FORESTS NEWS

How one think tank is helping step up green finance initiatives in China

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A legally protected ancient tree surrounded by tree plantation plots in Red Earth Township, Dongquan County, Yunnan Province, China. CIFOR/Louis Putzel

The global environmental challenges the world faces require multilateral solutions that involve public and private stakeholders. Increasingly, there is a push to develop green financial systems that offer incentives for corporate actors to reduce carbon emissions, invest in clean energy sources and prioritize conservation of natural resources.

Over the past five years, China has made headlines for its green finance approach to pursuing an "ecological civilization" that can address the dual objectives of development and environmental protection, which is embedded into its national goals.

In September 2016, the People's Bank of China's central bank issued Guidelines for Establishing the Green Financial System to set the tone for wide-spread implementation of environmentally friendly banking practices. It is hoped these financial policies will incentivize greater investments in renewable energy projects, recycling plants, mass transit and water treatment facilities, to name a few.

Parallel developments in financial technology — such as online banking services and Big Data collection — have made green investments much simpler on a global scale, according to an article from the International Institute for Sustainable Development (IISD). In China and the Philippines, for example, fintech has facilitated nation-wide tree planting initiatives like Ant Forest and GCash Forest through gamified apps that are linked to users' mobile wallets.

In order for these initiatives to trigger lasting environmental benefits, however, green finance must become widely accepted as a blueprint for both national and international markets, said Mathias Lund Larsen, director of international cooperation at the International Institute for Green Finance (IIGF) in Beijing — a think tank which was founded at the time of the 2016 G20 Summit in Hangzhou to help research and develop China's green finance strategy.

"Green finance should not be seen as a side niche of the market; rather, green finance should strive to make the whole financial system more sustainable," said Larsen

However, Larsen also acknowledges the challenges in defining "green" economic activities globally. For example, one green finance standard may encourage investments in electric cars while another does not because of the pollution created during the manufacturing process.

Larsen believes these differing standards need to be harmonized, or at least be compatible, in order to reap the greatest benefits for the economy and the environment.

Forests News is joined by Larsen to answer questions about efforts in China to boost its green finance sector and its convergence with landscape and forest conservation.

Q: How do you define green finance?

A: Green finance is about changing the incentive structures of the financial system to channel more capital to environmentally sustainable projects that help mitigate climate change; it's also about ensuring that less capital is directed to unsustainable projects. Consequently, green finance should not be seen as a side niche of the market; rather, green finance should strive to make the whole financial system more sustainable. Green financial systems should encompass all regulations, all financial tools, and all stakeholders.

Q: What does the International Institute for Green Finance do? What are its main objectives?

A: We cover the whole continuum from pure academic research all the way to practical consulting work for financial institutions. A big part of the work we do is collaborating with Chinese regulators to implement policies, regulations, and guidelines that influence financial institutions. In this consultative role, we provide underlying research, collect data for analysis, and provide policy recommendations. We do this both in China and internationally but always from a Chinese perspective, as we are a Chinese organization.

Q: What are the key issues facing green finance in China today?

A: A key issue, to single one out, is finding better ways to discourage financing for unsustainable projects, such as coal-fired power plants. While green finance instruments such as green bonds and green credit have made substantial progress, we can do more to curb environmentally harmful business practices. In China, for example, regulators are starting to require mandatory environmental information disclosure for all listed companies, implement a national emissions trading scheme and include green factors in macro-prudential policies — policies which ensure the stability of the financial system as a whole.

Q: How does the IIGF evaluate whether an economic activity is "green"?

A: At IIGF we don't have our own definition, but rather do analysis based on a number of existing standards. China now has a central standard for green economic activities, which was created by the National Development and Reform Commission (NDRC), and is the basis for all green standards in China once related standards have been updated. Internationally, the European Union is rolling out its own set of standards based on outcome thresholds; the International Capital Market Association's standards are abstract and principles-based, while the Multilateral Development Bank-International Development Finance Club's (MDB-IDFC) standard is project based. Such differences in both standard coverage and approach further complicate the situation. Our work blends these different standards and tries to harmonize them so that they are compatible.

Q: How (if at all) do trees and sustainable forestry practices intersect with the work you do at IIGF?

A: Tree and sustainable forestry practices are included in both earlier Chinese standards as well as in the NDRC's new green standard, though only a small proportion of green financing goes towards these purposes. Another way we work on sustainable forestry at IIGF is in terms of green trade finance. Green trade refers to financial institutions' ability to set requirements for forest preservation mechanisms when facilitating trade in commodities like soy, beef, and palm oil, for which China is the world's biggest importer.

Q: Besides carbon credits, are there other ways we can monetize forest conservation?

A: Monetizing natural assets is always difficult, and carbon credits are a principle way of doing this around the world. Another way of assigning financial value to natural resources is through sustainable tourism, an avenue which is also promoted in Chinese green standards. In general, China has been increasing its canopy coverage for several years, but this is mostly due to regulations forbidding logging and public funding for tree planting.

Q: Would you say that China's green finance strategy is unique in the world? If so, why?

A: This Chinese green finance strategy is indeed unique. In China, financial system regulators are not limited— as they are in the West to orthodox goals relating to inflation, employment and financial stability. Instead, Chinese regulators are given more tools to accomplish national goals such as climate change mitigation and other environmental objectives. That means China can take a very heavy handed approach, which has been a key part of its success in becoming one of the world's largest green bond markets in a matter of years.

Q: Do you think green fintech projects like Ant Forest or other green business innovations in China could be implemented in other countries? Why or why not?

A: Ant Forest — a tree planting financial technology (fintech) project sponsored by Alibaba Group and affiliated NGOs (non-governmental organizations) — is indeed an initiative that could be rolled out in other countries. However, given the philanthropic nature of the scheme, it does not have a wide enough mandate to access large amounts of capital or offer the kind of incentives that are needed for a truly green financial system. However, fintech as a general method can certainly aid in the creation of a green financial system by increasing the efficiency of data collection and project evaluation; this includes economic projects related to forestry.

For example, today many small-scale farmers who are interested in introducing sustainable practices on their farms would not be able to get a loan in a local bank or anywhere else for that matter. Fintech in China promotes financial inclusion by providing access to rural banking services; farmers are able to get loans and complete transactions directly via their phones. If fintech continues to promote an awareness of green issues through projects like Ant Forest, it is more likely that financing will be made available for other forest conservation and tree planting initiatives in rural areas.

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