

The privatisation of the UK's Green Investment Bank

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In late June, the UK government announced plans to privatise the majority of the Green Investment Bank (GIB) before the next general election. The state-owned institution has “exceeded all expectations,” explained new Secretary of State for Business Sajid Javid at the bank’s annual review.

To date, the GIB has invested £2 billion in 50 green infrastructure projects in the UK. Its mission is to “take on the more difficult infrastructure projects, de-risking new sectors and helping to lower the cost of capital for green projects.”

Funding and investment

The bank can invest debt and equity in construction-phase assets. The GIB also operates a separate [£1 billion offshore wind fund](#), which buys stakes in operating offshore wind assets without leverage. The bank has aimed to invest £800 million annually in projects, and is nearing that target this year, noted chief executive Shaun Kingsbury at the annual review.

Upon its [launch in 2012](#) under the previous UK government, the GIB was given £3.8 billion (\$5.96 billion) of state cash to back UK green projects on commercial terms, and to mobilise private sector capital into the country’s green economy.

“While the capital from the government was an important start, it will not be enough to sustain our level of investment,” Kingsbury said. “From the very outset it was always part of the plan that we would need to raise additional capital from the private sector.”

The GIB is projected to offer an average 9% rate of return across its debt and equity portfolio. Its funds business projected to generate a 12-13% rate of return on its portfolio, Kingsbury noted.

Over the 2014-2015 fiscal year, the bank climbed into the black for the first time. It made a pre-tax profit of £100,000, after sustaining a pre-tax loss of £5.7 million the prior year. The bank has been investing in construction-phase assets, many of which have yet to return cash.

The offshore wind [fund reached a £463 million first close in April 2015](#). This attracted financing from high-profile sources – Middle Eastern sovereign wealth funds and UK pension companies, including Strathclyde.

Commercial comfort

Politics factor into the government’s decision to privatise the GIB. The Conservative Party announced the intended privatisation only seven weeks after winning a majority of Parliament, and has begun efforts to wean renewables off state subsidies. The party is keen to shift the GIB “off UK plc’s balance sheet,” said bank chair Lord Smith of Kelvin at the annual review.

Selling off the majority of the state's stake will release the GIB from European Union rules on state aid, which restrict its lenders. Existing legislation that commits the bank to clean investments will remain, however.

The privatisation announcement came at a time of increasing commercial comfort with renewables technologies.

While construction-phase European renewables may have been seen as risky a few years ago, commercial banks and institutional investors today feature in offshore wind projects and offshore transmission owner (OFTO) schemes.

Commercial lenders have attempted to assert themselves in markets that previously relied on development banks, including the GIB. Commercial bank debt [accounted for 64% of European offshore wind lending in the first half of 2015](#), up from 48% in H1 2014 and 32% in H1 2013, according to *IJGlobal* data.

"The [GIB] was there for great reasons during the crunch," said a head of a Japanese bank's European energy lending unit. "They built up a great team, and some of the stuff they've done is really useful. But as with other DFIs, that time has passed."

Yet, the GIB shows no sign of slowing down. By its own estimation, it had a 50% share of the UK green lending market in 2014. That year, the bank committed £723 million to 22 new projects, up from £617 million sent on 17 projects in 2013.

New opportunities

The GIB's financing activity is unlikely to abate as the privatisation process nears. It is creating new products to drive activity.

New efforts include an international pilot programme to invest in renewables in South Africa, East Africa and India. The bank also plans to raise debt finance, start additional funds, and recycle capital from early investments, Kingsbury said.

At the annual review, Kelvin said that 2016 will see final close for the offshore wind fund, the first international investment, and "a good pipeline of projects coming through" under the UK's new Contracts for Difference regime. Commercial banks may be flush in capital, but the GIB and other state banks have a lingering mandate to invest capital in projects.

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