

**Our Hong Kong Foundation**  
**Submission to Legislative Council**  
**For Implementing the Government Green Bond Programme**  
**(19 July 2018)**

**Introduction: what is green bond?**

A green bond differs from a traditional bond with its external review process to ensure the use of proceeds on green projects. It targets to match funding sources with projects which can deliver environmental impacts.

**Importance of green bonds**

Global Commission on the Economy and Climate estimated that cumulative investment of around USD 90 trillion would be required till 2030 to avoid the 2 °C limit proposed by the Paris Agreement. At the same time, China is currently the largest greenhouse gas emitter. The Chinese Government estimated that an annual investment of at least CNY 2 trillion is needed for the environmental targets in the period of 13th Five Year Plan, but the Government can only provide 15% of the required green capital. Green bond is an importance source to fill in this funding gap in green capital market.

**Uniqueness of Hong Kong for developing green bond market**

According to Climate Bonds Initiative (CBI), the total green bond issuance in 2017 was USD 155.5 billion. In cumulative terms, US is the largest green bond issuers, followed by China and France. For the investor side, majority of signatories in United Nations Principles of Responsible Investment are from US, UK, France and other European regions. They are more willing and ready for investments related to sustainability, including green bonds.

Hong Kong, as an international financial centre having strong relation with China, can assume the role of matching international capital to green projects, in particular the projects in China. Being the leader of offshore RMB centres with well-established financial and legal structures, Hong Kong possesses comparative advantages in playing the role if compared to its global counterparts. Developing the green bond market can consolidate Hong Kong's leading position in international financial market, as well as facilitating environmental advancement in the world and in China.

**Benefits of the Government Green Bond Programme (“the Programme”) on local green bond market and environment**

The local green bond market is not yet well-developed and Government's support is essential. The Programme serves perfectly this purpose via following means:

1. Providing a benchmark to local green bond market

Green bonds, issued via the Programme, can establish a benchmark yield curve for local green bond market which can facilitate investors in determining appropriate risk premium and, thus, enhance bond pricing. Moreover, government green bonds can improve liquidity and depth of the market which is particularly more important to investors when the market is still at an immature stage.

## 2. Nurturing talents for credible certification of green bonds

As mentioned previously, European and American regions have more investors focusing on sustainable investments and they will demand for higher credibility for the use of bonds' proceeds on green projects. The Green Bond Principles (GBP) are the most commonly referred and the most widely adopted guidelines for green bonds. Various green bond standards were built based on the GBP with more sophisticated requirements on the use of proceeds. For example, the Climate Bonds Standard (CBS), developed by CBI, has a taxonomy that clearly outlines required environmental impacts in different specific sectors and CBI will only certify green bonds which can fulfil the requirements. Aligning issuance under the Programme with the GBP and the CBS can assure investors that bonds' proceeds are properly invested in green projects.

Verification or certification process against this type of global standards requires talents with proficiency in finance, environmental protection and related specific sectors. The Programme can nurture this kind of talents, making human resources ready for other potential commercial issuers.

Verification against international green bond standards can also differentiate the spending of bonds' proceeds from other spending in the Capital Works Reserve Fund (CWRP). It explicitly requires the sums raised via the Programme to be invested in green projects. Therefore, apart from fostering local green bond market, the Programme itself can potentially deliver environmental impacts, especially via green building projects. A study of the Hong Kong Green Building Council in 2017 has shown that buildings achieving Gold and Platinum standards in BEAM Plus, a local green building standard, can have energy reduction of 21% and 27% respectively. Moreover, International Finance Corporation revealed, in its 2017 Green Bond Impact Report, significant environmental achievements via issuing green bonds for green buildings. For example, one of their green bonds, with size USD 37.4 million, for a green building project resulted in annual energy saving of 10,600,000 kWh and expected greenhouse gas reduction of 756 tCO<sub>2</sub>. Environment Bureau of the HKSAR Government has indicated in its "Energy Saving Plan for the Built Environment 2015~2025+" that all new major government buildings are expected to meet at least Gold level standard in BEAM Plus. By issuing green bonds aligning with international green bond standards, the HKSAR Government can explicitly show the public and investors their commitment to environmental development and green capital market.

### **Epilogue**

Tackling global environmental issues required participation of the whole society in developing a green economy which is not feasible without an effective green capital market. Government participation is an essential propeller to foster the market. Other regions, like the Mainland China, UK, US and Singapore, have seen their governments played as significant facilitators in their markets. For example the Mainland China started negotiation with European Investment Bank for harmonization of Chinese and international green bond standards; UK has co-chaired with the Mainland China for the G20 Green Finance Study Group. Fannie Mae, a US government-sponsored enterprise, issued USD 24.9 billion of labelled green mortgage-backed securities (MBS). Monetary Authority of Singapore launched the Green Bond Grant Scheme to cover issuers' cost of external reviews. Government green bond is a recent breakthrough, moving the international green capital market to a new page. The first government green bond was issued in Dec 2016 by Poland, followed closely by France in Jan 2017. Asian region only saw its first government green bond launched in Feb 2018 by Indonesia. The Programme can, thus, make the HKSAR Government be one of the pioneers in Asian green capital market.