



POLICY NOTE:

The emergence of green bonds in Asia and the Pacific

The Asia-Pacific region is becoming one of the global main markets for green bonds. In 2018, the region accounted for about 35% of the global issuance value.¹ China alone accounted for close to a quarter of the global share, making it the world's second largest green bond issuing country after the United States. Smaller countries in the region also demonstrated a pioneering role. Among others, Fiji was the first developing country that issued a sovereign green bond in 2017, while Indonesia issued the world's first green sovereign *sukuk* in 2018. Recently, ESCAP has provided technical assistance to Bhutan in issuing a sovereign (green) bond in 2020 as well as provided [capacity building on capital market development](#). The issuance of Bhutan sovereign (green) bond would make it the first least developed and landlocked developing country to issue such bond.

Several factors have contributed to the rapid growth of green bond markets in Asia and the Pacific.² At a broad level, investors are increasingly aware about the need for sustainability-oriented investment, with a recent survey revealing that around two-thirds of Asian investors are willing to make their investments more sustainable.³ The Governments in the region have gained tremendous interest in green bond issuance. Sri Lanka, for example, through ESCAP's latest [climate finance initiative](#), is planning on issuing sovereign green bonds. Other governments already played an active role in supporting the development of green bond markets. On capacity building, Indonesia has issued policy guidance to private companies that plan to issue green bonds internationally, while China has set up various platforms for knowledge sharing on best practices of scaling up green finance. On financial incentives, Singapore's monetary authority carries the costs of the external review process to verify the green character of bonds for investing parties, while China offers interest subsidies and guarantees for green bond financed projects and allows companies to use green bonds as collateral.

Meanwhile, the issuance of green bonds in foreign markets by governments and quasi-sovereign entities also allows other market players to derive insights on how to issue their own green bonds internationally. For example, the issuance of a quasi-sovereign green bond in Germany by the Chinese Development Bank in 2017 provided a clear demonstration effect which led to a rapid increase in Chinese green bonds being issued abroad. ESCAP's work on green bonds in Asia and the Pacific aims to assist governments in the region as part of [climate finance for sustainable investment](#) initiative and to bring private sector participation to such endeavor.

Despite rapid growth in the past years, development of green bond markets in the Asia-Pacific region faces several challenges. Among others, greater clarity and consistency on the definition and regulatory frameworks on green bonds are needed. The ASEAN Green Bond Standards, for example, explicitly exclude all power generation projects based on fossil fuels, China includes clean coal as a green category. Moreover, there is no consistent reporting framework on the use of the proceeds and the environmental impact assessment of green infrastructure projects in the financial and banking communities.

For more information consult

ESCAP Macroeconomic Policy and Financing for Development

<https://www.unescap.org/our-work/macro-economic-policy-financing-development>

Inter-agency Task Force on Financing for Development <http://developmentfinance.un.org>

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