The Relationship Between Green Bonds, Interest Rate and Financial Performance of Banks and Investment Firms Listed in The Nairobi Securities Exchange In Kenya

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Abstract

Infrastructural preparedness is a factor of social and economic progress both at the county and national level, as well as a driver of resilience and competitiveness. If economies want to advance towards a green economy and environmentally friendly and prosperous society, it is important for them to promote eco-innovation as one of the drivers of adaptation to current global challenges. In Kenya, the Green Bond market has seen exponential growth over the recent years. However, to date there has been limited research carried out on green bonds and their effect on financial performance of banks and investment firm's listed in the Nairobi Securities Exchange (NSE). Understanding the effect of green bond on financial performance is important for the growth of banks and investment firms listed in the Nairobi Securities Exchange. Previous studies have demonstrated that different forms of financing influence the financial performance of listed firms in an organized financial market. This study will investigate the relationship between green bonds and the financial performance of banks and investment firm's listed in the NSE with a major focus on the mediating role of interest rate in this relationship. Since interest rate is a strong determinant in the cost of debt, its effects is of a great concern in the measurement of financial performance. The independent variables will include included four major components of green bonds namely; Green Revenue Bonds (GRB), Green Project Bonds (GPB), Securitized Bonds (SB) and Proceed Bonds (PB) as per the green bond principles GBP (2016) while the dependent variable will be the financial performance of banks and investment firms listed in the Nairobi Securities Exchange, measured by two key performance indicators (KPI) namely return on equity (ROE) and return on assets (ROA). The general objective of this study will be to investigate the effect of green bonds on financial performance of banks and investment firm's listed in the NSE. The specific objectives of this study will be; to investigate the effect of green revenue bonds, green project bonds, and securitized bonds and proceed bonds on the financial performance of investment firms listed in the NSE. Lastly, the final objective will evaluate the mediating role of interest rates in the relationship between green bonds and financial performance of banks and investment firm's listed in the NSE. The study will adopted an ex-post facto research design with a sample size of 8 years from 2012 to 2019 since the first green bond was issued in Kenya. The study will employ both primary and secondary data, which will be collected from the National Treasury and the specific companies audited financial reports. Panel data model was adopted to investigate the effect of green bonds on the financial performance of banks and investment firms in the Nairobi Securities

Exchange. Additionally, Baron and Kenny (1986) model will be employed to determine whether interest rate mediates in the relationship between green bonds and the financial performance of investment firm's listed in the NSE. The results of this study will benefit the Capital Market Authority (CMA) and the government in making appropriate policies that encourage green bond financing to improve the performance of investment firms listed in the NSE. This study is also aimed at benefiting academicians interested in studying green bonds and financial performance of firm's listed in the NSE in the banking and investment sector

Key words: financial institutions, rates