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# THE PANDEMIC'S PROMISING LESSONS FOR THE FUTURE OF GREEN PUBLIC BANKING:

## Policy insights for the UK Infrastructure Bank

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### Introduction

Once targets of privatisation, public banks are back in fashion. These institutions continue to account for a significant share of financial systems across the world. In emerging market economies, public banks are one of the main sources of funding for long-term projects ranging from infrastructure, housing and agriculture, while in advanced economies, where credit and capital markets are more globally integrated, they are focused on strategic sectors of the economy (Luna-Martínez and Vicente 2012; Schmit et al 2011). In recent years, public or state-owned banks have acquired respect among mainstream institutions as they have proven capable of tackling financial crises by scaling up lending as private credit dries up.

In the context of the 2008-9 crisis, the vast majority of public development banks played a counter-cyclical role (Luna-Martínez and Vicente 2012). Since then, public banks have become increasingly prominent as providers of patient and green finance (Mazzucato and Semieniuk 2018). New public banks have recently been set up or are being considered in places as far ranging as the United Kingdom, France, Germany, Portugal, Indonesia, Canada, American Samoa and Los Angeles (Marois 2021a, 4).

In relation to efforts to combat the climate crisis, climate finance is a hot topic. Climate finance refers to 'local, national or transnational financing — drawn from public,



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private and alternative sources of financing — that seeks to support mitigation and adaptation actions that will address climate change' (UNFCCC 2021). In the UK, the government launched the Green Investment Bank (GIB) in 2012 to mobilise private finance into the green energy sector, but this bank was subsequently privatised. The UK's investments in renewable energy reached £25.9 billion in 2015, but subsequently dropped to only £10.3 billion in 2017. Added to this, funding from the European Investment Bank (EIB) dropped off immediately after the 2016 Brexit referendum. The EIB had been one of the main sources of infrastructure funding to the UK, but between 2016 and 2017 new contracts were down from £5.54 billion to £1.89 billion (Peel 2018).

The new UK Infrastructure Bank (UKIB) was announced in late 2020, in the midst of the COVID-19 pandemic. This happened after calls for a public bank from parliamentary select committees, environmental organisations, the trade association for the energy industry and academia. The Environmental Audit Committee's report *Green Finance: Mobilising Investment in Clean Energy and Sustainable Development* (2018) identified the need to 'mobilise large volumes of capital investment in clean energy and sustainable infrastructure'. It highlighted that 'the market is failing adequately to price and protect natural capital'. Scholars from the Institute for Innovation and Public Purpose (IIPP) have been at the forefront in arguing that the UK would benefit from a new state investment bank (Environmental Audit Committee 2021, 61; Mazzucato and Macfarlane 2017; McPherson, Kedward and Dibb 2020). The creation of a national investment bank, as well as regional development banks, was in the Labour Party's 2019 manifesto. But it was the Conservative Party government that launched the UKIB as an alternative to the European Investment Bank, within the efforts to 'build back better'.

In this policy brief, we draw attention to public banks' impressive efforts to combat the COVID-19 pandemic and its social and economic fallout. Building on the 'rapid response' volume *Public Banks and COVID-19: Combatting the Pandemic with Public Finance* (McDonald et al 2020), we show that public banks acted rapidly and generously when the public health emergency hit European countries. They launched their own initiatives and played a role within government responses. Their responses were by no means uniform, however. Public banks with a 'public purpose mandate', that is, a mandate focused on socially desirable objectives and directed by government objectives, tended to tackle the crisis more proactively.

We argue that there are important parallels between the COVID-19 pandemic and the climate crisis, and that the positive lessons from the public health emergency can inform the future of public banking for a greener planet. While climate change is often approached as if it were 'gradual', the COVID-19 pandemic and the climate

crisis are both emergencies that constitute a threat to human life (Malm 2020). The IPCC (2021a) recently showed that human activity has warmed the climate at an 'unprecedented' rate, since the 'global surface temperature has increased faster since 1970 than any other 50-year period over the last 2000 years.' To limit global heating to 1.5 or even 2 degrees requires 'immediate, rapid and large-scale' reductions in emissions (IPCC 2021b). Thus, policy responses to both the COVID-19 pandemic and the climate crisis need to be urgent, generous and creative.

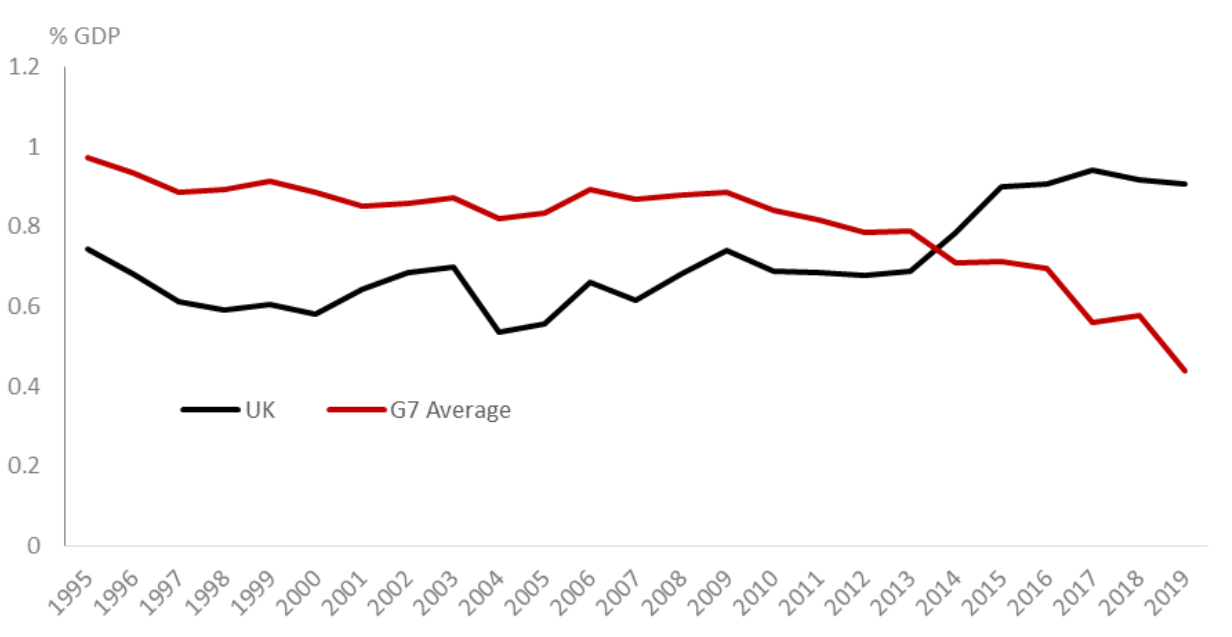
In what follows we focus on five public banks in Europe and use their experience from the pandemic to provide policy advice for the UKIB's green future. These banks are the German *Kreditanstalt für Wiederaufbau* (KfW), the Italian *Cassa di Risparmio di Venezia* (CRV), the Portuguese *Caixa Geral de Depósitos* (CGD), the Council of Europe Development Bank (CEB) and the European Investment Bank (EIB). We first outline the UKIB's institutional design and then illustrate the general lessons of these public banks' pandemic responses in Europe. Of these, the CEB and the KfW stand out. We then focus on how the UKIB can support tackling the climate crisis. We argue that the UKIB can seek practical inspiration from these public banks in further developing its green public purpose mandate. Such a mandate can be mobilised to leverage financial capacity and to ensure that credit is directed to environmentally sustainable projects.

Based on the evidence from the pandemic, we provide four policy recommendations. First, policy makers should *retain* the UKIB's green mission, *expand* it and formally *incorporate* it into a legally binding public purpose mandate. Second, the UKIB should mobilise its public purpose mandate to acquire financial capacity needed to support a green transition. Third, as part of its mandate, policy makers should allow the UKIB to abstain from profit-maximisation. Finally, policy makers should include civil society on the UKIB's board. The UKIB should recruit staff who can uphold and reinforce its green mandate and overcome the risk of greenwashing.

## The UK Infrastructure Bank

The UKIB is 100 per cent owned by the UK Government and specifically by HM Treasury, its only shareholder. It was first announced as part of the UK's National Infrastructure Strategy in November 2020. The strategy connects to the Prime Minister's *Ten Point Plan for a Green Industrial Revolution*, which identifies infrastructure as key to reaching net zero by 2050. In its interim form, the UKIB initially offered finance to the private sector only, but it now offers public sector financing too. Its launch took place after the UK's departure from the European Union (EU) and from the European Investment bank (EIB), which left a financing gap of around €8 billion per year (Pickard and Morris 2021). In response to concerns that the UKIB will

Figure 1: G7 Infrastructure spending (transport)



Source: OECD

be privatised, just like the GIB, HM Treasury has confirmed that UKIB will be a 'long-lasting institution' (HM Treasury and UK Infrastructure Bank 2021, 3).

In terms of its institutional design, the UKIB is operationally independent. In practice, this does not preclude the Government from exercising influence. HM Treasury appoints several members on the board (the CEO, the chair and non-executive directors); has its own board representative; and meets with the CEO and chair at least every three months. HM Treasury is accountable to Parliament regarding all matters concerning the bank (HM Treasury and UK Infrastructure Bank 2021).

The UKIB has an explicitly green mission. It will 'partner with the private sector and local government to increase infrastructure investment to help to tackle climate change and promote economic growth across the regions and nations of the United Kingdom' (HM Treasury and UK Infrastructure Bank 2021) This mission will be delivered through two strategic objectives: first, to help tackle climate change and meet the net zero target by 2050; and, second, to support regional and local economic growth. As an infrastructure bank, it will prioritise areas covered in the Infrastructure Strategy, notably clean energy, transport, digital, water and waste, although it can offer finance across sectors (HM Treasury and UK Infrastructure Bank 2021, 3-4).

The UKIB's design is premised on a notion that private finance cannot tackle the climate crisis alone and that there are financing shortfalls in infrastructure (HM

Treasury 2021). The UK's infrastructure gap was previously brought up by Philip Hammond, former Chancellor, in the first Conservative Party conference after the Brexit referendum in 2016. He claimed that, 'Our stock of public infrastructure — like our roads, railways and flood defences — languishes near the bottom of the developed countries' league table after decades of underinvestment' (Castle 2016). Until recently, the UK was one of the countries that invested the least in transport infrastructure among the G7 (see Figure 1). The gap was not limited only to transport, but extended to a number of sectors, including housing, energy and water.

The UKIB's policy documents reflect calls for a state-owned financial institution that can provide *patient, long-term* finance that private financial institutions do not provide (HM Treasury and UK Infrastructure Bank 2021, 3). IIPP scholars have argued for industrial policy and a state investment bank that can provide strategic patient finance and nurture a 'new industrial landscape' in the UK (Mazzucato and MacFarlane 2017). Policy documents acknowledge that public banks can play a role in building 'infant industries' and expressly state that financial markets in infrastructure 'cannot be taken for granted' (Sunak, HM Treasury 2021). Therefore, the UKIB is to 'address shortfalls in the provision of private finance' (HM Treasury and UK Infrastructure Bank 2021, 2).

Unlike conventional economic approaches, UKIB policy makers are not concerned with the risk of crowding *out* private finance. Instead, the UKIB aims to *crowd in* private finance. However, the new public bank will not take full

responsibility for allocating enough credit to secure a green shift. The UKIB's core investment principle is to fund projects that can deliver positive financial returns and attract private capital over time by bringing the private sector and local governments together in infrastructure projects, and by helping to build a financing bridge where there is a mismatch between the private sector's appetite for return and the risk of projects. Indeed, policy papers note an abundance of finance, but a mismatch between creditors' willingness to lend and projects' risk profile (HM Treasury 2021, 8). Thus, the UKIB aims to support new green technologies by crowding in private investments to those areas that need kick-starting. Additionally, the uneven geographical distribution of investments in the UK necessitates that the state helps direct financial flows. The UKIB offers finance to local and mayoral authorities, and plans to develop an expert advice service to assist local governments develop and finance projects (UK Infrastructure Bank 2021). The UKIB aims to structure deals to attract FDI and investments from pension funds (HM Treasury 2021, 9, 18). Overall, the idea is to use public banking as an instrument to attract capital flows.

## Pandemic responses from European public banks

Public banks are neither good nor bad by virtue of being public (Marois 2021a, 2021b). It follows that their responses to the pandemic were not homogenous, illustrating better and worse approaches. Based on the global research findings in *Public Banks and COVID-19: Combatting the Pandemic with Public Finance* (McDonald et al 2020) there are five promising lessons.

- **Rapid response:** As public actors, public banks were well-placed to respond rapidly to the pandemic. Public banks can work with public authorities and react quickly as a matter of policy.
- **Bold and generous actions:** Many public banks were bold and generous in their counter-cyclical crisis response. They faced the crisis head-on, allowing businesses and families to adjust to the worst of the crisis.
- **Public purpose mandates:** A clear public purpose along with unambiguous support from political authorities appears to have been a crucial precondition for greater effectiveness in response to the crisis.
- **Existing institutional capacity:** Public banks mobilised their existing institutional capacity, consisting of built-up expertise and pre-existing communication channels to tackle the crisis.
- **Public-public solidarity:** Cooperation among public banks and other non-competitive public institutions, created by existing institutional linkages and collabo-

orative public sphere legacies, has been an important characteristic of public banks' COVID-19 response.

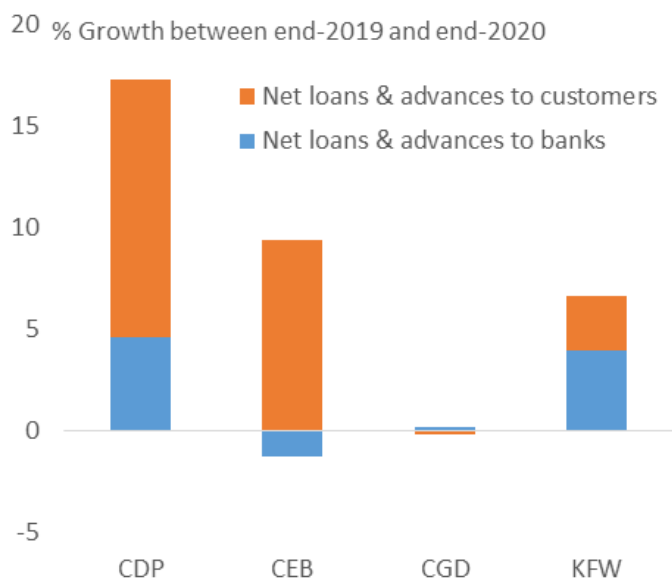
The following is a brief overview of the actions of the KfW, the CEB, the CGD, the CDP and the EIB, focusing on evidence of the three first lessons in European countries.

A rapid response generally characterised public banks' responses in Europe. The CEB, a small multilateral bank owned by 42 member states, approved emergency loans to 15 countries within three months, issued 'social inclusion bonds' and introduced a new 'fast track' process to reduce the lending approval time for emergency loans (Reyes 2020; CEB 2021a, 2021b). Italy's CDP launched new funding for SMEs and mid-caps, and was already allowing deferred payment from local authorities in late February 2020 (Vandone et al 2020, 302-303). In Portugal, the earliest public banking measures were announced two days after the WHO declared a pandemic and five days before Portugal entered a state of emergency. The CGD launched new credit lines with state guarantees to companies and offered debt moratoria for individuals and firms (Stadheim 2020). The German government was equally swift at deploying the public bank KfW in its pandemic response (Marois 2020, 157).

Generosity was no less evident among public banks in Europe. The German government expanded the volume of state guarantees to firms, credit insurers and non-profit organisations by no less than €757 billion, or 24 per cent of German GDP, through the KfW and a new economic stabilisation fund (IMF 2021). The government 'lent to and through' KfW and declared that the state-owned bank could lend 'without limit' to businesses in difficulty with government guarantees (Marois 2020, 157-158). Overall, KfW offered aid measures totalling up to a commitment volume of €68.9 billion (KfW 2021a). The CEB had, as of June 2021, approved €3.8 billion in loans for COVID-19 emergency response measures and given 28 individual COVID-19 related loans to member countries (CEB 2021b). In 2020 alone, the CEB approved loans for €6 billion, a 51 per cent increase from 2019. This was a record level of financing for the bank and half of these loans were for COVID-19 support (CEB 2021c, 4).

The Italian CDP Group expanded its new lending for business by 11 per cent in 2020. This helped to support more than 100,000 companies and 50 infrastructure projects (CDP 2021). Meanwhile, the Portuguese CGD extended new credit lines backed by state guarantees to companies. Despite this, the CGD only expanded its loans and advances to companies (excluding construction and real estate) by 2.7% in 2020 (CGD 2021, 7). The CGD's support focused more on moratoriums of existing credits. By the end of July 2020, the CGD had approved 48,326 moratoriums: 36,604 to individuals (€3 billion) and 12,226 to companies (~€4 billion) amounting to ~€7 billion (Stadheim 2020, 324).

Figure 2: Credit expansion during COVID (net outstanding loans by end of year)



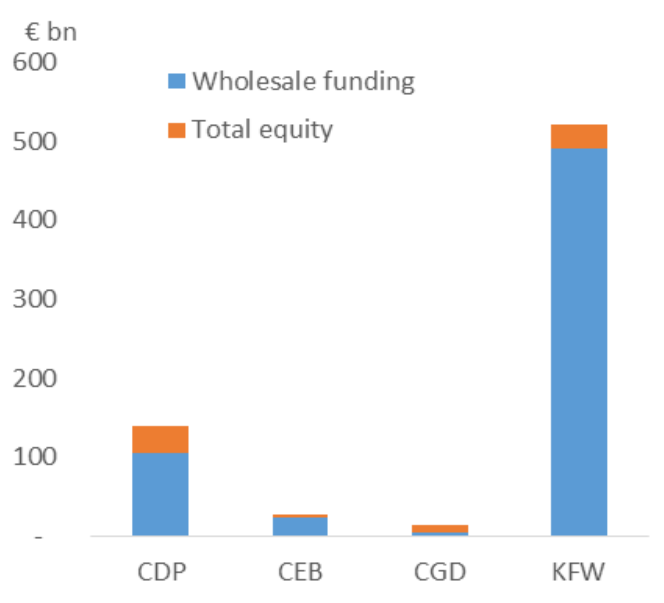
Source: Authors' calculation and BankFocus

The extent of credit expansion among these banks can be observed in Figure 2, which shows the growth of net outstanding loans between the end of 2019 and the end of 2020. This includes loans to businesses, consumers and banks, as well as other loans. Figure 3 illustrates the sources of funding. These developments reinforce what is already well-known: that public banks lend counter-cyclically in times of crisis.

The evidence from the pandemic shows that some of the most effective banks had a clear public purpose mandate (cf. Barrowclough and Marois forthcoming). This cannot be taken for granted, since there are public banks that are mandated to prioritise profitability (for example, Turkey's Ziraat Bank or the Alberta Treasury Branch in Canada). Political support of public purpose mandates is also important. The CEB's *exclusively* social mandate allowed it to channel resources exactly where they were needed during the pandemic. It financed urgent healthcare needs, medicines, diagnostics tests, vaccination programmes, the continuation of essential public services, long-term investments in social infrastructure and job protection (CEB 2021c, 6). In that case, a public purpose mandate, together with a flexible governance structure, proved crucial. Equally, the KfW has a public purpose mandate and was highly effective (Marois 2021a). As a legacy of the Marshall Plan, it was initially built for post-war reconstruction. Its current mandate is to provide for the 'sustainable improvement of the economic, social, and ecological conditions of people's lives'.

In contrast, the EIB, the EU's financial arm and the world's largest international development bank, proved somewhat

Figure 3: Source of funding in 2020



unfit to handle the pandemic effectively (Clifton et al 2020). It does not have an unambiguous public purpose mandate. The EIB's most important pandemic measure was the European Guarantee Fund (EFG), which provides guarantees for national promotional banks, local banks and other financial intermediaries (EIB 2021). Member countries would fund it, but its operationalisation required their approval and ratification, which took months (Clifton et al 2020, 140). Consequently, the first financing approval was only given in October 2020 (EIB 2021).

**Public purpose mandate + governance = transformational speed + societal generosity**

The lessons from European public banks in the pandemic can provide relevant insights into how the UKIB can tackle the climate and biodiversity crises. The public health crisis and the climate crisis share a need for bold and urgent action. They require directed coordination at an international level, which is dependent on directed action at home. Admittedly, there are differences between the two crises in terms of the type of change required. One of the responses to the COVID-19 pandemic has been to put economic activity on hold via country-wide lockdowns. For a green transformation to take place, a lockdown is not feasible. Instead, as IIPP argues, the green transformation requires a mission-oriented *reorientation* of economic activity and the right institutions to catalyse ambitious reductions in CO<sup>2</sup> emissions (Mazzucato 2021, cf Kattel et al 2018). Such a structural transformation necessitates massive up-front, patient and coordinated public banking

investments in technology and infrastructure (Mazzucato and Macfarlane 2017; Mikheeva 2019; Marois 2021a). Just as in other processes of structural change, credit is central, since large-scale investments are rarely the outcome of investors' prior savings. During the pandemic, public banks helped families and firms to stay afloat; they allowed them 'time to breathe'. In contrast, to combat the climate crisis, public banks need to direct credit not just to productive and employment-enhancing investments in an otherwise 'financialised' economy, but to green investments.

Despite this difference in the role that public banks can play in the two crises, the UKIB can learn from and employ the positive lessons of the COVID-19 pandemic to help combat the climate crisis. A public purpose mandate is not just valuable in its own right; it is also *instrumental* to achieving financial generosity and green *orientation* of credit. Based on the evidence from the pandemic, we provide four policy recommendations.

**1:** Policy makers should *retain* the UKIB's green mission, *expand* it and formally *incorporate* it into a legally binding public purpose mandate.

**2:** The UKIB should mobilise its public purpose mandate to acquire financial capacity and the generosity needed to support a green transition.

**3:** As part of its mandate, policy makers should allow the UKIB to abstain from profit maximisation.

**4:** Policy makers should include civil society on the UKIB's board. The UKIB should recruit staff who can uphold its green mandate and overcome the risk of greenwashing.

First, the UKIB should *retain* its green mission, *expand* it and formally *incorporate* it into a legally binding public purpose mandate. The UKIB's objectives, which currently focus on net zero, and local and regional growth, are not set in stone, since the Government is to consider broadening them to include improvements in the UK's 'natural capital' (HM Treasury 2021; HM Treasury and UK Infrastructure Bank 2021). Natural capital is defined as 'the sum of our ecosystems, providing us with food, clean air and water, wildlife, energy, wood, recreation and protection from hazards' (UK Government 2020).

Protecting natural capital should be included in the UKIB's mandate. However, the environmental focus should be extended. The UKIB is expected to prioritise sectors covered in the Infrastructure Strategy, which, despite adopting a broad notion of infrastructure, does not include agriculture and social infrastructure. Social infrastructure includes public health.

Since the UKIB will address not only the *causes* of climate change, but also its *consequences*, its mandate should reflect the connections between environmental shifts and public health. A recent report by the Environmental Audit Committee (2021) stressed the connection between planetary health and human wellbeing, and it highlighted how environmental shifts — specifically deforestation — facilitate zoonotic spill-overs, which are 'the cause of most emerging infectious diseases' (Environmental Audit Committee 2021; cf. Malm 2020). A public purpose mandate allowed several public banks, for example the CEB, to act with flexibility when faced with a pandemic.

On agriculture, meat production is a major source of global greenhouse emissions, and policy makers should consider using the UKIB to direct financial flows towards sustainable and plant-based food production and consumption.

Second, a public purpose mandate could be instrumental in securing the financial capacity needed to tackle the climate crisis. The UKIB has already been criticised for its small size and lack of ambition. The UK government committed to providing it with a maximum financial capacity of £22 billion. However, this is not all in the form of capital that is readily available for lending. Of this £22 billion funding, only £5 billion will be equity, solely owned by HM Treasury, and it will be provided 'over time'. The UKIB will receive up to £1.5 billion in any given year for the first five years. The rest of the £22 billion will come in the form of loans from the Debt Management Office or from private markets, whichever is cheaper, with a borrowing limit of up to £1.5 billion a year and up to £7 billion in total. The UKIB can issue up to £2.5 billion in guarantees per year, up to £10 billion in total (HM Treasury and UK Infrastructure Bank 2021, 16). This means that even if the UKIB expands at the fastest legally permitted pace, it will still only reach its maximum capacity after five years.

Furthermore, the UKIB is potentially limited in its ability to retain earnings to expand lending capacity. The UKIB's Policy Design states that the bank 'will be able to recycle capital and reinvest returns', which will allow it to 'scale up its balance sheet over time' (HM Treasury 2021). However, the more recent Framework Document indicates a change of mind: 'The shareholder will be able to request a dividend in order to prevent significant retained earnings being accrued over time within the company' (HM Treasury and UK Infrastructure Bank 2021). This shift compromises the bank's ability to rapidly scale up financial capacity. From time to time a public bank can justifiably pay out a dividend to the government (Marois 2021a). However, allowing the UKIB to retain earnings, at least in the first few years of its operations, would facilitate its expansion and ability to assist a green transition.

There are other ways of enhancing financial capability without passing the bill on to taxpayers. During the

pandemic, some of the most successful banks mobilised their public purpose mandate to generate funds to tackle the public health emergency.

The CEB combines two interesting mandate characteristics: an exclusively social mandate and the absence of transfers from its member states (although when the borrower is a non-state institution, the respective government must guarantee the loan). The CEB was able to enlarge its operations during the COVID-19 pandemic by raising capital through bond issuance, notably through its 'social inclusion bonds', which are popular among investors looking for socially responsible assets (Reyes 2020). The CEB added the health sector to the scope of these bonds to help combat the pandemic. Benefitting from a good credit score, the CEB could borrow at favourable rates. It issued social inclusion bonds twice (€1 billion in April and US\$500 million in June). According to the CEB Governor, the two bond issuances were 'heavily oversubscribed and enabled [the CEB] to pass on favourable lending conditions to [the] members' (Rolf Wenzel, quoted in CEB 2021c). In the CEB's own assessment, the bond issuance allowed it to 'broaden its investor base and to raise funds that are key to its social mandate'. Currently, the CEB intends to continue pursuing its social inclusion bond programme and to 'expand it with "theme-based" bonds, if conditions are met' (CEB 2020).

The German KfW offers a similar story about financial capacity. In this case, however, the lesson is equally to do with a use of state guarantees to promote societal generosity. With total assets amounting to US\$569 billion in 2019, the KfW is twice as big as the World Bank and among the largest public banks in the world (Marois 2020, 151, 153). It almost entirely finances its promotional lending through its engagements on international capital markets and raises capital through bond issuance (KfW 2020, 3; Marois 2020). By law, the German state guarantees all of KfW's debt, including its bond issuance (Law Concerning KfW 2020, 4). This is reflected in an excellent credit rating (AAA by Standard and Poor), which puts it in a good position to access international financial markets at beneficial terms. By borrowing at the lowest rates, it passes on favourable terms to its borrowers (Marois 2020, 153-154).

The UKIB should be inspired by the CEB and the KfW to pursue an exclusively public purpose mandate, mobilise this on capital markets and pass beneficial borrowing terms on to green projects. To enhance this, policy makers need to give the UKIB more flexibility to issue bonds and the bank may need more generous guarantees.

Third, and as part of its mandate, the UKIB should reinforce that it need not be a profit-maximising institution, but one oriented towards maximising public purpose. The UKIB's Policy Design states that it is 'expected to make a sustainable return over time' (HM Treasury 2021). In fact,

some of the successful cases referred to above — notably the CEB and the KfW — are both non-profit maximising by mandate. This did not limit their financial capacity and generosity when faced with the pandemic. However, this does not suggest that the UKIB should make losses. The CEB injects profits made into its own reserves and this facilitates new lending (Reyes 2020). The KfW does the same. It has an average 0.35% return on assets and transfers this back into the reserves. Thus, the KfW's phenomenal size is not the result of a pursuit of maximum profits (Marois 2020, 152). These are not the only examples. The Dutch Water Bank, NWB Bank, which has an AAA rating, refrains from profit maximisation (NWB 2020, 10).

In seeking inspiration from these public banking successes, the UKIB should incorporate non-profitability maximisation into its public purpose mandate, capitalise on this by engaging with investors that seek socially responsible assets and retain earnings to magnify lending capacity.

Fourth, while a public purpose mandate is necessary, it is insufficient. In the UKIB's case, it needs to be complemented by an institutional design that can uphold the green mission and focus on green transition, levelling up and job creation. Socio-economic factors, political dynamics and class interests must be taken into account when shaping a new public bank or reshaping an existing one, as these are 'dynamic' institutions made and remade within society (Marois 2021a, 2021b). The UK is not immune to revolving doors, cronyism and capture. On the latter, one concern is that the UKIB ends up primarily in a de-risking role for private finance, which could involve the socialisation of the private sector's losses (Marois 2021c). The common response to such challenges has been to make financial (and other) institutions politically independent from governments.

However, to strengthen the new bank's democratic accountability and to reinforce its green public purpose mandate, lessons can be learned from KfW. Federal ministers sit on the board of KfW. In addition, the 37 board members include representatives from industry, trade unions, trade, crafts, municipalities, housing associations, commercial banks, saving banks, mortgage banks and business credit institutions (Marois 2020, 153). In the UKIB's case, it may be relevant to invite representatives from water and sanitation, transport infrastructure, renewable energy and local governments, along with those from climate and environmental NGOs and trade unions to sit on the board, or to form binding committees to advise on UKIB operations and to constantly assess its green mission and directionality. Related to this, there is also a need to build in-house environmental and climate expertise to evaluate individual projects, much as the EIB has done (Mazzucato and Mikheeva 2020). Within a financialised economy, with a rate of gross capital formation well below OECD average, there is a risk that the bank's green

mandate is forgotten amid the need for any productive investment. There are several contradictions and gaps in the Government's plan for a Green Industrial Revolution, and to overcome the risk of *greenwashing* the UKIB needs a binding governance mechanism to ensure the bank will pursue its green and transformative goals.

## Conclusion

Public banks have proven themselves to be capable actors in times of crisis. This has been evident during the COVID-19 pandemic, when they acquired a role in combatting the public health emergency and the economic fallout from it. Many of them allowed families and firms to stay afloat, and channelled resources into public health. As such, they were effective, bold, generous and crisis-facing. We have argued that there are important parallels between the public health emergency generated by the COVID-19 pandemic and the climate crisis. These two crises are likely to be intertwined and, moreover, they both represent major threats to humanity or to life on planet earth, thus necessitating an emergency response and a generous financial response. They differ in that the climate crisis requires a structural shift that reduces carbon emissions and protects biodiversity, which was not the immediate response to the pandemic, but, notwithstanding this, the lessons about public banks' promptness and generosity are valid for the climate crisis.

Despite clear evidence of success, public banks' pandemic responses have not been homogenous. Public banks do not inherently serve the public good by virtue of their ownership structure. Therefore, the UK's new public bank needs to be actively engineered to play a positive role in a green transition. Crucially, a public purpose mandate was a central precondition for success during the pandemic.

We have presented four interrelated recommendations for the UKIB and UK policy makers. First, the UKIB should *retain* its green mission. Policy makers should *expand* and *formalise* it through binding legislation. Second, to achieve the much-needed financial capacity to tackle the climate crisis, the UKIB should mobilise its formal green public purpose mandate to secure funds on capital markets, through bond issuance, and channel these funds into green and just investments. A more generous use of state guarantees would also assist the UKIB in reaping benefits on international financial markets, which can then be passed on to green projects, as in the case of the KfW. Third, as part of its public purpose mandate, policy makers should allow the UKIB to abstain from maximising profits. Contrary to what may be intuitive, this does not have to lead to a drain on public resources. It can even facilitate public banks' expansion, as in the cases of CEB and KfW (and the NWB in the Netherlands). Finally, institutional design and governance matter for upholding

the UKIB's green mandate. We have recommended that the UKIB's board is expanded and that actors such as those in renewable energy and infrastructure, along with representatives from trade unions and climate and environmental NGOs, are invited into formal governance structures. To overcome the risk of greenwashing, this needs to be complemented with staff with the technical expertise to evaluate the extent to which projects are green and carbon friendly.

## About this brief

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