

Greenwashing Behavior in China's Green Bond Market and Countermeasures

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ABSTRACT

The increasingly serious environmental problems have pushed various countries to develop green finance and then issue green bonds. However, the subsequent "greenwashing" behavior of enterprises has aroused widespread concern all over the world. This article sorts out the "greenwashing problems" of Chinese enterprises, and at the same time, expounds the effective ways and measures to deal with the "greenwashing behaviors" of enterprises in the world, and then summarizes the effectiveness of Chinese enterprises in dealing with greenwashing behaviors by drawing on the advanced experience of foreign countries. The measures summarized "greenwashing" governance solutions such as information disclosure, government supervision, and green certification, and proposed shortcomings in current researches and Countermeasures.

Keywords: Green Bonds; Greenwashing Behavior; Information Disclosure; Evaluation Mechanism

1. INTRODUCTION

Climate change and environmental issues have become the focus of global attention. In 2007, the European Investment Bank issued the world's first bond with the clear aim of funding for green projects to the 27 EU member states, the climate-aware bond, which opened the prelude to green investment and development in the bond market. Subsequently, various countries began to implement green financial policies for environmental protection and sustainable development.

As for China, in order to establish a "green finance" system that is in line with China's national conditions, guide more social funds to invest in green industries, and promote sustainable economic development, in September 2015, the Central Committee of the Communist Party of China made it clear for the first time in the "Overall Plan for the Reform of the Ecological Civilization System" to establish a top-level design for the green financial system[1], opening a new chapter in China's development of green finance. In September 2020, President Xi put forward the "30•60" target, which is to strive to achieve "carbon peak" by 2030 and achieve "carbon neutrality" by 2060. The Central Economic Work Conference held in December 2020 proposed doing a good job at carbon peaking and carbon neutrality, which has given new impetus to the development of

modern green finance and also promoted the issuance of green bonds [2].

However, the emergence of many problems in China's emerging and immature green bond market, especially the emergence of "green bleaching" has severely restricted the development of China's green finance, and even brought a negative impact on the realization of sustainable economic development. Therefore, by drawing on foreign experience, putting forward feasible suggestions and countermeasures for "green bleaching behavior", and correcting the problems in time, it is helpful to the healthy development of China's green bond market.

2. CHINA'S GREENWASHING BEHAVIOR AND ITS CONSEQUENCES

With the continuous development of the green bond market, the phenomenon of greenwashing has gradually appeared in various countries. Greenwashing is the process of conveying a false impression or providing misleading information about how a company's products are more environmentally sound. Greenwashing is considered an unsubstantiated claim to deceive consumers into believing that a company's products are environmentally friendly. Also, some financiers use packaging to build non-green projects into green projects to obtain financial support, or the funds raised for green

projects are not used in the project in the future, but flow into non-green fields.

In addition, some companies, out of the appeal of attracting consumers and establishing a green image, also have various types of green washing operations, including promoting themselves as green companies through exaggerated publicity and stealth exchange of concepts, or use non-existent green products, marks, certifications and other means to deliberately deceive and entrap investors, etc.

To encourage the development of green bonds, the National Development and Reform Commission of China issued the "Green Bond Issuance Guidelines" on December 31, 2015. It is pointed out that in terms of review, the issuance of green bonds has improved efficiency by referring to the "accelerated and simplified review" bond review procedures; and the current review policies and access conditions for corporate bonds have been adjusted, and companies issuing green bonds are not subject to bond issuance indicators. Governments at all levels provide fiscal policies to support and encourage green projects, and actively guide social capital to participate in the construction of green projects; broaden the guarantee credit enhancement channels for green bonds; encourage innovation in bond varieties, and support equity investment companies, funds, etc. to issue bonds to invest in green projects[3].

And it is this kind of encouragement policy that motivates the "greenwashing" behavior. For enterprises, green washing and bleaching can help enterprises establish a green and environmentally friendly image and increase the convenience of raising funds for enterprises. However, once a company's greenwashing behavior is exposed, it will affect the company's reputation, reduce consumer satisfaction with the company's brand and investors' trust in the company, and then impact the company's stock price performance. For investors, when they realize that there is a widespread phenomenon of green washing in the market, they will fully doubt the "finesse" of the green financial products on the market, which will reduce their confidence and investment enthusiasm in the green bond market over time. Similarly, investors, as the party lacking information, are unable to screen real green products and pay corresponding prices. It may eventually lead to the adverse selection result of "bad money driving out good money", which is not conducive to protecting the legal rights of investors and the healthy and stable development of the market. For the regulatory authorities, the ambiguity of green bond standards has greatly increased the time and resources spent on supervision, lost opportunities that could be used to improve environmental benefits [4], and weakened the regulatory authorities' implementation of environmental protection policies. It also reduces the protection that the

policy should have for consumers to purchase green products, resulting in a waste of regulatory resources.

3. FOREIGN EXPERIENCE

Some developed countries and organizations have issued green bonds earlier, and have accumulated some valuable experience and implemented measures to deal with the problem of greenwashing. Therefore, this paper lists three typical international advanced schemes to provide reference ideas for China to find solutions to the greenwashing behavior.

3.1. International organizations

The Green Bond Principles (GBP) jointly promulgated by ICMA and more than 130 financial institutions and the climate bond standards developed by the Climate Bonds Initiative (CBI) clearly identify third-party certification and evaluation. International organizations that provide third-party certification and evaluation involve academic, auditing, rating agencies, and social responsibility consulting companies: CICERO, CBI, KPMG, DNV GL, Oekom Research Center, etc. During the bond issuance period, a third-party institution can issue a "second opinion" for the issuer to clarify the direction of green bond financing [5]. During the duration, an assessment of the use of funds and the benefits of energy conservation and emission reduction can be provided. In addition, some rating agencies integrate third-party green certification and credit ratings, and through in-depth analysis of the relationship between greenness and bond default risk, and assess the impact of green factors on bond default risk, so that green evaluation can be quantified.

3.2. European Union

Although the green bond market has grown steadily recently, there is still a lack of clear definitions of green projects, which has brought uncertainty to issuers and investors, increased investment costs, and further led to a lack of adequate standardization in supervision and review. To that end, the European Commission announced the creation of a new European Green Bond Standard (EUGBS). Its overall goal is to create a "gold standard" so that other market standards can converge with it. Under the new standards, European green bonds can be used to fund long-term projects (up to 10 years) to make economic activities comply with EU classification. At the maturity of the bond, the issuer must use 100% of the funds (income) raised by the bond for economic activities that meet the requirements of the EU classification law. In addition, if the TSCs change after the bond issuance, the issuer can still follow the previous standards within 5 years. The European Commission pointed out that the European green bonds will be inspected by external reviewers, who will specifically

verify the funded projects to ensure that the bonds comply with the new EUGBS regulations. In order to ensure that investors can rely on external reviewers, the European Green Bond Regulation will require transparency, professional qualifications and avoidance of conflicts of interest. The European Securities and Markets Authority (ESMA) will assume the role of overseeing compliance with these requirements. But at the same time, the EU is considering adopting an intermediate classification method that allows the issuance of so-called transition bonds to prevent risks associated with a sustainable economic transformation. "

3.3. Japan

Information asymmetry is a common problem faced by various countries in the development of green finance, and it is also an important reason for the phenomenon of "greenwashing". In the formulation of the "Green Credit Guidelines", Japan has made detailed regulations on the disclosure and review of information, with special emphasis on introducing third-party agencies to ensure the accuracy of green credit approval and compliance with regulations, and also stipulates the matters that need to be disclosed and reported in the evaluation and selection of green projects, and the management of raised funds, so as to minimize the information asymmetry between transaction subjects. Second, the Ministry of the Environment of Japan established a green bond issuance promotion platform in 2018 to strengthen public and public opinion supervision. In order to strengthen the supervision of the public, the media, and non-governmental organizations over green finance business. It lists in detail the issuance scale, purpose, coupon rate, third-party rating, capital flow and other information of the green bonds issued, and provides a link to the corresponding bond issuer so that users can query detailed information.

In terms of cultivating a comprehensive awareness of green development, the Japanese government has played a role in effective guidance and good publicity. In addition to promulgating laws and regulations such as the Basic Law on Energy Policy, the Basic Law on Countermeasures against Global Climate Warming, and the Law on Special Measures to Promote the Utilization of New Energy, Japan introduced the "Environmental Protection Points" system in 2008, where citizens earn points for purchasing environmentally friendly products to exchange for other rewards[6]. The design of the environmental protection points system effectively combines stimulating consumer demand and cultivating environmental awareness, and stimulates citizens' enthusiasm to participate in the construction of a low-carbon economy and follow the economy through economic incentives. Since 2009, Japan has begun to implement the "carbon footprint system" to quantify the carbon footprint of some commodities on the market.

These measures have effectively stimulated the initiative of economic entities to participate in the construction of a circular economy society, and have also significantly improved the breadth and depth of green financial services.

4. CHINA'S SOLUTION PATH

Different countries have different national conditions, but by listing foreign experiences, some common solutions that are also suitable for China can be summarized. These methods are worthy of reference and can provide ideas for solving the problem of greenwashing in China.

4.1. Standardize information disclosure and strengthen supervision mechanisms

The government should further improve the quality of corporate information disclosure through laws and regulations, especially the need to further improve the corporate environmental information disclosure system, and introduce more quantitative and qualitative indicators to standardize disclosure. At the same time, non-governmental organizations and the media can also use the information disclosed by companies to identify the company's environmental performance, and publicize it through the media, forcing companies with poor environmental performance to improve their environmental performance [7], thereby increasing the transparency of disclosure. Exposing violations and frauds will greatly damage the reputation and image of a company. Therefore, media exposure can also increase the cost of "greenwashing" and reduce the incidence of greenwashing behavior.

In addition, the establishment of a comprehensive display platform for the green bond information can reduce the information search cost for external supervisors to a certain extent. China can build a portal website for green financial information display, integrating green credit, green bond investment project display, fund approval process information display, environmental improvement effect evaluation information display and other functions, to fully track the management, use, and subsequent flow of funds raised to facilitate the effective supervision of green financial services by the public, media, and non-governmental organizations, and ensure the effective management of the use of related funds and the true flow of funds to the green field.

4.2. Unify green debt standards and establish a third-party evaluation mechanism

The project classification of green bonds is a criterion for determining whether a bond is green. Regardless of whether it is green financial bonds, green corporate

bonds, or non-financial corporate green financing tools, the green projects defined for investment should be consistent, and different classification standards should not be adopted [8].

Relevant departments should strengthen the regulations of the green bond certification market through negotiation, reach a consensus on the basic norms and guidelines that green bond certification agencies and green bond ratings need to comply with, and form principled commitments. Determine the basic certification and rating templates for green bond certification and rating businesses, as the core content requirements of certification and rating and the green bond market's authoritative judgment standard, negotiate and resolve problems or disputes in the green bond certification and rating market.

The government should also introduce a third-party supervision mechanism or rating agency to supervise and classify the entire process of green bond issuance, duration, and use of raised funds, and assess the "green" degree of the company at all stages.

4.3. Strengthen the role of publicity and guidance, increase rewards and punishments

To prevent companies from greenwashing, we must first raise the company's environmental awareness internally. This requires the government to publicize and popularize greenwashing knowledge, improve the company's concept of environmental responsibility, and standardize China's marketing environment. Through the improvement of relevant laws and regulations, the corporate governance of trade advertising securities companies and financial reporting have been strengthened to promote the green image and environmentally friendly compliance requirements of enterprises.

Strengthen the supervision and management of China's green products and green supply chain, make green enterprises the targets of punishment in the unfair competition of enterprises, and increase the punishment of green enterprises. Increasing the chances of exposure can increase the cost of violations of greenwashing and even outweigh the gains, so as to maintain the fairness of free competition in the market and protect the legitimate rights and interests of consumers.

Non-governmental organizations (NGOs) and the media are of great significance in monitoring and propagating corporate behavior. NGOs and the media should deliver useful information to the public and help the public recognize the greenwashing behavior of enterprises. For example, "Southern Weekend" has published China's Greenwashing List since 2009, using online platforms to expose the bad behaviors of greenwashing companies. In addition, NGOs can cooperate with socially responsible investors to

determine the environmental performance information required by this stakeholder[7]. Through this cooperation, non-governmental organizations can provide the public with more useful information and make up for the shortcomings of current environmental information disclosure, and gradually promote policies through regional pilots and the establishment of experimental zones to find the most suitable response methods.

5. CONCLUSIONS

In the absence of effective management mechanisms and legal regulations, on the one hand, favorable policies on green bonds attract environmentally friendly companies to enter the market and promote the development of the green financial market. But on the other hand, it also encourages companies that do not have environmental protection characteristics to use information asymmetry and regulatory loopholes to conduct environmental protection data fraud and establish a false public image.

The growing problem of green bleaching in the green bond market will have many adverse effects on consumers, investors, industries and society. The greenwashing behavior of enterprises has become a major obstacle to my country's green marketing and the construction of an eco-friendly society. Therefore, it is necessary to grasp the principles of various measures to control corporate greenwashing behavior, learn from the experience of developed countries and organizations in governing greenwashing behavior, and actively prevent and govern the greenwashing behavior of enterprises.

By learning from foreign experience, China should adopt measures to regulate information disclosure, strengthen supervision mechanisms, unify green debt standards, establish a third-party evaluation mechanism, strengthen guidance, and increase rewards and punishments to tackle the problem of corporate greenwashing.

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