GREEN BOND FAQ’S

IS A GREEN BOND ACTUALLY A BOND?

Not technically. Bonds generally have an unconditional and guaranteed rate of return, while a green bond is entirely contingent on performance and rates of return may vary. Bonds are financial instruments that can be bought and sold, while green bonds are not. Green bonds are significantly riskier than many traditional bonds because the investors stand to lose up to 100 percent of their capital if the desired outcome is not ultimately achieved.

WHO ORIGINATES A GREEN BOND?

Green bonds are originated by government at any level seeking to accomplish a very specific goal in a public policy area. The government defines what that desired outcome is, and then partners with an outside organization oversee the implementation of the arrangement and will be paid upon attaining the outcome.

WHAT IS AN OUTCOME?

An outcome is not a common platitude such as “improve schools” or “reduce poverty.” The easiest way to define an outcome is to consider examples. A desired outcome of a national program to reduce urban homelessness, for example, could be a 20 percent reduction in the number of people living on the streets over seven years in a city with a large homeless population—a narrowly defined and empirically observable target that could be achieved using any number of strategies.

HOW ARE GREEN BONDS DIFFERENT FROM EXISTING PERFORMANCE BASED PROGRAMS?

Many existing performance-based contract programs essentially provide bonuses for completing contracted work early or under budget or for achieving specific performance targets. Some performance contracts also levy penalties for negative results. In these programs, the contractor still receives significant payment—often as much as at least 80 percent of the total amount even if performance goals are not met. Under the terms of a green bond, however, the government is not obligated to pay any money until and unless the desired results are achieved.

WHO ARE THE INVESTORS?

Investors interested in green bonds represent a wide array of institutions, foundations, and individuals looking for new ways to solve social problems. These investors are generally looking to generate both environmental impact and financial returns on their investments.

WHY DO INVESTORS INVEST IN GREEN BONDS?

Investments in green bonds represent a unique opportunity for investors to:

- Generate significant environmental and social impact in a variety of issue areas, including workforce development, carbon emissions, water quality, waste management and other various environmental initiatives.
- Help demonstrate a potentially transformative model for financing effective environmental programs.
- Possibly receive modest financial returns.

HOW DO YOU KNOW IF THE OUTCOME HAS BEEN ACHIEVED? WHO DECIDES IF IT HAS BEEN ACHIEVED?

At the outset of each green bond agreement, all parties agree on an independent third-party assessor who will ultimately be responsible for deciding whether an outcome has been achieved. The green bond contract should clearly establish how data should be collected throughout the lifespan of the green bond so that the assessor can conduct an accurate, credible, and rigorous evaluation at the conclusion of the agreement. The outcomes being measured will be unique to each green bond agreement and should reflect past research and assessments of the effectiveness of the given interventions being used.

WHAT HAPPENS IF THE OUTCOMES ARE NOT ACHIEVED?

If the outcomes are not achieved, the government agency does not release payment, and investors will forfeit up to 100 percent of their investment