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

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AsianBondsOnline
Green Bond
Objective

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

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

- 59% Insurance company
- 23% Financial advisors and underwriters
- 6% Asset management
- 6% Local commercial bank (treasury)
- 6% Other
Interest in Investing in and Issuing Green Bonds

- An overwhelming majority of respondents (93%) indicated an interest in investing in green bonds, with 46% in the process of developing an action plan. Another 31%, while interested, have limited awareness of and resources available for green bond investments. Meanwhile, 8% have established a green bond fund or portfolio and another 8% have set a mandatory annual target for green bond investments.

- These findings align with the level of sustainable bond market development in Singapore. Yet, further promotion and incentivization of green bond investments is still needed.

- Underwriters and advisors indicated that their clients are generally interested in issuing green bonds, but they possess limited awareness and resources to do so.
Most Significant Sectors in Investors' Portfolio

- Green buildings, renewable energy, energy efficiency are the top 3 most significant sectors in an investors’ portfolio.
• Respondents identified the most promising sectors for green bond issuance:
  - Renewable energy (21%)
  - Energy efficiency and water management (19%)
  - Clean transportation and green buildings (15%)

• Energy-related bond issuances are highly regarded by investors in Singapore’s green bond market. This finding is consistent with survey results from other Association of Southeast Asian Nations (ASEAN) markets.

• Underwriters and advisors indicated that renewable energy, energy efficiency, and green buildings are the top three most promising sectors for green bonds issuance.
## Key Motivations For Investing In and Issuing Green Bonds

**Investors’ Perspective**

<table>
<thead>
<tr>
<th>Motivation</th>
<th>Most Relevant</th>
<th>Relevant</th>
<th>Not Relevant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversify the investment portfolio</td>
<td>81</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Generate excess return (alpha)</td>
<td>81</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Generate transparency</td>
<td>81</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Improve the green image of the organization</td>
<td>81</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Mandated or demanded by the investor</td>
<td>81</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Opportunities to embed SDG in investment strategy</td>
<td>81</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Perceived to be more stable and liquid</td>
<td>81</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Regulatory requirement</td>
<td>81</td>
<td>17</td>
<td>17</td>
</tr>
</tbody>
</table>

**Advisors and Underwriters’ Perspective**

<table>
<thead>
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<th>Motivation</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Improve the green image of the organization</td>
<td>75</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td>Increase quality of corporate disclosure</td>
<td>75</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td>Mandated or demanded by the investors or lenders</td>
<td>75</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td>Opportunity to attract new investors</td>
<td>50</td>
<td>50</td>
<td>0</td>
</tr>
<tr>
<td>Opportunities to embed ESG in business operations</td>
<td>50</td>
<td>50</td>
<td>0</td>
</tr>
<tr>
<td>Possible lower cost of funds</td>
<td>75</td>
<td>25</td>
<td>0</td>
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- Most respondents believe that improving the green image of their organization is a key motivation to investing in green bonds. The opportunity to embed the Sustainable Development Goals (SDGs) in their investment strategy, diversification of investment portfolios, and increased transparency are also important motivations.

- Less than half of respondents see the generation of excess return or the perception of being more stable and liquid as key motivations for investing in green bonds.

- Underwriters and advisors believe the possibility of lower funding costs is the key motivation for green bond issuance. The opportunity to attract new investors and to improve an organization’s green image are also key drivers for issuing green bonds.

- Underwriters indicate that demand from investors and lenders can encourage their clients to issue green bonds.
Key Considerations for Investing in Green Bonds

• Investors in green bonds give the most consideration to valuation and pricing, followed by environmental, social, and governance (ESG) impact, and the clear use of proceeds when investing in green bonds.

• Other factors such as a company’s profile or management team, as well as credit rating, are also relevant.

• A significant number of investors consider an external review of the green label to be important.
### Investors’ Perspective

<table>
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<th>Policy Mechanism</th>
<th>Percentage</th>
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<tr>
<td>Demand from your stakeholders</td>
<td>2</td>
</tr>
<tr>
<td>Promoting ESG reporting on stock exchanges</td>
<td>2</td>
</tr>
<tr>
<td>Requirement by law to allocate certain portion of portfolio to green assets</td>
<td>7</td>
</tr>
<tr>
<td>Regulatory support and guidance from regulator</td>
<td>9</td>
</tr>
<tr>
<td>Penalties for investing in high-carbon assets</td>
<td>2</td>
</tr>
<tr>
<td>Preferential treatment of low-carbon assets</td>
<td>16</td>
</tr>
<tr>
<td>Tax incentives or subsidies for investors</td>
<td>23</td>
</tr>
<tr>
<td>External review of green bond framework</td>
<td>26</td>
</tr>
<tr>
<td>Standardization of green taxonomy</td>
<td>23</td>
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### Advisors and Underwriters’ Perspective

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<tr>
<td>Demand from stakeholders</td>
<td>8</td>
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<td>Demand from investors</td>
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<td>Preferential treatment of low-carbon assets by regulators</td>
<td>17</td>
</tr>
<tr>
<td>Tax incentives or subsidies for issuers</td>
<td>25</td>
</tr>
<tr>
<td>External review of green bond framework</td>
<td>8</td>
</tr>
<tr>
<td>Standardization of “green” taxonomy</td>
<td>8</td>
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- About 26% of institutional investors agree that the external review of a green bond framework can increase demand for green bonds, while 23% agree that tax incentives or subsidies for investors and the standardization of a green taxonomy are both important policies to stimulate demand.

- All underwriters and advisors indicated that a policy of tax incentives would increase green bond issuance in Singapore.
Policy Options From the Perspective of Investors and Underwriters

**Policy Options From Investors’ Perspectives**

- Centralized information platform: 39% Most Relevant, 54% Relevant, 8% Not Relevant
- Clear "green" definitions: 39% Most Relevant, 46% Relevant, 15% Not Relevant
- Default choice for new pension fund account holders: 15% Most Relevant, 39% Relevant, 46% Not Relevant
- Increase pipeline of eligible projects for green bond issuance: 39% Most Relevant, 62% Relevant, 31% Not Relevant
- Policy clarity from governments and regulators: 69% Most Relevant, 31% Relevant, 0% Not Relevant
- Preferential buying by institutional investors: 31% Most Relevant, 62% Relevant, 8% Not Relevant
- Streamlined cross-border fundraising framework: 31% Most Relevant, 54% Relevant, 15% Not Relevant
- Subsidy for transaction costs for labeled bonds or loans: 46% Most Relevant, 31% Relevant, 23% Not Relevant
- Tax incentives for issuers and investors: 67% Most Relevant, 31% Relevant, 8% Not Relevant

**Policy Options From Underwriters’ Perspectives**

- Centralized information platform: 25% Most Relevant, 50% Relevant, 25% Not Relevant
- Tax incentives for issuers and investors: 100% Most Relevant
- Streamlined cross-border fund-raising framework: 25% Most Relevant, 25% Relevant, 50% Not Relevant
- Subsidy for transaction costs for labeled bonds or loans: 75% Most Relevant, 25% Relevant, 25% Not Relevant
- Default choice for new pension fund account holders: 50% Most Relevant, 25% Relevant, 25% Not Relevant
- Preferential buying by institutional investors: 75% Most Relevant, 25% Relevant, 25% Not Relevant
- Increase pipeline of eligible projects for green bond issuance: 75% Most Relevant, 25% Relevant, 25% Not Relevant
- Clear "green" definition: 25% Most Relevant, 25% Relevant, 50% Not Relevant
- Policy clarity from governments and regulators: 25% Most Relevant, 25% Relevant, 50% Not Relevant

- Investors believe that policy clarification from the government and regulators, followed by tax incentives for issuers and investors, are the most important policies for the development of the green bond market in Singapore. The Government of Singapore has established the Sustainable Bond Grant Scheme to offset external review fees.

- An increased pipeline of eligible projects for green bond issuance and preferential buying by institutional investors are also considered to be important policy options.

Underwriters and advisors believe that tax incentives for issuers and investors, preferential investments by institutional investors, and an expanded pipeline of eligible projects for green bond issuance are necessary to further develop Singapore’s green bond market.
Capacity Building—Who Should be Trained from the Perspective of Investors and Underwriters?

**Capacity Building Needs – Investors’ Perspective**

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<tr>
<th>Category</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Board members of state-owned enterprises</td>
<td>23</td>
<td>69</td>
<td>8</td>
</tr>
<tr>
<td>CFOs of large corporations and listed companies</td>
<td>39</td>
<td>54</td>
<td>8</td>
</tr>
<tr>
<td>Deal teams inside the investment banks and securities firms</td>
<td>15</td>
<td>77</td>
<td>8</td>
</tr>
<tr>
<td>Investors and asset managers</td>
<td>39</td>
<td>62</td>
<td>8</td>
</tr>
</tbody>
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- Respondents agree that investors and asset managers require additional training, as well as the CFOs of large corporations and publicly-traded companies.

**Capacity Building Needs – Underwriters’ Perspective**

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<td>Board members of state-owned enterprises</td>
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- Underwriters and advisors believe that the CFOs of large corporations and listed companies, institutional investors and asset managers, and deal teams within investment banks could all benefit from training to better understand green bonds and why they should include them in their financing strategy.
Main Obstacles to Investing in and Issuing Green Bonds

- According to 37% of respondents, the biggest obstacle to investing in green bonds is the inadequate supply of green bonds (or limited green bond issuances). There being no clear benefits to green bonds versus traditional bonds ranked second at 22%. A lack of policy guidance from regulators related to green bonds is regarded as an obstacle by 19% of potential investors.

- Underwriters and advisors believe that the main impediments to their clients issuing green bonds are the benefits of such issuances being unclear compared with conventional bonds and the lack of eligible project pipelines.
Issuances from the sovereign (central government) and from nonfinancial institutions generated the highest level of interest among institutional investors.

A total of 87% of respondents had some level of interest in issuances from development banks.
Among surveyed investors in Singapore, 54% either are investing or are considering investing in other Association of Southeast Asian Nations (ASEAN) markets.

The remaining 44% are not interested in investing in regional green bond markets for the following reasons:
- currency exposure risk;
- Limited offerings in regional markets, as well as difficulty hedging exposures in other ASEAN markets; and
- Singapore-focused investment strategies.

Among respondents who are interested in investing in other ASEAN markets, Indonesia, Malaysia, and Thailand are their top investment destinations.
Preferred Underlying Currencies for Green Bond Issuances

- Green bonds issued in hard currencies—including the United States dollar (44%), euro (13%), and the Japanese yen (6%)—are preferred by a combined 63% of respondents.

- The Indonesian rupiah, Malaysian ringgit, Philippine peso, and Thai baht were each preferred as the underlying issuance currency by 6% of respondents. These findings are consistent with the preferred investment destinations expressed in the previous slide.
Final Comments from Respondents

Supply
• Aim to be an active issuer and investor alongside traditional investor groups.
• It is necessary to increase supply of green bond issuances in the region.

Demand
• The government should subsidize transaction costs.
• Development banks can act as anchor investors for green bonds and other innovative transactions. This would encourage greater participation from local investors.
• Fund managers have the potential to start a green fund to invest across all ASEAN markets.

Market Development
• Capacity building efforts will raise awareness and expand knowledge sharing.
• Next steps include standardizing green definitions and frameworks across the region, improving corporate reporting frameworks and disclosures, and providing the latest policy updates.
Final Comments from Respondents

• The government should provide tax benefits for issuers and investors.

• A clear definition of green is needed in the Singapore market, or perhaps links with requirements in Europe or the United States. Issuance in hard currencies is preferred.

• It is uncertain whether green bonds issued in the market thus far in 2022 are truly green in spite of being labeled green. The need for clear labeling—or an environmental, social, and governance (ESG) rating by recognized institutions such as a credit rating agency—would greatly increase investor confidence in the green bond market.

• The market is developing but concerted efforts by members of the Association of Southeast Asian Nations (ASEAN) would encourage more issuers and investors to participate.
ACKNOWLEDGMENTS

We would like to express our heartfelt gratitude to the Monetary Authority of Singapore and all respondents and industry associations for their assistance with and participation in the survey.

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