

Publication: Macau Business Online

Date: 22 November 2021

Headline: Sustainable Finance and Green FinTech will undoubtedly play an important role in Asia

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Last week, Hong Kong sold US\$3 billion of green bonds, pricing its first euro tranche to sharpen Hong Kong’s edge as center for green finance. The entire offering of Eurobonds and dollar-denominated debt was triple the size of the first US\$1 billion green bond sold in 2019, and the green bond offering comprised a US\$1 billion 10-year tranche, a €1.25 billion (US\$1.42 billion) 5-year tranche, and a €500 million 20-year tranche.

According to the Hong Kong Monetary Authority (HKMA), the 20-year tranche of the latest offering was the longest euro-denominated green bond issued by an Asian government. Actually, it underscores the city’s HK\$175.5 billion (US\$22.5 billion) plan for green bonds over the next five years as Hong Kong strives to become an international green financial center.

Is turning green just a passing fad or is it an area with huge potential? To me, it’s definitely the latter, as I will explain next.

Introduction to Green Finance

Green Finance, according to the UN Environment Program, aims to “increase level of financial flows (from banking, micro-credit, insurance and investment) from the public, private and not-for-profit sectors to sustainable development priorities. A key part of this is to better manage environmental and social risks, take up opportunities that bring both a decent rate of return and environmental benefit and deliver greater accountability.”

Green bonds are the most common green finance instrument. According to the International Capital Market Association’s (ICMA) “Green Bond Principles”, “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 and which are aligned with the four core components of the GBP”, that is, Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds and Reporting.

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The US, China and France are the three biggest issuers of green bonds. Presently, the European Central Bank holds around 20% of all euro-denominated green debt, even though it only started buying corporate bonds as recently as 2016, which indicates that the bank sees this as a way to further its own green agenda.

The green bond markets have been going strong for over a decade. Since the green bond market first opened in 2007, more than USD\$1 trillion worth of green bonds have been issued globally as investors have started to see a sustainable and profitable investment option. Actually, oversubscription – where demand has exceeded the number of green bonds available – has become the norm for green bond issuances.

Globally, the green bond market could be worth \$2.36 trillion by 2023, and, to some extent, it is regarded as a way of meeting the needs of environmentalism and capitalism simultaneously.

In this article, I am going to focus on the current status of Green Finance in a few locations in Asia: Hong Kong and Macau, Mainland China and Singapore.

1. Hong Kong and Macau

Regarding Hong Kong, in June 2018, the Government launched the Green Bond Grant Scheme to subsidize eligible green bond issuers in obtaining certification under the Hong Kong Quality Assurance Agency's (HKQAA) Green Finance Certification Scheme. In September 2018, the Hong Kong Green Finance Association was set up, bringing together some 100 market practitioners and business front runners to promote Hong Kong as a green finance capital.

After that, in August 2020, Financial Secretary Paul Chan, during his budget speech, announced that the HK government would be issuing HKD\$66 billion (USD\$8.5 billion) in green bonds in the coming 5 years.

And, only a few months ago, the HK Government launched green bonds worth \$2.5 billion, to be available on the Hong Kong Stock Exchange and the London Stock Exchange on February 2, under the Government Green Bond Program. The offering includes \$1bn 5-year bonds at 0.635%, \$1bn 10-year bonds at 1.414% and \$500 million 30-year bonds at 2.431%.

Leaving aside the figures, what is more important about this offering is the fact that, according to the data provided by a press release issued by the Hong Kong Monetary Authority (HKMA) on January 27, the 30-year tranche is also the first 30-year green bond to be issued by an Asian government, and the longest tenor to be issued by the HKSAR Government, which means that Hong Kong is at the forefront of Green Finance in Asia.

The deal attracted strong interest from a diverse group of conventional and green investors: Asian institutional investors were allocated 65% of the total, investors from Europe were allocated 20% and US investors received 15% of the total.

In this sense, the HKSAR Government published its Green Bond Framework in 2019, which sets out how green bond proceeds will be used to fund projects that will improve the environment and facilitate the transition to a low carbon economy.

Hong Kong is thus in a perfect position to leverage its involvement in the Greater Bay Area (GBA) blueprint to serve as the GBA Green Finance Centre.

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As to its neighbor Special Administrative Region, Macau, its green finance scene is not as advanced as Hong Kong's one (which makes perfect sense, given the fact that Hong Kong is one of the world's leading financial centers, whereas Macau's transition into finance is just starting), even though there have been some movements in this area. For example, in October 2019, the Bank of China in Macau carried out 'green' bond issues worth RMB 7 billion (US\$876.8 million) in three currencies (dollar, euro and renminbi).

Given the fact that the Macau Government promotes economic diversification and at the same time advocates low-carbon and sustainable development, green finance would be a very interesting area for Macau to focus as part of its future shift towards finance. In this sense, green finance has been pointed out by the Macau authorities as one of the bets for a future renminbi stock market to develop "a modern financial industry, diversification of the economy and strengthening cooperation projects between China and Portuguese-speaking countries".

Therefore, Macau should leverage its belonging in the Portuguese-speaking world to try to take advantage of the many opportunities offered by Green Finance.

2. Mainland China

In the report delivered at the 19th National Congress of the Communist Party of China in 2017, President Xi Jinping emphasized that building an ecological civilization would be a "millennium project for the sustainable development of the entire nation", and stressed the need to "construct a market-oriented system of innovation for green technology, develop green finance, as well as expand energy conservation and environmental protection industries, clean production industries, and clean energy industries."

Following this, in his speech at the general debate of the 75th session of the United Nations General Assembly on September 22, 2020, President Xi pledged that China will strive to peak its carbon dioxide emissions before 2030 and achieve carbon neutrality before 2060.

Both the reduction of high-carbon investments and the increase in low-carbon and zero-carbon investments are tasks of the green financial system.

China first proposed building a green financial system in 2015 and has since developed a framework of such a system. In this sense, China's green loans are now the largest in the world, and its green bond market is ranking the second.

As we can see, green has become an imperative for the transition and development of the economy as one of China's five major development concepts. By 2030, China is expected to require RMB 3tn- RMB 4tn (USD 424bn -USD 566bn) in green investment annually. Green bonds are an ideal financing tool to support the required investment.

As of July 2020, six provinces and nine regions were approved as green finance pilot zones. The green finance pilot zone programme is unique to China and provides an opportunity to test specific strategies locally, before rolling them out nationally.

As stated by Climate Bonds Initiative's "China's Green Bond Issuance and Investment Opportunity" report, China has led the world in kickstarting a domestic green bond market with robust policy support including clear definitions and strong regulatory guidance for green finance. The next phase of the market's growth will require local and global harmonization as

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well as tightening of green definitions, credit enhancement to enable medium-sized issuers into the market and greater efforts at market awareness and transparency.

As we can see, Mainland China has become a green finance powerhouse through the development of a quite advanced green financial system.

Singapore

The Lion City aims to be a hub for green finance in Asia as well. The Monetary Authority of Singapore (MAS) has formed a network with seven other central banks in the world, the Central Banks and Supervisors Network for Greening Financial System, which intends to promote sharing of experience and best practices in green finance with other countries.

Along with forming the network, the MAS has established a Green Bond Grant Scheme to promote and ensure the issuance of green bonds in Singapore. Parallely, the Association of Banks in Singapore published Guidelines on Responsible Financing to promote and support environmental, social, and governance (ESG) disclosures. The Singapore Exchange asks its member firms to strictly comply with the ESG disclosures.

Aside from that, in late 2020 Singapore launched its first institute focused in green finance research and talent development, the Singapore Green Finance Centre (SGFC), which will tap the strengths of Imperial College Business School and the Lee Kong Chian School of Business at Singapore Management University (SMU) in climate science, financial economics and sustainable investing.

The center is supported by the Monetary Authority of Singapore (MAS) and nine founding partners: Bank of China, BNP Paribas, Fullerton Fund Management, Goldman Sachs, HSBC, Schroders, Standard Chartered Bank, Sumitomo Mitsui Banking Corporation, and UBS Group AG.

In a joint statement, the two academic institutions and MAS said that SGFC's multi-disciplinary research and training will enable financial institutions, corporates and policymakers to improve the management of environmental risks, develop financial solutions to promote environmental sustainability, and design policies for a sustainable future.

As of today, Singapore is ASEAN's largest green finance market. ASEAN's total green bond issuances from 2016 to 2019 was approximately only US\$8.1 billion (S\$10.8 billion), of which 55 per cent was contributed by Singapore.

In this sense, even though Singapore still has plenty of room to grow, there exists a strong demand for green bonds and Singapore's Budget 2021 recognizes not only the appetite, but also the need to focus on pathways toward becoming a global city of sustainability.

Conclusions

To sum up, the COVID-19 pandemic has shown the world that the need for a more sustainable future is real and immediate, therefore green finance is more necessary than ever.

Hong Kong is already becoming a very important hub for green finance and it should keep moving forward, whereas Macau is at an early stage in this area, compared to HK, but it has plenty of room to grow as well, given Macau's current focus in finance and its connection with the Portuguese-speaking world.

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Mainland China has become a green finance powerhouse through the development of a quite advanced green financial system and is actually the second biggest issuer of green bonds in the world, just behind the US.

Singapore is currently ASEAN's largest green finance market and is aiming to become a green finance hub.

Green finance in general, and green bonds in particular, are not only a good opportunity from an environmental perspective, but they are also a good business opportunity. Actually, it is hard to find a financial product that is sustainable and can meet the goals of both helping to protect the environment and being a good investment opportunity, economically speaking. This is probably why green finance has become much more important all across the globe, and it should become even more important than it is now, since it offers countless opportunities.

The author works as a FinTech Advisor and Researcher. He holds an MBA and a PhD in Hong Kong real estate law and economics. He has worked as a business analyst for a Hong Kong publicly listed company and has given seminars on Central Bank Digital Currencies and Blockchain in many international conferences and universities.