



THOUGHT LEADERSHIP BRIEF

Winning the Talent War: A Key Strategy of Hong Kong's Race to Build a Low Carbon Economy

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KEY POINTS

- ▶ Green and sustainable finance is a tool for achieving sustainable development. In Hong Kong, there is an urgent need for green and sustainable finance talent to facilitate the transition to a low carbon economy.
- ▶ Hong Kong should leverage and align efforts of existing charterships and professional associations, including international bodies which have already developed green and sustainable finance training offerings.
- ▶ It is important to develop a systematic skills framework that identifies the key skills and knowledge competencies required for professionals in green and sustainable finance.
- ▶ Hong Kong should also educate all stakeholders on available green and sustainable finance training and facilitate cooperation between science and industry.

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ISSUE

Climate change has become a major concern for governments and the private sector around the world. In 2017, the Hong Kong Special Administrative Region (HKSAR) Government released its Climate Action Plan 2030+, which sets out a decarbonization target of reducing the city's carbon intensity by 65-70% by 2030 against the 2005 baseline – a reduction in total carbon emissions by 26-36%. Hong Kong strives to achieve carbon neutrality by 2050. As a global financial center, green and sustainable finance is key for Hong Kong not only to respond to this ambitious target, but also to alleviate environmental risks and ultimately transition to a net-zero economy. Despite this vision, sustainability was not a key aspect of finance until recently and therefore, a lack of talent and a sufficiently skilled workforce remains a pressing issue in Hong Kong.



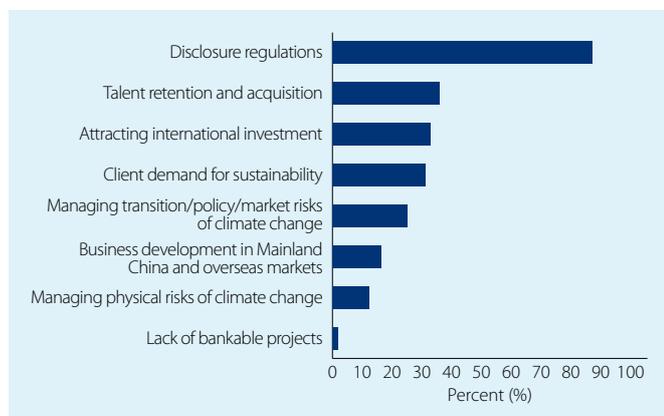
ASSESSMENT

Hong Kong has an important role to play as a global financial center. Not only is there a need to drive down its own emissions, the city's robust financial services are critical to ensuring that economic activities in Mainland China can also be decarbonized rapidly. Hong Kong has historically served as a convenient gateway for international investors entering Mainland China's markets. As China has made green and sustainable finance a strategic imperative, Hong Kong can leverage its unique position to become the global financial center of China and a leader in green and sustainable finance in the Asia-Pacific region.

In Hong Kong, there are some clear areas where talent gaps have been identified. A report by the Financial Services Development Council (FSDC) finds that employers and employees believe that "knowledge of Environmental, Social and Governance (ESG) regulations and integrated analysis are hard skills in need." However, "insufficient understanding of ESG and of its implications" needs to be addressed, as there is also a "misconception that the talent demand will not increase significantly".¹ Moreover, employers generally believe their existing staff "lack ESG knowledge but struggle to offer them training because of the limited suitable course options or because such training is not a (regulatory) requirement".²

To better understand the needs of the local finance industry, we conducted a survey among 55 senior financial executives knowledgeable in sustainable and green finance. Looking closely at Hong Kong, it is worth noting that many of the local developments occurring in terms of green and sustainable finance are being driven by regulators seeking to correct market failures and create the enabling environment for financial markets to incorporate sustainability into their day-to-day functions. Regulation promotes market function, but only if the adequate human capital is available to service the increasingly

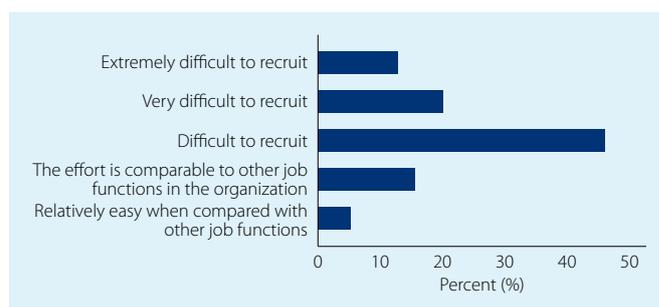
Figure 1. What Are the Most Pressing Issues Currently Facing Hong Kong's Financial Industry in Terms of Sustainable and Green Finance?



complex policies and requirements. Interestingly, our survey found that "Disclosure Regulations" and "Talent Retention and Acquisition" are the two most pressing issues facing Hong Kong's financial industry.

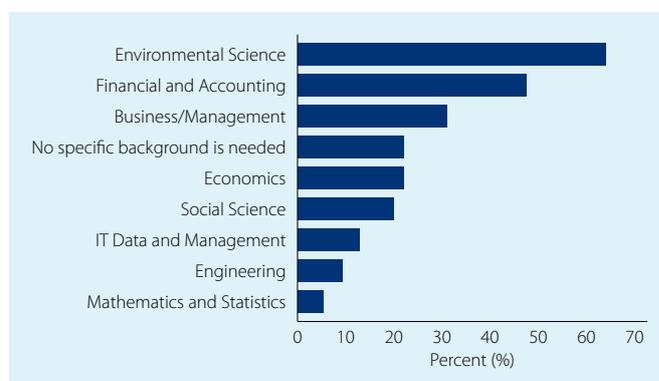
We also asked participants how difficult it was to recruit green and sustainable finance professionals compared with other job functions. Figure 2 shows approximately 80% of respondents find recruiting for green and sustainable finance talent to be more difficult compared to other job functions.

Figure 2. How Difficult Is It To Recruit Green and Sustainable Finance Talent?



We found that Environmental Science was the most sought-after academic background for sustainable finance professionals. Regarding fresh graduates, our interviews with institutional investors also suggested that traditional workplace competencies such as business, management and finance could often be taught by the hiring institutions through existing talent development strategies. Our results show a strong interest in incorporating environmental and scientific expertise to support the financial market operations. Moreover, when asked to select the top "three" most important knowledge areas of a green and sustainable finance expert, environmental issues, financial regulations and business policies, and social issues were most frequently selected.

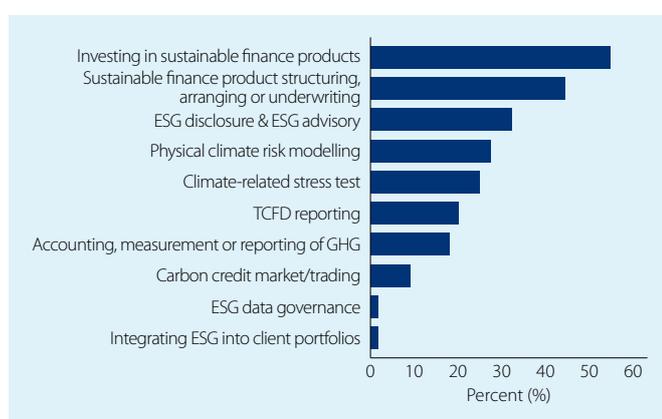
Figure 3. What Should Be the Foundation Academic Background of A Green and Sustainable Finance Professional?



^{1,2} Hong Kong Financial Services Development Council (2021). Careers of Tomorrow: Financial Talents in the Digital, Sustainable Economy of Hong Kong. Available at: <https://www.fsd.org.hk/media/kdrbqtp1/20210816-talent-strategy-report-eng-2.pdf>. Accessed August 1, 2022.

Through our survey, we sought to understand what types of green and sustainable finance activities are most commonplace in Hong Kong, to get a sense of the types of functions and skills that would be needed as this market scales. Figure 4 demonstrates more than half (30 of 55) of the respondents invest in sustainable finance products, and about 43% are involved in structuring, arranging or underwriting. Approximately 30% of the respondents incorporate ESG into their disclosure or advisory functions. Interestingly, only 9% of the respondents stated that they are involved in carbon credit markets, but we anticipate this area to see a growing interest as policies to link Hong Kong to Mainland China's emissions trading systems progress.

Figure 4. Which of the Following Green and Sustainable Finance Activities Does Your Organization Conduct?



RECOMMENDATIONS

There is an urgent need for green and sustainable finance talent to facilitate the transition to a low carbon economy. Investors in the Asia Pacific region are developing increasingly sophisticated sustainability strategies, moving beyond simple exclusionary and integration approaches to incorporating active ownership, measuring impact and setting net zero targets.³

A key takeaway of this research has been to link the green and sustainable finance talent needs with the emerging policy environment surrounding this field. Climate risk, carbon markets, taxonomies and sustainability reporting are emergent priority policy areas developed to address specific market failure and to prevent greenwashing. To provide confidence to the market against greenwashing, standards and labels in the green bond market must be backed by credible evidence and verification. Regularized environmental professional qualifications, can provide this credibility while also supporting the creation of jobs in Hong Kong's green economy. Bodies such as the Hong Kong Institute for Qualified Environmental Professionals (HKIQEP) provide certifications for environmental practitioners for environmental impact assessments and could be extended to sustainable finance.

As sustainability labels become commonplace throughout the financial market, there will be an increase in demand for verification and certification of projects, assets and activities that seek a climate- or sustainable-finance label. Currently, these assurances are provided by Second Party Opinion (SPO) or Third Party Verification (TPV) providers. Familiarity with taxonomies and the GHG accounting protocols that underpin them will become increasingly important. Licensing of green and sustainable finance professionals can provide credence and confidence in the market. There is an opportunity to build on the existing work of the Hong Kong Securities Institute (HKSI) to formalize the steps required to become a certified green and sustainable finance professional in Hong Kong. This can be done whilst also leveraging the existing educational programs offered by many training providers currently in the market.

Our further recommendations listed below seek to build on the findings of previous studies, with a view to guiding the next stage of green and sustainable finance talent development in HKSAR. The key recommendations of this Report are to:

- Develop a skills framework to conceptualize and standardize the growing list of skills and competencies needed in the idealized green and sustainable finance market. Ensure that this skills framework not only supports Hong Kong's global financial status, but also its SMEs and family offices. Work to leverage and incorporate the existing efforts of the training programs to build these skills.
- Determine the role of scientists and environmental experts in the knowledge-value chain surrounding green and sustainable finance. Scientific policy making, carbon measurement, and environmental impact assessments require specialized knowledge which can provide credence to the market.
- Empower universities to be breeding grounds of interdisciplinary training on the tools and mindset required, so fresh graduates can start impactful careers in green and sustainable finance, while promoting a balance between academic education and professional training/certification so that individuals have the theoretical and practical skills and knowledge required to contribute to market development.
- Look to the licensing of professionals in other areas of financial markets (such as wealth management or securities intermediaries) to develop comparable certification procedures for green and sustainable finance careers.
- Categorize training programs based on the talent gaps they fill, for example whether they target undergraduates or build general interest, for vocational training, specialized operational knowledge, management or C-suite capacity. Develop an appropriate strategy to maximize their respective impact of different offerings and consider how they fit into a continuum of skill development needs throughout a professional's career.

³ Schroders and Hong Kong Green Finance Association (2022). Asia Pacific Sustainability: Institutional Investor Study 2022. Available at: https://www.hkgreenfinance.org/wp-content/uploads/2022/08/Schroders-Institutional-Investor-Study-2022_Asia-Pacific-Sustainability-Report_v11.pdf. Accessed October 15, 2022.

- Create a clear roadmap for rolling out talent development programs among all stakeholders by leveraging developments in industry associations across the financial market and industrial/public sectors, particularly within civil and industrial engineering so that all stakeholders "see the big picture", and can be prepared to operationalize their respective roles in scaling up the green and sustainable finance market.

Hong Kong has a window of opportunity to build a competitive pool of talent to meet its green and sustainable finance ambitions. This brief has highlighted some of the key areas and themes that have emerged in the field to give policymakers a wider view of the options at their disposal. As asset owners and managers respond to regulatory changes and "green" their portfolios, there will be more demand for professionals with deep knowledge about the evolving areas of green and sustainable finance. Development of a world-class talent pool in this field will require a holistic view of a sustainable economy and financial market in the 21st century.

It is imperative that these developments also support and leverage changes in the regulatory environment surrounding fintech and efforts to develop general human capital in Mainland China. Against this backdrop, facilitating the transmission of information and mobilizing capital for climate action will require big data and fintech. Investors will expect transparency on carbon credits from origination projects, geospatial data for physical risk management, and reliable emissions measurement throughout value chains, particularly with companies that have operations in Hong Kong and Mainland China.

From a talent perspective, leveraging the advances in big data and fintech will go hand-in-hand with progress on green finance. There is a clear and strong rationale for keeping efforts on relevant policy priorities aligned. According to Article 46 of regulation adopted at the 45th Session of the Standing Committee of the Sixth People's Congress of Shenzhen Municipality, the Shenzhen Government shall establish and improve the mechanisms on talent cultivation, introduction, use, evaluation, incentive and flow commensurate with the development of green finance, and give support to green finance talent as high level financial talent that should be introduced and cultivated.⁴ Any efforts in Hong Kong to build a talent market will need to be coordinated with the developments across the border. The interconnected relation between Hong Kong and the Guangdong Province in nurturing talent are key to the sustainable development of the Greater Bay Area and beyond.

⁴ Justice Bureau of Shenzhen Municipality (2022). 496 Regulations of Shenzhen Special Economic Zone on Green Finance: 深圳经济特区绿色金融条例. Available at: http://sf.sz.gov.cn/fggzywyb/content/post_9907363.html. Accessed, September 15, 2022.

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This Thought Leadership Brief is adapted from the report on "The Hong Kong Green and Sustainable Finance Talent Development and Strategy" published by HKUST Business School in 2023.