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# Process of Designing Green Banks/ Financial Institutions

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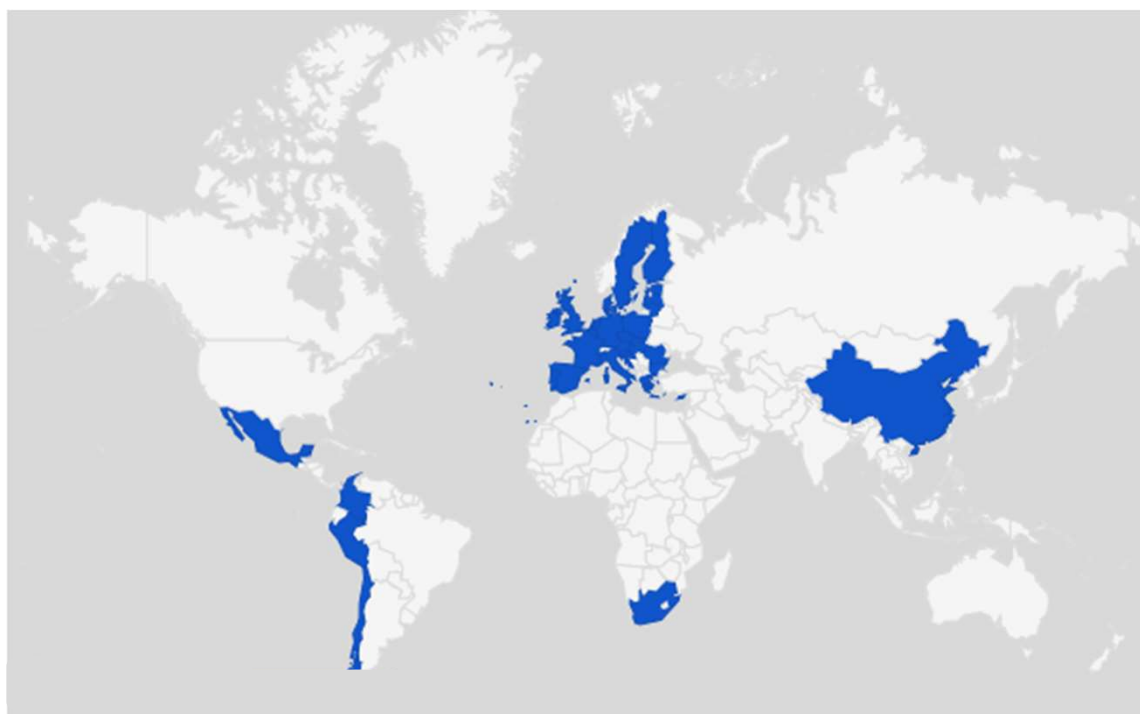
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# E3G has global experience in National Climate Financing Strategies



## Core principles learned from each process

- Functions are relatively similar across countries
- Constitutional and institutional landscape are very different
- Process of building an institution is iterative.

\*This is not an exhaustive representation of E3G's experience.

# The need for a more strategic approach...

- **Developing countries are at critical stage in infrastructure development**, which in turns makes it critical that capital and investments can directed to sustainable areas.
- Public balance sheets alone are not sufficient.
- Private finance sector is rather conservative, and it tends be slow to embrace new technologies.
- In emerging/ developing economies, **the political risk sometimes can be overestimated** by the private sector as there is a lower understanding of the policies in the country.
- Textbook solutions alone will not deliver
  - Boosting private investment by only increasing rewards is a costly way of dealing with risks and market failures.
  - Low carbon responses such as a carbon price are not enough.

**Green Banks/Financial Institutions bridge the gap between finance and policy**

# Perception from Decision Makers



## Our experience shows:

- Creating ambitious institutions doesn't have to be a highly complex process.
- It can be done quickly.
- There are methods and tools that you can use to make this process easier.

**We are creating a tool for practitioners to facilitate the process and draw upon other experiences**

# The process of designing Green Banks/ Financial Institutions - 5 phases



KEY DECISIONS AND CHOICES

Decision Making Process



Stakeholder Engagement



Analytical support



Standards and Frameworks





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## How the process works



Decision-Making  
Process



Agenda setting can be influenced by different factors: external events, political driver, structural issues, pure advocacy, or a combination of the above.

Stakeholder  
Engagement



Engage with key decision makers and establish their role in the process  
Market testing: real economy and financiers – input to refine proposals

Analytical  
Support



- What's the **low carbon strategy**? What is the **total financing requirement to deliver it**?
- What's the **financial landscape in the economy**? Is there a bond market; is it easy to issue equity; bank debt.
- What is **the current finance gap, and how will it be met**?
- Can the **current financial system deliver the transition**?
- Why is a policy solution better than an institutional one?
- What is **the real vs perceived risk, who owns the risk** and how to reduce the risk?

Standards and  
Frameworks



Precedents from alike institutions



### **OUTPUT OF CASE MAKING**

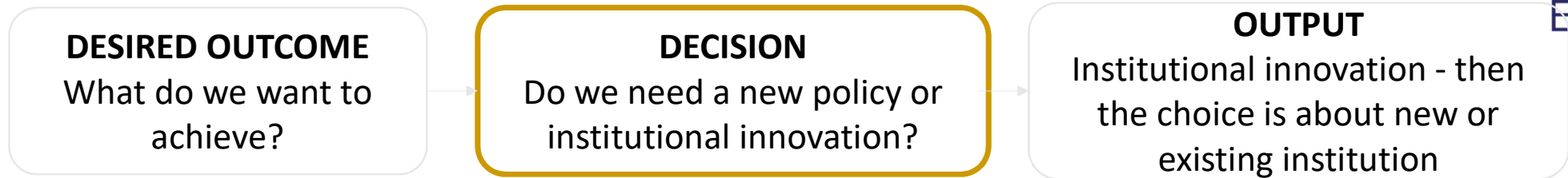
- ✓ Mapping the current financial landscape.
- ✓ Low carbon agenda including targets.
- ✓ Total infrastructure financing requirement, green requirements by sector.
- ✓ Determine the missing markets.
- ✓ The objective of the GIB and proposal of the functions based on the finance strategy and market barriers.
- ✓ Market testing (finance, government, NGOs, political parties).

**The output is the foundation for the key decisions and choices in the next phase.**



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# Example: UK Green Investment Bank



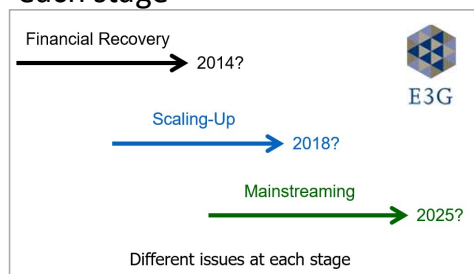
- In response to the 2008 Global Financial Crisis, **E3G proposed a UK Sectoral Stimulus Package** including a Green Infrastructure Bank
  - **The scale of financing need was unprecedented** ~£40-50 Bn per year over 15 years relative to ~£6-7 Bn actually invested.
  - **Another fund wasn't the solution:** have finite resources aimed at specific purposes, static.
  - **Rising rewards weren't correcting the risks,** inefficient to reward investors for their perception of the political risk
  - **The solution needed to address at least two challenges:** provision of finance and the coherence around policy frameworks.
- **Transform UK** created. A coalition members supportive of Green Infrastructure Bank
- **GIB commission** was set up to consult on the creation of a GIB



## Tools and inputs for the Case Making phase

### Strategy

UK Sectoral Stimulus GIB role each stage



### Policy recommendations

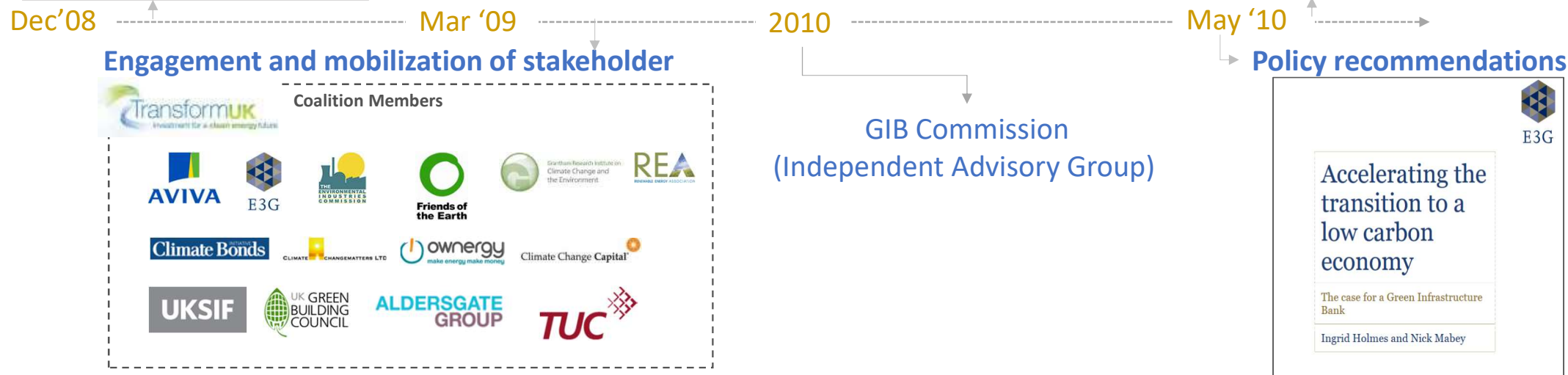
**Climate Change Capital<sup>®</sup>**

Accelerating Green Infrastructure Financing: Outline proposals for UK green bonds and infrastructure bank

Briefing Note<sup>1</sup> March 2009

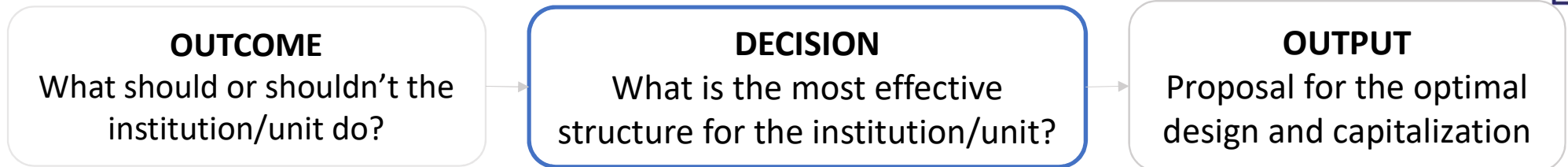
### Decision by govt

**The Coalition:**  
our programme for government





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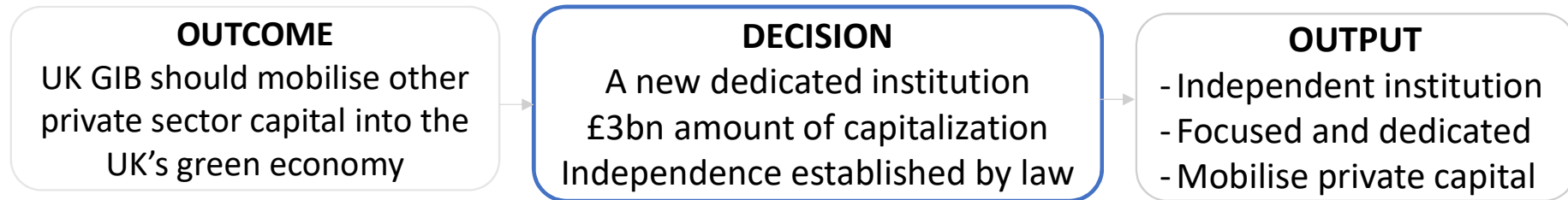


- What does **the process look like?**
- Which **government departments need to be consulted** about the GIB?
- Why **wouldn't the finance gap be met by existing financiers?**
- What is **the form of the institution?** and why?
- How should it most effectively be set up: **governance, shareholders?**
- What is the **scale of the capitalization?**
- How is the capitalization **going to be financed?**
- What should it use its financial resources to support?
- How is **the institution going to evolve ?**

# Example: UK Green Investment Bank



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- Coalition **government included GIB in their agreement**, but differed on scale, focus and structure
- **Treasury** didn't see the value, **prefer a wait-and-see approach**
- **Unprecedented scale, urgency and nature of the challenge**
- Pros and cons of establishing a new or using an existing financial institution were explored.
- The capitalization depends on priority sectors and the ability and willingness of the private sector to invest. Alternative sources could have been bonds, existing quangos, Green ISAs.
- Govt initially announced £3bn for capitalization
- **6 operating principles including** working towards a '**double bottom line**', green impact and + returns
- **GIB needs to have sufficient flexibility to adjust to changing market needs**



## Tools and inputs for the establishment phase

Decision by Government

### Policy recommendations



### Options analysis on capitalization



Update on the design of the Green Investment Bank



### Groups mobilized



#### Green Investment Bank Position Statement – September 2010

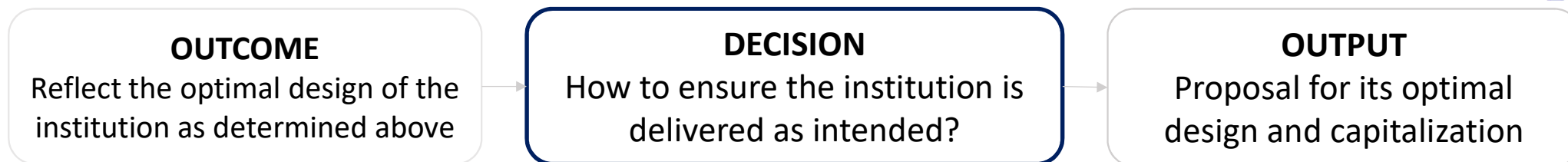
The UK is facing a time of considerable economic stress. Restoring growth and re-balancing the economy are urgent priorities. Focusing our recovery effort on low carbon growth can re-power the economy, increase our energy security and help tackle climate change.

### Groups mobilized



#### Green Investment Bank

The case for legislation

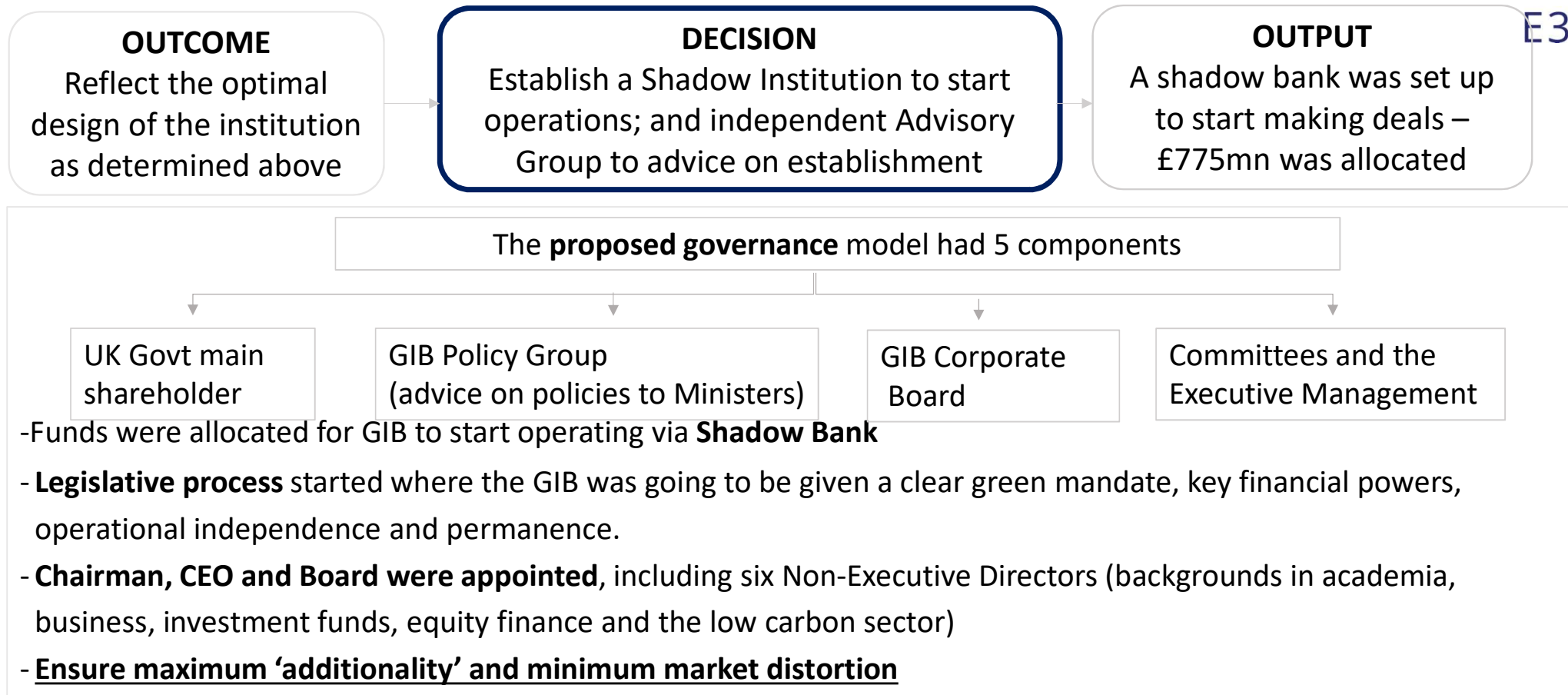


- Who could advise on the details of establishing the GIB?
- What is **the governance model**?
- What about **securing funds for initial establishment**?
- What is the strategy?
- How does **this type of institution fit within the current financial landscape**?
- What are the **borrowing powers of the institution**?
- What is the **accounting treatment required**?
- What are the **screening criteria** to be eligible for GIB support?
- What is the **risk management** e.g. guidelines, geographical, sectoral?



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# Example: UK Green Investment Bank





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## Tools and inputs for the establishment phase

### ToRs for Advisory Groups



#### The Green Investment Bank

#### The Advisory Group Terms of Reference

1. The Advisory Group is a temporary group that will operate during the incubation phase of the GIB (from the summer of 2011, for around an 18 month period). The first full meeting of the Group will be September 2011. The Advisory Group will be disbanded at the end of the incubation phase, around the time that State Aid Approval is granted by the Commission for the GIB Institution. On creation of the GIB Institution, a GIB Board will replace the Advisory Group.

### Stakeholder engagement



#### Green Investment Bank (GIB), Legislation & Economic Recovery

How can the GIB help support the UK's economic recovery?

Ahead of the Chancellor's Autumn Statement, you are invited to discuss GIB legislation and the role this groundbreaking institution can play. This will take place at:

Commonwealth Parliamentary Association Room, House of Commons, Westminster  
22<sup>nd</sup> November 6.30-8.30pm



### Decision by Government

Oral statement to Parliament

#### The Queen's Speech 2012

HM The Queen addressed Parliament about the legislative programme for government, with an introduction from David Cameron and Nick Clegg.

My government will introduce legislation to establish a Green Investment Bank.

Sept '11

Oct '11

Nov '11

May '12

### Options analysis

The economics of the Green Investment Bank: costs and benefits, rationale and value for money

Report prepared for The Department for Business, Innovation & Skills

Final report  
October 2011

### Legal analysis

Legal report  
November 2011

#### Towards the Green Investment Bank Act

Legislation to secure the mandate and governance of the UK's Green Investment Bank

### Impact Assessment before legislation

Impact Assessment (IA)	
<b>Title:</b> UK Green Investment Bank <b>IA No:</b> BIS0342	<b>Date:</b> 15/05/2012
<b>Lead department or agency:</b> BIS	<b>Stage:</b> Final
<b>Other departments or agencies:</b> DECC, DEFRA, HMT	<b>Source of intervention:</b> Domestic
	<b>Type of measure:</b> Other
	<b>Contact for enquiries:</b> Emily Cloke (emily.cloke@bis.gsi.gov.uk)
<b>Summary: Intervention and Options</b>	<b>RPC Opinion:</b> RPC Opinion Status

## Key takeaways

- Everything is different but everything is the same
- The process is the same across countries, and breaking it down into bitesize chunks makes it easier to deliver and explain.
- The core functions of this type of institutions are highly similar between countries.
- There are some critical decisions that are going to take you along different pathways which are bespoke to the country context.

## Next steps

- Create a general framework for designing Green Banks/Financial Institutions as a tool for decision makers.
- Illustrate the process with different designs and tools that are going to be available for use in your own process
- Planning to incorporate more case studies:
  - South African Green Fund
  - Colombia Sostenible – land-related fund

**WE WOULD LIKE TO HEAR FROM YOU**



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# Thank you

You can read more at:

<https://www.e3g.org/showcase/green-investment-bank>

<https://www.e3g.org/showcase/mexico-in-focus/>

<https://www.e3g.org/showcase/international-climate-finance/>

<https://www.e3g.org/showcase/international-financial-institutions>

Contact me at: [dileimy.orozco@e3g.org](mailto:dileimy.orozco@e3g.org)

## About E3G

E3G is an independent climate change think tank operating to accelerate the global transition to a low carbon economy. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere. In 2018 E3G was ranked the fifth most globally influential environmental think tank for the third year running.

More information is available at [www.e3g.org](http://www.e3g.org)