

Capital Markets

UK's first sovereign green bond is long overdue

While the UK government has lagged behind other countries in issuing a green sovereign bond; they are leading the way by being the first to sovereign green bond to retail investors

By **Natasha Teja**

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As part of the UK government's ambitious [plans](#) to reach net zero emissions by 2050, the government recently announced intentions to issue its first sovereign green bond. Chancellor Rishi Sunak [outlined in the spring budget](#) that green bond will have a minimum total issuance of £15 billion.

So far, the UK government has lagged behind some of its most significant allies including jurisdictions in the EU, who have been making headway in green financing. "The UK has been getting pressure for a long time to consider this," said Justine Leigh-Bell, deputy CEO at Climate Bonds Initiative. "France was one of the first to issue a green sovereign bond, followed by Germany and the Italians."

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By the end of 2020, there had been a total of [17](#) sovereign green bond issuances totaling \$71.5 billion. An additional 14 countries are expected to join this trend by the end of 2021. "If the UK is going to promote itself as a green finance hub then they've got to put their money where their mouth is," continued Leigh-Bell.

Connecting civil society

A significant aspect of the UK's sovereign green bond is the potential for retail investors to get involved. "This is going to be the real shining moment for the UK because up until now there hasn't been any issuance in government level that has catered to the retail market which I think is really important," said Leigh-Bell.

"Up until now these issuances have been very abstract. Pension sovereign wealth funds, asset managers and institutional investors have all been the primary drivers of this market. The chance for investments to be allowed to happen at the civil society level I think is really exciting," she continued.

This innovative aspect of the bond will give the market more confidence in the UK fulfilling its plans to be a leader in the green finance space.

A drop in the ocean

While the UK's sovereign green bond issuance is one of the larger to be issued in Europe so far, totaling £15 billion, it is still a small amount when compared to the wider sovereign bond market. In comparison, Italy's green bond was issued at [€8.5 billion](#), Netherlands at [€6billion](#) and Germany's was [€4.6billion](#).

"It is worth noting that the £15 billion of green bonds is actually a drop in the ocean of bonds that the government will be issuing this year," said Caroline Saul, partner at Osborne Clarke.

"There is therefore scope for the government to increase this amount in the coming years, both from a need perspective to help fund low carbon and decarbonisation projects, but also from a demand perspective as investor appetite for green bonds is high."

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“The government is looking to issue just under £300 billion of sovereign bonds this year, with £15 billion of those being green bonds,” continued Saul. “They have stated that these are the first of a number of green bond issuances, but if we think about the investment that’s actually needed world-wide to get to the individual and collective net zero targets and 2050 goals, we will certainly need this to be a successful pilot to a regular program going forward.”

Provisions unknown

Details regarding the provision of the bond are yet to be outlined. “We expect to see it heavily weighted on energy. It will be interesting to see if transport other types of assets along those lines will feature given that much of that the debt is managed by the authorities,” said Leigh-Bell.

“A key aspect in which the UK can lead is surrounding disclosure standards around documents in terms of what makes it truly a green sovereign bond,” said Ranajoy Basu, a partner at McDermott Will & Emery.

“Secondly, the UK can develop these terms so that other sovereigns can draw from them. Essentially, we want to develop consistent terms that can be used as a gold standard as it’s still a bit of a challenge within the investor community,” he added.

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While the issuing of green sovereign bonds is not novel, the UK has the opportunity to be innovative in its provisions. It has already taken the first steps by involving retail investors as “most sovereign green bonds have catered and been designed for financial institutional investors,” said Basu.

Other ways on which the UK will position itself to be a leader in green finance will depend on what is outlined in the provisions of this bond.

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