Do the Shades of Green Matter?

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Scholars Take on Green Bonds

- 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

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- 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

Shades of Green

- 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

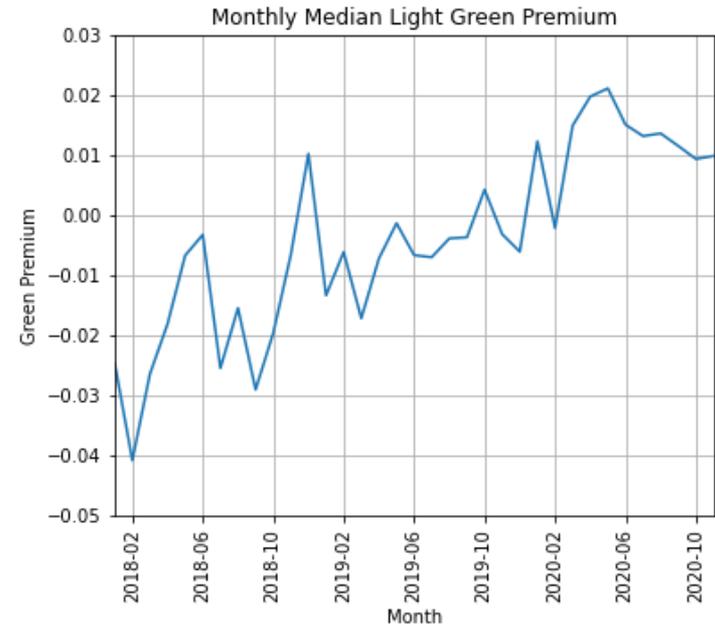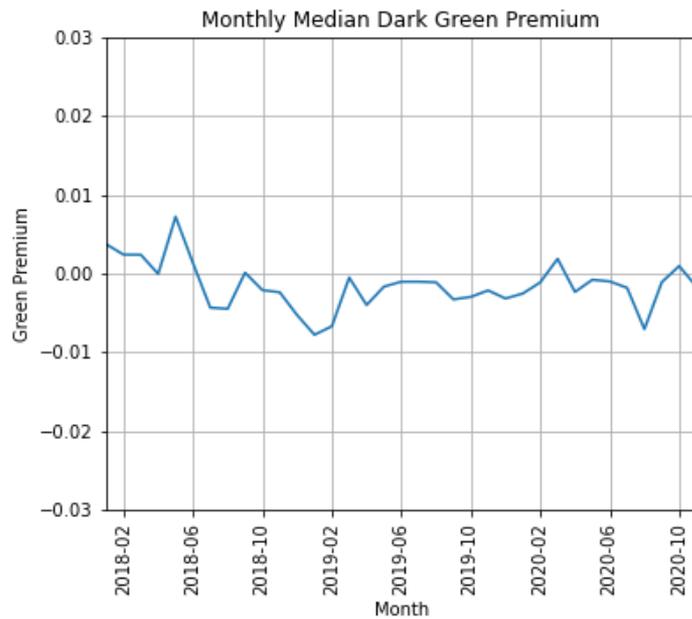- Three shades are typically used: dark, medium and light

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

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Shades of Green

Shades of Green

Table 9 – Bond Ownership by UNPRI Investors

	Dark green vs. Conventional	Light green vs. Conventional	Dark green vs. Light green
Mean Difference	16.24%***	1.37%	14.87%**
t-statistic	2.7144	0.2369	2.2676
p-value	0.0095	0.8135	0.0284

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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**