Session 5. Greenhouse Gas Reduction Fund

Notes submitted by Will Slotznick, Yale University

Speakers:

- Matt Carney; Senior Director, Green Banks and Resilience Finance; Quantified Ventures
- Lydia Olander; Program Director; Nicholas Institute for Energy, Environment, and Sustainability
- Leigh Whelpton; Director of Environmental Infrastructure; Connecticut Green Bank
- Daniel Wallace; Chief Investment Officer; Coastal Enterprises, Inc. (Maine)
- Reggie Knox; Chief Executive Officer; California Farm Link
- Maggie Monast; Senior Director, Climate Smart Agriculture; Environmental Defense Fund

Summary:

The speakers described new opportunities for public funding for nature-based solutions presented by the EPA's release of the $20 billion Greenhouse Gas Reduction Fund. Matt Carney opened with background on the Greenhouse Gas Reduction Fund's structure and how the recent funding awards will be allocated across programmatic focus areas and coalitions. Panelists from a mix of Green Banks, CDFIs, and policy advocacy groups illustrated how these grants can be leveraged to advance clean energy and nature-based solutions, as well as social and economic inclusion objectives. While the Greenhouse Gas Reduction Fund is an excellent catalyst, the panelists agreed it should be considered supplementary to more sustainable revenue streams for conservation.

Minutes:

Matt Carney opened the session by providing background on the EPA's $20B Greenhouse Gas Reduction Fund for climate investments. The Fund is divided into two pillars: the National Clean Investment Fund (NCIF) and the Clean Communities Investment Accelerator (CCIA). Finalized in Q1 2024, the disbursements were awarded across 8 coalition organizations, including three coalitions under the NCIF pillar: Climate United (a coalition managed by Calvert Impact Capital, Community Preservation Corporation, and Self-Help), Coalition for Green Capital (a coalition of green banks from across the country), and Power Forward Communities; and four awards under the CCIA pillar to: Opportunity Finance Network, Justice Climate Fund, Appalachian Community Capital, and Native CDFI Network.

The opportunity for environmental infrastructure and NBS is under the NCIF funding ($14 billion). Though NCIF prioritizes distributed energy generation, net-zero emission buildings, and zero-emissions transportation, qualified projects can include efforts that reduce GHG generally, reduce other pollutants, deliver co-benefits, mobilize private capital, and amplify a commercial technology – each of which are categories that nature-based solutions can fit into.

Speed of deployment is a top priority for the EPA. NBS-focused coalitions and organizations that "win" funding will be those that can demonstrate a pipeline of eligible, shovel-ready projects. Right now, awardees are revamping their proposals to fit the stipulations.

Lydia Olander moderated the ensuing panel and began by asking the question, "Why would green banks and CDFIs care about NBS?" The answer, she explained, lies in the inherent crossover between NBS objectives and those of community financial institutions in the realms of social equity, community development, climate resiliency, reduced GHG footprints, sustainable infrastructure, and health and workforce development. Lydia pointed to several cases where financing for NBS has been successfully deployed, including:

- Yuba forest resilience bond
- Soil and water outcomes fund
- DC stormwater
- Rhode Island water quality protection charge
- Annapolis green waterfront
- Nisqually community forest
- *Note: these cases are described in a series of case studies on financing nature-based solutions that Duke developed.*

As a next step, Lydia called for working groups of CDFIs and their partners to share learnings, add case studies to the public evidence base, and develop how-to guides on common financing techniques for NBS. Lydia closed by saying the Greenhouse Gas Reduction Fund is an amazing opportunity, but it has certain restrictions and should be viewed as supplementary/catalytic rather than as a substitute for other innovative and sustainable financing mechanisms.

Each of the panelists described their organizations and work.

Leigh Whelpton kicked off the panel. Connecticut Green Bank is para-statal green financing organization that has mobilized billions of dollars towards clean energy development and created tens of thousands of jobs in Connecticut. In 2021, due to an act of the state legislature, the scope of the Connecticut Green Bank was expanded to include environmental infrastructure, which may include land conservation, regenerative agriculture, and ecosystem markets. The mandate is broad.

Daniel Wallace introduced Coastal Enterprises, Inc., a Maine-based CDFI with a 47-year-old revolving loan facility that plays a critical, intermediary role in finding money, investing it in Maine communities, recovering the capital, and re-investing it in more communities. CEI integrates finance, business, and policy for climate resiliency and making the economy work more equitably for Mainers. The average loan size is $200K, and the fund has $8M in AUM altogether. Most of its clients are connected to natural resources and a rural base – that's Daniel's calling card, and he anticipates CEI being very involved with the GGRF. He described the recent GGRF awards as “transformational.”

Reggie Knox described California Farm Link, a CDFI in California with 25 years of experience investing at the intersection of agriculture and conservation. It makes (bridge) loans to small farmers – mostly Latino farmers in Monterey country – who manage up to 50 acres. The organization couples financing with robust technical assistance and education on business development to ensure there is repayment. California Farm Link is also very involved in policy advocacy and distributes a suite of climate-smart agriculture funding. The organization has disbursed $870 million to date.

Maggie Monast introduced Environmental Defense Fund’s role in building a coalition of agriculture finance organizations as a part of the GGRF award to Climate United. Agriculture typically doesn’t have access to the same kind of catalytic capital as other climate solutions, especially for farmers who are in the transition from conventional to regenerative and other sustainable practices. EDF is working with the farm credit system, commercial banks, and agriculture service providers to help allocate GGRF to advancing US regenerative agriculture.

Lydia Olander asked the panel a number of questions.

Question: How do we think about scaling up financing for communities and NBS, while bringing along other actors?

Reggie Knox: California Farm Link has always partnered with land trusts. They also provide 0% interest loans for disaster relief recovery and down-payment assistance on new land purchases. It’s unique that California Farm Link uses the CDFI model for agriculture and they wish there were more peers in the space.

Daniel Wallace: The stretch from January to October ‘23 in Maine was very challenging. The state experienced a mass shooting in Lewiston, and then several climate shocks including storms and flooding that public infrastructure was unable to withstand. Docks and storage facilities were washed away. Portland’s city storm sewer system failed and basements were flooded across the city. The urgency of climate change was brought to light for many Mainers. The irony is that Maine’s population is only growing --- two years after COVID, 50,000 people moved to Maine as a safe haven. Therein lies an opportunity for a CDFI like CEI and partner organizations. Example projects include:

- On-farm solar installation supported by Foundation Capital
- Regenerative agriculture investing, funded in part through conservation easements that keep the property as working lands
- Purchase of a working waterfront building that is supporting aquaculture businesses

- Investing in companies working with forest industry residuals and wood fiber. New program with a Biochar company, for example.
- Supporting a lot of nature-based businesses, such as growing kelp, recreational oysters/mussels, and supporting markets that tie back to local agriculture.

Financing organizations need to focus on their underwriting criteria. If we lean into existing definitions of risk, we are not going to get anywhere; much of the CDFI community has really low impairment rates; our notions of risk need to evolve.

Leigh Whelpton – The Connecticut Green Bank was fortunate to be part of all the winning coalitions for GGRF. They are now considering how environmental infrastructure projects can be modeled to fit the bill for the funding.

Maggie Monast – EDF is also working on measurement and outcome verification to quantify the GHG reduction potential of NBS, especially in agriculture contexts. NBS was not front of mind from the EPA when they conceived the GGRF, but they've been surprisingly open to this opportunity and they like the overlap with agriculture. This kind of blended finance will allow the typical agricultural finance products to be tailored to regenerative cases. EDF has worked for years to help financial institutions re-think their relationships with farmers, since these financial institutions are also at risk of climate shocks and climate-induced defaults. For example, some of the major farm credit associations are just hiring their first chief sustainability officers or producing their first sustainability reports. In the middle of this transition dropped the multi-billion dollars GGRF opportunity: there's suddenly so much interest and enthusiasm, I'd say this funding has accelerated the conversation by about 5 years.

Question: What major constraints do you expect to see with GGRF?

Daniel Wallace: Will the GGRF money get to low-income communities? Will it get to BIPOC communities? We need to start there. The EPA wants the money out fast and the projects in these communities are not fast or shovel ready. We need to get to know them first and get their buy-in, and that takes time, a ton of support and technical assistance. That's not because these communities don't have the capacity for it, but because we're talking about federal programs and capital stacks that aren't engrained in folks. So making sure the money gets to low-income communities and providing capital to support the development of projects needs to be a priority. Then we can think about scale-up: CDFIs can build the model, blend capital stacks, and show the way, but then you need larger financial institutions to commercialize at scale.

Maggie Monast: From an agriculture perspective, we're curious to see what new strings we're likely to get from the EPA and whether there will be new translation issues between the projects and the funding criteria.

Leigh Whelpton: Financing NBS from a quasi-public green bank gives CT Green Bank the opportunity to participate in the state's legislative process. For example, the governor's resiliency bill in CT will allow us to create and capture revenue on the incremental property value increase from a resiliency improvement.

Question: what are key partnerships you would like to build to move forward in NBS? What are the opportunities for philanthropy?

Maggie Monast: We're worried about the capacity to even engage in this kind of thing using GGRF funds. Agriculture investors are excited, but overwhelmed by the work. So we are bringing in lots of new people, cooperatives, and processors – they need to staff up and prepare to manage government grants.

Reggie Knox: Our organization's lending program is based on financing from banks and government: 15% via banks, and the rest of largely government funded. Our whole education team, though, is philanthropically funded. So we rely on the social sector to operate, and we can't underinvest in education and TA.

Daniel Wallace: We want to be more deliberate with partnerships, particularly with indigenous communities. GGRF presents an opportunity to develop those relationships further. We always need long-term, low-cost capital from philanthropy, too. Half the time it's about putting the capital to work – the revolving loan is never above 6% interest, which does not cover the TA we deploy. We need time and capacity to work in communities and build trust, and we look to partnerships for that. We're thinking now about how to bundle pipeline deals in a given location to move the needle in a lot of ways to increase returns and drop costs.

Question from the audience: Are you starting to think about what GGRF does to the rest of your money? Are we trying to jump through too many hoops to find GGRF money?

Daniel Wallace: Yes, this needs to augment not cannibalize our efforts. We will need to integrate investments in nature-based solutions with our energy work and infrastructure work.

Comment from the audience: There's a real role for CFN to develop the knowledge and transactional relationships to make the most of GGRF and beyond. We must work together to define a compelling pipeline of projects, because it's going to be a big push to get NBS over the finish line.