

# *Legal System Construction of Green Finance and Environmental Sustainable Development*

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**Abstract:** The purpose of this article is to deeply discuss the significance of the construction of green financial legal system to promote the sustainable development of the environment, as well as the challenges and countermeasures faced by the current green financial legal system. This article systematically combs the construction of international and domestic green financial legal system, including laws and regulations, supervision mechanism, market cultivation and international cooperation. Through comparative analysis, it reveals the key role of green financial legal system in promoting environmental sustainable development, as well as the existing problems such as imperfect laws and regulations, imperfect supervision mechanism and low market maturity. The research findings indicate that enhancing the legal framework for green finance holds immense importance in fostering the growth of green industries and environmental initiatives, directing societal capital towards eco-friendly sectors, and facilitating the green shift in economic structures. Furthermore, this article presents focused policy recommendations, encompassing accelerating the drafting of specific green finance legislation, establishing and refining green finance oversight mechanisms, bolstering innovation and promotion of green financial products, and reinforcing international collaboration and dialogue.

## **1. Introduction**

Amidst global challenges like climate change, resource depletion, and ecological degradation, environmental protection and sustainable development have emerged as a universal agreement [1]. The swift economic growth has led the traditional financial paradigm to both propel economic expansion and exacerbate environmental strains, urging the exploration of green finance—a novel financial approach [2]. Green finance leverages financial instruments to direct funds towards environmentally friendly sectors, such as conservation, energy efficiency, and clean energy, fostering a harmonious coexistence between economy and ecology [3]. This study delves into the importance of establishing a green financial legal system for advancing environmental sustainability, aiming to mitigate environmental issues, optimize the economic structure, and ensure long-term socio-economic progress.

Research in green finance has surged recently, encompassing definitions, product innovations, market mechanisms, and policy frameworks [4]. Internationally, advanced economies like the EU

and the US have pioneered comprehensive green finance legal systems, employing legislation, tax incentives, and credit support to spur its development [5]. China, a vigilant proponent of green finance, has released numerous policies, catalyzing rapid market growth [6]. Yet, current research lacks depth in systematically constructing the legal framework, bridging law and policy, and maximizing green finance's impact on sustainable development [7].

This study aims to construct a holistic and efficient green finance legal framework to better align with environmental sustainability goals. Specific objectives encompass analyzing the legal system's components, assessing its effectiveness and gaps, proposing improvements, and exploring its potential to effectively drive environmental sustainability.

## 2. Theoretical basis of green finance and environmental sustainable development

### 2.1. The definition and characteristics of green finance

As an important branch of the financial system, the core of green finance is to provide all-round financial services for economic activities aimed at promoting environmental improvement, effectively coping with climate change and realizing efficient use of resources [8]. This concept goes beyond the scope of traditional finance, and closely combines financial activities with environmental protection, social responsibility and sustainable development, aiming at promoting the transformation of the global economy to a greener and low-carbon direction through financial means [9]. Its characteristics mainly include: goal orientation; The second is innovation; Balance between risk and return. See Figure 1 for details:

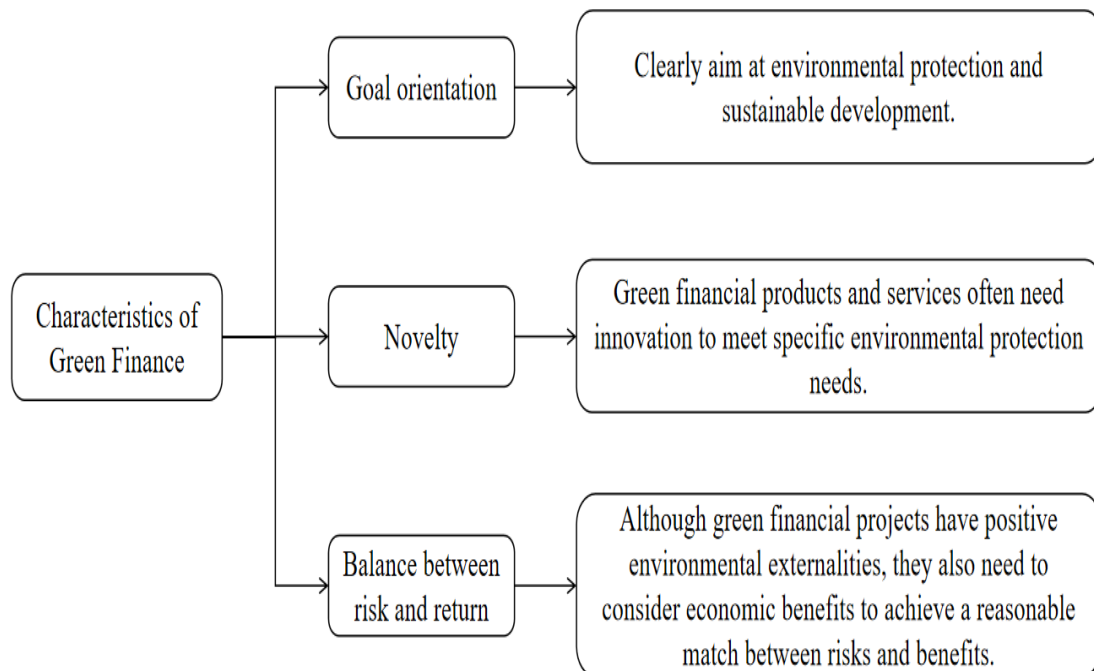


Figure 1: The characteristics of green finance

Green finance, with its unique characteristics of goal orientation, innovation and balance of risks and benefits, is gradually becoming an important force to promote global green transformation and achieve the goal of sustainable development.

## **2.2. Connotation and goal of environmental sustainable development**

Environmental sustainable development entails fulfilling present needs without compromising future generations' capacity to do so [10]. This concept encompasses ecological equilibrium, resource preservation, pollution mitigation, and social equity. It strives for a harmonious balance between economic progress and environmental safeguarding. Transforming economic development patterns fosters resource efficiency, circular economy growth, pollution reduction, biodiversity conservation, and sustains humanity's prosperity.

## **2.3. The relationship between green finance and environmental sustainable development**

Green finance and environmental sustainable development exhibit a tight interplay. Green finance bolsters green industries and environmental projects through funding, risk management, and other means, thereby advancing sustainable development. Conversely, the pursuit of sustainability opens vast avenues and market prospects for green finance, spurring financial institutions to innovate and cater to the varied financial demands of the green economy. Furthermore, by directing social capital towards green sectors, green finance facilitates the economy's green transition, offering enduring momentum for environmental sustainability.

## **3. The present situation and challenges of the legal system of green finance**

### **3.1. Construction of international green financial legal system**

The construction of international green financial legal system is an important achievement of global environmental governance and financial innovation in recent years. Taking the European Union as an example, it has adopted a series of laws and regulations, such as the Green Bond Standard and the Regulations on Sustainable Financial Disclosure, to provide a unified standard for the issuance, information disclosure and evaluation of green financial products, and to enhance market transparency and investor confidence. The United States encourages green investment through tax incentives and government-guaranteed loans. At the same time, international financial organizations such as the World Bank and the International Monetary Fund are also promoting the formulation and coordination of global green financial standards. These international practices show that it is of great significance to build a perfect legal system of green finance to promote global capital flow to green industries and accelerate environmental technological innovation.

### **3.2. The present situation and challenges of the legal system of green finance**

China, an avid promoter and practitioner of global green finance, has notably advanced its green finance legal framework in recent years. Nationally, pivotal policy documents like the "Guiding Opinions on Establishing a Green Financial System" and "Green Credit Guidelines" have been enacted, outlining green finance's objectives, core principles, and key responsibilities. At the local level, many local governments have also introduced specific green finance implementation plans and incentives in light of their own actual conditions. At the same time, China also actively participates in international green finance cooperation, such as joining the green finance international cooperation network, and jointly promoting the formulation and exchange of green finance standards with international partners. However, there are still some problems in the current legal system of green finance that need to be further solved.

The legal system of green finance faces many challenges in the process of construction and implementation, as shown in Table 1:

Table 1: Challenges Faced in the Construction and Implementation of the Green Finance Legal System

Aspect of Challenge	Detailed Description
Inadequate Laws and Regulations	Lack of specific laws and regulations targeting green finance, with ambiguous clauses in existing laws that are difficult to effectively guide practice.
Incomplete Regulatory Mechanism	An unestablished regulatory system for green finance, with inconsistent regulatory standards and insufficient regulatory efforts, making it difficult to effectively prevent risks.
Low Market Maturity	Lagging development of the green finance market, with limited types of green financial products and low market participation, unable to meet diversified demands.
Shortage of Professional Talent and Technical Support	A scarcity of professional talent and insufficient technical support in the field of green finance, hindering the innovation and development of green finance business.
Insufficient Information Disclosure and Transparency	Inadequate disclosure of information on green finance projects and low transparency, making it difficult to assess the environmental benefits and risks of projects.
Limited International Cooperation and Exchange	An imperfect mechanism for international cooperation and exchange in green finance, limiting the ability to learn from advanced international experiences and practices to enhance domestic green finance standards.
Traditional Financial Mindset Constraints	Deeply ingrained traditional financial mindsets, with limited awareness and acceptance of green finance, making it difficult to form widespread social consensus.
Inadequate Policy and Market Incentive Mechanisms	Lack of effective policy and market incentive mechanisms, making it difficult to stimulate the enthusiasm of financial institutions and enterprises to participate in green finance.

Table 1 lists in detail the challenges faced by the legal system of green finance in the process of construction and implementation, including laws and regulations, supervision mechanism, market maturity, professional talents and technical support, information disclosure and transparency, international cooperation and exchange, the shackles of traditional financial concepts, and policy and market incentive mechanisms.

## 4. Construction strategy of green financial legal system

### 4.1. Improve the green financial laws and regulations system

Establishing a robust legal framework for green finance is fundamental. Relevant departments must expedite the drafting of specialized green finance laws, defining its scope, classification, and regulatory guidelines, thereby safeguarding its healthy growth. Simultaneously, they should amend current regulations, embedding green finance principles to ensure coherence. Furthermore, enhancing green financial standards' development and promotion is crucial for boosting product transparency and comparability.

## **4.2. Strengthen the supervision mechanism of green finance**

Enhancing green finance oversight is vital for its healthy progression. Relevant departments must develop and refine systems for evaluating, approving, and monitoring green finance projects, ensuring funds are directed towards genuine green industries and environmental initiatives. Additionally, they should bolster supervision of green financial institutions, mitigating moral and operational hazards, and fostering a stable, sustainable market. Establishing a green finance information-sharing platform will further elevate supervisory efficiency and transparency.

## **4.3. Promote the cultivation and development of green financial markets**

The cultivation and expansion of the green financial market stand as pivotal steps in advancing the green financial legal framework. To this end, relevant departments ought to amplify the promotion of green financial products, thereby enhancing investors' understanding and embrace of green finance. They should also incentivize financial institutions to innovate green financial offerings and services, catering to the varied financial demands of green industries and environmental projects. Concurrently, these departments need to fortify the green financial infrastructure, including the establishment of a green credit rating system and a platform for green bond issuance, thus furnishing robust backing for the swift growth of the green financial market.

## **4.4. Strengthen international cooperation and exchanges**

Enhancing international cooperation and exchange is a crucial avenue for advancing the development of the green financial legal system. To this effect, relevant departments must actively engage in the creation and sharing of international green financial standards, drawing insights from advanced global practices to elevate the international standing of China's green financial framework. Concurrently, these departments should fortify collaboration with international financial bodies, foreign governments, and financial institutions, working collectively to propel the enhancement and growth of the worldwide green financial system. Furthermore, they must strengthen oversight and coordination of cross-border green financial activities to safeguard the stability and sustainable progress of the green financial market.

## **5. Conclusions**

By delving deeply into the interplay between the green finance legal framework and environmental sustainability, this article underscores green finance's pivotal role in fostering a mutually beneficial scenario for both environmental conservation and economic growth. Notably, significant strides have been made in establishing green financial legal systems both domestically and internationally, yet challenges persist, including inadequate laws and regulations, supervision mechanisms, and market maturity. Addressing these issues through refining the legal framework, bolstering supervision mechanisms, nurturing the market, and fostering international collaboration can substantially enhance the green finance legal system, thereby promoting environmental sustainability.

Drawing from these findings, the article advocates for several policy directives: firstly, expediting the drafting of dedicated green finance legislation and refining the associated regulatory framework; secondly, establishing and refining green financial oversight mechanisms to bolster efficiency and transparency; thirdly, intensifying innovation and promotion of green financial products to spur market maturity; and fourthly, reinforcing international cooperation and exchange to elevate the international profile of China's green financial system.

Amidst the escalating global environmental crisis and the swift ascendancy of green finance, future research endeavors ought to focus more intently on the dynamic evolution of the green finance legal system and its tangible impact assessment.

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