THE ROLE OF THE FINANCIAL SECTOR ON SUSTAINABLE DEVELOPMENT:
A Case Study of SMEs Development in China

Guo Peiyuan, Yu Yongda
School of Public Policy and Management
Tsinghua University
Beijing, P.R.China

In the western countries, the relationship between financial corporations and environmental protection has been gradually known by the financial sectors and the governments. Focuses are mostly turned to: (1) identifying environmental risk and opportunity; (2) pricing and auditing natural capital; (3) managing environmental risk; (4) innovating new financial instruments. The financial corporations have begun to adjust the corporate strategy so as to make it suitable for sustainable development while the governments are doing environmental protection by controlling the financial resources.

Such change also happens in China. That can be showed in a case study examining the development history of the Small and Middle Enterprises (SMEs). In early 1990s, SMEs made very good performances and contributed much to the economy growth particularly in rural China. Therefore, they were thought to be the most dynamic parts of the economy and promoted greatly by the governments. Hence the Agricultural Bank of China saw the opportunities and loaned a great amount of money to those enterprises. However, the pollutions from SMEs, like paper mills, were very serious and degraded the environment critically. As a result, most of the SMEs in China were shut down by the governments in middle 1990s. The Agricultural Bank of China lost a lot of money in this campaign. This lesson teaches such financial sectors as the Agricultural Bank of China to change their roles regarding the environmental impacts. After that they pay more attention to the Environment Impacts Assessment (EIA) and prefer the environmental friendly projects when they loan money to the SMEs. This helps improve the sustainable development in China. Meanwhile, the government sectors also notice that and found financial control is an effective way to prevent SMEs’ pollutions. Some guidelines were released by the central government to shape the new tread in the financial sectors. Now the SMEs in China have become much healthier to the environment than before.

This ongoing change in China provides a good case to the world that financial sectors could act as important roles in sustainable development. The governments should fully concern this matter and use this instrument when making environmental policies.