

# The Role of the Green Investment Bank

March 2011

**regensw**  
sustainable energy agency

# about regen sw

Regen is a leading independent, not-for-profit, centre of expertise in sustainable energy. Our mission is to enable business, local authorities, communities and other organisations to deliver ground-breaking renewable energy and energy efficiency projects with thriving local supply chains.

Our recent achievements include:

- Playing a pivotal role in securing funding and planning consent for Cranbrook, the UK's first zero-carbon large scale housing development
- Supporting 35 MWs of wood-fuelled boiler installations across the region through our South West Bioheat programme.
- Developing the ground-breaking Wave Hub project
- Launching 'Communities for Renewables', an initiative that supports sustainable community energy generation and demonstrates localism in action.
- Undertaking a comprehensive resource assessment on behalf of DECC to identify the contribution our local resources could make to national renewable energy objectives.
- Developing a comprehensive guide to developing planning policy on sustainable energy for local authorities
- Establishing an effective partnership with the EST to support the growth of the micro-generation sector.
- Supporting the development of a thriving offshore renewable energy supply chain in the south west
- Supporting over 540 businesses, organising over 70 business-oriented seminars and conferences, and providing skills training for over 2,200 people.

## Membership

Regen's members play a central role in achieving our vision to lead the way in demonstrating how we can achieve a sustainable-energy future as the foundation of a prosperous low-carbon economy. Membership is open to any organisation that supports our mission.

**For more information and to join see [www.regenSW.co.uk](http://www.regenSW.co.uk)**

“ Regen SW's expertise in working with local communities and promoting private sector partnerships is second to none.”

**Mark Prisk MP, Minister of State for Business and Enterprise**

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# introduction

In the Comprehensive Spending Review the government confirmed the establishment of a Green Investment Bank through government funding of £1 billion, with significantly more finance to be raised from the private sector and the proceeds of future government asset sales. The aim of this investment is for the UK to be a leader of the new green economy, creating jobs, saving energy costs and reducing carbon emissions.

The Green Investment Bank has the potential to be a transformational institution in achieving what Chris Huhne has referred to as the “Green Industrial Revolution” by unlocking the huge investment required.

It is vital, therefore, in establishing the bank that it has an ambitious and clear remit focused on where it can make most impact.

At the end of 2010, Regen hosted a business focussed event at the University of Exeter – “Financing renewable energy on the ground: the role of the Green Investment Bank”. The seminar, supported by Ernst & Young, brought together leading experts to explore and debate these issues.

Keynote speakers from the Department for Business, Innovation and Skills, Goldman Sachs, Regen and Ernst & Young set out the different perspectives on the Green Investment Bank from government, finance and sustainable energy delivery.

This was followed by roundtable sessions which gave delegates the opportunity to feed-back the factors they considered imperative for an effective Green Investment Bank.

The outcome of the event was a cohesive call for rapid action by the government, industry and the financial sector to build a Green Investment Bank to finance projects that make commercial sense by tackling high risk, supporting aggregation of projects and providing due diligence expertise.

This pamphlet sets out the conclusions that we have drawn both from this event and from further detailed consultation with our stakeholders on the roles the Green Investment Bank should play to be effective. The Green Investment Bank Route Map presented at the end of this pamphlet illustrates our view of the process in operation.

# 1. tackle financial barriers and provide risk coverage

Given that the forecasted scale of investment<sup>1</sup> required to achieve the low carbon transition is far beyond the Green Investment Bank to finance from its proposed £1 billion of initial funds, it needs to focus on leveraging the required private capital. To achieve this role the bank should be built around a core remit to finance commercially viable projects at the earliest stages where the highest risks are inherent, particularly those concerning construction and technology. It shouldn't seek to take the simple option of investing in safe projects that would simply compete with bank finance.

It is, therefore, important that the Green Investment bank's investment criteria are well thought through for each technology type to determine the circumstances under which the Bank should invest, the financial barriers that are being addressed, and what the exit strategy is.

A core principle should be a commitment to divest and recycle project finance through a revolving financial mechanism to maximise the value of Green Investment Bank investment to the broadest range of renewable energy projects.

The role of the bank is to focus on early stage risk and help attract the scale of private investment for large, challenging schemes can be illustrated by the Atlantic Array (offshore wind project in the Bristol Channel).

This alone has an investment requirement in the region of £4 billion with significant pre-stage risks concerning engineering deployment solutions in deep water, rather than in shallow water of comparative UK arrays.

With a number of projects across the UK similar in scale and value to the Atlantic Array, the utility companies leading offshore wind will not be able to finance the schemes of this scale from their balance sheets. They will need to attract capital from the markets.

The Green Investment Bank clearly will not have the resource to meet this finance need. However, by focussing on addressing the higher risks at project pre-stage, the bank can unlock commercially viable projects by de-risking them to a point where the markets will invest on the scale required.

<sup>1</sup> Green Investment Bank Commission (2010) *Unlocking investment to deliver Britain's low carbon future*. Available at: <http://is.gd/MvR5dt>

## RECOMMENDATION

The bank should focus on leveraging institutional and investor finance by investing at early, higher-risk stages to de-risk renewable energy projects. Finance should then be recycled into new projects by divesting investments once sufficient alternative finance is available.

## 2. support aggregation of projects

It is important that the Green Investment Bank does not focus its attention solely on large-scale low carbon projects. It is expected that these schemes will provide a strong initial investment focus for policy makers and the bank, particularly regarding the offshore markets. However, the bank can play an important role through the aggregation of medium and community-sized projects to achieve a financial scale that is attractive to the bank's investors.

Individually these projects are often too large to attract traditional investment but too small for the finance markets.

By increasing market investor confidence and the flow of investment finance through the aggregation of portfolios of projects, the Green Investment Bank will help to unlock the development barriers that regularly prevent medium and community-scale decentralised energy schemes from progressing.

Analysis carried out by Regen of the renewable resources in the south west<sup>2</sup>, funded by the Department for Energy & Climate Change (DECC), demonstrates that much of the on-shore resource is in medium and community-scale plants that can provide decentralised energy in a much more efficient and appropriate manner.

The aggregation of projects through Green Investment Bank finance will help to unlock this opportunity and provide added economic value. The stimulation of medium and community-scale projects has the potential to have significant overall beneficial impact on the social, economic and renewable generation capabilities of an area, stimulating local supply chains and job creation in the process.

By working with independent intermediary organisations such as Regen, the Green Investment Bank can quickly understand conditions on the ground and access the local expertise necessary to mobilise portfolios of financially viable schemes.

It is important within this context that the Green Investment Bank clearly sets out the renewable energy sectors that are eligible for support and the financial and technical barriers that are to be addressed. This will help to prevent Green Investment Bank finance being perceived as a grant fund, used to supplement existing market mechanisms, or be diverted to schemes that are not commercially viable.

<sup>2</sup> Regen SW (2010) South West Renewable Energy Resource Assessment, Available at: <http://is.gd/AFU1eY>

### RECOMMENDATION

The bank should have an operational focus that unlocks finance for medium scale and community-scale projects by supporting the aggregation of commercially viable projects.

# 3. provide expertise and due diligence

The Green Investment Bank needs to possess technical expertise and due diligence capabilities along with the necessary financial expertise to screen projects. Establishing these strengths will ensure the bank can provide project screening and technical analysis for renewable energy schemes as part of the overall financial process.

It is widely recognised that many of the institutional investors the bank will need to attract, such as pension companies, insurance companies and banks, don't have the investment screening capabilities for renewable energy schemes, which has resulted in their reluctance to invest in this sector to date.

By providing these functions the Green Investment Bank can establish assurances over project risk and returns to institutional investors, helping to secure their capital investment finance into the bank to be channelled into renewable energy projects.

Building a high level of technical expertise is important to establish the Green Investment Bank as an investment expert in the low carbon sector. This will help to create investor confidence and leverage the private investment needed to meet the bank's remit. This issue is interlinked with that of aggregation. For the Green Investment Bank to establish in-house technical capacity, it also needs to understand the technical and geographical strengths of areas throughout the UK.

By working with experienced organisations such as Regen, the Green Investment Bank can access independent expertise together with intimate and technical knowledge of projects, supply chains and sectors on the ground in particular areas.

Collaborative working in this manner can provide the Green Investment Bank with independent technical advice, additional capacity and the ability to coordinate project aggregation on the ground.

This will help to ensure high quality schemes are developed and supported through Green Investment Bank processes, giving the bank's confidence in the quality of schemes applying for finance.

In this context the Green Investment Bank should resist calls for it to focus on trying to 'do everything now'. It should be focussed on financing individual and aggregated portfolios of commercially viable projects by tackling high early-stage construction, technology and infrastructure risks, and through removing the barriers to investment.

Establishing the Green Investment Bank quickly within this remit, working alongside organisations with delivery experience on the ground, will help target finance at good quality schemes to deliver early wins and create momentum.

## RECOMMENDATION

The bank should provide technical expertise, due diligence and understanding of renewable energy projects to provide confidence to financial markets. This will also require the Bank to engage and work with partners, such as Regen, who can provide specialist sector knowledge with facilitation of projects on the ground.

# 4. ensure alignment with UK policy and legislation

There is a clear need for the government to recognise the inter-relationship between *policy and regulation* and *financing & funding* when establishing the Green Investment Bank.

It is clear that the Green Investment Bank will not and cannot be the single solution to achieve the low carbon transition.

It needs to work within the landscape of existing policy and market mechanisms that support renewable energy, such as the Feed-in Tariffs, Renewable Obligation Certificates, Emissions Trading Scheme and Carbon Reduction Commitment, which all provide different market and business low-carbon drivers.

The Green Investment Bank must be established as a distinct mechanism with a clear remit to ensure it is not perceived as an instrument to augment, bail out or provide a silver bullet for other market issues. It will do so by being designed to specifically target the financial, construction and technical barriers of good, viable but higher risk projects.

However, the policy and legislative landscape in the UK drives demand for sustainable energy and changes to this can have a dramatic impact on investment risks and returns. The market will, inevitably, be sensitive to the signals a government-backed Green Investment Bank sends about confidence in demand-side policies.

The Green Investment Bank, therefore, needs to have a clear role providing independent advice to government on the impact on low carbon investment of policy decisions.

The communication to the market of what policy risk has been factored into Green Investment Bank investment decisions needs to be carefully thought through.

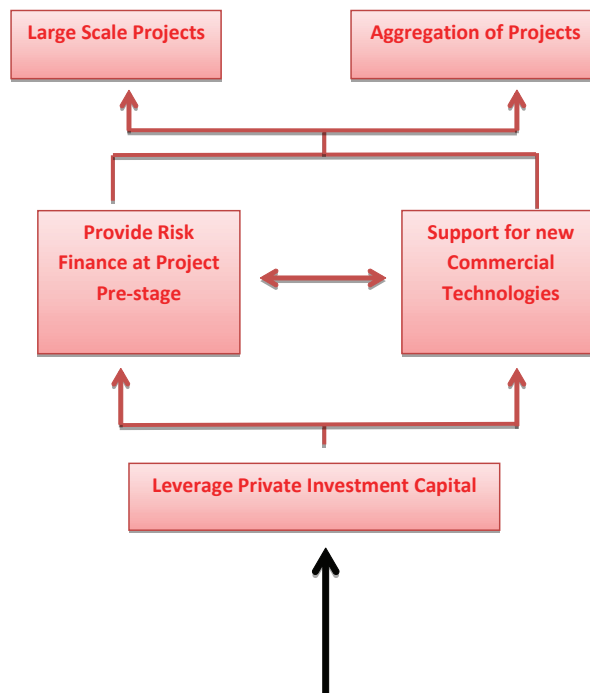
## RECOMMENDATION

The bank's remit needs to be aligned with existing policy, regulatory and market mechanisms that support renewable energy. In particular the market needs to understand any insight the bank has, as a publicly funded institution, into policy risks affecting investment decisions.

# Green Investment Bank route map

## Green Investment Bank Added Value

By establishing its core operational functions, the Green Investment Bank can unlock added value. By channelling projects through each stage, the higher they progress up the chain the more value the Green Investment Bank adds and the more investment flows into renewable energy projects.



## Core Green Investment Bank Functions

The Green Investment Bank should bring together the core functions set out below under its operational remit to effectively establish the climate for renewable energy project investment.



**For more information  
go to [www.regenSW.co.uk](http://www.regenSW.co.uk)**



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