

Analysis and Governance of "Greenwashing" Behavior in China's Green Bond Market

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Abstract: With the Chinese government and leaders attaching great importance to the construction of ecological civilization and the green financial market, green bonds have become an important tool to promote green development. However, the problem of "green washing" in the market not only erodes investors' trust in the market, but also damages the credibility and actual effectiveness of green finance, posing a potential threat to the continuous promotion of ecological civilization construction. This article analyzes two typical behaviors of "greenwashing" in the Chinese green bond market: false labeling of green projects and opaque use of funds, and explores their causes, involving problems such as incomplete green bond standard formulation and certification system, weak regulatory crackdown, short-term interest driven corporate behavior, insufficient public green awareness and supervision. Targeted response strategies have been proposed: firstly, to improve the green bond standard formulation and certification system, ensuring the authenticity of green projects; Secondly, enhance regulatory efforts and punishment measures, and build a rigorous legal environment; The third is to improve the transparency of information disclosure, requiring enterprises to regularly disclose the progress of projects and the use of funds; The fourth is to establish a sound investor protection mechanism and safeguard the legitimate rights and interests of investors. Through these measures, it is possible to effectively regulate and curb "green washing" behavior, and promote the sustainable development of the green bond market.

Keywords: Green bond market; "Greenwashing" behavior; Sustainable development.

1. Introduction

On April 22, 2021, at the Global Climate Summit hosted by US President Joe Biden, Chairman Xi Jinping pointed out China's commitment to green finance and emphasized the necessity of supporting green and low-carbon development. He mentioned that China will expand the scale of green finance and increase investment in climate change and ecological protection. Subsequently, during the release of the White Paper on Carbon Peak before 2030 and Carbon Neutrality before 2060, Chairman Xi Jinping once again emphasized the importance of developing green finance and mentioned that China is promoting the financial system to support green technology innovation and encouraging financial institutions to increase their green finance products and services. Green bonds, as one of the key elements in the green financial system, play an increasingly important role in keeping with the country's emphasis on green development and sustainable strategies.

Since its emergence in 2007, the Chinese green bond market has gradually expanded and been deeply explored. In 2016, it experienced explosive growth, and with the guidance of government policies and the establishment of institutional foundations, it has rapidly developed and grown. In recent years, the Chinese green bond market has actively pursued consistency with international standards, continuously striving to improve standardization and transparency, in order to achieve further maturity and expansion. At present, although there are certain differences in the definition of green bonds globally, there is basically a consensus among all parties on its meaning. The definition of green bonds in China is: securities that raise funds specifically to support green industries, green projects, or green economic activities that meet the prescribed conditions, and are issued in accordance

with legal procedures and repay principal and interest as agreed, including but not limited to green financial bonds, green corporate bonds, green enterprise bonds, green debt financing instruments, and green asset-backed securities [1].

Although the Chinese green bond market is in a stable and rapid development, serious information asymmetry and immature green information disclosure mechanisms in the green bond market have led to the phenomenon of "greenwashing"[2]. At the level of the green bond market, the so-called "greenwashing" refers to some bond issuers using false or misleading methods to promote their environmental behavior or projects during the issuance of green bonds, in order to gain the trust and recognition of investors.

So, why is there a phenomenon of "greenwashing" in the Chinese green bond market, and how can this phenomenon be prevented and controlled? In response to the above issues, this article will conduct in-depth research.

2. The Manifestations and Causes of "Greenwashing" Behavior in the Chinese Green Bond Market

2.1. The manifestation of "greenwashing" behavior in the Chinese green bond market

In the Chinese green bond market, there are generally two common "greenwashing" behaviors. The first type is to falsely label green projects, which means that some enterprises, in the process of pursuing economic benefits, use preferential policies issued by green bonds to package projects that originally did not belong to the green category or only had weak green attributes as green projects, in order to obtain more financing opportunities and cost advantages.

These companies often adopt a series of measures to embellish projects, making them appear to meet the requirements of green bond issuance. They may exaggerate the environmental benefits of the project, conceal or weaken the non green components of the project, and even forge relevant data and proof materials. Through these means, the enterprise successfully puts on a green coat for non green projects or projects with only weak green attributes, thereby successfully obtaining the qualification to issue green bonds. The second type is that the purpose of raising funds is not transparent, meaning that some companies, after successfully issuing green bonds, do not use these raised funds according to the promised and disclosed purposes to investors. These enterprises may change the use of funds for various reasons, such as pursuing short-term economic benefits, alleviating operational pressure, etc., resulting in the funds originally planned for green projects being diverted to other non green areas or the daily operations of the enterprise. These two "greenwashing" behaviors not only mislead investors into believing that their investments contribute to environmental protection, but in reality, these funds are not used for real green projects, and they also damage the credibility and overall development of the green bond market.

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

The causes of "greenwashing" behavior in the Chinese green bond market are a multi-level, multidimensional, and highly complex issue. It is not only a simple economic phenomenon, but also involves multiple deep-seated issues such as policy formulation, market regulation, corporate behavior, and public awareness.

2.2.1. Government level

(1) The standard formulation and certification system for green bonds is incomplete. There are differences between China's green bond standards and international standards [3]. In the Green Bonds Principles (GBP), the criteria for identifying environmental benefits are very clear, and there are clear provisions for the types of projects that can be funded, such as renewable energy, clean transportation, sustainable management of biological and land resources [4]. In China, although corresponding green bond guidance has also been formulated, in some cases, these guidelines allow for a broader interpretation of the principle of environmental priority, which will lead to some peripheral projects being labeled as "green". In addition, regarding the certification system, although there are multiple institutions in mainland China participating in the certification of green bonds, their certification standards and procedures are different, and there is a lack of a unified and strict external review mechanism to ensure that all green bonds meet the same high standards. The imperfect standardization and certification system is one of the important reasons for the phenomenon of "greenwashing" in the green bond market.

(2) Insufficient supervision and crackdown efforts. The phenomenon of "greenwashing" in China's green bond market is largely due to insufficient government supervision. The current regulatory system's review system for the issuance and use of green bonds is not strict enough, resulting in inadequate scrutiny of the true environmental benefits of projects, leaving opportunities for projects that do not meet the conditions. Secondly, the lack of regulatory resources, both in terms of manpower and technological means, has led to blind spots in comprehensive market monitoring, and some

"greenwashing" behaviors have escaped the scrutiny of regulators. At the same time, the laws, regulations, and corresponding punishment measures regarding green bonds have not been followed up in a timely manner, resulting in relatively low violation costs, providing motivation for some companies seeking short-term benefits to intentionally or unintentionally engage in "greenwashing" operations. In addition, there is a lag between the continuous updating of regulatory measures and the rapid development of green financial products, and the lack of innovative real-time monitoring technologies and means has also contributed to the occurrence and spread of this phenomenon.

2.2.2. At the enterprise level

(1) Driven by financing demand. Enterprises have certain financing needs in both daily operations and investment activities[5]. Green bonds, due to their environmental labels, often enjoy favorable conditions such as policy incentives and low interest rates, attracting many companies seeking funding. In practical operations, some companies, in order to alleviate financing pressure and meet the growing demand for funds, will package ordinary projects by "greenwashing" them to meet the issuance conditions of green bonds, thereby obtaining low-cost funds or easier market acceptance. Driven by efficient financing, some companies overlook the long-term environmental protection intention of green bonds and only use them as a means of fundraising, leading to the emergence of financing behaviors in the market that are both well-known and real.

(2) Short term profit driven. The phenomenon of "greenwashing" in the Chinese green bond market reflects to some extent the pursuit of short-term benefits by some enterprises. In order to quickly enhance market image, attract investors with strong environmental awareness, and respond to the government's advocated green development strategy, some enterprises have chosen the "greenwashing" path in the absence of long-term green transformation strategies or actual environmental protection achievements. This behavior appears to meet the external requirements of green bonds, but in reality, its main purpose is to create a facade of corporate green activism, in order to obtain short-term stock price support, brand reputation improvement, or other operational convenience. In addition, due to the high pressure of business operations and the pursuit of immediate performance, companies lack patience for green projects that require long-term investment and slow results, and the phenomenon of "greenwashing" is in line with this short-sighted business strategy. This short-term profit driven behavior pattern, if not suppressed, will damage market reputation and ultimately harm the long-term interests of all participants.

(3) Information asymmetry and moral hazard. In the green bond market, issuers usually have more and more detailed information about the environmental benefits of their projects, while investors and regulatory agencies relatively lack the ability to obtain and verify this information. This information asymmetry allows companies to selectively disclose or exaggerate environmental protection information through public disclosure, resulting in their ordinary projects being disguised as green projects, in order to attract investors with a preference for green investment and obtain lower cost funds. At the same time, due to the relatively weak regulatory tracking and punishment mechanisms, such behavior by enterprises has not been properly constrained, which has led to moral hazard, that is, enterprises have taken behaviors that are beneficial to themselves but detrimental to the entire

market and true green investment at a lower risk.

2.2.3. At the public level

(1) Lack of green awareness. The concepts of environmental protection and sustainable development started relatively late in China, and the public's awareness of green financial products is generally not high. This awareness gap enables companies to attract capital and market attention through external green packaging rather than actual environmental improvement actions, and thus obtain nominal and preferential green bonds without substantial environmental contributions. The lack of sufficient understanding of environmental standards results in insufficient efforts by investors to regulate green behavior in enterprises, and also weakens their ability to identify enterprises that truly bear environmental responsibility. This situation indirectly provides breeding ground for the occurrence of "greenwashing" phenomenon.

(2) Insufficient supervisory power. The general public is an important force in promoting transparency and greenness in enterprises. However, when the public lacks sufficient awareness of green finance and a deep understanding and attention to environmental behavior of enterprises, their ability to supervise enterprises significantly weakens. The weakening of this supervisory power makes it easier for enterprises to mislead investors through intentional selection and beautification of external information in the absence of effective inquiry and inspection. They package bonds that do not have substantive green qualifications as green bonds and obtain funding and market advantages through this method. At the same time, insufficient public supervision also reduces the external pressure for companies to comply with agreements and truly fulfill environmental responsibilities, enabling them to engage in "greenwashing" behavior at lower moral costs.

3. Response Strategies for "Greenwashing" Behavior in China's Green Bond Market

3.1. Improve the standard formulation and certification system for green bonds

To address the "greenwashing" behavior in China's green bond market, it is urgent to improve the standard formulation and certification system for green bonds, in order to ensure the quality and reputation of green bonds. Firstly, in terms of standard setting, China should refer to mature systems such as the International Green Bond Principles (GBP), clarify the definition and recognition standards of environmental benefits, and make clear provisions for the types of projects that can be funded, and develop green bond guidelines with Chinese characteristics that are in line with international standards[6]. Secondly, in terms of certification system, China should integrate the existing scattered certification bodies, establish unified certification standards and processes, and ensure that all green bond evaluations and audits follow the same strict guidelines. This may require introducing the experience of international certification bodies, establishing specialized agencies or entrusting third-party organizations to conduct pre issuance evaluation, post issuance tracking, and regular project performance evaluation of green bonds, in order to enhance market trust and enhance the environmental benefits of green bonds.

3.2. Strengthen supervision and punishment efforts

Supervision and punishment are important cornerstones for the stable development of China's green bond market. To ensure the purity of the market and the achievement of environmental protection goals, it is necessary to strengthen supervision and punishment efforts. This requires relevant government departments to establish stricter and more detailed standards for the issuance and review of green bonds, while improving and perfecting the evaluation mechanism for environmental protection projects and increasing the substantive review of environmental protection projects. Secondly, regulatory agencies need to invest more resources, including recruiting talents with green finance expertise and using technological means for market monitoring, in order to improve the efficiency and coverage of market control. At the same time, it is necessary to accelerate the revision and improvement of laws and regulations related to green bonds, clearly define illegal operations, and design sufficiently strict legal punishment measures to significantly increase the cost of illegal activities, thereby forming an effective deterrent effect.

3.3. Strengthen information disclosure and transparency

The key to solving the "greenwashing" phenomenon in China's green bond market lies in reducing information asymmetry between issuers and investors by integrating and strengthening information disclosure and improving transparency measures[7]. Specifically, regulatory authorities should establish and implement stricter disclosure standards for green bonds, requiring issuers to provide comprehensive environmental benefit estimates when issuing green bonds, and detailing how the project meets the required green standards, including but not limited to specific plans for the use of funds, expected environmental impacts, assessment methods, and environmental, social, and governance (ESG) indicators related to the project. At the same time, during the term of the bond, the issuer should regularly provide progress reports, update details on the use of funds and specific environmental benefits achieved, for investor review and regulatory verification[8]. In order to enhance the accuracy and authenticity of this information, it is crucial to introduce independent third-party auditing agencies for verification and evaluation, including but not limited to environmental consulting firms, carbon certification bodies, or other certification bodies, which can provide independent project evaluation reports and credit ratings. The comprehensive strengthening of investment transparency and information disclosure is expected to promote the development of an honest, healthy, and sustainable green bond market, while ensuring the authenticity of green finance and the interests of investors.

3.4. Establish an investor protection mechanism

In the Chinese green bond market, it is crucial to establish an effective investor protection mechanism to address the "greenwashing" behavior caused by insufficient green awareness and supervision. This mechanism should include strengthening investor education, increasing public awareness of green finance, especially green bonds, popularizing relevant environmental and sustainable

development knowledge, enabling investors to better understand and identify green projects, and enabling them to understand their important role in promoting corporate responsibility and transparency, thereby enhancing their ability to supervise corporate green behavior. At the same time, it is necessary to establish a mechanism, including investor compensation funds and insurance plans, to ensure that investors can make up for their losses to a certain extent when investing in enterprises that engage in "greenwashing" behavior. A systematic investor protection mechanism can enhance investors' trust in green bonds, thereby achieving the establishment of a healthier and more reliable green bond market.

4. Conclusion and Outlook

This article comprehensively analyzes the common phenomenon of "greenwashing" in the Chinese green bond market, reveals its manifestations and underlying reasons, and proposes targeted comprehensive governance strategies. In practical operations, false labeling of green projects and opaque use of funds are the two main types of "greenwashing" behavior. The root causes of these problems lie in the immaturity of policies and market supervision, the behavior choices of enterprises pursuing short-term profits, as well as the lack of public green awareness and insufficient supervision ability. To suppress or even eliminate "greenwashing" behavior, this article suggests starting from multiple dimensions to improve governance effectiveness: improving the standards and certification system of green bonds is the basic work to prevent "greenwashing" behavior, strengthening supervision and punishment is a means to curb violations and enhance market discipline, strengthening information disclosure and transparency is a key measure to improve market efficiency and protect investor interests [9], and establishing and improving investor protection mechanisms is the pillar to maintain market fairness and stable development.

Through the implementation of the above measures, it is expected that in the future, the Chinese green bond market will effectively avoid "greenwashing" behavior, promote true green investment, and advance the economy towards the goal of green transformation and sustainable development. We should recognize that only comprehensive and systematic

governance can fundamentally solve the phenomenon of greenwashing, which is not only an inherent requirement of market development but also a practical need to address global climate change.

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