



Draft Specification of Requirements

Green Finance Scoping Study

Background

The Government's Green Finance Strategy was published on July 2nd 2019. A major part of this strategy is the establishment, also on July 2nd, of the Green Finance Institute, a joint private and public sector initiative to champion the UK's expertise in Green Finance.

DIT will be a key delivery arm of the Green Finance Institute's objectives, namely connecting UK players to commercial opportunities overseas. In this context, the Department is aiming to improve its understanding of which sectors within financial services would most benefit from an enhanced focus. To support this, we require a study on the strengths of the UK financial services' Green offering, including a comparison to competitor countries (such as France, Luxembourg, Ireland, Sweden etc.) to identify the areas that would most benefit from DIT's strategic support.

The scope of the study will cover the UK supply of Green Finance products and services, an assessment of UK strengths and comparison with overseas markets. The deliverables will be in the form of a report, including recommendations for DIT's overseas network on how to best drive the growth of the UK Green Finance industry in foreign markets.

Requirement

The Department for International Trade requires scoping work in on the UK Green Finance sector, including both products and service providers, to allow the DIT overseas network to enable UK business to better take advantage of commercial opportunities overseas. Specifically:

- What are the UK's strengths in Green Finance, by company and specific product?
- How does the UK's offering in the sector compare to international competitors?
- How can industry and the overseas network work together most effectively to take advantage of commercial benefits, including from prosperity and other aid-funded UK government programmes.

The outcomes from this scoping study will support all future prosperity programmes that focus on Green Finance, including those in key priority markets for DIT in financial services such as Brazil, China, India, Mexico.



Deliverables

The primary deliverable will be a report covering:

- The UK Green Finance products and services;
- An assessment of UK strengths and comparison with overseas competitor countries;
- Recommendations for the DIT network how to best sell the UK's strengths in Green Finance overseas.

In the report a detailed summary of the UK Green Finance Supply eco-system is expected to cover the key product offerings and service providers across the subsectors listed in Annex 1.

A comparison of UK Green Finance capabilities against overseas competitor countries should be conducted from a sectoral perspective, using, for example, both qualitative and quantitative analysis to provide international rankings in Green Finance sub-sectors, statistics on investment in Green projects by UK organisations, and anecdotal opinions and comments from industry figures.

Recommendations for the DIT network will need to take into account the establishment of the Green Finance Institute. It should also outline how DIT could work most effectively other government departments such as BEIS, HMT, FCO & DfID to maximise the benefits for industry.

The contractor will also be required to present the findings to the DIT Financial and Professional Service team leadership team on completion. Our preference is that this presentation is held at our offices in London, but it could also take place via videoconference if necessary.



Annex 1

Types of Green financial instruments

“Green Finance” is not a mysterious new financial product. For the most part it is simply the application of existing financing tools to green / sustainability projects and companies, such as:

- **Green corporate finance** – where companies like utilities and developers finance new green developments and construction projects using their own company funds and borrowings – also known as corporate finance or “on-balance-sheet finance”;
- **Green project lending** – normally by banks, in which project debt and equity used to finance a green project are paid back from the cash flow generated by the project. Normally structured as a project-specific Special Purpose Company (SPC) where cash-flows from the project are “ring-fenced” – also known as project finance or “off-balance-sheet finance”;
- **Capital markets** - allow businesses to raise long-term funds by providing a market for securities, both through debt and equity. Capital Markets offer a whole range of products:
 - Green Bonds are no different from conventional bonds, their only unique characteristic being the specification that the proceeds be invested in the generation of environmental benefits. Many different types of issuers (e.g. borrowers);
 - Green equities – shares in the ownership of a green company or project, listed on a stock exchange (publicly quoted) or privately held.
- **Retail Finance:** bank loans for individual consumers where the use of funds is for environmental purposes e.g. green mortgages, cars loans for electric vehicles.
- **Asset-backed Securities (ABS)** – a type of bond which packages together pools of retail loans as above to create a security of ~\$100 m +, therefore liquid and suitable for large investors.
- **Carbon credits** – or carbon offsets - are “permits to emit” various greenhouse gases within a constantly decreasing cap to the overall market limits (normally government-mandated).
- **Venture capital:** VC is a form of finance for small and growing green businesses, e.g. those developing innovative clean energy technologies in particular.



- **Asset Management** – the management of large pools of funds from institutional investors such as public and private pension funds, insurance companies etc. Two main categories:
 - Large, Global and diversified asset managers, where the challenge is to encourage them to devote more of their Assets Under Management (AUM) to green securities;
 - Smaller, specialised Green Funds and “YieldCos” which manage diversified portfolios of sustainable investments in e.g. renewable energy and energy efficiency.
- **Insurance-related products:** Insurers are on the front line of understanding economic damage and knock-on effects arising from climate change, providing:
 - Traditional natural catastrophe products and ancillary services such as risk modelling;
 - Newer solutions using third party capital (Insurance Linked Securities) such as catastrophe bond products and parametric based insurance products;
 - Insurance-linked loan packages, Resilience Bonds and Resilience Service Cos, all based on reduced premiums and coupons linked to reducing risk.