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## Second Party Opinion

# Guilin ETDZ Investment Holding Co. Ltd.'s Sustainable Finance Framework

Nov. 25, 2022

Guilin ETDZ Investment Holding Co. Ltd. (Guilin ETDZ) is a state-owned enterprise based in Guilin City, in the northeast of China's Guangxi Zhuang Autonomous Region. Established in 2017, Guilin ETDZ focuses on land development, infrastructure construction, leasing, and merchandise sales within the Guilin City. It is wholly owned by the State-Owned Assets Supervision and Administration Commission of Guilin City.

In our view, Guilin ETDZ's sustainable finance framework, published in November, is aligned with:

- ✓ Social Bond Principles (SBP), International Capital Market Association (ICMA), 2021 (with June 2022 Appendix 1)
- ✓ Social Loan Principles (SLP), Loan Market Association (LMA); Loan Syndications and Trading Association (LSTA); and Asia Pacific Loan Market Association (APLMA), 2021
- ✓ Green Bond Principles (GBP), ICMA, 2021 (with June 2022 Appendix 1)
- ✓ Green Loan Principles (GLP), LMA/LSTA/APLMA, 2021
- ✓ Sustainability Bond Guidelines (SBG), ICMA, 2021

## Issuer's Sustainability Objectives

As a key urban infrastructure developer, Guilin ETDZ aims to accelerate urbanization in Guilin City. In its framework, the company says it wants stakeholders (government, industry, employees, business partners, and communities) to derive social and environmental benefits from its economic performance.

Reflecting China's 14th Five-Year Strategy Plan, the company's sustainable finance framework commits to integrating environmental and social considerations into its business plans.

Guilin ETDZ has developed its sustainable finance framework in order to issue bonds, loans, and other debt instruments that meet the company's eligibility criteria and fit within its sustainability objectives.

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# Second Party Opinion Summary


## Use of proceeds

**Alignment**  Guilin ETDZ's sustainable finance framework is aligned with this component of the SBP, SLP, GBP, GLP, and SBG.

**Score** Not aligned Aligned **Strong** Advanced

Guilin ETDZ commits to allocating an amount equal to the net proceeds of the financing raised under the framework exclusively to eligible green and social projects that contribute to specific environmental and social objectives and support clear targets from the U.N.'s Sustainable Development Goals (SDGs). Reporting will include the share of financing versus refinancing. The look-back period for refinanced projects will not exceed three years from the time of issuance.


## Process for project evaluation and selection

**Alignment**  Guilin ETDZ's sustainable finance framework is aligned with this component of the SBP, SLP, GBP, GLP, and SBG.

**Score** Not aligned **Aligned** Strong Advanced


Guilin ETDZ's framework clearly outlines its process to select and approve eligible sustainable projects (ESPs). The sustainability project work group (SPWG) will meet at least annually to discuss and select ESPs according to the eligibility and exclusion criteria listed in the framework. The shortlisted projects will then be presented to the company's board of directors for final approval. Guilin ETDZ will rely on third-party feasibility studies, including environmental and social impact assessments, to identify and manage the environmental and social risks stemming from the financed projects.

## Management of proceeds

**Alignment**  Guilin ETDZ's sustainable finance framework is aligned with this component of the SBP, SLP, GBP, GLP, and SBG.

Guilin ETDZ will deposit net proceeds in its general funding account. It will reserve funds raised by the instruments for allocation to ESPs. The company will maintain a register to track the allocation of proceeds. Guilin ETDZ commits to monitoring the net proceeds of all outstanding transactions, including tracking the proceeds and adjusting the balance of net proceeds to match allocations to ESPs. Unallocated proceeds will be held in short-term deposits.

## Reporting

**Alignment**  Guilin ETDZ's sustainable finance framework is aligned with this component of the SBP, SLP, GBP, GLP, and SBG.

**Score** Not aligned **Aligned** Strong Advanced

Guilin ETDZ commits to disclosing the allocation of net proceeds and the environmental and social impacts of the financed projects annually until the full allocation of net proceeds. This information will be made publicly available through the company's social media, or in its sustainability reports.

# Framework Assessment

## Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

 Guilin ETDZ's sustainable finance framework is aligned with this component of the SBP, SLP, GBP, GLP, and SBG.

### Commitments score

Not aligned

Aligned

**Strong**

Advanced

We consider Guilin ETDZ's commitments on the overall use of proceeds to be strong.

The company commits to allocating, within three years, an amount at least equivalent to the net proceeds of any sustainability financing transactions (SFTs) issued under the framework to exclusively finance or refinance eligible green and social projects.

The framework identifies three green project categories: 1) green building and energy efficiency; 2) sustainable water resources and sewage management; 3) pollution prevention and control, and terrestrial and aquatic biodiversity. It identifies three social project categories: 1) affordable housing; 2) affordable basic infrastructure; and 3) employment generation. Each eligible project category contributes to specific environmental or social objectives and supports targeted U.N. SDGs.

Guilin EDTZ describes green building projects as contributing primarily to pollution prevention and control, while they are most impactful for greenhouse gas emissions avoided, in our view. The framework references SDG target 9.4 (by 2030, upgrade infrastructure and retrofit industries to make them sustainable) and 11.c (support least developed countries, including through financial and technical assistance). SDG 11.c does not look strongly relevant to the category in Guilin City, in our view.

New buildings will obtain a pre-rating certificate and a green building certification within two years of completed construction. The company has a list of specific features for its projects (e.g. sound insulation), adding transparency to the framework. In particular, the renovation of existing buildings has to achieve at least a 5% reduction in energy use. This does not seem very ambitious to us.

Sustainable water resources and sewage management projects are relevant to SDG targets concerned with water security and quality. One example of a terrestrial and aquatic biodiversity project is the company's plan to support natural resource conservation through endogenous water management (such as collecting floating rubbish from lakes) and ecological restoration projects.

Social categories include affordable housing for middle-to-low income front-line production and logistics workers. Guilin EDTZ says it aims to improve this target group's access to accommodation by providing affordable rental housing options. The municipal government authorities will determine the rental level with reference to the Notice of Guilin Municipal Public Rental Housing Management Measures. This mechanism should ensure the target population derives a benefit from concessionary rental.

Guilin EDTZ's affordable basic infrastructure projects aim to improve the economic inclusion of rural villages, through constructing toll-free connecting roads from the city to remote village areas currently without developed infrastructure. Projects include construction of supporting infrastructure, and renovation of old villages. Similarly, the development of industrial parks and eco-environment-oriented development projects will generate employment for an underserved population by creating job opportunities for poor households and farmers in the surrounding areas.

Guilin ETDZ will disclose the share of financing versus refinancing of the proceeds in its allocation reporting. The look-back period for refinanced projects will not exceed three years from the time of issuance. While this is market standard, shorter maximum look-back periods are better practice, in our view.

## Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For the process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance instrument.

 Guilin ETDZ's sustainable finance framework is aligned with this component of the SBP, SLP, GBP, GLP, and SBG.

### Commitments score

Not aligned

**Aligned**

Strong

Advanced

We consider Guilin ETDZ's overall process for project selection and evaluation commitments to be aligned.

The framework clearly describes the process to determine how projects fit within eligible project categories. The company has set up a SPWG consisting of members from the funding, investment, and financial management departments. The SFWG will meet at least annually to discuss and select ESPs according to the eligibility criteria listed in the framework and the feasibility report. It commits to not allocating proceeds, including the temporary placement of unallocated proceeds, to activities on the latest International Finance Corporation Exclusion List. Such activities include weapons, alcohol, tobacco, gambling, radioactive materials, and forced or child labor. Shortlisted projects will then be presented to the board of directors for approval.

The framework also details Guilin ETDZ's processes for identifying and managing environmental and social risks associated with projects. For each ESP, the company will commission a feasibility study, including an environmental and social impact assessment, by accredited third parties. The feasibility study report will cover the identification, analysis, and management of relevant environmental and social factors, as well as their impacts, throughout the project lifecycle.

Guilin ETDZ's eligibility criteria are based on the China Green Bond Endorsed Projects Catalogue for all eligible green project categories. Eligible green buildings must meet specific standards for environmental performance (such as China's Green Building Evaluation Standard - GB/T50378-2019) or obtain at least two stars (out of three) under the Chinese Green Building Evaluation Standard, or achieve comparable and recognized standards. Nevertheless, social project categories do not refer to systematically market-based taxonomies, standards, or certifications, arguably for lack of such authoritative references regarding to affordable basic infrastructure and employment generation. Guilin ETDZ only refers to the Notice of Guilin Municipal Public Rental Housing Management Measures to define the target population for affordable housing projects.

## Management of proceeds

The Principles require disclosure of the issuer's management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will remain dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

 Guilin ETDZ's sustainable finance framework is aligned with this component of the SBP, SLP, GBP, GLP, and SBG.

The net proceeds of each SFT will be deposited in Guilin ETDZ's general funding account and earmarked for allocation to ESPs. Guilin ETDZ will maintain a register to track the allocation of proceeds. The company commits to monitoring the net proceeds of all outstanding transactions, including tracking the proceeds and adjusting the balance of net proceeds to match allocations to ESPs.

Pending allocation, unallocated proceeds will be held in short-term deposits, in line with market practice. The company will also publicly disclose the types of temporary placement of unallocated proceeds.

## Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

 Guilin ETDZ's sustainable finance framework is aligned with this component of the SBP, SLP, GBP, GLP, and SBG.

### Disclosure score

Not aligned

**Aligned**

Strong

Advanced

We consider Guilin ETDZ's overall reporting practices to be aligned.

The company commits to reporting the allocation of the net proceeds, and the impacts of the financed projects. It will report the information on an annual basis until full allocation of all the net proceeds. Such information will be publicly available on the company's social media, or sustainability reports.

Allocation reporting will include the share of financing versus refinancing, the proportion of net proceeds allocated, and the balance of unallocated proceeds and its temporary placement.

In addition, the company will disclose the expected and actual environmental and social impacts of the financed projects, subject to data availability. Impact indicators include energy reduction, amount of wastewater treated, cleaned up water area, units of affordable houses constructed, number of individuals who benefited, and the number of new jobs created, among others.

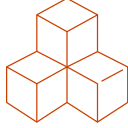
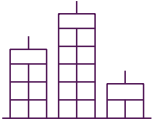






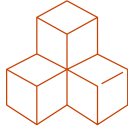
The company does not commit to having independent third-party verification nor to having an audit of its allocation reporting post-issuance, nor to disclosing the calculation methodologies and key assumptions used to calculate the quantitative performance measures. We view such commitments as good practice.

# Mapping To The U.N.'s Sustainable Development Goals

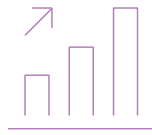
The SDGs, which the U.N. set up in 2015, form an agenda for achieving sustainable development by 2030.

We use the ICMA's SDG mapping for this part of the report. We acknowledge that ICMA's mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

Guilin ETDZ's sustainable finance framework intends to contribute to the following SDGs:

Use of proceeds	SDGs	
Green building and energy efficiency	 <b>*9. Industry, innovation and infrastructure</b>	 <b>*11. Sustainable cities and communities</b>
Sustainable water resources and sewage management	 <b>*6. Clean water and sanitation</b>	 <b>*12. Responsible consumption and production</b>
Pollution prevention and control, and terrestrial and aquatic biodiversity	 <b>*3. Good health and well-being</b>	 <b>*6. Clean water and sanitation</b>
Affordable housing	 <b>*1. No poverty</b>	 <b>*11. Sustainable cities and communities</b>
Affordable basic infrastructure	 <b>*9. Industry, innovation and infrastructure</b>	

Employment generation



**\*8. Decent work  
and economic  
growth**

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\*The eligible project categories link to these SDGs in the ICMA mapping.

## Second Party Opinion

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