

opinion

September 2016

Green shoots in the bond market

By Henrik Raber, Global Head of Capital Markets. Head of Equity Strategy Wealth Management Unit, Standard Chartered Bank

The rapid growth of green finance has sparked interest globally. The use of bonds to finance green projects have become an exciting market development, with demand from investors consistently outstripping supply. Across the globe, borrowers and investors are keen to engage in sustainable financing opportunities and we have seen increasing activities in Asia, paving the way for the Philippines market to take off.

The Green Finance Edge

Green bonds are bonds whose proceeds are directed to projects supporting environmental and climate benefits. These include a broad range of projects, from renewables, energy efficiency, sustainable water, waste management to clean transportation. To date, most green bonds have been issued in a senior unsecured format, referencing the general credit of the issuer, rather than specific project cash flows. Hence green bonds achieve the same financing rate as conventional or sukuk senior bonds.

Green bonds are a relatively new asset class, having started only in 2007. However, since 2014 the market for such bonds has seen explosive growth, with issuance volumes surging globally. Year to date USD47 billion worth of bonds have been issued, well exceeding the USD42 billion in green bond issuances for the entire 2015.

Historically, Western issuers have dominated the green bonds market, and today continue to play a major role - they account for 38% of total volumes YTD. Of late, there has been a notable shift of activity to Asia, with China and India making significant strides off the back of regulatory developments. China in particular has made a concerted push in green initiatives, and is the only country to have issued very prescriptive green bond guidelines. In a similar vein, India identified 8 institutions to play a proactive role in green financing in order to help meet the government's ambitious targets in the renewable energy space.

Asia now leads the West by a wide margin in green issuance and the broader market is poised to exceed USD80 billion this year on the back of this expansion. As the market has swiftly developed, so have other more innovative forms of green bonds, such as securitised and project bonds. For example in August, NTPC, India's largest power generation company, became the first ever issuer of a green Masala bond, tapping into the growing offshore rupee funding route for Indian corporates. Standard Chartered was joint lead manager and bookrunner on the NTPC transaction.

Why the growth

Green bonds appeal to both issuers and investors for a variety of reasons. For the issuer, such bonds provide broad benefits, especially when the deals are pioneered from their local market

or region. Green bonds also fulfil the issuer's corporate social responsibility objectives and enable investor diversification via green or Sustainable, Responsible and Impact Investing (SRI) funds, increasing the potential for pricing benefits where there is a strong SRI investor demand. Proceeds from the issuances can also reference existing eligible assets and do not necessarily require investments into new projects.

For the investor (particularly those with a green investment mandate), green bonds are an opportunity for green investments at near commercial pricing. In a world where nearly USD13 trillion worth of bonds are negative yielding, green bonds represent quite a good deal; over 80% of green bonds are rated at investment grade and satisfy the medium to long-term preferences of institutional investors, as well as covering a broad range of sectors. Additionally, the market has moved to a much higher transparency standard on the use of proceeds with more issuers choosing to employ independent valuers to assess the 'greenness' of their framework and the bond itself. For example, MSCI/Barclays and others have also launched green bond indexes, which score issuers and check their project selection criteria and management of proceeds so as to ensure the promised use and ongoing reporting.

Positive Outlook

As the green bond funding trend accelerates, we expect the capital markets in the Philippines to start developing. Several green bonds from the country have already been issued: in March, AP Renewables raised a USD225 million green (project) bond – the first from ASEAN. This was supported by the Asian Development Bank, which itself raised several green bonds, the most recent of which was a USD1.3 billion dual-tranche offering in August this year.

The outlook continues to be positive, particularly as the Philippines looks to develop its renewable energy sector. Since 2008 when the Renewable Energy Act was passed, the number of renewable energy projects has grown from just 22, to 406 either already built or being constructed. No doubt such projects will require funding as the sector develops, and green bonds are an ideal solution.

As capital markets develop and deepen, and investors seek green alternatives, it is only a matter of time before the green bond market takes off in the Philippines and the broader Southeast Asian region.

--- ENDS ---

Note to Editors:

This is an opinion piece from Standard Chartered, available for publication. For more articles like this, visit our content hub, www.sc.com/beyondborders

Standard Chartered

We are a leading international banking group, with more than 86,000 employees and a 150-year history in some of the world's most dynamic markets. We bank the people and companies driving investment, trade and the creation of wealth across Asia, Africa and the Middle East, where we earn around 90 per cent of our income and profits. Our heritage and values are expressed in our brand promise, Here for good.

Standard Chartered PLC is listed on the London and Hong Kong Stock Exchanges as well as the Bombay and National Stock Exchanges in India.

For more information please visit www.sc.com. Follow Standard Chartered on [Twitter](#), [LinkedIn](#) and [Facebook](#).