Chapter 6

BANKING AND SUSTAINABLE DEVELOPMENT IN CHINA

Jing Bian

Abstract

With the growth of the Chinese economy, sustainable development has become a significant concern. This paper explores the role of the banking industry in supporting sustainable development. Beginning with a historical review of the evolution of the notion of sustainable development, a brief introduction to the Chinese banking industry will be conducted. Further analysis is to be given to the policy and legal framework in this regard. Moreover, the approaches adopted by the Chinese banking industry in order to achieve and facilitate sustainable development will be studied. The promotion of Green Credit is examined as a case study. Last but not least, after identifying the key obstacles and shortages in this area, suggestions on the future development of sustainable banking will be made.

Keywords: sustainability, banking, China

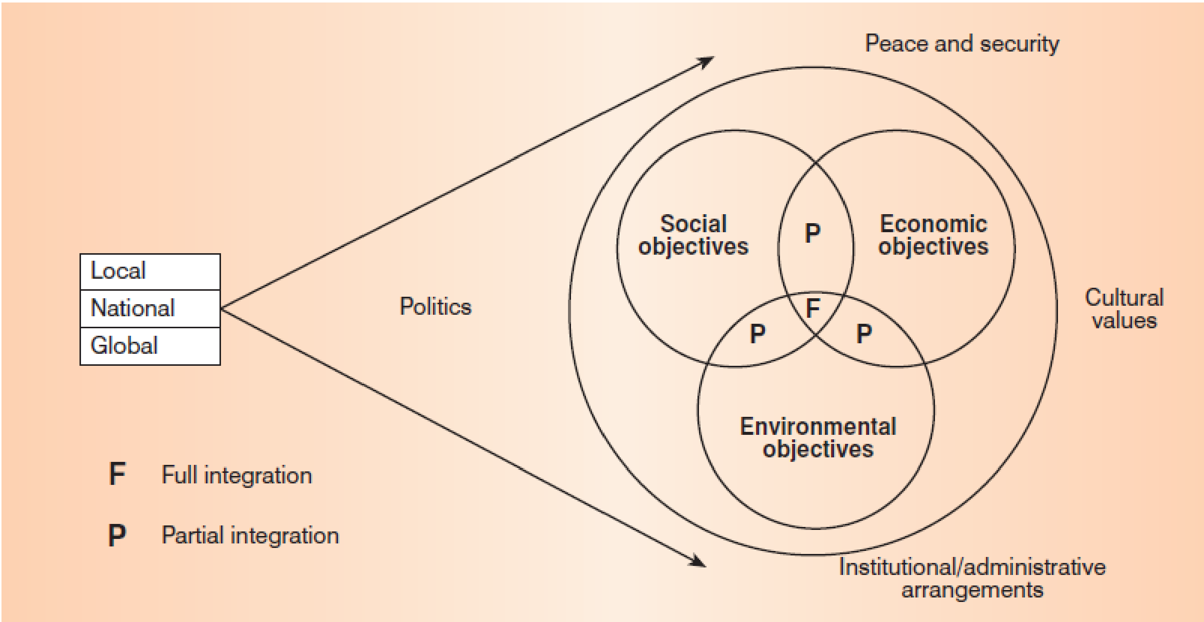
6.1 INTRODUCTION

In the last few years, sustainable development has drawn much attention. Sustainable development has become an institutional desire in different industrial sectors. Sound business practice in this perspective is required by different governments, non-governmental bodies, and individuals. This paper, written from the Chinese perspective, explores the role of the banking industry in supporting sustainable development. Following a historical review of the evolution of the notion of sustainable development, a brief introduction to the Chinese banking industry will be conducted. Relevant policy and legal framework in this regard are examined. Furthermore, the approaches adopted by the Chinese banking industry in order to achieve and facilitate sustainable development; in particular, the "green credit", will be studied. Following these, the paper identifies the key obstacles and shortages in this area. Last but not least, suggestions on the future improvement of sustainable development will be made.

6.2 BANKING INDUSTRY AND SUSTAINABLE DEVELOPMENT

The United Nations (hereafter the UN) defined sustainable development as the "development that meets the needs of the present without compromising the ability of future generations to meet their own needs".[1] This concept contains three pillars: economic, social and environmental development.[2] More recently, suggestions have been made that a fourth pillar containing a cultural element should be included. [3] This is because it is argued that a complex modern society cannot simply be reflected by these three dimensions alone. [4] It fact, despite three pillars or four pillars, the concept of sustainable development is to promote the economic development, social wellbeing, environmental protection, and culture sustainability at the same time. Figure 6.1 illustrates the systems of sustainable development; it also suggests that, the different factors shall, where possible, be integrated and mutually supportive.[5]

Figure 6.1: The Systems of Sustainable Development



Source: OECD [6]

---

1 United Nations (11 December 1987), "Report of the World Commission on Environment and Development", General Assembly Resolution 42/187.
2 United Nations Environment Programme (October 2011), UNEP FI Guide to Banking and Sustainability, p. 12.
[3] Jordi Pascual, commissioned by UNESCO Division of Cultural Policies and Intercultural Dialogue (1 September 2009), "Culture and Sustainable Development: Examples of Institutional Innovation and Proposal of a New Cultural Policy Profile". This study examines the relation between culture and sustainable development, and highlights how cities and local governments are incorporating culture into the core of their urban.
[4] United Cites and Local Governments (2010), " Culture: Fourth Pillar of Sustainable Development" .
5 OECD (2002), Sustainable Development Strategies: A Resource Book. London: Earthscan Publication Ltd, p. 12.
[6] Ibid.

One issue that need to be noticed, is that the sustainable development cannot be achieved without the business sector's participation. Though doubts are raised that opportunities for business maybe constrained when under a regime in which sustainability is emphasized; for instance, operating under a strict environmental legal framework or limiting shareholder returns. Nevertheless, from a long term perspective, this inhibition of growth will be eliminated by the societal development as a whole. On the other hand, the sustainable development is also able to bring new business opportunities to the various industrial sectors, since by adopting sustainable practices, enterprises can gain competitive edge, increase their market share, and boost shareholder value.[7] Therefore, in order to recognize the important relationship between sustainable development and business participation; sustainable development for business enterprises has been defined as : "adopting business strategies and activities that meet the needs of the enterprise and its stakeholders today while protecting, sustaining and enhancing the human and natural resources that will be needed in the future".[8]

In terms of banking institutions' participation, two issues are identified. Firstly, what is banks' role in its own sustainable development? Secondly, what is banks' role in supporting other industries and sectors' sustainable development? In fact, the banking institutions can contribute to the sustainable development through their own corporate behaviours; for instance, improving their energy efficiency, promoting recycling schemes, and fostering ethics or gender equality within their own organizations. Furthermore, on the other hand, the banking institution can also take the lead by incorporating environmental and social contemplations into their business plan and marketing strategies. Typically, banking industry can establish criteria which include environmental and social responsibility standards in their lending policy. For instance, the banks may provide an easier access to capital to those who are engaging in environmentally friendly businesses. In this sense, the banking industry becomes a driving force for sustainable development. These can influence conventional business on a large scale.

The banking institutions' participation in this aspect only started in recent years. Since the 1990's, this issue has been raised on the banks' agenda. The United Nations Environment Programme Finance Initiative (hereafter the UNEP FI) was launched in 1991. A numbers of financial institutions, including commercial banks, investment banks, venture capitalists, asset managers, and multi-lateral development banks and agencies participated in the UNEP FI. Furthermore, the UNEP FI promoted the integration of environmental considerations into the financial sector's operations and services, and aimed to foster investment by private sector in environmentally sound technologies and services.[9] The

[7] International Institute of Sustainable Development, "Business and Sustainable Development", http://www.iisd.org/business/, last accessed: 10 November 2013.
[8] International Institute of Sustainable Development, in conjunction with Deloitte & Touche and the World Business Council for Sustainable Development, "Business Strategies for Sustainable Development".
[9] UNEP FI, "About UNEP FI", http://www.unepfi.org/about/background/index.html, last accessed: 11 November 2013.

UNEP Statement of Commitment by Financial Institutions on Sustainable Development suggested that the financial institutions recognize the role of the financial services industry in making the economy and lifestyle sustainable, and commit to the integration of environmental and social considerations into their business operations. [10]

It can be seen from the above, that the concept of sustainable development is adopted gradually and gained recognition by the financial industry. Today, in order to reduce the risks of exposure to environmental liabilities, banks are more cautious about the environmental performance of themselves and their potential clients. It must be admitted that, this concept has not been developed from an early stage in China. However, there is fast development in this regard. There are some banks that are the members of UNEP FI; for example, Shenzheng Development Bank, China Merchants Bank Co., Ltd, Industrial Bank Co., Ltd and the China Development Bank.

6.3 THE ANALYSIS OF CHINESE BANKING INDUSTRY

The fast development and expansion of the Chinese banking industry in last few years has drawn the attention of the rest of the world. As at the end of 2011, the total assets of China's banking institutions had increased to RMB113.3 trillion; total liabilities rose to RMB106.1 trillion.[11] The concept of "banking business" in China has evolved from mere "deposit taking" and "loan issuing" to today's diversified financial product line. Furthermore, in echo with the enlargement of operation scope, the sophistication level of Chinese banking industry has improved significantly too. Beside the business side, risk management, corporate governance and business ethics and other matters have been addressed by the Chinese banking industry gradually. Notably, the Chinese banking industry not only focuses on providing services to the domestic market, but also expanded its overseas business. Most recently, the UK Chancellor (Osborne) visit to Beijing confirmed that the Chinese financial industry would expand the scope of its business for foreign invertors by giving London investors the right to buy up to RMB 80 billion of stocks, bonds and money market instruments.[12]

Today the Chinese banking institutions perform an important and unique role in the socialist market economy. Therefore, in order to maintain financial stability, responsible and accountable banking regulators are needed. The People's Bank of China (hereafter the PBOC) is the central bank in China. The PBOC was established on 1 December 1948; and in September 1983, the PBOC's status

[10] UNEP FI, "UNEP FI Statement", http://www.unepfi.org/statements/index.html, last accessed: 11 November 2013.
[11] CBRC Annual Report 2011, p. 24.
[12] Petar Kujundzic (15 Octber 2013), "Banks Deal Boosts UK Bid to be Leading China Finance Hub", Reuters, http://uk.reuters.com/article/2013/10/15/uk-china-uk-rqfii-idUKBRE99E06Y20131015, last accessed: 8 November 2013.

was confirmed by the State Council; furthermore, the Law of the People's Bank of China gave the PBOC's central bank status a legal ground.[13] Along with the PBOC, the China Banking Regulatory Commission (hereafter the CBRC) regulates and supervises banking institutions and their business operations. [14] Based on the law and regulations, the banking regulators oversee and monitor the activities of banking institutions.

The development of the Chinese banking industry cannot be separated from the performance of the Chinese banking institutions. Different banks constitute today' banking industry in China. According to the CBRC, as the end of 2011, there were 5 large commercial banks[15], 12 joint-stock commercial banks, 144 city commercial banks, 212 rural commercial banks, 190 rural cooperative banks, 2,265 rural credit cooperatives, 1 postal savings bank, 4 banking assets management companies, 40 locally incorporated foreign banking institutions, 66 trust companies, 127 finance companies of corporate groups, 18 financial leasing companies, 4 money brokerage firms, 14 auto financing companies, 4 consumer finance companies, 635 village or township banks, 10 lending companies and 46 rural mutual cooperatives.[16] Apart from the above, the China Development Bank, Export-Import Bank of China, and Agricultural Development Bank of China are the policy banks in China. [17] These institutions together, facilitate the development of the national economy.

---

[13] See PBOC website, http://www.pbc.gov.cn/publish/english/952/index.html, last accessed: 11 July 2012. Law of the People's Republic of China on the People's Bank of China, promulgated date: 18 March 1995, effective date: 18 March 1995.

[14] The main functions of the CBRC are: to formulate supervisory rules and regulations governing the banking institutions; to authorize the establishment, changes, termination and business scope of the banking institutions; to conduct on-site examination and off-site surveillance of the banking institutions, and take enforcement actions against rule-breaking behaviours; to conduct fit-and-proper tests on the senior managerial personnel of the banking institutions; to compile and publish statistics and reports of the overall banking industry in accordance with relevant regulations; to provide proposals on the resolution of problem deposit-taking institutions in consultation with relevant authorities. See CBRC website, http://www.cbrc.gov.cn/english/info/yjhjj/index.jsp, last assessed: 17 July 2013.

[15] The Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, Bank of Communications, and China Construction Bank are the large commercial banks. "Commercial banks" means enterprise legal persons that are established in conformity with the law and take in deposits from the general public, grant loans, handle settlements, etc. See Law of the People's Republic of China on Commercial Banks, promulgated date: 10 May 1995, revised date: 27 December 2003, Article 2.

[16] CBRC Annual Report 2011, p. 24.

17 The policy banks in China were established according to Decision of the State Council on Reform of the Financial System, in order to separate policy finance from commercial finance and to solve the problem of national specialized banks executing dual function. The National Development Bank, handles policy loans and discount business for key national construction projects (including capital construction and technical transformation). The Agricultural Development Bank of China (ADBC) undertakes policy loans for state reserve in grain, cotton and edible oil, for contract-purchasing of farm and sideline products, and agricultural development, and to appropriate fiscal funds for supporting agriculture and to supervise their use as an agent. The China Import-Export Credit Bank (CIECB) supplies buyers and sellers credits for importing and exporting of large scale mechanical and electrical equipment, etc. See Decision of the State Council on Reform of the Financial System , Guofa [1993] No. 91, promulgated date: 25 December 1993, part 2.

6.4 THE APPROACHES ADOPTED BY THE CHINESE BANKING INDUSTRY

In order to achieve a sustainable banking system, in the past few years, different approaches have been introduced to improve this regime. The concept of sustainable development is recent to China. The enactment of the Company Law (1993) and the Securities Law (1998) started to provide the very general principles and guidelines for corporate governance in China.[18] Following this, the Chinese banking system has developed towards good corporate governance. In this part of the article, taking "green credit" as an example, the legal regime of these approaches will be examined with details.

Generally speaking, a green credit policy refers to using loans as a stimulus for environmentally friendly industries or projects, and requires commercial banks to decline loans to energy inefficient and polluting enterprises. With the fast pace of industrialisation and urbanisation, the energy issue has become more severe in China. In order to correct the contradictions of insufficient energy resources and rapid economic development, a series of governmental documents were promulgated. For instance, on 6 July 2007, PBOC issued the Guiding Opinions of the People's Bank of China on Improving and Strengthening the Work of Financial Service in Energy-saving and Environmental Protection Areas (Guanyu Gaijin he Jiaqiang Jieneng Huanbao Lingyu Jingrong Fuwu Gongzuo de Zhidao Yijian)[19], the former State Environmental Protection Administration (today Ministry of Environmental Protection, hereafter the MEP), PBOC, China Banking Regulatory Commission (hereafter the CBRC) issued the Guidance on Implementing Environmental Protection Policies and Rules and Preventing Credit Risks (Guanyu Luoshi Huanjing Baohu Zhengce Fagui Fangfan Xindai Fengxian de Yijian)[20], and on 23 November 2007, the CSRC issued Guiding Opinions on the Credit Work for Energy Conservation and Emission Reduction (Jieneng Jianpai Shouxin Gongzuo Zhidao Yijian)[21].

The enactment of these documents suggested a wave of the "green credit" in China had started. Chinese regulators established further policies which aimed to provide guidance for banks' risk management on environmental-related risks. Today the commercial banks are actively involved in this regard; for instance, Industrial and Commercial Bank of China (hereafter the ICBC) was the first commercial bank to issue internal Guidance of Implement "Green Credit" Policy; China Merchants

[18] Company Law, promulgation date: 29 December 1993, effective date: 1 July 1994, revised date: 27 October 2005. Securities Law, promulgation date: 29 December 1998, effective date: 1 July 1999, revised date: 27 October 2005, effective date: 1 January 2006.
[19] Yinfa (2007) No. 215.
20 July 2007, Huanfa (2007) No. 108.
21 Yinjinfa (2007) Nol. 83.

Bank announced it was to join the UNEP Financial Initiative; the Industrial Bank was the first to adopt "Equator Principles".

Chinese financial regulators have continued their efforts in this regards. A range of measures have been envolved in building up the "green credit" system. In 2009, Guidelines on the Corporate Social Responsibility of Banking Institutions of China (Zhongguo Yinhangye Jinrong Jigou Qiye Shehui Zeren Zhiyin) was issued in order to enhance the sustainable development of the economy, society and the environment.[22] It states that, the corporate social responsibility of banking institutions shall include economic responsibility, [23] social responsibility, [24] and environmental responsibility.[25] In particular, with regard to the environmental responsibility, the banks shall formulate business strategies, policies and operating rules, optimize the allocation of resources and give support to the sustainable development of society, the economy and the environment.[26] Furthermore, the banking institutions shall use credit and other financial instruments to encourage their customers to save resources and protect the environment, and to direct and encourage customers to increase their awareness of social responsibility, and provide customers with environmental protection training, which includes the specific operational procedure for environmental impact assessment and the preparation of green credit documents. [27] Importantly, this document further requires that banking institutions shall put sustainable development into real practice, by making independent field investigations and examinations of the environmental impact of financing projects, rather than making decisions merely based on the environmental impact assessment reports and other materials provided by customers. [28]

Following this, the **Notice of the China Banking Regulatory Commission on Issuing Green Credit Guidelines (Zhongguo Yinjianhui Guanyu Yinfa Lüse Xindai Zhiyin de Tongzhi) was issued with an aim of enhancing this regime.** [29] **This document emphasizes that the** banking financial institutions shall promote "green credit" with a strategic perspective, increase the support for

---

22 Issued date: 12 January 2009, effective date: 12 January 2009. Article 1.
23 Ibid, Article 3. It requires the bank to maintain a fair, safe and stable competition order in the banking sector and use high-quality professional operations to continually create economic values for the country, shareholders, employees, customers and the general public, conditioned upon abiding by the law.
24 Ibid, Article 3. It requires them to follow the business operation notions meeting the requirements of social ethics and public welfare, actively protect the public interests of consumers, employees and community members, advocate charitable responsibility, actively dedicate themselves to activities for the public good, build up social harmony and promote social development;
25 Ibid, Article 3. It requires them to support the industrial policies and environmental protection policies of the state, save resources, protect and recover the ecological environment and support the sustainable development of the society.
26 Ibid, Article 16.
27 Ibid, Article 20.
28 Ibid.
29 Issued date: 24 February 2012, effective date: 24 February 2012.

the green economy, the low-carbon economy and the circular economy, prevent environmental and social risks, enhance environmental and social performance, as well as optimizing credit structures.[30] Apart from the general organization and management,[31] policy system and capacity building,[32] the Guidelines set out the detailed workflow procedure,[33] internal control and information disclosure,[34] and supervision and inspection of this system.[35] In terms of the work flow, the Guidelines require that, the banking financial institutions shall strengthen due diligence investigations for credit granting and specify the content of the due diligence investigation for environmental and social risks; shall conduct strict compliance inspections of the clients to be granted credit; shall strengthen the management of the credit granting examination and approval by determining reasonable credit granting authority and examination and approval procedures; shall urge clients to strengthen environmental and social risk management by improving contract clauses; shall strengthen the allocation of credit funds; shall strengthen post-loan management and formulate and carry out pertinent measures for clients with major potential environmental and social risks; and shall strengthen the environmental and social risk management of overseas projects. [36] Furthermore, it requires coordination and cooperation with the relevant competent departments, a sound information sharing mechanism, and improved information services.[37]

In addition, **Notice of the China Banking Regulatory Commission on Issuing the Supervisory Guidelines for Performance Appraisal of Banking Financial Institutions (Zhongguo Yinahngye Jiandu Guanli Weiyuanhui guanyu Yinfa Yinhangye Jinrong Jigou Jixiao Kaoping de Tongzhi) gives further emphasise on the issue of sustainable development.** **[38]** Several indicators are used to appraise banking financial institutions’ risk profile and change tendency. This includes credit risk indicators, operational risk indicators, liquidity risk indicators, market risk indicators, reputational risk indicators and others.[39] Furthermore, the social responsibility indicators are used to evaluate banks’ provision of financial services, support of energy saving, emission reduction, environmental protection and enhancement of public financial awareness (including the quality of service, fair treatment of consumers, green credit, public finance education); and the overall profile of indicators in this category shall be incorporated into the institutions’ social responsibility reports.[40]

---

[30] Ibid, Article 3.
[31] Ibid, Article 6-9.
[32] Ibid, Article 10-14
[33] Ibid, Article 15-21.
[34] Ibid, Article 22-24.
[35] Ibid, Article 25-28.
[36] Ibid, Article 15-21.
[37] Ibid, Article 25.
[38] Issued date: 12 June 2012, effective date: 12 June 2012.
[39] Ibid, Article 7.
[40] Ibid, Article 10.

These measures have played important roles in establishing a "green credit" culture. With continuing support and governmental encouragement, "green credit" has become more popular in China. Notably, this phenomenon is not only being implemented in the central level, but also at the provincial level. Up to November 2011, there were more than 20 provinces and municipalities has issued official documents on applying green credit loan policies; for instance, Hebei and Shanxi. [41] A total of 10 provinces and municipalities launched pilot programs for insurance against environmental pollution liability; for instance, Hunan and Jiangsu. [42] Furthermore, the reform of the pollutant emission fee charge system was embarked on in Hubei and Guandong etc. [43] Liaoning, Zhejiang, and Hainan etc. launched pilot programs for ecological compensation for the development of major ecological function zones, drainage basins, and mineral resources. [44] Last but not least, more than 10 provinces and municipalities including Henan and Shandong issued policy documents on the paid use and trading of emission rights. [45]

Furthermore, from the information platform perspective, over 40,000 entries of information, on environmental law violations by enterprises, were recorded in the credit investigation system operated by the PBOC.[46] This would be referred to as a major basis for granting credit. Therefore, based on the above requirements, the close observation and investigation of clients' environmental performance, before formulating the lending and investments decisions, has begun to perform as an important driving force and become part of the common practices concerning the sustainability in the banking sector.

These documents have significant impacts on the Chinese banking industry. In 2007 the ICBC became the first bank in China to advocate and implement a "green credit" policy.[47] From 2010 and 2012, ICBC has lent around RMB 750 billion to the green economy and provided 7,775 green projects

---

41 Notice of the Ministry of Environmental Protection on Issuing the General Planning for the Development of Environmental Protection Legislation and Environmental Economic Policies in China during the 12th Five-Year Plan Period (Huanjing Baohu Bu guanyu Yinfa "Shi'erwu" Quanguo Huanjing Baohu Fagui he Huangjing Jingji Zhengce Jianshe Guihua de Tongzhi), issued date: 1 November 2011, effective date: 1 November 2011, Point I.

42 Ibid.

43 Ibid.

44 Ibid.

45 Ibid.

46 Ibid.

47 ICBC, ICBC Pursues with Vigor to be World-Class Green Financial Institution, 2011-04-18, http://www.icbc.com.cn/ICBC/ICBC%20NEWS/ICBC%20Pursues%20with%20Vigor%20to%20be%20World-Class%20Green%20Financial%20Institution.htm, last accessed: 29 December 2013.

with loans. [48] At the end of 2012, among all the ICBC's domestic corporate customers, over 99.9% were eco-friendly companies or have reached eco standards, while the remaining less than 0.1% of the companies were in the process of getting eco-certification.[49] According to the vice president of ICBC Hongli Zhang, that the ICBC, which applies "green credit" policies on 61 sectors, has been improving its credit classification standard based on the "Equator Principles".[50]

Another example is the China Construction Bank (hereafter the CCB). After establishing its marketing guide for "green credit", its business transactions have sustained fast growth in this regard. By 2012, the CCB had loaned around RMB 239.6 billion for clean energy, energy saving and other related environmental friendly projects.[51]

Currently, the "green credit" policy is not merely implemented by the state controlled banks. China Minsheng Banking Corp., Ltd (hereafter the CMBC), the first bank owned mostly by non-government enterprises in China, is actively involved in these activities. [52] In 2008, CMBC developed its internal "green credit" system, including assessment training for personnel and establishing a management system that controls environmental risks in the credit approval process.[53] In 2009 CMBC introduced "2009 Credit Policy Guidelines". [54] In 2010 it issued "Green Credit Policy Guide of China Minsheng Bank". [55] And in 2012, the CMBC was awarded with the Best Corporate Social Responsibility Practice Award and was ranked first in the Social Responsibility Development Index of the Chinese

48 ICBC Disburses Nearly RMB 750 billion in Three Years to Support Green Economy, (2013-02-05, http://www.icbc.com.cn/icbc/newsupdates/icbc%20news/ICBC%20Disburses%20Nearly%20RMB%20750%20billion%20in%20Three%20Years%20to%20Support%20Green%20Economy.htm, last accessed: 29 December 2013.

49 Ibid.

50 Yan Meng, Gao Yinan (edited), "China Focus: Banks boost Green Credit for Green Growth", *People's Daily Online*, 21 July 2013, http://english.peopledaily.com.cn/90778/8334766.html, last accessed: 23 December 2013.

51 Yan Meng, Gao Yinan (editor), "China Focus: Banks boost Green Credit for Green Growth", People's Daily Online, 21 July 2013, http://english.peopledaily.com.cn/90778/8334766.html, last access: 23 December 2013.

52 Established on 12 January 1996 in Beijing, CMBC is a joint stock commercial bank with investments mainly from non-state-owned enterprises. On 19 December 2000, the company was listed on the Shanghai Stock Exchange. On 26 November 2009, the Company was listed at the Hong Kong Stock Exchange. See CMBC website, http://www.cmbc.com.cn, last accessed: 30 December 2013.

53 2008 CMBC Corporate Social Responsibility Report, p. 50.

54 See CMBC website, http://www.cmbc.com.cn, last accessed: 30 December 2013.

55 2010 CMBC Corporate Social Responsibility Report, p. 50.

Banking Industry in the 2012 Blue Paper of Corporate Social Responsibilities issued by Chinese Academy of Social Sciences.[56]

6.5 PROBLEMS AND LIMITATIONS

It can be seen from above analysis that "green credit" has experienced substantial development in China. This has created certain positive impacts. The promoting and implementing of "green credit" has become more popular in the banking industry and has led to substantial improvements. Nevertheless, many obstacles and difficulties lie ahead.

The chief difficulty is that there is no legislative basis for "green credit". Although the guidance and measures aforementioned are playing important role in this aspect; however, the laws promulgated by the National People's Congress (hereafter the NPC) have not addressed this issue yet. For instance, there are no relevant provisions in the Environmental Protection Law, [57] the Law of People's Bank of China, the Commercial Bank Law,[58] and the Banking Supervision Law.[59] In China, the laws enacted by the NPC prevail over other rules, regulations, and guidance. Furthermore, the Constitution Law has not touched upon this issue either, though the protection of the environment and resources have been addressed in individual provisions. [60] Therefore, it is crucially important to establish a legal basis for the "green credit" policy.

Moreover, the weak legal basis also reflected in the other areas. According to Notice of the Ministry of Environmental Protection on Issuing the General Planning for the Development of Environmental Protection Legislation and Environmental Economic Policies in China during the 12th Five-Year Plan Period,[61] the following problems are severe: legislative blank spots in certain fields; [62]

---

56 See CMBC website http://www.cmbc.com.cn, last accessed: 30 December 2013.

57 Promulgated date: 26 December 1989, effective date: 26 December 1989.

58 Promulgated date: 10 May 1995, revised date: 27 December 2003.

59 Promulgated date: 27 December 2003, revised date: 31 October 2006.

60 For instance, Article 9, 10, 22 and 26.

61 Issued date: 1 November 2011, effective date: 1 November 2011.

62 Ibid, Point I. For instance, there is no law or regulation is enacted in the fields of soil environment protection, nuclear safety, environmental management of dangerous chemicals, environmental monitoring, biological safety, and genetic resources protection, as well as electromagnetic radiation, light pollution, heavy metal pollution, persistent organic pollutants, and other fields closely related to the living environment of the people. Moreover, there were no implementations governing some important environmental administration systems, such as pollutant discharge permit, total volume control, and regional limit approval. There is also lacking related domestic legislation consequence on China signed some international environmental treaties or conventions.

overlapping environmental supervision systems;[63] weak punishments for environmental law violations;[64] an incomplete legal system for monitoring and overseeing government behaviour;[65] and incomplete legal mechanisms for public supervision over environmental protection. [66] Furthermore, mechanisms for the rational assumption of costs of environmental damage have not been established, which has resulted in the following: the driving force for market players to increase environmental investment and prevent and control environmental risks is weak; there lacks a primary driving force for the effective application of environmental economic policies regarding "green credit", insurance against environmental pollution liability, and "green securities".[67]

Secondly, apart from the legal challenge, the technical difficulties cannot be ignored. Sustainable development, as can be seen from above analysis, cannot be achieved without the coordination and cooperation from the whole of society. And the technical support is one of the key issues. The "green credit" or other future sustainable financial product is or will be based on the collaboration between the different industrial sectors; in particular, the cooperation from the heavy metal related industries, the industries causing serious soil pollution, and industries with high environmental risks etc. On the other hand, to implement the "green finance" needs a set of accurate and scientific criteria, in order to best allocate the funding resources. Techniques to further improve the mechanisms for assessing the environmental risk exposure of the banks' customers, and subsequently to protect banks themselves from potential losses are required. Currently, the information concerning environmental protection is mainly analysed and dealt by the Chinese commercial banks. However, the environmental information's political, technical, and complex nature means that processing such information is very difficult. [68] Based on the above points of view, researches which target on enhancing energy

[63] Ibid, Point I. For instance, there are more than 20 environmental administration systems in China. However, these agencies overlap one another or even contradict one another in content, which wasting limited legislative resources, results in conflicts of law, increase the difficulties in law revision, and cause difficulties in law enforcement.

[64] Ibid, Point I. For instance, the existing environmental protection legislation provides for relatively light administrative punishment, excessively narrow scopes of civil compensation, and weak criminal punishment.

[65] Ibid, Point I. For instance, the regulation of government behaviour by the existing environmental protection laws is insufficient. The legal supervision systems for administrative decision-making and administrative execution regarding environmental protection need to be improved.

[66] Ibid, Point I. For instance, it is difficult for the public to play an active role in environment supervision. There is a lack of procedures and channels for public involvement in environmental decision-making and for citizens to maintain their own environmental rights and interests.

[67] Ibid, Point I. Such mechanisms mainly include the method for the pricing of products of environmental resources, fee charge, and tax collection.

68 Hangying Wu, Ziyuang Zhao, " The Analysis on the Promotion of Green Credit by Commercial Banks (Qianxi Lvse Xindai zai Shangye Yinhang Tuixing de Zhuangkuang)", Securities & Futures of China (Zhongguo Zhengquan Qihuo), 2011 (06), p. 139.

conservation, emission reduction, resources efficiency, and replacement of out-dated products s are needed.

Furthermore, the banks' engagement in sustainable development needs to be further strengthened. In discussion of sustainable development, financial innovation, as a key issue, cannot be ignored. The lack of creative and innovative ability is one of the biggest shortcomings of the Chinese banking industry. "Green credit" is prompted by the government, based on a very strong administrative management regime, and the market mechanism cannot take the lead in this regard, whether by nature is supporting or forbidden. [69] This has led to commercial banks that are passively adopting policies, but cannot take a decisive lead.[70] The financial products are lagging behind the needs and demands of the market. It is understandable that the Chinese banking industry is taking a cautious attitude towards financial innovation, since the latter can create certain risks. Nonetheless, these risks can be monitored, controlled, or even mitigated with rational preventive steps. Supposing that, Chinese banking institutions are able to develop and deliver various environmentally friendly products, the role performed by the banking institutions in this area will be enhanced and enlarged. China today has the capacity to generate 6.2 gigawatts of solar power and 68.3 gigawatts of wind power, which is equivalent of about 50 coal-fired power plants.[71] Therefore, in order to promote "green credit", it is essentially important that the Chinese commercial banks maintain a high level of capacity to address financial innovation. In discussing the financing channels for the lower-carbon and water-related infrastructure in China, it has been suggested, "a progressive approach is needed that levels the playing field, deters political and policy risk, and develops more efficient, transparent market mechanisms." [72] An innovative system; for example, the environmental protection bond and environmental securitisation, is needed.

The further issue is that commercial banks shall enhance the continuing monitoring on the usage of their loans. Without doubt, the banking institutions provide finance for those who are focusing on environment friendly enterprises. However, to ensure the best application of such loans is an important issue. China has witnessed several power plants suffering from losses. Suntech Power Holdings is one of the examples.[73] Its China subsidiary has recently filed for bankruptcy. This is the first big Chinese solar group to declare insolvency and the world's biggest such bankruptcy.[74] It may be too

69 Yulan Wang, "The Legal Rules on the Practicing Green Credit by Commercial Banks (Shangye Yinhang Jianxing Lvse Xindai de Falv Guizhi)", Theory Research (Xue Lilun), 2013 (23) p.158.
70 Ibid.
71 Ehren Goossens , " China's Green Strategy is awash in Red Ink", Bloomberg Business Week, November 26, 2012.
72 Andrew H. Chen and Jennifer Warren, "Sustainable Growth for China: When Capital Markets and Green Infrastructure Combine", Chinese Economy, September-October 2011, v. 44, Issue. 5, pp. 86-103.
73 Leslie Hook, "Suntech Unit Declared Bankrupt", Financial Times, 20 March 2013.
74 Ibid.

early to conclude the reasons behind this corporate failure. Nevertheless, it has been argued that the "cheap loans" and "preferential government policies" have contributed to "overcapacity after rapid expansion". [75]

Last but not least, a culture of "green credit" and sustainable development is yet to be established in China. Environmental protection being raised on the agenda has only happened in the last few years, and is in need of further promoting. As for the concept of sustainable development, it is not an issue with community's wide awareness. Consequently, a public campaign on this issue is compulsory. Moreover, the development of environmental friendly techniques and industry, currently remains in a passive approach, i.e., emphasis has been given to the prevention and punishment procedures, while the incentive mechanism of green credit is not well developed; for instance, for those enterprises who engage in environmentally friendly business of such as new energy, energy saving, and comprehensive utilization of resources, a set of economic incentive policies is absent, nor are particular pertinent services provided. [76] It is not difficult to understand that it will be difficult to achieve a satisfactory result by only depending on the efforts of the commercial banks and particular industries.

6.6 CONCLUSION

To promote sustainable development in China, the function of the banking system cannot be ignored. The Chinese banking industry has put great effort into this issue. "Green credit" has been implemented step by step. Through this approach, the banks can support those projects and undertakings which were developed by institutions and enterprises that are supporting environmentally or socially responsible development.

However, in facing the changing situation internally and externally, to promote this regime needs some further reforms. For instance, apart from the aforementioned problems, compared with other types of crime, the relatively "low cost" of illegal environmental behaviours decreases the efficiency of law and regulation in regulating and deterring environmental law violations. Furthermore, the more efficient information sharing and communication between the different government departments, industrial sectors, and public and private sectors is needed.

---

75 ibid.

[76] Hong He, Shengwu Wang, "The Experiences of Green Credit of American, British, and Japanese Commercial Banks and their Implication on China (Mei Ying Ri Shangye Yinghang Lüse Xindai Jingyan dui Woguo de Qishi)", *Financial Perspectives Journal (Jinrong Zongheng)* , 2012(07) , p.47.

Importantly, to further enhance the banking institutions participating in sustainable development, a more complete regime is needed for future developments. Environmental financial services have a relatively short history in China, there are some gaps and problems under this regime. Typically, insurance against environmental pollution liability should be promoted and pilot programs for compulsory environmental pollution liability insurance should be launched; the related technical rules for environmental pollution liability insurance should be formulated as soon as possible. [77] In conclusion, the research and experiments in this area could be further encouraged in order to achieve a better solution in the near future.

REFERENCES

Andrew H. Chen and Jennifer Warren, "Sustainable Growth for China: When Capital Markets and Green Infrastructure Combine", Chinese Economy, September-October 2011, v. 44, Issue. 5, pp. 86-103.

CBRC Annual Report 2011, p. 24.

CMBC website, http://www.cmbc.com.cn, last accessed: 30 December 2013.

CMBC, 2008 CMBC Corporate Social Responsibility Report, p. 50.

CMBC, 2010 CMBC Corporate Social Responsibility Report, p. 50.

Company Law, promulgation date: 29 December 1993, effective date: 1 July 1994, revised date: 27 October 2005. Securities Law, promulgation date: 29 December 1998, effective date: 1 July 1999, revised date: 27 October 2005, effective date: 1 January 2006.

Ehren Goossens , " China's Green Strategy is awash in Red Ink", Bloomberg Business Week, November 26, 2012.

Hangying Wu, Ziyuang Zhao, " The Analysis on the Promotion of Green Credit by Commercial Banks (Qianxi Lvse Xindai zai Shangye Yinhang Tuixing de Zhuangkuang)", Securities & Futures of China (Zhongguo Zhengquan Qihuo), 2011 (06), p. 139.

Hong He, Shengwu Wang, "The Experiences of Green Credit of American, British, and Japanese Commercial Banks and their Implication on China (Mei Ying Ri Shangye Yinghang Lüse Xindai Jingyan dui Woguo de Qishi)", *Financial Perspectives Journal (Jinrong Zongheng)* , 2012(07) , p.47.

Huanfa (2007) No. 108.

ICBC Disburses Nearly RMB 750 billion in Three Years to Support Green Economy, （2013-02-05, http://www.icbc.com.cn/icbc/newsupdates/icbc%20news/ICBC%20Disburses

[77] Notice of the Ministry of Environmental Protection on Issuing the General Planning for the Development of Environmental Protection Legislation and Environmental Economic Policies in China during the 12th Five-Year Plan Period, Point III.

%20Nearly%20RMB%20750%20billion%20in%20Three%20Years%20to%20 Support%20Green%2 0Economy.htm, last accessed: 29 December 2013.

ICBC, ICBC Pursues with Vigor to be World-Class Green Financial Institution, 2011-04-18, http://www.icbc.com.cn/ICBC/ICBC%20NEWS/ICBC%20Pursues%20with%20Vigor%20to%20be%20World-Class%20Green%20Financial%20Institution.htm, last accessed: 29 December 2013.

International Institute of Sustainable Development, "Business and Sustainable Development", http://www.iisd.org/business/, last accessed: 10 November 2013.

International Institute of Sustainable Development, in conjunction with Deloitte & Touche and the World Business Council for Sustainable Development, "Business Strategies for Sustainable Development".

Jordi Pascual, commissioned by UNESCO Division of Cultural Policies and Intercultural Dialogue (1 September 2009), "Culture and Sustainable Development: Examples of Institutional Innovation and Proposal of a New Cultural Policy Profile". This study examines the relation between culture and sustainable development, and highlights how cities and local governments are incorporating culture into the core of their urban.

Leslie Hook, "Suntech Unit Declared Bankrupt", Financial Times, 20 March 2013.

Notice of the Ministry of Environmental Protection on Issuing the General Planning for the Development of Environmental Protection Legislation and Environmental Economic Policies in China during the 12th Five-Year Plan Period (Huanjing Baohu Bu guanyu Yinfa "Shi'erwu" Quanguo Huanjing Baohu Fagui he Huangjing Jingji Zhengce Jianshe Guihua de Tongzhi), issued date: 1 November 2011, effective date: 1 November 2011, Point I.

OECD (2002), Sustainable Development Strategies: A Resource Book. London: Earthscan Publication Ltd, p. 12.

PBOC website, http://www.pbc.gov.cn/publish/english/952/index.html, last accessed: 11 July 2012.

Law of the People's Republic of China on the People's Bank of China, promulgated date: 18 March 1995, effective date: 18 March 1995.

Petar Kujundzic (15 Octber 2013), "Banks Deal Boosts UK Bid to be Leading China Finance Hub", Reuters, http://uk.reuters.com/article/2013/10/15/uk-china-uk-rqfii-idUKBRE99E06Y20131015, last accessed: 8 November 2013.

UNEP FI, "About UNEP FI", http://www.unepfi.org/about/background/index.html, last accessed: 11 November 2013.

UNEP FI, "UNEP FI Statement", http://www.unepfi.org/statements/index.html, last accessed: 11 November 2013.

United Cites and Local Governments (2010), " Culture: Fourth Pillar of Sustainable Development"
.

United Nations (11 December 1987), "Report of the World Commission on Environment and Development", General Assembly Resolution 42/187.

United Nations Environment Programme (October 2011), UNEP FI Guide to Banking and Sustainability, p. 12.

Yan Meng, Gao Yinan (edited), "China Focus: Banks boost Green Credit for Green Growth", *People's Daily Online*, 21 July 2013, http://english.peopledaily.com.cn/90778/8334766.html, last accessed: 23 December 2013.

Yinfa (2007) No. 215.

Yinjinfa (2007) Nol. 83.

Yulan Wang, "The Legal Rules on the Practicing Green Credit by Commercial Banks (Shangye Yinhang Jianxing Lvse Xindai de Falv Guizhi)", Theory Research (Xue Lilun), 2013 (23) p.158.