

# Green Investment Bank Update

September 2011

## Why are we creating a Green Investment Bank?

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- The Government has ambitious green targets
- The Government is leading the way in developing policies to achieve these targets
- Even after these measures, finance-related issues will continue to limit the scale and pace of our transition
  - Risk aversion due to novelty of technology/ business models and policy risk exposure
  - High third party financing transaction costs
  - Temporary restrictions to balance sheets
- These market failures are particularly pronounced in Green infrastructure
  - Need for rapid scale up
  - The capital intensity of many green projects
  - The novelty of some green technologies
  - Green projects' reliance on long-term policy

# The Government has laid out plans for the world's first Green Investment Bank

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- Focus on infrastructure including energy efficiency
- £3bn of funding over the period 2012-2015
- Delivering a wide range of finance products which complement other Government policies
  - Risk mitigation - to improve a project's risk profile to a level acceptable to banks and institutional investors
  - Innovative finance mechanisms - to overcome high transaction costs of investment, introduce new capital pools and share risks
  - Capital provision - via either equity or debt, to address key capital shortages
- The GIB will be enshrined in legislation to confirm its independent status as an enduring institution with a key public role

# The GIB's proposed mission sets the broad objectives

## First cut mission

*“To provide financial solutions to accelerate private sector investment in the United Kingdom's transition to a green economy”*

- 1 Focus on provision of finance  not e.g. public awareness
- 2 Accelerating private sector investment
- 3 UK remit (but within framework of EC Renewable Energy Directive)
- 4 Focus on the broader green economy  not just climate change

# We envisage the GIB will be guided by 6 key Operating Principles

## First cut mission

*“To provide financial solutions to accelerate private sector investment in the United Kingdom’s transition to a green economy”*

## First cut of GIB enduring operating principles

### 1. Green objectives, sustainable finances

Double bottom line – deploying capital to (i) maximise ‘green’ impact while (ii) preserving capital and generating positive portfolio returns

### 2. Enduring impact

Strategic, financial and operational design to build a sustainable institution to deliver long-term impact required by transition to green economy

### 3. Strategic alignment with Gov’t Policy

Strategic priorities should be aligned with HM Government green policy objectives and initiatives

### 4. Operational independence

Management and operational decision making at arm's length from HM Government

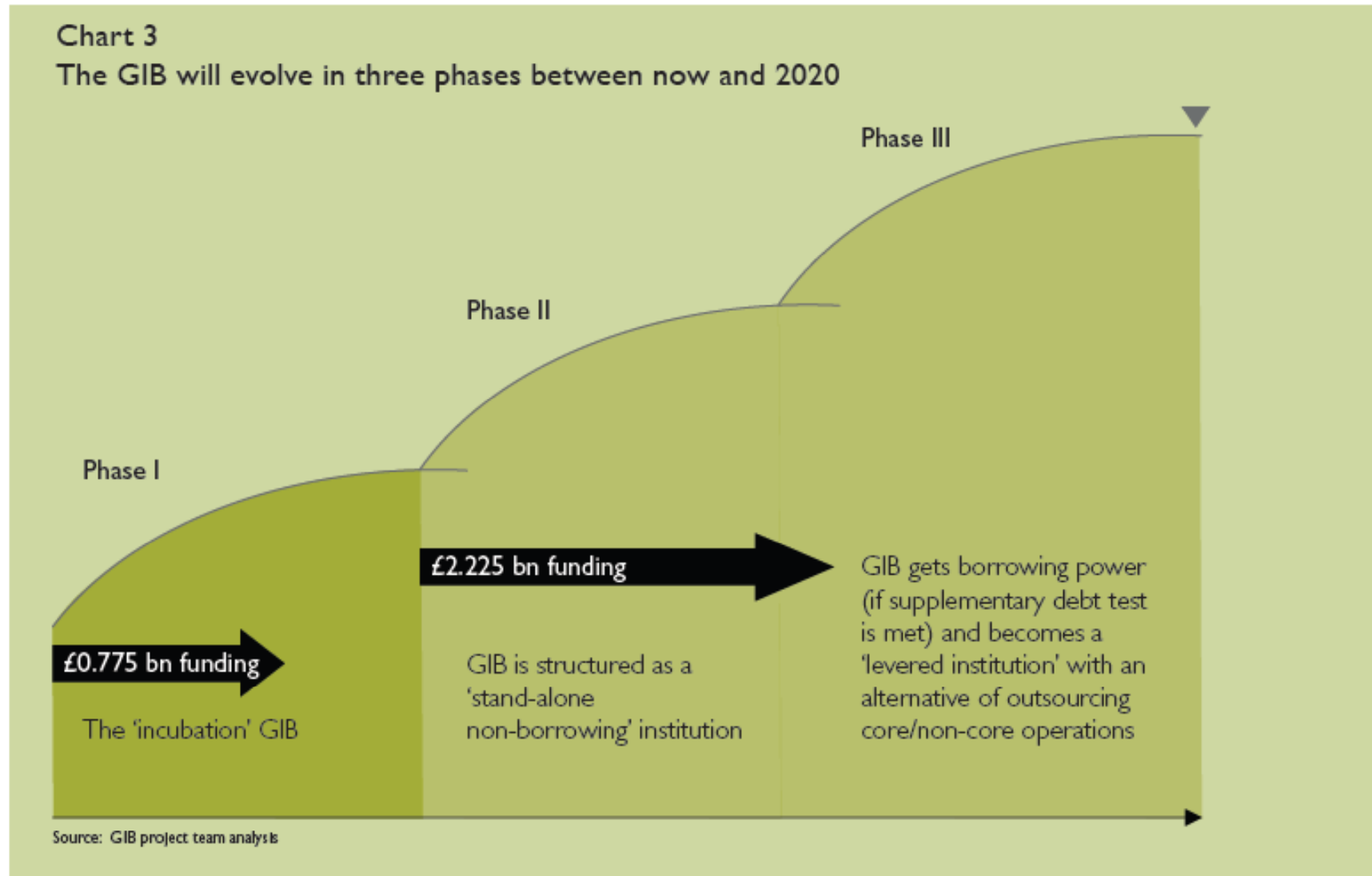
### 5. Partnership with the private sector

Operating only to enhance private sector provision and leverage private sector capabilities □ □crowd in, not crowd out□

### 6. Minimise distortions

Operations compliant with EU State Aid requirements, minimising any distortion of competition

# The GIB policy will evolve over three phases due to legal and fiscal constraints



## Next steps

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- Develop strategic priorities for the GIB
- Prepare State Aid application
- Establish Phase 1 Incubation Operations
- Prepare for establishment of full GIB following State Aid approval
- Advisory Group input
  - Chairman: Sir Adrian Montague

# Size, timing & relevance of financial interventions for green sectors

