

# UK Green Retail Bonds Boost Sustainability Toolkit

*The world's first green bonds targeting retail investors are already spurring similar issuances globally.*

- The UK sold green retail bonds, offering a three-year maturity, fixed rate of return and a 100% capital guarantee
- Proceeds will be used for projects including wind farms and accelerating the transition to electric vehicles
- Governments need to highlight climate risk mitigation measures if green retail bonds are to gain momentum

The UK is a stalwart of green bond issuance and has been at the forefront of climate measures. It broke new ground when it launched the world's first green government bond for retail investors, dubbed Green Savings Bonds and other countries are already rolling out similar programmes to support and grow the market.

While governments around the world have long issued green bonds as part of their efforts to finance projects aimed at environmental improvement, expanding the programme to retail investors is a novel move.

With the equivalent of over \$20 billion outstanding, the UK is a significant issuer of green bonds and was the first G7 country to legislate a 2050 net zero emissions target.

By July 2022, more than 20 countries – or almost a fifth of the 131 countries committed to achieving net zero carbon emissions – had issued green bonds, amounting to the equivalent of \$235 billion.

*Figure 1. Selected Countries Issuing Green Government Bonds and Loans (as of July 31, 2022)*

Country	Start of Publication	\$ billion outstanding	Country	Start of Publication	\$ billion outstanding
<b>Green</b>			<b>Social</b>		
Poland	December 2016	5.4	Ecuador	January 2020	0.3
France	January 2017	58.2	Guatemala	April 2020	0.5
Belgium	March 2018	12.4	Chile	November 2020	16.0
Indonesia	March 2018	5.8	Peru	November 2021	1.1
Lithuania	May 2018	0.1	<b>Social Total</b>		<b>17.9</b>
Ireland	October 2018	7.8	<b>Sustainability</b>		
Hong Kong	May 2019	9.8	Korea	June 2019	0.5
Netherlands	May 2019	17.3	Thailand	August 2020	6.6
Chile	June 2019	7.5	Luxembourg	September 2020	1.8
Hungary	June 2020	3.3	Mexico	September 2020	4.1
Germany	September 2020	37.5	Chile	January 2021	7.5
Sweden	September 2020	2.3	Malaysia	April 2021	0.8
Egypt	October 2020	2.9	Andorra	May 2021	1.2
Italy	March 2021	16.1	Benin	July 2021	0.6
United Kingdom	September 2021	25.1	Slovenia	July 2021	1.3
Colombia	September 2021	0.5	Uzbekistan	July 2021	0.2
Serbia	September 2021	1.2	Indonesia	September 2021	0.6
Spain	September 2021	8.3	Isle of Man (UK)	September 2021	0.6
Korea	October 2021	0.8	Peru	November 2021	3.3
Denmark	January 2022	1.7	Latvia	December 2021	0.7
Canada	March 2022	4.0	Philippines	March 2022	1.6
Turkey	March 2022	2.7	<b>Total Sustainability</b>		<b>31.4</b>
Austria	May 2022	4.3			
<b>Green Total</b>		<b>235.0</b>			
<b>Total (Green + Social + Sustainability)</b>					<b>284.3</b>

Notes:

1. The outstanding balance (as of July 31, 2022) is based on Bloomberg's criteria for green bonds, social bonds and sustainability bonds. On a dollar-equivalent basis. Listed in chronological order.
2. The above figures are rounded to the nearest whole number and do not correspond to the total.
3. The United Kingdom began issuing gilts and savings bonds in September 2021 and October 2021, respectively, as green bonds.
4. Korea's June 2019 bond issue was green and sustainable, but for convenience, it was classified as sustainable.

Source: Created by Nomura Institute of Capital Markets Research based on Bloomberg data.

## HOW DO THE BONDS BENEFIT THE ENVIRONMENT?

The Green Savings Bonds – like the UK’s green bonds targeting institutional investors – were issued under the Green Finance Framework, published in June 2021. The Framework complies with the ICMA Green Bond Principles, according to a second-party opinion from Vigeo Eiris, part of Moody’s.

The Carbon Trust, an independent environmental consultancy set up by the UK government, provided a pre-issuance impact assessment of the UK government green financing programme, which includes the Green Savings Bonds. It said it was “confident that the programme will contribute to achieving net zero by 2050”<sup>1</sup>.

The Framework identifies six areas for eligible green expenditures:

- Clean transport
- Renewable energy
- Energy efficiency
- Pollution prevention and control
- Biological and natural resources
- Climate change adaptations

Proceeds of the Green Savings Bonds will be used for projects in these areas, such as building wind farms, accelerating the transition to electric vehicles and revamping homes and public transport, although the bonds (and their returns) are not linked to specific projects. HM Treasury (the UK’s Ministry of Finance) tracks the use of proceeds from the bonds on a dedicated green register, which is reviewed annually by an Inter-departmental Green Bond Board.

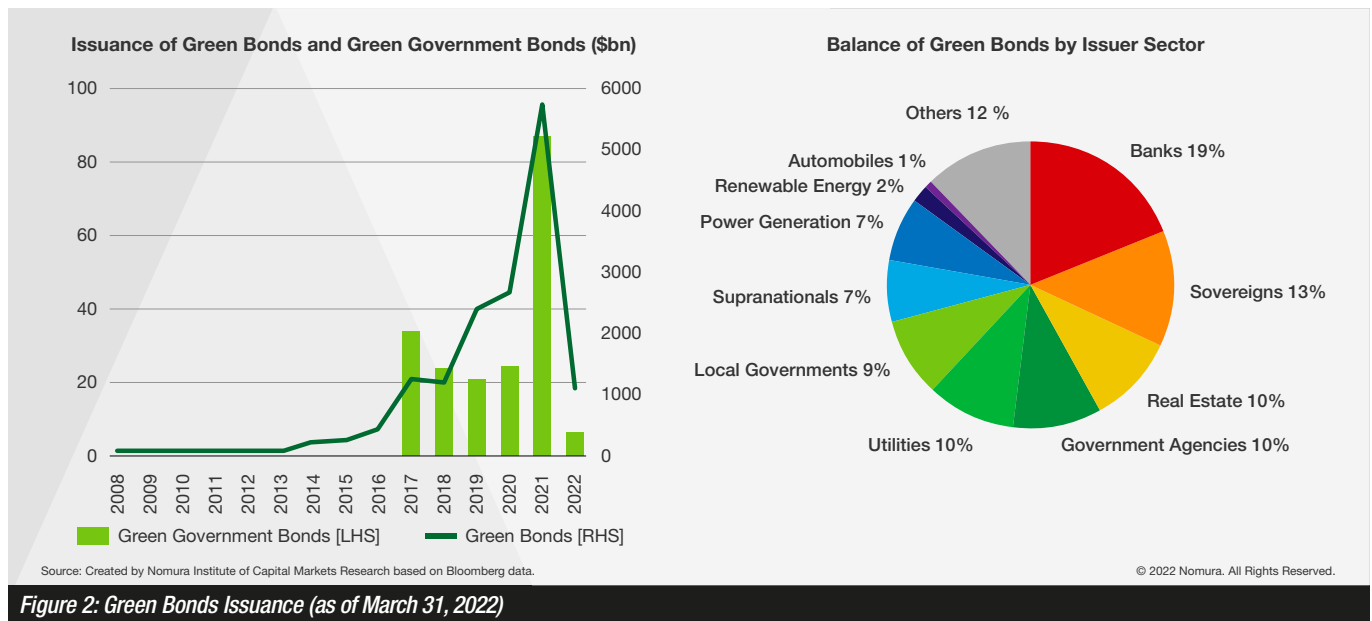


Figure 2: Green Bonds Issuance (as of March 31, 2022)

## WHAT DO THE BONDS OFFER INVESTORS?

The Green Savings Bonds were issued by the National Savings and Investment (NS&I) Corporation, which provides cost-effective resources for the government as well as reliable savings and investment vehicles for the public. NS&I is one of the largest savings organisations in the UK, offering a range of savings and investments to 25 million customers. Buyers of the Green Savings Bonds enjoy 100% security on all capital invested, as NS&I is fully backed by the UK Treasury.

Bonds can be purchased from a minimum of £100 to a maximum of £100,000 through NS&I’s website. Unlike bonds aimed at institutional investors, the three-year bonds must be held to maturity; there is no secondary market or way to redeem them in the interim. The October 2021 issue offered an interest rate of 0.65% while the February 2022 issue offered 1.3%; both rates were less than comparable savings products available from other institutions at the time.

The bonds’ sustainability characteristics were prioritised in marketing. The UK’s now former Chancellor (finance minister) Rishi Sunak said the goal was to “give savers across the UK the chance to back the Government’s green projects and put their money to work in the fight against climate change”. Ian Ackerley, NS&I Chief Executive, said the bonds will “support six key areas to help make our environment greener, cleaner and more sustainable”<sup>2</sup>.

## THE IMPACT OF GREEN SAVINGS BONDS

While the funds raised from the Green Savings Bonds are likely to total just £300 million by the end of the financial year<sup>3</sup> – compared to £15 billion in green gilts to be sold by the HM Treasury to institutional investors – they are nevertheless a significant development, both for the UK government and the green bond market globally.

For the UK government, the Green Savings Bonds confirm the appeal of hold-to-maturity savings products for retail investors, provide a new financial investment vehicle for savers, and serve to publicise the country's climate change measures to its citizens.

Globally, the success of the UK's Green Savings Bonds has already inspired issuance elsewhere. In April, Hong Kong issued a green retail bond. The government more than tripled the maximum offer size to HK\$20 billion (\$2.56 billion) for the three-year bond. Interest is paid every six months based on the inflation rate over that half-year period, with a guaranteed minimum payment of 2.5%<sup>4</sup>.

In August, Singapore issued a S\$2.4 billion (\$1.7 billion) 50-year sovereign green bond priced at 3.04%. S\$2.35 billion of the inaugural issuance was placed with institutional and accredited investors with the remaining S\$50 million offered to individual investors.

As governments around the world consider green retail bond issuance, it is important that they:

- 1. Differentiate green retail bonds from other green financial products.** In addition, with inflation increasing in most countries, interest rates are likely to need to rise to attract demand. Governments should also seek to improve purchase limits in order to optimise bond sales. More generally, governments must ensure the transparency of the bond issuance process, and seek to create an ongoing impact from green projects.
- 2. Provide information that meets the requirements of retail investors.** Information about the allocation of funds and impact reports have historically been tailored for institutional investors. Retail investors may need information that is easier to understand if green retail bonds are to be seen as credible.
- 3. Use retail bonds to highlight climate change measures.** As well as communicating details relating to green retail bonds via traditional investor relations strategies, governments should aim to increase public interest in and understanding of the country's climate change measures when issuing green retail bonds. The use of social media, and even opportunities to visit and use green projects relating to bond issuance, could help to stimulate public interest.

### Notes:

- 1) <https://www.carbontrust.com/resources/pre-issuance-impact-uk-government-green-financing-programme>
- 2) <https://www.nsandi-adviser.com/new-nsi-green-savings-bonds-sale-today>
- 3) <https://www.ft.com/content/d8d25f83-a1e7-4246-88cc-59a665a0e43c>
- 4) <https://www.scmp.com/business/banking-finance/article/3174398/hong-kongs-first-retail-green-bond-offer-finally-launch>

### DISCLAIMER

This article first appeared in fuller form and in Japanese language in the Nomura Sustainability Quarterly Spring 2022 edition, published by the Nomura Institute of Capital Markets Research (NICMR), authored by AKANE ENATSU and KENJI TOMINAGA of NICMR. Sponsored for translation and publication by Nomura International plc by Andrew Bowley. The information contained herein (the "Information") is provided to you by the Sales, Structuring and or Trading Departments of Nomura International plc ("NIP"). NIP is part of the Nomura group of companies ("Nomura") and the Information may contain contributions from employees of the Nomura group of companies. NIP authorised by the Prudential Regulation Authority ("PRA"), regulated by the UK Financial Conduct Authority and the PRA and is a member of the London Stock Exchange. The Information is confidential and has been furnished solely for your information and must not be referred to, disclosed, transmitted, reproduced or redistributed, in whole or in part, to another person. The Information is subject to the following terms: It is provided to you to promote investment services generally and Nomura and/or connected persons do not accept any liability whatsoever for any direct, indirect or consequential loss arising from any direct or indirect use of the Information or its content. It is intended for (a) professional clients and eligible counterparties as they are defined under the regulatory rules in the European Economic Area ("EEA") and (b) institutional investors as defined in the U.S. and is not subject to the independence and disclosure standards applicable to debt research reports prepared for retail investors. Nomura is not a designated investment adviser and the Information is therefore provided on the basis that you have such knowledge and experience to evaluate its merits and risks and are capable of undertaking your own objective analysis of the Information with respect to your specific requirements. It is based on sources Nomura believes to be reliable, but we do not represent that it is accurate or complete. Any prices, yields, figures, projections and examples or opinions expressed are subject to change without notice and may be derived from public or Nomura sources (which may not be representative of any theoretical or actual internal valuations employed by us for our own purposes) and based on various factors including, but not limited to, current prices quoted, valuation of underlying assets, market liquidity, Nomura and its affiliates' proprietary models and assumptions, economic, market, regulatory and other conditions as they exist and can be evaluated at the relevant time; not include adjustments for transaction and hedging costs, accounting offsets and provisions, liquidity or credit considerations or other significant factors which may materially change actual values; and refer to past or simulated past market performance neither of which is a reliable indicator of future market performance. Consequently Nomura does not represent the Information is accurate or complete and makes no representations, warranties or undertakings (express or implied) as to the accuracy, completeness, timeliness or validity of the Information and the Information should not be regarded as implying a value for any instruments referenced in the Information for which there may not be a liquid market; nor used to determine interest payable or other sums due under loan agreements or under other financial instruments or the price or performance of any financial instrument. It may have been prepared in accordance with regulatory requirements which differ from those demanded under applicable jurisdictions where you are located. Nomura is not soliciting any action based on the Information and it should not be considered as an offer to buy or sell any financial instruments or other products which may be mentioned in it. It does not constitute a personal recommendation under applicable regulatory rules in the EEA or take into account the particular investment objectives, financial situations or needs of individual investors nor does it constitute tailor made investment advice as this term may be defined under applicable regulations in any jurisdiction. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research, it is not subject to any prohibition on dealing ahead of the dissemination of investment research and any views expressed in the Information may differ from the views offered in Nomura's independent research reports prepared for investors including retail investors or from views that may be expressed by other financial institutions or market participants on the same subject matter as the Information. It may not be independent of the proprietary interests of Nomura. Nomura trades, or may trade, any financial instruments mentioned in the Information for its own account and such trading interests may be contrary to any recommendation(s) offered in the Information. Nomura also may have acted as an underwriter of financial instruments or other products mentioned and may currently be providing investment banking services to the issuers of such financial instruments or products. For the avoidance of doubt, Nomura and/or its officers, directors and employees, including persons, without limitation, involved in the preparation or issuance of the Information, may from time to time, have long or short positions in, and buy or sell, financial instruments, or derivatives (including options) thereof, of any companies mentioned in the Information or related financial instruments or derivatives. Nomura manages conflicts identified through our Confidentiality and Information Barriers policies, by maintaining a restricted list, a personal account dealing policy and policies and procedures for managing conflicts of interest arising from the allocation and pricing of financial instruments and impartial investment research and disclosure to clients via client documentation. Disclosure information is available at <http://www.nomuranov.com/disclosures>.