

Hong Kong Goes Green with Sustainable Finance Initiative

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The clean energy economy has been dominating the headlines in recent months – the Cop26 climate conference, China's goals of peak emissions by 2030 and net zero by 2060, President Biden's US\$1 trillion infrastructure bill that pours billions of dollars into the green economy, the recent U.S. IPO of the next Tesla killer, Rivian, and the debate around the environmental impact of Bitcoin mining, just to name a few. As the world transitions away from fossil fuels, terms such as ESG (which stands for environment, social, and governance), sustainable investing, and green finance are no longer just buzzwords for environmentally conscious investors. They now represent some of the hottest areas in the investment world and are achieving mainstream success.

In the first three quarters of 2021, global issuance of sustainable and green bonds, or fixed-income securities intended to raise funds to finance environmentally friendly projects, has boomed to US\$362 billion,^[1] showing that the issuance of green bonds is no longer just some niche financing projects but has become a popular form of capital-raising around the world.

Many investment funds consciously allocate some of their capital to fund ESG causes, and the returns can be more than promising. A survey indicates that, on average, ESG products perform at least 2% better than traditional products across four metrics, namely uptake or demand, financial returns, shareholder engagement, and reputation.^[2] This may be partially explained by the fact that a company that is committed to ESG causes may also be less at risk from labor strikes, ESG-related litigation, unpleasant consumer reviews, and negative publicity in the media.

Green and Sustainable Finance Grant Scheme

Hong Kong's Chief Executive announced in her 2021 Policy Address that the government is committed to reaching carbon neutrality before 2050. To achieve this target, the government has announced a series of green bond initiatives to make a push into sustainable finance.

After two batches of bond issuance under the Government Green Bond Program, the government launched an initiative to support the issuance of corporate green bonds and consolidated several existing grant schemes into a new Green and Sustainable Finance Grant Scheme (the GSF Grant Scheme).^[3] According to the Guideline on the

Green and Sustainable Finance Grant Scheme published by the Hong Kong Monetary Authority (HKMA), the GSF Grant Scheme:

1. subsidizes eligible first-time bond issuers for half of the general bond issuance expenses, such as the fees for arrangers, legal advisers, auditors and accountants, rating agencies, listing fees, and HKMA's Central Moneymarkets Unit lodging and clearing fees, capped at HK\$1.5-2.5 million, depending on whether a credit rating is obtained; and
2. reimburses any eligible bond issuers and loan borrowers up to HK\$800,000 for their external review expenses.

An external review refers to the assessment conducted by an independent third party to ensure the bond or the loan is a credible green and sustainable initiative^[4] by verifying that funds from the bond proceeds and loans are allocated to the intended green projects. This could prevent a backlash from any accusations of “greenwashing” – a term used to describe the market practice that provides a misleading label about how “green” a product is.

Currently, the Hong Kong Quality Assurance Agency, a non-profit distributing organization established by the government, offers a Green and Sustainable Finance Certification Scheme, which provides pre-issuance and post-issuance certification reviews^[5] with reference to widely recognized international standards (including the International Capital Market Association) for green and sustainable finance.

The GSF Grant Scheme runs from May 2021 to April 2024. To qualify, a bond or loan must be issued on or after May 10, 2021.

More and more investors recognize the impact of their investments on the environment and do not see it as a trade-off for the bottom line, especially when these investments have also been reaping them big gains. Sales of green bonds have proven to be a popular form of fundraising among companies and an attractive offering for investors. The GSF Grant Scheme will be an attractive subsidy scheme for any company seeking green and sustainable initiatives in Hong Kong.

^[1] <https://www.reuters.com/business/sustainable-business/global-sustainable-bonds-see-record-issuance-jan-sept-2021-2021-10-12/>.

^[2] <https://www.hsbc.com/insight/topics/esg-becomes-a-priority>.

^[3] <https://www.budget.gov.hk/2021/eng/se.html>.

^[4] https://www.hkex.com.hk/-/media/HKEX-Market/News/Research-Reports/HKEx-Research-Papers/2018/CCEO_GreenBonds_201812_e.pdf?la=en.

^[5] https://www.hkqaa.org/en_certservice.php?catid=26.

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