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BANKING on GREEN

China leads world at pushing market financial tools to create an ecological civilization

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China's financial regulators are creating incentive programs to encourage banks and

other financial institutions to invest the huge sums needed for green development, as part of China's overall goal of building an ecological civilization.

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LI MIN / CHINA DAILY

Back from the brink

By YANG YANG
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As the bus climbs Zhaitouling Mountain in Songyang county, Zhejiang province, the vistas are punctuated with thick bamboo groves, lush green mountains and distant valleys. In short, the kind of scenic beauty with which much of the southwestern part of the province is graced.

Half an hour later, the bus reaches the summit, and an ancient village looms. Houses built with earthy yellow soil, wooden boards, gray bricks and rocks sit high and low along the summit. From here, 850 meters above sea level, Chenjiapu village, 640 years old, extends 200 meters down.

The village's location, its layout and the way it is built give it the appearance of a citadel, and a solitary one at that, but if you wander far and wide around Songyang long enough, you will find that there are more than 100 such villages just like it, of which 71 are on the national list of ancient villages.

More than 170 households are registered in Chenjiapu, for a total population of about 500, and the locals make their living mainly by growing tea, radishes and bamboo and by producing dried bamboo shoots and dried sweet potato slices.

Now, as in many other ancient villages throughout China, urbanization and the promise of better incomes have prompted many villagers to go elsewhere to work or study, and only about 100 people are left in Chenjiapu. Indeed, you get the feeling that the stalwarts left behind, mostly old farmers, are simply biding time as they wait for the death rites to be given to their village.

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A reader enjoys the views on the second floor of Chenjiapu bookstore.

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finance gives the loan officer another dimension when he considers the risk/return trade-off," says Huang.

"Choosing projects is not as simple as looking at the first 100. Suppose a loan officer is considering loans to a sustainable energy company and a coal mining company with the same risk/return trade-off. If there is a key performance indicator for green finance, then the loan will go to the renewable energy company," he says.

Cheng Lin, economist and head of foreign affairs at the Center for Finance and Development at Tsinghua University, says green loans are generally at market rates. But some local governments provide incentives based on the greenness of the projects and the enterprise. For example, in Huzhou, Zhejiang province, if a project or enterprise is categorized as "dark green", the interest rates on green loans could be subsidized by 12 percent. The interest rate subsidy for "medium green" is 9 percent, and 6 percent for "light green".

Data from the China Banking and Insurance Regulatory Commission shows that the average default rate on green loans from the 21 major banks in China was only 0.37 percent as of June last year, compared with a default rate of almost 2 percent on all loans.

Cheng argues that companies that pay attention to the environment also pay attention to long-term benefits for themselves and for society.

He recounts the results of stress testing by Industrial and Commercial Bank of China. "ICBC found that, given enhanced environmental regulations and enforcement, major polluting industries such as steel and cement are actually more likely to default."

Cheng adds, "ICBC is the first commercial bank in the world doing formal stress testing based on the environment."

Since 2016, the push toward green finance has intensified. In August that year, the State Council, China's Cabinet, and seven financial and environmental government agencies issued Guidelines for Establishing the Green Financial System. According to the guidelines, "the primary purpose of establishing the green financial system is to mobilize and incentivize more social or private capital to invest in green sectors, while restricting investment in polluting sectors."

Cheng Lin, of Tsinghua, says: "The People's Bank of China, the central bank of China, has included green factors in the macro prudential assessment framework, which is used to encourage commercial banks to make green loans. For example, the commercial banks that have a higher percentage of green loans or which have issued green bonds can be granted extra points in the (macro prudential assessment) system, which will be translated into them receiving higher interest rates on the reserves they have at the PBOC. This encourages commercial banks to extend green loans and at lower cost."

In May, the China Securities Regulatory Commission, the stock regulator, announced that it would increase its focus on green financing and environmental issues. "The CSRC's key target is to reduce financing costs for green companies, and we have abundant means to achieve that goal,"



A pedestrian walks past the People's Bank of China headquarters in Beijing. SHI YAN / FOR CHINA DAILY



People take part in a bike-riding campaign in Huaian, Jiangsu province, to promote green transportation. ZHAO QIRUI / FOR CHINA DAILY

CSRC Vice-Chairman Fang Xinghai told Xinhua. The agency will expand pilot zones for green corporate bonds and will focus on environmental issues when reviewing IPOs or new measures, Fang said.

Last year, the National Development and Reform Commission established eight green finance pilot zones in five provinces. In addition, the NDRC is working on the inventory to define and certify green projects. Six domains are included: energy saving and environmental protection projects, clean production, clean energy, ecological and environmental industries, green upgrades in infrastructure, and green services. The categorization of these six domains applies to all their manufacturing, construction and operation phases and related services.

Miao, of the World Resources Institute, says details are under discussion.

The city of Huzhou provides 1 billion yuan per year as an incentive for green finance. For example, it has established an online green finance service platform that connects commercial banks to green enterprises, especially small and medium-sized enterprises.

Cheng, the Tsinghua economist, says this is kind of an online catalog of green projects and green enterprises.

In his 2015 visit to the Guian New District in Guizhou province, another green finance pilot zone, President Xi stressed that the planning and construction of the new district should aim for environmental sustainability, as well as high standards. He urged Guizhou to pursue a new development path that was different from the other provinces, underscoring the need for balancing economic development with environmental protection and ecological conservation,



"We help design and structure these projects so they have a good commercial model and are financeable. We introduce the green projects to the financial institutions."

LAN HONG

deputy director of eco finance center at Renmin University of China and deputy director of Guian Green Financial Port Management Committee

according to Xinhua News Agency.

Lan Hong, deputy director of eco finance center at Renmin University of China and deputy director of Guian Green Financial Port Management Committee, says that the less-developed southwestern provinces of Guizhou, Yunnan and Sichuan have great need for green finance so they can develop in an ecologically sound way. The center serves partly as a matchmaker that links green projects in those provinces with Chinese and international banks.

So far, Guian has attracted 22 banks to its green finance center. The area has also set up a green industrial park that has attracted investment from Tencent and Hyundai data centers and FDG electric vehicles.

Another service, provided for free to users, is help in designing green projects so they can be bankable. "We have a green finance library that has lots of projects we have collected

from Guizhou, Yunnan and Sichuan provinces. We help design and structure these projects so they have a good commercial model and are financeable. We introduce the green projects to the financial institutions," says Lan.

Green finance is growing rapidly, but it still has a long way to go. Lehr, of the Paulson Institute, says: "Overall, green bonds have been well received and are often the most cited green finance success story — especially for China. But in the context of the larger global bond market, green bonds are but a drop in the bucket. Globally, the outstanding bond debt is upward of \$100 trillion. Estimates for the total number of green bonds issued in 2017 are about \$155.5 billion.

"The magnitude of the difference between billions and trillions speaks to how far green bonds have come, but also the progress still needed for green finance."