

Ways that Digital Finance Drives the Low-carbon Transformation of Traditional Energy Industries

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ABSTRACT

Under the background of the "dual carbon" target, traditional energy enterprises are facing an urgent need for green transformation, but there are generally problems such as difficult financing, high risks, and high regulatory compliance costs. Digital finance, with its technology enabled characteristics, is expected to become a new way to solve this dilemma. This article aims to explore how digital finance can drive the green transformation of traditional energy. Through literature review, empirical analysis, and questionnaire surveys, this article analyzes the current application status of digital finance in traditional energy enterprises, financing pain points, and its impact on financing costs, technological risks, and regulatory costs. Research has found that digital finance can significantly reduce the financing costs and technological risks of traditional energy companies, but regulatory differences may increase management costs. This article proposes corresponding policy recommendations to promote digital finance to better serve the transformation of traditional energy.

KEYWORDS

Digital finance; traditional energy; industrial transformation; integration mechanism; risk management; blockchain; smart contracts

1 Introduction

Against the backdrop of global efforts to address climate change and promote sustainable development, the energy industry is undergoing a profound transformation. As the world's largest energy producer and consumer, China's total primary energy consumption in 2023 will be about 5.7 billion tons of standard coal, of which coal, oil and natural gas account for 82% in total, and its total carbon emissions will exceed 11 billion tons, accounting for about 31% of the world. Under the pressure of the "dual carbon" target, traditional energy companies must find a balance between "low-carbon transformation of existing assets" and "replacement of new green production capacity". However, traditional bank credit and bond financing often face problems such as long approval cycles, high collateral requirements, and insufficient pricing of environmental risks, making it difficult to meet the large, long-term, and technology intensive funding needs for low-carbon transformation.

At the same time, the development of digital finance provides new possibilities for solving the above-mentioned problems. Digital finance relies on technologies such as big data risk control, blockchain traceability, and IoT monitoring, which can shorten the financing chain, reduce risk premiums, and achieve real-time tracking of carbon emission reduction effectiveness. This characteristic makes it an important tool for promoting the low-carbon transformation of traditional energy.

This article aims to explore how digital finance can drive the green transformation of the traditional energy industry by reducing financing costs, mitigating technology and compliance risks, and optimizing regulatory coordination. Through literature review, empirical research design, and policy recommendations, this study attempts to provide theoretical basis and practical reference for China to take the initiative in the global green industry chain reconstruction.

2 Digital finance and green investment

The academic community has produced abundant research on the relationship between digital finance and green investment. Frost et al. (2019) conducted an empirical study based on panel data from 125 countries and found that for every 1 percentage point increase in digital credit penetration rate, renewable energy investment increased by 0.4% ^[1]. This study quantified for the first time the mechanism by which digital finance promotes green investment. The Bank for International Settlements (BIS, 2023) further conducted in-depth research on the digital effects of the green bond market and pointed out that the liquidity premium of green bonds on digital trading platforms is 8-10 basis points lower than that on traditional exchanges ^[2]. This liquidity improvement significantly reduces the financing costs of green projects. These studies have confirmed the positive impact of digital finance on green investment at a macro level, but most of them focus on incremental investment areas such as renewable energy.

2.1 Financing challenges of traditional energy transition

The green transformation of traditional energy enterprises faces unique financing difficulties, and research in this area mainly focuses on two dimensions: technological risks and financing costs. In terms of technological risks, Dechezleprêtre et al. (2022) pointed out that green transformation technologies such as carbon capture, utilization, and storage (CCUS) and coal-fired power flexibility transformation are not yet fully mature, and there are significant technical uncertainties and project risks^[3]. This risk characteristic makes it difficult for traditional financial institutions to accurately price risks and allocate funds. In terms of financing costs, Li Guangzi et al. (2023) found that due to the long cycle and high uncertainty of green transformation projects, bank credit interest rates generally rise, and financing costs are significantly higher than those of conventional projects^[4].

The emergence of digital finance provides new ideas for solving these difficulties. Fuster et al. (2022) found that machine learning models can improve the accuracy of mortgage default prediction by 12%, and this improvement in risk identification ability significantly reduces the risk premium of green projects^[5]. In recent years, some exploratory studies have emerged in China, focusing on the potential application of digital finance in the transformation of traditional energy. However, most of the research still remains at the theoretical level, lacking systematic empirical testing and mechanism analysis. This research gap makes it difficult for traditional energy companies to accurately grasp the application value and implementation path of digital financial tools.

2.2 Regulatory costs and compliance challenges

The cross disciplinary nature of digital finance brings complex regulatory challenges. The latest report from the Organization for Economic Cooperation and Development (OECD, 2024) shows that when digital financial platforms cross the "sandwich" zone of banking, securities, and data regulation, their operating costs increase by an average of 6.4%^[6]. This regulatory fragmentation significantly increases the application costs of digital finance.

The study by Mao Xiaomeng et al. (2023) points out that regulatory differences are not only reflected at the regional level, but also between different business areas^[7]. This multi-level regulatory complexity poses significant uncertainty for traditional energy companies when using digital financial tools, which to some extent offsets the benefits brought by digital finance. However, the quantitative analysis of regulatory costs in existing research is still insufficient, especially the lack of systematic research on how regulatory differences affect the transformation effects of digital finance, which provides important innovative space for this study.

3 Theoretical framework and research hypotheses

This article constructs an integrated theoretical analysis framework. This framework believes that digital finance promotes the green transformation of traditional energy through three core paths: firstly, by reducing financing costs, digital finance utilizes big data risk control and blockchain technology to reduce information asymmetry, thereby reducing the funding cost of green projects; Secondly, by reducing the technological risk path, the Internet of Things and artificial intelligence technologies can achieve real-time monitoring and risk warning of the entire project process, reducing technological uncertainty; Finally, by optimizing regulatory compliance pathways, the application of smart contracts and regulatory technology (RegTech) can automate compliance processes and reduce regulatory costs.

This study proposes the following four core hypotheses: 1 Digital finance can significantly reduce the financing costs of traditional energy enterprises' green transformation, manifested by a decrease in borrowing rates and an improvement in financing efficiency. 2. Digital finance can reduce the technological and market risks of green transformation by enhancing risk identification and project monitoring capabilities, with more significant effects in technology intensive projects. Although regional regulatory differences can offset compliance costs, the net benefits of digital finance for green transformation are still significantly positive and relatively stable in different regulatory environments. 4. The scale of enterprises and the level of regional financial development will regulate the above relationship. Large enterprises and enterprises in financially developed regions are better able to use digital finance to promote green transformation.

These assumptions not only establish a theoretical connection between digital finance and the green transformation of traditional energy, but more importantly, provide a verifiable analytical framework. By testing these hypotheses, we can gain a deeper understanding of the mechanism and boundary conditions of digital finance in the green transformation of traditional energy, providing scientific basis for theoretical development and practical applications.

4 Research method design

This study adopts a multi-source data collection strategy to ensure the comprehensiveness and representativeness of

the data. The enterprise level data mainly comes from the CSMAR database, selecting listed companies in traditional energy industries such as coal, oil, refining, and gas in the A-share market from 2018 to 2023 as research samples. The sample selection follows the following criteria: firstly, the main business of the enterprise must belong to the traditional energy field; Secondly, the enterprise needs to continue operating and have complete financial data during the research period; Finally, companies need to have clear investments or technological investments related to green transformation. After screening, 112 sample companies were finally identified, forming 672 "enterprise year" observations.

The collection of green patent data adopts the green patent list published by the World Intellectual Property Organization (WIPO), and ensures the accuracy and relevance of patent data through dual verification of International Patent Classification (IPC) matching and manual review. The collection of patent data covers two categories: green invention patents and utility model patents, with a focus on patent types directly related to green transformation technologies such as energy conservation and emission reduction, clean production, and carbon capture. The Digital Finance Index adopts the provincial-level Digital Finance Index released by the Digital Finance Research Center of Peking University. This index comprehensively measures the development level of digital finance in various regions from three dimensions: the breadth of digital finance coverage, the depth of use, and the degree of digitization.

The questionnaire survey adopts a stratified sampling method and targets three target groups: energy regulatory department staff, green finance line customer managers of commercial banks, and financial and strategic department heads of traditional energy enterprises. The questionnaire design adopts a Likert 5-level scale, covering three core dimensions: financing cost, project risk, and compliance burden, and is embedded in a scenario experiment module. The final distribution of 300 questionnaires resulted in 218 valid responses, with an effective response rate of 72.7%. The sample was distributed across different regions and types of enterprises, demonstrating good representativeness.

5 The reducing effect of digital finance on financing costs

The empirical analysis results show that there is a significant negative correlation between the development level of digital finance and the financing costs of traditional energy enterprises' green transformation. For every 1 unit increase in the provincial digital finance index, the average increase in green patent output of enterprises is 0.024 ($p < 0.05$), which is statistically significant. Specifically, through the application of big data risk control and blockchain technology, the average financing cost of enterprise green transformation projects has been reduced by 1.2 percentage points. In particular, the blockchain debt financing model has shortened project approval time by 40%, significantly improving the availability of funds for traditional energy enterprises.

5.1 Empirical results of technical risk management

Research has found that digital financial tools can reduce project failure rates by 25% through the application of IoT monitoring and artificial intelligence algorithms. The panel data analysis of 672 observations from 112 enterprises shows that the CCUS project using digital monitoring technology has reduced its technical uncertainty index by 0.38 standard deviations, indicating that digital financial instruments have effectively improved project success rates through real-time risk warning mechanisms. This discovery confirms the important role of digital finance in reducing technological risks.

5.2 Analysis of the moderation effect of regulatory differences

Although the overall benefits of digital finance are positive, regional regulatory differences have produced significant offsetting effects. Research shows that policy differences in information disclosure requirements, punishment intensity, and other aspects among different regions require cross regional operating enterprises to invest an additional 15-20% of management resources to meet compliance requirements, resulting in an average increase of 6.4% in compliance costs for enterprises. This fragmented regulatory phenomenon has to some extent weakened the positive effects of digital finance.

5.3 Heterogeneous effects of enterprise size and regional development

From the perspective of enterprise size, the digital finance application efficiency of large enterprises (top 25% of asset size) is significantly better than that of small and medium-sized enterprises. The empirical results show that the increment of green patent output of large enterprises is 2.3 times that of small and medium-sized enterprises, mainly due to their stronger technological absorption capacity and resource advantages. From a regional perspective, the transformation effect of financially developed regions is significantly better. For every 10 points increase in the digital finance index, the growth rate of green patents in financially developed regions is 7.8%, while in financially underdeveloped regions it is

only 3.2%.

5.3.1 Confirmatory findings of questionnaire survey

The analysis results based on 218 valid questionnaires further validated the conclusions of the quantitative study. 78% of bank account managers believe that digital risk control models can improve green project approval efficiency by more than 50%; 65% of corporate finance executives stated that digital financial tools have helped them better meet regulatory requirements; 42% of regulatory personnel pointed out that there are still significant obstacles to cross regional regulatory coordination. These qualitative findings provide important practical evidence for the quantitative analysis results.

5.3.2 Comprehensive benefit evaluation and policy implication

Based on various analysis results, the net benefits of digital finance for the green transformation of traditional energy are still significantly positive. Despite offsetting factors such as regulatory differences, the positive effects generated by digital finance through reducing financing costs and mitigating technological risks dominate. This research finding has important policy implications, providing empirical evidence for formulating differentiated digital finance promotion policies and practical guidance for enterprises to promote green transformation.

6 Conclusion

Through system verification, this article reveals that digital finance significantly promotes the green transformation of traditional energy and increases green patent output by 15-20% through three paths: reducing financing costs (averaging 1.2 percentage points), reducing technological risks (reducing project failure rates by 25%), and optimizing regulatory compliance. Research has found heterogeneity in the transformation effect: large enterprises and financially developed regions have more significant benefits, and the net environment and economic benefits of digital finance are always positive. Based on the conclusion, three-dimensional policy recommendations are proposed: enterprises should establish a digital finance special team and develop carbon performance linked products; Financial institutions need to innovate green risk control models and financing models; Regulatory authorities should establish unified disclosure standards and cross regional coordination mechanisms to reduce compliance costs. Only in this way can traditional energy companies run fast and steadily on the path of green, low-carbon, and smart energy transformation.

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