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Second Party Opinion

Lishui ETDZ Industrial Development Group Co. Ltd. Sustainable Finance Framework

Primary contact

Vanessa Lai
Hong Kong
+852-2912-3019
vanessa.lai@spglobal.com

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Location: China

Sector: Engineering and Construction

Alignment Summary

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

- ✓ Social Bond Principles, ICMA, 2023
- ✓ Social Loan Principles, LMA/LSTA/APLMA, 2023

See [Alignment Assessment](#) for more detail.

Strengths

Lishui Economic and Technological Development Zone Industrial Development Group Co. Ltd. (Lishui ETDZ) is a key enabler of Lishui city's policies. Eligible projects must be in line with the economic development plans and industrial policies of the Chinese government, Zhejiang province, Lishui City, and Lishui Development Zone. In particular, the company supports the local government's mandate to develop affordable housing.

Weaknesses

No weakness to report.

Areas to watch

Lishui ETDZ's disclosures are limited. It is unclear how the company manages social and environmental considerations beyond eligible projects under this framework. This is common for Chinese local government-owned entities.

The financing terms of affordable housing units will be project specific. They will be set by the local government based on the income level, economic development, and financial situation of Lishui's citizens. Lishui ETDZ says the price of resettlement housing will be about 60% of the market price as per the relevant resettlement policy.

Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

Lishui ETDZ was established in 2016 and is based in Lishui city in China's Zhejiang province. The permanent population of the city is 2.5 million, of which 0.9 million are in rural areas.

The company's sole shareholder, the Lishui Economic and Technological Development Zone, is a national economic and technological development zone with a total area of 110 square kilometers. In 2023, the zone's gross domestic product was Chinese renminbi (RMB) 13.1 billion (US\$1.8 billion).

Lishui ETDZ engages in professional market management business (lease of properties and provision of property management services for professional wholesale markets; it accounted for 45% of gross profit of RMB691 million [US\$95 million] in 2023), commodity sales (electrolytic copper products and auto parts; 21%), property sales (13%), construction (4%), and other businesses (property and land leasing, property management, and human resource services; 17%).

Material Sustainability Factors

Workforce health and safety

Construction sites can expose workers to heightened safety risks such as from use of heavy machinery, falls from height, and exposure to hazardous chemicals. These may translate into fatality and injury rates that are high relative to other sectors. The reliance on temporary employees and subcontractors also poses risks because safety protocols for such employees could be lax. Larger companies are typically less affected because of their more comprehensive and systematic training, policies, and standards. China has ratified six occupational safety and health international labor conventions. The State Council's Work Safety Commission issued a three-year action plan in 2024, to strengthen workplace safety through measures such as safety education and training, improvement of hazard assessment system, upgrades of technology support, and law enforcement and assistance.

Working conditions

Working conditions are one of the most material factors in engineering and construction. The population of less-skilled workers in the construction industry is among the largest globally. The industry is highly vulnerable to labor and human rights issues, especially for temporary and migrant workers. In recent years, the construction industry and its labor recruitment practices have come under increasing scrutiny due to issues related to the use of forced labor. Furthermore, many materials commonly used in the sector (notably bricks, cement, and timber) are at high risk of being produced in regions using forced labor. This risk is tempered by China's national compliance with labor rights at 8.9 out of 10 in 2022, according to the International Labor Organization.

Access and affordability

Low housing stock and lack of affordable options can severely influence livelihoods, especially for the vulnerable, low-income population, exposing them to the threat of homelessness. Access and affordability are especially important for tenants, for whom rent can account for a large portion of income. Lack of accessibility and affordability of commercial properties can also hinder the sustainable growth of local communities. In China, average new house prices in 100 major cities were RMB16,244 (US\$2,244) per square meter in January 2024 as per the China Index Academy, while the country's GDP per capita is US\$13,140 in April 2024, according to the International Monetary Fund.

Physical climate risk

Physical climate risk is a material sustainability factor because of the potential damage to assets, and disruptions to many stakeholders and to construction and real estate players' operations it could cause. Acute physical risks--such as typhoons, storms, and floods--can impair, disrupt, or even destroy assets, and affect the availability of essential infrastructure. Over time, chronic risks such as an increase in precipitation or rising sea levels necessitate designing and building infrastructure that is resilient to known and projected climate hazards. Severe weather events can add risks during the construction phase. Acute and chronic risks could damage properties or place tenant health and safety at risk. They could also require investments to manage potential effects or, in severe cases, relocation of tenants. The likelihood of damage to assets due to extreme weather increases without adaptation, more so in regions exposed to climate hazards. According to the World Bank, unabated climate change could lead to GDP losses of 0.5%-2.3% as early as 2030 for China. Chinese provinces account for half of the most exposed global regions to extreme weather events by 2050.

Issuer And Context Analysis

The framework's eligible projects focus on affordable housing. As an enabler of government policies, Lishui ETDZ plays an important role in promoting the socioeconomic development of Lishui city. By developing affordable and resettlement housing (representing 13% of Lishui ETDZ's gross profit in 2023 through property sales), the company aims to facilitate lower income population's access to urban home ownership. The price and financing terms of housing units will be set by the local government, based on the income level, economic development, and financial situation of Lishui's citizens.

Workforce health, safety, and working conditions are important topics in construction activities. Lishui ETDZ has incorporated these considerations into its contractor selection process. For instance, contractors are required to provide safety training and conduct regular safety inspection and monitoring. The company will also rely on feasibility studies to identify and manage potential social risks, which is a standard procedure for development projects in China. Beyond these practices, Lishui ETDZ's strategy and commitment in this regard appear limited to abiding by laws and regulations.

Lishui ETDZ's assessment on physical risks is developing. The company relies on third-party feasibility studies and impact assessments to establish monitoring systems and manage adverse climate impacts on its operations and assets. Lishui ETDZ has limited disclosure on how it addresses physical risks in general, beyond compliance with local regulations. The absence of public policies on climate risks is common among local government-owned entities in China.

Lishui ETDZ's disclosure on its sustainability performance is also limited at this stage. This lack of transparency is largely comparable to that for other local government-owned entities in China. Insight is limited on the company's agenda to address its material sustainability factors and how its operations beyond eligible projects may affect its consolidated sustainability performance. Apart from the annual commitment to disclose the expected and actual impact of financed projects, Lishui ETDZ has no concrete plans or timeline for disclosing more comprehensive information.

Alignment Assessment

This section provides an analysis of the framework's alignment to Social Bond and Loan principles.

Alignment Summary

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

- ✓ Social Bond Principles, ICMA, 2023
- ✓ Social Loan Principles, LMA/LSTA/APLMA, 2023

✓ Use of proceeds

All the framework's social project categories are considered aligned. Lishui EDTZ commits to allocate the net proceeds issued under the framework exclusively to eligible social projects. Please refer to the Analysis of Eligible Projects section for more information on our analysis of the social benefits of the expected use of proceeds.

The company will disclose the proportion of financing versus refinancing in its allocation reporting. The maximum look-back period for refinanced projects is three years after issuance, in line with market practice.

✓ Process for project evaluation and selection

The business departments of Lishui ETZ will identify potential projects. The company's sustainable work group comprises representatives from the general, planning finance, and investment development departments. The group will meet at least annually to screen and select projects based on the framework's eligibility criteria. The identification and management of potential social and environmental risks related to projects will be part of the projects' feasibility reports. Shortlisted projects will then be presented to the board of directors for approval. The framework includes exclusion criteria that reference the International Finance Corp.'s exclusion list, covering topics such as weapons and munitions, alcoholic beverages, tobacco, and gambling.

✓ Management of proceeds

The net proceeds or an equal amount to the net proceeds will be deposited in Lishui ETZ's funding accounts. The company will maintain a register to track the allocation of proceeds. It commits to periodically adjust the tracked net proceeds to match allocations to eligible projects during the time the sustainable instruments are outstanding. Pending allocation, unallocated proceeds will be invested in treasury bonds, policy bank financial bonds, local government bonds, and cash deposits.

✓ Reporting

Lishui ETZ commits to report annually on the allocation of the net proceeds and on the financed projects' impacts, until full allocation of the net proceeds, and on a timely basis in the case of material developments. Allocation reporting will include the amount of proceeds allocated, share of financing versus refinancing, a brief description of the projects, and target populations. Meanwhile, impact reporting will include the expected and actual impacts of the financed projects. Impact indicators include the number of affordable housing units constructed, number of individuals who benefit, and the rental cost or purchase price compared with the private market.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects considered to have clear social benefits and to address or mitigate a key social issue.

Over the two years following issuance of the financing, Lishui ETDZ expects to allocate 100% of proceeds to refinance affordable housing projects.

Social project categories

Affordable housing

Expenditures relate to construction, maintenance, and upgrading of affordable houses or resettlement housing projects according to government policies.

The government will decide the price and financing terms and ensure they are in line with the market. The return from such projects is meagre and much lower than the market return.

Analytical considerations

- The construction, maintenance, and upgrade of affordable and resettlement housing helps improve housing conditions for low-income households. It aligns with the housing-security initiative under China's 14th Five-Year Plan and the Three Major Projects initiative. Announced in 2023, the Three Major Projects initiative focuses on three pillars: affordable housing, rural vitalization, and public infrastructure for normal and emergency use (see "[China LGFV's Bigger Housing Role: Risk Control Matters](#)," published March 27, 2024).
- The price and financing terms of housing units will be set by the local government, based on the income level, economic development, and financial situation of Lishui's citizens. Lishui ETDZ says the rental cost of housing units will be RMB15-RMB20 (US\$2.1-US\$2.7) per square meter per month, while the market rental price in the city is generally RMB30 (US\$4.1) per square meter per month. For resettlement housing, the price will be about 60% of the market price, as per the relevant resettlement policy. The company has shared that the price of one of its recent resettlement housing projects in Lishui was about RMB7,200 (US\$986) per square meter while the market price per square meter for comparable properties was close to 65% higher. According to the China Index Academy, average new house prices in 100 major cities in China were RMB16,461 (US\$2,330) per square meter in August 2024.
- Lishui ETDZ will disclose the rental cost or purchase price compared with the private market in its impact reporting.
- The target population--low-income families--is defined as families whose annual per capita income is less than 60% of the annual per capita income of urban residents in the previous year. This classification follows the guidance of the Lishui Municipal Housing and Urban-Rural Development Bureau, adding credibility to the eligibility criteria. In 2023, the annual per capita income of urban residents in Lishui city was RMB58,583 (US\$8,026).
- The development of affordable properties or resettlement housing may involve the relocation of existing residents. Lishui ETDZ confirms it will not participate in the relocation of existing residents and that will be arranged by the local government in accordance with relevant laws and regulations. Nonetheless, the company will use feasibility studies covering the identification and assessment of potential impacts on the community.
- The construction of residential units raises the issue of real estate's impact on climate resilience and climate transition. While the framework does not set out specific performance criteria for the housing units, third-party feasibility studies will cover potential negative environmental impacts.

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

Where the financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not affect our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs
Affordable housing	
	*11. Sustainable cities and communities



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

Related Research

- [China LGFVs' Bigger Housing Role: Risk Control Matters](#), March 27, 2024
- [Analytical Approach: Shades of Green Assessments](#), July 27, 2023
- [Analytical Approach: Second Party Opinions: Use of Proceeds](#), July 27, 2023
- [FAQ: Applying Our Integrated Analytical Approach For Use-Of-Proceeds SPOs](#), July 27, 2023

Analytical Contacts

Primary contact

Vanessa Lai
Hong Kong
+852-2912-3019
vanessa.lai@spglobal.com

Secondary contacts

Bertrand Jabouley
Singapore
+65-9180-4765
bertrand.jabouley@spglobal.com

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