

## Analysis on the Effect of Green Finance on Sustainable Development

Sihan Feng<sup>1,a</sup>

<sup>1</sup>Shanghai Hong Run Bo Yuan School, Shanghai 200003, China.

<sup>a</sup>Suibian886@126.com

### Abstract

**Economic development is closely related to the environment. At present, countries all over the world have reached a consensus on the sustainable development of low-carbon economy. Low carbon economy, or green finance, has clearly become a topic of discussion and study around the world. China has been practicing the concept that clear waters and green mountains are mountains of gold and silver. As far as China is concerned, from the initial single green loan to today's diversified green financial instruments, and the listing and trading of carbon Exchange in June 2021, this phenomenon shows the awakening of green and environmental awareness in the production and operation of enterprises. China has promoted economic development by issuing green credit and gradually built a complete green financial system. Under the leadership of the government, the green finance sector has gradually become internationalized and mainstream, which has planned and opened a new road of green development finance for China. The research on green finance is of guiding significance to the structure optimization of China's green finance system and the practice of green finance in the future. In accordance with this logic, this paper will study the impact of green finance on sustainable development.**

### Keywords

**Green Finance; Sustainable Development; Low Carbon Economy.**

### 1. Introduction

Economic development and the environment are inextricably linked. At present, countries in the world have reached a consensus on the sustainable development of low-carbon economy. In the report of the 19th National Congress of the Communist Party of China, General Secretary Xi Jinping also clearly pointed out that the concept of green water and green mountains is a golden mountain and silver mountain. In the government work report, the strategic goals of carbon peaking by 2030 and carbon neutrality by 2060 are clearly stated in the government work report. The research on green finance originated in the West in the 1980s, and can be traced back to 2016 in China, the first year of the 13th Five-Year Plan. This year can be regarded as a milestone in the history of my country's green finance development. Under the leadership of the People's Bank of China, the guidance on building a green finance system was issued, and green finance has clarified its development goals, directions and tasks. my country has also become the first country in the world to formulate a top-level design for green finance. In September of the same year, as the rotating chairman of the G20, my country included green finance on the agenda of the G20 summit for the first time. Since then, my country has begun and initiated the process of international mainstreaming of green finance. In recent years, the development of the green finance sector has been based on the national conditions and combined with socialism with Chinese characteristics under the leadership and inspiration of the top-level agencies of the central government, and then planned a green development financial path.

In China, although the concept of green finance has only been developed and matured in a few decades since its inception, the concept has gradually matured in the increasing practice of people. From the initial single green loan to today's diversified green financial instruments, as well as the listing and trading of the Carbon Exchange in June 2021, this phenomenon indicates the awakening of green and environmental awareness in the production and operation of enterprises, and it also represents the people's With the greatly improved material living standards, people have a higher spiritual pursuit of nature, economy, and harmony between man and nature.

The research on green finance can not only generate guiding significance for the optimization of the composition and structure of my country's green finance system and the practice of green finance in the future. In addition, the research on green finance can better contribute to the establishment of China's green finance system and propose more targeted countermeasures and development goals. This is the importance and necessity of green finance research. According to this logic of thinking, this article will conduct a related review of the role of green finance in sustainable development.

## **2. Literature review**

### **2.1 The meaning of green finance**

Regarding the meaning of green finance, there is not much dispute over the definition of the term green finance in various documents. This article believes that the most representative definition of green finance is what Ma Jun wrote in "On the Construction of China's Green Financial System": "Green Finance refers to financial activities that support environmental improvement and response to climate change." This article believes that this definition is the most concise, clear and comprehensive point out green finance, that is, the meaning of green finance. In addition, the author Ma Jun proposed in this article to build a green financial system, which refers to directing social funds to environmental protection, energy saving and clean energy, clean transportation, and clean transportation through financial services such as loans, private equity, investment, issuance of securities, and stock insurance. A series of policies and institutional arrangements in green industries such as construction. [1]

And more, the definition of green finance can also be seen in the article "Green Finance and Sustainable Development" published by the research group of the Environmental and Economic Policy Research Center of the Ministry of Environmental Protection of the Development Research Institute of Southwestern University of Finance and Economics. It is written in the article: Green finance is an important part of modern economy and a new concept in financial theory and financial practice. From the existing literature, it is also called environmental financing or sustainable financing, which mainly refers to environmental protection. Re-adjust the business philosophy, management policies, and business processes of the financial industry to achieve better environmental sustainability [2]. Green finance is the common development and organic combination of sustainable economic development and financial issues. It is a great innovation in the financial industry. Protect the environment while realizing the development of the global economy, so as to achieve a balance of economic and environmental development.

It can be seen from the definitions of these representative meanings of green finance that most of the definitions of green finance emphasize the common sustainable development of economy and environmental protection. In addition, the financial level still emphasizes the use of various economic means, such as insurance, securities, insurance, securities industry, funds and other activities to achieve economic activities. Therefore, the green finance industry can generally be understood and defined from the two parts of "green" and "finance". "Green" represents the low-carbon economy advocated by countries all over the world. It is also China's practice of the concept that green water and green mountains are golden mountains and silver mountains. It is synonymous with the environmental protection industry, while "finance" is related to the market, and the concept of green finance is becoming increasingly popular. Nowadays, it is mature, to promote the development of environmental protection enterprises, to improve people's environmental awareness while improving people's living standards, and to support the economic and policy arrangements adopted for the development of environmentally improved industries.

### **2.2 Function Theory of Green Finance**

Regarding the functional theory of green finance, that is, the role and significance of green finance in the international financial system or environmental protection, many scholars have mentioned this point. The role and significance of "green finance" is mentioned in the article "Green Finance and Sustainable Development" by the research center's research group. First of all, green finance can help the country to form a capital orientation. Simply put, it is to promote the development of the industry

through some economic means. The biggest change in this adjustment is to allow the state, enterprises or individuals to use funds to support the development of green industries, thereby forming healthy and green financial capital, and ultimately providing powerful conditions for the development of green industries. In addition, this article also mentioned the role of green finance, which is to promote the development of industrial integration. Simply put, under the agitation of green finance, various resources will flow into the green industry, forming A certain centripetal capital flow will form and expand the scale of the green industry so as to better play the economic effect of the green industry, and then enhance the country's sustainable competitiveness while protecting the environment. In addition, this article also pointed out that green finance contributes to the disclosure of environmental information. The disclosure of this information is conducive to the smooth progress of government control and supervision activities. Whether the industry or company regards environmental protection as their first consideration in terms of environmental protection.

### **2.3 Comparison of Green Finance and Traditional Finance**

The comparison between green finance and traditional finance can be found in Mai Junhong and Xu Feng, "Research on my country's Green Finance Influencing Factors Based on Conjoint Analysis" and Zhao Yujie's "The Evolution of China's Financial System: Taking Financial Markets as Driving Forces". See some differences and inspirations. It is mentioned in the article that the financing structure of my country's financial market is characterized by bank credit, and the proportion of indirect financing as high as 80% is a typical bank-led financial market structure. [3]

However, green finance focuses on "green projects"; green projects refer to the construction, operation and management of projects that are conducive to supporting environmental improvement, coping with climate change, and saving and efficient use of carbon resources; therefore, green finance and traditional The biggest difference in finance is that whether it is from the economic development model or the focus of economic development, green finance is to a greater extent than traditional finance, focusing on the word "green". That is to say, use some environmentally friendly means to develop the financial system, so as to provide some financial support for industries that promote circular economy production, green manufacturing, ecological agriculture, energy conservation and environmental protection, and new energy development [4]. Specifically, different green investment services based on funds mainly include self-operated green investment and green asset management (including green private equity investment). Of course, green finance has given greater support to new industries such as eco-environmental protection, energy conservation and new energy, issuing green credits, accumulating funds and converting them into "green investment" to promote the development of emerging green industries.

## **3. The role of green finance for sustainable development**

### **3.1 Green finance promotes technological advancement of ecological civilization and provides financial support for it**

Green finance will promote the construction of ecological civilization and the healthy development of the ecology, and it can also provide financial support for the construction of ecological civilization. Wang Yao and others put forward in the "Research on the Contribution of Green Finance to China's Economic Development": The implementation of green finance policies will promote China's comprehensive promotion of the construction of ecological civilization. While the concept of "green" has become one of the main development concepts of society, society has a huge demand for funds for green activities and environmental protection activities for energy conservation and emission reduction of resources and the environment [5]. And green finance can play its unique role of "rescue savings" and help the formation of the green investment industry chain. In a simple summary, this whole process can be understood as after green finance absorbs funds, and effectively converts the absorbed funds into investment, so that these investments can be gathered in a reasonable way, and on this basis, through Some specific financial measures make these funds green investments. In other words, the purpose of using these green investments as the capital element of green production activities is to achieve the development goals of green finance, that is, to protect the ecological

environment, promote harmony between man and nature, and provide environmental protection measures for energy conservation and emission reduction. Provide funding requirements to meet these measures.

Wang Yao and others also pointed out in the article "Research on the Contribution of Green Finance to China's Economic Development": After several years of development, my country's green finance has played a positive role in the formation of green investment. In the Chinese banking industry, it is speculated under the guidance of the supervisory authority and the statistical evaluation [6]. All these have prompted a large amount of funds to be converted into green investments. This shows that in the process of development and advancement of green finance, not only has it strengthened the role of green finance in promoting ecological civilization and technological progress, but at the same time, green finance has also provided financial support for the technological advancement of ecological civilization.

### **3.2 Green finance promotes the optimization of ecological civilization industrial structure**

Green finance helps to promote the optimization of the economic structure. It is well known that financial means can adjust the economy by optimizing the allocation of resources. In their article "Research on the Contribution of Green Finance to China's Economic Development", Wang Yao and others pointed out that in the process of mobilizing savings to form green investment, green finance costs green projects due to government support and regulatory requirements. Decrease and increase the availability of funds. This will guide social funds to gradually withdraw from non-green projects with high pollution and high energy consumption and invest in green projects that are environmentally friendly. As a result, this flow of funds has realized the encouragement and support for the development of green industries, thereby optimizing the economic structure of the industry.

### **3.3 Green finance promotes sustainable development of regional economy**

In the article "Research on the Contribution of Green Finance to China's Economic Development", Wang Yao and others also pointed out that economic growth is mainly driven by consumption, investment, and exports, and the demand for green investment promoted by green financial activities will directly contribute through increased investment. For economic growth. In addition, green investment can also promote economic development and make it a new growth point. In other words, after the smooth implementation of the green economy, more emerging green industries and related new industries have been formed. In this way, green finance has promoted the formation of new economic growth points for the industry. This will bring economic and social benefits [7].

### **3.4 The social role of green finance**

Zhou Xiaochuan, governor of the People's Bank of China, once pointed out that the development of green finance is of great significance to the development of society and is conducive to making money by reducing the compensation cost in the future to make sustainable economic development. Promote the allocation of financial resources to the direction of environmental protection, so as to enhance the ability of the whole society to resist risks. It can help financial firms cope with unpredictable risks in economic markets, or provide opportunities for them to seize. At the same time, these enterprises in enjoy green financial benefits at the same time, also needs to fulfil its responsibilities and obligations to the corresponding enterprises, especially for financial and industrial and commercial enterprises, in the green financial help them improve their industrial structure, strive for financial business at the same time, they also should try to assume their social responsibility, For example, we can use green finance to guide and improve our industrial structure, and establish a good corporate image and industry reputation for Chinese enterprises. Produce good social benefit and economic benefit.

## **4. Obstacles to the development of green finance**

In recent years, the types and scale of green finance in my country have been increasing steadily, and the country has also provided a relatively good environment for the development of green finance to ensure the healthy development of green finance. However, the development of green finance has

also produced a certain degree of obstacles. For example, various banks began to pay attention to the business of green finance, so green credit business was created, and this kind of business tilted credit to the green environmental protection industry, but at present, the classification and review of green environmental protection projects is imperfect. On the one hand, that is to say, there is a lack of a unified standard in the industry. Therefore, relevant policies and regulations in this area also urgently need to be improved. The industry needs to formulate a persuasive and unified credit benchmark to ensure fairness and fairness in the credit business field of green finance and the sound development of the future.

When discussing the obstacles to the development of green finance, Chen Kai argued in the article "Analysis of Changes in Green Finance Policies and Countermeasures and Suggestions": China's green finance policy development is divided into three stages, and in his article, According to the three stages of the development process, it also puts forward the deficiencies in each stage of the process, and proposes solutions from the three aspects of legal protection, policy incentives, and government promotion. At the same time, we can also determine from the side that the obstacles to the development of green finance are due to inadequate legal protection, insufficient policy incentives, and insufficient implementation of government-driven projects. In addition, Ding Jie introduced the double difference method into the research process of the effectiveness of green credit policies in the article "Green Credit Policy, Credit Resource Allocation and Corporate Strategic Response". His conclusions proved that green credit Credit has inhibited the credit financing of heavily polluting companies. In a way, this has also formed an obstacle.

Specifically, from the perspective of laws and regulations, hindering the development of green finance, there are the following specific points: mainly the insurance clauses need to be improved. Du Li and Zheng Lichun pointed out in their article "China Green Finance Policy Quality Evaluation Research": " In their assessment of the quality of China's green finance policy, since environmental pollution compulsory liability insurance covers a wide range of industries and involves a large number of companies, the specific conditions of the scale of companies in the same industry are different, so the insurance contract is tailored for each company. The high cost of insurance companies cannot afford. This phenomenon makes it difficult for insurance companies to formulate universal insurance clauses. And if there is no universal insurance clause, then whether it is the insurance company or the insurance company It's difficult to get a tangible guarantee for their interests."

Awareness: With the development of the times, and the concept of harmony between man and nature has become more deeply rooted in the hearts of the people, people have a deeper and deeper understanding of the concept of green finance. The state is also vigorously supporting the implementation of green environmental protection projects in terms of laws, regulations and various policies. However, green environmental protection projects or such green finance are environmental protection projects after all, so there are shortcomings and shortcomings such as low returns and slow results, making green environmental protection projects unable to make full use of financial means or some financial systems to achieve financing. Therefore, it is necessary to improve people's awareness and a deep understanding of green finance in this regard. In addition, it is also necessary to strengthen the people's or enterprises' awareness of the development of green finance. Du Li and Zheng Lichun pointed out in the article "China's Green Finance Policy Quality Evaluation Research": The government is strengthening the legal system or supervision while at the same time. , It is necessary to pay more attention to improving the awareness of environmental protection of various business managers and even ordinary employees, and improve their awareness of environmental risk responsibility.

## 5. Conclusion

At present, the development of green finance in my country has achieved initial results, and my country's financial structure is gradually establishing a green financial system. In the development of green finance, my country has conducted various explorations and accumulated diverse experiences

in dealing with the balance between economic development and environmental protection. Compared with traditional finance, green finance is more prominent in its "green", which is the so-called environmental friendliness, nature protection is the most important, and financial function takes the second place. The improvement and progress from traditional finance to green finance is the development of my country's finance. A great transformation, this transformation deserves more attempts, more promotion, and more summaries. Moreover, the role of green finance for sustainable development has been recognized by people. Green finance has also achieved much-desired achievements in promoting the sustainable development of finance. As mentioned above, green finance promotes and provides financial support for the advancement of ecological civilization technology, and green finance promotes the optimization of ecological civilization industrial structure. Green finance promotes the sustainable development of regional economy, and green finance accelerates the promotion of social progress. Significant and outstanding achievements have been made in these four areas. However, what cannot be ignored and also must be admitted is that green finance also faces many obstacles and challenges in the development process. For example, it is necessary to standardize and improve the formulation of laws and regulations in the financial industry; On the other hand, it is also necessary to strengthen the people's or enterprises' awareness of the development of green finance; in addition, while strengthening the legal system or supervision, the government should also pay more attention to improving the environmental protection of corporate managers and even ordinary employees. Awareness to improve the environmental risk responsibility awareness of citizens or related practitioners. Only by avoiding the above obstacles and making improvements can green finance achieve better energy efficiency in China and realize the dual harmonious development of man and nature.

## References

- [1] Zhao Yujie, The Evolution of China's Financial System: Driven by the Financial Market, Financial Research, Vol7, (2006).
- [2] Chen Kai. Analysis of changes in green finance policies and countermeasures. Research on Socialism with Chinese Characteristics, Vol5(2017).
- [3] Mai Junhong, Xu Feng. Research on the Influencing Factors of my country's Green Finance Based on Conjoint Analysis. Macroeconomic Research, Vol5. (2015),p.23-37.
- [4] Ma Jun. On the construction of China's green financial system. Financial Forum, 2015.
- [5] Wang Yao, Pan Dongyang, Zhang Xiao. Research on the Contribution of Green Finance to China's Economic Development. Comparison of Economic and Social Systems, Vol6. (2016) p.33-42.
- [6] Du Li, Zheng Lichun. Research on the Quality Evaluation of China's Green Finance Policy. Journal of Wuhan University (Philosophy and Social Sciences Edition), Vol6 (2020) p.3
- [7] Southwestern University of Finance and Economics Development Research Institute, Ministry of Environmental Protection Research Center for Environmental and Economic Policy Research Group, Li Xiaoxi, Xia Guang, et al. Green Finance and Sustainable Development. Financial Forum, 2015.