GIB privatisation threat to UK low carbon economy

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The announcement by the Business Secretary, Sajid Javid, that the government intends to sell off a majority stake in the UK Green Investment Bank has received a less than enthusiastic welcome. It was to be expected that green NGOs would raise concerns on environmental grounds, but the economic logic of a sell-off has also been seriously questioned by Conservative thinktanks and in the business press.

The Government has been keen to emphasise that majority privatisation is not just aimed at raising revenues, but will liberate the bank to accelerate investment into the UK low carbon economy. But this claim does not stand up to scrutiny.

The GIB is already judged by many as being the coalition government's only successful mechanism for bringing private capital from institutional investors into the UK economy. The GIB has levered £3 of private funding for each public pound invested. In contrast the Treasury's flagship Infrastructure Pension Platform and £40bn Guarantee Scheme have failed.

The GIB has proven to be one of the UK's most influential economic innovations since the global privatisation wave of the 1980's and 90s. Over 12 publically-owned green investment banks have been established as a result around the world; China is now considering whether to establish a series of GIB's across its economy.

But majority privatisation would remove the basic economic rationale for the GIB. A profit-maximising GIB would be unable to perform its key role of reducing risk in important sectors in order to crowd-in private capital. This is particularly important in SME-dominated but hard to invest sectors like energy efficiency, waste, community energy and supply chains. The GIB can do this because the government only demands a 3.5% minimum return on its investment; a much lower rate than the private sector. This difference is what allows the GIB to take risks the private sector cannot.

A majority privatised GIB would in fact crowd out private capital by using its public share to out compete private investors for the lowest risk and highest profit projects. It is this prospect which has raised criticisms from rightwing commentators and parts of the financial sector.

Furthermore, the publicly owned GIB is given strategic investment priorities by the Government such as energy efficiency and off-shore wind. Under privatisation the Government would lose control over these priorities and so would no longer have the power to ensure its investments were made in the national interest. This is not about picking winners but about ensuring investments are made which help meet carbon budgets, keep the lights on and support energy security. The Green Purposes of the Bank might continue to be enshrined in legislation but they are weak and majority privatisation would leave the Government unable to enforce them.

Advocates of privatisation say that it would enable the GIB to borrow from financial markets and so increase its economic impact. This is a red herring. The GIB already has borrowing powers in principle but is blocked from the markets by a government policy saying it cannot borrow until debt is falling as a proportion of GDP. The OBR forecasts that this threshold will be reached in 2016, and so the government could allow the GIB to borrow from next year.

However, the GIB does not need to rush to borrow from markets as it has no immediate shortage of capital. The GIB aims to invest around £1 billion every year and still has around £1.8bn of unallocated public capital available to invest. Under the new European Fund for Strategic Investment a publicly controlled GIB could use this money to leverage up to £30bn in guaranteed investment into the UK; none of which would count towards UK public debt. Government banks across Europe are already using this facility to fund major energy efficiency, renewable and R&D programmes.

The final argument for privatisation is that it would liberate the GIB from European State Aid rules aimed at controlling distorting subsidies. However, State Aid rules contain broad exceptions for environmental projects and are applied flexibly. To date the GIB has received all the State Aid clearances it has asked for. Experience from other European Banks suggests that the additional sectors it might want to invest in are also very likely to be agreed.

But it is not too late for the government to change its mind. There are a large number of UK institutional investors and citizens who would rush take a minority stake in the GIB for the long term. These investors value green investment and want steady, moderate returns and so would not change the character of the Bank. GIB ownership could also be opened to devolved administrations and English cities and regions to ensure it supports investment around the whole of Britain.

With imagination and open engagement the Government could realise a capital return to help pay down the UK debt by selling a minority stake in the bank, while also creating a mutualised “People's Green Investment Bank” which remained true to its original mission to support the green economy. That would be a worthwhile One Nation project.

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