



## Expert Q&A: Green gilts

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**As the UK's debut green gilt sale sparks record demand with over GBP100 billion bid, ESG specialist Emma Whiteacre gets us up-to-speed on this hot new issue.**

**The UK issued its first green gilt in September 2021. How different is this bond compared to the European green sovereigns that have been issued recently?**

The UK government issuance is positively differentiated in two ways. First, in terms of the use of proceeds, as it takes a broader scope on environmental matters to encompass nature and biodiversity, which can play a critical role in tackling climate change. Second, on impact reporting, we particularly like the recognition and evaluation of 'social co-benefits'. We view these as important for ensuring that the benefits of such a wholesale economic shift are shared in a just transition, with opportunities created and new skills nurtured for those in the carbon-intensive industries that might otherwise be left behind.

**Does the UK green gilt clearly state where its proceeds will go?**

Yes – earlier in the year the government published its UK Green Financing Framework, which detailed what sort of projects the proceeds would go towards. These 'eligible green expenditures' fell into six categories and were mapped against

the UN Sustainable Development Goals and UK taxonomy objectives. Spending financed by other green instruments, nuclear energy, exclusively fossil-fuel-powered cars, large hydro projects and other controversial activities were all excluded. It did not provide a breakdown of planned spending among these categories.

**Have historic concerns regarding green gilts, greenwashing and a potential lack of ring-fencing been resolved?**

To a degree, yes. We understand why people argue that green bonds are just a PR stunt and that this is a way of tapping into cheaper financing and dressing up projects that would have/should have happened anyway as new green projects. But overall, we think that the imperative for a green industrial revolution, with the depth of investment and targeted strategy required, does warrant a significant standalone programme of financing.

Green issuance provides investors with a mechanism to ensure that their capital is being channelled, at scale, purely into the kinds of projects

that address their concerns over the environmental challenges that we all see – climate change, biodiversity loss, pollution and energy security. However, now that the programme has been established and demand proven, the UK Debt Management Office might think about issuing future green gilts via more typical auctions, rather than through syndication, to reduce banking costs to the taxpayer.

**Has the UK government introduced any measures to avoid greenwashing risk when it comes to its green gilt?**

We believe the government has sought to mitigate this, although ultimately, we need to see its efforts play out in practice to determine their effectiveness. There is a comprehensive set of monitoring and evaluation processes that will follow the issuance, including external verification by an independent entity and a Stakeholder Discussion Forum to provide external expert guidance. We consider this sort of additionality to be the real benefit of labelled issuance, providing transparency and accountability to investors on the use and impact of proceeds.

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