Source: *The Straits Times,* pA18
Date: 25 April 2017



The green finance commission of Lujiazui Financial City Management Board in Shanghai recently announced plans to turn Lujiazui (above) into Asia's green finance hub. Singapore is well poised to offer South-east Asia a lever to advance green growth – in a regional approach that may catapult it for eventual leadership in Asia, says the writer. PHOTO: AGENCE FRANCE-PRESSE

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Can Singapore be an Asian hub for green finance?

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For The Straits Times

The race is on. "Green finance" has started to take off in Asia. The stakes are high as the current global market is estimated at some US$80 billion (S$112 billion), with the staggering potential of a rapid take-off in Asia.

Broadly considered, green finance is the setting up of market instruments and policy tools to fund public and private investments that contribute to sustainability. In doing so, there must be positive climate or other environmental benefits such as in renewable energy or energy-efficient infrastructures. A key example of green finance is the so-called "green bonds".

THE CHINA FACTOR

Just earlier this month, there was a low-key announcement made by the green finance commission of Lujiazui Financial City Management Board in Shanghai to turn Lujiazui into the green finance hub of Asia. This locality is a well-known financial and trade zone in the heart of Shanghai's Pudong New District, which itself had propelled the astronomic rise of the city over the past two decades.

The Lujiazui declaration was rather innocuous by any standard, but with the whole of China as hinterland, it cannot be ignored. China accounted for some 40 per cent of global green bonds last year and is now the world's largest issuer. It dishes out 230 billion yuan (S$47 billion) of green bonds, of which 87 per cent comes from within the country. The market potential is immense, considering that these green bonds are barely 2 per cent of the total bonds issued in China.

Also this month, China's central bank – the People's Bank of China (PBOC) – proclaimed its intention to incorporate green financing as part of its risk-monitoring framework of banks. Such a move will drive the level of loans for green projects above its current 9 per cent of all outstanding loans.

Even more notable is Hong Kong's head start in positioning itself as the regional leader in green finance. It had completed a high-level study to this effect in May last year. The city has recommended, among the proposals, a green finance advisory council to spearhead the plan. It stands poised to tap the resources of the vast mainland China, besides those of the city itself. It is building a future pipeline of green finance professionals through its universities and professional institutions.

Internationally, London as a financial centre had already rolled out the Green Finance Initiative in January last year to underpin itself for the new opportunities in green finance. At any rate, it may be the world's green finance hub.

The contest to be a green finance hub is likely to be led by green bonds at the outset. For Asia, the key trends are in China. The green bond market is expected to witness a rapid take-off as the Chinese government has encouraged investments in clean energy, energy efficiency and environmental protection. The Chinese green bond market will yield 1.5 trillion yuan for renewable energy and environment projects in the five-year period from last year to 2020.

But there are other players in East Asia. The very first Asian green bond was issued in South Korea by the Export-Import Bank of Korea, which raised US$500 million in February 2013. In Japan, the Development Bank of Japan had placed the first green bond issuance of €250 million (S$374 million) in October 2014. But the momentum had not been formidable.

The PBOC released its green bond guidelines in December 2015. In double-quick time, the first two domestic green bonds hit the market in January last year and these were issued by two locally oriented players – Industrial Bank and Shanghai Pudong Development Bank – which are notably not the big banks owned by the national government.

SINGAPORE SCENE

It is laudable that Singapore is introducing measures to nurture green finance. The Monetary Authority of Singapore has just announced a green bond grant scheme to offset 100 per cent of the cost of obtaining an external review for green bonds for qualifying issuances, up to $100,000 per issuance.

A leader in sustainability, City Developments Limited, has issued the first green bond by a Singapore company to the tune of $100 million. The sole bookrunner for the transaction, DBS Bank, is also a front runner in sustainability practices.

Singapore's foray into green finance has been cautious and calibrated. In an interview this month, World Bank vice-president and treasurer Arunma Oteh said Singapore has the right approach and started only after it had thought long and hard.

However, time is probably not on its side if it wants to stake a claim on the Asian hinterland for green finance. East Asia is probably taken. The big prize is South-east Asia, which is poised to drive green finance. The economic potential is immense as the region is expected to grow by a robust 5.2 per cent in the five-year period from last year to 2020. Indonesia, the largest country in South-east Asia, has embarked on ambitious infrastructural expansions. It has also implemented the Sustainable Finance Roadmap in Indonesia for 2015 to 2019. The heat is literally on in this region in that green development is no longer just a good virtue but an absolute necessity.

Singapore is well positioned to offer the South-east Asian region a lever to advance green growth. This regional approach may catapult it for eventual leadership in Asia.

China's ambitious One Belt, One Road (Obor) initiative has a maritime line through South-east Asia and that may generate a new wave of opportunities. It will be a green Obor and much financing will be needed to fuel its take-off.

For Singapore to be the green finance hub in South-east Asia, it needs to set up the right preconditions, such as proper strategies, technologies, incentives and regulations. Besides financial instruments such as green bonds as drivers, there is a whole spectrum of systemic issues to consider.

For a start, a national-level green finance council will be needed to bring together the various stakeholders, particularly advocates and financiers, so as to map out the critical success factors for advancement.

The green finance revolution is beckoning on Singapore's doorstep. It cannot afford to miss this green elephant in the room.

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