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# Red Lines for a Green Future:

Exploring Exclusionary  
Approaches to Protecting  
Biodiversity and People



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# Executive Summary

The global biodiversity crisis has escalated to unprecedented levels, with ecosystems deteriorating rapidly. One of China's responses, the Ecological Conservation Red Lines (ECR), offers a novel approach to protecting biodiversity and ecosystem functions by strictly prohibiting harmful activities in key areas. This report explores how China's ECR framework can inspire global financial institutions, particularly Chinese banks, to adopt exclusionary financing policies in their investments, thereby mitigating environmental risks and contributing to global efforts to halt and reverse biodiversity loss. The report particularly recommends aligning with the Banks and Biodiversity Initiative's proposed No Go areas as a basis for creating exclusionary policies as a means to safeguard critical ecosystems from harmful development in China and abroad.

## KEY RECOMMENDATIONS

To enhance the role of the finance sector in global biodiversity conservation, international and Chinese banks should:

- ▶ **Develop and Publish a Biodiversity Plan and Strategies:** To implement the Global Biodiversity Framework, international and Chinese financiers should develop and publish a robust biodiversity plan and strategies with concrete targets, goals, and performance indicators to stop and reverse biodiversity loss by 2030.
- ▶ **Adopt Exclusion Policies:** International and Chinese financiers should develop and implement financial exclusion policies that align with the principles of the Ecological Red Lines and the Banks and Biodiversity’s “No-Go Areas.” These policies should explicitly prohibit financing projects and activities that harm critical ecosystems, and should be adopted as part of a banks’ risk management framework or existing exclusion lists.
- ▶ **Integrate ECR Criteria in Due Diligence:** International and Chinese financial institutions should incorporate and evaluate ecosystem functions and ecosystem integrity as key parts of environmental and social risk assessments.
- ▶ **Adopt and Implement Strong Indigenous Peoples Rights Policies:** International and Chinese financiers should develop, adopt, and publish Indigenous Peoples Rights policies, if they do not already.

*The golden snub monkey is endangered. The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services warns that 1 million species are now facing extinction.*



- ▶ **Require Free, Prior, Informed Consent:** International and Chinese financiers should require themselves and their clients to comply with free, prior, and informed consent as an ongoing, iterative process for all activities which may impact Indigenous Peoples and affected communities, and respect scenarios where consent may conditionally be given, or not given at all.
- ▶ **Develop and Disclose Loan Covenants related to Environmental, Social, Biodiversity, and Climate Obligations:** International and Chinese banks should develop and publicly disclose loan covenants related to environmental, social, biodiversity, and climate obligations to ensure client accountability.
- ▶ **Holistically Develop, Strengthen, and Expand on Cross-cutting Policies:** International and Chinese banks and financiers should holistically develop, strengthen, and expand on policies which are inherently cross-cutting, such as climate, biodiversity, and Indigenous Peoples, so that respective frameworks are aligned and do not conflict.
- ▶ **Enhance Transparency and Accountability:** International and Chinese banks should publicly disclose their exclusion policies and provide regular updates on their implementation. This transparency can build trust and demonstrate a commitment to environmental stewardship.
- ▶ **Strengthen communication channels and grievance mechanisms:** International and Chinese banks should strengthen communication channels with the public to understand and engage with various stakeholders, including affected communities, on the potential or existing risks of bank-financed activities. This includes providing current contact information on bank websites, substantively responding to community and public concerns promptly, and establishing an open, accessible grievance mechanism for communities who are negatively impacted by existing bank financing.
- ▶ **Commit to Implementing the Global Biodiversity Framework:** International and Chinese banks should publicly commit to implementing the Global Biodiversity Framework. For Chinese banks, this is in line with China's National Biodiversity Action Plan, as well as their longstanding obligation under various Chinese overseas and green finance policies to follow international norms.

# Introduction

According to the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES), “Human actions threaten more species with global extinction now than ever before,” with “1 million species already facing extinction, many within decades.” IPBES warns that without urgent action, “there will be a further acceleration in the global rate of species extinction, which is already at least tens to hundreds of times higher than it has averaged over the past 10 million years.” **With 75% of the world’s land surface now “significantly altered “ by multiple human drivers, and “66% of the ocean...experiencing increasingly cumulative impacts”<sup>1</sup>, it is more important than ever to safeguard the remaining critical marine and terrestrial landscapes necessary to maintain critical ecosystem functions – and life on Earth.**

As the world grapples with the challenge of preserving nature and biodiversity, China is no exception. China’s ecosystems are severely degraded, with ecologically vulnerable areas accounting for about 48% of the country’s land area.<sup>2</sup> For example, in the past 10 years, the glacier area on the Qinghai-Tibetan Plateau, known as the “roof of the world”, has retreated by 10%.<sup>3</sup> Grasslands in the northern sand prevention belt<sup>4</sup> and forests and wetlands in China’s northeastern forest belt have significantly decreased, which are critical in China’s longstanding anti-desertification efforts.<sup>5</sup> Many other valuable ecosystems and species likewise remain inadequately protected.<sup>6</sup> According to Dr. Gao Jixi, a member of China’s Ecological and Environmental Protection Committee, 10% of important ecosystem types, wild plant, and animal species classified as “nationally protected” were not yet protected through concrete mechanisms.<sup>7</sup>

China’s longstanding environmental crisis has triggered a wave of policy responses over the years. Perhaps one of the most promising is the development of the Ecological Conservation Red Lines (ECR).

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Also known as Ecological Red Lines, they are a policy and spatial management tool. ECRs were developed to protect biodiversity, ecologically sensitive areas, and ecosystem functions from activities which may impact their integrity.

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The ECRs are a key part of China’s long-term goal of safeguarding its ecological security<sup>8</sup>. ECRs are identified and delineated based on scientific assessments, approved by the State Council, and implemented by provincial governments.<sup>9</sup>

According to China’s Ministry of Ecology and Environment (MEE), “development activities that do not conform” to the protection of ECR areas “are strictly prohibited”<sup>10</sup> so that ecosystem integrity and biodiversity maintenance can be protected<sup>11</sup>. **ECRs represent a step beyond traditional conservation tools, such as protected areas, as they are meant to holistically identify and protect critical ecosystems based on scientific data.** In contrast, the traditional practice of creating protected areas, while critically important in many cases, may reflect political motivations or artificial boundaries, rather than those based on scientific assessments and the natural contours of ecosystems<sup>12</sup>.

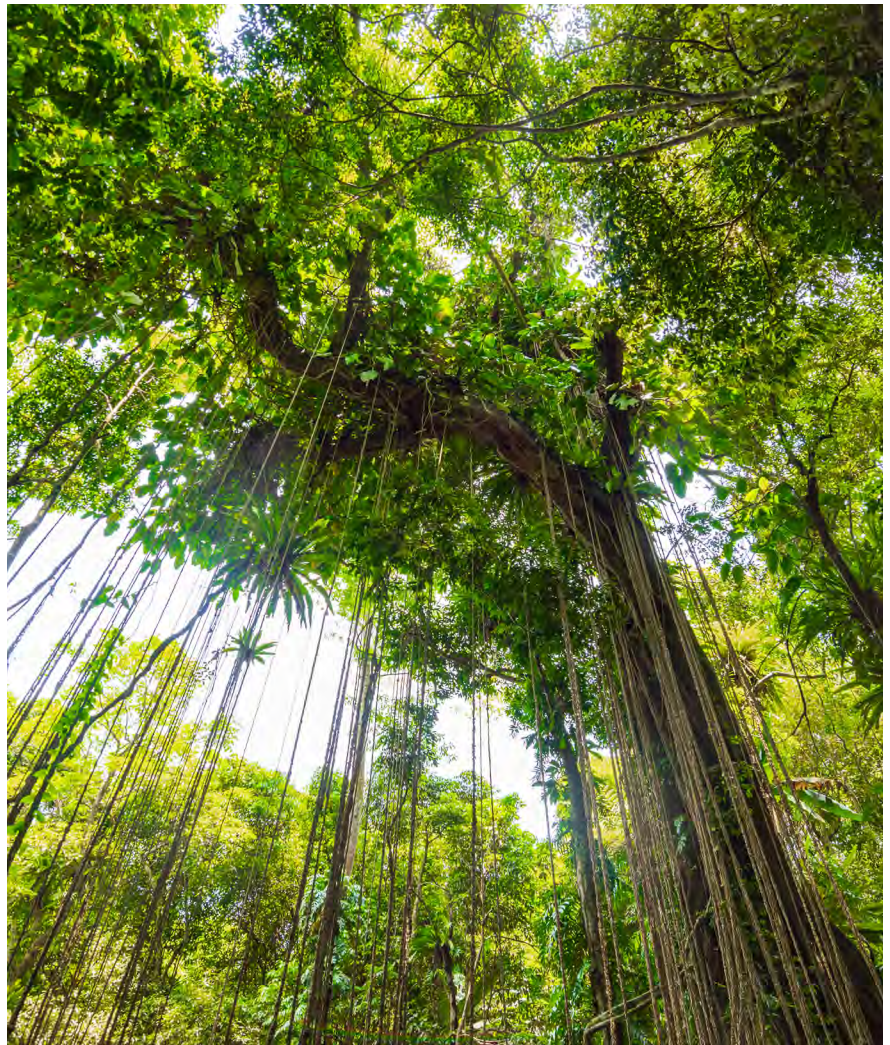
Ecological red lines were first announced as a policy tool in 2011<sup>13</sup>, and since then have become a prominent aspect of Xi Jinping’s approach towards managing environmental protection. In 2021, Xi stated, “When it comes to environmental protection, one must not cross the line, or one will be punished.”<sup>14</sup> In April 2023, China announced that all ECR areas had been demarcated, in which a total of approximately 3.19 million square kilometers were identified as ECR areas. Of this, around 3.04 million square kilometers are terrestrial areas, with the remaining red lines consisting of marine areas. These red lines include existing protected areas,

as well as all 35 biodiversity conservation priority areas, reflecting 90% of ecosystem types found in China.<sup>15</sup>

Since the ECR system has been completed, some Chinese banks have taken initial steps to adhere to ecological red line areas as a means of managing and mitigating risk. **Although the ECR policy framework and implementation system is still young, financiers can still learn a great deal from this science-based approach in strengthening their own biodiversity protection policies.**

## Report Scope and Objective

In Chinese, a “red line” denotes an insurmountable boundary, a border which can never be crossed. Drawing upon this imagery, ECRs have become a compelling policy and land management tool for identifying and protecting critical ecosystems. Given the world’s accelerating extinction rates, it is becoming increasingly clear that in order to stop and reverse biodiversity loss, policies that exclude and prohibit harmful activities at the outset are needed more than ever.



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This report examines and explores China’s ECR framework to demonstrate how an exclusionary approach can be an effective and simple strategy for financiers to conserve nature and stop biodiversity loss.

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By adopting an exclusionary approach and “redlining” sensitive ecosystems from receiving finance, particularly those where free, prior, and informed consent (FPIC) has not been obtained from Indigenous Peoples and affected communities, financiers can play a powerful role in precluding harmful investments from taking place.

# Understanding the Ecological Redlines

While ecosystem function assessment is well established in scientific literature, integrating these assessments into government or bank policy frameworks is still uncommon. The ECR's emphasis on protecting ecosystem functions is a key public policy innovation, as it promotes a more holistic approach to biodiversity conservation.

In China, **ecological red lines are a policy and spatial management tool that identifies key areas and landscapes crucial for their provision of ecosystem functions. Such areas are identified based on their contributions to maintaining biodiversity, supporting ecosystem functions, and protecting ecologically sensitive areas.**

For instance, common ECR areas include those critical for water conservation, biodiversity maintenance, soil conservation, coastal ecological stability, as well as ecologically sensitive and fragile areas prone to soil erosion and desertification.<sup>16</sup>

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Once designated as an ECR area, the Chinese government screens any proposed development in the area based on three criteria:

1. Ecosystem functions should not degrade,
  2. The protected area should not decrease,
  3. The nature and function of area should fundamentally not change.<sup>17</sup>
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*China's longstanding environmental crisis has triggered a wave of policy responses over the years, including the Ecological Red Lines.*



In redline areas, all development and construction activities that would have significant impacts on ecosystem integrity are prohibited, allowing only very limited, low-intensity human activities.<sup>18</sup> By identifying and protecting areas that are crucial for maintaining ecosystem functions, the ECR aims to help control and redirect economic growth away from ecologically valuable areas.

The concept of ECRs originates from China's farmland red lines in the agricultural sector, which was initially established to ensure food security by protecting a minimum threshold of arable land. Since then, the concept of establishing red lines for environmental protection has evolved, starting with pilot studies which assessed ecosystem functions and red lines, to ad-hoc environmental policies, and eventually to a formalized policy framework detailing the criteria and process for establishing ECRs (see table: Evolution of Ecological Red Lines (ECR) Policy in China: Key Milestones).

A key impetus for the ECRs was a 2012-2014 national assessment regarding China's overall ecosystem functions.<sup>19</sup> The assessment found that the quality of the country's ecosystem functions was in poor condition and that previous efforts had only resulted in minimal improve-

ment. Notably, **the Assessment found that expanding protected areas was not enough to reverse long-term degradation.** Prior to the ECR, China had developed various types of natural protected areas, such as nature reserves, scenic spots, geological parks, drinking water source areas, cultural heritage sites, among others.

However, the spatial layout of these protected areas was ineffective, as they were delineated based on political, cultural, or other artificial attributes, instead of based on ecosystem functions. As such, some protected areas adjoined and/or overlapped while others did not, making it difficult to effectively protect and maintain the overall integrity and connectivity of ecosystems and their functions.<sup>20</sup> Moreover, management of these protected areas often belonged to different departments and government agencies, making coordination difficult and at times leading to conflicts.<sup>21</sup>

Furthermore, "building without prior approval" is very common in China, leading to uncontrolled development in ecologically important areas. If implemented correctly, the ECR policy can significantly help address this challenge by providing clear guidance on where harmful development activities should be off limits.<sup>22</sup>



# Evolution of Ecological Red Lines (ECR) Policy in China: Key Milestones

YEAR	DEVELOPMENTS	SIGNIFICANCE
2000	<b>Proposal first emerged</b> to delineate ‘ecological red lines’ <sup>23</sup>	ECR as a concept was born
2002	A <b>‘red line control zone’ was proposed and adopted</b> in An Ji County, Zhejiang Province, an affluent costal area in eastern China. A company that fell within the redlines areas was compensated so they would relocate outside the area. <sup>24</sup>	This became the first example of applying the ECR concept in land planning, kick-starting nearly a decade of similar local and provincial level pilot experiments
2011	China’s State Council issued the <b>Opinions on Strengthening Key Environmental Protection Work</b> <sup>25</sup> , which committed to delineate ecological red lines.	This was the first time the ECR was mentioned in a national policy document, confirming the central government’s intention to implement it at a national level. <sup>26</sup>
2013	Xi Jinping called for firmly establishing an <b>“ecological red lines’ perspective,”</b> urging for the delineation and adherence to ecological red lines during a group learning session for the Political Bureau of the Central Committee of China’s Communist Party (CCP), the country’s top decision-making body. <sup>27</sup>	ECR was featured prominently in the CCP Central Committees’ programmatic documents. Xi’s strong endorsement elevated the importance of the policy, paving ways for further implementations.
2014	Following the first major revision in 25 years, China’s new <b>Environmental Protection Law</b> affirmed that ‘the state delineates ecological protection red lines in key ecological functional areas, ecologically sensitive areas, fragile areas and other areas, and implements strict protection’. <sup>28</sup>	ECR was strengthened by expanding from a policy obligation to a legal expectation.
2015	A joint notice issued by the Central Committee of the China Communist Party and the State Council outlined <b>ECR as a key step in the construction ecological civilization in China.</b> <sup>29</sup>	As the highest governing bodies in China, the joint notice solidified ECRs as a key step in achieving China’s vision of an “ecological civilization.”
2016	The <b>Opinions on Delineating and Strictly Adhering to the Ecological Protection Red Lines</b> set a deadline to complete the process of delineating ECRs by 2020. <sup>30</sup>	The “Opinion” marked the official start of the ECR delineation work.
2017	China’s then Ministry of Environmental Protection and National Commission of Reform and Development issued joint <b>Guidelines for Delineating Ecological Protection Red Lines.</b> <sup>31</sup>	The Guide established technical details to guide the actual delineation of ECR.
2018	<b>China approved 15 provincial plans to delineate ecological red lines.</b> <sup>32</sup> This was followed by a few years of reviewing and revising plans and establishing further plans to resolve conflicts.	This marked the start of reviewing and revising ECRs in delineation and implementation.
2023	China announced the <b>completion of the delineation of the Ecological Protection Red Line</b> in China. <sup>33</sup>	The completion of the ECR delineation marked the start of management and supervision.

# Identifying and Establishing Ecological Red Line Areas

The ECR policy framework aims to establish a comprehensive map of protected ecosystems. The delineation of ECRs in China is guided by the principles outlined in “Opinions on Delineating and Strictly Observing Ecological Protection Red Lines,” a policy document issued by the Ministry of Environmental Protection (now renamed as Ministry of Ecology and Environment) and the National Development and Reform Commission in 2017.<sup>34</sup> According to this document, ECRs are established by identifying ecologically important regions that perform crucial functions such as water conservation, biodiversity maintenance, soil erosion control, and sand fixation. The guidelines also specify methods for evaluating and mapping ecologically sensitive areas. This includes identifying regions vulnerable to problems like soil erosion, desertification, and salinization.

The process for delineating ECRs involves determining boundaries based on forest edges, snow lines, watershed divides and other natural contours to follow and reflect natural ecosystem boundaries. The boundaries of ECRs are defined through land surveys, and if relevant, connected to the natural boundaries of existing protected areas like nature reserves and

scenic spots. After ECRs are mapped, they are to be marked on the ground with standardized signage to ensure boundaries are accurate and visible.

Delineating and protecting ECRs involves various entities. **The central government proposes ecological red line areas, and provincial governments develop plans to coordinate and implement ERAs on the local level, ensuring consistency and addressing cross-regional ecological issues.** Provincial governments are also involved in the delineation process and are required to establish responsibility systems and coordination mechanisms to oversee it, involving extensive consultation and technical review. The Ministry of Environmental Protection and the National Development and Reform Commission are tasked with providing oversight, offering guidance, and conducting technical audits to ensure the accuracy of the delineations. **Once the ECRs are finalized, they are to be approved by the State Council and officially published by provincial governments.** For marine territories, the State Oceanic Administration is responsible for developing specific guidelines to integrate marine ecological red lines into the national framework.



*The Ecological Red Lines aims to protect critical ecosystems and help China address environmental challenges such as desertification.*

# Management and Supervision of Ecological Red Lines

**ECRs are designed to hold the highest status within China's natural protection system. Once demarcated, they are intended to be protected from any activities which may harm the integrity of ecosystems.** According to the 2017 “Opinions on Delineating and Strictly Adhering to the Ecological Protection Red Line”<sup>35</sup>, “all kinds of development activities” and “arbitrary land use changes” that harm ecosystem functions “are strictly prohibited”.

Furthermore, once an ECR is demarcated, “it can only be increased, not reduced.” The exceptions to the prohibition are major, national infrastructure or livelihood projects; in those cases, the provincial government will organize discussions and propose adjustment proposals. Such proposals shall be reviewed and commented on by MEE and NDRC together with other relevant agencies, and then submitted to the State Council for approval. As a result, ECRs enjoy a high level of protection which should, in principle, ensure the integrity and functioning of critical ecosystems from unpermitted, harmful, or politically motivated development due to local government interests.

In managing and supervising ECRs, China has established and clarified roles for both central and provincial governments<sup>36</sup>. The Central Committee of the Communist Party of China and the State Council mandate that all levels of local party leadership and local governments are responsible for protecting and enforcing the ECR. Provincial governments are tasked with ensuring that these lines' boundaries are strictly adhered to, with a clear stipulation that industrial development within these areas is prohibited, in principle.

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This centralized control aims to foster consistency while also holding provincial officials accountable, so that China's ecological objectives are not undermined by local government interests.

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Within the central government, the responsibility for managing the ECR rests with the Ministry of Natural Resources, while the Ministry of Ecology and Environment oversees its supervision<sup>37</sup>. In 2015, Xi Jinping established the Central Environmental Inspection Team, which was later upgraded in 2019 to report directly to the Central Committee of the Communist Party. This team conducts inspections across relevant departments, state-owned enterprises, and local governments every five years<sup>38</sup>, with a goal to ensure strict compliance with environmental protection mandates. **The ECR falls within the scope of these inspections, thus making it subject to the highest level of oversight in China's history.** For example, the construction of a new airport in Sanya, Hainan, was found by inspectors to be located within an ecological redline area and was subsequently halted.<sup>39</sup>

Enforcement of the ECR critically relies on satellite monitoring. For example, in Hainan Province, environmental inspectors used satellite images to uncover and rectify incidents of mangrove destruction within red line areas<sup>40</sup>. After satellite data revealed that significant areas of mangroves had been cut down within the ECR since 2022, the Central Environmental Inspection Team, with support from the Satellite Center of the Ministry

of Ecology and Environment, was able to use this information to demand corrective actions from local governments, showcasing the potential of technology to further enhance ECR enforcement.

In another example, a dredging project planned in Shenzhen sparked significant public outcry after it was revealed that the environmental impact assessment (EIA) for the project was plagiarized, with entire sections copied from a previous report on a different location.<sup>41</sup> The combination of the plagiarized EIA and the project's violation of ECRs amplified public interest and concern, highlighting the need for stronger enforcement and oversight in protecting red line areas.

Notably, according to the policy on delineating red lines, party and government officials found to have violated ECR objectives by causing serious ecological, environmental and resource damages, "shall be held accountable for life, and the responsible persons shall be strictly held accountable regardless of whether they have been transferred, promoted or retired."<sup>42</sup> In addition, local party leadership and government staff should "innovate incentive and constraint mechanism, reward units and individuals with outstanding performance in protecting the ecological protection red line"<sup>43</sup>. This language demonstrates the central government's intent to incentivize implementation by tying local government compensation to policy compliance.

## Challenges in Implementing Ecological Red Lines

**However, the ECR's legal standing remains a gray area, and thus a challenge in fostering implementation.** Although the ECR was legally recognized in the 2014 revision of the "Environmental Protection Law,"<sup>44</sup> gaps in the legislative framework and unclear legal responsibilities persist. Chinese researchers have called for the introduction of laws and regulations to



solidify the ECR's legal status and ensure its effective management.<sup>45,46</sup> Proponents for further codifying the ECRs believe that, by establishing a robust legal framework, China can enhance the accountability and long-term effectiveness of the ECR, ensuring it remains a cornerstone of the country's ecological civilization efforts.

**Another significant challenge with the ECR is the lack of transparency.** While the ECR has been fully delineated, the Chinese government has only published vague boundaries on maps, with error margins that could be as large as 10 kilometers.<sup>47</sup> This imprecision creates issues for full implementation, as it is not easily understood whether existing or proposed projects, factories, roads, or villages may lie within ECRs. Due to concerns over national land and information security, however, this data may not be made fully public.

# From Concept to Launch: Applying an Exclusionary Approach to Chinese Financier's Overseas Investments

Although environmental protection writ large is a longstanding theme in Chinese policy frameworks, biodiversity protection is a quickly emerging priority. China's Biodiversity Conservation Strategy and Action Plan directs all sectors to meet and respond to the biodiversity crisis, which includes the financial sector.<sup>48</sup>

**According to Priority 5 in the Action Plan, financial institutions are encouraged “to incorporate biodiversity into project investment and financing decisions.”**

It is also expected that by 2030, corporations will have developed a long-term mechanism for “sustainable use of biodiversity”, in which “the risks, dependence and impacts of key industry enterprises on biodiversity will be regularly monitored, assessed and disclosed”. **Priority 26 calls on embedding biodiversity considerations into China's Green Finance policy systems and “gradually reforming and phasing out policy measures that are detrimental to biodiversity”.**

**Notably, China's Biodiversity Conservation Strategy and Action Plan<sup>1</sup> mandates actively implementing the Convention on Biodiversity's Global Biodiversity Framework (GBF) and “strictly” observing ecological red lines. As a national action plan, this mandate applies to the Chinese finance sector as well.** In ensuring that ecosystem functions and biodiversity are protected, Chinese financiers should explicitly incorporate the GBF's goal of stopping and reversing biodiversity loss, and establish exclusionary policies so that harmful business activi-

ties which fall within critical ecosystems, including ECRs, are off limits to receiving financial support.

Some Chinese banks have already taken steps to adhere to ECRs in China. In February 2023, the Industrial and Commercial Bank of China (ICBC) announced the launch of its “Ecological Protection Red Line Map Project”, which assesses whether a project falls within the ECR and is referenced during the credit granting approval process<sup>49</sup>.

At the local level, ICBC's Huzhou branch in Zhejiang Province, in collaboration with the Beijing Institute of Green Finance and Sustainable Development, conducted research on biodiversity risk management for investment and financing projects.<sup>50</sup> By combining data from Huzhou's ecological red lines, natural protected areas, and important ecological function zones with satellite remote sensing, they are developing a framework for assessing and managing biodiversity risks throughout the entire credit process - from project siting to operation and decommissioning. This framework is currently being tested in biodiversity-sensitive industries, serving as a pilot for broader application.

Moreover, organizations like the Institute of Public & Environmental Affairs, a Chinese research group, are compiling ecological red line maps for various regions in China. Financial institutions that collaborate with IPE have expressed a willingness to share ecological red line data, recognizing its value in mitigating project risks.<sup>51</sup>

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<sup>1</sup> In addition to China's biodiversity action plan, in 2023 Renmin University, the Quzhou Branch of the People's Bank of China, et al published the “Guidelines on Biodiversity Risk Management in the Banking Industry”, which outlines biodiversity risks associated with high impact industrial sectors, and how banks should address them in their risk management frameworks.

The ecological red line framework is a positive step in ensuring critical ecosystems are protected domestically in China. As Chinese financiers and developers continue to expand abroad, the ECR also offers a potential model for Chinese actors to do their part in global biodiversity protection. **Amidst a looming climate and biodiversity crisis, financiers, especially Chinese financial actors, should strengthen exclusionary policies so that critical ecosystems, biodiversity, and ecologically sensitive areas are protected in overseas investments.**

## No Go Areas for No Biodiversity Loss

Exclusionary policies can be a powerful tool for banks and financiers to eliminate environmental, social, biodiversity, and climate risks. **China's ecological red line system is a novel step in ensuring critical ecosystems are protected, and this model can inspire the international financial sector to explore exclusionary approaches in managing environmental, biodiversity, and even social risks.**

Within China, Chinese banks have the ECRs to help them identify areas to avoid. However, when companies and financiers carry out business and investment globally, they face diverse ecosystems and legal frameworks, making it challenging to identify areas that should be off-limits for business and finance. Many host country governments have not yet invested the considerable time and resources to replicate China's process of identifying areas that are critical for protecting biodiversity and safeguarding ecosystem functions.

**For banks' overseas activities, the Banks and Biodiversity Initiative offers clear recommendations for areas which should be off limits to harmful financing which can be useful for both international and Chinese financiers in mitigating, if not eliminating, negative environmental, biodiversity, and even social risks triggered by their location in critical ecosystems and areas.**

Similar to the ECRs in China, the Banks and Biodiversity Initiative has identified a list of No Go Areas, which help identify areas critical for ecosystem functions, biodiversity maintenance, as well as protecting ecologically vulnerable areas. Endorsed by over a hundred civil society organizations and scientists, the Banks and Biodiversity Initiative recommends prohibiting financing which may negatively impact the following eight areas<sup>52</sup>:



### AREA 1:

**Areas recognized by international conventions and agreements** including but not limited to the Bonn Convention, Ramsar Convention, World Heritage Convention and Convention on Biological Diversity, or other international bodies such as UNESCO (Biosphere Reserves, UNESCO Global Geoparks, etc.) or Food and Agricultural Organization (vulnerable marine ecosystems), International Maritime Organization (particularly sensitive areas), IUCN Designated Areas (Categories IA - VI)



### AREA 2:

**Nature, wilderness, archaeological, paleontological and other protected areas that are nationally or sub-nationally recognized and protected by law** or other regulations/policies; this includes sites which may be located in or overlap with formally, informally, or traditionally held conserved areas such as Indigenous and community conserved areas (ICCA), Indigenous Territories (ITs) or public lands not yet demarcated



### AREA 3:

**Habitats with endemic or threatened species, including Key Biodiversity Areas**



### AREA 4:

**Intact primary forests and vulnerable, secondary forest ecosystems, including but not limited to boreal, temperate, and tropical forest landscapes**



**AREA 5:**  
**Free-flowing rivers**, defined as bodies of water whose flow and connectivity remain largely unaffected by human activities



**AREA 6:**  
**Protected or at-risk marine or coastland ecosystems**, including mangrove forests, wetlands, reef systems, and those located in formally, informally, or traditionally held areas, Indigenous Territories (ITs), or public lands not yet demarcated, or Indigenous and community conserved areas (ICCA)



**AREA 7:**  
**Any Indigenous Peoples and Community Conserved Territories and Areas (ICCAs)**, community-based conservation areas, formally, informally, traditionally, customarily held resources or areas, Indigenous Territories, sacred sites and/ or land with ancestral significance to local and Indigenous communities' areas **where the free, prior, informed consent (FPIC) of Indigenous and Local Communities have not been obtained**



**AREA 8:**  
**Iconic Ecosystems**, defined as ecosystems with unique, superlative natural, biodiversity, and/ or cultural value which may sprawl across state boundaries, and thus may not be wholly or officially recognized or protected by host countries or international bodies. Examples include but are not limited to the Amazon, the Arctic, among other at-risk ecosystems

**For Chinese banks, drawing upon the Banks and Biodiversity No Go areas in developing exclusion areas in overseas investments can help them remain consistent with central government policy approaches, as both No Go Areas and ECRs share many characteristics.** For instance, both initiatives include internationally and nationally protected areas

and at-risk coastland and marine ecosystems. Both also account for the need to protect free flowing rivers, intact primary and vulnerable secondary forests, and habitats with threatened and endemic species as they provide critical ecosystem functions, conserve biodiversity, and regulate the climate.

**While the environmental and social context is unique in different countries, the Banks and Biodiversity No Go areas provide a useful reference for areas which tend to be most at risk and in need of protection due to their high biodiversity and climate regulatory value.** As such, these areas also tend to be those associated with critical ecosystem functions, with local, regional, and global impacts.

Due to the worsening biodiversity and climate crises, Chinese banks and international financiers should commit to not financing harmful business activities that may negatively impact Banks and Biodiversity No Go areas in order to ensure that these areas are protected. **When financing activities located outside No Go areas, Chinese and international banks and financiers should still rigorously assess the risks of any potential investment.**

## Protecting Biodiversity and People

China's ECRs are novel in their emphasis on protecting ecosystem functions. **However, China's ECRs overlook the social dimension of biodiversity and ecosystem protection. As such, it is important for financiers to understand that biodiversity is closely intertwined with the rights of Indigenous Peoples and impacted communities.** Research has consistently shown that Indigenous-managed lands have higher rates of biodiversity and lower rates of deforestation. For instance, a study found that Indigenous Peoples lands have a lower deforestation rate in comparison to other areas;<sup>53</sup> another study confirms that forest loss occurs less on Intact Forest Landscapes, concluding that recognizing Indigenous



Peoples rights, especially land tenure rights, “is critical given the urgent need to reduce deforestation rates in the face of escalating climate change and global biodiversity loss”.<sup>54</sup>

In 2019, IPBES emphasized the importance of ensuring Indigenous Peoples are empowered to exercise their rights, noting the challenge that, “Nature managed by indigenous peoples and local communities is under increasing pressure. Nature is generally declining less rapidly in indigenous peoples’ land than in other lands, but is nevertheless declining, *as is the knowledge of how to manage it*”.<sup>55</sup> The Intergovernmental Panel on Climate Change has further echoed the finding that Indigenous Peoples play a “key role” managing lands sustainably and reducing deforestation<sup>56</sup>, indicating that Indigenous Peoples are critical in the global fight to stop both climate change and biodiversity loss. For Indigenous Peoples to effectively play their stewardship role, they should have strong, legal land rights to stay in their territories, and be recognized and protected for their irreplaceable knowledge in managing their land.

**This dynamic further underscores the need for banks to require compliance with FPIC in all their financed activities. Enshrined in international human rights law, FPIC is defined as consent that is given freely by people fully informed of the consequences, prior to any decision being made, and according to their own decision-making processes.** In implementing free, prior, informed consent properly, banks must be prepared to adjust or exit activities which do not meet the expectations of Indigenous Peoples and affected communities. **Respecting their right to FPIC is critical in allowing and enabling them to exercise the right to self-determination, and as a result, their ability to determine their own economic,**

**social, and cultural development paths. This is also why banks should exclude financing for activities in areas which have not obtained FPIC from Indigenous Peoples and affected communities.**

Banks and financiers can take concrete steps to protect the rights of Indigenous Peoples. For instance, banks should include and disclose loan covenants which codify the need for clients to respect the rights of Indigenous Peoples, and detail clear, actionable consequences for clients who fail to do so. Notably, banks should be aware that FPIC is an ongoing process, rather than a single decision at one point in time. As such, banks, financiers, and clients should ensure “project alternatives” are taken as realistic, feasible options, and not discounted or ignored in the scenario that FPIC is not obtained. In developing project alternatives, banks and financiers should realistically consider a “no project” option at any stage of a financed activity in order to facilitate proper implementation of FPIC as an iterative process<sup>11</sup>.

Respecting Indigenous People’s right to FPIC is critical for conserving biodiversity and ecosystem functions.

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In other words, protecting Indigenous Peoples is to protect biodiversity, and vice versa. As such, when developing exclusionary policies to protect biodiversity and critical ecosystems, banks should develop complementary, standalone Indigenous Peoples policies so that protecting people and biodiversity are mutually reinforcing.

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<sup>11</sup> For more information on how banks should implement FPIC in their policies, please see, “Protecting biodiversity from harmful financing: Areas where the free, prior, informed consent (FPIC) of Indigenous and Local Communities have not been obtained,” Banks and Biodiversity Initiative, September 2023. <https://banksandbiodiversity.org/areas-where-the-free-prior-informed-consent-of-indigenous-peoples-and-local-communities-have-not-been-obtained/>

## Exclusion Areas and Exit Strategies

Exclusion areas are those which should be prohibited from harmful financing at the outset. However, bank-financed activities located outside exclusion areas should still be subject to rigorous environmental and social due diligence, assessment, screening, planning, and mitigation policies and procedures.

In some cases, it may be necessary to conduct due diligence to ascertain and confirm that a proposed activity or client supply chain does indeed impact exclusion areas. As such, banks and finan-

ciers should always ensure that their risk management frameworks are robust and effective, and that channels of communication are open and accessible to receive feedback from the public throughout all stages of financed activities. **If the bank, after already committing financing, discovers that the financed activity impacts an exclusion area, they should exit the transaction. This means it is important for banks to have already developed an exit strategy, such as requiring withdrawal, early repayment, and other measures, in order to account for this scenario in on a project level and in their environmental risk management system overall.**



*Respecting Indigenous People's and affected communities' right to free, prior, informed consent is critical for conserving biodiversity and ecosystem functions.*

# The Batang Toru Dam



*The Batang Toru ecosystem is a critical habitat for many endangered species including Sumatran tigers, sun bears, agile gibbons, and pangolins. Crucially, this ecosystem is the only known habitat of the newly discovered Tapanuli orangutan, of which less than 800 currently remain – making it the most endangered great ape species in the world. It is being threatened by a dam supported by China Export Import Bank.*

The Batang Toru Dam project illustrates how an exclusionary approach can help financiers pre-empt involvement in ill-conceived activities with negative biodiversity and Indigenous Peoples impacts. **This case underscores how implementing exclusionary policies in financial decision-making early on can help identify, mitigate, and potentially eliminate such risks, thus preventing financiers from causing irreplaceable harm to ecosystems and vulnerable communities.** By failing to recognize the critical ecological and social risks at the outset, the initial financier of the project, Bank of China, found themselves embroiled in global controversy and reputational damage.

The Batang Toru Dam is a proposed hydroelectric dam project in the fragile Batang Toru ecosystem of North Sumatra, Indonesia. Associated with China's Belt and Road project,<sup>57</sup> the dam was initially set to

be financed by Bank of China and built by PT North Sumatra Hydro Energy (NSHE), a majority Chinese-owned company<sup>58</sup>, and Sinohydro.<sup>59</sup>

If built, the project would generate 510 MW electricity for six hours a day and would occupy several hundred hectares of primary forests along the Batang Toru River. Although the dam's footprint is relatively small physically, its upstream and downstream impacts, as well as its location, would impact a much larger area.<sup>60</sup> For instance, its location would destroy primary forests, thus fragmenting the vulnerable ecosystem into smaller, isolated areas. As North Sumatran ecosystems are already heavily fragmented and degraded, in addition to the dam's downstream impacts, this made project mitigation and alternative siting locations impossible.

In other words, **no mitigation measures could fully address the negative impacts of the project.** The dam's potentially irreversible environmental, social, and biodiversity impacts caused global controversy. The Batang Toru ecosystem is a critical habitat for many endangered species including Sumatran tigers, sun bears, agile gibbons, and pangolins. Crucially, this ecosystem is the only known habitat of the newly discovered Tapanuli orangutan, of which less than 800 currently remain – making it the most endangered great ape species in the world. According to great ape scientists, the dam would singlehandedly lead to the Tapanuli orangutan's extinction.<sup>61</sup>

In addition to the biodiversity impacts, the Batang Toru Dam triggered widespread opposition among local communities, including Indigenous and traditional communities who have lived in the area for generations. If the dam is developed, it would fundamentally shift the natural flow of the Batang Toru River and lead to loss of local livelihoods, cultural ties to lands, and use of farmlands. The project was also mired in legal and reputational problems. For instance, the EIA contained the alleged forged signature of an Indonesian scientist.<sup>62</sup> Furthermore, in 2019 an Indonesian lawyer involved in the court case against the Batang Toru Dam died under strange conditions. Due to his longstanding and vocal opposition to the project, the suspicious circumstances surrounding his death are believed to be linked to his work advocating against the dam.<sup>63</sup>

Although Bank of China was initially set to finance its development, when faced with mounting evidence that negative impacts could not be mitigated, as well as international and local controversy, the bank withdrew from the project in 2019.<sup>64</sup>

If the Bank of China had developed an exclusionary policy based on critical ecosystems and biodiversity protection, it could have avoided the negative reputational impacts. Notably, other banks, such as the Asian Development Bank<sup>65</sup> and Asian Infrastructure Investment Bank<sup>66</sup>, had already declined financing the project due to its negative biodiversity impacts. **If the Banks and Biodiversity No Go areas had been used to assess the project, the Batang Toru Dam project would have been in violation of at least four No Go areas, including those related to threatened species, primary forests, free flowing rivers, and lack of FPIC from Indigenous communities. The project's violation of infringing upon these No Go areas would have clearly signaled the high risks associated with the dam.**

Unfortunately, soon after Bank of China withdrew, SDIC Power, a Chinese state-owned company, acquired a 70% interest in the project.<sup>67</sup> In 2022, the company had been quietly raising funds via a loan syndicate, which is being led by the Export-Import Bank of China (China Exim)<sup>68</sup> a major policy bank in China. Although the bank has developed some environmental policies, China Exim has not publicly published policies related to biodiversity and Indigenous Peoples.

**The Batang Toru Dam case is a warning for other banks investing in highly biodiverse regions, and the need for exclusionary policies to avoid such risks.**

Conditions for the dam development remain the same, meaning that the biodiversity, environmental, social, climate, and Indigenous Peoples challenges have not changed since Bank of China withdrew.

**If China Exim and SDIC continue to develop the Batang Toru Dam, they will likely cause irreversible impacts, including the extinction of the Tapanuli orangutan. Notably, due to the project's numerous environmental and social risks, financing the dam would also violate other Chinese policies, including China Exim Banks's own environmental policy, as well as China's Green Finance Guidelines.**<sup>69</sup>

This case study further illustrates the need for Chinese bank regulators to ensure that all Chinese banks, including China's policy banks, are held accountable to the Chinese government's regulations and biodiversity targets. Ultimately, it is a cautionary tale of how identifying risks associated with a project's location early on is critical for avoiding unnecessary risks and demonstrates the need for banks and financiers to not make the same mistakes again.

# Conclusion

China's Ecological Red Lines represent the country's unique contribution in ecological and environmental protection, providing a science-based, exclusionary approach to safeguarding critical ecosystems.

While delineating ECRs for overseas projects can be challenging due to varying ecological and regulatory contexts, adopting an exclusionary approach, aligned with the principles of ECRs, allows banks to identify and mitigate environmental risks more efficiently. When combined with the Banks and Biodiversity Initiative's No Go areas, which additionally stresses the importance of respecting Indigenous Peoples, banks and financiers can be better prepared to avoid becoming involved in harmful activities at the outset.

Exclusionary policies can be a useful tool in acknowledging and protecting ecosystem functions so that better environmental and social outcomes can be achieved. According to IPBES, "Economic incentives have generally favored expanding economic activity, and often environmental harm, over conservation or restoration. *Incorporating the consideration of the multiple values of ecosystem functions and of nature's contribution to people into economic incentives has, in the economy, been shown to permit better ecological, economic, and social outcomes.*"<sup>70</sup> Given the current biodiversity crisis, the science is clear that "incorporating" the multiple values of ecosystem functions and nature in economic incentives – and financier decisions – is crucial for stopping and reversing biodiversity loss.

## KEY RECOMMENDATIONS

To enhance the role of the finance sector in global biodiversity conservation, international and Chinese banks should:

- ▶ **Develop and Publish a Biodiversity Plan and Strategies:** To implement the Global Biodiversity Framework, international and Chinese financiers should develop and publish a robust biodiversity plan and strategies with concrete targets, goals, and performance indicators to stop and reverse biodiversity loss by 2030.
- ▶ **Adopt Exclusion Policies:** International and Chinese financiers should develop and implement financial exclusion policies that align with the principles of the Ecological Red Lines and the Banks and Biodiversity's No-Go Areas. These policies should explicitly prohibit financing projects and activities that harm critical ecosystems and should be adopted as part of a banks' risk management framework or existing exclusion lists.
- ▶ **Integrate ECR Criteria in Due Diligence:** International and Chinese financial institutions should incorporate and evaluate ecosystem functions and ecosystem integrity as key parts of environmental and social risk assessments.
- ▶ **Adopt and Implement Strong Indigenous Peoples Rights Policies:** International and Chinese financiers should develop, adopt, and publish Indigenous Peoples Rights policies, if they do not already.
- ▶ **Require Free, Prior, Informed Consent:** International and Chinese financiers should require themselves and their clients to comply with free, prior, and informed consent as an ongoing, iterative process for all activities which may impact Indigenous Peoples and affected communities, and respect scenarios where consent may conditionally be given, or not given at all.
- ▶ **Develop and Disclose Loan Covenants related to Environmental, Social, Biodiversity, and Climate Obligations:** International and Chinese banks should develop and publicly disclose loan covenants related to environmental, social, biodiversity, and climate obligations to ensure client accountability.
- ▶ **Holistically Develop, Strengthen, and Expand on Cross-cutting Policies:** International and Chinese banks and financiers should holistically develop, strengthen, and expand on policies which are inherently crosscutting, such as climate, biodiversity, and Indigenous Peoples, so that respective frameworks are aligned and do not conflict.
- ▶ **Enhance Transparency and Accountability:** International and Chinese banks should publicly disclose their exclusion policies and provide regular updates on their implementation. This transparency can build trust and demonstrate a commitment to environmental stewardship.

- ▶ **Strengthen communication channels and grievance mechanisms:** International and Chinese banks should strengthen communication channels with the public to understand and engage with various stakeholders, including affected communities, on the potential or existing risks of bank-financed activities. This includes providing current contact information on bank websites, substantively responding to community and public concerns promptly, and establishing an open, accessible grievance mechanism for communities who are negatively impacted by existing bank financing.
- ▶ **Commit to Implementing the Global Biodiversity Framework:** International and Chinese banks should publicly commit to implementing the Global Biodiversity Framework. For Chinese banks, this is in line with China's National Biodiversity Action Plan, as well as their longstanding obligation under various Chinese overseas and green finance policies to follow international norms.

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