Do the Shades of Green Matter?

Florence School of Banking & Finance, 25 Feb. 2021
Scholarly work on green bonds is now well developed, with a topical focus on pricing, ownership and consequences for the issuers.

The majority of empirical studies find a “greenium” in both the primary and secondary market (MacAskill et al., 2021).

The “greenium” appears to between −1 to −9 basis points.
Scholars Take on Green Bonds

- However, the existence and magnitude of greenium are far from settled.

- For example, focusing on the US municipal bonds market, Baker et al. (2018) find a significant greenium while Larker and Watts (2020) find none.

- The empirical challenges are the “matching” with non-green similar bonds, the limited liquidity affecting most bonds, and the definition of green bonds.
The growth of green bonds as an asset class has prompted the demand for certification and verification of bonds’ “greenness”

Specialized organizations are now providing environmental assessments of green and sustainability bonds in the form of ratings, audit reports, and second-opinions

Shades of green are a way to measure the extent to which the projects financed via green bonds are fully consistent with the transition towards a low-carbon and climate-resilient economy

Three shades are typically used: dark, medium and light
Pricing the Shades of Green

- In your opinion, does the market care about the different shades of green? (Yes/No)
Shades of Green

- We study the second-opinions of CICERO a leading independent assessor of green bonds

- The sample consists of 64 dark-green bonds and 74 medium- and light-green bonds; 2 matched “brown” bonds for each bond in the sample

- From 2013 to November 2020

- Result: a “greenium” of -4 basis points for the dark-green bonds statistically not significant
Shades of Green
Table 9 – Bond Ownership by UNPRI Investors

<table>
<thead>
<tr>
<th></th>
<th>Dark green vs. Conventional</th>
<th>Light green vs. Conventional</th>
<th>Dark green vs. Light green</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean Difference</td>
<td>16.24%***</td>
<td>1.37%</td>
<td>14.87%**</td>
</tr>
<tr>
<td>t-statistic</td>
<td>2.7144</td>
<td>0.2369</td>
<td>2.2676</td>
</tr>
<tr>
<td>p-value</td>
<td>0.0095</td>
<td>0.8135</td>
<td>0.0284</td>
</tr>
</tbody>
</table>
Conclusions

- Limited sample (but label consistency is ensured)

- No claim of causality between second opinions and ownership configuration

- Take-away: the market does not seem to care about the shades of green but climate-aware institutional investors do