Asia green bonds: looking ahead

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Financing of renewables across the Asia Pacific has so far been dominated by commercial and multilateral banks. But regional bond investors are showing interest in green bonds and finance – fuelling hopes for the potential growth of capital market financing solutions.

The region has so far remains wedded to the traditional project finance loan model, and over 90% of financing is raised from bank loans, according to a Moody's report.

As a result, much of the green bond issuance has been by banks, such as the recent $1.26 billion issue by Bank of China.

One new trend, however, has been the green bond issues by sovereigns, such as Indonesia's 5-year, $1.25 billion green sukuk that priced in March (2018).

"Green bond issuance by sovereigns has taken off and will serve as a cornerstone and benchmark to the market," Asia Securities Industry & Financial Markets Association (ASIFMA) chief executive Mark Austen told *IJGlobal* on the sidelines of the GFMA, ASIFMA, UNFCCC and UNESCAP Green Finance Conference held in Singapore.

Governments across the region have also been promoting green bond issuance, according to Bank of America Merrill Lynch's co-head of Asia Pacific debt solutions Conan Tan. Bank of America Merrill Lynch was a joint global coordinator on the $1.26 billion Bank of China green bond.

In part as a result, investors in the region are "more curious" about green bonds, Crédit Agricole's global head of MTNs & private placements, and head of Asia credit, Benjamin Lamberg said during a panel discussion at the conference.

Promised land

As is often the case with any discussion on renewables – or green – financing in Asia, the conversation tends to veer to optimism about future potential rather than the present – caused by a combination of a scarcity of renewable projects to fund, and the commercial and multilateral banks' dominance on what does get developed and financed.

Another issue for institutional bond investors "is the lack of standardised data on green investments," according to ASIFMA's Austen.

So far, each country in the region has set its own regulation but some relief on that front may be on its way.

Reed Smith's Bree Miechel has been leading a work stream as part of a global initiative to standardise bankable contracts for solar projects. Non-profit Terrawatt Initiative and the International Renewable Energy Agency will provide a suite of contracts on an electronic platform, which is expected to be launched over the summer.

The platform is intended to make benchmark resources available for investors, according to Miechel. "Adoption of the contract suite by governments and investors will facilitate accelerated development of solar in emerging markets without the need for significant or, in many cases, any subsidies," she said.

On the bright side, the region is home to two of the world's fastest growing renewables markets – China and India. China is aiming to reach renewable capacity of 210GW for wind and 110GW for solar by 2020. India for its part has a 175GW renewables target for by 2022.

Other countries, such as South Korea, have also outlined ambitious programmes to increase renewables capacity, to nearly 60GW by 2031.

With plenty of scope to develop capital market green financing, "going forward, we expect growth in China, India, Indonesia and South Korea," said ASIFMA's fixed income executive director Vijay Chander.

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