

# IMPACT STORY #3

## GREENING SOVEREIGN DEBT CAPITAL MARKETS

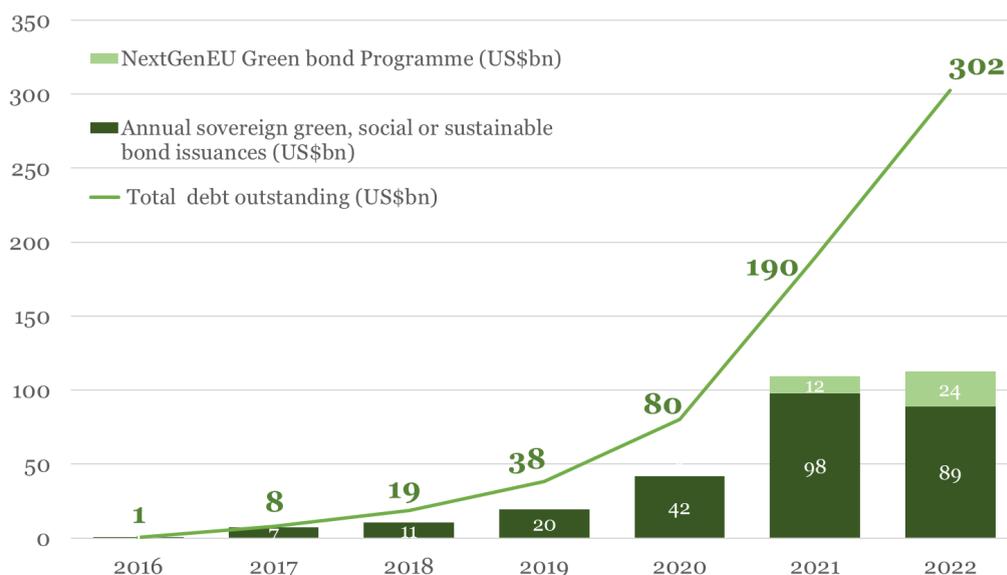
Governments can lead by example to promote sustainable finance as the link between financial systems and ecosystems

### IMPACT

WWF has helped kick-start a thriving market for so-called “sovereign green bonds”. These bonds are a new type of fixed income securities issued by governments on international debt capital markets, which finance investments with specific and intentional environmental benefit in mind.

The market was ignited in April 2016 by the French government’s announcement to issue the world’s first benchmark-size sovereign green bond, committing to setting best practice standards. The idea was quickly replicated by other countries, creating an impressive snowball effect. At the end of 2023, more than US\$ 300 billion in green sovereign bonds were issued by more than 40 governments from both advanced and emerging market economies. This represents an almost tenfold increase in annual bond issuances in five years (2017-2021).<sup>1</sup> The signalling effect of sovereign green bonds has also played a key role in driving market growth and promoting adoption of best practice standards by corporate issuers, recent evidence suggests.

More than US\$ 300 billion in sovereign bonds labelled as green, social or sustainable



Source: Data compiled by WWF from various sources, including [EU \(2022\)](#), [Standards & Poor's \(2023\)](#), [OECD \(2022\)](#) and [BIS \(2022\)](#).

<sup>1</sup>Data was compiled from the following sources: [OECD Sovereign Borrowing Outlook 2022](#), [Sovereigns and sustainable bonds: challenges and new options](#), BIS Quarterly Review, 19 September 2022, May 2022, and [2022 Market Snapshot: And 5 big directions for sustainable finance in 2023](#). The [Next Generation EU green bond](#), approximately US\$ 28 billion issued as of July 2022.

## OUR STORY

In October 2015, ahead of the United Nations Climate summit in Paris (UNFCCC COP21), WWF-France started to advocate -- in cooperation with the Climate Bonds Initiative -- for the Republic of France to demonstrate leadership in sustainable finance by being the first government in the world to issue a so-called “sovereign green bond”. These bonds are a new type of fixed income security issued by governments that finance investments with specific and intentional environmental benefit in mind.

Civil servants at the French Ministry of Finance had initially discarded WWF’s idea as ‘*nice, but crazy and .. impossible to execute*’. But when former minister Pascal Canfin took the helm as CEO of WWF-France in January 2016, he started to engage with the French government at the highest level, including through personal connections with the then Environment Minister Segolène Royal, Finance Minister Michel Sapin and the French President François Hollande himself.

In April 2016 WWF’s advocacy efforts, supported by several institutional investors, helped trigger the French government to announce the world’s first benchmark- size sovereign green bond, committing to using the best available standards<sup>2</sup>. France’s award-winning and widely applauded inaugural sovereign green bond was issued a couple of months later, in January 2017, and as part of France’s commitment to best practice, an independent evaluation council, chaired by WWF’s Manuel Pulgar Vidal, was set up to assess the impact of the bond.

Shortly after the issuance, Anthony Requin, the director general of the French government’s debt management agency AFT who executed the deal, explained:

*“With the issuance [of France’s sovereign green bond], we demonstrated that France is able to finance expenditures on green projects at the same price as traditional borrowing. This is an encouraging signal for other sovereigns and other corporates to enter the green bonds market. In the future, green bonds will be a key tool to channel savings to green assets<sup>3</sup>”.*

**Anthony Requin**

**Director general of the French government’s debt management agency (AFT)**

**February 2017**

When responding to the question whether France’s bond could be used as a template for other sovereign bond issuers, during a Q&A session in February 2017 that followed the launch event Requin answered: “*I hope so!*”.

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<sup>2</sup> [Déclaration de M. François Hollande, Président de la République, sur l'accord de Paris sur le climat et sur la transition énergétique](#), 25 April 2016.

<sup>3</sup> [Q&A with Anthony Requin on France's sovereign green bond](#), Environmental Finance, 10 February 2017.

***continued..***

He was right! The idea was quickly replicated by other governments and at the end 2022 more than forty governments<sup>4</sup> had issued their bonds as 'green', some of which were assisted by WWF.

In Malaysia, for example, WWF successfully shaped the world's first sovereign green [sukuk](#), a sharia-compliant bond-like instrument used in Islamic finance. In Europe, WWF was actively involved in expert groups that advised several national governments and the European Commission on their respective issuances. In Kenya WWF worked with the government to develop the domestic bond market through robust legal and fiscal rules including tax exemption for green bonds. Overall, more than US\$ 300 billion in green sovereign bonds have been issued by more than 40 governments since 2016, including 18 countries from emerging markets, 17 out of the 27 member states of the EU and the EU itself. This represents a tenfold increase in annual bond issuances in 5 years (2017-2021)<sup>5</sup>. The European Union's green bond programme announced in 2021<sup>6</sup> alone represents US\$ 36 billion<sup>7</sup>, or more than 10% of the market. The EU ambitions to become the world's largest issuer of green bonds under its 3-year, US\$ 270 billion green bond programme designed to refinance a EU-wide post-COVID recovery package. Many other governments have announced or are rumoured to be considering similar issuances in the future. Some of these instruments earmark up to 15% of the funds towards biodiversity, including protected areas, sustainable management of forests as well as organic farming programmes. The French government's green bond, for example, has helped raise more than US\$5 billion for biodiversity conservation in the last 5 years.



Members of the Green OAT Evaluation Council on 11 December 2017, an independent body set up by the French Government. Brune Poirson, then Minister of State attached to the Ministre d'État, Minister for Ecological and Inclusive Transition is in the centre. Manuel Pulgar-Vidal stands on her left and Jochen Krimphoff, WWF's sherpa, in the background on the left side.

Source: WWF press release: French Ministry of Economy & Finance announces first sovereign green bond impact report, 29 November 2018. [Green OAT allocation and performance report for 2019](#), Agence France Trésor, June 2020. Credit: Patrick Bagein, ministère de l'Économie et des Finances et de la Relance.

<sup>4</sup> As of 30 December 2022, 40 governments have issued green, social or sustainability bonds, including (17 EU-27 member states and the European Commission itself), see: Climate Bonds Initiative's [2022 Market Snapshot: And 5 big directions for sustainable finance in 2023](#), January 2023. A full list is provided on the last page.

<sup>5</sup> For recent data see: [Sovereigns and sustainable bonds: challenges and new options](#), BIS Quarterly Review, 19 September 2022, or [OECD Sovereign Borrowing Outlook 2022](#).

<sup>6</sup> The [European Commission announced in September 2020 a 225 billion € green bond programme for the next three years](#).

<sup>7</sup> As of December 2022. However, technically, the European Commission is not considered a sovereign, but a supra-sovereign issuer: [Next Generation EU green bond](#).

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According to evidence compiled by the Bank for International Settlement (BIS)<sup>8</sup> sovereign green bonds have also played a key role in improving market practice and discipline through a signalling effect, driving market growth and adoption of best practice (e.g., use of second-party opinions). They have helped amplifying and accelerating market growth, moving the market from ‘niche’ to mainstream debt capital markets in the last five years (see: [Impact story #2: Leveraging the power of debt capital to help save the planet](#)).

However, applying effective and credible standards, advocated for by WWF<sup>9</sup> will remain challenging for governments. European governments in particular and the European Commission itself will have to ‘walk-the-talk’ and apply to their own issuances the best practice standards developed by a EC-mandated expert group with input from WWF, i.e., the EU Green Bond Standard (EU-GBS)<sup>10</sup>, an international ‘gold standard’, and the underlying EU Taxonomy, a universal set of definitions of what qualifies as a ‘green investment’ (see: [Impact story #1: Do-no-significant harm criteria to avoid unintended side-effects](#)).

Moreover, there is still a strong potential for further market growth because there are still four of the ten largest issuers of government bonds (Brazil, China, India, Japan and the USA), representing more than one third of the outstanding government debt, which have yet to issue sovereign green bonds,<sup>11</sup> although sub-sovereign and corporate green bond issuance is strong. More importantly, promising new type of instruments<sup>12</sup>, so-called sustainability-linked bonds, which hardwire the issuers sustainability objectives into the bond contract, tying the cost of debt to achievement of environmental outcomes<sup>13</sup> are starting to emerge with issuances pioneered by Chile<sup>14</sup> and Uruguay<sup>15</sup> in 2022. These instruments offer promising avenues for governments to strengthen the credibility of their environmental commitments. Indeed, if well designed, the financial penalties for non-compliance in these innovative instruments can have an important signalling effect to investors.

Sovereign green and sustainability bonds have triggered a small, but important systemic change in debt capital markets, by far the largest and deepest global pool of financial assets<sup>16</sup>. They have helped transform the dialogue on environmental issues between investors and governments who raise money on debt capital markets. As a result, international investors are starting to ask questions about governments’ environmental policies and performance.

Time was ripe for this conversation to happen, because most government bonds are ultimately owned by retail investors. And many retail investors do want their pension savings or life insurance holdings to be invested in a way that makes their money matter.<sup>17</sup> More importantly, as the world recovers from the COVID crisis and governments tap into debt capital markets to refinance their recovery plans, this new type of debt instruments will play a vital role to ensure transparency on how governments spend the money they raise on debt capital markets today, and that future generations of citizens will have to pay back...

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<sup>8</sup> [Sovereigns and sustainable bonds: challenges and new options](#), BIS Quarterly Review, 19 September 2022.

<sup>9</sup> See: WWF report “[Green bonds must keep the green promise!](#)”, calling for collective action to develop effective & credible standards for the green bonds market.

<sup>10</sup> [EU legislators strike deal on a new green bond standard to fight greenwashing](#), March 2023.

<sup>11</sup> [Climate Bonds Initiative’s Sovereign GSS Bond Survey](#), 2021.

<sup>12</sup> Sustainability-linked bonds (SLB). The first (and thus far only) sovereign sustainability-linked bond was issued by the Chilean government in 2021, and the Bank of International Settlement sees them as a new option to make progress towards carbon emission reduction targets. See: [Sovereigns and sustainable bonds: challenges and new options](#), BIS Quarterly Review, 19 September 2022.

<sup>13</sup> E.g. with penalties for non-compliance (or incentives for overachievements) such as a step-up (or step-down) in interest rates.

<sup>14</sup> [World’s 1st sovereign sustainability linked bond issued by Chile](#), S&P Global, March 2022.

<sup>15</sup> [Uruguay’s Sustainability-Linked Sovereign bond](#) links the country’s financing strategy to its climate and nature targets as established under the Paris Agreement. The Framework describes Uruguay’s sustainable strategic priorities and sets out goals with respect to two Key Performance Indicators (KPIs), tied to the evolution of the intensity of Greenhouse Gas (GHG) emissions and the area of native forests in the country. The Sustainability Performance Targets (SPTs) are based on quantitative goals set for 2025 as established in the Nationally Determined Contribution (NDC), October 2022.

<sup>16</sup> Representing US\$ 126.9 trillion at the end of December 2021, according to the [2022 Capital Markets Fact Book](#), SIFMA, July 2022.

<sup>17</sup> [WWF and Make My Money Matter challenge the Finance Sector to dial up action on climate change and nature - or risk catastrophic damage to the economy](#), 2020.



**US\$ 300 BILLION**  
IN SOVEREIGN BONDS  
LABELLED AS GREEN,  
SOCIAL OR SUSTAINABLE...

## EVIDENCE

**Snow-ball effect: More than US\$ 300 billion in green bonds, issued by more than 40 governments, with a tenfold increase in annual bond issuances in the last 5 years**

As of December 2022, more than 40 governments (including 18 countries in emerging markets as well as 17 of the EU-27 member states and the EU itself) have issued their bonds in green format<sup>18</sup>, representing a total market of more than US\$ 300 billion in green sovereign bonds outstanding. This represents a tenfold increase in annual bond issuances in the last 5 years (2017-2021).<sup>19</sup>



**US\$ 5+ BILLION**  
IN FINANCE RAISED FOR  
BIODIVERSITY AND  
ECOSYSTEMS SINCE 2017

**More than US\$ 5 billion in finance for biodiversity raised since 2017 through the world's largest sovereign green bond issued by France**

Successful issuance of a green bond by the government of France in 2017. The pioneering sovereign green bond deal executed in January 2017 was widely applauded by institutional investors and won several awards<sup>20</sup>. With a total of more than US\$50 billion of outstanding debt in December 2022 (representing more than 20% of the market) the Republic of France is today the largest issuer of green bonds in the world<sup>21</sup>. The bond has raised more than US\$ 5 billion in finance earmarked towards biodiversity, including protected areas, sustainable management of forests as well as organic farming programmes.



**SIGNALING  
EFFECT**  
TO PROMOTE  
BEST PRACTICE

**Signalling effect: sovereigns green bonds have played a key role in promoting market growth and best practice standards**

Sovereigns have played a key role in promoting standards for green bond classifications and their verification. Recent evidence<sup>22</sup> suggests that the inaugural issuances of sovereign green bonds tends to tighten standards for overall green issuance in that country. After such an issuance, not only does the annual number of corporate issues tend to increase across jurisdictions, but so does the percentage of corporate issuance with second-party opinions. This tendency is apparent in both advanced and emerging market economies<sup>23</sup> WWF was among the pioneers in the sovereign green bond markets, when the French government appointed WWF's Manuel Pulgar Vidal as chair of the International Green OAT evaluation council, a body created to independently assess the environmental impact of France's sovereign green debt.

<sup>18</sup> As of 30 December 2022, more than 40 governments have issued green, social or sustainability bonds, including (17 EU-27 member states and the European Commission itself, highlighted in *italics*): Andorra, *Austria*, *Belgium*, Benin, *Bulgaria*, Canada, Chile, Colombia, *Denmark*, Egypt, *European Union*, Fiji, *France*, *Germany*, Hong-Kong, *Hungary*, India, Indonesia, *Ireland*, Israel, *Italy*, Kenya, *Latvia*, *Lithuania*, *Luxembourg*, Malaysia, Mexico, *the Netherlands*, Nigeria, Peru, Philippines, *Poland*, Serbia, Seychelles, *Slovenia*, *Spain*, South Korea, *Sweden*, Thailand, the United Kingdom, Uzbekistan, Vietnam.

<sup>19</sup> See: [OECD Sovereign Borrowing Outlook 2022](#), May 2022; [Sovereign Green, Social, and Sustainability Bond Survey The ultimate power to transform the market](#), Climate Bonds Initiative (CBI), January 2021. Data for 2021 was taken from: [France's 'perfectly timed' inflation-linked green bond debut](#), Environmental Finance, May 2022.

<sup>20</sup> 21 March 2018: [France's green OAT wins award from Climate Bonds Initiative](#). 6 September 2018: [Agence France Trésor rewarded again by EuroMoney Global Capital](#).

<sup>21</sup> [Green OAT Fact Sheet](#), Agence France Trésor, May 2022.

<sup>22</sup> [Sovereigns and sustainable bonds: challenges and new options](#), BIS Quarterly Review, 19 September 2022

<sup>23</sup> [WWF press release: French Ministry of Economy & Finance announces first sovereign green bond impact report](#), 29 November 2018.



## PROMOTING GREEN GROWTH

BY LOOKING AT  
GOVERNMENT  
SPENDING  
THROUGH A  
“GREEN LENS”

### OECD acknowledges increasing sovereign green bond issuance, helping to promote green growth

The OECD acknowledges “*increasing sovereign green bond issuance, helping to promote green growth*”. Although still nascent, the sovereign green bond market can be expected to keep growing over the longer horizon, as an increasing number of governments assess green bond issuance as a valuable tool to display moral leadership on climate change and sustainability, and to fund commitments under the Paris Agreement. However, despite its rapid growth, the size of the sovereign green bond market is quite small compared to traditional bonds and significant growth potential remains.<sup>24</sup>

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<sup>24</sup> [Increasing sovereign green bond issuance, helping to promote green growth](#), OECD, 20 May 2021.