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The Importance and Challenges of Green Finance

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Abstract

This study examines critical barriers to green finance development—essential for balancing economic growth and environmental protection—through litera-ture analysis. Core obstacles include banking sector deficiencies such as the ab-sence of dedicated institutions, insufficient expertise, and restricted financing access for green industries due to inadequate risk assessment of long-term pro-jects. Con-currently, incomplete policy frameworks lacking supportive regula-tions, market instruments, and tailored risk models contribute to risk mispric-ing, reduced competitiveness, and underinvestment. The study concludes that coordinated re-forms are imperative: Banks must establish specialized green units, implement differentiated credit strategies favoring low-carbon sectors, and enhance staff training. Governments must introduce incentives like target-ed tax reductions, reform financial tools, develop long-term risk assessment models, and strengthen market regulations. Sustained governmental support is vital to realize green fi-nance's potential for sustainable development.

Keywords

Green finance; Bank; Policies; Green project

1. Introduction

With the development of the world economy, global pollution of the environment has become a serious issue facing society. Therefore, green finance plays a crucial role in balancing economic growth and ecosystem protection (Scholtens 2017). A strong force with the features of long-term and smoothness exists between carbon emission and economic development; they mutually supplement and influence (Liang 2014). Much of the climate change is related to the emission of carbon dioxide, which has negative impacts on the water environment, food security, and population (Jayawardena 2015). However, green finance, a new financing method, pursues the growth of the economy, the improvement of the environment, and the development of the finance industry simultaneously (Roopa, Rajan, & Suhasini, 2012), which can effectively cope with environmental issues.

2. Challenges of green finance

2.1. Deficiencies in banking systems

Most traditional banks did not pay attention to green finance or look for opportunities to invest in environmentally friendly businesses. Only in recent years have they begun to provide green financial products and services. But it is still at an initial stage, which is not perfect (Liang 2014). With the development of green finance in recent decades, there are a few predicaments that need to be solved by industries and the government. According to 'Green finance for sustainable green economic growth in India'(Soundarrajan & Vivek 2016), both small and medium-sized companies are having difficulty accessing capital due to less attention from banks, which prevents their participation in the green financing strategies. Liang(2014) also agrees with this view and investigated that the green finance industries cannot get loans resulting from incomplete banking systems.

2.2. Imperfections in statutory systems

On the other hand, the limitations of legal systems lead to green finance not becoming a significant financial system for most citizens and investors. In fact, the green finance industries and products, including renewable energy and regenerative agriculture, are usually considered as long-term investments with unpredictable and long payback periods for investors (Zhi & Wang, 2016). Therefore, these environmental protection industries are unable to be funded by investors to research and promote their green finance products. In addition, the unpredictable payback period also results in mispricing of risks, which affects the decision-making of banks to loan to green finance industries. (Chowdhury, Datta, and Mohajan 2013) also figured out that green finance industries cannot get enough funds to keep acting without policy support. Polices that regulate capital flow issues of green finance business are incomplete in a large number of countries, both developed and developing countries. However, there are not only policing problems in the loan area, but also in market regulation. Liang (2014) agrees with the point that was measured by Mohajan 2013) and indicates that the market policy remake is another area that is necessary. The incomplete market policies can result in a reduction in the competitiveness of green finance products, which causes negative impacts on green finance industries. Overall, the incomplete policies in green finance bring several negative impacts on both the economy and the environment; thus, a few solutions can be identified in the following paragraphs.

3. Suggestions

3.1. Suggestions for banks

The importance of green finance should be realized by banks. Improving the management level tends to result in boosting environmentally friendly business development (Liang, 2014,). There is some advice that is provided for banks. Firstly, formulating policies and strategic plans for financing green projects leads to raising the level of the green industry. And then enhance the awareness of staff about green finance and train them to improve their abilities to deal with the relevant issues of eco-friendly business (Chowdhury, Datta, & Mohajan, 2013,). Next, identifying and choosing suitable projects to invest in. Finally, adequate preparation for a green project, which considers advisory and alternative plans, is required by the banks. It has been a long time since the conception in practice. In a similar way, banks that adopt new policies may need a long time.

3.2. Suggestions for policies

There are a few methods that can be pointed out to deal with the limitations of policies in the green finance area. Firstly, the policies that are relevant to green finance need to be remade. Zhi and Wang (2016) investigate that two aspects should be included when the relevant policies have been processed. Existing financial tools, as one aspect, can be reformed to ensure that green finance industries are invested through their unique financing path. In other words, governments can provide a specific policy for environmental protection businesses with another risk prediction system rather than the current risk prediction system, which often considers long payback periods as high risk. Thus, these industries can get investment from banks to avoid the capital chain rupture. For instance, the relevant department can decrease part of the tax based on the government's specific policies (Liang 2014). The cost of green finance will be reduced effectively due to tax cancellation, which may include import and export taxes and GST on green finance products. Thus, the price of green finance products can be similar to other environmental protection products, which increases the competitiveness of these green finance products. Based on Liang's view in 2014, Zhi and Wang (2016) provide another suggestion that the specific policies that have been mentioned in Liang's (2014) research need to be matched with the term construction of a green finance project. That requires the government to not only provide the relevant policies but also the complete supervisory system to avert negative impacts. After the policies to reduce the capital chain pressure of green finance industries are built, the other policies to regulate the market are also necessary to encourage the development of green finance. The health market economic system is necessary for green finance development, which means macroeconomic readjustment and control to rationally allocate domestic resources need to be considered, ensuring scepticism and accuracy of resource allocation (Liang 2014). This method can be proven in the Chinese green finance market in recent years. In fact, according to Liu, Faure, and Bal (2014), a number of market-based instruments, including "Green public procurement", "Green trade" policies, and "Environmental taxes" have been arranged in recent decades, resulting in the investment in pollution control and environmental protection measures amounting to 1.36% of GDP.

4. Conclusion

In conclusion, green finance hasn't been on track; we need time to wait for it to transform. This essay has discussed some issues of green finance development from banking and legal aspects. Additionally, the solutions mentioned in this essay need to be supported by the government. We should not ignore the pollution problems of the environment while developing the economy. Green finance is the only way to balance the economy and ecosystem effectively. Therefore, it is really important for our society. The contents and import your prepared text file. You are now ready to style your paper.

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