CFA SINGAPORE INSIGHTS

By Cedric Rimaud & Dr Chang Young Ho

The near future of green bonds in Singapore

Singapore should seize the opportunity to cement its role as a sustainable finance hub in Asia

THE financial world has resolutely embarked on a series of actions directed towards sustainable investment, involving banking, insurance and asset management, collectively called "the financial sector".

The objective is the mobilisation of trillions of dollars towards a more socially and environmentally balanced society, better able to deal with the climate, development and growth challenges of the 21st century. The Addis Ababa Action Agenda, the United Nations' Sustainable Development Goals and 2030 Agenda and the Paris Agreement on Climate Change have all created a gradually accelerating momentum.

In 2018, the Climate Bonds Initiative (CBI) reported that almost US$170 billion of green bonds have been issued globally that are aligned with the objectives of the Paris Agreement to limit global warming.

The United Nations Environment Program (UNEP) reported that the amount of investments into renewable energy amounted to US$255 billion. According to the Global Impact Investing Network (GIIN), US$35 billion were invested in impact investments. All expect these amounts to continue to increase in 2019 and in subsequent years. But is it enough?

How Asia outside of China is lagging in green finance

In Q1 2019, 285 green bonds from issuers were issued globally, which represents strong growth in issuance compared to 2018 (more than 40 per cent). As of mid-June 2019, total issuance has reached US$616 billion globally, with US$95 billion issued in 2019 year to date.

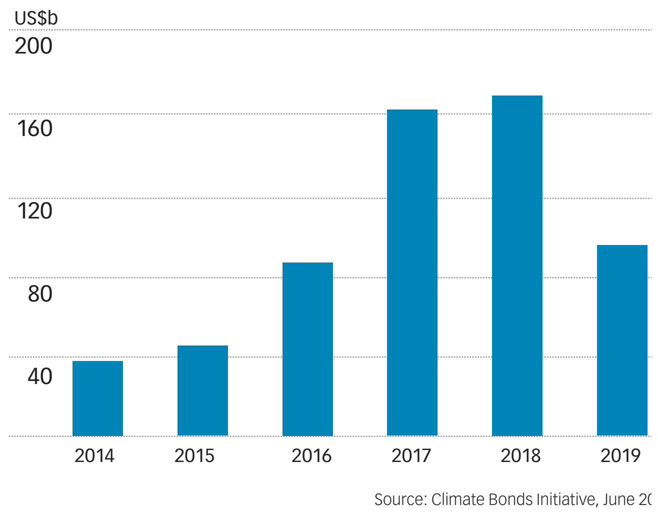
A strong driver is the issuance by sovereign issuers, representing 10 per cent of the total green bond market in 2018. Most recently, the Dutch government issued a 6 billion euro sovereign bond, followed by a US$1 billion maiden issuance by Hong Kong, and Conference of Parties (COP25) host nation Chile has just announced its intention to issue a green sovereign this year. The Republic of Korea has just announced a green and social bond issuance of US$1.5 billion, but full details are yet to emerge.

In South-east Asia, Indonesia has issued sovereign green sukuk for a total of US$2 billion. Despite the Asean Green Bond Principles being adopted by all countries in the region, as well as specific guidelines introduced by the Thai Securities and Exchange Commission and the domestic guidelines in Indonesia, amounts issued in South-East Asia remain small.

In Thailand, three green bonds have been issued including the first publicly sold in the local debt capital markets (by the BTS Group) financing extensions to the Skytrain network in Bangkok). In the Philippines, the market has been led by energy developers and the ADB, but progress has been slow since the initial issuance in 2016. Overall, since its debut in 2010, multi-lateral development bank ADB has closed 26 green bond deals for a total of US$6.7 billion.

Greenlit

Green bonds issued globally



Singapore's contribution

In Singapore, City Development Ltd (CDL), ICBC Singapore and DBS Bank issued bonds in 2017 and 2018, while rooftop developer Sunseap Group raised S$50 million through a green loan in April 2019. The largest issuer is Fraser Property Ltd, which raised two loans of S$1.2 billion and A$600 million (S$563.37 million) in 2018 and 2019 to finance low-carbon buildings. Ho Bee Land raised a green loan for a property investment in London.

These amounts remain small relative to the potential. According to the National Climate Change Secretariat, Singapore is looking to increase its solar deployment from 47MW in 2018 to 350MW in 2020, including projects of solar panels on rooftops of high-rise housing developments and floating photovoltaic installations on water reservoirs.

For buildings, which typically account for more than 40 per cent of energy use and produce 30 per cent of a city's greenhouse gas emissions, the potential is enormous. Singapore is already ranked among the top global cities for green buildings with a target of achieving of 80 per cent of all buildings by 2030, thanks to changes to the Building Control Act in 2008 that impose on new and existing buildings to achieve a certified rating under the building certification "Green Mark" Scheme.

According to AsianBondsOnline, the size of the local currency bond market surpassed S$420 billion in March 2019, of which more than a third was issued by corporates (S$126 billion). Among the top 30 issuers of local currency corporate bonds in Singapore are not only high profile financial institutions (Temasek Financial, DBS, UOB, OCBC), but also prominent real estate developers (Housing & Development Board, Frasers Property, Capitaland, CDL) and transportation companies (Land Transport Authority, Singapore Airlines).

Sector criteria under the Climate Bond Standard exist for sectors as diverse as renewable energy (solar, wind, geothermal, marine), transport (rail, vehicles, bus and rapid transit), utilities (water and waste), buildings (residential and commercial) and natural resources (forestry). The potential for bonds to be issued towards new projects and qualifying for green certification is evident. The costs of issuance can also be subsidised by the Monetary Authority of Singapore's Green Bond Grant Scheme, which reimburses the extra expense of obtaining a green certification.

The amount of capital from investors looking to invest in green projects certainly has a strong appeal: as of February 2019, the Taskforce on Climate-related Financial Disclosure (TCFD) had received the support of 580 firms, representing a capitalisation of more than US$7.9 trillion and assets of US$100 trillion, including 11 firms located in Singapore, among which are CapitaLand, CDL, DBS, Singtel, Sembcorp and Olam International, in addition to the Singapore Exchange and MAS.

The opportunity for Singapore to lead in Green Finance in Asia

Climate Bonds Initiative and the UN Environment Financial Centres for Sustainability (FC4S) Network recently released a briefing paper analysing the experience of European financial centres around green bond growth. This research shows how green finance can be leveraged as a core pillar of sustainable financial centres.

The exchanges in Oslo, Nasdaq Stockholm and London created the first dedicated green bond segments in 2015. Luxembourg launched with its Green Exchange in 2016. There are now 17 stock exchanges across the world with green or sustainability bond segments.

A general condition for green bond segments is for the bonds to have an external review such as a second party opinion to become eligible for a listing. Some exchanges such as Borsa Italiana and the Vienna Exchange allowed the bonds that are issued by companies in sectors that support the economy's transition to a low carbon economy to be identified, despite not being labelled as green or social.

Finally, some exchanges such as Borsa Italiana and Nasdaq Stockholm list fixed income debt instruments issued by unlisted firms, or "minibonds". In the case of Borsa Italiana, that amounts to a total issuance size of more than 16 billion euros, with 80 per cent of bonds with a size smaller than US$60 million.

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Things that Singapore can do for green finance

The recent Asian Development Bank Institute Research Paper on Green Finance in Singapore: Barriers and Solutions found that notwithstanding several major policy initiatives on green finance, including deeper integration of ESG issues into finance in Singapore, more research and development, and more green finance products, and a pro-active initiative by the Monetary Authority of Singapore with the green bond grant scheme, "there is still a long way to go for Singapore to become a hub for green financing" despite Singapore setting a goal of "making the city state a hub for green financing in Asia".

For Singapore, the government leadership has seen a regulatory landscape is supportive of kickstarting green financial flows towards the greening of the economy. Some onus now rests with more market actors to follow the lead of CDL and other pioneer issuers.

"What's in it for me"?

If saving the planet and humankind is not enough, issuers can take some comfort in knowing that there are some financial benefits in issuing green bonds or green loans. The anecdotal evidence from multiple recent issuances demonstrates that there is a significant demand for green bonds, with some bonds achieving higher over-subscription and/or better pricing than vanilla equivalents. This "greenium" is being reported by some Treasurers and arrangers from offerings in various markets. As the markets develop, we also expect "brown" bonds to start pricing in a risk premium.

The opportunity is there for Singapore to cement its role as a green and sustainable finance hub in Asia. Hong Kong and Shanghai are already moving; sooner or later Sydney will see the opportunities. Developing the domestic green capital market provides a foundation for this ambition.

As the global financial system responds to those landmark international agreements and institutional investor expectations, Singapore should be at the forefront, not a follower of change.

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TYPES OF BONDS

Green Bond

Similar to a standard bond, but with "proceeds" earmarked to fund projects that have positive environmental and/or climate benefits. Most green bonds are backed by the issuer's entire balance sheet, but they can also sometimes be secured against specific assets or in a sukuk format.

Certified Green Bond

The Climate Bonds Standard and Certification Scheme is a labelling scheme for bonds. Rigorous scientific criteria ensure that it is consistent with the 2 degrees Celsius warming limit in the Paris Agreement. The Scheme is used globally by bond issuers, governments, investors and the financial markets to prioritise investments which genuinely contribute to addressing climate change. The criteria can be found at: https://www.climate-bonds.net/standard/sector-criteria