government	3%
Consumer goods	8%
Electricity and water	4%
Engineering & Construction	2%
Healthcare	9%
Industrial goods	9%
Information technology	11%
Insurance	4%
Local government	1%
Metals and mining	2%
Oil, gas, coal and chemicals	2%
Real estate	8%
Renewable energy	1%
Retail and consumer services	4%
Supranational organisation	1%
Telecoms	7%
Transport	5%
BASE SIZE	**100**

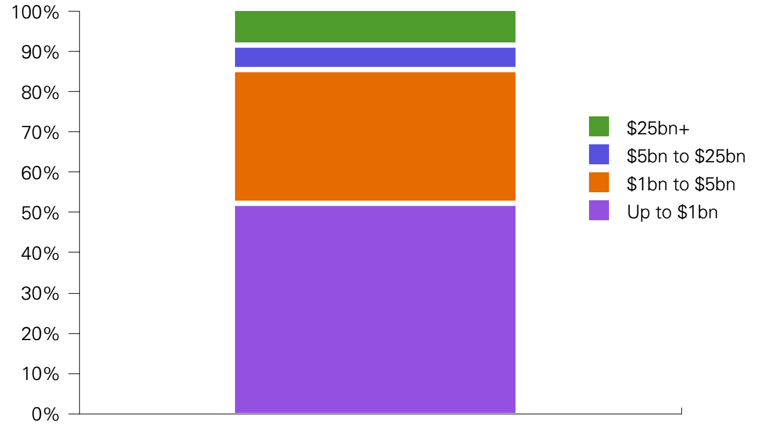
Investors by institution type

Asset Management	12%
Bank treasury	11%
Endowment and foundation	5%
Family office	4%
Hedge fund	12%
Insurer	4%
Investment bank	1%
Investment Management	4%
Non-financial corporate treasury	3%
Other	24%
Pension fund	3%
Private Equity	8%
Securities	2%
Sovereign wealth fund	5%
Specialty Finance	1%
Venture capital and private equity	1%
BASE SIZE	**100**

Issuers by annual revenues (US$)



Investors by AUM



Published: September 2021.

Issued by HSBC Bank plc.
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and the Prudential Regulation Authority.
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Registered Office: 8 Canada Square London E14 5HQ United Kingdom Member HSBC Group