Singapore's Green Finance Drive

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Green finance products can take a variety of forms but are broadly classified as follows:

- "*green*" loans and bonds, the principal feature of which is that the proceeds of the loan or bond are used for "green purposes"; and
- "*sustainability-linked*" loans and bonds, under which certain of the terms (typically pricing) applicable to the loan or bond are tied to the borrower's performance against certain pre-determined sustainability-linked key performance indicators.

Other forms of green finance products include green asset finance, sustainable securitizations and green credit cards. Green finance is certainly not a new phenomenon, with the World Bank issuing its first green bond in November 2008, creating the blueprint for sustainable investing in capital markets[3]. However, it was not until 2015, with the launch of the United Nations' Sustainable Development Goals and the Paris Agreement (or Paris Climate Accords), that green finance began to gain prominence. Today, the Global Sustainable Investment Alliance reports that the global sustainable investment industry has grown to an estimated US$35.3 trillion[4] and financing will be a key topic for discussion at the 26thUnited Nations Climate Change Conference of the Parties (COP26) in Glasgow.

In Asia, the prevalence of green financing products and services has increased significantly in recent years, following the global trend. The focus on this sector is expected to increase as more Asian nations commit to "net zero" goals and increase their efforts to decarbonize economies which are often heavily linked to pollution. The United Nations Economic and Social Commission for Asia and the Pacific estimates that the Asia Pacific region alone requires annual investment of US$1.5 trillion in order to achieve the United Nations' Sustainable Development Goals by 2030, with clean energy and climate action accounting for almost a third of this figure[5]. Much of the growth in Asia's green finance sector is being driven by the economic powerhouses of China and Japan. In Japan, the issuance of green and sustainability bonds almost doubled over the course of 2019 to 2020[6]. Chinese issuers sold US$15.7 billion of bonds during the period of January to March 2021, with the proceeds intended to fund "green projects" such as clean and renewable energy[7]. Investment bank China International Capital Corp estimates that China requires 140 trillion yuan (US$21.33 trillion) of debt financing over the next forty years to achieve its target of carbon neutrality by 2060[8].

In Singapore, where most of the country lies less than 15 meters above sea level and over 30 percent less than five meters, the government is focused on the risk presented by climate change and is actively engaged in finding innovative solutions to mitigate this, with much of the effort centered around green finance[9]. In this article, we will examine some of the key aspects of green finance and consider how the development of this sector is expected to play out in Singapore.

Singapore's green finance ambitions

The recent announcement by Mr. Lawrence Wong, Singapore's Minister of Finance, during the country's inaugural Singapore Sustainability Investing and Financing Conference sent a clear message to the world – Singapore is serious about becoming a world leader in green finance. Mr. Wong announced that the Green Bonds Programme Office (which falls under the Ministry of Finance) had been established to work with statutory boards and develop a framework for green bond programmes, as well as engaging with industry and managing investor relations[10].

Mr. Wong's announcement comes hot on the heels of Singapore's National Environment Agency (NEA) raising S$1.65 billion (US$1.23 billion) from its inaugural green bond issuance. The proceeds of the bonds (which were issued in two tranches of S$350 million (US$261 million) 10-year fixed rate notes with an annual coupon rate of 1.67 percent and S$1.3 billion (US$968 million) 30-year fixed rate notes with an annual coupon rate of 2.5 percent[11]) will be utilized to fund new, or existing, sustainable waste management projects. The green bond issuance falls under the NEA's S$3 billion (US$2 billion) multicurrency medium term note program and Green Bond Framework which were established in August[12].

The Green Bond Framework has been drafted to align with the Green Bond Principles formulated by the International Capital Market Association, comprising four key components:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting[13]

The Green Bond Framework sets out specific criteria which projects must satisfy in order to qualify for allocation of the net proceeds from NEA's bonds. Projects must comprise "sustainable waste management" and include design, construction, operation, management and capacity building, and/or upgrade of infrastructure, assets and/or plant relating to activities such as:

- Waste-to-energy with 26 percent gross waste-to-energy efficiency.
- Food Waste Treatment that treats food waste into high-quality bio-pulp.
- Sludge Incineration with 70 percent thermal efficiency.
- Material Recovery of Recyclables including waste collection and sorting (including pre-sorting).
- Waste Processing and Recycling (for non-hazardous waste only)[14].

The first eligible project to meet the criteria set out above is the Tuas Nexus Integrated Waste Management Facility. Comprising two facilities – the Tuas Water Reclamation Plant (managed by national water agency the Public Utilities Board (PUB)) and the Integrated Waste Management Facility (operated by the NEA) – Tuas Nexus is Singapore's first integrated water and solid waste treatment project, with commercial operation set to commence in 2025.

NEA's green bond issuance follows a similar offering by Sembcorp Industries (through its subsidiary Sembcorp Financial Services Pte. Ltd.) (Sembcorp) in June this year, the first certified green bond, issued under the Climate Bonds Initiative's (CBI) "Climate Bonds Standard", by a Singapore-based energy company. Proceeds from the SGD$400 million bond will be used to finance or refinance new or existing projects which fall within the list of "Eligible Green Projects" in Sembcorp's own "Sustainable Financing Framework[15]" and that satisfy the sector-specific technical criteria. The CBI is an international, not-for-profit, organization that works to "mobilise the largest capital market of all, the $100 trillion bond market, for climate solutions.[16]" The CBI seeks to achieve this through three workstreams, namely:

1. Market intelligence
2. Developing a trusted standard (i.e., the Climate Bonds Standard and certification scheme)
3. Providing policy models and advice

The Climate Bonds Standard allows certification of a bond prior to its issuance, enabling the issuer to use the "Climate Bonds Certification Mark" in marketing efforts and investor roadshows. In order to obtain the certification, a prospective issuer of a green or climate bond must appoint a third party "Approved Verifier[17]" who then provides a verification statement confirming that the bond satisfies the Climate Bonds Standard[18].

Sembcorp followed up on its inaugural green bond issuance with a further offering in October 2021, a SGD$675 million sustainability-linked bond (SLB). The SLB was anchored by an investment of SGD$150 million by the International Finance Corporation (IFC), the World Bank Group's private sector investment body[19]. The key difference between traditional green bonds and SLBs is that the latter is not subject to restrictions as to how the proceeds may be utilized, with the increased flexibility enabling a wider variety of issuers to obtain access to sustainable financing[20]. The first SLB was issued by ENEL, the Italian energy utility group, in 2019[21].

The recent developments in Singapore's green bond market are a clear indication of Singapore's desire to become a world leader in the green finance space. Approximately US$5.21 billion in green bonds was issued in Singapore alone in the first half of 2021[22], and with statutory authorities (e.g. the NEA) and entities in which the Singapore state holds a significant ownership interest (e.g. Sembcorp) leading the way, the market is expected to continue to grow.

The role of green finance in Singapore's Green Plan 2030

Singapore's commitment to green finance is enshrined in the Green Plan 2030 (Green Plan), falling under the "*Green Economy*" pillar. The Green Plan is considered a "whole-of-nation sustainability movement to advance Singapore's national agenda on sustainable development[23]" and the Singaporean government has identified four key targets in its drive to further the development of its "Green Economy," namely:

1. Introduce an Enterprise Sustainability Programme, to help enterprises, especially SMEs, embrace sustainability and develop capabilities in this area.

2. Create business and job opportunities in sectors such as green finance, sustainability consultancy, verification, credits trading and risk management.
3. Be a leading center for Green Finance in Asia and globally, by building up the financial sector's resilience to environmental risks, developing green financial solutions, build knowledge and capabilities, and leveraging innovation and technology.
4. Promote homegrown innovation under the Research, Innovation and Enterprise Plan 2025, and attract companies to anchor their R&D activities in Singapore to develop new sustainability solutions[24].

A number of initiatives are proposed in order help achieve the targets above, one of which is the creation of a "Green Finance Action Plan." The plan (announced in November 2019 predating the release of the Green Plan earlier this year) has been developed by the Monetary Authority of Singapore (MAS), with the stated goal of growing Singapore into a regional and global center for green finance. Part of the rationale for this is the financial sector's role in "addressing the impact of environmental risk, and mobilising global capital for the green economy"[25]. The MAS has committed to "drive efforts to build resilience to environmental risks, develop green finance markets and solutions, build the requisite capabilities and encourage green FinTech innovation."

Based on three core pillars - building resilience, developing markets, and leveraging technology - the Green Finance Action Plan will be implemented through actions in six areas:

1. Environmental Risk Management Guidelines across the banking, insurance and asset management sectors.
2. Grant schemes to support mainstreaming of green and sustainability linked loans.
3. Establishing a US$2 billion Green Investments Programme with asset managers committed to driving regional green efforts out of Singapore and support the MAS Green Finance Action Plan.
4. Support expansion plans of external reviewers and rating agencies in Singapore to deepen technical capabilities and grow the green ecosystem in Asia.
5. Anchor "*Centres of Excellence*" with world-class research institutions and leading universities to contribute Asia-focused climate research and training programs.
6. Green finance being a key theme in the 2020 Fintech Hackcelerator[26].

The Enterprise Sustainability Programme (highlighted above) is an interesting initiative which is designed to support Singaporean companies, particularly SMEs, in their sustainability efforts.[27] A key aspect of this program is the "Enterprise Financing Scheme – Green" (EFSG), which has been established to enable better access to green financing for "Project Developers, System Integrators and Technology & Solution Enablers which develop enabling technologies and solutions to reduce waste, resource use, or greenhouse gas emissions." The EFSG provides a range of financing options to prospective applicants ranging from loans for developmental capital to specific project finance. The EFSG opened for applications on October 1, 2021 and will run until March 31, 2024[28]. In establishing the EFSG, the Singaporean government is recognizing the significant roles that SMEs can play in driving sustainability efforts in Singapore.

There has been a marked increase in green finance activity in Singapore over the course of the past year, largely linked to the initiatives being implemented by the government, and it is set to continue. Indeed, Singapore's national budget for 2021 states that the government will issue green bonds to a range of public infrastructure projects, with up to SGD$19 billion worth of green projects already identified, in order to "catalyse the flow of capital towards sustainable development in Singapore and Asia.[29]" It is hoped that the issuance of green bonds by the government, coupled with the efforts undertaken by the MAS in devising the Green Finance Action Plan, will deepen market liquidity for green bonds, attract green issuers, capital and investors, and, ultimately, anchor Singapore as a global green finance hub.

Dealing with green washing

Despite the undoubted potential of green finance, there are pitfalls associated with the sector, the most prominent of which is the concept of "green washing". The term was coined by U.S. environmental activist Jay Westerveld in a critical essay, published in 1986, regarding the hotel industry's practice of encouraging the reuse of towels with the apparent motive of "saving the environment." Westerveld argued that the actual goal of this practice was to increase profitability, not environmental conservation. Today, greenwashing is referred to as a practice whereby a company, or organization, expends more effort (and cost) on marketing itself as being environmentally friendly than it does on minimizing the environmental impact of its activities. By providing misleading information regarding the environmental impact of an organization's activities, or products, the public can be deceived into believing that the business is environmentally friendly when the reality is somewhat different.

Greenwashing can take a number of different forms, commonly categorized as the "seven sins[30]":

1. Worshipping false labels - Where products are labeled with certifications that are not legitimate to mislead consumers into believing that the product has been vetted through a green certification process. Examples are products which are labelled as “eco-safe” or “eco preferred.” Earlier this year, the International Consumer Protection Enforcement Network found, during an annual review of websites, that as much as 40 percent of the sustainability claims made online could be misleading.[31]

2. Hidden trade-offs – Companies can often create the impression of being environmentally friendly and sustainable while, at the same time, making a non-environmentally friendly trade-off. There are a wide variety of hidden trade-offs including, for example, labelling a product as “green” or “environmentally friendly” based on a narrow set of attributes, without paying regard to other key environmental issues (e.g., greenhouse gas emissions used in a manufacturing process).

3. Irrelevant claims – Claims which, although perhaps truthful, are unimportant, or unhelpful, for consumers seeking products which are environmentally friendly. For example, claiming that a product is “CFC free” is irrelevant in the countries that have banned their use (almost 200 in total).

4. Lesser of two evils – This form of greenwashing occurs when an environmental claim made by a company is actually true but is designed to distract the consumer from the fact that the product itself is inherently harmful, either to the consumer or the environment. The use of “green” or “organic” environmental labelling on products that have questionable environmental, or health, value can be considered as greenwashing with the lesser of two evils (e.g., a company selling “organic” cigarettes (i.e., using organically grown tobacco)).

5. No proof - An environmental claim that cannot be substantiated by easily accessible supporting information (e.g., on either the product label or company’s website) or by third-party certification. An example of this form of greenwashing is a claim that a lightbulb is energy efficient without any supporting data being provided.

6. Vagueness – Claims which are either poorly defined, or too broad, meaning that their real meaning is likely to be misunderstood by consumers. For example, claiming a product is “all natural” can be misleading given that certain naturally occurring elements (e.g., mercury and uranium) are in fact poisonous.

7. False claims - Environmental claims that are simply false.[32]

Singapore appears to have recognized the threat that greenwashing poses to the green finance sector and the government has started to take some preliminary steps aimed at combating it. In his opening remarks at the recent Sustainable Investing and Financing Conference, Mr. Lawrence Wong, highlighted the importance of a implementing a consistent set of “global standards for disclosures and reporting” in order to combat greenwashing:

“We need to implement a consistent set of global standards for disclosures and reporting. The good news, of course, as all of you know, is that more global monies are going into ESG investments – on average, two new ESG funds are launched every day. Unfortunately, this has been accompanied by rampant “greenwashing.” Two years ago, the Wall Street Journal reported that 8 out of 10 of the biggest “sustainable” funds in the US were in fact invested in oil companies. There is less greenwashing these days, but it still happened. So, we need greater consistency and reliability of disclosures. This will then help investors put their money into truly green firms, ensure a better allocation of capital, and a faster energy transition.”[33]

There are three key areas where Singapore is taking action with a view to combating greenwashing and, in turn, improving the credibility of the green finance sector, namely:

1. Taxonomy - the Green Finance Industry Taskforce (GFIT), established by the MAS, is currently developing a taxonomy for Singapore-based financial institutions. The MAS is also actively participating in regional efforts to develop a taxonomy for ASEAN which aims to take international goals into account while, at the same time, factoring in the ASEAN region’s specific “context and circumstances.” In his speech, Mr. Wong highlighted that the ASEAN region alone will need an estimated USD$200 billion in green investments annually through 2030 – the development of a regional taxonomy will be a significant factor in facilitating these investments. Singapore’s effort to formalize a taxonomy echoes similar work undertaken in the European Union (EU), where a taxonomy regulation came into force in July 2020. The EU taxonomy sets out specific conditions that an economic activity is required to satisfy in order to qualify as environmentally sustainable[34].

2. Data – the quality and availability of data is seen as a critical element in enabling companies, financial institutions and investors to measure progress towards sustainability goals, as well as the environmental impact of operations. Recognizing the importance of data in the fight against greenwashing, the MAS recently launched Project Greenprint[35], which aims to “harness technology and data to mobilise capital for ESG projects, monitor their commitments and measure their impact.” The MAS has also earmarked S$50 million to support Green FinTech innovations to address challenges in the green finance space.

3. Disclosures – The MAS and SGX are currently preparing roadmaps for mandatory climate-related financial disclosures by financial institutions and listed companies and these are expected to be released in early 2022. The new disclosure regime will build on SGX's existing sustainability reporting requirements which came into effect in 2016[36].

Action in terms of data and disclosures will go some way to alleviating concerns regarding greenwashing in Singapore. However, we expect that the Singapore Government will announce further measures to help tackle this issue, particularly as green finance continues to gain prominence.

Looking forward

The green finance drive in Singapore continues to gather pace and we anticipate an array of new developments in this sector over the coming months. While growth in other sectors may have been hampered as a result of the effects of the COVID-19 pandemic, this does not appear to be the case where green finance is concerned. Singapore is positioning itself to become a global leader in this space and, as we have seen above, is taking significant steps towards achieving this. Key to the success of green finance is the elimination of greenwashing and this poses perhaps the greatest challenge for Singapore. However, having already established itself as a global financial center and being viewed as a transparent jurisdiction with robust regulatory structures, Singapore is well positioned to overcome these challenges to become a hub for green finance, not just in ASEAN but also at a global level. We are of the view that green finance will play a significant role in Singapore's economy going forward, particularly given its prominence in the Green Plan 2030, and will be monitoring developments with interest.

Please also see the links below for other thought leadership pieces that our firm has prepared on the green finance sector.

Green and Sustainability-Linked Private Placements by EU and UK Issuers

How ESG is Impacting the European Leveraged Finance Markets

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[23] https://www.greenplan.gov.sg/

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