Green Bond Market Survey for Brunei Darussalam: Insights on the Perspectives of Institutional Investors and Underwriters

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Objective

• Assess institutional investors' interest in green bonds issued in Brunei Darussalam, as well as to consider the perspectives of local arrangers and underwriters

• Identify market drivers, impediments, and development priorities
Professional Affiliation of Respondents

- Insurance company: 50%
- Other: 20%
- Asset management: 10%
- Commercial bank (treasury): 10%
- Commercial bank (underwriting): 10%
Most investors (63%) indicated they would like to invest in green bonds, but they have limited resources to do so. An additional 13% are also interested and developing an action plan. A small amount (13%) are not currently interested in investing in green bonds. This suggests that further promotion of and incentivization for green bond investment is necessary.

All surveyed underwriters and advisors responded that their clients are generally interested in issuing green bonds, but they have limited resources to do so and lack awareness when it comes to green bond issuance in the market.
• Given the sustainable bond market’s nascent level of development in Brunei Darussalam, 62% of the respondents have indicated the renewable energy, water management, sustainable agriculture ESG indices and benchmarks are the significant factors in their investors’ portfolio. Meanwhile, 38% of the respondents have no exposure to green investment.
Sectors with Most Potential for Green Bond Investment and Green Bonds Issuance

- **Sectors with Most Potential from Investors’ Viewpoints**
  - From investors’ point of view, renewable energy and energy efficiency are the two most promising sectors for green bond investments.
  - Waste management and the circular economy is another sector with notable green bond investment potential.

- **Sectors with Most Potential from Underwriters’ Viewpoints**
  - From underwriters’ point of view, the top three sectors that are most promising for green bond issuance are renewable energy, sustainable agriculture, and green buildings.
  - Across Association of Southeast Asian Nations (ASEAN) markets, energy-related bond issuances have consistently been highly regarded.
### Key Motivations For Investing In and Issuing Green Bonds

- Most investors believe that diversification of their investment portfolio is very important, as are opportunities to embed achievement of the Sustainable Development Goals in their investment strategies.
- Other motivations such as generating excess return and improving the green image of an organization are also considered important.

<table>
<thead>
<tr>
<th>Investors’ Perspective</th>
<th>Advisors and Underwriters’ Perspective</th>
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</thead>
<tbody>
<tr>
<td>Diversify the investment portfolio</td>
<td>Improve the green image of the organization</td>
</tr>
<tr>
<td>Generate excess return (alpha)</td>
<td>Increase quality of corporate disclosure</td>
</tr>
<tr>
<td>Generate transparency</td>
<td>Mandated or demanded by the investor</td>
</tr>
<tr>
<td>Improve the green image of the organization</td>
<td>Opportunity to attract new investors</td>
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<tr>
<td>Mandated or demanded by the investor</td>
<td>Opportunity to embed ESG in business operations</td>
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<tr>
<td>Opportunities to embed SDG in investment…</td>
<td>Possible lower cost of funds</td>
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<tr>
<td>Perceived to be more stable and liquid</td>
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<tr>
<td>Regulatory requirement</td>
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- Underwriters and advisors believe that opportunities to attract new investors, as well as possibly lowering funding costs, are important considerations for issuing green bonds.
Key Considerations for Investing in Green Bonds

• When investing in green bonds, the highest consideration is given to valuation and pricing, followed by the company profile or management team.

• Around 90% of investors believe that external review is necessary to provide assurance that they are investing in green assets. Furthermore, investors viewed credit rating, currency, and ESG impact and clear use of proceeds as important.
Institutional investors agree that tax incentives can be the major mechanism to increase the supply of and demand for green bonds. 22% of the respondents recommended that the regulatory support and guidance from regulator would significantly facilitate investors in making green investment decisions. Meanwhile, 15% of the respondent indicated that the preferential treatment of low-carbon assets is also important.

Underwriters and investors were unanimous in citing tax incentives as the only effective policy action to increase green bond issuance in Brunei Darussalam.
Policy Options From the Perspective of Investors and Underwriters

- Investors believe that a clear definition of green in the market, an increased pipeline of eligible projects for green bond issuance, policy clarity from the government and regulators, and tax incentives for green bond issuers and investors are key policy considerations for the development of the green bond market in Brunei Darussalam.

- Underwriters and advisors believe that a clear definition of green in the market and policy clarity from the government and regulators are necessary to further develop Brunei Darussalam's green bond market.
Investor respondents widely agreed that investors and asset managers require additional training on green bonds. They also considered deal teams inside investment banks and securities firms as needing training too. Such training would complement existing knowledge and lead to an increase in the supply of green bonds.

Underwriters and advisors believe that institutional investors and the CFOs of large corporations could benefit from training to better understand green bonds and the reasons why they should include them in their financing and investment strategies.
Main Obstacles to Investing in and Issuing Green Bonds

<table>
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<tr>
<th>Main Obstacles from Investors’ Perspectives</th>
<th>Main Obstacles from Underwriters’ Perspectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>No clear benefits of green bonds as opposed to conventional bonds</td>
<td>Absence of policy guidance from regulators related to green bonds</td>
</tr>
<tr>
<td>16</td>
<td>50</td>
</tr>
<tr>
<td>Absence of policy guidance or established definition from regulators related to green bonds</td>
<td>Higher risk inherent in green bonds or limited green bond issuances</td>
</tr>
<tr>
<td>16</td>
<td>11</td>
</tr>
<tr>
<td>Lack of internal guidance and resources for such type of investment</td>
<td>Inadequate supply of green bonds</td>
</tr>
<tr>
<td>11</td>
<td>32</td>
</tr>
<tr>
<td>Inadequate supply of green bonds</td>
<td>Other</td>
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- According to investors, the biggest obstacle to investing in green bonds is the undersupply, or limited issuance, of green bonds in the market. The lack of a clear understanding of the benefits of green bonds as opposed to traditional bonds and the lack of policy guidance or established definitions from regulators are both also considered issues that hinder investing in green bonds.

- Underwriters and advisors believe the absence of green-bond-related policy guidance from regulators and the benefits of green bonds compared with conventional bonds being unclear are the main impediments to their clients issuing green bonds.
Level of Local Investor Interest by Issuer Type

- Local institutional investors indicated the most significant interest for sovereign (central government) green bond issuances, followed by green bonds issued by development banks.
All underwriters and advisors believe that development banks, commercial banks, and asset managers can significantly contribute to the development of the local green bond market by investing in green bonds issued by their clients.
Investor Interest in Regional Green Bond Investments

- Among surveyed investors in Brunei Darussalam, 56% either are investing or are considering investing in other Association of Southeast Asian Nations (ASEAN) markets.
- The remaining 44%, while not currently interested in investing in green bonds abroad, confirmed their interest in such regional investments in the future. One respondent mentioned that their investment mandate for international markets only allowed for investments in SGD-denominated securities issued in Singapore.
- Singapore, Indonesia, and Malaysia are their top investment destinations among those respondents who are interested in investing in other ASEAN green bond markets.
The Singapore dollar was identified by 42% of respondents as the preferred currency for green bond issuances. This was followed by hard currencies such as the US dollar (34%) and the euro (8%), as well as the Indonesian rupiah.
Final Words from Respondents

Supply
• It is important to increase the supply of credible green bonds in the market.
• The green bond market can be developed by increasing the supply with fair-value pricing.

Demand
• The Asian Development Bank (ADB) can act as anchor investor in green bonds.
• ADB should engage with the Brunei Darussalam Central Bank on this initiative. Currently, the central bank issues short-term and medium-term *sukuk* (Islamic bonds) and i-bills for primary dealers (banks) in Brunei. There are currently no corporate bonds or sukuk issued in the domestic market. The capacity of local underwriters and other service providers should be increased in order to provide underwriting services to interested issuers, particularly for green bonds.

Market Development
• Greater technical support and capacity building activities are needed.
• Companies in ASEAN markets could use the ADB’s Credit Guarantee and Investment Facility to help issue green bonds.
We would like to express our heartfelt gratitude to the Brunei Darussalam Central Bank and all respondents for their assistance with and participation in the survey.
THANK YOU

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