The green bond market in Asia-Pacific

By Jonathan Drew

The 2018 Green and Social Bond Principles Annual General Meeting and Conference, held in Hong Kong for the first time outside of Europe, received strong participation and endorsement from a wide ranging audience from both the public and private sector across the region. The spirit of global cooperation in growing the market and delivering finance to support sustainable development was evident.

According to Dealogic, Asian green bond issuance reached $43.4 billion in 2017 accounting for 36% of global volume (up from less than 10% in 2015). In 2018 we have already seen issuance from Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, Singapore, South Korea, Taiwan and The Philippines, including many debut issuers. Multinational development banks such as the Asian Development Bank (ADB) and World Bank have also raised green capital in Asian currencies this year continuing their market leadership.

Asia Pacific: Stepping up to the challenge

Asia Pacific – home to vast and globally significant reserves of natural resources, many rapidly growing economies and expanding middle class populations – faces the complex challenges of sustainable development. The ADB's estimate has suggested the required spend on new infrastructure alone across Asia is $1.7 trillion per annum. This cannot be achieved by relying on public sector funding, therefore private sector sustainable finance will be critical to low carbon non-polluting growth. Governments in the region are actively setting out frameworks and incentives to develop the market and the speed of growth of the sustainable bond market in Asia Pacific over the last few years reflects the galvanizing impact of such policy support from governments and regulators alike.

China

The green agenda has become a key component of China's national development plans, and the financial system has played a key role in this, driven by the People's Bank of China. China established itself as a leading green bond market back in 2016 and China now accounts for more than half of Asia Pacific's issuance volume so far in 2018, totalling more than $10 billion via 40 some deals. In 2018, state-owned enterprise issuers including Tianjin Rail Transit and Beijing Capital Group debuted in the market, along with corporates such as Landsea Green Group and repeat issuer Modern Land, as well as regular financial sector issuers such as the Bank of China and the Industrial Bank of China. Since the launch of the Bond Connect scheme in 2017, which allows foreign investors to participate in the mainland bond market, a number of China's development banks have launched green bonds through the platform.

Indonesia

As a tropical island nation with a high level of biodiversity, Indonesia is hugely susceptible to climate change. As the fifth biggest emitter of greenhouse gases, the country understands the role it needs to play in decarbonising its infrastructure and energy mix and is now strongly committed to combating climate change. In February 2018, the government of Indonesia issued a green sukuk worth $1.25 billion. The green sukuk proceeds will be allocated to environmental projects that contribute to the mitigation of or adaptation to climate change as well as the preservation of biodiversity. This supports the nation's commitment to cut greenhouse gas emissions by at least 29 percent by 2030, and for renewable energy to make up one-quarter of its energy mix by 2025.

India

The Indian Government has set an ambitious target to install 165 gigawatts of renewable energy capacity by 2022. Capital requirement to achieve this target is estimated to be $200 billion. Public sector entities including Rural Electrification Corporation, IDBI Bank, Indian Renewable Energy Development Agency, along with private sector corporates such as ReNew Power as well as financial institutions such as ICICI Bank and Yes Bank have introduced green bonds to raise funds for clean energy projects. The cumulative green bond issuance in India has more than doubled to over $7.1 billion since the Securities and Exchange Board of India issued green bond guidance in May 2017. In January 2018, Indiabulls Housing Finance completed the first social private placement from India issuer in international market (INR 3.15 billion Masala Bond for affordable housing). Growth in the market is expected to continue in line with government-mandated initiatives.

Japan

In Japan, where one of the largest pools of institutional investment assets in the world resides, a number of Japanese institutional investors have set targets for sustainable investment. Additionally, Japan's Ministry of the Environment released voluntary green bond guidelines in March 2017. The world's biggest pension fund, Japan's Government Pension Investment Fund (GPIF), requested its external asset managers to fulfil the stewardship responsibilities outlined in the "Japan's Stewardship Code". Earlier this year, Japan's largest shipping company, NYK Line, issued the world's first green bond by a shipping company. Other debut issuers include Japan Retail Fund Investment and Mitsubishi Estate and repeated issuers include: Development Bank of Japan (DBJ), Mitsubishi UFG, Japan Railway Construction Transportation and Japan International Cooperation Agency (JICA).

Australia

The first half of 2018 has seen repeated active financial institutions players including Westpac and NAB bringing to the market green bonds as well as Flexigroup's solar asset-backed securitisation. Following HSBC Bank's $1 billion Sustainability bond in November 2017 – from its Sustainable Development Goals (SDG) Bond Framework – ANZ debuted its €750m SDG Bond to promote nine of the United Nations' 17 SDGs.

Looking forward

The Green Bond Principles (GBP) are the *de facto* global standard for issuers, and the GBP's working groups regularly release additional guidance in critical areas such as impact reporting. The Association of Southeast Asian Nations Capital Markets Forum released the ASEAN Green Bond Standards, which are closely aligned with the GBP will serve to direct the regional markets.

The Joint White Paper co-authored by the China's Green Finance Committee and the European Investment Bank paves the way for enhancing the international consistency of green finance definitions for the benefit of issuers and investors.

Expanding to the green lending space, in March 2018 the Loan Market Associations in Europe and Asia, together unveiled the Green Loan Principles (GLP)with the support of ICMA. The GLP are aligned with GBP and can be expected to accelerate the channelling of funds to green projects, especially via the bank markets.

While the Asia Pacific investor community may not yet match its counterparts in Europe and the Americas in terms of embedding sustainability considerations in investment analysis and product design, they are changing fast. This includes sovereign wealth funds, and central banks such as Japan's GPIF, South Korea's National Pension Service and the New Zealand Superannuation Fund. Among private investors, an increasing majority of investors are adopting ESG criteria to screen investments with meeting market expectation, according to the latest Asian Bond Investor Survey sponsored by HSBC and S&P Global Ratings.

The combination of strong policy and regulatory direction combined with increasing private sector awareness and action mean that the Asian sustainable finance markets are set to continue to grow rapidly, creating attractive investment opportunities for global capital and contributing significantly to meeting the global challenge.

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