New chapter of the Guideline for Ethically-Sustainable Investment in the German Protestant Church

4.10 Green Bonds

With Green Bonds (or social bonds), two requirements for sustainable investment can be met simultaneously, which until now could only be implemented by using a variety of instruments. Most Green Bonds have a risk/reward ratio that is largely identical with the one of conventional bonds, and proceeds of the issue are invested into projects meeting specific ecological (or social) criteria.

Many Green Bonds comply with a set of rules providing that in distinction from conventional bonds the issue proceeds are separately booked and used. The issuer previously earmarks in the bond’s issue prospectus for which category of projects the money shall be used. The categories include, for instance, regenerative energy, energy efficiency projects or waste disposal, but social projects, such as health measures, can likewise be funded with these bonds.

Investors can decide whether the investment category provided for the Green Bond meets their criteria, thus allowing an investment. That requires precise and fully transparent information for the investment categories, or better still, the scheduled projects. In the process an independent review (also known as Second Party Opinion) commissioned by the issuer may prove helpful.

Regardless how well-documented Green Bonds are—sustainable investors are still confronted with the essential question whether those bonds should be purchased from issuers, who have not made it on their individual list of sustainable responsible companies. Should one, for instance, purchase a Green Bond from a nuclear power plant, whose operator credibly claims to use its proceeds exclusively for regenerative energies?

Rating the sustainability of Green Bonds is more complex than rating other bonds, given that both the issuer as well as the specifically bond-funded project must be assessed. The following possibilities are the outcome of this for investors with ethically-sustainable goals:

1. They go by the issuer’s sustainability assessment only and buy bonds from issuers who meet their criteria—regardless if these are Green or conventional bonds.
2. They go by the issuer’s sustainability assessment and the project funded by the bonds. That is, they only buy bonds from issuers who meet their criteria. If such an issuer provides Green or Social Bonds these are given preference.
3. They only go by the sustainability assessment of bonds-funded projects. That allows purchasing Green Bonds from issuers, who do not meet the criteria of the
investors and whose conventional bonds would be usually avoided. In this case, however, further regulations should be introduced and observed. Plus the following questions should be answered:

a. Which categories of projects are covered by the investor’s sustainability criteria?

b. Which information is expected concerning the funded projects?