

2020 Green and Sustainable Finance Opportunities

Moderator Ms Tracy Wong Harris, Deputy Secretary General, Hong Kong Green Finance Association, asked the speakers about green and sustainable opportunities in 2020 in Hong Kong, the Greater Bay Area (GBA) and the Belt and Road Initiative (B&R).

Dr Ma Jun, Chairman and President, Hong Kong Green Finance Association (GFA), said that in May 2020 the GFA will launch an alliance in the GBA and propose carbon-related projects to GBA governments as well as to the central government. It will start with green building projects in Hong Kong, along with the establishment of standards, verification and financing instruments and also propose that solar assets be traded through blockchain, a solid waste treatment facility be built for the region, and a green supply chain set up for 10,000 parts manufactured in Guangdong.

He said the GFA will push for investors and lenders in the formation of green principles for the B&R and create a green product database.

Green buildings

Mr Vivek Pathak, Regional Director for East Asia and the Pacific, International Finance Corporation (IFC), said that green buildings present the biggest opportunity in Asia, especially since buildings are responsible for 50 per cent of electricity consumption and 30 per cent of greenhouse gases. The main challenges include finding the right people, creating standards and dealing with costs. Two other key issues are decarbonising existing buildings and the blue economy, which the World Bank defines as “the sustainable use of ocean resources for economic growth, improved livelihoods, and jobs, while preserving the health of the ocean ecosystem.”

The GFA is working with governments to adopt building standards and train inspectors. There are agencies in Hong Kong that can certify green buildings Mr Pathak said, and the goal is to push for more green buildings and factories.

Reducing the funding gap

Mr Jonathan Drew, Managing Director, Sustainable Finance in Real Assets & Structured Finance Group, HSBC; and Vice President, Hong Kong Green Finance Association, was asked how to reduce the huge funding gap in green and sustainable finance. He said the G20 estimated in 2016 that US\$100 trillion would be invested in low-carbon sustainable systems in the following 15 years and added that sustainability and sustainable finance are an absolute priority with almost all of the institutions he deals with. As a result, financial institutions ask for what their clients are demanding, so there is an effort across asset classes to identify what a green company is, what the ESG ratings are, and how to embed ESG into management. Investment managers will always look at how an entity they are considering investing in will address the

risk issues, and how those companies plan to drive low-carbon revenues, manage risks and grow revenues.

On the fixed-income side, there are green bonds and green loans, and there have been very strong contributions in developing those products, particularly by industry and loan market associations. In 2019, the global industry introduced sustainability-linked loans, where lending banks give borrowers a financial incentive to improve their sustainability performance. So the products are growing and going out to a wide range of investors, both institutional and retail, and the response has been considerably stronger than expected, but there needs to be more on the equity side. This is happening in food companies, in industry, in energy and in consumer industries, including apparel and footwear. "If you want to do this in the Asian region, Mr Drew said, this is the city to come and do it. This is where we've got the organisation, and this is where we've got the government and regulatory support."

Hong Kong's role

Hong Kong is Asia's leading international financial centre, pointed out Mr Joseph H. L. Chan, JP, Under Secretary for Financial Services and the Treasury, The Government of the Hong Kong Special Administrative Region of the People's Republic of China, and continues to rank third in the world and first in Asia as a financial centre. "Our core competitiveness includes free flow of capital, free flow of information, a very transparent and low-tax regime, a common law legal system, and a lot of international and experienced professionals, all of which put Hong Kong in an excellent position to develop green finance." Green finance is one of the key policy priorities of the administration, Mr Chan said, and in the past couple of years, the Hong Kong government has rolled out a series of measures to develop green finance in Hong Kong, including a government green bond programme with a borrowing ceiling of HK\$1 billion. The first issue in May 2019 was four times oversubscribed, despite financial market volatility, and it was included in major global green bond indices.

The development of green market infrastructure is as important as green bond offerings, so the Hong Kong Quality Assurance Agency (HKQAA) launched a green finance certification scheme in January 2018 to provide third-party performance assessment for issuers of green debt. As at end-December 2018, the HKQAA had completed 56 certification cases for green bonds and green loans involving about US\$40 billion of funds. In June 2019, the government launched a green bond grant scheme to subsidise green bond issuers obtaining HKQAA certification. In 2018, about US\$11 billion in green bonds were issued in Hong Kong, a 237 per cent increase over 2017.

"But sustainable investment is more is about more than green bonds and green loans," said Mr Chan. The Hong Kong SAR government and regulators are working on multiple fronts to promote green finance. For example, in 2019, the HKMA announced three separate measures to support and promote

green finance and sustainable banking in Hong Kong and to collaborate with the industry and other stakeholders to combat climate change risks and develop green finance. These measures are about (1) green and sustainable banking, (2) responsible investment, and (3) capacity building to establish successful green finance.

"From our perspective, climate change is one of the major risks threatening the world, and it has to be tackled on a global basis and across different sectors of the economy," said Mr Chan. "Last year the Hong Kong government became the first major signatory to the green bond pledge. This demonstrates our commitment to incorporating low-carbon resilient solutions into the planning and development of infrastructure projects. And the Hong Kong government will continue to work closely with investors and stakeholders to develop and promote green finance and activities for sustainable purposes."