

FOCUS

Promoting Environmental Protection and Socially Responsible Investment as a Green Pioneer

Interview with Mr Anthony Cheung, Honorary Treasurer, Friends of the Earth (HK) Charity Limited

Mr Anthony Cheung is a visionary investor with experience in Asia and emerging market equities, ESG (Environmental, Social and Governance) and socially responsible investment (SRI).¹ In 2017, Anthony participated in a sustainability course at the University of Cambridge in the UK where he met three Board Governors of Friends of the Earth (HK) Charity Limited (FoE (HK)). As an investment expert, Anthony has always believed that SRI and green finance are the global trends, and there are also many earth-friendly investment opportunities. On that occasion, he learnt that FoE (HK) was not only focusing on traditional environment and conservation initiatives, but also exploring the promotion of green finance in Hong Kong which is in line with his interest and vision.

The Board of Governors of FoE (HK) consists of twelve members. Some senior Board Governors have served the organization for over two decades. In recent years, they have been actively seeking for new blood from different sectors to join the Board and support the organization's development. After meeting the FoE (HK) Governors in the UK, Anthony further grew to discover the enthusiasm, innovation and open-minded culture of the Board. Eventually in 2018, he accepted the invitation to become a Board Governor and has been very much involved in the governance and new initiatives of this green organization.

FoE (HK) has been established in Hong Kong for over 35 years. It is one of the leading local environmental advocates and has been engaging the government, corporates and the community, to act responsibly and create environmentally sustainable public policies, business practices and personal lifestyles. In order to promote carbon reduction and respond to climate risks more proactively, FoE (HK) launched the Green Finance Connect Series in 2019, a campaign to encourage policy makers, companies and NGOs to incorporate sustainability and environmental considerations when making investment and financial decisions. Furthermore, FoE (HK) pledged to fully adopt the Principles of Responsible Ownership issued by the Securities and Futures Commission,² and became the first NGO in Hong Kong adopting the principles and disclosing their investment on sustainable financial products. In addition, Anthony revamped FoE (HK)'s investment governance and put forward a new investment policy for FoE (HK) with a focus on green and responsible investing.

As the Honorary Treasurer of FoE (HK), Anthony believes there are three key elements to financial governance best practice for NGOs. To begin with, board members and staff should share common goals and build consensus on its resource allocation. Additionally, effective budgeting should provide flexibility to allocate extra resources for new services in response to the changing needs of the society. Most importantly, to achieve financial sustainability, NGOs should ensure stable income from ethical investments so as to serve the society in the long run.

Anthony recognizes that NGOs in foreign countries have played an important role in promoting green finance which local NGOs can learn from. The past year has been a milestone for both Anthony and FoE (HK) and they hope to see further breakthroughs among the NGOs in Hong Kong. With his championship, FoE (HK) has established a clear roadmap, and advocated with various stakeholders about the importance of finance for environmental and social good. FoE (HK) has already made immense efforts including, as examples, creation of the first Green Finance blog in Hong Kong and cooperation with the Hong Kong Polytechnic University to incubate green finance talents. Looking ahead, Anthony will continue to uphold the vision of FoE (HK) and promote sustainability and green finance. Anthony expects that Hong Kong will catch up with the global development of SRI as the public becomes more aware of the environmental challenges and social changes.

Anthony brought his passion, investment expertise and vision in SRI to FoE (HK)'s Board. In response to his role as a Board Governor, he joyfully replied "It's fun to serve!"



Anthony (the 4th from the left) moderated the panel discussion in the "Green Finance Connect" launch ceremony.



Anthony shared his insights on ESG investing at the "Business Leader Sharing Series" seminar.

¹ Principles for Responsible Investment (PRI). Definition of responsible investment. URL: <https://www.unpri.org/pri/an-introduction-to-responsible-investment/what-is-responsible-investment>

² Securities and Futures Commission. (2016). Principles of responsible ownership. URL: <https://www.sfc.hk/web/EN/rules-and-standards/principles-of-responsible-ownership.html>

GOVERNANCE IN ACTION

Handling Conflict of Interest for the Greater Interest

What is Conflict of Interest?

Conflict of Interest (Col) happens “when ‘private interests’ of a board member or staff compete or conflict with the interests of the NGO, which may easily lead to a decision against the best interest of the organization.”¹ There is general impression on Col that it is associated with commercial crimes such as corruption or embezzlement, which mainly occur in the business sector. Actually, Col happens more often than expected in the nonprofit world. In reality, Col is much more complex and subtle. It may not only involve direct material gain, but also potentially non-tangible benefits that are not so obvious.

Private interests may come in forms of financial and personal benefits for the board members or staff, and people in their connections, such as family members, friends, etc.¹ An example of direct Col would simply be a procurement process that may favor a service provider where a board member may be its owner. In a more indirect or subtle situation, a board member, for example, may also be an employee of another organization of similar business nature. He/She needs to decide on the strategic plan of the agency governed that may conflict with his/her employer NGO. For a more sensitive situation, but rather common in the nonprofit sector (especially in self-help groups), a service user may sit on an agency's board where its activities may directly affect his/her own well-being.

Types of Col

The Chartered Governance Institute (CGI) in the UK, formerly known as Institute of Chartered Secretaries and Administration, has categorized four common types of conflicts:²

Direct financial interest

the direct financial benefit that a board member may receive

Indirect financial interest

the financial interest that a close connection of the board member may receive

Non-financial or personal conflicts

other non-financial benefits that a board member may receive

Conflict of loyalties

conflicting duties that a board member may have in multiple charities or other organizations

Why care about Col?

As NGOs are funded by public money and have multiple stakeholders that they are held accountable to, there are public expectations that board members, as governors of the organization, will ensure the objectives of the NGO are met and that money are well spent. All decisions made by the board should only be for the best interests of the NGO, not for any individual, even if it is for a particular beneficiary.

Mishandling or neglecting Col would lead to financial loss and other negative impacts to NGOs. It may also jeopardize the welfare of clients. If Col were inadvertently disclosed to the public, the reputation of the organization and the personnel involved will be imperiled. This will affect the NGO's credibility and donations in the long term. In extreme cases, mismanagement of Col may even be a gateway to fraudulent acts and bribery.

¹ Hong Kong Independent Commission Against Corruption. (2019). Tips for NGOs – Management of Conflict of Interest.

² The Chartered Governance Institute. (2014). Specimen conflict of interest policy, declaration form and register of interests for charity trustees.

GOVERNANCE IN ACTION

How to deal with Col?

It is essential for board members to recognize the Col, identify the risks associated, and handle with care. In some countries, it is legally required that charities have policies on Col. For instance, in the United States, it is compulsory for NGO boards to fill in a form annually to the Internal Revenue Service to acknowledge that they have a written Col policy. Organizations and board members failing to manage Col may be severely penalized.³ While there is no such requirement in Hong Kong for nonprofit boards, directors should still take on such precautions as best practice. As individuals, board members have legal responsibilities and the duty of loyalty under the Companies Ordinance (for NGOs formed under this ordinance) and the common law to make decisions in the best interests of the agencies they serve. Various guidelines published by government departments and statutory bodies such as the Hong Kong Independent Commission Against Corruption (ICAC)⁴, the Social Welfare Department⁵ and the Efficiency Unit⁶ have all suggested that nonprofit boards should develop policies and protocols in handling Col.

The suggested protocol can be summarized into the following:



Policy

NGOs should develop a policy with clear guidance on what happens when Col arises. There should be clear definitions and examples on the types of Col that board members and staff may face. In different situations, the policy should state the respective guideline in handling Col, that is, when Col should be declared, in what format, and the follow-up action required.

Declaration

When Col arises, board members or staff involved should come to full disclosure as soon as possible. Depending on the nature of the Col and the policy of the organization, concerned parties (board, committee or staff members) may reveal relevant information verbally or in written format. The frequency of declaration can be determined by the organization internally.

Record

Declaration is not sufficient for resolving Col. Once a Col is declared by a board member or staff, a designated person should have a proper record of the Col as well as the resolution to manage the Col. The board member may withdraw from all discussions and his/her voting right related to the subject matter. For instance, when a board member declares a Col during the board meeting, the board minutes should record this action. The organization may also keep a register of interests to document all potential and apparent Col declared.

Both the CGI² and the ICAC⁷ have published templates on Col policies and declaration forms for NGOs' easy reference. Agencies may make reference to these materials in developing their own papers.

Developing a positive culture towards Col

With the nonprofit sector being such a closely linked community, Cols are unavoidable and just happen naturally. Many board members are resourceful leaders who are well connected and "wear many hats" in different capacities. It is usually for this very reason that they become board members of their nonprofits. Just because Col happens so easily, it does not mean that NGOs should recruit board members who are less connected to avoid Col. Rather, if Col are managed properly, the networks associated with the board members can often bring in benefits to the NGOs, such as providing lower rates on services or linking up potential donors.

Board members should always reflect on themselves whether they face any Col. Directors disclosing Col frankly is crucial to developing an open and candid culture in the boardroom. It would always be a great virtue to serve on board selflessly with one's heart and soul. The rectitude of the board constitutes the cornerstone of the organization's integrity, which is essential to earning public trust for its sustainability.

³ Internal Revenue Service, the United States Government. (2020). Intermediate Sanctions - Excess Benefit Transactions. URL: <https://www.irs.gov/charities-non-profits/charitable-organizations/intermediate-sanctions-excess-benefit-transactions>

⁴ Hong Kong Independent Commission Against Corruption. (n.d.) Strengthening Integrity and Accountability - Government Funding Schemes Grantee's Guidebook.

⁵ Social Welfare Department. (2002). Leading Your NGO - Corporate Governance - A Reference Guide for NGO Boards.

⁶ Efficiency Unit. (2015). Guide to Corporate Governance for Subvented Organisations, 42-44.

⁷ Hong Kong Independent Commission Against Corruption. (2015). Sample Code of Conduct for Board Members & Staff of Non-governmental Organisations in Social Welfare Sector (Full Version), Appendix 3 and Appendix 4.

UPCOMING ACTIVITIES

Seminar on Compliance of the Personal Data (Privacy) Ordinance for NGOs

To facilitate better understanding of the compliance of the Ordinance, the Council has collaborated with PricewaterhouseCoopers (PwC) as the knowledge partner in developing the Personal Data Privacy Toolkit for NGOs. The upcoming seminars will be conducted in Cantonese and English respectively, where Data Privacy Team of PwC will present the toolkit and share their experience in supporting organizations in complying with the Ordinance.

Session	1	2
Date	Originally scheduled for March, postponed due to the epidemic. Details to be confirmed.	
Language	Cantonese (materials in English)	English
Venue	Duke of Windsor Social Service Building, 15 Hennessy Road, Wanchai	21/F, PwC, Edinburgh Tower, 15 Queen's Road Central
Target	Board and committee members (top priority), agency heads and senior management of HKCSS Agency Members	

For event details and enrolment, please visit: <https://governance.hkcss.org.hk/node/399>

Agency Governors' Forum on Review of Lump Sum Grant Subvention System (LSGSS) 2020

The Council is going to organize forum for the Boards and heads of subvented agencies to update the progress of the LSGSS review, and to align the views of the sector with regard to the recommendations put forth.

Date	Originally scheduled for February, postponed due to the epidemic. Details to be confirmed.
Venue	Duke of Windsor Social Service Building

For event details and enrolment, please visit: <https://governance.hkcss.org.hk/node/397>

NGO Board Member Self-check Widget

To better support our sector's board members, the Council has developed a self-check widget on the key roles and duties of an NGO director.

Simply answer 15 multiple choice questions regarding the work of a director. Upon completion, you will receive an email with a summary of your results and our feedback.

Please click the following link to get started: <https://governance.hkcss.org.hk/oat/?lang=eng>

SNAPSHOTS



NGO Directors' Luncheon

The 13th NGO Directors' Luncheon was held with success on 17 January 2020. Mr Gordon Leung, the new Director of Social Welfare, shared on his views regarding NGO governance and the partnership between the Social Welfare Department and the social service sector.

The luncheon series is sponsored by the Hong Kong Institute of Certified Public Accountants Charitable Fund.



Induction Workshops for NGO Directors 2020

Co-organized with GAME again, the first session of Induction Workshops was held on 18 January 2020. Speakers and guests from NGOs gave presentations on various governance issues and shared their practical experience.