

Practical Experience and Enlightenment of Sustainable Financial Development in the European Union

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Abstract: Currently, developing green finance and serving a green economy has become a global consensus. The European Union's (EU) sustainable finance has an early origin, rich development experience, and a relatively complete framework system. The EU Action Plan: Financing Sustainable Development provides strong guidance to promote sustainable finance, and this initiative stimulates interbank market regulators to act quickly to achieve the goal of sustainable development. Additionally, Through the plan, European standards for green finance business have been unified, which has dramatically improved the efficiency of green finance in the interbank market and helped to facilitate effective convergence among financial institutions. The EU's sustainable financial system has an extremely excellent hierarchy, clear guidelines, a solid foundation, and profound influence, and it provides important guidance and reference for the development of green finance in China.

Keywords: Sustainable Finance; Green Finance; Ecological Environment; Classification Scheme.

1. Introduction

With the increasing severity of global climate and environment, building a sustainable financial system to support the sustainable development of the green economy has been accepted by countries in the world. Moreover, with the continuous development of global green finance, China's green financial system has been ranked as the world's most advanced. However, there is still much room for improvement, especially in countries like the EU, where it originated earlier and has a higher degree of importance. Therefore, this paper will conduct an in-depth study of the EU's "sustainable finance" to draw useful lessons from it and promote the sustainable development of China's interbank market.

2. Origin and Development of Sustainable Finance in the EU

The core thought of the EU's "sustainable development" is emphasizing environmental protection to ensure sustainable development. In October 1972, the European Economic Community (EEC) leaders held an important summit in Paris to discuss how to develop a comprehensive and effective policy framework for environmental protection within the EEC. Finally, the 1973 Environmental Action Plan was developed, which included "Sustainability", the first major environmental policy of the EEC. In October 1987, the United Nations in Brunei announced that "sustainable development" was formally established and gaining global popularity. Furthermore, with the 1987 Environmental Action Plan, the European Community, for the first time, adopted "sustainability" as a prominent concept and incorporated it into its European policy framework, thus opening a new era. In 1992, the Maastricht Treaty expressly stipulated that EU member states must take action to ensure sustainable development and incorporate it into the EU's legal system. With the publication of the 1993 Environmental Action Plan, sustainable development became a global consensus and was formally incorporated into the development strategies of the

international community.[1]

The EU's sustainable development strategy covers three areas: environment, society, and business management. In these three areas, the environment is particularly prominent, and it requires measures not only to mitigate climate change but also to protect ecological systems.[2]

In October 2014, EU leaders signed an agreement to achieve the 2030 emissions reduction target, which marked the EU's accelerated transformation towards a sustainable development model with low carbon, high resource utilization, and a circular economy. In 2016, the European Commission established an institution called the High-level Expert Group on Sustainable Finance to study the EU's strategy for sustainable financial development to address the challenges posed by economic transformation and to promote the sustainable growth of financial services.

In 2018, the EU published its Action Plan: Financing Sustainable Development, which clearly defines sustainable finance as a financial model in which financial institutions take environmental, social, and governance (ESG) factors into account when conducting financial activities to reduce environmental stress and promote sustainable economic development.

In 2019, the CEC published a "greennewdeal" aimed at achieving the EU's climate change targets for 2050, which includes clean energy, biodiversity conservation, zero pollution, a circular economy, and sustainable food production. In January 2020, the European Commission published a new green investment plan to achieve EUR 100,000,000,000 in sustainable development over the next ten years. In August 2020, the Renewed Sustainable Finance Strategy will significantly contribute by launching an action plan more comprehensively and systematically, incorporating the findings of technical experts and providing greater clarity on the importance of sustainable finance.[3]

In March 2020, the CEC Technical Expert Group (TEG) on Sustainable Finance published its latest Sustainable Finance Taxonomy and Green Bond Principles reports, which provide important guidance for global sustainability.

Table 1. Sustainable finance evolution

Time	Topic	Main Content
1965	Ethical Investment	AktieAnsvarAktiefond, the world's first ethical foundation, is founded in Sweden.[4]
1990	Socially Responsible Investment	KLD Research & Analytics, Inc., the world's leading independent investment research firm, has released the Domini400SocialIndex, the world's first responsible investment index.[5]
2004	ESG Principles	The United Nations Environment Programme introduced the ESG principles in 2004.[6]
2005	Inclusive Financial System	The concept of an inclusive financial system was first introduced by the United Nations, aiming to provide sustainable financial services to groups that have not yet gained access to effective financial services and to address the problem of unequal and unpopular financial services.
2006	Principles for Responsible Investment	The United Nations Principles for Responsible Investment (UNPRI) has published the Principles for Responsible Investment (PRI), which are dedicated to promoting the inclusion of responsible investment in the decision-making process of major investment institutions.
2007	Impact Investing	The Rockefeller Foundation formally introduced the term "impact investing" at a conference at its Bellagio center in northern Italy.
2016	Green Finance	The G20 Hangzhou Leaders Summit included "green finance" in the outcome document; the People's Bank of China, together with seven ministries, issued the Guidance for Establishing the Green Financial System.
2017	Sustainable Development Goals Impact Finance (SDGIF)	UNDP Establishes SDG Impact Finance Committee, Launches SDG Impact Finance Study
2018	Sustainable Finance	The recommendations related to sustainable finance of the G20 Sustainable Finance Study Group led by the People's Bank of China were included in the G20 Buenos Aires Summit Communiqué.[7]
2021	International Standards for Sustainable Finance	The International Organization for Standardization (ISO) has officially published the International Standard on Sustainable Finance - Basic Concepts and Key Initiatives (ISO/TR32220).[8]

3. Characteristics of Sustainable Financial Development in the EU

3.1. Top-level Design and Coordinated Advance

In terms of macro policy orientation, as shown in Figure 1,

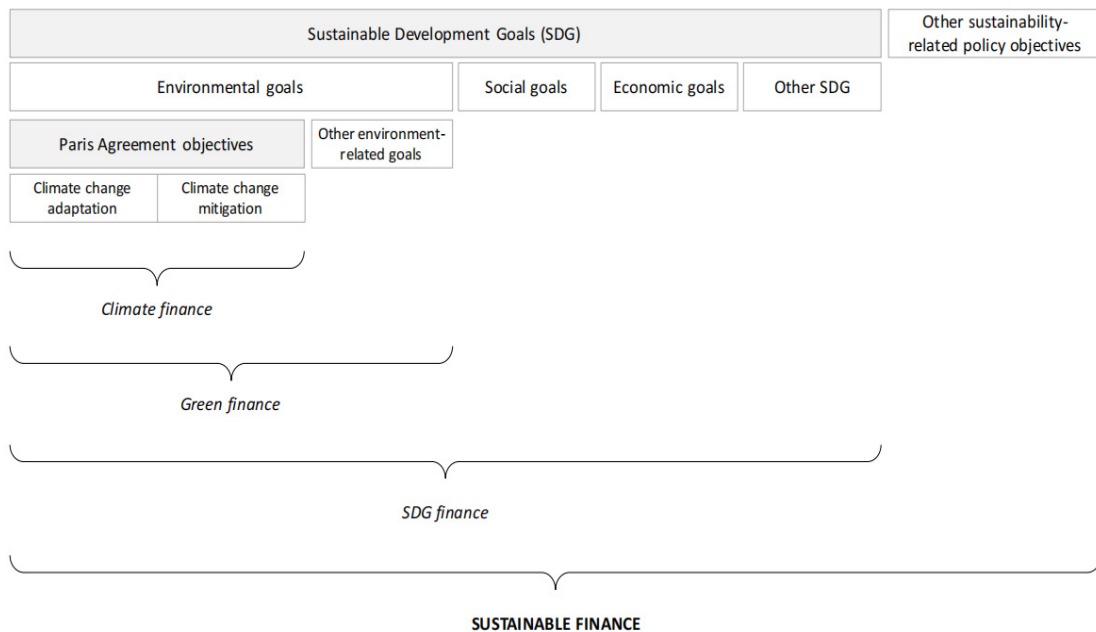


Figure 1. A policy-driven classification of sustainable finance and its main components [9]

The EU management has vigorously pursued a "bottom-up" market-based mechanism that incorporates a "top-down"

the United Nations Sustainable Development Goals SDGs and the Paris Agreement are two important international policy benchmarks. At the level of industry guidelines, the incorporation of Environmental, Social and Governance (ESG) into financial investment decisions is the most representative industry guideline

approach, coordinated by the CEC, with high-level and technical expert groups established to develop more effective

policies and three major financial regulators, the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA), and the European Insurance and Occupational Pensions Authority (EIOPA) working together to promote sustainable finance. The European Environment Agency (EEA) and other relevant departments and agencies have sent experts with extensive environmental expertise to participate in developing sustainable finance policies to ensure environmental sustainability.

3.2. Clear Objectives and Intensive Policies

Recently, the European Commission published a "greennewdeal" to promote the development of sustainable finance as a basis for financial supervisory institutions, financial companies, and large enterprises around the world to promote the development of a green economy. Moreover, the three EU regulators have recently published a series of policy measures to promote the development of sustainable finance, which includes the Action Plan: Financing Sustainable Development, the Sustainable Finance Strategy, and the action plan being developed by the European Insurance and Occupational Pensions Authority, which aim to strengthen the concept of sustainable finance and provide strong support to achieve sustainable development.

3.3. Build a Solid Foundation and Unified Standards

The Sustainable Finance Taxonomy is seen as the core of the European financial system, which will be a new and effective regulatory framework to ensure the long-term stable development of the financial environment. To achieve sustainable development, a set of classification schemes has been developed to identify green economy activities with six environmental objectives: climate change mitigation, climate change adaptation, sustainable use and conservation of marine and water resources, the transformation of the circular economy, effective pollution control, maintenance of biodiversity and ecosystem restoration. To meet the environmental objectives of "substantial contribution" and "no significant harm," any economic activity that meets the criteria should provide adequate resources and energy, as well as a minimum level of social welfare. Additionally, the classification program should support activities that are moving from a brown economy to a green economy, including those areas and actions that are not yet green and low-carbon. This practical tool can be used by EU member states, financial institutions, and large enterprises, among others, to identify which economic activities can be sustainable development and to help capital markets identify investment opportunities that are conducive to achieving environmental policy objectives, thereby significantly increasing the scale of financing. Furthermore, the EU is working towards a unified green finance policy to ensure the effectiveness of green credits, bonds, disclosure standards, and other related financial services as a way to promote green investment and financing activities in the EU market and ultimately achieve an effective response to global warming.

3.4. International Integration and Common Development

In 2019, at the International Monetary Fund / World Bank Annual Meetings in Washington, the EU, Argentina, Canada, Chile, China, India, Kenya, and Morocco launched the International Platform for Sustainable Finance (IPSF) to

promote sustainable finance globally and unify financial classifications, disclosures, standards, and their regulations to enhance their global influence. Additionally, the EU's expert group model has been emulated by other countries, such as the UK's Green Finance Expert Group, Canada's Sustainable Finance Expert Panel, and Australia's Sustainable Finance Initiative (SFI). Moreover, the Sustainable Finance Taxonomy, Green Bond Standard introduced by the EU, combined with the Climate Bonds Initiative's Climate Bond Taxonomy, the International Capital Markets Association's Green Bond Principles, and the London Loan Market Association's Green Loan Principles, which are commonly adopted internationally, not only broaden the scope of the sustainable finance system but also increase the criteria for identification and improve the procurement benchmark, which makes it an internationally accepted norms, thus helping to promote the accelerated implementation of sustainable financial systems by policymakers and regulators around the world.

4. Research Enlightenment and Recommendations

China's financial supervision department has begun to pay attention to the financial risks brought by climate change, and the 14th Five-Year Plan and the draft Outline of Vision and Objectives for 2035 have clearly proposed vigorously developing green finance and strengthening the policy and supervision system and capacity construction. To better promote the development of China's green financial system, the EU's sustainable financial development model has important enlightening value.

4.1. Formulation of a Sustainable Financial and Legal System

A legal system for sustainable finance should be formulated according to regional and industrial characteristics and with reference to relevant rules and standards of developed countries, especially to clarify the respective responsibility relationship between environmental supervision departments and financial supervision departments. Additionally, formulate a sustainable finance implementation, evaluation, and supervision system. Firstly, based on the national industrial policy, a guiding catalog and working standards for sustainable finance should be formulated to clarify the specific contents of sustainable financial support and restrictions. Concurrently, an environmental risk assessment system for the financial industry should be established to provide operational guidelines and a basis for environmental risk rating of projects for financial decision-making. Secondly, environmental supervision departments, macroeconomic regulation departments, and financial supervision departments should make full use of the People's Bank of China's financial credit information basic database to establish an information sharing and exchange mechanism for sustainable finance so that financial institutions can grasp relevant environmental protection and environmental violation information in a timely manner. Moreover, it should reference the existing supervision experience, adjust the supervision mode according to the unique risks and special operation mode of sustainable finance, innovate the supervision concept, and formulate the sustainable finance supervision system in a targeted manner. Thirdly, the policy support system for sustainable finance should be improved. When using financial and taxation measures, a certain subsidy

policy should be given to financial institutions that carry out sustainable finance business to encourage them to raise their awareness of environmental responsibility and enhance their enthusiasm to carry out sustainable finance business.

4.2. Promote the Digitalization of Sustainable Finance with the Support of Financial Technology

The role of financial technology should be emphasized, and its application in the field of sustainable finance, especially in agriculture, consumption, and small and micro enterprises, should be continuously promoted. For example, the use of financial technology can identify sustainable assets, projects, products, and services more efficiently, carry out the collection, traceability, processing, and analysis of environmental benefit data, and support green asset trading platforms, etc.; it can provide more efficient solutions in the subdivided application areas such as financial supervision and policy tools, enterprise carbon neutrality, systemic climate risk analysis, green investment and financing financial products, innovative services, and green financial market mechanism construction, etc. Concurrently, the use of fintech in financial supervision should be accelerated to provide more effective and convenient digital tools for information disclosure and evaluation of sustainable finance.

4.3. Unify Green Financial Standards based on the Green Industry Catalog

The EU Taxonomy report, published in June 2019, is a key component of the EU Action Plan: Financing Sustainable Development and will serve as a benchmark for developing a new supervisory framework for the European financial market. Currently, there are no uniform standards for green loans and bonds in China and no clear norms for green insurance and funds. The definition of "green assets" is ambiguous, and "greenwashing" is a major challenge to developing green finance in China. Additionally, the core task of green finance is to establish a unified green financial

system in line with international standards to ensure its clarity and operability. Moreover, adopting the lessons learned from the EU Taxonomy, it should strengthen the research on green industries and formulate perfect "green assets", "green assets", "greenwashing", and other standards as the core of the green financial system, to provide strong support for the development of green finance and ensure the healthy development of the green financial market.

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