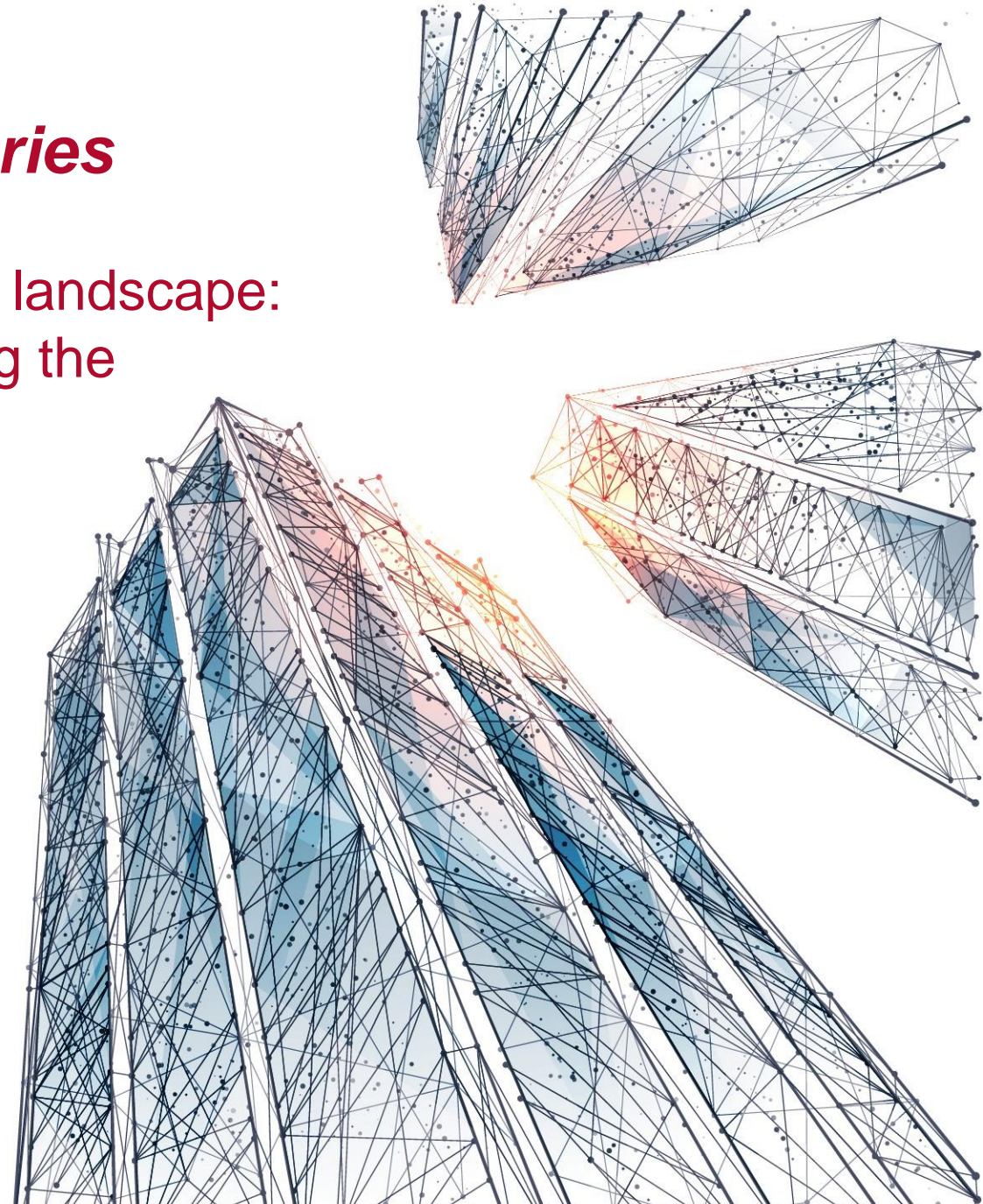
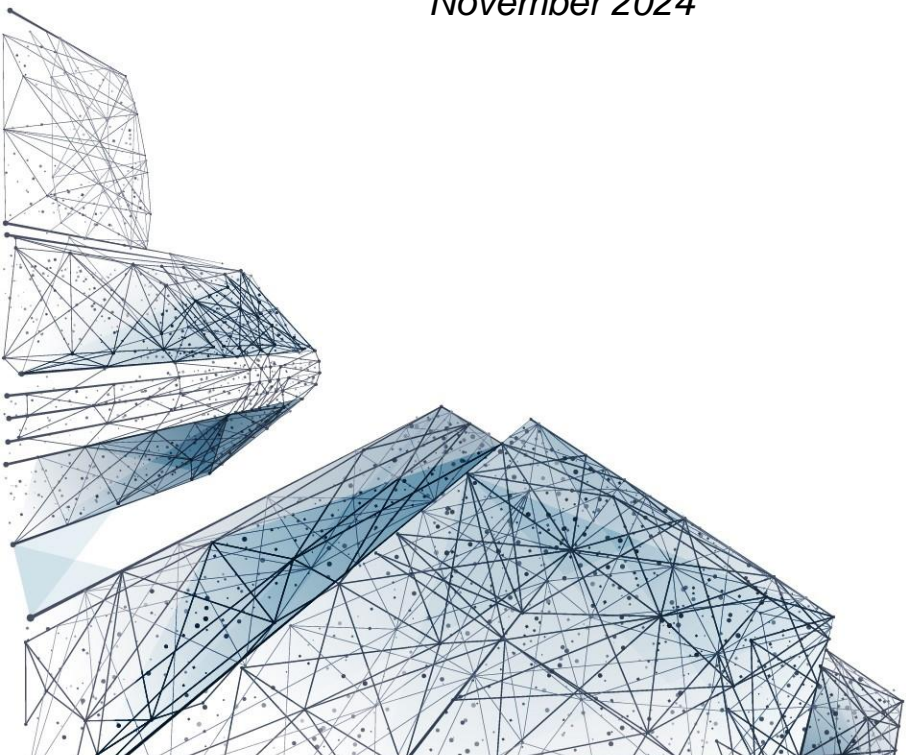


# ***FSDC Industry Exchange Series***

**Navigating the evolving sustainable landscape:  
Hong Kong's crucial role in financing the  
transition to sustainability**

*November 2024*



## What is transition finance?

- “Transition finance focuses on the dynamic process of becoming sustainable” and includes both “**solutions for a whole-of-economy decarbonisation, and to decarbonise the most polluting and hard-to-abate industries today**”
- It serves as a funding mechanism essential for bridging the investment gap needed to achieve net-zero targets by 2050

### Key transition financing strategies include:

#### Climate solutions

Focus on direct and indirect methods to reduce emissions, including innovative technologies and nature-based strategies.

#### Aligning

Entities in the initial or intermediate stages of commitment to net zero. The focus is on gradual alignment with net-zero goals, moving from planning to action

#### Aligned

Entities with declared net-zero ambitions that are implementing a credible transition plan and are on a decarbonization pathway aligned to achieving net-zero.

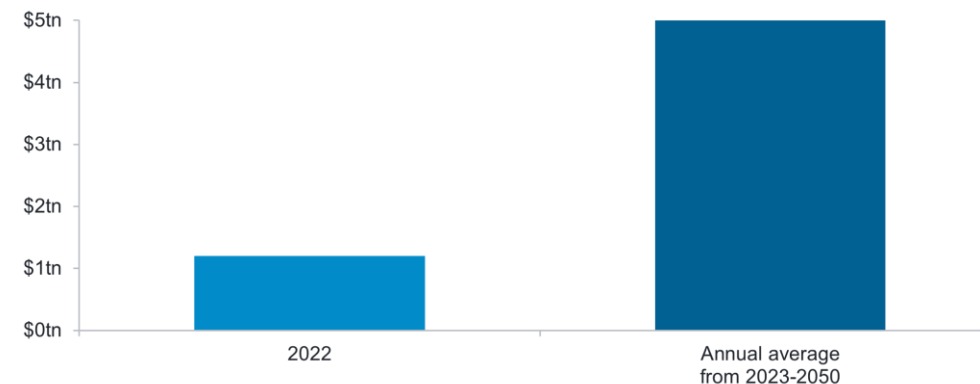
#### Managed phaseout

Financial and operational measures to decommission high-emitting assets ahead of their projected end-of-life

## Why is it important?

- **Global energy challenges:** Despite renewable progress, fossil fuels still dominate, with coal and gas driving emissions. Transition finance is vital for phasing out high-emission sources
- **Access and challenges:** Companies face difficulties accessing transition finance due to financial institutions' risk aversion and a lack of regulatory support, especially in Asia
- **Need for a robust ecosystem:** Establishing clear standards and fostering collaboration can prevent transition-washing, enabling financial institutions to confidently invest in broader decarbonisation efforts

### The annual gap to limit warming to 1.5 degrees is c.US\$4tn



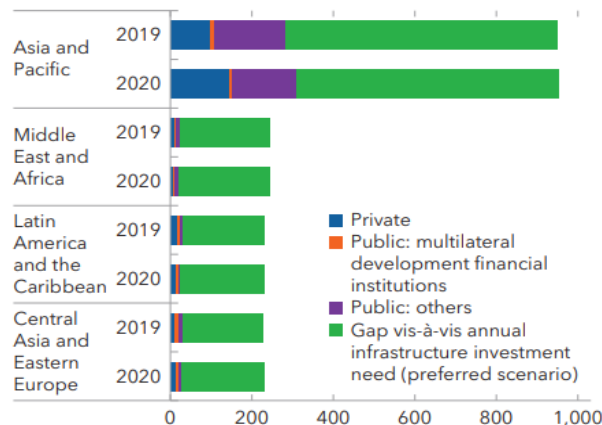


# Regional market landscape and Hong Kong's opportunities

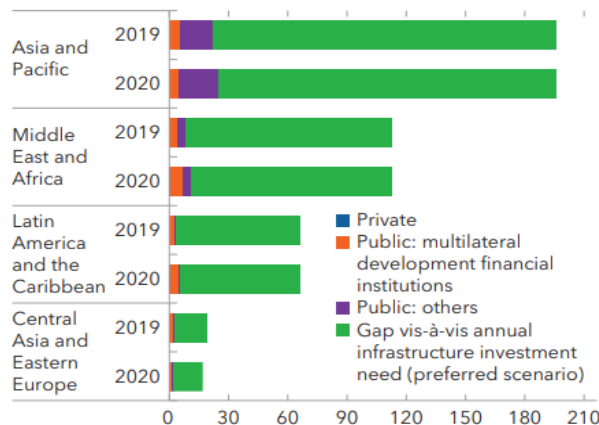
## Global climate finance flows and investment need

(Billions of US dollars)

1. Infrastructure Investment for Mitigation



2. Infrastructure Investment for Adaptation



- IMF 2024 study reveals that **Asian economies** will require at least US\$1.1 trillion annually for climate mitigation and adaptation; yet current investments **fall short by US\$800 billion** annually
- The share of coal in energy supply in Asia still accounted for **nearly half** of its total energy supply and around **79% of the global share of coal energy supply**
  - Coal-fired power plants in Asia have an average operational age of 12 years - three decades younger than the average in Western nations

## Opportunities for Hong Kong

- Robust market growth: Green, social, sustainability, and sustainability-linked bond debt, originating from Hong Kong, **reached \$18.2 billion** in 2023.
- From 2019 through the 1Q of 2023, Hong Kong ranked among the top three in terms of transition bond issuance
- The HKSAR Government is implementing initiatives to support transition finance development, with initiatives including:
  - Expanding Hong Kong's taxonomy to encompass transition activities
  - Extension of Green and Sustainable Finance Grant Scheme
  - Launch of HKMA's Sustainable Finance Action Agenda
  - Strategic partnerships with multilateral development banks strengthening international collaboration
- Additional opportunities are emerging at the broader national level in Mainland China and across the Asian landscape
- The city is leveraging its position as an international financial hub and green and sustainable finance centre to capitalise on emerging opportunities in the transition investment market

# Proposed policy recommendations

## Recommendation 1: Adopting a three-pillar approach to develop Hong Kong into a transition finance hub

- A flexible, principles-based framework balancing international standards with regional needs. Ensure interoperability across markets while maintaining core taxonomy consistency, positioning Hong Kong as a bridge between global and local requirements
- Considering that Hong Kong's transition taxonomy is still under development, **a three-pillar approach** is suggested:
  - i. Policy certainty to encourage transition – more concrete and actionable implementation frameworks for key sectors; extending to include GBA to enhance regional integration
  - ii. Interoperability with regional and global taxonomies to attract global investment into HK and Mainland China's projects
  - iii. A coordinated approach through different levels of partnership to promote transparency and the adoption of best practices

## Recommendation 2: Scaling transition finance through blended finance and other financing mechanisms

- Develop innovative financial products beyond conventional instruments, **such as blended finance to address the shortage of commercially viable projects**. This approach can mitigate risks, catalyse private investment, and develop new markets for sustainable initiatives
- Consider implementing **dual mandate investments** in transition finance, balancing market development with financial returns.
- Explore the potential of establishing a **dedicated fund that standardises blended finance principles and structures**, through partnering with established institutions that have a mandate for impact investing—such as regional development banks—to develop a fund-of-funds model

# Proposed policy recommendations (cont'd)

## Recommendation 3: Establishing structured public-private dialogues to accelerate sector transitions

- **Formalise public-private stakeholder dialogues** to drive innovation in Hong Kong's transition finance landscape. Identifying practical pathways for meeting Hong Kong's 2050 carbon neutrality goals and driving immediate deliverables for pilot sectors
- **Foster a climate-conscious business ecosystem** by
  - ❑ Advocating for dedicated sustainability and climate finance committees on corporate boards
  - ❑ Encouraging/mandating sustainable finance training for board members of listed corporations
  - ❑ Consider expanding climate disclosure requirements to include large unlisted companies

## Recommendation 4: Expanding Hong Kong's strategic vision for greater certainty – advancing through tailored financing, technology and data management

- Expand strategic plans/ guidelines such as Hong Kong's Climate Action Plan 2050 and the taxonomy, providing more **frequent updates with industry-specific objectives, concrete timelines and milestones outlined**
- Tailor Hong Kong's approach to its unique economic context as a global financial hub, drawing selective insights from international models for outlining key action points and financing need estimation
- Implement a more structured and expansive approach to data management and infrastructure, particularly in three key areas: emissions data across sectors, physical climate risk assessments, and sector-specific performance indicators.
- Explore emerging trends such as **tokenisation in transition-related products** – to enhance transparency and efficiency and reduce transition-washing risk

**Thank you**