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Mechanism of ESG System Construction Promoting Sustainable Financial Development under the "Dual Carbon" Goals

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Abstract: China is advancing green and low-carbon development in a coordinated manner, and at the 75th session of the United Nations General Assembly, China officially proposed the goals of carbon peaking and carbon neutrality. The "dual carbon" strategy is an essential path to achieving green and sustainable development, as well as a necessary measure to enhance the momentum of high-quality economic growth. The construction of the ESG (Environmental, Social, and Governance) system is a crucial factor influencing the development of green finance, and the importance of green finance and sustainable development for high-quality corporate and social development is further elevated. This paper analyzes the significance of ESG system construction for the green transition of the economy and society. Based on the development status of ESG practices domestically and internationally, and grounded in the issues and needs of the domestic economic and social green transition, this study explores the mechanism by which ESG system construction promotes the sustainable development of finance.

Keywords: ESG System Construction, Green Finance, Sustainable Development, Value Sharing

1. Introduction

The realization of the dual carbon goals is of great significance to China's green development and high-quality economic development. With the national promotion of corporate information disclosure systems, an increasing number of companies recognize the importance of sustainable development. As a basic guarantee for the new development of modern enterprises, ESG evaluates corporate social responsibility practices, environmental management, and internal governance. It can be used to measure the sustainable development performance of enterprises and also serve as an external regulatory method, encouraging more companies to improve their ESG performance and enhance their sustainable development capabilities. Finance is the driving force behind sustainable development, but an unstable financial system cannot provide strong support for sustainable development. ESG is a key factor in maintaining the stability of the financial system. Integrating ESG into the construction of the financial system is beneficial to the development of sustainable finance [1]. Researching how to promote green finance to achieve sustainable high-quality economic

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development requires the improvement of the ESG system to provide both intrinsic motivation and external support for sustainable development. Strengthening the construction of the ESG system and establishing a sustainable financial framework necessitate innovation in existing financial models. ESG reform can innovate the regulatory system of sustainable finance, deepen the awareness of shared responsibility for sustainable finance, lay a solid foundation for the development of green finance, and better achieve the goals of "dual carbon" and green transition.

2. Construction of the ESG System

2.1. Environmental

The ESG system aligns closely with the national call for "dual carbon" goals, serving as a critical reference for measuring high-quality and sustainable development in enterprises. It encompasses the impact of businesses on the environment and their environmental management measures. This includes evaluating a company's carbon emissions, water resource utilization, waste management, energy use efficiency, compliance with environmental regulations, and participation in environmental protection initiatives. An enterprise's performance in environmental aspects affects not only its sustainability but also that of society at large.

Driven by the "dual carbon" goals, ESG practices saw explosive growth in 2021. Environmental factors include climate change, energy utilization, pollution management, and more. Companies can reduce their negative environmental impact by lowering carbon emissions and improving resource utilization efficiency.

For enterprises, ESG is no longer a "choice" but a "mandatory question." "The ESG concept is highly consistent with the concept of high-quality development. Small and medium-sized enterprises (SMEs) can establish a 'moat' in this field during their transformation and upgrading, gaining an early development advantage," said Zhao Yonggang, General Manager of the ESG Business Department of China Securities Index Company. "As domestic ESG standards have not yet been issued, SMEs can disclose ESG information in stages. Although they don't need to benchmark against leading domestic and international companies immediately, the earlier they start, the more evident their financing advantages."

Research data indicates that listed companies incorporating ESG into their operations generally perform better overall, exhibit lower negative environmental impacts, and elicit a more positive response from the capital market, thereby facilitating sustainable and high-quality development [2]. Integrating ESG evaluation with the "dual carbon" strategy promotes green development, enhances ecological environment optimization, and contributes to building a beautiful homeland and a high-quality living environment. It can be said that promoting ecological environment optimization is the strongest coupling point between ESG and common prosperity. Currently, the concept of green finance is gradually deepening within the financial industry. Most financial institutions have incorporated green finance into their development plans, embedding green standards into their credit evaluation and rating systems. However, overall, constraints on real enterprises are relatively soft, and an effective reverse mechanism for corporate ecological environmental protection has not yet been formed. Therefore, it is necessary to organically link green finance with ESG to strengthen constraints on corporate environmental behavior through ESG [3]. In detail, integrating carbon emission intensity into the ESG evaluation index system can promote the establishment of a financial supply mechanism linked to carbon emissions.

At present, financial institutions are actively opening green channels for SME financing, imposing environmental credit requirements, encouraging companies to transition to green and low-carbon operations, and implementing sustainable development practices [4].

2.2. Social

Social factors encompass employee welfare, employee relations, community care, human rights protection, consumer rights, and product quality. Enterprises promote social responsibility by providing a good working environment and focusing on the sustainability of the supply chain. Social factors are crucial indicators for evaluating corporate social responsibility (CSR) fulfillment. This includes assessing whether companies value employee welfare, actively give back to the community, and support public welfare initiatives. Social factors reflect an enterprise's commitment to fulfilling its social responsibilities.

Zhao Yonggang suggests that topics such as rural revitalization and common prosperity should be included under the social dimension. Establishing a sustainable financial system requires innovative development of existing financial models, with ESG reforms driving the regulation of sustainable finance to optimize a shared responsibility mechanism. Analyzing sustainable financial products reveals that the direction of product innovation is related to ESG development directions. Social and environmental responsibility policies can lead the development of green financial products.

Integrating ESG evaluation with corporate philanthropic behavior can promote the concept of tertiary distribution. The formation of such voluntary behaviors is evidently a gradual process that accompanies economic development and social wealth growth. However, if these behaviors of market participants are incorporated into the ESG evaluation system, the process can be accelerated through incentive mechanisms. On one hand, evaluating companies based on their social responsibility fulfillment and involvement in social philanthropy (such as charitable donations) can become a criterion for distinguishing high-quality enterprises. Differentiated incentive mechanisms can drive companies to enhance their awareness of public welfare, thereby promoting tertiary distribution. Financial institutions, in particular, should extend the application of ESG to financial services for platform enterprises, ensuring these platforms protect consumer rights and safeguard the rights of workers in new employment forms. On the other hand, the integration of financial institutions' social responsibility fulfillment with ESG evaluation should be embedded in the evaluation and rating systems used by regulatory bodies and in the assessment of financial institutions' bond issuance. This would guide and encourage financial institutions to enhance their awareness of social welfare, promoting tertiary distribution. A fundamental approach is to gradually strengthen the disclosure mechanism of financial institutions' social responsibility reports [5].

2.3. Corporate Governance

Corporate governance encompasses transparency, independence, and ethical standards. Enterprises ensure the integrity and transparency of their management by establishing effective governance structures and regulatory mechanisms. Companies should focus on corporate governance and actively practice the ESG principles. Strict establishment and implementation of environmental management systems are crucial. Companies should persist in innovation, continuously improve governance levels, and foster mutually beneficial relationships with shareholders, employees, suppliers, customers, and other stakeholders. They should actively fulfill social obligations, undertake social responsibilities, and regularly disclose information on environmental protection, social responsibility, and corporate governance. Strengthening and improving ESG-related work is essential for promoting high-quality and sustainable corporate development.

As the saying goes, creating value and growing together—no enterprise can thrive in isolation. Every entity on the industrial supply chain is driven by client demands. A robust ESG commitment forms a stronger social contract with stakeholders, including customers, regulatory bodies, employees, and communities. This requires enterprises to leverage their professional capabilities and good business credit to earn partners' trust. Moreover, it demands high aspirations from companies,

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aligning their thinking with stakeholders to achieve multidimensional resource sharing and capacity building, ultimately realizing the common good of society [6].

Continuous self-improvement is the key to sustainable existence. Corporate governance holds a pivotal role in enterprise competition and sustainable development. ESG factors and scientific governance methods provide new perspectives and practical paths for corporate governance. Historically, organizational drive depended primarily on managerial decisions, but future governance will rely on mechanisms, rules, and data. In the context of data and rule-based governance, enterprises should operate autonomously according to laws and regulations, reducing excessive reliance on managerial “human governance.” The transition from traditional strategic, operational, and financial control models to a "strategy + data control" model will help break organizational development limitations, achieving more efficient resource allocation and management division. In a digital, transparent, and visually managed environment with intelligent decision-making, upper management sets strategic directions, while lower units determine specific goals and plans. Operational data is retained in real-time on platforms, operating orderly under rule-based governance. Therefore, building a governance system that integrates ESG principles and scientific governance methods is vital for achieving sustainable corporate development [7].

3. ESG System Promoting Sustainable Development

3.1. Enhancing Corporate Competitiveness

By actively implementing ESG principles, companies can improve brand reputation, reduce costs, and increase investor trust, thereby enhancing corporate competitiveness. Whether the path of promoting common prosperity through ESG is viable depends on how ESG evaluation is conveyed to both the supply and demand sides of finance, forming a market-driven mechanism that encourages financial institutions and real enterprises to enhance competitiveness. This requires innovative top-level design to optimize and localize the ESG evaluation system. The practical choice is to organically integrate the practical value model of ESG with the existing corporate social responsibility (CSR) system to realize the value transformation of CSR.

To better enhance corporate competitiveness, two differentiated mechanisms must be matched: First, combine financial enterprises' awareness of social responsibility, ESG evaluation, and regulatory assessment. Incorporate the results of current microfinance service evaluations into the ESG evaluation system for financial institutions and implement differentiated regulation. Encourage and promote financial institutions to voluntarily disclose relevant regulatory evaluations to accept social supervision. Second, expand the ESG evaluation of non-financial enterprises from the capital market to the indirect financing market. Incorporate it into the credit evaluation system of commercial banks and encourage financial institutions to implement differentiated credit based on ESG evaluation [8].

3.2. Promoting Long-term Investment

ESG investment helps investors identify and evaluate companies with long-term growth potential, promoting long-term investment and value creation. ESG investment provides diversified, multi-layered, and comprehensive financial resources for the transformation of the energy, industrial, and consumption structures. This scientific, precise, orderly, and efficient financial support promotes the green transition of the economy and society and the achievement of the "dual carbon" goals, contributing financial wisdom and strength [9].

ESG investment guides enterprises to autonomously practice ESG through four major functions: capital allocation, risk diversification, market pricing, and signal transmission. This market-driven approach helps companies reduce pollution and carbon emissions, improve synergistic efficiency,

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enhance technological innovation and green development, and form the underlying motivation for the green transition of economic and social development [10].

Currently, ESG has become a universally accepted investment principle internationally. In the capital market, ESG evaluation is increasingly becoming a threshold for enterprise listing. This not only pushes for the construction of ESG investment systems in the domestic market but also exerts pressure on domestic enterprises' ESG construction from both domestic and international direct financing. In fact, ESG concepts and mechanisms are gradually being integrated into domestic financial institutional arrangements, becoming standards for corporate credit ratings and bond issuance applications, such as the issuance of green bonds needing to meet standards recognized by the People's Bank of China. In the capital market, ESG evaluation is becoming a threshold for enterprise listing. In terms of indirect financing, although ESG is not directly reflected in related financial regulations, ESG concepts, especially those involving environmental (E) requirements, are gradually becoming important considerations for the banking and insurance industries in providing green credit and green insurance services in China [11].

The ESG investment ecosystem effectively deepens the function of capital, playing a key role in supporting global green transition development, strengthening global value chain complementary cooperation, and enhancing the overall level of China's industrial and supply chains. ESG investment effectively promotes the deepening of capital functions, supports cross-border capital flow and global allocation, and fosters a positive interaction between capital operation returns and the economic and social development transition [12].

3.3. Promoting Common Prosperity

The connotations of ESG and common prosperity are highly coupled in terms of ecological environment, social responsibility, and governance. Both concepts share similar goals in guiding and promoting market entities to focus on environmental protection, increase participation in public welfare, and improve social harmony and governance. While common prosperity relies more on external administrative forces, ESG is more market-oriented and can transform external driving forces into internal motivation through interest mechanisms [13]. This provides an effective practical path for breakthroughs in certain areas of common prosperity. From the perspective of ESG, financial institutions can drive both the supply and demand sides of finance, stimulating the internal motivation of market entities to support common prosperity.

By focusing on environmental, social, and governance issues, the ESG system helps companies better fulfill social responsibilities, promoting social common prosperity and sustainable development. Undoubtedly, regular and normalized financial service supply is the natural choice for financial institutions to promote common prosperity [14]. In increasing financial support for infrastructure, manufacturing, technological innovation, and green ecological development, and strengthening financial support for small and micro enterprises, individual industrial and commercial households, and agriculture, financial institutions cannot be absent. They need to expand in breadth and depth around the goal of common prosperity, continuously innovating mechanisms and systems. However, in more complex areas such as expanding the middle class and reducing inequality, institutions need to actively explore breakthrough points that align with their business. ESG precisely provides an alternative path for financial institutions to promote common prosperity.

The practice and growing influence of ESG in China offer the possibility of embedding the core concepts and requirements of common prosperity into the ESG evaluation system. Through ESG evaluation, this can be transmitted to both the supply and demand sides of finance, forming a market-driven mechanism that promotes common prosperity for financial institutions and real enterprises. Since ESG is a universally applicable comprehensive evaluation standard for enterprises, it directly

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affects enterprises' debt issuance, listing, and financing activities, gradually fostering a belief in ESG within companies, thereby generating an internal market-driven force.

4. Conclusion

The construction of the ESG system is one of the crucial pathways for promoting sustainable development. It not only helps enterprises reduce risks and enhance competitiveness but also promotes social common prosperity and environmental protection. Enterprises and investors should actively take action, shifting the corporate development philosophy from "value creation" to "value sharing," raising awareness of social responsibility and environmental protection, and better meeting the value demands of various stakeholders. Promoting the construction of the ESG system facilitates the sustainable development of the economy, society, and the environment.

The construction of the ESG system propels the sustainable development of enterprises and green finance, playing a significant role in the sustainable development of society. China's "dual carbon" goals require accelerating the support of green finance for the economy. To better serve the high-quality development goals, it is necessary to integrate ESG theory into the existing financial system, injecting new impetus into green and sustainable development [15].

ESG is not only a "soft power" for establishing a corporate brand image but also a "hard standard" for implementing long-termism in enterprises. Exploring an ESG governance system suitable for Chinese enterprises allows ESG to be integrated into the development framework of green finance, becoming the foundation for high-quality economic and social development. Accelerating the transition towards green development, Chinese enterprises are embarking on a new chapter of evergreen high-quality development.

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