

Green Finance Needs Better System

Zheng Jiguang, *Financial Research Center of Fudan Development Institute*

Since China has opened up to the outside world in 1978, many systemic issues related to Chinese economy and society has come up, among which problems in reference to environmental protection is becoming more severe for the extensive economy growth and development which caused much environmental pollution has brought about a big negative influence on our economy and society. “Decision of the Central Committee of the Communist Party of China on Some Major Issues Concerning Comprehensively Deepening the Reform” adopted at the third plenary session of the 18th central committee of the communist party of China demands an all-round and deeper reform by promoting the transformation of economic structure and social governance. Developing green finance is a key part of the transformation. On 22nd Apr 2015, the green finance work group of central bank issued a report titled “Building Chinese Green Financial System”, in which implementation routes and related suggestions on building such a system have been introduced. In the future, building Chinese green finance is a big step to achieve an improved financial system, more financial innovations and a better developed financial service. Moreover, it is one of the big challenges to Shanghai on this city's way to be an international financial center.

1. Building a Green Financial System

The idea of "green finance" was first introduced to avoid financial risks caused by environmental pollution. As more financial institutions are paying attention to such environmental risks, people have gradually shifted their focus from avoiding risks to managing risks and are exploring a way to build a more systemic financial environment for institutions as well as a system for the prevention and control of social risks.

(1) Building Green Finance——an internal demand made by the increasingly serious environmental problems. The senior economic analyst Marcel Jeucken who works for Rabobank Group holds that, attitudes of financial institutions towards sustained growth will develop from resistance, avoiding to recognition and adoption. Compared to European countries and America who have already entered the third "recognition" stage, the building of Chinese green finance system is relatively slow featuring the majority of financial organizations are still in the first(resistance) or second(avoiding) stage. With the development

In the course of Chinese economic development, early extensive economy growth has made environmental protection an increasingly severe problem in today's China, which caused both economic losses and bad influence on our society. Building green finance is a big step to achieve an improved financial system, more financial innovations and a better developed financial service. The government needs to pay special attention to provide legal support, good financial environment as well as international communication and cooperation for the development of green finance.

of Chinese economy, our environmental problems are becoming more serious, so the government is in urgent need to put great efforts into the development of green economy so as to achieve a sustained development and create a both economic and environmental society.

(2) A new challenge to the top design of financial policies in post-financial crisis era. The financial crisis in 2008 suggested that exist financial systems and economic order in developed countries failed to guide private capitals into sustained growth of economies. The nature of capital is pursuing interests. Without good system designing and regulation, the consume of natural resources and carbon emission will be much more than they are now, thus the consequent environmental problems will be more severe. Therefore, we can see that without an effective top designing of financial policies, it's hard for economies to achieve a healthy, stable and sustained development.

(3) Green financial system is required for the transformation of social governing and economic structure. Chinese serious environmental pollution is mainly related to industrial structure, energy structure and communication structure which usually result in high pollution in China. At this key moment of economic transformation in China, a series of fiscal-tax means and financial measures are needed for changing current incentive mechanism of resource allocation, adjusting economic and energy structures and improving social governing. And an effective and developed green financial system can promote the realization of a deeper Chinese reform.

2. Suggestions on Green Financial System

(1) The government should put much emphasis on top designing of financial policies. Rebuilding financial policies and order is a must to establish Chinese green financial system which can be employed to meet the demand of a long-term development of Chinese economy. Therefore, our policy makers are supposed to promote high-level opening debates and put forth insightful and effective advice on the reform of top designing of financial policies. "Building Chinese Green Financial System" includes a series of related suggestions, but further discovery and discussion are required to put these ideas into practice. Green finance is necessary for the implementation of both national and local development strategies including national "One Belt, One Road" strategy, local strategies in Shanghai like "Four Centers", "The Center for Technology and Innovation" and "Multi-level Capital Market". The development of Chinese green finance, on the one hand, needs the devotion of international institutions such as AIIB(Asian Infrastructure Investment Bank), Silk Road Fund and New Development Bank; on the other hand,

it requires the cooperation between domestic organizations including Chinese central bank, state-owned banks, commercial banks, insurance companies, fund companies, national think tanks and civil think tanks.

(2) A legal environment is necessary for building Chinese green financial system. A beneficial law environment is extremely significant. Cases such as "Love Canal Tragedy" suggest that only the serious implementation of related laws can transform risks of environmental pollution to financial risks and financial institutions will only be willing to reform current financial system when having to avoid and manage risks. Meanwhile, as financial institutions put a high value on financial risks, companies have to pay attention to environmental protection, improve their manufacturing environment and purchase environmental liability insurance as well as green insurance. Therefore, some important foundations for realizing a long-term development of Chinese green finance are enhancing law enforcement, increasing violation cost and shifting environmental costs from public to companies.

(3) A reformed accounting system is required for building Chinese green financial system. Different from the top designing reform promoted by innovative financial policies, accounting system reform is mainly about a micro aspect of financial system—the measurement of value. Traditional financial accounting system, especially accounting standards cannot be used to accurately measure the real value of natural resources. Since many kinds of natural resources are regarded as public properties, their value has been much underestimated. And some negative social and environmental effects caused by enterprise operation have not been accounted into financial statements due to quantitative difficulties. So the price of natural resources is actually not an accurate indication of their scarcity, which also has a bad influence on the efficiency of resources allocation. Consequently, establishing a green financial system needs the collaboration with international organizations and a new accounting system to accurately show the changes in company's financial capital, natural capital and social capital etc.

(4) Financial innovations related to environment are essential for building Chinese green financial system. Nowadays, most of the developed countries have entered the third "recognition" stage featuring their rapid innovation of green financial products and thus developed a new income resource. However, at the present time, both the structure and variety of green financial products in China are relatively simple, among which energy-efficiency finance is the most common product in commercial banks. There are quite a few green financial products available. China is able to form a comprehensive and multi-level system of green

financial products by learning and analyzing how those developed countries has innovated their green financial products successfully. For instance, the development of medium-sized or small green enterprises will be encouraged by reduced lending rate; fund products related to environmental subjects of water or carbon can meet the needs of various investment groups; promoting the issue of green bonds and green shares; encouraging the development of green products in insurance industry; developing green financial products based on the collaboration between different departments etc.

(5) The involvement of financial institutions is required for building Chinese green financial system. Our green financial system is mainly consisted of financial institutions such as banks, insurance companies and fund companies. Under the powerful legal surveillance, financial institutions have to put active efforts into building green finance when facing financial risks transforming from environmental insurance. Being inexperienced in green finance, most of the Chinese financial institutions still have many idealistic and technological difficulties in combining the idea of environmental protection with traditional financial business. For this reason, it is necessary for the government to offer related training, technological support and even privileges in reference to fiscal-tax and market access. Shanghai, as the "experimental plot" of financial development and innovation in China, boasts loads of financial institutions and enjoys financial cluster effect. Therefore, local government should promote institutions to discover our own way of building green finance by learning the parallel measure adopted by developed countries which comprises tax, penalty and rewarding.

(6) Chinese government should strengthen its international cooperation to explore a way of building Chinese green financial system. To establish a mature, international green financial system, both related experiences of developed countries and Chinese national conditions are needed to be taken into consideration. Chinese green financial system is not only a national system but an international stage. Many environmental issues such as climate changes, air pollution and carbon emission belong to international topics, so close cooperation among countries all over the world are required for building a global green financial system. Therefore, Shanghai needs to take building Chinese green finance as a part of its plan of developing as an international financial center and makes active contribution to the formulation of international standards as well as establishment of supporting environment related to green finance.

(7) The government should put more efforts to build the environment beneficial for green finance development. Our government needs to

promote the national spread of the idea of green environmental protection by all kinds of means including public service advertisement, textbooks for general education, popular science books, films, TV programs etc. The development of green finance depends on financial institutions, enterprises, the general public as well as people's awareness of environmental protection and social responsibility. The improvement of citizen's quality and awareness can greatly reduce the costs of building Chinese green financial system. Thus great efforts from our government to promote the general awareness of green finance are required for providing a beneficial environment. As a leading role in Chinese economic and educational development, Shanghai will also play a leader part in environmental construction of Chinese green environmental protection system.

Translator/Li Ziyang