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# Green Finance Helps Rural Revitalization under the New Institutional Economics

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## Abstract

**Based on the theoretical basis of new institutional economics, this paper discusses and analyzes the role of green finance in helping rural revitalization. Rural revitalization is an important strategy for China's economic development, while green finance is an important means to achieve sustainable development. This paper first introduces the basic concepts of new institutional economics and green finance, then analyzes the problems faced by rural revitalization and the advantages of green finance, and points out the relationship between green finance and institutional economics. Secondly, this paper expounds the specific application of green finance in rural revitalization from two aspects of agricultural production and environmental protection. Then, this article evaluates the benefits of green finance for rural revitalization. Finally, this paper summarizes the significance of green finance to help rural revitalization under the new institutional economics.**

## Keywords

**Institutional Economics; Green Finance; Sustainable Development; Rural Revitalization.**

## 1. Introduction

With the increasingly serious global climate change problem and the popularity of the concept of sustainable development, green finance has gradually become an emerging field to promote economic development. Green finance refers to the inclusion of environmental factors in the financial decision-making and investment process, with the goal of promoting low-carbon economic development, environmental protection and sustainable development.

Rural revitalization is an important part of China's national strategy. The goal is to promote rural development and increase farmers' income and achieve rural social progress through reform and innovation. Rural revitalization needs a lot of financial support, and green finance provides new opportunities and channels for this purpose.

From the perspective of new institutional economics, green finance helps rural revitalization with the following background: the market mechanism is not perfect, the coverage and service capacity of the traditional financial system in rural areas are relatively weak, and rural revitalization is faced with problems such as shortage of funds and financing difficulties. The introduction of green finance can make up for the defects of imperfect market mechanism by innovating financial products and services, and promote the flow of funds to rural revitalization areas. The demand for environmental protection is increasing. With the improvement of people's awareness of environmental protection, the demand for green development and sustainable development is increasing. Rural revitalization needs to be developed on the premise of protecting the ecological environment. Green finance can provide financial support for rural revitalization projects and give preferential policies for environmentally friendly projects to promote the organic combination of rural revitalization and environmental

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protection. The policy guidance is clear, and the Chinese government attaches great importance to the development of green finance and integrates it into the national development strategy. In 2016, China proposed the "Green Finance Policy Framework" and set up pilot areas for green finance to support the innovation and development of green finance. This policy orientation has provided strong support for green finance to help boost rural revitalization.

The purpose of studying how green finance helps rural revitalization is to explore a sustainable development model and promote the green transformation and sustainable development of rural economy.

Promote sustainable development. Green finance can guide capital to flow to environmentally friendly industries and promote the green transformation of the rural economy.Reduce resource waste and environmental pollution, and achieve sustainable development.

We will increase rural financial services. Green finance can provide more financial services for rural areas, support the development of rural industries and farmers' entrepreneurship, improve the coverage and quality of rural financial services, and promote the development of rural economy.

Promote rural employment and wealth distribution. Green finance can promote the development of rural industries, increase employment opportunities, improve farmers' income level, promote the balanced distribution of rural wealth, and achieve the goal of rural revitalization.

We will improve our financial risk management capabilities. Green finance needs to establish a corresponding risk assessment and management mechanism, which is of great significance for financial institutions to improve their risk management ability and prevent environmental risks.

## 2. Overview of the New Institutional Economics

### 2.1. Main Theoretical Framework

New institutional economics is a kind of economic theory, which mainly focuses on the influence of economic system on economic behavior and economic results. Its main theoretical framework includes the following aspects:

(1) Transaction cost theory. The new institutional economics believes that the economic activity needs to consider not only the production cost and the transaction cost, but also the transaction cost. Transaction costs include the cost of obtaining information, negotiating and executing contracts, as well as the cost of handling conflicts and uncertainties.

(2) Institutional theory. New institutional economics emphasizes the influence of economic system on economic behavior. Institutions include rules, constraints, and organizational structures. New institutional economics studies how different systems affect the behavior, resource allocation and economic efficiency of economists.

(3) Market failure theory. New institutional economics believes that the market is not always able to effectively allocate resources. Market failures may result from factors such as information asymmetry, transaction costs, externalities, and public goods. New institutional economics studies how to solve the market failure problem through system design.

(4) Contract theory. New institutional economics emphasizes the importance of contracts in economic activity. A contract is an agreement between economic actors, used to stipulate rights and responsibilities. New institutional economics studies the mechanism of contract design, execution and settlement of contract disputes.

(5) Path dependence theory. New institutional economics believes that the path of economic development depends on history and existing institutions. The existing system will affect the

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formation and evolution of new institutions. New institutional economics studies how to realize the reform and innovation of economic system by changing the path dependence.

### 2.2. Application of New Institutional Economics in the Financial Field

The application of the new institutional economics in the financial field is mainly reflected in the analysis of the financial markets and financial institutions.

Firstly, the new institutional economics emphasizes the influence of the system on the economic behavior. In the financial market, the imperfect or unreasonable institutional arrangements may lead to problems such as information asymmetry and moral hazard, thus affecting the market efficiency and financial stability. New institutional economics explains the behavior and results of financial market by studying the design and operation of financial system.

Secondly, the new institutional economics also focuses on the governance and supervision of financial institutions. As an important participant in the financial market, the design of the internal governance structure and regulatory mechanism of financial institutions is crucial for financial stability and risk management. New institutional economics studies the behavior and performance of financial institutions by analyzing its organizational structure, ownership structure, incentive mechanism and other factors. Starting from the theory of new institutional economics, the development of agricultural supply chain finance should not only rely on the formal institutional subjects such as the government and financial institutions, but also explore the socialized subjects that can play the role of social constraints, and construct the agricultural financing mode based on social organizations and socialized services.

Thirdly, the new institutional economics also studies the laws and contracts of the financial markets. Transactions and contracts in the financial market involve a large number of legal provisions and contractual terms, and these laws and contracts have an important impact on the operation and effect of the financial market. New institutional economics explains trading and risk allocation in financial markets by studying the design and implementation of laws and contracts.

## 3. The Theoretical Basis of Green Finance

### 3.1. The Theoretical Framework of Green Finance

Green finance is a financial activity oriented by the sustainable environmental development, whose goal is to promote the coordinated development of economic growth and environmental protection. Green financial theory framework mainly includes: environmental risk management, green financial products and services, green financial policies and regulations, green financial markets and investment, etc., to the environment and sustainable development factors into financial decision-making and operation of each link, promote the effective docking of financial industry and sustainable development, realize the virtuous cycle of economic growth and environmental protection.

### 3.2. The Role of Green Finance in Rural Revitalization

(1) Support for sustainable development. Green finance focuses on environmentally friendly and sustainable development, and promotes the sustainable development of agriculture, rural economy and ecological environment by providing financing for rural revitalization projects.

(2) Promote the development of green industries. Green finance can provide financial support for rural revitalization projects, promote the development of green industries, such as agricultural ecology, rural environmental governance, rural new energy, etc., and help rural areas realize the transformation and upgrading of economic structure.

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(3) Raise farmers' incomes. Green finance can provide financing support for farmers to help them develop rural industries and improve their income level. For example, provide agricultural equipment, agricultural technology training, to promote farmers' production capacity.

(4) Promote rural financial services. Green finance can promote the innovation and development of rural financial services, and provide more financial products and services, such as rural credit, rural insurance, rural small loans, etc., to meet the financing needs of rural residents and agricultural enterprises.

(5) Preserve the ecological environment. Green finance pays attention to environmental protection and ecological restoration, and can promote the improvement and protection of the ecological environment in the process of rural revitalization. For example, provide financing support for ecological agriculture, ecological tourism and other projects, to promote the sustainable development of rural ecological environment.

### 3.3. The Relationship between Green Finance and New Institutional Economics

Green finance can be seen as an application of a new institutional economics. It takes into account the impact of environmental and sustainable development factors on financial markets and financial institutions, and puts forward the corresponding financial systems and rules. By introducing environmental considerations, green finance has changed the behavior rules and incentive mechanism of traditional financial institutions, and prompted financial institutions to pay more attention to environmental and social responsibility.

At the same time, the new institutional economics can also provide theoretical support for green finance. The new institutional economics emphasizes the influence of the system on economic behavior, and can study the institutional environment of green finance and explore how to promote the development of green finance by changing the system. The new institutional economics can provide the institutional design and policy suggestions of green finance, and help to build an institutional environment more conducive to the development of green finance.

## 4. The Application and Practice of Green Finance to Help Rural Revitalization

### 4.1. Green Finance Supports Agricultural Production

Green finance can provide financial support for agricultural production, including agricultural investment, agricultural equipment purchase, agricultural products processing, etc. By providing low-interest rate loans and risk-sharing mechanisms, green finance can reduce the capital cost of agricultural production and promote the development of agricultural production. At the same time, it encourages agricultural production to turn to the direction of sustainable development. For instance, by providing financial support and preferential policies, farmers are encouraged to adopt green agricultural technologies, promote organic agriculture, and improve the agricultural ecological environment, so as to reduce the negative impact of agriculture on the environment and improve the sustainability of agricultural production. In addition, green finance can promote the innovation and development of agricultural green financial products. For example, issue agricultural green bonds to raise funds to support agricultural green projects; develop agricultural green insurance products; promote agricultural green investment funds, and attract social capital to invest in green agricultural projects. These green financial products can provide more funding sources and risk management tools to promote the development of agricultural production.

### 4.2. Green Finance Supports Rural Environmental Protection

Green financial institutions will launch corresponding financial products and services to encourage and guide residents and enterprises in rural areas to participate in rural environmental protection. For example, introduce rural green credit products to provide low-interest loans to farmers for investment and construction of rural environmental protection projects; moreover, guide funds to rural environmental protection areas by promoting green investment. For example, establish green funds to attract investors to participate in rural environmental protection projects while providing investors with investment opportunities for sustainable development and environmental protection; provide technical support to help rural areas introduce and apply environmental technologies to improve the effect and level of rural environmental protection. Finally, it strengthens the information disclosure and supervision of rural environmental protection projects to ensure the transparency and effectiveness of the use of funds. At the same time, strengthen the evaluation and monitoring of rural environmental protection projects to ensure the sustainable development and environmental benefits of the projects.

## 5. Assessment of the Impact of Green Finance on Rural Revitalization

The benefit evaluation of green finance to help rural revitalization is an important work to evaluate green finance in the process of promoting rural revitalization. Comprehensive evaluation of economic, social and environmental benefits can comprehensively evaluate the comprehensive contribution of green finance to rural revitalization. This will not only help to monitor and evaluate the implementation effect of green finance policies, but also provide an important reference for further promoting rural revitalization.

### 5.1. Economic Benefit Evaluation

Green finance helps rural revitalization can promote the development and growth of rural economy. By providing financing support, green finance can help rural enterprises and farmers to carry out green industries and promote the optimization and upgrading of the rural economic structure. At the same time, green finance can also promote industrial transformation and upgrading in rural areas, improve the added value of agricultural products, and increase farmers' income.

Economic benefit evaluation is mainly to evaluate the economic effect of green finance in rural revitalization. This includes the benefits of promoting local economic growth, promoting employment and increasing farmers' income. Financial indicators such as net present value method and internal rate of return method can be used to evaluate the economic contribution of green finance to rural revitalization by comparing the economic data of green finance projects in rural areas, such as GDP growth rate, employment rate and farmers' income growth.

### 5.2. Social Benefit Assessment

Green finance to help rural revitalization can improve the quality of life and social welfare of rural residents. By supporting the development of green industries, green finance can provide more employment opportunities, improve farmers' income level and reduce the poor rural population. At the same time, green finance can also promote the infrastructure construction in rural areas, and improve the living conditions and social service level of rural residents.

Social benefit assessment is to evaluate the impact of green finance on society in rural revitalization. Commonly used methods include cost-benefit analysis, social impact assessment, and sustainability assessment. These approaches often involve data collection, analysis, and model building in order to assess the impact and sustainability of the project. Through social benefit assessment, the potential impact of projects can be quantified and evaluated, helping

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decision makers to better understand the long-term impact of projects and weigh various factors in decision making. This helps to ensure project sustainability and social responsibility.

### 5.3. Environmental Benefit Assessment

Green finance in helping rural revitalization can promote environmental protection and sustainable development. By supporting the development of green industries and green technologies, green finance can reduce environmental pollution and resource waste in rural areas and improve the efficiency of resource utilization. At the same time, green finance can also promote the ecological restoration and ecological protection in rural areas, and improve the ecological environment quality in rural areas.

Environmental benefit assessment is mainly to evaluate the environmental effect of green finance in rural revitalization. This includes the benefits of reducing pollution emissions and promoting sustainable development through projects or enterprises supported by green finance. The assessment method can use environmental impact assessment, ecological footprint analysis and other methods, and evaluate the environmental contribution of green finance to rural revitalization by comparing the environmental data of green finance projects in rural areas, such as pollutant emissions, energy consumption, ecological recovery, etc.

## 6. Conclusion

This paper analyzes the main theoretical framework of institutional economics and green finance, To conclude that the new institutional economics can provide theoretical and methodological support for green finance, Help solve issues such as institutions, contracts, information asymmetry and stakeholders, Conclusion of promoting the sustainable development of green finance: the new institutional economics can help establish institutions and rules to meet the needs of green finance through institutional design; Emphasizing the important role of contracts in economic activity, In various financial contracts such as green bonds and green loans involved in green finance, Design and improve it; Provide methods to address the information asymmetry problems, For example, establishing an information disclosure system and assessing the risks and returns of green projects; Focus on green finance involves the interests and interests of different stakeholders, Such as investors, enterprises, governments and the public, Analyze and balance the relationships to promote their development.

In terms of the practical significance of promoting rural revitalization, this paper introduces green finance promotes rural agricultural development and agricultural innovation by providing financial support, low interest rate loans and risk sharing mechanism, and encourages residents and enterprises in rural areas by introducing green credit products. Finally, the benefit evaluation was conducted in three aspects of economy, society and environment to help understand the role and value of green finance in rural revitalization, and believed that it plays an important role in promoting the sustainable growth of rural economy, the restoration and protection of ecological environment, the green transformation of agricultural products and the improvement of the quality of life of rural residents.

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