



Financing sustainability

Asia Pacific embraces the ESG challenge

Written by

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Economist

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Foreword

Westpac has long been focused on the role that we can play in driving improved social and environmental sustainability, across the Asia Pacific and other regions we operate in.

As the largest lender of greenfield renewable energy in Australia, we are proud of our ongoing commitment to supporting the growth of this sector.¹ We are also supporting our corporate and institutional customers to achieve their pathway towards a net-zero emissions economy through both loan and bond sustainable finance structures.

We are constantly innovating and building a suite of solutions to support our customers. In 2018, we launched the world's first certified wholesale green deposit product and last year we broadened our sustainable finance capability by introducing our first sustainability-linked loans, through which borrowers are rewarded for meeting pre-determined sustainability targets.²

Sustainable finance is an exciting area which we believe will grow significantly over the next few years. We are playing a key role in its development through industry-wide initiatives such as the Australian Sustainable Finance Initiative, New Zealand Sustainable Finance Forum, International Capital Market Association Green Bond Principles / Social Bond Principles Advisory Council and Climate Transition Finance Working Group, Asia Pacific Loan Market Association Green & Sustainable Loan Committee, Climate Action 100+ and Principles for Responsible Banking.

We are delighted to partner with The Economist Intelligence Unit to develop this report into the drivers of sustainable finance growth in the Asia-Pacific, as well as the factors constraining it. Westpac's vision is to be one of the world's great service companies. As companies around the globe are grappling with how to meet goals set by the Paris Agreement and the Sustainable Development Goals, we are listening to them to understand how best to support them to reach their goals, through structures such as sustainable finance.

As this report demonstrates, there is enormous opportunity in this market, and significant momentum and focus by investors, issuers, banks and borrowers. Westpac is proud to be a partner to this report and to provide these types of insights for our customers.



Lyn Cobley

Chief Executive, Westpac Institutional Bank

¹ Westpac Group 2019 Sustainability Performance Report, year ending 30th September, 2019.

² Climate Bonds Initiative Standard and Certification Scheme, Westpac Climate Bonds Programme, 2018.

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About the research

Financing sustainability: Asia Pacific embraces the ESG challenge is an Economist Intelligence Unit report, sponsored by Westpac. It explores the drivers of sustainable finance growth in Asia Pacific as well as the factors constraining it. The analysis is based on two parallel surveys—one of investors and one of issuers—conducted in September and October 2019.

The 161 respondents to the investor survey were Asia Pacific-based portfolio managers, chief financial officers, chief executive officers, responsible investment or environmental, social and governance (ESG) specialists, and other investment specialists working in global financial services firms, commercial banks, asset and wealth management funds, insurance companies and other financial institutions. The respondents hailed from Australia, New Zealand, Japan, Hong Kong and Singapore. The large majority of firms represented (78%) have assets under management of US\$1bn or more, and one-third have US\$5bn or more.

The 154 respondents to the issuer survey consisted of treasurers, sustainable finance specialists and other senior finance and treasury executives in companies from a range of different industries, including technology, financial services, manufacturing, real estate and construction. This survey was global, roughly one-third of respondents being based in each of Asia Pacific, Europe and the US. The majority of respondents (54%) work in large firms earning US\$1bn or more in annual revenue, and the other 46% in firms with revenue of between US\$500m and US\$1bn.

Additional insights were obtained from in-depth interviews with investment and finance managers

and other sustainable finance experts. We would like to thank the following individuals for their time and insights:

- Michael Boardman, chief financial officer, Sindicatum Renewable Energy
- Richard Brandweiner, chief executive officer, Australia, Pental Group
- George Bishay, income and fixed interest portfolio manager, Pental Group
- Sophia Cheng, chair, Asia Investor Group on Climate Change and chief investment officer, Cathay Financial Holdings
- Yulanda Chung, head of sustainability, institutional banking, DBS
- John Hewson, chair, Business Council for Sustainable Development Australia
- Tricia Ho-Hudson, group treasurer, Woolworths Group
- Shizuko Ohmi, head of ESG, Amundi Japan
- Vivek Pathak, regional director, East Asia and Pacific, International Finance Corporation
- Jeanne Stampe, head, WWF Asia Sustainable Finance

The report was written by Denis McCauley and edited by Georgia McCafferty.

Executive summary

If the countries of Asia Pacific are to limit the negative environmental effects of continued economic growth, and companies in the region are to mitigate their potential climate risks and make a positive business contribution through improving the environment and meeting the UN's Sustainable Development Goals (SDGs), large volumes of investment in sustainable projects and businesses need to be mobilised. A viable sustainable finance market is taking shape in the region to channel commercial investor funds, and both investors and issuers say they are achieving a financial benefit from their investment and financing activities. The market is still in the early stages of development, however, and must expand and mature to meet investor needs.

The chief constraint on sustainable finance growth in the region has been the limited supply of bankable sustainable projects. Our research suggests supply is increasing, but with investor demand continuing to grow apace, the gap will remain an obstacle in the short- to medium-term. Among the organisations in our issuer survey, only 7% have used sustainable finance instruments to fund projects. However, nearly nine in ten (87%) said they intend to do so in the next year, which should begin to bridge the gap between supply and demand.

Based on issuers' stated intentions, investors will have a range of instruments to choose from, including green loans and bonds and sustainability loans and bonds. Large numbers of investors

indicate that they intend to deploy a greater proportion of capital to these over the next three years.

Other findings of the study are:

Investors are bullish. As the supply of projects and financings grows, so will institutions' assets under management (AUM) allocated to sustainability. The share of surveyed investors allocating a quarter or more of their Asia Pacific AUM to sustainable projects will rise from 30% today to 41% within three years. This expansion will be particularly marked among investors in Australia, New Zealand and Hong Kong.

Sustainability is good business. Most investors (68%) and issuers (63%) say their sustainable investments and financings perform better than their traditional equivalents. Most issuers have also found sustainable financing advantageous for generating more shareholder and investor engagement. Over one-quarter of investors, however, cite a lack of financial benefit as a barrier to sustainable investing, a reminder that not every transaction—whether sustainable or not—provides the desired return.

Financing is weighted towards renewables and energy efficiency. Among regional issuers, 45% are currently financing or refinancing energy efficiency projects, which include green buildings, and 43% are financing renewable energy projects. Almost half of investors (47%) also plan to invest



in these asset categories, considerably more than other types of projects. Land use, water use, forestry and other projects must attract greater investment, experts say, to seriously boost resilience to climate change.

Investor motivations vary widely. As a whole, Asia Pacific investors mainly seek financial benefits, particularly portfolio diversification, by investing in sustainable projects. But there are country differences. While Hong Kong and Japan investors emphasise diversification, those

in Australia/New Zealand and Singapore stress sustainability outcomes. Issuers, meanwhile, are mainly interested in meeting their firm’s sustainability objectives.

Issuers and investors alike need assurance about qualified sustainable assets. Issuers’ number one obstacle to using sustainable finance is a lack of clarity about what qualifies as green or other sustainable assets. This, say experts, is a major reason why more Asia Pacific companies do not tap financial markets to fund sustainable projects.



1. Introduction

The Asia Pacific region, like the rest of the world, faces daunting environmental and social challenges. The Asian Development Bank and the United Nations (UN) count the annual cost of damage the region's countries suffered from natural disasters between 2007 and 2016 to be US\$76bn, a figure more than double that of the preceding decade.³ In Australia, the unprecedented 2019-2020 bushfire crisis is a prime example. Numerous large fires continue to burn across all Australian states and territories at the time of writing, extracting a significant economic toll through damage to homes and key infrastructure, livestock losses, increased healthcare costs and business disruptions due to poor air quality. Fire damage claims alone stood at A\$700m at the first week of January 2020, according to the Insurance Council of Australia.⁴ The corresponding social impact from the devastating fires will be harder to measure: over 30 people had died in the fires nationally by the end of January 2020 and millions of animals have perished.

The monetary costs of climate change now represent a significant financial risk to economies and businesses globally. The International Monetary Fund (IMF), the Bank for International Settlements⁵ and central banks in Australia, England and the US have all warned of the significant impacts institutions will face if they do not start to mitigate their climate risks. "There are any number of risks you need to take

into account in pricing financial assets, but climate is now very much one of those factors," explains Guy Debelle, deputy governor of the Reserve Bank of Australia.

There is also a terrible human cost to these environmental challenges. According to experts in Australia, the effects of climate change have already led to many deaths in Asia Pacific, and the risks it poses to health will continue to grow over the next 30 years.⁶ Due to these risks, as well as inequality and other environmental challenges, health is centrally positioned within the UN's SDGs, among which SDG 3 is to "ensure healthy lives and promote well-being for all at all ages". The World Health Organisation says progress on other SDGs, including those that cover clean energy, work and economic growth and climate action, "can also significantly reduce some of the world's most serious disease threats".⁷

Some of the health and risk effects are by-products of the rapid economic growth the region has experienced in the past four decades. However, we predict that many Asia Pacific economies will continue to expand at a rapid rate over the next decade, creating an enormous need for infrastructure to support more affluent societies. To have any chance of meeting the carbon reduction targets set by the 2015 Paris Agreement, that infrastructure will

³ Asian Development Bank, UN Economic and Social Commission for Asia and the Pacific, and the UN Development Programme, *Transformation towards sustainable and resilient societies in Asia and the Pacific*, 2018.

⁴ Insurance Council of Australia, Statement on bushfires recovery briefing with Treasurer Josh Frydenburg, 7th January 2020.

⁵ Bank for International Settlements, *The green swan, Central banking and financial stability in the age of climate change*, January 2020.

⁶ Global Health Alliance Australia and Monash University, *From Townsville to Tuvalu: Health and climate change in Australia and the Asia Pacific region*, 2018.

⁷ World Health Organization, Environmental health in the Sustainable development Goals: Preventing disease through actions across the SDG spectrum and Stronger Collaboration, better health: global action plan for healthy lives and well-being for all, 2019.



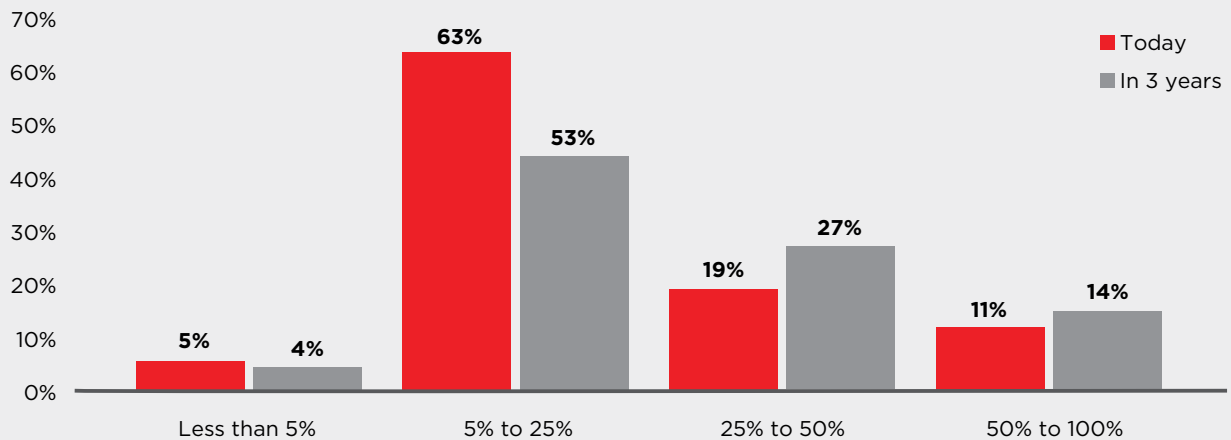
need to be green and resilient to climate change. That creates considerable opportunity for firms that are able to meet this demand. The International Finance Corporation (IFC) estimates the climate investment opportunity in East and South Asian cities to be worth US\$20trn between now and 2030.⁸

Financing is naturally needed to fund sustainability-related projects—not only those aimed at reducing carbon and mitigating climate change, but also initiatives that will have a positive social impact, such as improving labour conditions or building affordable housing. Public sources such as multilateral lending institutions and

governments have historically financed many such projects in Asia, but commercial sources such as pension funds, wealth management funds, banks and others are beginning to come to the fore.

Individual investors will also increasingly provide the capital that support such funds. “A tremendous amount of wealth will be transferred in Asia from baby boomers to millennials in the next ten years,” says Yulanda Chung, head of sustainability, institutional banking at DBS, a Singapore-based bank. “The latter care no less than their peers in Europe and America about sustainable development, and they’re ready to put their money where their mouth is.”

Figure 1: Investors: share of Asia Pacific assets under management allocated to sustainable investments today, and expected in three years



⁸ The IFC’s estimate covers six sectors: waste, renewable energy, public transport, electric vehicles, green buildings and climate-smart water. IFC, *Climate Investment Opportunities in Cities*, 2018.

Needed: sustainable finance instruments and bankable projects

The EIU survey shows that Asia Pacific investors have big plans to leverage their funds in the service of sustainable development. Currently, 30% of respondents' institutions allocate more than one-quarter of their regional assets under management (AUM) to sustainable investments. In three years' time, according to the survey, 41% of institutions will do so. The expansion will be most pronounced among investors in Australia/New Zealand, from 34% allocating a quarter or more of AUM today to 58% doing so in three years, and Hong Kong, which will grow from 17% to 34%.

Among the factors driving Asia Pacific investors toward sustainable projects, respondents cited growing recognition of the importance of applying ESG (environmental, social and governance) criteria in their investment decisions. This is certainly the case in Japan—to date among the main sources

of sustainable investment in the region. According to Shizuko Ohmi, head of ESG at Amundi Japan, an asset management firm, proactive government policy is motivating asset managers to engage in responsible investments and adopt ESG criteria. That's been taken on board by, among others, the giant Government Pension Investment Fund (GPIF), with its US\$1.4trn of AUM.⁹

To channel such investments efficiently and ensure that they achieve the desired objectives, two things are necessary: sustainable finance instruments that investors understand and are comfortable with, and bankable (commercially attractive) projects that create significant sustainability benefits. As this report will show, the first exist and are being put to some use in the region today, but there is a dearth of the latter to meet current investor demand. Sustainable finance instruments will have to evolve further to meet investors' needs, and considerable work lies ahead to bolster issuers' and their projects' sustainability credentials.



⁹ See, for example, "Japan's GPIF expands ESG focus with World Bank green bonds", *Pensions & Investments*, May 2, 2019.



2. Matching demand with supply

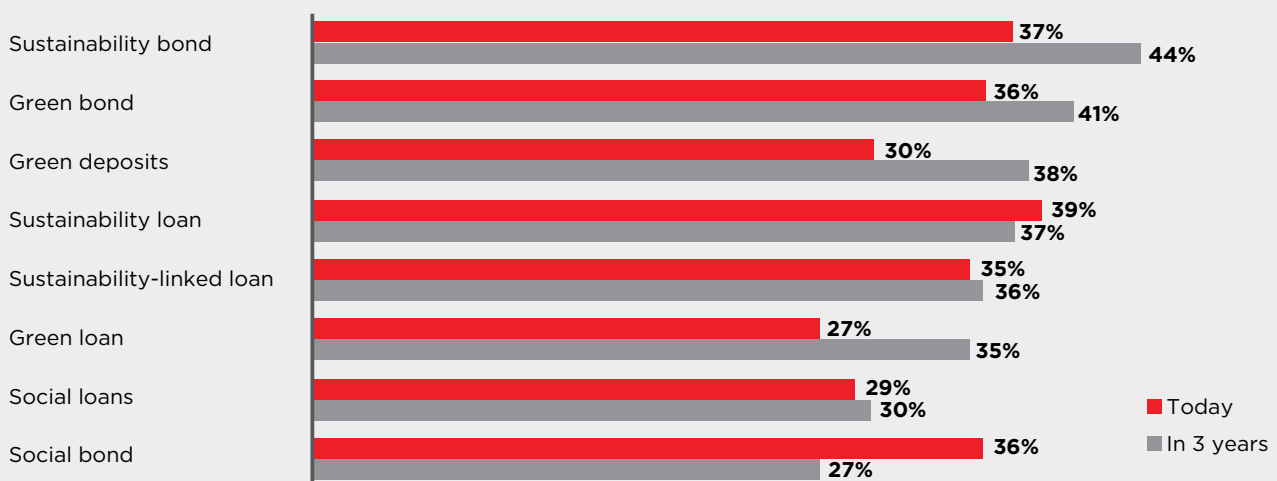
The scope and sophistication of sustainable financing in the region has grown considerably in recent years, says Vivek Pathak, the IFC’s regional director for East Asia and Pacific. “Five years ago there were very few, if any, green bond issuances in East Asia other than in China and India,” he recalls. “That’s changed: IFC itself has done about US\$1bn-worth of such investments in the last 12-18 months.”

As a result, investors in the region today have a variety of instruments at their disposal to channel their sustainable investments. The investors in our survey indicate that they are deploying funds into a wide range of products,

as Figure 2 demonstrates. Green bonds—the major regional sources of which have been China and India, and more recently Indonesia—are prominent in the list, but interest has been as high or higher among respondents for products such as sustainability bonds and loans and social bonds.

According to Jeanne Stampe, who is head of WWF Asia Sustainable Finance and founder of its Asia Sustainable Finance Initiative, there is a good deal more diversity in the types of finance products investors are taking up today than in the past. It is not just green bonds, she notes, observing that there is considerable interest in

Figure 2: Investors: sustainable finance instruments invested in to date, and planned over the next three years



green loans and sustainability loans issued by banks. “Now there’s an understanding that you can and should link the cost of capital and access to capital to sustainability criteria,” she says.

Looking to the future, investors say they intend to focus much of their attention over the next three years on sustainability and green bonds, cited by 44% and 41% of survey participants respectively as planned investment instruments. Investment

intentions are particularly strong in Hong Kong and to a lesser extent Singapore and Australia/ New Zealand. Sustainability and green bonds are becoming increasingly popular among Japanese investors as well, according to Ms Ohmi. “Since 2016 there is also a growing diversity in the types of companies that are issuing these bonds. This confirms that corporate knowledge about ESG criteria is growing. Nonetheless, issuance of these instruments remains limited,” she says.

Table 1: Sustainable finance instruments and their specific uses and objectives

(types of finance covered in the survey, this list is not exhaustive)

Instrument	Exclusive or primary aim
Green bond / green loan	Finance or refinance projects or assets having environmental objectives (for example: clean energy, clean transport)
Social bond / social loan	Finance or refinance projects or assets having social objectives (for example: health, education, employment)
Sustainability bond / loan	Finance or refinance a combination of both environmental and social projects or assets
Sustainability-linked bond / loan	Pricing is tied to the borrower’s sustainability performance against certain pre-determined criteria
Green deposits	The deposited funds are applied to finance or refinance new and/or existing eligible green projects or assets



A void to be filled

Reflecting a global trend, limited issuance is the primary factor holding back the growth of sustainable finance in Asia Pacific. Among the organisations from that region in our issuer survey, no more than 7% have utilised sustainable financing for their business projects thus far. The analogous figure in the US is 28% and in Europe 18%.

Indeed, in the investor survey, more respondents cite insufficient green or investment opportunities as the chief constraint on the growth of their own sustainable investing than any other factor, including a lack of internal support or regulatory incentives.

The survey data and expert opinion agree that there is a clear mismatch between demand and supply. “There are enough investors in this region but the number of issuances is few and far between,” explains Mr Pathak, speaking of green bonds. “Capital availability is good, but we’re not seeing enough projects which can qualify, or whose issuers are willing to qualify them, as green bonds.”

In Australia, the shortage of issuances today is due partly to the growing sophistication of the market, according to George Bishay, portfolio manager for income and fixed interest at the Pandal Group, an investment management firm. “Companies have learned how to package up several projects [into one large bond issue],” he explains. “There were a lot of renewables or sustainable projects, but now

there are not enough to keep issuing further green or social bonds.”

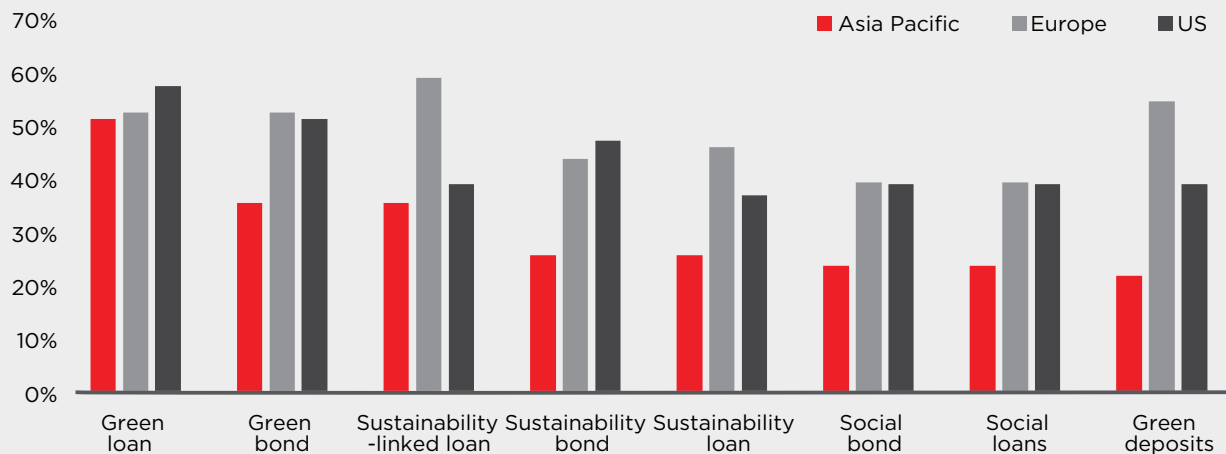
On a positive note, the survey suggests that the supply-side deficit may begin to diminish soon, as nearly nine in ten (87%) Asia Pacific companies plan to issue sustainable financings in the next year. This surpasses the 70% of US and 74% of European respondents who say their firms plan to issue in the coming year.

Green loans and bonds, sustainability-linked loans, and sustainability loans and bonds will come into wider use in Asia Pacific, according to existing and potential issuers in the survey. Banks in the region, for example, increasingly favour the issuance of green and sustainability bonds, according to Ms Stampe. “Green bonds especially need to be chunky in size to attract investors, and banks are able to pack many smaller projects into one issuance. Such instruments are also popular with banks as a way to ‘green’ their portfolios.”

More issuers may be motivated to issue sustainable finance by the possibility of gaining a pricing benefit vis-à-vis traditional instruments. Research has shown that, worldwide—including in Asia Pacific—prices for green bonds have been tighter in recent years relative to traditional ones, which means lower yields to be paid by issuers.¹⁰ The Australian food retailer Woolworths, for example, found it was able to tighten its prices on a green bond it issued in April 2019 (see “Anatomy of a green bond issuance”). The surveyed regional

¹⁰ See, for example, Climate Bonds Initiative, *Green bond pricing in the primary market, July-December 2018*, May 2019.

Figure 3: Issuers: types of sustainable finance respondent organisations have issued or plan to issue in the next year (Asia Pacific, Europe and US)



investors provide a further indication: over half (55%) say they would accept a lower relative return for a sustainable investment.

Contrasting motivations

What do investors and issuers aim to achieve through their use of sustainable finance? Investors, not surprisingly, are primarily interested in the financial benefits it can bring, particularly in diversifying their portfolios but also in the generation of better returns. Michael Boardman, chief financial officer of Sindicatum Renewable Energy, which builds clean energy facilities in South and South-East Asia, says investors in

the region are excessively focused on returns. Few, he adds, are interested in bonds with more than five years' maturity, which has led his firm to place its bonds mainly in Europe.

However, investor motivations do vary across the region. Diversification tops the list of drivers cited by respondents in Hong Kong and Japan. Investors in Australia/New Zealand and Singapore, by contrast, place greater emphasis on sustainability outcomes.

Among investors in Singapore and elsewhere, Ms Chung sees a large degree of "enlightened self-interest" guiding their investment strategies.



“Companies want to communicate to their own investors and clients that sustainability is part and parcel of their business strategy,” she says. “They understand that their future growth relies on sustainable investment.”

Financial benefit is also important among issuers with 43% ranking this as the first or second key

driver of their sustainable financings. However, a considerably larger share (57%) identify the need to meet their company’s sustainability objectives as the main motivation behind using sustainable finance. This suggests that issuers in the region see sustainable financing as serving their broader strategic aims and not something they are using for short-term financial gains.



Insight from Westpac

Finance the transition

From our own discussions with issuers and investors, there is clearly a shortage of supply in the sustainable finance market. This dynamic is also clear in the survey results. The survey suggests that this is partly due to issuers both not knowing what assets qualify and also not having enough assets to qualify.

On the first point, there are several initiatives on the global stage looking to solve this by agreeing upon clear definitions as to asset eligibility. We expect these global taxonomies to assist issuers to identify what assets they do have and to also give them confidence that investors will not question their asset selection.

The second hindrance relates to not having enough assets, and whilst this may be addressed by taxonomies and clarity on eligibility, we believe the key here is that investors and banks get comfortable financing the transition. This is particularly relevant in our home market of Australia, and something we are working with our customers to address. From a lending perspective, sustainability-linked loans assist to finance the transition, as they offer borrowers a discount once they reach ambitious pre-agreed sustainability targets. The expectation is that this financing may help borrowers to build up a larger asset base to enable future use of proceeds issuance. The market is also evolving to include transition bonds as a way to support transitioning customers.

The key consideration here is what qualifies as transition assets, and further work is still needed to determine this.

As a bank, we are actively supporting companies and projects that are already green and sustainable. But we also believe it is important to support companies that may not be entirely green or sustainable today but are genuine and proactive in investing in more sustainable activities. It is our belief that we need to be inclusive to shift the entire economy to a more sustainable tomorrow.



Michael Chen

Head of Sustainable Finance, Westpac Institutional Bank



3. Widening the scope

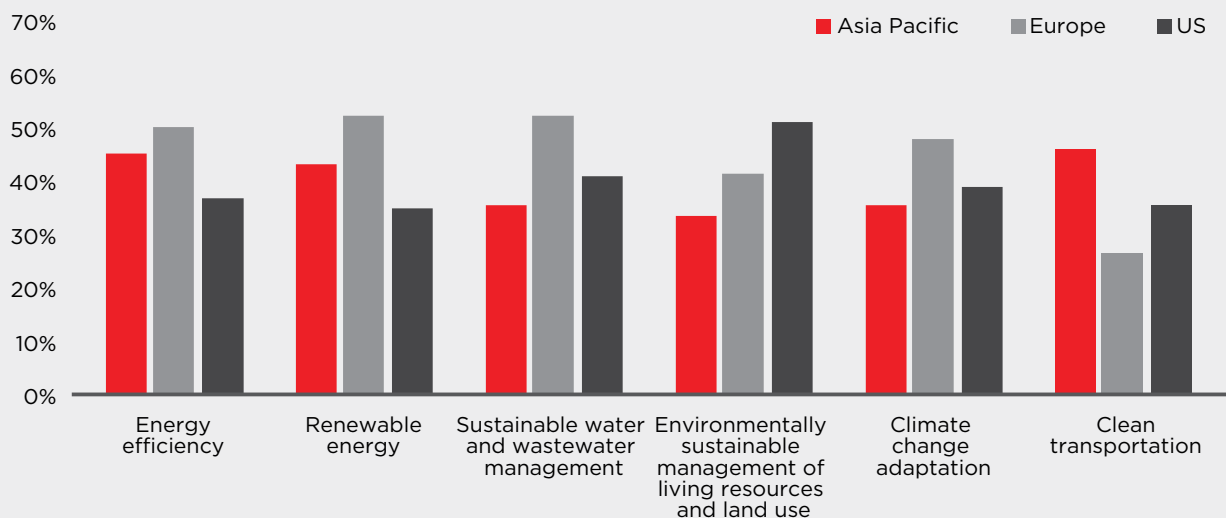
When it comes to end use, green and sustainability bonds and loans in Asia Pacific are predominantly going to fund renewable energy projects and those focused on improving energy efficiency. Recent examples include a US\$300m green bond issued in January 2019 by AC Energy, a Philippine power producer, to fund the building of five gigawatts of renewable energy capacity in South-East Asia and the wider region.¹¹ An Indian solar power producer, Greenko, raised US\$950m in July 2019 in what was reportedly Asia’s largest green bond to date, with the funds earmarked for the building of two energy storage facilities.¹²

Renewable energy projects are popular among investors for a number of reasons. One, according

to Mr Pathak, is that qualifying green assets is easier for investors than for other types of sustainable projects as international verification frameworks for green assets already exist. In addition, renewable energy projects, especially the operational ones, are currently more likely than others to generate sustainable returns, says Ms Chung. She points to Taiwan as an example, where project developers are often assured of connections to the local grid as well as corporate contracts to purchase the generated power.

Among our surveyed issuers, energy is indeed a favoured asset class with 45% currently financing or refinancing energy efficiency projects, including green buildings, and 43% doing the same for

Figure 4: Issuers: the asset categories companies are financing or refinancing through sustainable finance (top responses, Asia Pacific, Europe and US)



¹¹ "AC Energy raises \$225M in green bonds", *BusinessWorld*, January 25, 2019.

¹² "India's Greenko Raises \$950 Million Through Green Bonds Sale", *Clean Technica*, July 25, 2019.

renewable energy projects. The surveyed investors, meanwhile, are also heavily focused on these categories. Nearly half (47%) say these are the sustainable asset categories they are looking to invest in, considerably more so than climate change adaptation, clean transport or other types of projects.

Mr Pathak believes renewable energy is just one part of a much larger sustainable financing opportunity in the region, however. He points to water management, waste management and real estate, among others, as the types of projects that should attract a growing share of investment in the coming years.

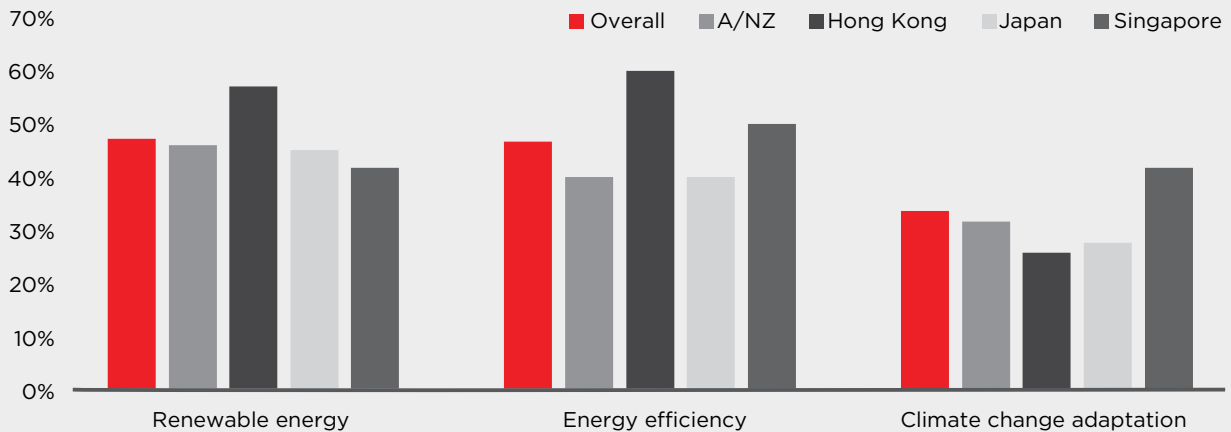
The scope of investment must be widened, says Ms Stampe, if real progress is to be made in

limiting and reducing the region’s carbon emissions and increasing its resilience to climate change. “Agriculture, forestry and marine resources projects, for example, aren’t getting enough funding,” she says. “These are all critical for furthering carbon sequestration and food security.”

Making a transition

An awkward reality of sustainable financing in Asia Pacific, according to several of our interviewees, is that far from all projects are reliably green or sustainable. In addition, many companies look to finance projects for which only a portion of the activities involved fit those descriptions. The majority of surveyed investors,

Figure 5: Investors: the sustainable asset categories in which investors are most interested in investing (top responses, overall and by country)

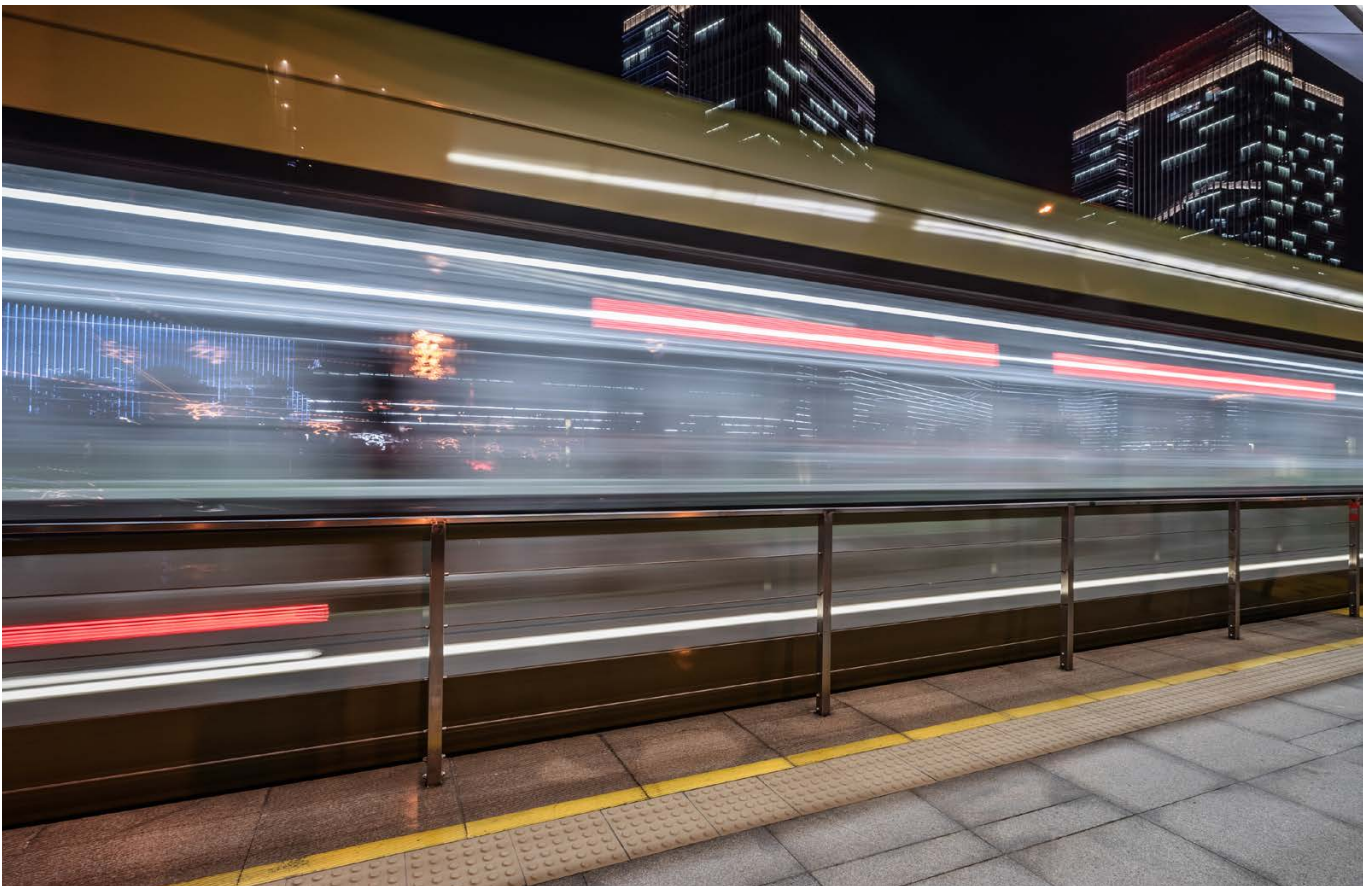




however (70% overall, and as high as 92% in Singapore and 84% in Australia/New Zealand), say their firms would consider investing in a “brown” company that is attempting to transition to a green one.

Ms Chung believes an emerging financial instrument, the transition bond, can help potential issuers in this category. “Some companies have funding needs greater than their existing green

assets. Transition bonds can be used for projects in which only some of the activities to be funded are strictly green,” she says. “Such a bond could, for example, fund an upgrade to a grid transmission and distribution network that facilitates the use of renewable energy, but which may also involve the use of fossil fuel.” By being transparent and using a transition instead of a green bond label, she says, such companies can avoid the suspicion of “green washing” a project.



Sustainable momentum builds in Australia

Australia has the reputation of a slow-mover when it comes to combatting climate change.¹³ There are signs, however, that Australian business wants to change that. As our survey indicates, 82% of Australian investors say they are planning to increase their allocation of funds to sustainable investments over the next year.

“There is strong demand for sustainable financing here,” believes Guy Debelle, deputy governor of the Reserve Bank of Australia. “We’ve got one of the largest volumes of funds under management in the world,” he says, “and a large number of them are looking for sustainable investment opportunities.”

Richard Brandweiner, Australia CEO of Pandal Group, confirms the growing investor interest. “The market for sustainable investments has been growing at double-digit rates and is now close to A\$1trn,” he says. Investments in water management have been generating particularly strong returns, according to Mr Brandweiner, driven partly by the country’s difficult drought conditions. Sustainable forestry and land management projects, as well as projects in housing, are also attracting a large volume of investments, particularly from the country’s pension funds.

Looking ahead, though, the largest share of Australian investors in our survey (50%) put renewable energy at the top of their list of sustainable categories they plan to invest in over the coming years.

A plea for leadership

“Attitudes toward sustainable finance among the investment community and corporates have definitely changed,” agrees John Hewson, chair of the Business Council for Sustainable Development Australia, a business advocacy group. That, he says, is largely due to recognition in boardrooms of the enormous risks businesses face from accelerated climate change. “Even the authorities here are starting to come on board,” he adds.

Mr Hewson warns, however, that business and especially government need to do much more to catalyse the growth of sustainable financing in Australia. “The federal government could, for example, leverage its triple A debt rating and issue a long-term green bond and it would get flooded by subscriptions, bringing in hundreds of billions of dollars.” State governments have issued green bonds but, he says, they could do more. “We have a unique opportunity to fund our entire infrastructure transition just by taking such initiatives,” says Mr Hewson. “The elements are all there. All we need is leadership.”

¹³ See, for example, “Scott Morrison won’t attend UN climate summit despite being in the US”, *The Guardian*, September 11, 2019.



4. Clarity and mindset change

Companies in Asia Pacific considering the issuance of sustainable finance cite a number of obstacles in their path, but one stands out: questions about the qualifying criteria for green or other sustainable assets. The IFC’s Mr Pathak believes such questions leads issuers to doubt whether they have assets that qualify for funding, a major factor behind the shortage of sustainable projects in the region (see “Selling sustainable financing to issuers”).

Although not an issue for Sindicatum Renewable Energy, all of whose projects are green, Mr Boardman agrees there is a lack of clarity throughout Asia about qualifying criteria, which needs to be addressed if the use of sustainable finance is to grow.

Investors, of course, want assurance from issuers that the funds provided are being used for sustainable purposes (see “Anatomy of a green bond issuance”).

Figure 6: Issuers: the main obstacles to sustainable financing
(Asia Pacific, Europe and US)



Selling sustainable finance to issuers

“It’s not easy to convince management of Asian companies to launch a green bond,” says Vivek Pathak, the IFC’s regional director for East Asia and Pacific. Many are put off, he says, by the upfront work they’d need to do to prepare such an issuance, with no assurance of lower pricing as a reward. Others are ready to do the work, he says, but are not sure they have the green assets that would meet investor criteria. “A lot of banks and other companies would definitely qualify but they’re not giving it a fair chance,” he says.

Part of the problem is the difficulty in building consensus across a company, according to Sophia Cheng, chair of the Asia Investor Group on Climate Change and chief investment officer of Cathay Financial.

“How do we create internal consensus? Most importantly, you need time management and the board’s support,” Ms Cheng says, “And I never go to someone with a very big mission about loving the planet. Always start with the benefit for the counter party, and always tackle their problem before asking them to do something. So if any proposal I provide will make you lose something, but will give you something even bigger, then people feel there is a common interest.”

Mr Pathak recalls the experience of working with a regional bank that did not believe it had enough qualifying assets to issue a green bond. “It took over a year for us to convince the bank’s management to launch. That required sifting through the bank’s portfolio and finding over US\$100m of assets that could support the issuance.” After the successful launch of the bond, the managers went to the market for another US\$500m in funding, deciding that it had considerable potential to invest in green assets or lend to green projects.

“A lot of companies are not aware that they’re actually doing green or climate financing,” says Mr Pathak. “The way I look at it is, if you’re a bank that finances real estate and you finance a green building, that should qualify for a green bond.” It’s a bit more complex for banks than for other businesses, he says, because they need to set up internal plumbing and an internal system to flag what would qualify for a green bond. Then they need to bring in a third party and audit it to ensure that they’re complying. “A lot of education is needed for companies in this region to realise that they have green assets,” Mr Pathak adds. “But once that understanding develops, it can really spark the growth of sustainable finance in this region.”



Among regional investors, the largest portion (25%) seek verification of the issuer’s use of proceeds after investment. Just over one-fifth insist on the additional step of seeking certification from the Climate Bonds Initiative (CBI), an international not-for-profit organisation, or seek another independent opinion on the sustainable credentials of the project. There is a clear difference among surveyed countries as to the preferred forms of review—Singapore investors choose verification after issuance as their first option, while more in Australia/New Zealand prefer CBI certification, a more involved process which requires the use of a CBI-approved verifier.

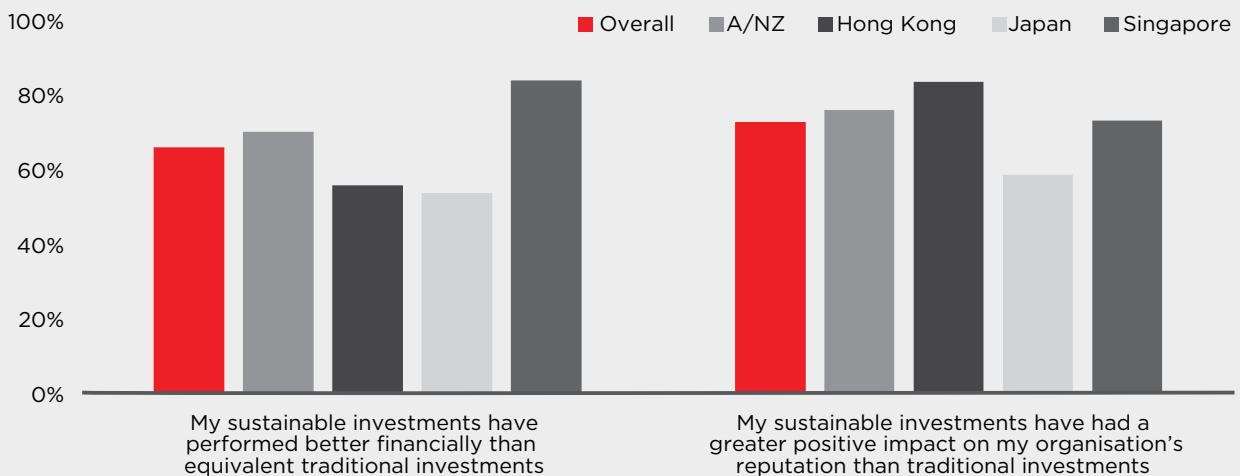
Mr Boardman notes that there is much progress to be made internationally in harmonising

the certification standards developed by different organisations.

Sustainable finance is good for business

Issuers, and to some extent investors, may be unsure about what qualifies as sustainable, but both groups help to dispel a lingering perception that sustainable investments are inferior to traditional ones when it comes to returns. Nearly seven in ten (68%) Asia Pacific investors say their sustainable investments have performed better financially than their equivalent traditional investments. Over six in ten (63%) regional issuers say the same about their sustainable financings in comparison with traditional ones. The vast

Figure 7: Investors agreeing with statements about the impact of their sustainable investments
(overall and by country)

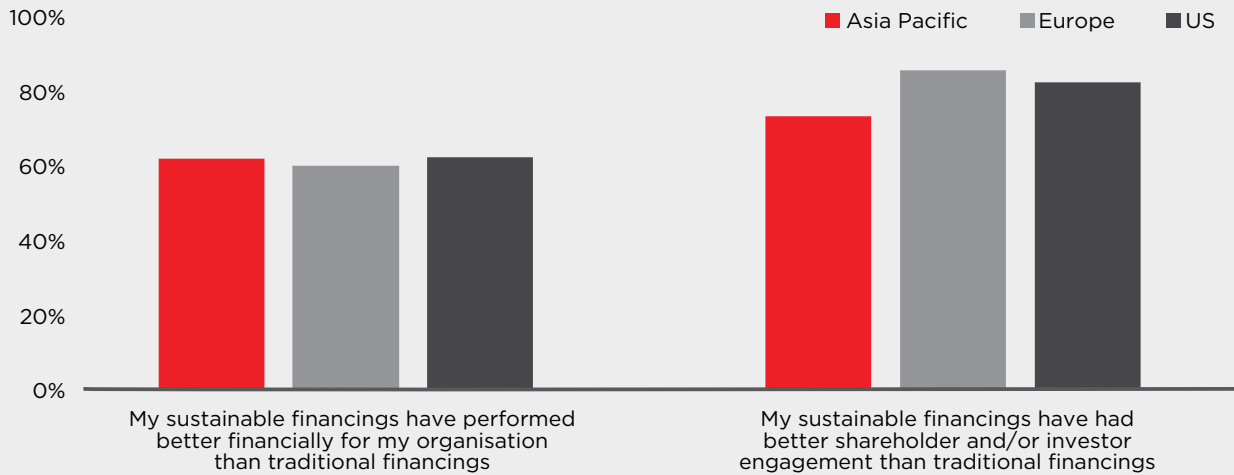


majority of issuers also say that sustainable financing has proven advantageous for generating greater shareholder and investor engagement.

All of those we interviewed for this study, whether representing investors, issuers or other organisations, firmly debunk the notion that there

is no financial benefit to sustainable investing. Mr DeBelle of the Reserve Bank of Australia emphasises that investors need to focus on the risk assessment across different projects in the portfolio: “If you do the appropriate portfolio risk assessment, then the relative returns of sustainable investing become apparent.”

Figure 8: Issuers agreeing with statements about the impact of their sustainable investments
(Asia Pacific, Europe and US)





Q&A

Anatomy of a green bond issuance

Tricia Ho-Hudson, group treasurer, Woolworths Group

In April 2019, Australian food retailer Woolworths became the world's first supermarket to issue a green bond certified by the Climate Bonds Initiative (CBI).¹⁴ Tricia Ho-Hudson described to The EIU the process of launching the bond.

The Economist Intelligence Unit:

Was it an easy decision for the company to issue a green bond?

Ms Ho-Hudson:

We believe we have an important role to play in creating a more sustainable future for Australia. Green bonds clearly align well with that aim but it was not easy at all. It took a lot for the investment banks to convince us to spend management time as well as money. For one thing, it's about 50% more expensive in terms of administration costs and management time to do a green bond when compared with a plain vanilla bond.¹⁵

That's a significant deterrent to treasurers in most companies. It's hard to justify to senior management and the board, especially when the banks are telling us—as they were at the time—that there was no pricing benefit for a green bond.

The Economist Intelligence Unit:

What hurdles arose once you made the decision to pursue green financing?

Ms Ho-Hudson:

One was that the global certifier, the CBI, had

no criteria for supermarkets. As a category we are viewed as highly energy intensive. We use energy in air conditioning, refrigeration and lighting. People don't see how we can be energy efficient, no matter how hard we've worked on reducing emissions. The CBI worked with us to establish criteria and we achieved certification, but it took us five months longer than a standard bond would.

Then we had to answer a lot of tough investor questions during the roadshow. They queried not just the bond's green credentials but also how quickly we would invest the proceeds. We hadn't expected that degree of probing.

The Economist Intelligence Unit:

What benefits did you eventually gain from the issuance?

Ms Ho-Hudson:

We proved that there is actually a pricing benefit with a green bond. We started with a price in the standard range for a vanilla bond. But we quickly found investor demand to be very strong, and we had a huge book before we knew it—over A\$2bn demand for an A\$400m transaction. That's a lot of demand to manage and a lot of investors to disappoint. We made the decision to tighten our pricing, generating a benefit I would estimate at seven basis points.

¹⁴ Woolworths raised A\$400m from the bond issue. "Woolworths becomes first supermarket globally to issue 'green bonds'", *Inside Retail Australia*, April 10, 2019.

¹⁵ Financial industry terminology for a standard bond not having any unusual features.

Conclusion

By attracting and channeling funds to the right places, sustainable finance could help societies cope with the environmental and climate change crises they currently face. The creation of a market with recognisable instruments that provide various stakeholders with financial incentives to invest in sustainability is now an achievable objective. Although it is too early to say with any confidence whether the broader objective will be met in Asia Pacific, our research indicates that a sustainable finance market is taking shape there.

The most fundamental market challenge at present is to significantly expand the supply of sustainable projects and finance instruments in the region to meet the demonstrated investor demand for them. Our research suggests that issuers plan to turn to sustainable finance more actively in the coming months and years to fund their projects. A continued trend of price tightening on green bonds could encourage more issuers to test those waters. Indeed, a majority of those that have, the survey shows, have found that their green issuances have outperformed their traditional ones. There is nothing on the immediate horizon to suggest that this will change.

A number of market deficiencies need to be addressed, however, before sustainable finance takes firm root in Asia Pacific. Insufficient clarity and transparency are paramount among them. Issuers require much greater clarity about what qualifies as a sustainable project; investors similarly need assurance about the green credentials of any given project and greater transparency about the ultimate use of their funds. A step in the right direction would be greater recognition by corporates in the region of the importance of ESG criteria in reporting.

Policy alone cannot create the conditions for sustainable finance growth, but the importance of government leadership in this endeavour cannot be overstated. Far from all governments in Asia Pacific, however, are currently providing it. "How many more messages do we need from people like Mark Carney¹⁶," says Ms Stampe, "to say that once you fully realise there is a risk, it's too late?"

¹⁶ The current governor of the Bank of England.

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