

GREENING CHINA'S FINANCIAL SYSTEM

CHAPTER 4:

LESSONS FROM THE DEVELOPMENT OF GREEN FINANCE IN CHINA

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EXECUTIVE SUMMARY

With the initial progress of China's green finance market, some lessons are emerging that are useful both for the further development of the green finance system and for other emerging market countries embarking on green finance development.

- **Strategic political commitment** has been the key driver for China's development of green finance, but translating this into effective implementation remains a challenge.
- **Reconciling diverse interests** between central and local governments and between state and market players has been the critical challenge.
- **An initial, loosely defined approach** to the scope of green finance has enabled experimentation; however, to scale-up the development further requires clear and comparable definitions.
- **Mechanisms for coordination and cooperation** between departments are a critical success factor, but need continued strengthening.
- **Supporting policies are critical** to translating high-level commitments into action, but are not yet fully in place.
- **China's green finance system is at an early stage** of innovation and development and is not yet balanced across different channels, investors and products.¹

INTRODUCTION

China has made progress in its efforts to explore and develop the market practice and policy system of green finance (as outlined in other chapters in this volume), but it still has far to go before it completes the transition to a green economy. Nevertheless, there are already many experiences and lessons, both positive and negative, that are worth highlighting. These can help to inform the next steps in China and other countries, in particular in other emerging markets.

¹ China's green finance policies have attracted the attention of the national governments of many other emerging market countries. The governments of such countries as Vietnam and Bangladesh have sent multiple delegations to China and green credit policies have been repeatedly mentioned as an important practice in promoting sustainable development in foreign exchange activities. When the Nigerian government learned of China's green credit policies in its visit to China, the Central Bank of Nigeria also vowed to promote environmental and social risk management policies in Nigeria.

LESSON I: STRATEGIC POLITICAL COMMITMENT

Strategic political commitment has been the key driver for China's development of green finance, but translating this into effective implementation remains a challenge.

Actions follow ideas. For many emerging market countries, establishing green and sustainable development as their national strategy with support at the highest levels has been a crucial step to popularizing the ideas of green development and environmental protection. China has promoted sustainable development to a national strategy and given it unprecedentedly high importance, providing a boost for the development of green finance.

Starting with the Sixth Five-Year Plan (1981–1985), a National Environmental Protection Plan was included as a chapter in the Plan for National Economic and Social Development, and work was initiated to begin to implement it. The goals of the environmental protection plan were also listed separately, starting in the Ninth Five-Year Plan (1996–2001). However, up to the 10th Five-Year Plan, the focus remained on pollution prevention and control aspects only. In the 11th Five-Year Plan (2006–2011), the Environmental Protection Plan was upgraded to a separate State Council publication. This showed that it was extending beyond a single governmental department and beginning to be considered in national-level planning. In 2013 the 18th Communist Party of China (CPC) National Congress incorporated ecological progress alongside economic development, political development, cultural development and social development as a core goal for “five-in-one” development. The latest revised Environmental Protection Law of the People's Republic of China released in April 2014 stated that environmental protection is the basic national policy of the state. Green and sustainable development has become one of China's national strategies. On the level of local governments, increasing attention has been attached to green and sustainable development in recent years. Many provinces have released separate documents in support of ecological progress, and many provinces have worked with regulatory authorities to release documents on green finance. For example, Jiangxi Province released Twenty Policy Measures for Accelerating the Development of Energy-Saving and Environmental Protection Industry in September 2013, which included plans to enhance the fiscal, taxation and financial frameworks for energy-saving and environmental protection. In February 2014, the Peoples Bank of China Huhehaote Central Sub-branch collaborated with the seven governmental authorities in Inner Mongolia to jointly release Guiding Opinions on Supporting the Promotion of Ecological Progress in Inner Mongolia with Finance. This document stated that efforts should be made to leverage the resource allocation functions of finance in the promotion of ecological progress, including green credit and green insurance.

On the other hand, the lesson for China is that the national strategy for green and sustainable development has not been fully and effectively implemented in the development of financial policies. That is to say, the strategy has not been effectively linked to tactics for the development of green finance.

For example, efforts to support access to finance for rural enterprises and small and medium-sized enterprises (SMEs) have used a wider range of monetary, fiscal and taxation, credit and capital market development policies than have been used for green finance. This indicates that China's green finance policy system still has lots of space for expansion.²

² See [Chapter 5](#) in this volume on Problems and Difficulties in the Development of Green Finance (Wang, 2014)

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LESSON 2: RECONCILING DIVERSE INTERESTS

Reconciling diverse interests between central and local governments and between state and market players has been the critical challenge.

Green finance concerns many governmental entities, including the central government and its departments, local governments and financial regulatory authorities' financial institutions, as well as market players such as banks, insurance companies, securities companies, private equity/venture capital institutions, and institutional and individual investors and businesses. The differing interests of these stakeholders can result in policies not being fully implemented or resulting in perverse consequences or slow uptake. Therefore, the coordination of governmental interests and market interests is critical.

China has some positive experiences in this regard. By harnessing the interests of the various parties through local pilot projects, local governments are encouraged to conduct experiments within a broader framework set by the central government. Another example is that the People's Bank of China (PBC) offices in some provinces have graded commercial banks on their administration of green credit, giving mention or criticism in the public circular based on the scoring.

However, there are also negative lessons demonstrated in China's coordination of the interests of various parties. The lessons are mainly demonstrated through two examples.

The first example is the deviation between the intentions of the central government and the intentions of local governments. Some local governments view GDP growth as the single most important target and downgrade the importance of environmental protection goals. They pressure financial institutions and environmental protection institutions to ignore policies that restrict loans to heavy industries or that stipulate that they must meet environmental criteria before launching an initial public offering (IPO). This deviation can be seen in the statistics on official environmental protection verifications, where provincial environmental authorities give a 100 per cent pass rate.

TABLE 1: STATUS OF ENVIRONMENTAL PROTECTION VERIFICATION APPLICANTS 2010–2012

Authority	Status of Applications (% of applicants)					
	Pass	Fail	Suspended	Terminated	Pending	Turned down
Ministry of Environmental Protection	82%	1%	2%	1%	13%	1%
Provincial environmental protection authorities	100%	0	0	0	0	0

Source: Based on Wang (2013, pp. 77–88)

An important reason for the deviation between the intentions of the central government and local governments is the way that the performance of government officials is evaluated. Officials are mainly evaluated on factors such as economic growth and inward investment. The environmental performance evaluation is often viewed as a formality that provides a low proportion of the grade. However, this situation might change soon. According to the Decision of the Central Committee of the Communist Party of China on Some Major Issues Concerning Comprehensively Deepening the Reform released by the Third Plenum of the 18th CPC Central Committee, there will be steps to strengthen the environmental performance evaluation system for leaders and officials by exploring and establishing a “natural resources balance sheet; officials will receive audits on natural resources when leaving office; and a lifelong responsibility system for bio-environmental damages will be established” (China Daily, 2013).

The second reason is the deviation between the intentions of the governments and the market. Green finance has been promoted through administrative powers rather than through the active behaviour of the market. Many commercial banks still view heavy industries with their high profits and high investment returns as the best prospects for loans, and do not view SME-dominated energy conservation and environmental protection enterprises as viable due to their lack of collateral or guarantee. The result is that a high proportion of loans still go to projects in the “two highs and one excessive”³ industries, although those numbers have fallen slightly. Similarly, although a majority of provinces have initiated pilots of environmental pollution liability insurance, business uptake has been weak.

An important factor influencing the deviation of the intentions of the governments and the market are the low fines for environmental violations, which reduces the effective demand for green finance and further dampens the motives for financial institutions to develop and operate green finance business. This is expected to change with the implementation of the new Environmental Protection Law. Under the previous law, polluting enterprises were only fined once; under the new law, if enterprises fail to rectify their violations, the fine will accumulate day by day, with no ceiling on the total amount payable. This regulation will definitely increase the cost of environmental violations for enterprises by a large margin (Dong et al., 2013).

³ This phrase refers to energy and resource intensive industries with excessive capacity, and is a core part of China’s industrial policy.

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LESSON 3: DEFINITIONS

An initial, loosely defined approach to the scope of green finance has enabled experimentation; however, to scale-up the development further requires clear and comparable definitions.

Defining the criteria for green finance is crucial. Which type of enterprises or projects should be excluded from loans, and which must purchase environmental pollution liability insurance? What standards must an enterprise meet to access the benefits of the green finance policy framework? What statistics should the regulatory authority collect to assess progress?

China has explored many definitions. For example, although China Banking Regulatory Commission's Green Credit Guidelines, released in 2012, failed to define green credit, the Green Credit Statistics System of 2013 classifies green credit in 12 defined categories: green agriculture; green forest; industrial energy conservation; water saving and environmental protection; conservation/ecological restoration and disaster prevention; recycling; waste treatment and pollution prevention; renewable energy and clean energy (including solar energy, wind power, biomass, hydropower and smart grid); rural and urban water; building energy conservation and green building; green traffic and transportation; energy conservation and environmental protection; and overseas projects aligned with international standards. CBRC also requires that banks submit statistics on the annual energy conservation and emission reduction impacts of these green-credit financed projects, including indicators on carbon emission reductions, organic pollutants (chemical oxygen demand), ammonia nitrogen, sulfur dioxide, nitrogen oxides and water savings (Ye & Li, 2014). However, the conceptual framework and detailed definition of green finance remain incomplete, resulting in many problems in practice.

Narrow understanding of green finance can limit the development of the policy support system and market practice. This is notable in the insurance field. Internationally, green insurance includes a wide range of insurance plans related to environmental risk management, including aspects of climate change, pollution and environmental destruction. By comparison, China's current definition of green insurance is much narrower, and it usually refers to environmental pollution liability insurance alone. It does not address climate change or other long-term environmental risks within the scope of environmental pollution liability insurance. This may be understandable during the early period of development; however, the narrow focus will undoubtedly restrain the expansion of green insurance. For example neither regulators nor insurance companies in China see any link between car insurance and green insurance, despite the policy support directed at electric cars. There is no difference between the insurance policies on electric cars and cars that burn fossil fuel, and policy articles, premiums and prices do not encourage green energy cars. Multiple ambiguous conceptual frameworks can make people confused and indecisive.

Conceptual frameworks have not been clearly specified.

China has several conceptual frameworks in the real economy that are relevant for green finance, for example:

1. **“Two high and one excessive” industries.** The “two highs” refers to pollution and energy consumption and the “one excessive” refers to industries with overcapacity. Similar expressions include “two highs and one resource,” which refers to highly polluting, highly energy consuming and resource-based industries.
2. **Emerging industries of strategic importance.** This is a concept raised in the Decision of the State Council on Accelerating the Fostering and Development of Strategic Emerging Industries of 2010. It highlights these seven industries as the industries of strategic importance: energy saving and environmental protection, new generation of information technology, biology, high-end

equipment manufacturing, new energy, new material, and new energy vehicles. Development efforts are focused in these key industries and policies are adopted to support them.

3. **Low-carbon economy.** This refers to the economic development pattern where, under the guidance of the idea of sustainable development, measures such as technology innovation, institutional innovation, industrial transformation and new energy development are adopted to reduce fossil fuel use and greenhouse gas emissions, while achieving socioeconomic development and ecological and environmental protection. In August 2010, the National Development and Reform Commission (NDRC) announced plans to conduct pilot projects for low-carbon industry development in five provinces and eight cities.

While these concepts give broad and simple guidance, it is not clear how they relate to each other or to green finance, and whether they are comprehensive. They do not provide an adequate basis for statistical analysis. For example, the NDRC released data on RMB 3204.4 billion of accumulated funds raised from bond issues they approved from 2000 to 2013. They broke this down into: (i) transportation projects, including railway, expressway, ports and airports; (ii) energy projects, including hydropower, firepower, solar energy, wind energy and coal mines; (iii) municipal infrastructure projects, social housing construction and slum upgrading; (iv) upgrading and transformation of traditional industries; (v) water service projects, including control projects for rivers and lakes; (vi) infrastructure projects in the industrial parks; (vii) public transport projects; (viii) agriculture projects; and (ix) tourism projects. It is not clear which of these bonds could be classed as green bonds, which relate to emerging industries of strategic importance, or whether any should not have been supported due to involvement in “two high and one excessive” industries.

The concepts lack detailed regulations and practical guidance.

There are possible conflicts among the concepts as criteria for support. For example, energy conservation and environmental protection are core sectors for green finance. However, production in the solar photovoltaic industry, especially in the early stages of its development, is often energy and pollution intensive. Another example is the question of whether upgraded heavy-industry plants operating at the highest environmental and energy-efficiency standards for their sector should be considered green.

The lack of common standards means that data are not comparable—individual commercial banks each have their own standards for green credit. For example:

- The Industrial and Commercial Bank of China (ICBC) summarized 90 green credit standards and 125 national industry policy standards in its industry-specific credit policies.
- China Development Bank’s (CDB) evaluation manual sets out a policy on the credit access and evaluation conditions for “two high and one excessive” industries and released a series of policies concerning energy conservation and environment protection industries.
- China Construction Bank’s green credit development strategy focuses on energy conservation and environmental protection industries and emerging industries of strategic importance.

With different standards, not only are statistics not comparable, projects may be able to shop around to get loans from banks with lower green credit standards.

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LESSON 4: COORDINATION

Mechanisms for coordination and cooperation between departments are a critical success factor, but need continued strengthening.

Green finance requires coordination between government departments of ecological protection and financial reform as well as other supervisory authorities. China's experience is demonstrated through two examples: joint policy documents and green securities.

Government authorities jointly issue policy documents. Some relevant policy documents were issued before 2007, but only by individual departments or ministries (e.g., PBC or the Ministry of Environmental Protection [MEP]). After 2007 the financial regulatory authorities began to strengthen cooperation with the Environmental Protection (EP) authorities to jointly release policies. It was then that the green finance system was formally established. For example, PBC first released relevant documents concerning green credit as early as 1995, but they had little influence. In June 2007 PBC released the Guiding Opinions on Improving and Enhancing Financial Services in Energy Conservation and Environmental Protection Fields. That document's influence was relatively weak compared with Opinions on Implementing Environmental Protection Policies and Rules and Preventing Credit Risk, which was jointly released by PBC, the State Environmental Protection Agency and the China Banking Regulatory Commission (CBRC) in July 2007. The latter document carried more influence because the participation of the State Environmental protection Agency (SEPA) and CBRC further enhanced its authority; in particular, CBRC was able to supervise the commercial banks.

Another example concerns green securities. SEPA began to assess the environmental performance of heavily polluting listed companies in 2003 after issuing the Notice of the State Environmental Protection Administration on the Inspection and Verification of Environmental Protection of the Corporations Applying for Listing and the Listed Corporations Applying for Refinancing in 2003. In 2007 the General Office of SEPA issued the Notice on Further Regulating the Inspection and Verification of Environmental Protection of the Production and Operation Corporations of Heavily-polluting Industries Applying for Listing and the Listed Corporations Applying for Refinancing. However, inspection and verification systems for the EP performance of listed companies achieved substantial progress only after January 2008 when CSRC issued the Notice on Documents to be Submitted When Production and Operating Companies in Heavily Polluting Industries Apply for IPO to answer relevant questions.

Similarly, the two key documents for green insurance were also jointly released by MEP in collaboration with the China Insurance Regulatory Commission. All of these documents are the concrete manifestation of interdepartmental cooperation.

Interdepartmental environmental supervision and information communication are built into a number of policies. In the 2007 document concerning green credit, EP authorities and financial regulatory authorities were explicitly required to strengthen mutual communication and coordination and establish an information-communication mechanism. The EP authorities are required to provide information on environmental violations by companies for banking credit management. Moreover, the document also called on the EP authorities, financial regulatory authorities and relevant commercial banks to establish joint meetings and contact points. Since it was established, the environmental performance information-sharing mechanism has been strengthened with information not only on violations but also on environmental protection facilities and compulsory clean production evaluations (Yang & Shen, 2013)

However, problems remain with inter-department coordination:

- **The information-sharing mechanism as set out in the policy design has not been fully implemented.** Though the information-sharing mechanism between the EP authorities and the financial regulatory authorities has been established by the central government, as well as some by provincial governments, there are still many provinces and cities that have not established the mechanism. Beijing did not set regulations to include violation information in the bank credit scoring system until 2013. Furthermore, even where the information-sharing mechanism has been established, often it is not used in a full and timely way when it comes to concrete implementation.
- **The information-sharing mechanism only allows for information flowing in one direction.** The current policy documents only require that the EP authorities provide environmental violation information on enterprises to the financial regulator, not credit information about the enterprises concerned. This one-directional flow of information does not enhance EP's supervision functions; moreover, it negatively influences the mutual trust between the authorities, thus blocking the establishment of a long and effective cooperation mechanism.
- **Lack of effective external supervision.** The general public has not been given a right to know how polluting enterprises have been financed, even if the environmental violation activities of such enterprises have seriously threatened the lives, health and safety of the general public.

A pollution case in Henan Province demonstrates the problem of lack of coordination between the financial regulatory authorities and EP authorities. In June 2011, after an environmental pollution incident caused by an enterprise, non-governmental organization Green Watershed filed an information disclosure application to find out which banks provided loans to the responsible enterprise, as well as the information coordination status between the financial regulatory authorities and EP authorities. This request was refused on the basis of commercial confidentiality. Yunnan Environmental Protection Department replied that “though China has by now established the green credit mechanism and this department has initiated this mechanism with PBC Kunming Central Sub-branch, but no fixed and usable information sharing channel for inquiry has been established due to such issues as network technology and the scope of banks' financing information. Currently, this department only reports to the banking system the information about the enterprises which are noted as under supervision due to special EP actions or under administrative punishment or fining. The banking system has never provided to the EP authorities or inquired our opinion as far as the enterprise's loan and financing information is concerned.” Against the backdrop of the poor interdepartmental communication of EP information and lack of public supervision, though the EP authorities adopted the strict administrative punishment (i.e., MEP adopted regional restricted approval on Qijing, the place where the enterprise is located), the enterprise responsible for the pollution incident resumed some part of its production soon after the EP authorities granted their punishment and before the pollution had been removed.

Poor interdepartmental coordination is connected to the lack of clear definition of the functions and division of labour of some governmental agencies. For example, PBC and CBRC lack explicit and systematic rules to define their functions and division of labour on the formulation, implementation and supervision of credit policies, and the energy conservation and environmental protection work concerns multiple departments including the NDRC, the Ministry of Foreign Trade and Economic Cooperation, MEP, etc. Under this pattern, the interdepartmental shuffling of and argument over the responsibilities or fighting for power or protection over key issues are not surprising.

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LESSON 5: SUPPORTING POLICIES

Supporting policies are critical to translating high-level commitments into action, but are not yet fully in place.

On a positive note, green finance is increasingly being integrated into China's plan for overall environmental economic policy. According to the 12th Five-Year Plan, the environmental economic policy system covers 10 fields and 33 specific tasks, including environmental taxes and subsidies, environmental pricing, environmental levies, green trade policy, ecological compensation mechanism and pollution damage fees, as well as specific green finance measures. The interplay of pricing, incentives, sanctions and restrictions creates the economic environment on which the development of green finance relies.

At the same time, China still has many problems supporting policies for green finance. These problems translate into valuable lessons for China.

First, the supporting mechanisms for green finance have been developing slowly. The first green credit guidelines were established in 2007, but a workable system for enterprise credit risk evaluation was only formally implemented in 2014. In some cases, supporting systems have been initiated, but they are restricted to isolated trials at the local level and do not have much influence. For example, the “rational environmental damage cost-sharing mechanism,” which includes environmental and resource pricing, has not come into being. As a result, market players have insufficient incentive to increase their investment in environmental protection and invest in controlling environmental risks, therefore reducing demand for financial products such as green credit and environmental pollution liability insurance.

Second, the fiscal and taxation incentives aimed directly at green finance are not in place. The current fiscal and taxation incentive policies are mainly targeted at energy conservation and environmental protection enterprises or projects, but the financial institutions lack relevant supporting incentive policies to provide loans to these projects. For example, measures such as fiscal interest discounts, taxation rebates, pretax calculation and withdrawal of reserve, and independent writing off of bad debts are not available for green credit. In addition, green insurance does not receive a premium subsidy.

Third, some supporting mechanisms, like professional capacity, still need to be developed in the area. Green finance is a highly professional and technical profession and requires knowledge in both environmental protection technologies and finance. Currently, China's financial institutions do not have particular strategies for developing and recruiting people with such integrated skill sets.

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LESSON 6: BALANCE

China's green finance system is at an early stage of innovation and development and is not yet balanced across different channels, investors and products.

Factors characterizing a balanced market system include:

1. **Capital intermediation channels**, including both banks and other deposit-taking institutions, but also capital markets and institutional investors. For many energy conservation and environmental protection projects, stocks, bonds, private equity/venture capital and leasing can be more appropriate means of financing than traditional bank credit.
2. **Investors**, which should not be dominated by one particular group and result in high concentration risks.
3. **Financial institutions** encompassing capital providers, including banks and insurance companies, but also intermediary institutions providing other market services—for example, independent environmental damage assessment and evaluation institutions, environmental risk evaluation institutions and data service companies, as well as consumer protection regulations.
4. **Financial products** to satisfy the demands of various green finance investors, financiers and environmental risks managers.

China has some positive experience in the development of green finance markets—for example, the current green finance policies cover green credit, green insurance and green securities. However, in practice, China's green finance market remains unbalanced.

Unbalanced financing channels: While capital markets are growing, bank loans remain dominant. In 2013 the aggregate financing scale was RMB 17.3 trillion, made up of 51 per cent RMB loans, 3 per cent loans in foreign currencies, 15 per cent entrusted loans, 11 per cent trust loans account, 5 per cent undiscounted banks' acceptance bills, 10 per cent corporate bonds and just 1 per cent domestic stock issuances. Banks directly or indirectly control the key links of capital collection, underwriting transactions in the bond market, trust market and financing lease market.

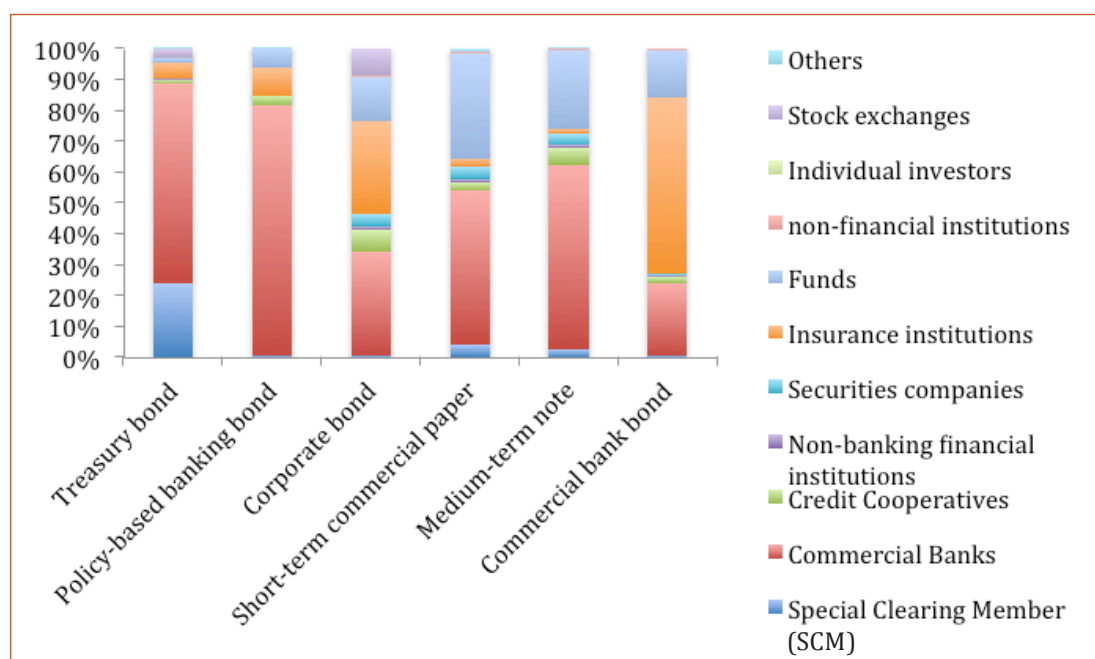
The insurance industry's assets reached RMB 8.29 trillion by the end of 2013, while the banking industry's assets during the same period reached RMB 151.35 trillion. The banking industry's assets are 20 times those of the insurance industry. It is this bank-dominated financial system that has resulted in the current green-credit-dominated green finance market in China.

Unbalanced investor structure: Institutional investors are not well developed compared to the developed markets. Institutional investors manage RMB 10.13 trillion in assets, accounting for 18 per cent of GDP, of which the insurance industry manages RMB 8.29 trillion, the national social security fund RMB 1.24 trillion and the enterprise annuity fund RMB 603.471 billion per year. There are no college endowment funds or large private foundations.

Due to their small scale and weak strength, institutional investors have a relatively low degree of participation in the financial market. In the stock market, investment trading has been dominated by medium and small investors. At the end of 2013, the market capitalization of total A-shares held by nine types of professional institutional investors represented by fund managers, insurance institutions and Qualified Foreign Institutional Investors was RMB 2.6 trillion, accounting for only 11 per cent of the total market capitalization of the two markets.

In recent years, China's bond market has developed rapidly. Banks are the largest investor (although bonds do not make up a large proportion of their overall assets).

FIGURE 1: INVESTOR STRUCTURE OF MAJOR BONDS MEASURED BY THE AMOUNT OF TRUSTEESHIP ON THE BOND MARKET (2011)



Source: www.chinabond.com.cn

China's financial market has not been fully open to foreign investors, and there are still very strict controls. There are restrictions on foreign involvement in banking, insurance and securities, and the market share of foreign-funded financial institutions has been low.

In terms of investment portfolios, more efforts have been made to open the market to foreign investment. By the end of 2013, 138 overseas institutions⁴ had been approved to enter the inter-bank bond market. However, as a whole, the participation of foreign investment in China's capital market has been very low, mainly because China has adopted a quota system for overseas investors. Currently, the maximum quota for Qualified Financial Institutional Investors (QFII) is about USD 1 billion. Moreover, China sets restrictions on the transfer and remittance of QFII funds, which increases the difficulty for investors. The total combined approved quota of QFII and Renimi Qualified Financial Institutional Investors (RQFII) in early 2014 was about USD 94 billion, which accounted for less than 3 per cent in the A-share market with the market capitalization of USD 3.3 trillion.

Imbalance of the products and services: In terms of products, traditional bank loans predominate. Despite the innovation in recent years of such newly developed products as green financing leases, carbon finance products and Clean Development Mechanism accounts-receivable financing, these are isolated explorations and have not become mainstream in the market. Asset-backed securitization of green credit has not yet been developed. Similar problems also exist in the fields of green insurance and green securities.

In terms of services, there is a shortage of professional service institutions for green finance, including environmental risk assessment, damage identification, etc.

⁴ Institutions include overseas central banks, international financial institutions, sovereign wealth funds, business clearing banks in Hong Kong and Macao SARs, overseas participating banks, overseas insurance institutions, Renimi Qualified Financial Institutional Investors (RQFII) and Qualified Financial Institutional Investors (QFII) etc.

The role of market mechanisms has not been brought into full play: The government still plays an important role in China's financial market as owner, regulator and industry promoter. The conflicts and overlapping of functions have distorted the financial market. This distortion is also reflected in the green financial market, where governmental promotion and domination prevail and prevent market mechanisms from operating effectively. This is mainly demonstrated in:

- The lack of clear boundaries between the functions and role of commercial financial institutions and policy-based financial institutions.
- Unnecessary administrative examination and approval procedures for the stock and bond markets.
- Insufficient information disclosure and low transparency in the capital markets.
- Corporate governance frameworks that continue to require improvement.
- Weaknesses in the financial regulatory framework and investor protection system.

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