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Municipalities Could Benefit from Issuing More Green Bonds.

Editor's Note: *This paper will be presented at the 2018 Municipal Finance Conference on July 16 & 17, 2018. The conference is a collaboration of the Brookings Institution's Hutchins Center on Fiscal and Monetary Policy, the Brandeis International Business School's Rosenberg Institute of Public Finance, Washington University in St. Louis's Olin Business School, and the University of Chicago's Harris Institute of Public Policy. It aims to bring together academics, practitioners, issuers, and regulators to discuss recent research on municipal capital markets and state and local fiscal issues.*

A green bond is one whose issuer commits to using 100 percent of bond proceeds for environmentally friendly purposes. For instance, municipalities can use green bonds to fund projects focused on renewable energy, clean transportation, sustainable water management, or climate change adaptations, among others. In a paper to be presented at the 2018 Municipal Finance Conference at Brookings, Malcolm Baker and George Serafeim of Harvard Business School, Daniel Bergstresser of Brandeis International Business School, and Jeffrey Wurgler of the NYU Stern School of Business find that yields at issue for green municipal bonds are on average 0.06 percentage points below yields paid on otherwise equivalent bonds.

The paper, "Financing the Response to Climate Change: The Pricing and Ownership of U.S. Green Bonds," provides an overview of the U.S. municipal bond market covering 2,083 municipal bonds labeled green by Bloomberg, and another 643,299 ordinary municipal bonds, issued between 2010 and 2016. The annual issuance of bonds identified as green rose from less than $500 million a year (or less than 0.18 percent of total annual municipal issuance) in 2010 to 2013 to over $2 billion in 2014, and totaled $6.5 billion (or 1.9 percent of total municipal issuance) in 2016. Most environmentally sensitive projects, such as pollution control and mass transit, are still funded by ordinary bonds, as the table below shows. Therefore, municipalities could, and perhaps should, already be issuing green bonds in far greater numbers, the authors say.

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The Brookings Institute

by Finn Schuele and David Wessel

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