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Do Green bonds enhance stock returns and financial performance: A literature Review

Ashu Lamba

Vivekananda Institute of Professional Studies-TC,
AU Block, Outer Ring Road, Pitampura, New Delhi 110 034, India

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ABSTRACT

The aim of the research is to present a literature review in the background of green bonds. The literature review has been carried out to understand the view on the effect of issue of green bonds on the stock prices and financial performance. Most research studies show more pronounced evidence of issue of green bonds producing a favourable stock reaction. There is conflicting evidence suggesting the issuance of green bonds enhances the financial success of the firms

Key words : *Ecotourism, Environmental migrants, Green bonds*

Introduction

Recent literature has given green finance a lot of focus as a result of the increased global efforts to combat climate change. Two notable initiatives by international organisations and various governments that demonstrate a stronger commitment to environmental sustainability are the adoption of the United Nations Sustainable Development Goals and the Paris Climate Agreement. Many Nations have made efforts to promote the growth of green industries and green technological innovation, and have created sustainable development as their overall development strategies, in order to accomplish these goals (Acemoglu, 2016; Hong, 2021, Tang, 2020). Various green financial policies have been put into place to address the financing challenges encountered by businesses as they pursue green development across different nations.

Green finance means any structured financial action, such as a product or service, developed to stimulate better environmental outcomes. It comprises of several kinds of debt instruments, investments, and loans that are used to either increase the growth of green projects or minimise the climate impact of more traditional initiatives.

Fintech, community-based green funds, green central banking, green bonds, green banks, carbon market instruments, fiscal policy, and other new financial tools and regulations are just a few of the major elements that make up green finance.

Following the Paris Agreement in 2007, the World Bank introduced green bonds, and it is predicted that by 2023, up to US$1 trillion in green bonds could be issued annually globally. After China, India is the largest developing country foraying into the market of green bonds. The State Bank of India issued the nation's first green bond in 2018. Due to the increasing demand, SEBI (Securities and Exchange Board of India) has established numerous frameworks and rules pertaining to the issuance and reporting of projects.

There are various advantages of issuing green bonds. The investments made are used for projects

(Assistant Professor)

that will enhance the environment or overall quality of life and are financed by green bonds.There is a significant impetus on green initiatives these days which is also very helpful in luring foreign investment. This will lower the expense of capital for the businesses and help the whole country. Investing in green bonds offers investors a number of financial advantages. The world's urgent need for green projects will be fulfilled through investment in green bonds.

There are lot of challenges with respect to green bonds in Indian context. The Indian stock market's green bond market is relatively new, and there is a dearth of investor awareness. The projects that are available for investment through green bonds are capital-intensive and take a long period to produce returns. Green bonds typically have a tenure of 10 years, which may not be appealing to investors with short- or medium-term investment goals. Additionally, the Indian markets generally lack credit ratings or credit rating standards, which might discourage investment.

Literature Review

Issuance of various financial instruments has an effect on the stock market returns. Initial public offerings generate abnormal returns (Chalk and Peavy, 1987). Various researchers have studied the effect of issue of Green bonds on the stock market returns as well as the business performance. The following section is classified into two parts where the first part discusses the issue of Green bonds on the stock returns while the next section deals with the impact of the issue of Green bonds on the business performance.

Issue of Green Bonds on Stock market returns

Companies' stock prices are impacted by the issue of bonds (Kapoor and Pope, 1997). The stock market reportedly reacted favourably to the news of the issuance of green bonds, according to Flammer (2013). Zhou and Cui (2019) asserts that the issue of green bonds has a favourable effect on stock prices. Using panel data of Chinese listed businesses from 2010 to 2020, Tan *et al.* (2022) investigated the impact of green bonds on firm's performance. They discover that the business performance of these companies had improved. Tang and Zhang (2020) demonstrate that increased institutional ownership and stock liquidity are related to positive market returns following green bond announcements. Baulkaran(2019) notes that investors have a favourable opinion of the issue of green bonds. Investors view this type of financing as adding value, and money raised from the sale of green bonds is applied to successful green initiatives or risk management. Verma and Bansal (2021) discover that green-bond issues by Indian companies produce positive abnormal returns, indicating favourable sentiments among investors. While, Jin and Jhang (2022) demonstrate that on the dates of the official declaration of the COVID-19 outbreak, Chinese company Green Bond issuers showed substantially positive cumulative abnormal stock returns.Issue of green bonds yield positive announcement stock returns, which is in alignment with the stakeholder value maximisation theory which holds that corporate involvement in green financing practises improves company's value over a period of time, thus is favoured by shareholders (Wang *et al.,* 2020).

Impact of Green Bonds on Financial Performance

Another strand of literature in the area of green bonds is the impact of the issue of Green bonds on the financial performance. Business enterprises are quite concerned about the potential impact of green bonds on firm's performance, which has an impact on the inherent long-term driving force behind green bond issuance.

A study done by Hoang *et al.* (2022) finds that with respect to financial performance, the quantity of green bonds issued has a negative correlation with ROA and ROE for European companies and light industry companies, respectively. Zhou and Cui (2019) claim that corporate announcements of the issue of green bonds have a positive impact on stock prices, profitability, and operational performance, as well as on an organisation's potential for innovation and can improve CSR. Flammer (2020) finds that green bond issuers exhibit long-term increases in financial performance, as evaluated by taking proxies ROA and ROE, in comparison to a matched sample of non-green bond issuers. A study carried out by Yeow and Ng (2021) on the sample gathered from among the green bond and conventional bond offerings between 2015 and 2019 issued by firms from various nations. Furthermore, the performance of the firms is unaffected by green bonds.

Conclusion

The objective of the current research is to comprehend the literature review on green bonds. The evidence of green bond issuance resulting in positive stock reaction is more pronounced in most of the studies. There is mixed evidence which shows that the issue of green bonds improves financial performance of the firms.

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