



Hong Kong

January 2019

BREAKFAST SEMINAR 8 JANUARY 2019 – ACCELERATING HONG KONG'S GREEN FINANCE AGENDA WITH A HONG KONG GREEN BANK

Date: 8 January 2019
Time: 8:00 – 9:30 am
Venue: Harcourt Suite, The Hong Kong Club
1 Jackson Road, Central, Hong Kong
Ticket: \$200/person
Dress code: Business Attire
RSVP: Yanqing Jia – fsbc@eurocham.com.hk

Julia Charlton on behalf of the Financial Services Business Council (FSBC) invites you to join a breakfast briefing on “Accelerating Hong Kong’s Green Finance Agenda”.

Since 2016, “green finance” has been receiving growing emphasis in the policy agenda of the Hong Kong government and is covered almost daily in the media. But what does this mean in practice for Hong Kong’s financial services businesses? What should Hong Kong be trying to achieve out of green finance and what is the best way to get there?

One strategy for pushing the agenda, which FSBC has been championing since 2017, would be the establishment of a Green Investment Bank in Hong Kong, a specialist financial institution to scale up private investment in green infrastructure. As Hong Kong considers its evolving role in the region, in particular, its efforts to support Belt and Road development, this move could have a significant impact on the ground.

The breakfast briefing will include a presentation on FSBC’s Green Investment Bank concept and its most recent briefing paper on “Driving Private Financing for Green Industries in Hong Kong - The Catalytic Role of a Green Investment Bank”¹ (authored by Alexandra Tracy, Founder and President of Hoi Ping Ventures). This will be followed by a panel discussion of the briefing paper and other strategies and initiatives for accelerating progress on green finance in Hong Kong.

A summary of the briefing paper is set out below.

“Driving Private Financing for Green Industries in Hong Kong – The Catalytic Role of a Green Investment Bank”

Introduction

The Financial Services Business Council of the European Chamber of Commerce in Hong Kong (EuroCham) published a briefing paper titled “Driving Private Financing for Green Industries in Hong Kong – The Catalytic Role of a Green Investment Bank” on 27 December 2018 (Green Finance Briefing Paper). The Briefing Paper elaborates on a concept paper issued by EuroCham in 2017, “Leading Asia’s Financial Future – Hong Kong Green Investment Bank”², which introduced the idea of a Hong Kong Green Investment Bank (HK Greenbank) and outlined the argument for establishing

- ¹ <https://www.eurocham.com.hk/wp-content/uploads/2018/12/THE-CATALYTIC-ROLE-OF-A-GREEN-INVESTMENT-BANK-A-Tracy.pdf>
- ² <https://www.eurocham.com.hk/wp-content/uploads/2017/10/Leading-Asias-Financial-Future-Hong-Kong-Green-Investment-Bank.pdf>

such an institution in Hong Kong. The Green Finance Briefing Paper reviews models of Green Investment Banks (GIB) across the globe and the projects they have financed to identify potential funding opportunities for a HK Greenbank.

Green Investment Bank

A GIB is a financial institution set up and owned by the government to direct private finance into low carbon infrastructure and environmentally friendly construction. The GIB structures projects on a commercial basis and seeks to create different liquid markets that can operate independently.

The key issue in most markets is that many projects are unable to obtain finance to invest in low carbon infrastructures. The GIB model seeks to remedy this by mobilising private investment capital.

- Tackling investment barriers

Investors' reluctance to invest in low carbon infrastructure projects is often due to their lack of understanding of the associated risks. GIBs thus play a crucial role in making investors comfortable with green investment through the provision of credit support, education and information.

- Attracting private capital

The role of the GIB is to attract private sector investment to green projects by providing financial tools (such as coinvestment, insurance etc.) and market support to reduce the perceived risks. A GIB may also suggest aggregating small projects into larger vehicles to appeal to institutional investors.

- Developing private markets

GIBs play an important role in educating investors in relation to the risks and opportunities of green sector investment. Once investors gain experience of green investments supported by GIBs, they are more likely to invest in other green sector investments, even those without GIB support.

Potential Funding Opportunities for HK Greenbank

Rooftop Solar Power

Experience in other markets has shown that providing affordable financing to home owners to install rooftop solar systems increases installation rates. This is particularly true where mechanisms are provided to simplify the process of accessing finance and physically installing the systems.

Connecticut Green Bank (CTGB) Case Study

Over a decade ago, the government of the state of Connecticut created incentives to produce a target amount of residential solar power systems. However, the upfront cost of purchasing and installing the solar panels and the lack of available financing acted as a major deterrent to solar panel installation.

A solar lease programme was implemented which used a combination of solar rebates and investment tax credits to give residents access to affordable solar energy. Under the lease, residents could install solar panels with no upfront cost and instead paid a fixed lease price for 15 years. To fund the programme, CTGB entered into partnerships with banks and provided credit support to provide comfort to its financing partners.

The programme adopted by the CTGB was fully utilised and a number of residential lease providers later entered the market, so that CTGB's support was no longer required.

CTGB's solar lease programme could be replicated by HK Greenbank with local banks in Hong Kong. Consideration could also be given to developing similar programmes in the Greater Bay Area. Further, HK Greenbank could facilitate the securitisation of deals through Hong Kong's bond market, possibly in partnership with the Hong Kong Mortgage Corporation.

Offshore Wind

UK GIB Case study

In 2014, the UK identified offshore wind as a potentially substantial source of renewable energy. However, investors were cautious about this sector due to their limited familiarity with offshore wind projects.

As the most active investor in the industry at the time, the UK GIB used its experience to create the world's first dedicated offshore wind fund. The UK GIB provided expertise and acted as the anchor investor in the fund to allow investors to rely on its expertise.

The offshore wind fund is now Europe's largest dedicated renewable energy fund and has attracted new investors such as Swedish Life Insurance and Strathclyde Pension Fund.

Although the offshore wind industry is relatively new to Asia, HK Greenbank could play a major role, either by encouraging equity investors as in the UK, or by providing support for commercial bank financing or bond issues to refinance completed projects.

Energy Efficiency for Buildings

Hong Kong's building sector is the main source of its carbon emissions. Retrofitting existing buildings offers significant potential for reducing electricity usage. The major obstacle to building retrofitting is however the lack of available commercial funding.

Clean Energy Finance Corporation (CEFC) Case Study

In Australia, existing buildings are responsible for a substantial percentage of its greenhouse gas emissions. Although upgrades of older commercial buildings would reduce emissions and lower operating costs, many building owners have not invested in retrofits due to the perceived project risk and limited availability of funding.

The Clean Energy Finance Corporation and the National Australia Bank established a fund to provide financing to improve the efficiency of commercial buildings. The fund provides loans to owners for building upgrades which are paid back through a surcharge on local property taxes to increase the certainty of repayment.

The building upgrades financed through the fund reduced base building electricity consumption by up to 50%. Building improvements made to improve energy performance and energy costs often increase the value of the property and extend its useful life.

The HK Greenbank could adopt a similar lien-based financing structure that allows building owners to repay an energy upgrade loan through the payment of property taxes. HK Greenbank could also work with the Hong Kong government

to enact legislation that would accommodate a similar funding model by attaching a lien to the property tax charged on a property's income.

New York Green Bank (NYGB) Case Study

New York State's electricity rates were one of the highest in the United States but energy efficiency upgrades in the state were constrained by several factors. Home owners were reluctant to make improvements, as they were not aware of the benefits and were put off by the complicated process and additional costs.

The NYGB provided debt financing to Sealed Inc., an energy software company, to provide energy audits and equipment and to explore a method for customers to pay for improvements. Further, in 2016, NYGB provided a revolving credit facility to Sealed Inc. to allow them to launch a programme that enabled the company to undertake energy saving projects amounting to US\$7.5m.

As a result, 400 individual homes were upgraded resulting in a significant reduction in greenhouse gas emissions. NYGB's financing allowed Sealed Inc. to pool together a sufficiently large number of projects to be securitised or sold to a long term investor.

In Hong Kong, two utility companies have committed with the Hong Kong government to promoting energy efficiency and conservation. HK Greenbank could try to introduce "on bill financing", which is a structure whereby an energy upgrade loan is repaid through the customer's utility bill. The introduction of "on bill financing" could attract significant investment to energy upgrades. HK Greenbank could also consider the potential for securitisation of project portfolios once they reach a sufficiently large scale.

Waste Management

The need to find a solution to Hong Kong's waste problem has been made more urgent by China's recent ban on importing waste.

Clean Energy Finance Corporation (CEFC) Recycling Case Study

In Australia, organic waste amounts to around 42% of landfills from Australia's municipal and commercial waste. However, since local councils often operate under significant financial constraints, many recycling projects were not adopted due to the lack of governmental funding.

The CEFC provided a loan to finance the South Eastern Organics Processing Facility which will process household garden and food waste into compost and is due to be fully operational in 2019.

It is estimated that the facility will be able to cut 85% of emissions as compared to the amount that would have been generated in a landfill.

In Hong Kong, 3,600 tons of food waste is sent to landfills every day. Although the Hong Kong government is developing plans to recycle organic waste, the HK Greenbank could play a crucial role in financing and promoting the implementation of organic waste treatment plants.

UK GIB – Waste to Energy Case Study

In 2014, the UK Government confirmed that it sees a longstanding role for energy from waste to be a waste management tool and a source of energy. However, securing funding for facilities to convert waste to energy proved problematic.

In 2013, the UK GIB provided debt funding to UBB Waste (Gloucestershire) Ltd to develop a waste to energy plant to process all of the UK's residual household waste left for recycling. UK GIB then extended equity bridge and long term debt facilities, with three commercial banks.

The waste energy plant will ensure that at least 92% of incoming waste is diverted from landfills before the residual is used for energy creation. By providing long term debt financing, UK GIB was able to mobilise around four times more private investment capital.

Like the UK government, the Hong Kong government is developing a long term plan for the processing of waste to energy facilities. HK Greenbank could help to mobilise private sector funding by working with local banks to develop their expertise in lending to this sector.

Low Carbon Transportation

CEFC Low Emission Vehicles Case Study

In Australia, transportation is a key contributor to greenhouse gas emissions. Large numbers of vehicles are leased by corporates and the government which means that the procurement pattern of fleet buyers and lessees could play a major role in increasing the number of low emission vehicles in use. However, buyers are often deterred from choosing low emission vehicles by the additional cost and lack of attractive financing options.

The CEFC provided funding to encourage government, business and not for profit buyers of fleets to choose low emission vehicles. This allowed Eclix Group, one of Australia's largest independent fleet leasing companies, to offer favourable interest rates on financing for vehicles meeting low emissions benchmarks.

In the first eighteen months of the initiative, the emissions per kilometre travelled for cars financed by Eclix Group were 27.1% below the national average, while emissions for light commercial vehicles were 31.2% below the national average. Further, the improved fuel efficiency of low emission vehicles could see Australia saving up to \$7.9 billion annually through reduced fuel usage.

The Hong Kong government has been criticised in the past for using taxpayers' funds to subsidise the purchase of electric vehicles in Hong Kong. HK Greenbank could instead support the electric vehicle market by promoting the provision of affordable financing for consumers wanting to buy or lease an electronic vehicle. Once a sufficiently large portfolio of vehicle loans exists, the potential for securitisation can be considered.

Connecticut Green Bank (CTGB) - Electric Vehicle Charging Infrastructure

Motor vehicles in the state of Connecticut are key contributors to the emission of greenhouse gasses and smog forming particles. The state has set a goal to reduce greenhouse gas emissions by 80% by 2050, but electric vehicles make up only a small percentage of vehicles in the state due to the high prices of electric vehicles and lack of charging facilities in many areas.

CTGB worked with local commercial lenders to provide long-term financing at low interest rates for electric vehicle charging stations. As the take up was not significant, to boost additional

private investment in charging infrastructure, CTGB developed a system of using carbon credit markets to increase the revenues derived from charging stations.

The carbon credits will be available for sale in 2019 and CTGB hopes that additional revenue from the credits will increase returns on capital invested in charging stations. This should in turn encourage greater private investment in charging facilities and help increase the demand for electric vehicles in Connecticut.

Currently, Hong Kong does not have an efficient and well-established charging infrastructure for electric vehicles. There is a shortage of home charging facilities, which would allow slow charging overnight or during unused hours rather than fast charging which requires much more energy. To provide incentives for building owners/managers to install charging infrastructure, HK Greenbank could consider introducing a system that would provide carbon credits or renewable energy credits which could be sold to provide revenues.

CHARLTONS

Boutique Transactional Law Firm of the Year 2017

Asian Legal Business Awards

This newsletter is for information purposes only.

Its contents do not constitute legal advice and it should not be regarded as a substitute for detailed advice in individual cases.

Transmission of this information is not intended to create and receipt does not constitute a lawyer-client relationship between Charltons and the user or browser.

Charltons is not responsible for any third party content which can be accessed through the website.

If you do not wish to receive this newsletter please let us know by emailing us at unsubscribe@charltonslaw.com

Hong Kong Office

Dominion Centre

12th Floor

43-59 Queen's Road East

Hong Kong

Tel: + (852) 2905 7888

Fax: + (852) 2854 9596

www.charltonslaw.com