

*Putting Knowledge Into Action*



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## **The New Green Financial Ecosystem**

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Change is accelerating in the green space. The United States, and, later, the global economy are being restructured into greener and more efficient economic structures. While these changes are driven by higher energy prices and better technologies, the primary driver is government. Since government has intervened into the economy and become more activist, we are seeing an accelerating trend line for the regulatory policy framework that will drive green faster and farther than many observers and industry analysts realize.

The Obama Administration is disarmingly activist by nature. It is creating policy framework through legislation, regulation and executive order. These actions will reshape the U.S. economy into a green economic engine. I coin this evolution of the financial world, "the new green financial ecosystem." Today only pieces of this green financial ecosystem are visible, but it is nonetheless stimulating people to take action through both direct investment and fund structures.

Let us examine the change that is upon us. On the legislative front, we have the Waxman-Markey Bill which is a comprehensive energy and environmental template for the United States. This bill addresses national renewable portfolio standards, electricity decoupling and more energy efficiency, climate change cap and trade legislation, tailpipe emissions and boosting CAFÉ standards, carbon capture and storage, Smart Grid and many other design elements for the new green economy.

I have said for years that "regulatory certainty provides financial certainty" for investment. As the legislative and regulatory program gets enacted, capital flows are moving into the green sector. We are cognizant of the deterioration of renewable energy project finance in the past year, with 27 banks lending last year down to six banks lending for wind and solar this year due to the lack of credit support. That will change as tax credits and loan guarantees reawaken renewable project finance. Expect a lag of six to 12 months to see a rebound in renewable project finance.

Today, cleantech venture capital is trimming portfolios and supporting those portfolio companies that are still maturing. However, the larger game has always been private equity and those large hedge funds that can provide financing, both equity and debt, to grow the green business. There are 4,000 private equity funds in the New York City area and 2,000 in the San Francisco Bay area, and many others throughout the United States. They are presently sitting on their powder. They have soft circled this area of cleantech or green investment. But they are there, and not financially damaged from the market upheavals of the past eight months.

The other new emerging trend comes from the death of the investment bank. Today, we are seeing a trickle of sustainable merchant bank launches in the offing in New York. This year's strategy is to get assets under management (AUM) to deploy capital conservatively now and more aggressively in later years as the regulations are written and stimulus monies are freely flowing.

The green financial game today is to manage expectations. I never thought that the Obama Administration would hit the ground running from Day 1 at the subcabinet level. There are 9,000 Schedule C political appointees in the plum book which are barely filled at present due to onerous vetting requirements. There is nothing wrong with ethics, but we need people in administrative positions at the sub-Cabinet level to make decisions and deploy capital faster. There is said to be 60 agencies in the mix to deploy Stimulus monies. Energy monies will also be deployed but more slowly than anticipated. Green jobs are the goal but creating those jobs will take time.

### **The Four Pillars of the Green Economy**

My latest thinking is that we consider the development of the new green economy as possessing certain essential elements:

1. The first pillar is a regulatory policy framework which is presently evolving;
2. The second pillar is finance as the money needs to be available to deploy into cleantech, renewables, energy efficiency and carbon reductions;
3. The third pillar is the deployment of technology and engineering solutions and that takes people; and
4. The fourth pillar is education which is the glue of the new green economy as job and business training is essential for the skills needed.

Two little known factoids about the energy industry are that in the past 20 years, it has lost over 500,000 jobs (more than the automobile industry) and that in the next ten years 40 percent of its work force will retire. Education is needed in sectors such as project finance, renewable energy installation, energy auditing, IT deployment for Smart Grid—the list is endless. Education will unlock the economic engine which is currently in parking mode.

Warren Buffet got it wrong when he called our current economic meltdown an “economic Pearl Harbor.” He forgot what the positive stimulus of Pearl Harbor ultimately did for the United States. It awakened a sleeping giant which, when aroused, put its economic might behind the effort to defeat totalitarianism.

The economic crisis today is a painful, but will lead to an American catharsis. The economic crisis has brought energy and environmental issues to front row center, into the very heartbeat of U.S economic policy. It has also galvanized many young people, energized entrepreneurs and called out to old energy hands to dedicate themselves to rebuilding the American economy. We surely can count on the ingenuity, risk taking, capital access, and historic creativity of the world's biggest economy to get the job done. This wave is rippling throughout the country, and although it has just awakened from a punishing hangover, it has also stumbled upon the elixir of economic life called "Green." Green and growing!

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