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Green bonds take-off - why s.

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|| A green bond is used to fund a project that has a positive environmental or climate benefit.

Responsible investment has become a key theme of the New Zealand financial services sector over recent years.

The country experienced the world's fastest shift of money to responsible investment options in 2016, after an outcry at revelations KiwiSaver funds were invested in things such as weapons.

One of the newest investment alternatives available is "green bonds". While they have been around since 2007, their popularity has taken off in recent years.

What's a green bond?

A green bond is much like a standard bond - a loan that a company or government takes from the public, promising to pay it back in full, with regular interest payments.

For the organisations issuing them, there is a bit more cost than normal because they need to be tracked and reported on. But there are benefits, too, in highlighting their "green" ventures and attracting the attention of investors who might not normally consider them.

A report by Moody's Investors Service forecast that the amount of green bonds issued this year will exceed US$250 billion (NZ$348.70b), up more than 60 per cent on last year.

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Who's offering them?

Contact Energy has a $1.8b green borrowing programme that it hopes will attract international attention.

Auckland Council has given the go-ahead to establish a green bond framework to consider issuing bonds later this year. The money from the bonds would be used to fund such things as wastewater infrastructure, low carbon buildings and transportation and climate change adaptation.

International Finance Corporation wants to raise $100 million through the Kauri bond market in this country.

Fiji was the first "emerging economy" to issue a sovereign green bond.

In most cases, people wanting to buy the bonds need to go through a broker.

Who might they suit?

Simon O'Connor, chief executive of the Responsible Investment Association of Australasia, said green bonds were a good way to add environmentally friendly investment options to a portfolio within its existing asset allocation structures, with equal risk and return exposure.

It was becoming easier for retail investors to access the bonds, he said.

There was growing interest from savers in having their retirement investments make a positive impact on the world and green bonds were a way to achieve that.

In most cases investors would be able to get just as good a return as from standard bonds, he said.

But O'Connor said investors should get a clear understanding of the projects that would be financed from the bonds.

Not all are created equal and there are not yet any universally accepted standards. As with much responsible investing, it's important to watch out for "greenwashing" – where investments are dubbed environmentally or socially friendly to get access to money, without any clear change in the way they are managed.

Companies can issue a green bond to fund a particular project without ruining their entire firm in a socially or environmentally friendly way.

"There's different levels of standards with green bonds," O'Connor said. "The leading ones report back on the impact occurring and the projects financed.