



attitude makes the difference

Green bonds: intelligent investment for improving the environment

It is no secret to anyone that “green”, or ecology, is a trendy topic these days. The increasingly alarming news about global warming and climate change, whether true or not, are contributing to growing consciousness of the environment. The Copenhagen Summit and the results seen from it enforce this perception, now that even those most skeptical of Kyoto seem to be finally jumping on the bandwagon of environmental conservation.

Nor will it escape anyone’s notice that when a topic begins to become a lasting trend, this is immediately reflected in the market, not only as a financial activity modulator, but also as the undercurrent of investment vehicles that emerge due to the influence of new trends. This happened with War Bonds in 1941, with petroleum, with Chip, with the Internet... Will green consciousness fail to become a desirable object to investors? Evidently, not.

Following Kyoto, the first steps were made with the emergence of the emissions negotiation market, in which industrialized countries can buy a portion of developing countries’ assigned quota of CO₂ emissions. Since then, investment instruments such as Carbon Bonds and Green Bonds have appeared giving public and private investors the opportunity to invest in sustainability by means of these markets.

These bonds, like any bond, are essentially a very simple concept: the investor deposits funds which, in the medium or long-term, are reimbursed along with determined earnings (coupon). The difference here is that the money deposited by the investors is used to finance sustainability projects.

As a specific example, at the beginning of this year (2009), the World Bank and the Scandinavian Bank SEB jointly launched their first issuance of Green Bonds, with a value of 2,325,000 Swedish Kronas, a maturity period of 6 years, and with a return 0.25 points above the Swedish government bonds, targeting institutional investors. To date, the United States Treasury Department has also published its *Green Bonds Concept Paper*, which represents the first issuance of Green Bonds by Obama’s Nation to minority investors. What is most curious about this proposal is that, in contrast to what the World Bank’s bonds offer to Swedish institutional investors, they will be issued with a coupon that is below market. An interesting measure, even if tempered with a bit of greed.

Are we seeing a temporary trend or are green bonds here to stay? Honestly, we firmly believe that it is the latter. The bonds fill a need for financing projects for improving energy efficiency, reducing emissions, caring for the environment... And these projects are a necessity these days. Therefore, in the next few years we will, without a doubt, witness the growing emergence of investment instruments that will meet these needs. They will be increasingly more sophisticated and attractive to investors, because they will sleep more peacefully... they’ll sleep deliciously in fact. Prepare your portfolios.

David González Fernández

Associate of the Bank of **everis** México