

# ESTABLISHING CHINA'S GREEN FINANCIAL SYSTEM

## Detailed Recommendations 11: Create Green Investor Networks



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## Detailed Recommendations 11: Create Green Investor Networks

Despite the lack of a consistent definition for 'green investment', it has been generally agreed that green investment requires sufficient consideration of environmental risks in making investment decisions in order to reduce polluting investments and increase investments in environmental friendly projects. The following two dimensions of green investment can be observed in practice:

Proceed from the responsibilities of the investors: Responsible investment institutions should be required to break down the environmental factors into a set of evaluation metrics for making an investment analysis and carry out the evaluation and decision-making on the investment according to the results. In addition to environmental factors, responsible investments also obligate investment institutions to take into account the social and corporate governance issues of their projects. Some examples of international initiatives for responsible investments include: the Equator Principles for banks, the Principles for Responsible Investment (PRI) sponsored by the United Nations, together with the CSR investments spontaneously initiated by investors themselves.

Proceed from the investment as an instrument to promote environmental protection and response to climate change: These types of investments are primarily confined to some specific areas including clean energy and green technologies under the expectation that they will help achieve sustainable development through green growth. Compared with 'responsible investment', the scope of investment institutions under the second dimension is relatively smaller. Some international examples of this type include the International Investors Group on Climate Change (IIGCC), Investor Network on Climate Change, Climate Change Investment Group, P8 Investment Network, Chrysalix Global Network (GCN), among others.

The above two dimensions have been widely applied in international investment areas (please refer to the Annex for specific case studies). Sponsors of these initiatives have called on investment institutions to become signatories and recognize their concepts and principles. Green investment networks enable the development of relevant evaluation and management instruments, analysis guidelines and green management and reports as reference for network investors to effectively manage their investment risks. On the other hand, network-related professional resources can be utilized to provide policy and technical support for green industries and identify superior investment opportunities that lead to profitability. Green investor networks may also communicate the requests of institutional investors to effectively bring about regulatory reform and innovation.

Development of green investor networks in China is driven by the following two factors: first, the harsh reality of environmental pollution has already sounded an alarm for China's crude pattern of development over the past few decades. As the Chinese central government "declared war

against pollution”, unprecedented changes have been ushered in for China’s environmental policy and regulatory systems.

Developing green investor networks helps investors to not only respond to the call of the 18th CPC Congress by promoting ecological development through green investment but also brings about changes in environmental policies and regulations and development planning, and helps systematically manage the investment opportunities and risks arising from changes in environmental policy. In addition, access to green investor networks also helps build a green brand image for investment institutions.

Furthermore, environmental protection and low carbon development have become the new benchmarks of a global industry upgrade and revolution, and clean energy, green technology and clean transport are recognized as key areas for investment growth. According to a research report by German consulting company Roland Berger, the output value of Germany’s environmental protection industry will hit one trillion euros by 2030 and exceed that of machinery and automobiles to become Germany’s top industry. Joining green investor networks may also help bring together the members and partners of investment institutions and networks to develop diversified green investment products and exploit green investment opportunities with potentials.

Some Chinese institutions have already started to develop preliminary versions of China’s green investor networks such as the Clean Air Investors Salon sponsored by China Clean Air Alliance (almost 30 institutions have become signatories of the Clean Air Investment Initiative sponsored by this salon) and China Social Investment Forum initiated by SynTao. We consider that broader and greater efforts should be made to promote the development of green investor networks in China on the basis of these local pilot programs.

## **(I) Objectives and priorities of China’s green investor networks**

### **1. Objectives of China’s green investor networks**

First, promote the application of science-based instruments by institutional investors for environmental evaluation in the process of investment decisions; second, urge invested listed companies and other invested companies to assume social responsibilities and improve information disclosure; third, bring about changes in relevant government policies; fourth, promote the disclosure and sharing of environmental information of investment projects; fifth, share and communicate relevant experiences and cases with Chinese and foreign partners; sixth, promote environmental education of investors and consumers.

### **2. Priorities of China’s green investor networks**

**Serve as platforms for multi-stakeholder communication and cooperation.** Network development and operation should contribute to the development of an integrated platform of communication with investment institutions at the heart and with the invited participation of relevant policy makers, financial experts, environmental policy experts, environmental technology experts and representatives from green industry entities to partake in the network activities (such as salons, forums, workshops and training) for the development of green investor networks.

**Develop green investment initiatives and principles dominated by China.** Core investment and advocate institutions should jointly sponsor green investment initiatives, identify green investment principles and invite other investment institutions to become signatories of a network. Investment initiatives and principles should reflect China's needs for environmental quality improvement and effectively engage investment institutions.

**Develop relatively consistent requirements and operational guidelines for environmental risk evaluation and information disclosure.** Instruments and methodologies compatible with China's reality should be developed to evaluate, manage and disclose the environmental risks of financing companies and projects, and help investment institutions in a network to create an effective mechanism to manage investment risks arising from environmental factors.

**Provide network members with professional technical support for green investments.** Green investor networks may provide their members with such services as environmental risk management and capacity building, and green technology evaluation. They may also provide them with an analysis of green industries, environmental policy and market prospects, and expedite the formulation of standards and service procedures for third-party technical support services.

**Bring about policy changes.** Initiate and release relevant policy studies through the network platform and the influence of network members to bring about policy changes.

**Assist investment institutions to build a green brand image.** Activities and publicity efforts carried out through the platform may help network members to develop a widely recognized green brand image and increase the influence of network members in relevant areas.

## **(II) Specific recommendations on China's development of green investor networks**

### **1. Financial institutes/associations with a government background and major financial institutes should initiate and sponsor green investor networks**

One of the authors of this report (Xie Hongxing) has taken part in organizing the Clean Air Investor Salon, which launched the Clean Air Investor Initiative in May 2014, to which more than 20 investment institutions have become official signatories. This represents a preliminary attempt to create China's green investor networks in the future. However, we discovered that most of those willing to participate in the Clean Air Investment Initiative are small investment institutions with private capital background while large institutional investors with government background lack the enthusiasm for participation. This reflects that institutional investors with government background are more concerned with "whether the government requires our participation" rather than their real attitude towards the assumption of social responsibilities.

Therefore, we suggest that financial institutes (associations) and major institutional investors with a government background take part in sponsoring green investor networks to increase the latter's credibility and influence. The UNEP Finance Initiative (FI) and the Principles for Responsible Investment (PRI) have adopted a similar approach to leverage the UN's publicity, influence and technical support network in expediting the development of green investor networks. It is necessary to encourage major policy banks, commercial banks, insurance companies, securities

firms, investment fund companies, national social security funds, local pension funds, Central Huijin Investment Ltd., together with the Silk Road Fund, as major sponsors of green investor networks. Sponsorship and participation of these institutions will bring about significant demonstration effects.

In addition, some companies and financing platforms managed by local governments should also become major participants of green investor networks. On the one hand, local governments are required to achieve environmental quality improvement targets (such as air quality improvement targets for 2017) and make green investments. On the other hand, local governments should pay attention to green infrastructure investments and effectively advance sustainable development in the process of new-type urbanization. In this sense, by joining green investor networks, local companies will be better positioned to enhance the concepts of green development, enhance their capacity to evaluate green investments and broaden green finance channels.

## **2. Green investor networks should develop green investment policy discussions and pilot programs of application**

Green investor networks can serve as a bridge connecting investment institutions, policy researchers, policymakers and other stakeholders to support multi-stakeholder communication on green investment policies and develop policy requests on behalf of stakeholders to bring about policy changes.

Investment institutions and particularly those responsible institutions that closely follow green investments have generally developed rich skills and experiences in their practical work and carried out in-depth thinking on relevant areas. They are aware of practical situations, have access to firsthand data and information and can provide important inputs to green investment policy.

Meanwhile, green investor networks can become pilot platforms for new policies of green investment (such as green investment industry/product catalogues, management evaluation procedures and reporting mechanisms). Members of green investor networks have a strong willingness to assume risks associated with green investment and participate in pilot policies of green investment, and enjoy certain levels of policy preferences through these pilot programs. Effective innovation policies or investment models can be rolled out after the implementation of pilot programs.

## **3. Promote the awareness and capacity building of green investment through green investor networks**

Most Chinese investment institutions have yet to develop an awareness of environmental protection responsibilities for their investments, particularly the growing impacts that may arise from their investments. At the operational level, there have yet to systematically carry out environmental risk evaluation, environmental due diligence and the environmental benefit analysis of investments, and to develop instruments that can effectively support green investment management by investment institutions.

Green investor networks will help promote the awareness of green investments and capacity building, and facilitate the systematic understanding of the risks, opportunities and operational methods of green investments by investment institutions.

#### **4. Green investor networks may also become important vehicles for the promotion of green consumption**

Green investor networks will change consumer preferences and increase their demand for green products and pricing power through the following activities: conducting education of consumer environmental responsibilities; providing consumers with the environmental information of companies; promoting green projects and products, as well as the recognition of and market demand for these products; using public opinion to extensively criticize environmentally unfriendly consumer behaviours. Consumer green choices will not be confined to the procurement of personal consumer goods but will promote the development of green investment and green supply chain. Under the influence of public opinion, consumer preferences will shift from energy intensive and polluting suppliers to cleaner suppliers. Growing consumer demand for green products will promote the investment, development and manufacturing of green products.

In addition, green consumption education provided by the networks will also promote personal green investment. In the process of personal investment such as the purchase of stocks, funds and other wealth management products, consumers will refrain from polluting enterprises and invest more in the industries and companies that contribute to the improvement of environmental quality.

## Annex: Case studies of international green investor networks

### Case 1: The UN Principles for Responsible Investment (PRI)

The UN PRI is a voluntary initiative that guides investment decision-making established under the UN framework in 2005. The PRI initiative calls on investment institutions to apply the six principles of responsible investment in the practice and include environmental, social and corporate governance factors into evaluation to influence investment decision-making and ownership management. The United Nations has developed a series of guidelines and instruments to support investment analysis by different categories of investment institutions and supervise information disclosure. By now, total of 1,260 institutional investors have become signatories of these principles for investment and these institutions manage US\$45 trillion of assets. Chinese companies including JDCapital, Lunar Capital, Greenland Holding Group and SynTao are signatories of the PRI Initiative.

### Case 2: The Institutional Investors Group on Climate Change

This investor network was created by a group of institutional investors concerned with climate change and currently has 72 members managing six trillion euros of assets. The core objective of this network is to influence enterprises, policymakers and other investment institutions through cooperation with member investment institutions for the development of low carbon economy. The Institutional Investors Group on Climate Change requires investment institutions to incorporate factors of climate change management into the formulation of investment strategies and investment operations.

### Case 3: The Investor Network on Climate Risk

The Investor Network on Climate Risk was created at the First United Nations Investor Summit on Climate Risk in 2003 with membership including more than 100 investment institutions managing almost US\$10 trillion of assets. The members include private sector asset managers, government

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