

# *Policy Analysis on Developing Green Finance of China's Provincial Regions*

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**Keywords:** Green Finance, Provincial Level, Green Development.

**Abstract:** In order to realize the comprehensive promotion of China's green finance, both “top-down” design and “bottom-up” practice have been gradually implemented. The development of green finance among local provincial level is of great significance to the implementation of national strategy. As the highest administrative level of China, the provincial-level region can more clearly reflect the implementation of green finance in terms of China's local development than the municipal-level region. This paper sorts out the development process of regional green financial policy among provincial-level, summarizes the specific characteristics and existing problems of green financial policies in various regions, and puts forward suggestions for the development of green finance in provincial-level regions of China.

## **1. Introduction**

With the introduction of “Guiding Opinions on Building a Green Financial System” issued by seven ministries and commissions on August 31, 2016, the national strategy of green finance has been well implemented [1]. Local governments established an orderly implementation of the green financial system under the active promotion of national government. In June 2017, the State Council decided to select some places in Zhejiang, Jiangxi, Guangdong, Guizhou, and Xinjiang provinces to build green financial reform and innovation pilot zones with different emphasis and characteristics. The decision further promoted the local construction of a green financial system, and various levels of administration related to the development of green finance were introduced.

At present, most of the research on the development of green finance in various provinces in China focus on practical experience. Lihua Qian sorted out the status quo of China's local development of green finance and made suggestions on both policy and practice paths [2]. Huijian Shi and others used practical experience of Hainan and Chongqing as a case to provide a reference for the development of green finance in various provinces [3]. Xingyun Zhou and others have compiled policies and measures for the development of green finance in various provincial regions in China from the aspects of green insurance, green securities, green credit, carbon finance and green financial service system, then summarized their characteristics and existing problems [4]. Jinshi Liu analysed the practical experience of regional green finance development in China based on the perspective of inter-provincial analysis, and proposed the improvement of the policy system

from a strategic perspective [5]. This paper will sort out the history of the development of green financial policies at the provincial level from the perspective of policy, and summarize the specific characteristics and existing problems of green financial policies in various regions. By drawing on the experience of international green finance development, this paper proposes suggestions on the development of green finance in provincial-level regions of China.

## **2. The Development of China's Provincial-Level Green Financial Policies**

### **2.1. Seven Ministries and Commissions Issued "Guiding Opinions on Building a Green Financial System"**

Before the introduction of the “Guiding Opinions on Building a Green Financial System” issued by the seven ministries and commissions (here after referred to as “Guiding Opinions”), some provinces have included the development of green finance in the planning and have received strong support from the local government. Guizhou [6], Hebei [7], Qinghai [8] and other places have successively carried out green finance related works. Among them, only Qinghai Province has issued targeted implementation opinions, and other provinces are still in the preparatory stage for the construction of a green financial system.

### **2.2. Seven Ministries and Commissions Issued "Guidance Opinions" to the Central Bank to Decide Whether to Proceed a Green Financial Reform and Establish an Innovation Pilot Zone**

On August 31, 2016, the People's Bank of China, the Ministry of Finance, the National Development and Reform Commission, the Ministry of Environmental Protection, the China Banking Regulatory Commission, the China Securities Regulatory Commission, and the China Insurance Regulatory Commission issued the Guiding Opinions on Building a Green Financial System [9]. In order to respond positively to the national requirements, from September 2016 to June 2017, Shanxi, Guangdong, Anhui, Inner Mongolia, Zhejiang, and Tianjin, a total of six provinces successively issued guidance or implementation plans for local green financial systems. The speed of developing regional green financial system has improved significantly, and preparations have been made in various places.

### **2.3. The Central Bank Decided to Establish a Pilot Zone for Green Financial Reform and Innovation**

In June 2017, the State Council decided to select some places in Zhejiang, Jiangxi, Guangdong, Guizhou, and Xinjiang provinces (districts) to begin green financial reform and build innovation pilot zones with different emphasis and unique features, and explore the replicable promotion experience [10]. The decision further promoted the process of building a green financial system in the local area. As of December 2018, a total of 19 provincial-level regions in China have issued relevant policies for the development of green finance. Among them, Jiangxi Province, as an experimental area regarding green financial reform and innovation, based on issuing implementation opinions, also issued the “13th Five-Year Plan for Building a Green Financial System”, which provides further policy support and implementation plans for the development of green finance [11].

### **3. Characteristics and Problems of China's Provincial-Level Green Finance Related Policies**

#### **3.1. Characteristics of China's Provincial-Level Green Finance Related Policies**

##### **3.1.1. Development Goals have Similarities**

Judging from the current policy documents, some provincial-level green finance development targets include targets such as market environment construction. For example, Inner Mongolia Autonomous Region strives to build a green financial service system with multiple services such as green credit, green bonds, green development funds, green insurance, and carbon finance; the Xinjiang Autonomous Region strives to effectively utilize innovative institutions such as various green industry funds and carbon financial trading mechanism in green financing. And green insurance products and services are more abundant.

In addition, most regions have also set quantitative targets. The main objective is to set quantitative targets for green credit. For example, the quantitative targets set by Qinghai Province, Anhui Province, Xinjiang Autonomous Region, and Jiangxi Province are the balance of green credits accounts for a cumulative increase of 5 percentage points in five years, the annual growth rate of green credit is not lower than the average growth rate of various loans, the balance of green credit accounts for not less than 0.5 percentage points of the balance of various loans and at the end of 2020, the province's green credit balance reached 300 billion yuan. In terms of overall objectives, the financing balance provided by Fujian Province for the banking financial institutions' green financial services at the end of 2020 is doubled at the end of the "Twelfth Five-Year Plan"; Zhejiang Province's goal is the initial establishment of the green economy industrial system in 2020; Xinjiang Autonomous Region's goal is initially establish a hierarchical and diversified green financial system that is compatible with the green development of the autonomous region's economy by 2020.

##### **3.1.2. Clearly Support Certain Areas in Combination with Local Characteristics**

In the construction of a green financial system, each region develops a development plan based on local characteristics in accordance with local conditions. Among the policies that have been issued, some provincial-level regions have identified local green financial support areas based on the actual situation in the region. For example, Inner Mongolia Autonomous Region will focus on afforestation, green organic food industry, and characteristic economic forest in key areas as the key support for green finance; Zhejiang Province has set a quantitative target for its key projects, that is, by 2020, it will cultivate 1,000 beautiful pastures, energy conservation and environmental protection industries. The total output value should increase to 100 billion yuan, and the energy consumption should reach 27.44 million tons of standard coal. Qinghai Province has proposed to construct Sanjiangyuan National Park and strived to improve the income level of local herders. The Xinjiang Autonomous Region will focus on inland rivers and green products' quality. Projects such as agricultural products and grassland carbon sink resources are supported. However, due to the fundamental differences in the development of green finance in various regions, the support should be locally targeted and more conducive to the development of work.

##### **3.1.3. Complete Safe Measures**

The safeguard measures for building a green financial system have provided strong support for the development of green financial work in various regions. Promoting green development should focus on more inclusive and balanced growth, and allocate and share economic growth and environmental protection in a fair and equitable manner, combining different situations in different regions.

Qinghai, Guangdong, Zhejiang, Tianjin, Xinjiang, Jiangxi and other places have put forward a comprehensive coordination mechanism to strengthen organizational leadership and establish a sound green economy development; Anhui, Inner Mongolia, Qinghai, Tianjin, Xinjiang, Jiangxi and other places have established green financial development policy supportive mechanisms.

### **3.2. Problems of China's Provincial-Level Green Finance Related Policies**

#### **3.2.1. Unbalanced Development of Green Finance in Provincial-Level of China**

Through the combing of the above policies, the provincial-level regions that have already introduced local green finance-related policies are mainly concentrated in the northwest, north, and south China. Among them, the northwest region is supported by national policies and the decision to establish a green financial reform and innovation pilot zone, and the development of green finance is relatively mature. However, most provinces, autonomous regions and municipalities have not yet established a special green financial leadership institution, and the financial authorities have not yet established institutions and certain professional leaders to manage green finance. The provinces pay insufficient attention to the development of green finance and lack strategic planning. The policy objectives of the competent authorities are mainly to limit short-term goals such as credit supply in the “two high and one surplus” industries, while the long-term development of green finance lacks complete strategic arrangements and supporting policies.

#### **3.2.2. Lack of Diversity in Terms of Green Financial Products**

China's green industry has huge capital needs, and at least 2 trillion yuan of investment is needed each year [12]. However, China's green finance-related products are not diversified, which is not enough to attract a large amount of social capital to invest in green projects. Most provincial-level regions have concentrated green financial products on green credit and green bonds, but the overall scale of development has been slow. In many economically underdeveloped regions, the understanding of green finance concepts is still shallow [13]. In terms of stock index, there are few green-related indices in China's stock market, and its influence is very limited [14]. The innovation of green financial products is not enough. Although the financial industry has also launched some financial innovation products that support energy conservation and emission reduction, compared with foreign leaders, the gap is obvious. Most of China's green financial services are still remained at the primary level of green credit. Most of the industries involved are producing low value-added products.

#### **3.2.3. Some Policies and Safeguard Measures are not Sound**

Most provinces, autonomous regions and municipalities have not yet established a special green finance leading institution, and the financial authorities have not yet established institutions and certain professional leaders to manage green finance [15]. The attribution of powers and responsibilities between departments is not clear, which will lead to the continuous weakening of relevant policies in the specific implementation process and reduce the actual effect of the policies. The provinces pay insufficient attention to the development of green finance and lack strategic planning. From the above review of the main relevant documents, we can find the lack of strategic planning and supporting policies in all provinces, autonomous regions and municipalities.

## **4. Suggestions on Building Green Financial System in China's Provincial Regions**

### **4.1. Improve the Green Financial Policy System**

In terms of legal system construction, the relevant state departments should proceed from the strategic height of ecological civilization construction, and improve pertinence and operability, mainly including the basic legal system of green finance, green finance business and implementation system, green financial supervision system, etc. Perfecting the basic green financial legal system is the premise and guarantee for the formulation of other green financial systems, in order to avoid conflicts between various policies formulated in the future [16].

In terms of policy support, the government should fully integrate various resources and promote the linkage and coordination of fiscal, taxation policies, monetary policies, credit policies and industrial policies related to green finance, and establish a sound policy support system, in order to achieve the “multiplier effect” of policy support [17]. The government may consider introducing more encouragement and support policies for green financial institutions, such as tax reduction, fiscal interest subsidies, risk compensation and credit guarantees, allowing financial institutions to appropriately raise green risk tolerance of financial business, reduction of capital occupation, provision for pre-tax and independent write-off of bad debts.

In terms of supervision, the financial supervisory authority should unite relevant authorities to strengthen the implementation of existing restrictive and binding policies, and unify and improve the green financial regulatory indicator system, in order to promote financial institutions to actively carry out green financial.

### **4.2. Strengthen the Concept of Green Financial Development**

The degree of understanding of green finance by investors and audiences determines the degree of development of green finance [18]. All sectors of society must have a fuller and more comprehensive understanding of the economic and social benefits brought about by the development of green finance, in order to ensure the further development of green finance [19]. Through the development of green financial services, the positive role of green finance, policies, regulations and preferential measures can be widely publicized to the society and the public, so that the general public and enterprises can accept and participate in the trend of green finance and expand the influence of green finance. In addition, the establishment of an internal professional organization for green finance can integrate existing institutions, and also establish new departments specializing in green finance business, in order to promote green financial development.

### **4.3. Encourage Innovation in Green Financial Products**

Developed countries usually use market economy means to maintain the sustainable development of green finance business, and thus make green finance develop more Liberalization [20].

On the one hand, we must vigorously promote green securities, green funds and other businesses, such as the creation of environmental-related industrial investment funds to support low-carbon economic projects and ecological environmental protection. Relevant departments must establish a sound green stock market as soon as possible, for example, consider setting up a special “green sector” to set up environmental and energy-saving assessments for companies applying for listing, and exclude enterprises that cannot meet the standards, while being environmentally friendly. Type and resource-saving projects, moderately relax their eligibility restrictions in the primary market.

On the other hand, it is necessary to strengthen the innovation of green financial derivatives, and establish and improve the green bond market, green insurance market, green fund market, green

financial derivatives market and green intermediary service market. Drawing on international experience, we will gradually develop the carbon trading market and innovate various carbon financial derivatives, such as carbon forwards, carbon futures, carbon options, etc., and gradually build China's green financial derivatives system.

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