People’s Republic of China: Green Finance Reform

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**Description**

Green finance refers to an innovative financial system that supports the construction of an ecological civilization. The People’s Republic of China (PRC) is in the process of implementing its strategy to achieve its eco-civilization goals. Green financial reform includes innovations in institutions, policies, financial markets, and technologies to encourage and incentivize private capital to invest into the green industries, resource efficiency, and environmental protection. Green finance stimulates economic growth, supports low carbon development, and promotes green urbanization to deliver a cleaner environment and higher quality of life. Green finance is a driver of new areas of economic growth and key to achieving PRC’s green transformation as the PRC’s economy shifts from its traditional model of resource-intensive and pollution-intensive economy to one based on technological innovation.

In 2014, the PRC faced challenges that needed to be addressed to promote green finance. First, lack of favorable policy and legal framework. Though PRC has incorporated energy conservation and emissions reduction targets into the performance evaluation system of local governments, environmental policies were not effectively implemented. Further, policy and legal framework should support financial institutions to provide green finance. Local protectionism and poor policy implementation were common in the field of environmental protection. Second, lack of internal and external incentives for green project capital mobilization. Shareholders, investors, and employees of financial institutions in the PRC generally lack awareness of the importance of environmental protection and social responsibility. Policy instructions to establish a favorable green project investment environment was missing. Proper benefit measuring system for green projects also needed to be developed to support the effective incentive mechanism. Third, lack of a longer-term strategy and coordinating policy frameworks. The PRC financial regulatory authorities did not issue longer term strategy promoting green finance, the existing administration targets were limited to prescribing the level of credit for energy-consuming, high-pollution and resource-based enterprises.

With these, the Government of PRC in 2014 requested for a policy advisory technical assistance (TA) from the Asian Development Bank (ADB) to conduct a study on green finance reform in PRC.

**Expected Impact, Outcome, and Outputs**

The TA’s expected impact was increased green investment under a favorable green finance policy environment. The outcome was the establishment of a comprehensive policy framework to promote green finance in PRC. The outputs were (i) a report on guiding private capital investments into green project, and (ii) conduct seminars and workshops for knowledge sharing and dissemination.

**Delivery of Inputs and Conduct of Activities**

The Ministry of Environmental Protection was the executive agency. The China Council for International Cooperation on Environmental and Development (CCICED) was the implementing agency. The TA supported CCICED to conduct a study on green finance reform, which consisted of three components (i) build a better policy and legal framework for green investments, (ii) guide private capital investments into green projects, and (iii) establish an effective policy coordination framework and a roadmap for building an effective green finance system in PRC. A total of seven person-months of international consulting services were required under the TA. The scope of the terms of reference of the consultants clearly identified expected contents and approaches of the study and inputs at the time of approval. To reduce administrative burden and improve efficiency, consultants were engaged individually on output-based (lumpsum) contract. The consultants’ inputs were relevant and appropriate to the objective of the TA. Workshops were organized to collect inputs on TA progress, lay out roadmap, and disseminate the outputs to the stakeholders. The executing and implementing agencies worked in close coordination during implementation and performed satisfactorily in reviewing the consultant’s reports and providing comments. The implementing agency provided adequate counterpart financing in the form of office space, counterpart staff, and other services to the consultants, and assisted in arranging meetings with counterpart agencies on a timely basis. ADB fielded regular missions for inception, midterm and final reviews, and provided timely inputs and supervision to ensure quality.
outputs. Overall, the performance of ADB, the executing and implementing agencies were satisfactory.

The project initially experienced delays during consultant recruitment and contract negotiation due to difficulties in finding affordable and qualified consultants. The TA completion date was extended once for five months at the request of the implementing agency to include the feedback and comments provided by participants into the final report during the Annual Meeting of CCICED. Despite the delay, all activities were accomplished with no cost overruns.

Evaluation of Outputs and Achievement of Outcome
The outputs and outcome were delivered. After the engagement of consultants, the inception report and work plan were developed on time. Two workshops were conducted, during which experts from academia, governmental institutions including the Ministry of Environment, the Ministry of Finance, the People’s Bank of China (PBC), the Chinese Securities Regulatory Commission as well as international experts from leading financial institutions and international organizations, including the World Resources Institute, the United Nations Environment Program, the World Bank, the Organization for Economic Cooperation and Development, and the Climate Policy Initiative actively participated the discussion. Through this process, international experiences were shared. The final report was finalized and submitted to the Ministry of Environmental Protection and CCICED in December 2015. In the final report, five major challenges facing green finance reform were identified, strategic roadmap for green finance reform was developed, and policy recommendations were made on launching of national green development fund, promotion of green bonds, and development of green project risk guarantee mechanism. Most of these policy recommendations were taken by the PRC banking administration authorities. The PBC, along with six other government agencies including Ministry of Environmental Protection, issued the “Guidelines for Establishing the Green Financial System” (Yinfa 2016 Doc No 228), with the approval of the State Council. The guidelines provided the next step for implementing the overall strategy of promoting ecological civilization. They also advanced the development concepts of innovation, harmony, greenness, openness and sharing, and promote the establishment of PRC’s green financial system, as well as bringing more private capital into green economy and ecological civilization development. The policy framework to promote green finance in PRC was established. Since then, the PRC’s green bond market expanded quickly, internationally aligned green bonds issuance from PRC reached $31.2 billion in 2018, ranking PRC the second largest green bond market globally. Most of the bonds are bought by private investors.

Overall Assessment and Rating
The TA is rated successful. The TA is aligned with ADB’s Country Partnership Strategy 2011–2015 for PRC, which identified environmentally sustainable growth as one of the strategic pillars. Despite the delay in consultant recruitment, output and outcome targets were achieved as set out in the TA design and monitoring framework. The TA was considered (i) relevant, due to strong alignment with the needs of the PRC government to promote green finance; (ii) effective, targeted outcome was met, and the crucial outputs in achieving the envisaged outcome were achieved. The TA delivered the expected outputs and outcome within the budget and implementation duration; (iii) efficient, the TA delivered the outputs and outcome as scheduled; and (iv) likely sustainable. PRC is adopting a more balanced economic development model by considering other economic and environmental impacts. Development of green industries and restructuring of traditional industries towards more energy saving and environmentally friendly ones leads to huge green finance demands.

Major Lessons
A well-prepared and on time implementation of the TA helped in introducing to ADB developing member countries the best practices and experiences on green finance framework formulation. Policy recommendations were considered by the government and was adopted into their policy formulation process.

Recommendations and Follow-Up Actions
ADB should keep track on the development of green finance reform in PRC and may offer additional assistance when requested by the PRC government.

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a Formerly Ministry of Environmental Protection.

b CCICED was established in April 1922 as a high-level, international advisory body consisting of senior experts from both PRC and abroad to provide environment and development policy advice directly to PRC’s State Council.


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