

**For discussion  
on 9 April 2021**

**Legislative Council Panel on Financial Affairs**

**Resolution to Expand the Scope of and Raise the Maximum Amount  
of Borrowings under the Government Green Bond Programme**

**PURPOSE**

This paper briefs Members on the initiative to expand the scope of and raise the maximum amount of borrowings under the Government Green Bond Programme (“GGBP”) by way of a resolution to be moved by the Government under the Loans Ordinance (Cap. 61).

**BACKGROUND**

2. The GGBP was set up in 2018 with the policy objective of promoting the development of green finance in Hong Kong and signifying the Government’s support for sustainable development and determination to combat climate change. It was established pursuant to the passage of a resolution (i.e. Cap. 61F) (see the Annex) by the Legislative Council (“LegCo”) on 15 November 2018 under section 3(1) of the Loans Ordinance (Cap. 61) authorising the Government to borrow, for the purposes of the Capital Works Reserve Fund (“CWRF”), sums not exceeding in total HK\$100 billion or equivalent<sup>1</sup> under the GGBP. The sums raised will be credited to the CWRF for funding green public works projects of the Government.

3. The Steering Committee on the GGBP, chaired by the Financial Secretary (“FS”), has been established to oversee and give strategic direction on the implementation and development of the GGBP. The

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<sup>1</sup> It refers to the maximum amount of outstanding principal at any time under the GGBP i.e. the principal amount of bonds issued minus that of bonds matured.

Hong Kong Monetary Authority (“HKMA”) assists in implementing green bond issuance under the GGBP.

4. In line with international best practice, a Green Bond Framework<sup>2</sup> has also been drawn up which sets out how the Government intends to issue green bonds to fund projects that will improve the environment and facilitate the transition to a low carbon economy. In accordance with the Framework, the proceeds of issuances will be used exclusively to finance or re-finance public works projects of the Government that fall under one or more of the eight eligible categories<sup>3</sup> set out in the Framework.

5. Having regard to the goal of achieving carbon neutrality before 2050, FS announced in the 2021-22 Budget that the Government plans to issue green bonds regularly and expand the scale of the GGBP by doubling the borrowing ceiling of the GGBP from HK\$100 billion to HK\$200 billion to allow for further issuance of green bonds totalling HK\$175.5 billion within the next five years, having regard to the market situation. This provides more room for piloting the issuance of green bonds that involves more types of currencies, project types, issuance format (including retail green bonds) and channels, thereby further enriching the green and sustainable finance ecosystem in Hong Kong.

## **JUSTIFICATIONS**

### **The GGBP’s Contribution to Green Finance Development**

6. Since its establishment, the GGBP has been serving its objective of promoting the development of green finance in Hong Kong. Bond issuances arranged under the GGBP have helped raise Hong Kong’s profile and establish market benchmark, enriched the green and sustainable finance ecosystem and provided funding for green public works projects.

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<sup>2</sup> The Framework, as well as any bonds issued under it, is aligned with the Green Bond Principles 2018 of the International Capital Markets Association.

<sup>3</sup> i.e. renewable energy; energy efficiency and conservation; pollution prevention and control; waste management and resource recovery; water and wastewater management; nature conservation / biodiversity; clean transportation; and green buildings.

***(a) Raising Hong Kong’s Profile and Establishing Market Benchmark***

7. A total of US\$3.5 billion of green bonds, targeting global institutional investors, has been successfully issued under the GGBP so far and was well received by the global investment community, affirming investors’ confidence in Hong Kong’s credit strengths and economic fundamentals in the long term.

8. The inaugural green bond was issued in May 2019 with an issuance size of US\$1 billion and a tenor of five years, attracting orders more than four times the issuance size<sup>4</sup>. The issuance won various awards, including GlobalCapital’s “Asia Pacific Green / SRI Bond Deal of the Year” and FinanceAsia’s “Sustainable Deal of 2019”. It was also included in four major green bond indices, namely Bloomberg MSCI Barclays Green Bond Index, the BAML Green Bond Index, the S&P Green Bond Index and the Solactive Green Bond Index.

9. A further US\$2.5 billion of green bonds, comprising 5-year, 10-year and 30-year tranches, were successfully issued in February 2021 under a newly established “Global Medium Term Note Programme”. The issuance achieved a number of “firsts”: the world’s largest US dollar government green bond deal; the longest tenor US dollar government green bond in Asia; and the first “Global Medium Term Note Programme” by a government dedicated to green bond issuances. Similar to the inaugural issuance, the green bonds also saw strong demand from investors, attracting orders more than five times the issuance size<sup>5</sup>.

10. The Government’s Green Bond Framework as well as the successful green bond issuances have demonstrated best practice to the market, from the compilation of the Framework and use of external review, to the selection of projects, management of proceeds as well as post-issuance reporting. The benchmark sized issuances (i.e. each tranche

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<sup>4</sup> The bond was priced at a tight 2.555% (32.5 basis points over US Treasuries), which is well within the spread of other US dollar comparables at the time.

<sup>5</sup> The bonds were priced tightly at 0.635% (22.5 basis points over 5-year US Treasuries) for the US\$1 billion 5-year tranche; 1.414% (37.5 basis points over 10-year US Treasuries) for the US\$1 billion 10-year tranche; and 2.431% (62.5 basis points over 30-year US Treasuries) for the US\$500 million 30-year tranche.

exceeding US\$500 million) as well as the tight pricing across various tenors have also helped establish a comprehensive benchmark yield curve for potential green bond issuers in Hong Kong and the region.

***(b) Enriching the Green and Sustainable Finance Ecosystem***

11. The implementation of the GGBP has demonstrated the Government's commitment to consolidating Hong Kong as the green and sustainable finance hub in the region. It helps promote greater liquidity for the green bond market in Hong Kong and showcase to potential green bond issuers, both locally and overseas, that Hong Kong has a full-fledged ecosystem of financial intermediaries and professional service providers including arrangers, legal professionals as well as external reviewers, and thus, is a premier platform offering one-stop solution for issuing green bonds and other related products. It encourages issuers to arrange financing for their green projects through our capital markets and grows the local green investor base.

12. Driven in part by the government green bond issuances as well as the various green and sustainable finance market development initiatives, the green and sustainable financing activities and ecosystem in Hong Kong continued to expand since the inception of the GGBP in 2018. In 2019, US\$10 billion of green bonds were arranged and issued in Hong Kong, which was more than three times than that in 2017, with cumulative green bond issuance amounting to US\$26 billion by the end of 2019. While the 2020 figure is not available yet, our estimates show that the issuance pipeline remained strong during the year despite the disruptive effect of COVID-19 pandemic.

13. We have also seen increasing diversity in the market, in terms of both participants and products. A substantial number of Mainland and overseas entities have chosen to issue green bonds in Hong Kong, including multilateral development banks like the World Bank, the Asian Development Bank and the European Investment Bank. More than half (55%) of the green bond issuers in 2019 were first-time issuers in Hong Kong. Besides green bonds, there is a growing range of green and sustainable products such as sustainability, social and transition bonds, green and sustainability-linked loans. These new products help narrow

the gap of green financing, opening the door to a wider pool of borrowers while providing investors with more choices. The GGBP, as the catalyst to promote market development, will continue to attract more green and sustainable financing activities to Hong Kong, draw in more investors, borrowers, financial intermediaries and professional service providers, thereby further enriching the overall green and sustainable ecosystem in Hong Kong.

***(c) Funding Green Public Works Projects***

14. The GGBP finances the Government's green public works projects, conducive to the Government's efforts in promoting sustainable development, combating climate change and transforming Hong Kong into a low-carbon economy with an aim to achieve carbon neutrality before 2050.

15. The inaugural Government green bond of US\$1 billion has financed seven major public works projects that fall under four categories, namely energy efficiency and conservation, waste management and resource recovery, water and wastewater management and green buildings, which bring significant environmental benefits to the community. The quantifiable positive environmental impacts of these projects were set out in the Green Bond Report 2020 which is available online and distributed to global investors, showcasing to the world the sustainable development of our city. Proceeds from the second green bond will similarly be allocated to a variety of eligible green projects.

**Expansion of the GGBP**

16. Globally, including in Asia, there is growing momentum and interest in green bonds and sustainable investment. We have also seen more countries, including those in Europe and Asia, announcing sizable green bond issuance plans to fund their green commitments and promote sustainable development. In light of the total outstanding amount of US\$3.5 billion (or HK\$27.3 billion equivalent) green bonds as at March 2021 and the expanded issuance plan set out in paragraph 5 above, the total outstanding amount of green bonds is projected to reach the current borrowing ceiling around 2023. We have already considered potential

projects in the pipeline of which the total funding need far exceeds the current borrowing limit of HK\$100 billion. As such, we see the need to double the borrowing limit to HK\$200 billion at the earliest possible time so that enough flexibility will be provided to continue with regular green bond issuances and adjust the issuance size and tenor of individual tranches as needed in response to the prevailing market conditions, with a view to promoting market development and consolidating further Hong Kong's position as a regional green finance hub. This will also help signal the Government's continuous commitment to promote sustainable development and combat climate change.

17. At present, the green bond proceeds received under the GGBP are only used to finance or re-finance major green public works projects of the Government under the CWRP that have already been approved by the Finance Committee ("FC") of LegCo. We see the need to expand the scope of the GGBP so that the green bond proceeds can be used to fund more green projects under the CWRP. We have identified that, apart from major public works projects, the following types of projects are also currently funded under the CWRP, and we propose that the scope of the GGBP should be expanded to cover also eligible green projects of these types -

- (a) minor works projects<sup>6</sup>: e.g. energy saving, recycling and greening projects;
- (b) major systems and equipment<sup>7</sup>: e.g. pollution surveillance, climate observation and early warning projects; and

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<sup>6</sup> Minor works projects, also part of the Government's Public Works Programme, are funded under the CWRP block allocations approved by FS acting under the delegated power of FC. Under the CWRP block allocations arrangement, FC is responsible for approving the creation of block allocation subheads, the scope of delegation (including the applicable financial ceilings (currently \$50 million per project for applicable works-related block allocation subheads) and ambits of the subheads), and the annual allocation to all block allocation subheads as proposed by the Government. The relevant Controlling Officers of the Government are responsible for approving and implementing individual projects under the block allocation subheads under the delegated authority of FC.

<sup>7</sup> The CWRP provides funding for non-administrative computer systems and communication equipment which cost more than a prescribed amount (currently \$10 million per project), and are not an integral part of a works project funded under other CWRP subheads. These projects are approved by FC of LegCo.

- (c) capital subventions<sup>8</sup>: e.g. hospitals, school and welfare premises projects implemented by non-government organisations.

The proposed expansion of the scope will accommodate a bigger variety of green projects, allowing the Government to further tap into the green bond market to support the low-carbon transformation in Hong Kong and enhance the demonstrative effect of the GGBP on promoting green and sustainable finance. We expect that such expansion will be welcomed by the market and investors, depending on the actual costs, scale and expected environmental benefits of the projects concerned.

18. The Government, together with the HKMA, will continue to adopt a flexible approach and monitor the market conditions closely to decide on the appropriate timing and parameters of each green bond issuance. The management of proceeds under the GGBP will continue to be governed by the Green Bond Framework which will be updated as appropriate in light of the latest international green bond standards and principles, the latest environmental policies and targets of Hong Kong and potential expansion of the scope of eligible green projects as warranted. External review<sup>9</sup> of the updated Framework will also be sought as necessary. All proceeds raised under the GGBP will continue to be credited to the CWRP. Expenses, including interest payments and principal repayment for bonds issued under the GGBP as well as other relevant expenses (e.g. expenses for external services) will continue to be met by the CWRP<sup>10</sup>.

## **THE RESOLUTION**

19. The purpose of the proposed Resolution under section 3(1) of the Loans Ordinance is to authorise the Government to borrow sums not

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<sup>8</sup> Capital subventions are provided under the CWRP for works projects implemented by non-government organisations (“NGOs”), such as hospitals run by welfare and religious groups, premises of NGOs, teaching facilities of tertiary institutions, etc. These projects are approved by FC of LegCo or FS acting under the delegated power of FC.

<sup>9</sup> A Second Party Opinion was obtained in April 2019 from Vigeo Eiris, an external reviewer and an independent international provider of Environmental, Social and Governance research and services, for the Framework’s compliance with the Green Bond Principles 2018 published by the International Capital Market Association.

<sup>10</sup> which is placed with the Exchange Fund for investment and attracts investment income on the basis of the “fixed rate” sharing arrangement applicable to fiscal reserves.

exceeding in total HK\$200 billion or equivalent, being the maximum amount of all borrowings made under the authorisation that may be outstanding by way of principal at any time for the implementation of the GGBP. The sums borrowed will continue to be credited to the CWRP but will serve a wider purpose of financing a greater variety of green projects, instead of solely major green public works projects. The Resolution is to replace the previous resolution (i.e. Cap 61F) passed by LegCo under the Loans Ordinance on 15 November 2018 prescribing the current maximum amount of borrowings of HK\$100 billion or equivalent.

### **NEXT STEPS**

20. We plan to move the proposed resolution for positive vetting by LegCo within this legislative session.

### **ADVICE SOUGHT**

21. Members are invited to comment on the proposal set out in this paper.

**Financial Services and the Treasury Bureau**  
**March 2021**

**L.N. 225 of 2018**

## **Loans Ordinance**

### **Resolution of the Legislative Council**

Resolution made and passed by the Legislative Council under section 3(1) of the Loans Ordinance (Cap. 61) on 15 November 2018.

**Resolved that—**

- (a) the Government be authorized to borrow from time to time, from any person for the purposes of the Capital Works Reserve Fund established by the Resolution published in the Gazette as Legal Notice No. 18 of 1982, sums not exceeding in total \$100 billion or equivalent, being the maximum amount of all borrowings made under this paragraph that may be outstanding by way of principal at any time; and
- (b) sums borrowed under paragraph (a) are to be credited to the Capital Works Reserve Fund.

Kenneth CHEN Wei-on  
Clerk to the Legislative Council

15 November 2018

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### **Explanatory Note**

This Resolution relates to the proposal in the 2018–19 Budget to promote green finance in Hong Kong through a green bond issuance programme, which will provide funding for green public works projects of the Government.

2. This Resolution—
  - (a) authorizes the Government to borrow, for the purposes of the Capital Works Reserve Fund, sums not exceeding in total \$100 billion or equivalent; and
  - (b) requires that the sums be credited to the Capital Works Reserve Fund.