

How to Effectively Prevent "Greenwashing" Behavior in China's Green Bond Market

-- Based on ESG Philosophy

Jingjing Zhang^{1, a}

¹School of Finance, Anhui University of Finance and Economics, Bengbu, Anhui, 233030, China

^aE-mail: 1302341397@qq.com

Abstract: With the advancement of sustainable development strategy and the deepening deployment of green finance by the Party, the Chinese green bond market has rapidly expanded, but the emergence of "greenwashing" behavior has hindered the healthy development of the market. This article first defines the connotation and characteristics of "greenwashing" behavior, and analyzes its specific manifestations in the green bond market. Subsequently, an in-depth analysis was conducted on the current situation and causes of the "greenwashing" behavior in China's green bond market, pointing out that economic interest drivers, information disclosure deficiencies, and inadequate regulation are the three key factors. Based on the ESG concept framework, systematic measures have been proposed to address these issues, including improving the information disclosure system, strengthening regulatory enforcement, popularizing ESG investment concepts, and enhancing internal corporate governance. Research has shown that building a multidimensional prevention system based on ESG principles is of great significance for regulating the development of the green bond market and promoting innovation in green finance.

Keywords: Green bond market, "Greenwashing" behavior, ESG concept.

1. Introduction

The 20th National Congress of the Communist Party of China explicitly proposed to promote green development, promote harmonious coexistence between humans and nature, and emphasize the improvement of financial, taxation, investment, pricing policies and standard systems that support green development, vigorously develop green and low-carbon industries, and improve the market-oriented allocation system of resources and environmental factors. In the context of global sustainable development, green finance, as an important force in promoting the transformation of the economy towards low-carbon and environmental protection, has received widespread attention. Green bonds, as an important component of green finance, have developed rapidly in the Chinese market in recent years[1]. However, with the rapid expansion of the market, "greenwashing" behavior has gradually surfaced, which not only damages the interests of investors, but also weakens the function of the green bond market in supporting sustainable development. The ESG concept emphasizes the comprehensive consideration of environment, society, and corporate governance, providing a new perspective and method for identifying and preventing "greenwashing" behavior. Therefore, studying how to effectively prevent "greenwashing" behavior in China's green bond market based on ESG concepts has important theoretical and practical significance.

2. The Connotation and Manifestation of "Greenwashing" Behavior

2.1. The definition and characteristics of "greenwashing" behavior

"Greenwashing" refers to the behavior of a company or

organization that exaggerates or falsely promotes its environmental protection behavior, misleading stakeholders into believing that it is environmentally friendly, but in reality, it has not taken effective environmental protection measures. Its main characteristics include: firstly, falsehood, that is, the environmental information promoted does not match the actual situation; The second is misleading, with the aim of causing stakeholders to have a wrong perception of its environmental image; The third is utilitarianism, usually for the purpose of obtaining economic benefits, market advantages, or reputation.

2.2. The manifestations of "greenwashing" behavior in the green bond market

In the green bond market, there are usually two typical "greenwashing" behaviors. The first type is virtual labeling of green projects, where some companies use green bond preferential policies to package non green or only weakly green projects as green projects in order to obtain financing convenience and cost advantages. They use methods such as exaggerating environmental benefits, concealing non green components, and falsifying data to make the project meet the requirements for issuing green bonds, thereby obtaining issuance qualifications. The second type is that the purpose of raising funds is not transparent, that is, some companies, after issuing green bonds, do not use the funds as promised, but instead, in pursuit of short-term benefits or to alleviate operational pressure, divert the funds to non green areas or daily operations. These two behaviors not only mislead investors into thinking that their funds are used for environmental protection, but also seriously damage the credibility and healthy development of the green bond market.

3. The Connotation and Dimensions of ESG Concept

The ESG concept is a comprehensive reflection of environmental, social, and corporate governance, aimed at promoting enterprises to pursue economic benefits while balancing sustainable development and social responsibility[2]. In terms of the environment, enterprises need to pay attention to resource utilization efficiency, pollution reduction, ecological protection, and response to climate change, and reduce negative impacts on the natural environment through measures such as energy conservation and emission reduction, and the use of clean energy. The social dimension emphasizes that enterprises should protect employee rights, provide high-quality products and services, safeguard customer interests, support community development, and promote social equity and harmony. In terms of corporate governance, enterprises should establish transparent and efficient internal management mechanisms, including a sound board of directors system, clear division of responsibilities, effective internal controls, and transparent information disclosure, to ensure scientific and reasonable decision-making and prevent risks. The ESG concept requires companies to achieve coordinated development in the three dimensions of environment, society, and governance. By comprehensively considering economic, social, and environmental factors, companies can enhance their long-term competitiveness and sustainable development capabilities, and create broader value for society.

4. Analysis of The Current Situation and Causes of "Greenwashing" Behavior in China's Green Bond Market

4.1. The current situation of "greenwashing" behavior in China's green bond market

The Chinese green bond market has developed rapidly in recent years and has become the second largest green bond market in the world[3]. However, with the rapid expansion of the market size, the phenomenon of "greenwashing" has gradually emerged in the process of market development. Against the backdrop of continuously strengthened regulation, the Chinese green bond market still faces regulatory issues such as some companies falsely declaring their environmental attributes and misappropriating funds, which poses a potential erosion of market transparency and investment confidence. Market data shows that for the first time in 2023, there are signs of a slowdown in the growth rate of China's green bond market issuance scale and quantity. This trend continues in the first half of 2024, reflecting the formation of a spontaneous screening mechanism for "greenwashing" behavior in the market under the trend of stricter regulation. It is worth noting that the "Green Bond Evaluation and Certification Business Inspection Work Regulations (Trial)" issued by the Green Bond Standards Committee in June 2024 marks the gradual standardization of the evaluation and certification market. However, deep-seated contradictions still exist in the market, with some companies selectively disclosing environmental benefit data, and there is a deviation between the actual investment of funds and the fundraising commitments. Investors still face information fog. How to further regulate corporate behavior and improve information disclosure

mechanisms remains an important issue facing current market development.

4.2. The causes of the "greenwashing" behavior in China's green bond market

4.2.1. Market distortions driven by economic interests

The core driving force behind the "greenwashing" behavior in China's green bond market lies in significant economic benefits. Companies can obtain multiple benefits by issuing green bonds: on the one hand, they can enjoy interest rate discounts, significantly reducing financing costs; On the other hand, it can obtain a "green" brand premium, enhance market valuation and ESG rating[4]. This dual interest temptation has prompted some companies to take risks, and even led to the phenomenon of professional intermediaries assisting in "greenwashing" packaging in order to obtain service fees. Especially against the backdrop of increasing downward pressure on the economy, the contradiction between the strong demand for corporate financing and the imperfect regulation of green bonds has further amplified this interest driven effect.

4.2.2. The institutional deficiencies of the information disclosure mechanism

The imperfect information disclosure system provides operational space for "greenwashing" behavior. Currently, there are systemic defects in the information disclosure of China's green bond market, such as inconsistent standards, incomplete content, and inadequate execution[5]. There are differences in the requirements for information disclosure among different regulatory authorities and market sectors, and companies can choose the most favorable disclosure standards based on their own situation. In terms of disclosure content, many key environmental performance indicators lack quantitative data and only remain at the qualitative descriptive level, making it difficult for investors to accurately evaluate the true environmental attributes of bonds. More importantly, the mechanism for disclosing information during the bond issuance period is weak, and many companies no longer update their environmental performance data or only provide formal annual reports after bond issuance. This fragmented and selective information disclosure model, coupled with the lack of effective information verification mechanisms, enables companies to conceal the true situation of projects through information asymmetry, creating institutional conditions for "greenwashing" behavior.

4.2.3. Realistic shortcomings of the regulatory system

The inadequacy of the regulatory system is an important reason for the continued existence of "greenwashing" behavior. Although regulatory authorities have introduced multiple normative policies, there are still many challenges in practical operation. Firstly, there is a lack of clear legal definition and judgment standards for the identification of "greenwashing" behavior, and there is a significant degree of discretion in regulatory enforcement. Secondly, there is insufficient allocation of regulatory resources, especially in professional technical fields such as environmental benefit assessment. Regulatory agencies often rely on information provided by issuers or third-party institutions, which weakens the independence and effectiveness of regulation. Once again, the imperfect coordination mechanism among multiple departments can easily lead to regulatory overlap or vacuum, making it difficult to detect cross market "greenwashing" behavior in a timely manner. Finally, the punishment for

violations is insufficient, mainly relying on administrative regulatory measures, lacking sufficient deterrent punishment methods. This "low cost of violations and high potential benefits" regulatory environment has made some companies willing to take risks in "greenwashing". Overall, the current regulatory system has obvious shortcomings in standard definition, execution capability, coordination mechanism, and punishment intensity, making it difficult to form effective constraints on "greenwashing" behavior.

5. Strategies Based on ESG Principles to Prevent "Greenwashing" Behavior

5.1. Improve the information disclosure system

Building a systematic and standardized information disclosure framework is a fundamental project to prevent "greenwashing" behavior. A unified green bond information disclosure guideline should be formulated, which clearly requires issuers to fully disclose the specific performance of projects in the three dimensions of environmental benefits, social responsibility, and corporate governance, with particular emphasis on the quantifiability and verifiability of key performance indicators. At the same time, establish a multi-level review mechanism, including both pre issuance self regulatory review and continuous tracking and disclosure during the existence period. Introduce a third-party authentication agency with professional qualifications to independently verify the disclosed information, and enhance the credibility of the information through a dual safeguard mechanism. In addition, it is possible to consider establishing a green bond information disclosure platform to achieve centralized disclosure and cross validation of information, providing market participants with convenient channels for obtaining information[6].

5.2. Strengthen supervision and law enforcement efforts

Building a comprehensive and multi-dimensional regulatory system is a key measure to curb "greenwashing" behavior. Regulatory authorities should refine the criteria for identifying "greenwashing" behavior, establish a scientific framework for behavior identification and evaluation, and provide clear basis for regulatory enforcement. In terms of regulatory resource allocation, it is necessary to strengthen the construction of professional talent teams and enhance regulatory capabilities in professional technical fields such as environmental benefit assessment. At the same time, improve the cross departmental collaborative supervision mechanism, and form a regulatory synergy through information sharing and joint law enforcement. In terms of disciplinary measures, a tiered punishment mechanism should be established to implement differentiated treatment for different degrees of "greenwashing" behavior, which not only maintains regulatory deterrence but also reflects the precision of law enforcement.

5.3. Promote the popularization and application of ESG investment concepts

Cultivating a mature ESG investment culture is a long-term mechanism to curb "greenwashing" behavior from the demand side. Professional training for institutional investors should be strengthened to enhance their ESG analysis skills

and ability to identify "greenwashing" behaviors; Encourage asset management institutions to systematically incorporate ESG factors into investment decision-making processes and establish specialized green bond evaluation systems; In terms of product innovation, support financial institutions in developing more diversified ESG investment tools to provide investors with differentiated choices.

5.4. Strengthening internal governance of enterprises

Deeply integrate ESG concepts into the corporate governance structure, establish an ESG committee led by independent directors, responsible for supervising strategic implementation. Improve the environmental risk management system, establish a multidimensional assessment model covering climate and pollution risks, and regularly release ESG risk management reports. Establish an employee ESG performance evaluation system, incorporating indicators such as green innovation, energy conservation, and emission reduction into the assessment. Explore the establishment of a "green director" system, requiring independent members with environmental professional backgrounds to be included in the board of directors to control the authenticity of projects from the decision-making source. At the same time, establish an incentive mechanism linking ESG performance with executive compensation to promote management's emphasis on long-term sustainable development.

6. Conclusion and Prospect

This study indicates that the "greenwashing" behavior in China's green bond market is the result of multiple factors working together, including the intrinsic drive of enterprises to pursue economic benefits, as well as external institutional factors such as incomplete information disclosure and inadequate regulatory systems. The prevention strategy based on ESG concept has formed a systematic solution through four dimensions: improving information disclosure, strengthening regulatory enforcement, popularizing ESG investment, and optimizing corporate governance, providing a feasible path for regulating market development. With the deepening of the "dual carbon" strategy, China's green bond market will usher in a broader development space. It is suggested to continue to make efforts in three directions: improving the standard system, strengthening technological supervision, and cultivating market ecology. At the same time, attention should be paid to research in cutting-edge fields such as ESG rating and bond pricing mechanisms, digital regulatory tools, etc., to promote the high-quality development of the green bond market and better serve the construction of ecological civilization.

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