

## The funding priorities and environmental objectives for the Green Investment Bank: Speech at Westminster Forum (23<sup>rd</sup> June 2011)



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I will start my presentation today with a question; what do the cities of Nottingham, York, Bristol, Edinburgh and Cardiff all have in common? The answer; they want to be the location and the headquarters for the new Green Investment Bank. While the location is probably not at the forefront of people's minds today, it did take up a significant amount of time in the debates in Parliament and this really demonstrates how quickly this policy has moved in such a short period of time. When the Aldersgate Group started its campaign two years ago, the Green Investment Bank was a half baked idea with the support of some very influential individuals. Now it's a cornerstone policy of the Coalition Government, it's the first green public bank in the world, it has cross-party support and it has significant global interest, while MPs also recognise this as an important institution and that's why so many of them would like to see the bank housed in their constituencies.

My presentation today will cover the size of the challenge, the role the Green Investment Bank should play and the key challenges moving forward.

First a very brief introduction on the Aldersgate Group, we are an alliance of leaders from business, politics and society, that drive action for sustainable economy.

So what is the size of the challenge? Climate change and resource constraints necessitate a rapid transition to a low carbon and resource efficient economy. While this entails costs in the short term, these are manageable and are outweighed significantly by the long-term benefits. The world is engaged in a green economy race and acting early will drive growth, jobs and competitive advantage. The transition also represents a very significant financing challenge estimated at £550 billion to 2020 in key sectors including energy, waste and water. This financing challenge is even more acute for low carbon energy where the operational costs are generally much lower but up front capital and construction costs are considerably higher.

So that's the size of the challenge and what role can the GIB play in addressing this? Well when the Aldersgate Group set out its vision for the Green Investment Bank two years ago, it

was based on two very simple ideas. The first one is that it should seek to reduce risks which the Government have control over. Investment decisions for low carbon projects are strongly dependent on Government policy to create markets that would otherwise not exist or develop too slowly. This produces risks for investors which adversely affects the commercial viability for low carbon projects.

One of the big attractions of the Green Investment Bank to our members was that if the Government has a stake in some of its own policies, it is much less likely to change them, providing more certainty to the private sector.

Secondly, the Green Investment Bank should seek to mobilise finance at scale from institutional investors and we should not wait until 2015 in order to do this. At an Aldersgate Group event a couple of weeks ago, Xavier Rolet, the CEO of the London Stock Exchange said that there was €1.5 trillion of cash sitting on the balance sheets of corporate Europe, including the UK, which is yielding “peanuts”. If some of this cash mountain was invested in the low carbon economy, it could generate consistent low risk returns, creating jobs and boosting tax revenues. The problem is not the availability of cash but the lack of projects to put this money into, which in turn is driven by Government policy and commitment. The Green Investment Bank has a big role to play here, particularly in issuing products such as Green bonds.

So that’s the role the Green Investment Bank should play and lastly I’m going to touch on the key challenges moving forward. There are a number of positive developments in the proposals that were launched last month, for example the Green Investment Bank certainly has the right mandate, which is to accelerate private sector investment in the UK’s transition to a green economy. It also has the right focus, including renewable energy and energy efficiency. We were particularly pleased that the Green Deal is now under consideration and is no longer ruled out. Perhaps what is missing is greater priority for small scale renewable energy and this was a recurring theme at the Aldersgate Group Event a few weeks ago. The Green Investment Bank, while it will focus mainly on large infrastructure, it could still play a leading role in aggregating small projects into something that could potentially access the capital markets on a more wholesale basis.

Overall, while the £3 billion of capitalisation is very welcome, that is a relatively small figure in the context of the total investment that’s required, the £550 billion, that is why it is essential that the Green Investment Bank gets off to a flying start, targets the right sectors with the right products and doesn’t waste its valuable and limited resources. It needs to build up its reputation and prove its worth, ensuring that the first round of investments are a success. This will make arguments to increase the capitalisation and bring forward the date of borrowing easier to make.

So in summary, these are my three priorities for the Green Investment Bank.

- Firstly it must be designed with a clear picture of the low carbon economy that we want to achieve and its roll in facilitating this.
- Secondly it must focus on reducing risk and mobilising finance at scale from institutional investors.
- And thirdly it must be targeted using its valuable and limited resources to maximum effect.

Thank you.