Sustainable Financing and Investing Survey– Asia Report

Asia's huge sustainable growth potential

Key insights article

Issuers and investors in Asia show the strongest commitment to environmental and social issues of any region and the most optimism for the potential of sustainable infrastructure investment.

Executive Summary

- Asia is the leader amongst all regions in its commitment to environmental and social concerns. 96% of investors and 92% of issuers regard these matters as very or somewhat important.
- Issuers and investors in Asia are unmatched in their enthusiasm for the potential of sustainable infrastructure investment.
- At 88%, Asian issuers score the highest for disclosing their alignment with the Paris Agreement.
- Across all regions surveyed, Asian issuers had the most favourable experience with green funding. More than 90% said they were very or moderately satisfied with the experience of funding through green bonds.

The Asia Pacific region is in a unique position when it comes to sustainability. In much of the region, outside of mainland China, sustainable finance markets are in their infancy. These countries are experiencing rapid economic growth, which is likely to have adverse effects on climate change and they will have little desire to stem that growth. In some ways, these are issues that could hamper the growth of sustainability in the region – but in others, they are opportunities.

In mainland China, for example, the Government has recently announced plans to be carbon neutral by 2060 – a move that is likely to make clean energy cheaper[1] and boost investment opportunities.

In our survey of 2,000 respondents, Asia showed it has the broadest commitment to environmental and social issues of any region — as many as 96% of investors and 92% of issuers regard them as very or somewhat important.

Crucially, their optimism about the potential of sustainable infrastructure investment is unmatched. Investors are ahead of global peers on all but one type, while Asian issuers top their peers in enthusiasm for smart cities and infrastructure to support water/waste water.

This signals a region that is ready to stay the course on economic progress but build in sustainability from the start. When creating the infrastructure that they need to support their growing affluence and populations, it seems that they are keen to do it sustainably.

Green finance initiatives

While sustainable finance is just beginning in some countries, Asia is also home to one of the world's leading green bond markets and the world's largest carbon trading exchange in mainland China. But it is not only in mainland China that sustainable finance is taking hold. The Securities and Exchange Board of India (SEBI) first introduced a requirement for the top 100 companies by market capitalisation to issue Business Responsibility Reporting (BRR) in 2012. In 2019, the number of companies involved in BRR has expanded from 500 to 1,000[2].

Bangladesh's central bank has an environmental risk management directive which mandates that banks incorporate enterprise risk management policies into their credit risk

[1] https://www.carbonbrief.org/analysis-going-carbon-neutral-by-2060-will-make-china-richer

[2] Extension of applicability of Business Responsibility Reporting (BRRs) to top 1000 listed entities from present requirement to 500 listed entities, based on market capitalization. The Securities and Exchange Board of India, December 2019. https://www.sebi.gov.in/sebi_data/meetingfiles/dec-2019/1576469077048_1.pdf

management.[3] Indonesia's Financial Service Authority issued a Sustainable Finance Roadmap in 2015[4] and in 2018, it became the first country to issue a green sovereign sukuk[5].The Monetary Authority of Singapore created the Asia Sustainable Finance Initiative in January 2019 to try to use the power of the financial sector to deliver on UN Sustainable Development Goals (UN SDGs) and the Paris climate agreement[6].

Governments in the region are driving enormous growth in sustainable finance and investors and issuers are responding positively. According to our survey, over two-thirds of Asian investors already buy green, social or sustainable debt and an above average number expect to start buying this type of debt for the first time. Yet, about a third of Asian investors do not buy green, social or sustainable debt – and have said they don't intend to start doing so.

On the issuers side, more than 90% indicated they were very or moderately satisfied with the experience of funding through green bonds and loans – the most favourable response of any region.

Taking a lead from the top

It's clear that, in Asia, the drive towards sustainability is often led by official policies. Worldwide, 53% of investors feel responsible for avoiding investments with bad outward effects on the environment and society, but this shrinks to 46% in Asia. Client pressure to care about sustainability is also less, with only 31% of Asian investors reporting this as a driver, compared with a 37% global average and 51% in the Americas.

But this drive from government policy and initiatives seems to be working. Over 40% of Asian issuers expect to substantially reallocate capital away from activities challenged by environmental and social issues, or towards activities that promote positive environmental or social outcomes, in the next five years. This is significantly ahead of the global average of 32%.

Investors are similarly motivated, with 53% saying they were well advanced in adopting firmwide responsible investing policies and another 39% preparing to.

Asian issuers also score highest for disclosing their alignment with the Paris Agreement, with 88% saying they do this, and for reporting as recommended by the Task Force on Climate-Related Financial Disclosures (TCFD) at 62%.

The Covid-19 push

Asia was already convinced of the importance of ESG principles and the Covid-19 pandemic has only reinforced that belief. A substantial 45% of issuers and 40% of investors say that Covid-19 has confirmed the importance of sustainability. Employee wellbeing in particular and for obvious reasons, has jumped up the agenda, with two-thirds believing that emphasising this as an investment criterion is more important than before, against a global average of 57%.

However, the pandemic has also de-emphasised other sustainable initiatives for the region. To a greater extent than elsewhere, respondents say that companies' efforts to preserve biodiversity, their sensitivity to society's needs, the resilience of their supply chains and their attention to pay disparities are less important than before. In contrast, in both Europe and the Americas, issues including sensitivity to society's needs, supply chain resilience and biodiversity are seen as more important in light of the pandemic.

There is a balance at play here in whether companies feel that sustainability is part of the solution to the problems of the pandemic, or a distraction from near-term issues. Nearly one in five respondents said that emphasis on sustainability-related initiatives was temporarily reduced as other issues became more important. This could indicate a strategy of focusing on business resilience in the face of lockdown and other economic stresses, perhaps at the expense of sustainability initiatives.

Building a sustainable future

The key word here is "temporary". The long-term effects of the Covid-19 pandemic are still unfolding, but it is likely that once immediate and pressing problems are taken care of, companies will move sustainability back up the agenda.

Both issuers and investors in Asia, for example, see strong potential in sustainable infrastructure investment and this is a response to ongoing and long-term patterns in their economies. As Asian economies boom, and their populations and affluence rise, they need to grow their infrastructure. But there are strong indications that they are seeking to build infrastructure that is both resilient and sustainable.

The region's optimism about the potential of sustainable infrastructure investment is unmatched. Investors are ahead of global peers on all but one type, while issuers are top in two – smart cities and water/wastewater – and above average in all

[3] Guidelines on Environmental & Social Risk Management (ESRM) for Banks and Financial Institutions in Bangladesh. Bangladesh Bank, February 2017. https://www.bb.org.bd/aboutus/regulationguideline/esrm_guideline_feb2017.pdf

[4] Sustainable Finance Roadmap in Indonesia for the Period 2015-2019. Indonesia Financial Service Authority, November 24, 2015 https://www.ojk.go.id/en/berita-dan-kegiatan/publikasi/Pages/Sustainable-Finance-Roadmap-in-Indonesia-for-the-Period-2015-2019.aspx

[5] "Government of Indonesia issues USD2.5 billion 'green' Sukuk on Nasdaq Dubai" Institutional Asset Manager, July 1, 2020 https://www.institutionalassetmanager.co.uk/2020/07/01/287096/government-indonesia-issues-usd25-billion-green-sukuk-nasdaq-dubai

[6] https://www.asfi.asia/

others. Asian respondents are in line with global responses in placing particular emphasis on emission-free energy, lower carbon forms of energy and electrifying transport systems.

More work ahead

While overall there is a clear drive towards sustainability and sustainable finance in Asia, there are times when the picture is more complex. Although Asian firms score highly on disclosure, for example, nearly one in five issuers report that the disclosures they make are excessive and the region also has the lowest share of issuers who expect to increase disclosures and are happy about it.

Similarly, as green finance accelerates in the region, led by mainland China, Asian issuers show high satisfaction with the instruments (>90%) but over a third of Asian investors do not buy green, social or sustainable debt and do not expect to start.

There is still work to be done for a more thorough adoption of sustainability principles and green financing, but the groundwork is there. Not only are governments, central banks and financial authorities leading the way, but Asian issuers are beginning to feel a stronger pull from the industry as well.

To a greater extent than those in other regions, issuers in Asia feel their lenders and investors care about their environmental performance and impact on society. On the former, they assign their banks, bondholders, and shareholders the highest scores of any region (measured on the three most positive rankings of a five-point scale). They also award the highest proportion of top rankings to both their lenders and equity investors.

A similar pattern is clear from their assessment of engagement with social impact. They assign top rankings to all three groups of capital providers, as well as the highest three most positive ranking scores to both bond investors and shareholders.

The right system in place

There is a huge effort in Asia to push sustainable financing and create an environment where there are recognisable instruments and financial incentives with which to invest in ESG principles. Led by mainland China's world-leading green bond market, Asian economies are building a system of sustainable finance guided by strong government leadership.

With this system in place and growing appetite from stakeholders for sustainable investments, particularly infrastructure projects, Asia has the potential to build resilient growing economies that will be sustainable long into the future.