



Does compliance to Green Bond Principles matter? Global Evidence

Madurika Nanayakkara ¹ and Sisira Colombage ²

Abstract

We examine the effect of degree of compliance with the Green Bond Principles (GBP) on investor demand for such bonds, using cross-sectional data for all countries in the Green Bond market over the period 2007-2019. We find a significantly positive effect of higher compliance with the GBPs on investor demand, as measured by Bid-Ask-Spread and Yield-spread, after controlling for common bond-specific and macroeconomic variables. However, our results showed no evidence that macroeconomic factors influenced Green Bond investments. Moreover, we also find a positive effect on investor demand when a bond is issued by a government agency, even if the degree of compliance is low.³

JEL classification: G12, N25, Q56

Keywords: Bond Market; Bid-ask spread; Green Bonds; Green Bond Principles; Compliance; Investor demand; Sustainability

¹Department of Commerce and Financial Management, Faculty of Commerce and Management Studies, University of Kelaniya, Kelaniya, Sri Lanka. Email: madurikan@kln.ac.lk

² Federation Business School, Federation University Australia, Clyde Road, Berwick, VIC-3806, Australia
Email: sisira.colombage@federation.edu.au

³ The authors would like to thank Dr Martin Davies and Mr Brett Shuttleworth for proofreading and many useful insights.