# Article information:

Where's the greenium? - ScienceDirect  
<https://www.sciencedirect.com/science/article/pii/S0165410120300148>

# Article summary:

1. The greenium, or the premium that green assets trade to otherwise identical non-green securities, is precisely equal to zero in the United States municipal securities market.

2. Green bonds are identical to ordinary municipal bonds in all ways except the use of proceeds is allocated to fund ‘‘environmentally friendly projects’’.

3. Investment banks charge slightly more to issue green bonds on average, suggesting that municipalities increase their borrowing costs by issuing green bonds.

# Article rating:

May be slightly imbalanced: The article presents the information in a generally reliable way, but there are minor points of consideration that could be explored further or claims that are not fully backed by appropriate evidence. Some perspectives may also be omitted, and you are encouraged to use the research topics section to explore the topic further.

# Article analysis:

The article "Where's the greenium?" published on ScienceDirect discusses the concept of a "greenium," which refers to the premium that investors are willing to pay for environmentally friendly or socially responsible assets. The authors focus on United States municipal issuers, who have been one of the largest issuers of green bonds, and examine whether investors value the societal benefits associated with ESG activities beyond the expected risk and return attributes of a security.

The authors use a sample of 640 matched pairs of green and non-green issues issued on the same day, with identical maturity and rating, and issued by the same municipality. They find that there is no significant difference in yield between green and non-green bonds, indicating that investors are unwilling to sacrifice returns to support environmentally friendly projects. Additionally, they find that investment banks charge slightly more to issue green bonds on average, suggesting that municipalities increase their borrowing costs by issuing green bonds.

Overall, the article provides valuable insights into the pricing of green securities in municipal markets and challenges prior research claiming a greenium exists. However, there are some potential biases and limitations in this study that should be considered.

Firstly, while the authors acknowledge that their sample size is relatively small compared to corporate green bond issuances, they do not address how this may limit generalizability or affect their findings. Additionally, they only focus on United States municipal issuers and do not explore whether their results would hold for other types of issuers or in different countries.

Secondly, while the authors rule out several plausible alternative explanations for their findings (such as differences in liquidity between green and non-green securities), they do not address potential confounding variables such as issuer reputation or investor demand for specific types of securities.

Thirdly, while the authors suggest that their results indicate that asset prices are primarily driven by ESG and CSR's impact on future firm profitability and risk rather than investor preferences for non-monetary security features, they do not provide evidence to support this claim. Additionally, they do not explore the potential impact of external factors such as regulatory changes or shifts in public opinion on the pricing of green securities.

Finally, while the authors note that their findings suggest that municipalities increase their borrowing costs by issuing green bonds, they do not address whether there may be other benefits associated with green bond issuance (such as increased investor demand or improved reputation) that could offset these costs.

In conclusion, while the article provides valuable insights into the pricing of green securities in municipal markets and challenges prior research claiming a greenium exists, there are some potential biases and limitations in this study that should be considered. Further research is needed to explore how external factors and different types of issuers may affect the pricing of green securities and to assess whether there are other benefits associated with green bond issuance beyond reduced borrowing costs.

# Topics for further research:

* Impact of ESG and CSR on future firm profitability and risk
* Investor preferences for non-monetary security features
* Benefits associated with green bond issuance beyond reduced borrowing costs
* Generalizability of findings to other types of issuers and countries
* Confounding variables in the pricing of green securities
* External factors affecting the pricing of green securities.

# Report location:

<https://www.fullpicture.app/item/00c6790d0b2ba8f8b025982994d06ca9>