Sustainable Bond Market in ASEAN+3:
Recent development, challenges and opportunities

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Expansion of global sustainable bond market accelerated, amid lower interest rate and higher awareness.

Global sustainable bond market reached a size of USD3.3 trillion at the end of June, tripled the size of USD 1.1 trillion from December 2019. After Europe, ASEAN+3 accounts for 15.3% of global total.

ASEAN sustainable bond market relatively under presented. Accounts for 6.9% of issuance and 7.5% of outstanding in ASEAN+3 total in Q2 2022, lower than their corresponding shares of 12% and 11% for general bond markets.

Sustainable Bonds Outstanding in Global Markets

Source: ADB. Asia Bond Monitor September 2022. Manila.

Sustainable Bond Issuance in ASEAN+3
Diversification has improved in ASEAN+3 sustainable bond markets

ASEAN markets have a significant presence in the sustainability bond market (19.2% /16.7% of regional outstanding/issuance) and the sustainability-linked bond market (18.5% /23.2% of regional outstanding/issuance) by June 2022.

Overall regional sustainable bond market has seen improved diversification in terms of different bond types. This is evidenced by declining trend in HHI.

Source: ADB. Asia Bond Monitor September 2022. Manila.
ASEAN+3 sustainable bond market has potential for longer tenor, non-financial sector, and LCY issuance

The private sector accounted for 89.0% of total regional sustainable bond issuance in Q2 2022, with financial institutions accounting for the single-largest share of private sector issuance at 45.1%.

Outstanding sustainable bonds in the region are largely concentrated in shorter tenors...the average size-weighted tenor of outstanding sustainable bonds at the end of June was 4.3 years. 61.1% of outstanding sustainable bonds in ASEAN+3 were denominated in local currencies.
Efforts needed to boost demand for long-tenor sustainable bonds in ASEAN+3

ASEAN+3 sustainable bond markets have a high concentration of short-tenor financing, with 72.7% of sustainable bonds outstanding having tenors of 5 years or less by Q2 2022, while the corresponding share is only 38.9% in EU markets.
Efforts needed to boost demand for LCY sustainable bonds in ASEAN+3

Despite of a higher share (93.3%) of LCY bond in total bond market in ASEAN+3 than in EU (82.7%), ASEAN+3 has a lower share (67.9%) of LCY issuance in sustainable bond market compared to EU (85.6%).

This reflects that domestic LCY investors lacks **capacity** to invest in sustainable bonds.

High awareness: Binance (2021)’s survey---around 95% surveyed asset managers in Asia and Pacific, rated ESG considerations as high or moderate importance in their investment decisions.

Low action: Willis Towers Watson (2021), only 31% of surveyed Asian investors have an ESG policy statement in place and Asian asset owners only allocated an average of 10% of their portfolio in ESG-related strategies.
ASEAN domestic investors need to build investment capacity

Figure 9: Interest in investing in green bonds

- Not interested
- Exploring, but limited awareness and resources
- Interested and developing action plan
- Interested and stated in investment mandate
- Interested with established portfolio
- Others

Indonesia, Malaysia, Singapore, Philippines, Thailand
Efforts needed to boost more supply in ASEAN+3

- Limited supply is listed as a key barrier for green investments too

- More room for sovereign issuance:
  - By Q2 2022, government bonds comprising for 68% of emerging East Asia’s outstanding bonds, however, the share of public sector is only 11% for sustainable bond markets.
  - Most (14 out of 17) regional sovereign issuances are in FCY

- More pipeline, incentive, and capacity are needed for more issuance.
ADB in Action

- Expand issuer base and increase local demand for sustainable bonds
  - Capacity building of issuers, and local investors (ABMI)
  - Increase information dissemination and boost awareness
- Increase bankability of projects
  - Derisk: e.g. ASEAN Catalytic Green Finance Facility (ACGF)
  - Development partners can act as anchor investors in sustainable bond transactions
- Create enabling ecosystem for sustainable finance
  - Enhance creditability and transparency