

Working Paper

Policy Reform for Supporting Green Bond Proliferation in the Asian Market

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**Scaling up Green Finance in Asia
The Role of Policies and Regulations**

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Mind Mapping

- Part I** : Green Bond - At a Glance
- Part II** : Green Bond and the Dilemma
- Part III** : Green Bond in Asia
- Part IV** : Result from Observational Analysis
- Part V** : Policy Recommendations



Green Bond At a Glance



Green Bond — the Basics

Key Criteria - are these the defining features of GB?

- Debt Instruments designed to Raise Funds for Projects and Businesses that have a Positive Environmental or Social Impact,
- Provides Steady Paybacks and Low-risk Revenues over long periods of time.

Application Sectors

- Renewable energy and energy efficiency
- Sustainable waste management,
- Green buildings,
- Sustainable land use, forestry and agriculture,
- Clean transportation system,
- Sustainable water management, and
- Climate change adaptation.

Green Bond and the Dilemma



Connecting the Environmental Concerns

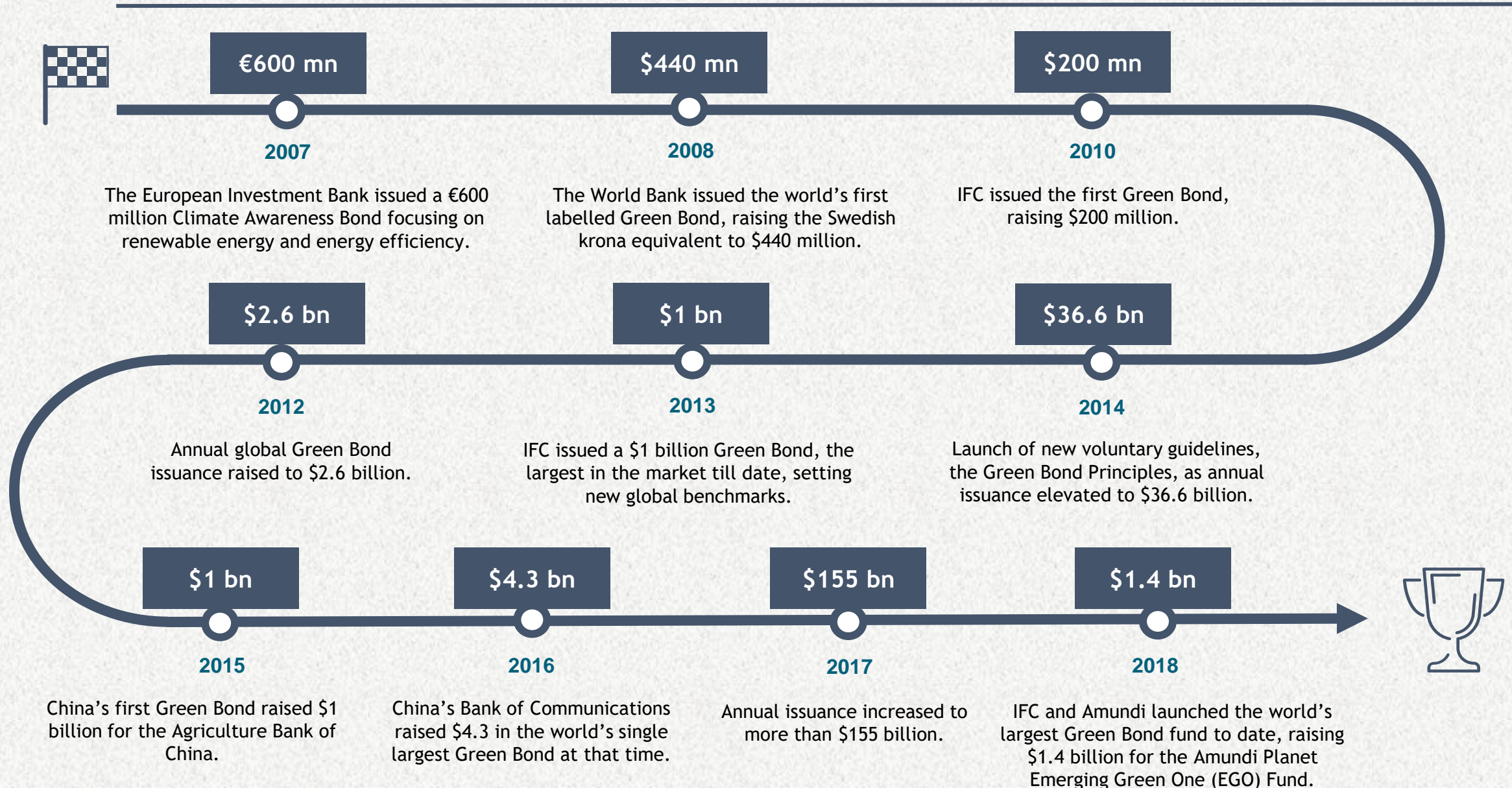
- 2 bn people with No Clean Water;
- 4 bn people without Access to Sanitation;
- By 2030, Food Production to be increased by 20%, whereas, 70% of Agricultural Land are already degraded;
- By 2030, we will have 1 bn People Living in the City, and another 1 bn entering into the Middle Class. This will require 20% More Energy than the current scenario.
- Additional \$3-4 tr will be required for achieving the SDGs.

If we continue our present behaviour, even going to 1.5° C global warming will make the situation worse, let alone if we go to 2° C.

...The Dilemma



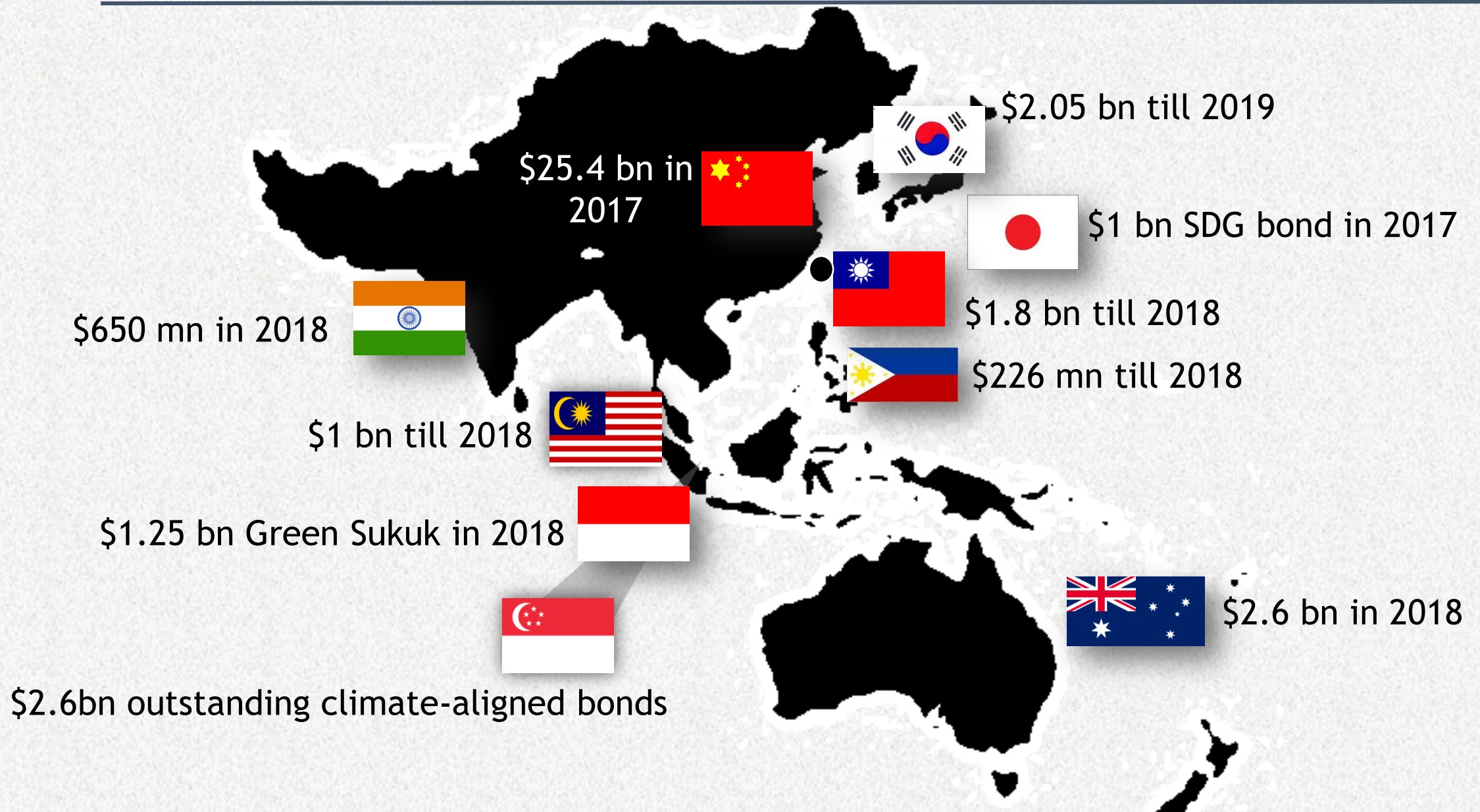
Significant Milestones



Green Bond Investment in Asia



Significant Milestones



Results from Observational Analysis



Major Challenges and Bottlenecks

- Lack of Government Policies for Incentivizing GB Investment;
- Institutional and Regulatory bottlenecks;
- Lack of Aggregation Mechanism;
- Inadequate access to External Review of GBP Compliance.
- Lack of Investor Information and Market Intelligence;
- Lack of Insurance Mechanisms;
- Lack of clear Risk Profile of Investment; and
- Unstable Capital Markets.

Performance and Pricing

Some GB Trading occurs inside Non-green Bonds

Financial institutions are yet to integrate the aggregation mechanism within existing business portfolio.

GBs can outperform Non-green

Provide long-term sustainability and longer payment period over CAGR. This provides opportunity for the new investors and first movers.

GBs Price Tighter and appear Less Volatile than Non-green Bonds in Stressed Markets

No short term payment period with CAGR or market inflexibility.

GBs Trade somewhat less than Non-green bonds

Lack of Awareness among Investors and Authorities and Regulatory and Institutional Bottlenecks.

Policy Recommendations



Creating Incentives for GB Issuance

- Allow Commercial Banks to **Exclude Loans** backed by GBs from the **Calculation of its Loan-deposit Ratio**.
- Allow financial institutions to have **Access to Preferential Risk Weighting** and **Preferential Capital Regulation Requirement** that that Meet the **Required Capital to Risk Asset Ratio** and are **Capable Of Providing Sufficient Capital**.
- **Institutional Investors** that have subscribed to green bonds should be entitled to the **Same Tax Exemption Policy as for Treasury Bonds**.
- For **Corporate Investors**, **Interest Revenues** received by Investors from Issuers should be **Fully Exempted From Corporate Income Tax**.
- For **enterprises** that **Receive the Capital raised through GBs**, encourage their **Local Government** to **Allocate a portion of its Budget** to provide **Discounted Interest Rate** for the **part of the loans** the enterprises have taken out.

Engaging the Private Sector

Massive Investment Need

- **\$6-7 tr/annum** global investment is required over the next 15 years to meet the demand for green investment.
- Application sectors are: **Environmental Remediation, Energy Efficiency, Clean Energy, Clean Transportation and Green Buildings.**
- Global objective is to facilitate the Global Transition to an **Environmentally Sustainable** and **Low-carbon Economy.**

Opportunity in the Private Sector

- **\$6 bn** in **Negative Interest Rate.**
- Bonds have **\$10 tr** in **Low Governments**
- **Government Securities** have **\$9 tr.**

Prioritizing Recommendations

Recommendation	Policy Type	Application Sector
Establishing tier-based system of GB Classification	Regulatory, Information	E D B C A T W
Establishing green finance models to support additional recycling, reuse and waste processes.	Economic, Information	E D B C A T W
Mobilizing and leveraging private sector for GB investment	Economic, Institutional	E D B C A T W
Designating and authorizing apex institutions for planning, implementing and monitoring GB mechanisms and programmes	Institutional	E D B C A T W
Establishing reform mechanism for subsidies on GB	Economic	E D B C A T W
Identifying the boundary of green bond issuers and encourage individualized design	Economic, Regulatory	E D B C A T W
Creating a follow-up evaluation system to quantify the environmental effects of green bonds	Regulatory, Information	ESG

E Renewable Energy & Energy Efficiency
D Sustainable Waste Disposal
B Green Buildings
C Climate Change Adaptation.

A Sustainable Land use, Forestry and Agriculture
T Clean Transportation
W Sustainable Water

Prioritizing Recommendations (Cont.)

Recommendation	Policy Type	Application Sector
Introducing green investment at low scale in existing projects, particularly in transport and energy for low carbon investment.	Regulatory	E T
Ensuring transparency and mandatory verification of green credentials	Institutional	E D B C A T W
Create incentives for GB issuance	Economic	E D B C A T W
Introducing green investment at low scale in existing projects, particularly in transport and energy for low carbon investment.	Information	E D B C A T W
Integrating policies related to climate change issues when formulating GB policies	Regulatory	C
Alleviating environmental risks by offering risk-mitigating guarantees	Economic, Information	ESG
Offer adequate remedies for investors for greenwash violation	Economic, Regulatory	E D B C A T W
Implementing complementary policies for promoting GB investment, i.e., renewable energy and energy efficiency	Regulatory	E
Creating internal synergies between financial and sustainability departments	Regulatory	C
Streamlining review and approval procedures and increase bond issuance efficiency	Regulatory	E D B C A T W

Thank You

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