

# SUPPORTING GREEN FINANCE WITH ENVIRONMENTAL INFORMATION

Over recent years, China's Ministry of Ecology and Environment, National Development and Reform Commission, and various government banking institutions have called for and developed measures to encourage green investment and deter investment in polluting entities across the country. In response, several years ago, IPE created a green credit database covering more than 3,000 publicly-listed companies in China to assist financial institutions in their research on sustainability matters.

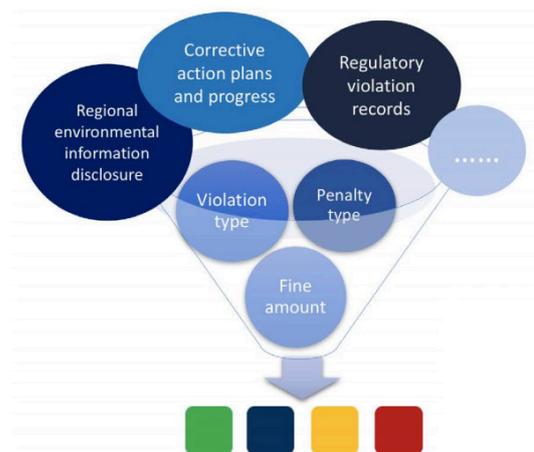
Today, working with a partner expert group, IPE has developed a new breakthrough search tool, the **Blue Map for Business App**, which will greatly further facilitate financial institutions in evaluating environmental performance of companies and enterprises around China. Blue Map for Business App delivers a unique summary of information on environmental matters in industrial enterprises across the country in the form of an environmental risk assessment score called the **DECRA score**.

## DECRA: Dynamic Environmental Credit Risk Assessment

The Dynamic Environmental Credit Risk Assessment (DECRA) was developed by IPE to distill the numerous and lengthy Chinese government compliance records and other environmental performance matters into a single simple quantitative facility score and color risk rating, to deliver clear indicators that can be used by a wide range of audiences.

Using selected search terms to retrieve and analyze key components of text, DECRA retrieves and

calculates its quantitative risk score based on the severity of non-compliance, the confirmed public complaints records, safety and accident records, and degree of self-disclosure. Final scores are distributed into four levels and assigned a color based on the environmental credit system developed by the Chinese Ministry of Ecology and Environment.



Facilities are able to improve poor scores somewhat by providing public explanations, committing to rectification, and going beyond compliance in reporting supplementary information on environmental matters, such as by providing water and energy use data.

IPE's new DECRA system is powered by the rapidly increasing number of government inspections around the country and publicly-available inspection and real-time monitoring reports, which in turn reflect the steady strengthening of environmental law enforcement and information disclosure across China over the past several years. Its value to the investment community has significantly expanded due to the upswing in factory closures and production suspensions that occur when inspectors discover severe issues, causing supply chain disruptions that may significantly affect business performance.

## DECRA is not another ESG ranking

As interest in incorporating environmental concerns into investment decisions rises around the world, more and more companies are being evaluated on their environmental, social and governance (ESG) performance by various third-party providers of reports and ratings. The Global Reporting Initiative (GRI) sustainability reporting framework is perhaps the most widely used, alongside numerous other ESG data providers, including the Sustainable Accounting Standards Board (SASB), Bloomberg ESG Data Service, Corporate Knights Global, Dow Jones Sustainability Index, and many others.

DECRA differs from these ESG ranking initiatives in three important ways:

First, alternative ESG scoring systems consider a very large number of performance metrics, typically comprising more than 100 questions covering a wide

range of topics such as corporate governance, risk and crisis management, codes of business conduct, environmental policy and management systems, and even policy influence. DECRA scores are laser focused on environmental compliance, rectification, and disclosure.

Second, whereas alternative ESG scores are based heavily on corporate self-reporting, DECRA scores are primarily based on government records on compliance status. They are thus much less subject to greenwashing claims.

Third, DECRA scores reflect continuous evaluation of environmental performance in real time, changing at the moment when compliance or other matters change on the ground, whereas traditional ESG scores reflect a snapshot evaluation at a single point in time.

## Blue Map for Business App

The new Blue Map for Business App provides banks, institutional investors, asset managers, and other financial institutions the DECRA scores of enterprises in IPE's database – efficiently delivering the salient information they seek for decision-making about providing loans to individual companies or putting together investment portfolios. Upon registering, users can search for DECRA scores of enterprises of interest using facility names or key words. By simply checking a box, the institution can enroll to follow the facility moving forward through IPE's **Blue EcoChain** program and thereby receive automatic real-time notifications if a compliance issue arises in the future. By joining Blue Eco-Chain, financial institutions receive continuous updates on environmental performance in real-time and need not rely on snapshot evaluations taken at one point in time.

Facilities seeking loans, too, are well served in the Blue Map for Business App. They can check their environmental performance score and, importantly, take steps that will improve their score and improve their eligibility for a loan. They too can enroll in Blue EcoChain to automatically receive real-time notifications when compliance issues arise. If they issue public explanations for existing compliance problems and pledge to transparently and publicly

disclose beyond-compliance environmental performance data, facilities can increase their DECRA score to some extent.



The Blue Map for Business App and DECRA scores it delivers are currently being piloted for use by a major bank in China with an eye to scale up to tens of thousands of factories by the end of 2020.