STEPHENSON HARWOOD'S COP26 INSIGHTS SERIES

Philanthropy and Impact Investing for Climate – Trends in Hong Kong and Asia

"I want you to act as if the house is on fire, because it is," said activist Greta Thunberg in 2019. The United Nations (UN) International Panel on Climate Change (IPCC) backed this up with the latest climate science in its August report which the UN Secretary General called a "code red for humanity". Even a dinosaur came back to life to plead at the United Nations General Assembly over the weekend for us to not choose extinction and take immediate actions for climate change or "it's now or never".

Why climate philanthropy and impact investing?

Philanthropy for climate change mitigation is fast growing. It has more than doubled since 2015, growing to $6-10 billion globally in 2020. But this still only represents less than 2% of total global philanthropic giving.

Meanwhile the climate emergency is not slowing down, and is a challenge that public and private sectors alone cannot address. To ensure we can meet the Paris Agreement goals of keeping temperature rise to 1.5 degrees above pre-industrial levels, we need drastic actions on reducing carbon emissions i.e. climate change mitigation. But we cannot stop here. To ensure future generations will still be able to enjoy our planet we also need to invest in climate adaptation and resilience. A good definition of climate mitigation versus climate adaptation can be found here.

Urgent climate solutions will have to cover everything from ecological conservation and restoration (preserving our natural capital), to fostering a circular economy (looking ahead for a new system), to protecting the people and regions most prone to impact of climate change (ensuring a just transition and making sure no one gets left behind). This requires us to take into consideration the interests of young people worldwide; it means listening to climate refugees from regions devastated by droughts or floods. It means ensuring their voices are represented in the formulation of climate policies, and that they are equipped to cope and adapt to the impact of climate emergency.

Philanthropy has consistently proven effective in identifying gaps, taking risks, seeing the inter-connectedness between issues, forging collaborative efforts, and pushing for system change. Philanthropy is "incredibly influential", said UK High-Level Climate Action Champion Nigel Topping in the recent issue of Alliance Magazine dedicated to climate philanthropy.

It is increasingly recognised that the climate emergency is not just an environmental issue. It's a social issue; it's a health issue; it's an inter-generational issue; and it's about climate justice and resilience. And more philanthropists and impact investors are now stepping up to the challenge.

What can families do, and what are Hong Kong and Asia impact investors already doing?

As ESG and sustainable investing gain momentum in the financial world, impact investing (a subset of ESG and sustainable investing)[1] and along with philanthropy allow families to be more intentional in their support for climate solutions and driving impact. This can be achieved in multiple ways. For example, they can review their investment portfolio to see if their investments are ESG and Paris

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[1] The latest figures on impacting investing is US$715 billion according to the Global Impact Investing Network (GIIN 2020 Report), and on sustainable investing is US$35.3 trillion according to the Global Sustainable Investment Alliance (GSIA 2020 Report).

Agreement aligned. Or they can add a climate angle to their existing philanthropy portfolio joining the dots with causes they already support. They can also identify, incubate and give directly to climate solutions, through grants, impact investment or both.

In Hong Kong and Asia, individuals and foundations have begun to pour more capital into climate causes. For instance, RS Group, a family office, is a pioneer in supporting climate projects. It set up the Nature Capital Initiative to support projects conserving natural ecosystems for both people and planet. As part of this endeavour it established a US$3 million blended finance design funding window to support new regional projects to enhance and protect natural assets. Examples of such projects include ones which will contribute to protecting biodiversity, reduce degradation of ecosystems (e.g. deforestation), mitigate and adapt to climate change, reduce unsustainable use of land and oceans, and provide a fair and sustainable living to local communities.

We interact with another climate-focused family office which is likewise utilising both levers of philanthropy and impact investing. It is supporting a Thai NGO to implement a project that trains farmers in techniques to eliminate agricultural burning while increasing crop and reducing fertiliser and water use. The project further engages in related advocacy e.g. for a policy banning the burning of sugarcane in Thailand, and provides an app that allows farmers to sell burn-free goods directly to consumers. The family office is also investing in a Hong Kong start-up GREE Energy Ltd., which designs and builds biogas-to-energy solutions in rural Indonesia that treat wastewater from industrial food processing factories and capture greenhouse gases to provide clean energy, renewable heat and organic fertilisers to rural communities.

On the “investment product” side, Hong Kong's financial and NGO professionals are joining hands to launch innovative investment products to attract funding for regional projects. WWF Hong Kong has put together the Climate Impact Asia Fund, an open-ended fund targeting investment of US$500m to invest in Asia-listed companies making a positive impact against climate change and environmental degradation. It has also more recently launched the Bankable Nature Solutions, financially viable projects which support the development of more climate resilient and sustainable landscapes and economies. Another example is the Tropical Landscapes Finance Facility (TLFF), a partnership between Hong Kong-based ADM Capital/ADM Capital Foundation, BNP Paribas, UN-EP, and World Agroforestry Center. It was established in October 2016 to provide access to long-term finance at scale, with a targeted total debt and equity value of over US$350 million, for commercial projects with clear environmental and social benefit.

And for private investors and philanthropists who may not have the same access to deals and contacts as institutional investors, and would appreciate the sharing of learning and due diligence? Several platforms have also been set up to enable them to give to climate solutions, e.g. the recently launched APC Climate Collective by Asian Philanthropy Circle, and the Climate Action Platform by AVPN (Asian Venture Philanthropy Network).

Hong Kong's ESG and family office regulatory landscape

In recent years, Hong Kong regulators have quickened steps to bolster Hong Kong's position as a hub for sustainable finance and family offices. ESG-related regulations for both listed companies and licensed funds have gradually tightened.

For listed companies, the Hong Kong Stock Exchange has since July 2020 implemented mandatory disclosure requirements for board on their ESG management and oversight. It is now also "comply or explain" for all other disclosure on policies and key performance indicators for environmental and social aspects material for each listed company. Meanwhile, general corporate governance disclosure is also tightening.

For funds, the Securities and Finance Commission (“SFC”) has recently updated its circular to management companies of SFC-authorised unit trusts and mutual funds with guidelines on how to incorporate ESG factors in their investment processes and disclosure. For all licensed funds, climate-related disclosure will also become mandatory from 2022. While there is still much to be done, the momentum is palpable.

It is noteworthy that the SFC has, concurrently, introduced the new fund structure Limited Partnership Fund to provide more flexibility for private equity. It is also offering incentives to attract onshoring or re-domiciliation of offshore funds, and clarifications on certain licensing requirements for family offices. There is an important nexus between ESG and family office, as highlighted by how the Financial Services Development Council (FSDC) launched its latest research reports on the two topics at the same time. Many regional families have already engaged in, and will continue, to play critical roles in deepening the ESG discourse.

What we at SH Hong Kong can do

At Stephenson Harwood Hong Kong our private wealth team advises families on how to integrate ESG and impact considerations in their wealth planning, corporate, family office and philanthropy structures. We work closely with our funds team advising organisations setting up investment vehicles with an intended environmental and/or social impact. We help clients explore onshore structures within the existing regulatory regimes to raise funds and give to companies and projects driving purpose and profit. We are active in policy dialogues committed to Hong Kong becoming a leading sustainable finance hub. Please contact us to find out more about our capabilities and to share in our passion for strategic philanthropy and sustainable investing.

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