What is the future of high-yield green bonds?

There has been a large number of high-yield green bonds to date, but this segment of the market has gained huge depth, impact and relevance. The next auction of green bonds, more than twice the annual issuance in 2019, is expected to account for approximately 13% of the total amount of green bonds issued in 2021. This is likely to further increase the visibility and impact of green bonds in the market.

The next majority of green bonds will be for low-income countries in grades. Twobenchmark tranches have been issued by the European Development Bank and the New Development Bank.

The prospects for high-yield issues

The coming years should see an increase in high-yield green bonds and activities related to the green bond market.

Institutional investors show awareness of environmental, social and governance (ESG) risks, and although their engagement does not come from a green perspective, they are increasingly interested in ESG issues and they are starting to allocate part of their investments to green funds or in their holdings, and are also looking at their loan portfolios.

The government and the central bank have started to look at green bonds and the potential for investment in green bonds, but it is still early to check their actual impact.

Generally speaking, the breadth of business issuing green bonds is increasing, and this is translating into a higher profile for green bonds in the market.

In April 2016, the government established a green bond framework that established a new regulatory framework for the issuance of green bonds in the country, including an administrative committee and rules for registration and verification of the deals. The administration committee consists of 8 investors, 6 issuers and 4 underwriters.

The government has also established a green bond framework that is expected to be in place by the end of 2016. This framework is designed to support the development of green bonds in the country, including a green bond registry and a green bond association.

How might high-yield green bonds differ from investment-grade green bonds?

As this market develops, it is possible that investors will negotiate additional ways to enhance the market, including structure green bonds to have different environmental and sustainability goals.

Investors may, in exchange for greater transparency on the issuers part, reward issuers with additional flexibility if they are issuing in projects under the applicable green bond standards.

Green bond impact: high-yield green bond contract typically include a green bond performance and an exit strategy, which are assessed by the green bond association and the green bond registry.

By adopting a more structured high-yield green bond framework, issuers may be more likely to consider how to invest their funds in green projects. However, issuers may be less likely to choose high-yield green bonds if the market is not developed enough.

Current practice, however, is too slow. For example, Alana Greener Glimpse, a green bond consultant, issued a report in May 2016 that said that the sector needs to improve its data collection and reporting, and that more issuers should be considering high-yield green bonds.

Conclusion: the next step for corporate green bonds

We expect green bonds to grow and investor demand for green investing tools to grow. This is because green bonds provide issuers with capital to invest in high-yield issues, but growth in high-yield green bonds will not be without challenges.

As green bonds move beyond their early days, investors will have more reasons to allocate capital into green bonds, but they may also face challenges in allocating capital to high-yield green bonds.

The next step for corporate green bonds is to develop a more structured framework for high-yield green bonds, and to invest in high-yield issues, but growth in this area is not without challenges.

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