

Up-Rise of Green Bond in SEA

With reference to our first publication on ASEAN energy outlook, generation of power from the “Black” – e.g. coal, oil, and natural gas – is still expected to play a vital role in the ASEAN energy mix for years to come. However, taking the climate change challenges into account, the “Green” energy – e.g. renewable energy resources – have been introduced and, even, subsidized as a substitution of the Black energy. We perceive this climate change and utilization of renewable energy resources as unique “business opportunities”.

For example, Myanmar intends to contribute to the global climate change mitigation effort, while adapting at national and local levels to increase our climate resilience. The Myanmar government signed the Paris Agreement last April and are now in the process of ratifying it.¹ H.E.U Ohn Winn, the Minister of the Ministry of Natural Resources and Environmental Conservation of Myanmar, announced that Myanmar’s climate change mitigation schemes would focus on forestry and energy.

In the climate change context, “energy” typically implies renewable energy resources. By 2020, the Myanmar Government plans to achieve the 15%-20% share of renewable energy in the total installed capacity.² Most of renewable energy sources other than large hydro will be used for rural electrification purposes.³ Advantages offered by renewable energy technologies are various. For example, photovoltaic systems have become standard in areas where there is no access to the electricity network (cottages, etc.).⁴

Financing – whether via equity or debt – is always at heart of energy projects. When it comes renewable energy projects e.g. a solar farm, it appears necessary for the investor – whether the public or private players –to obtain sufficient capital. A question then arises to determine available form of financing options. The government usually pushes forward development of clean energy technologies through a series of policies and measurements including, a financial subsidy (e.g. feed-in tariff or “FIT”), tax holiday period, a loan with special interest rate, etc.

In addition to the abovementioned options, green bond has been accepted as an innovative way to finance green technologies and their application. In essence, green bonds are any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Green Projects.⁵ This debt instrument begin with bonds issuance. The issuer e.g. the World Bank will ask the public to invest their money/asset in exchange for guaranteed interests or benefits. However, the proceeds of this investment shall only be used to support green projects. Financial Time noted that issuance of green

¹ Country Statement by H.E.U Ohn Winn, Union Minister Ministry of Natural Resources and Environmental Conservation of Myanmar.

² National Energy Management Committee, ‘Myanmar Energy Master Plan’ (Burma Library, December 2015) <http://www.burmalibrary.org/docs22/2015-12-Myanmar_Energy_Master_Plan.pdf> accessed 26 January 2018, 176.

³ Ibid.

⁴ Stanislav Vezmar *et al.*, ‘Positive and Negative Impacts of Renewable Energy Sources’ (2014) 5(2) International Journal of Electrical and Computer Engineering Systems 47, 48.

⁵ ICMA, ‘The Green Bond Principle’, (ICMA, 2 June 2017) <<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/GreenBondsBrochure-JUNE2017.pdf>> accessed 28 December 2017.

bonds has accelerated following the signing of the Paris climate agreement in December 2015, when more than 190 countries committed to fight global warming.⁶

As regards scope of green projects, UNDP suggested that green projects should refer to projects that generate climate or other environmental benefits, for example in renewable energy, energy efficiency, sustainable waste management, sustainable land use (forestry and agriculture), biodiversity, clean transportation and clean water.⁷

A brief definition green bonds reveals that green projects in Southeast Asia can be financed by this type of debt instrument. Hence, governments of ASEAN countries will not need to wholly bear the cost of green projects. It is a crucial time for all stakeholders – the investor, the regulator, financial institutions, and the lender – to seriously develop their understanding on green bond!

However, utilization of this debt instrument at the practical level is surrounded by several challenges. Firstly and very importantly, what is (and how to practically measure) ‘green’ projects? From the legal perspective, issuance of the Bond will need to comply with applicable regulatory framework e.g. securities exchange regulations. Moreover, from the policy perspective, financial viability of green projects is significantly depends on the government’s policies towards green developments.

Despite an advancement of clean technologies, it should be noted that electricity production from renewable energy resources is still being challenged by several limitations. For example, solar energy is intermittency. Solar generators only produce when the sun is shining.⁸ This might negatively affect financial viability of a solar project and repayment ability.

⁶ Chris Flood, ‘Green bonds need global standard’ (FT, May 2017) <<https://www.ft.com/content/ef9a02d6-28fe-11e7-bc4b-5528796fe35c>> accessed 27 January 2018.

⁷ UNDP, ‘Financing Solution for Sustainable Development’ (UNDP, 9 July 2015) <http://www.undp.org/content/sdfinance/en/home/solutions/green-bonds.html> accessed 28 December 2017.

⁸ Gautam Gowrisankaran et al., ‘Intermittency and the Value of Renewable Energy’ NBER Working Paper No. 17086.