

ISSUE BRIEF

PROGRAM RELATED INVESTMENTS: Alternative Sources of Green Bank Investment Capital in the United States



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ABOUT GREEN BANK NETWORK ISSUE BRIEFS

Issue briefs are a Green Bank Network (GBN) product that consist of short reports that highlight collective successes and innovations of GBN Members and Green Banks in specific areas. They are an opportunity for the GBN Members to share their experiences and engage in continuous dialogue with the broader green finance community. The authors would like to thank the following organizations for their contributions to this document: Connecticut Green Bank, The New York City Energy Efficiency Corporation (NYCEEC), Climate Access Fund (CAF) and the philanthropic foundations and investors that provided input on this document.

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About the Green Bank Network

The Green Bank Network (GBN) is a membership organization managed by the Natural Resources Defense Council and the Coalition for Green Capital. It was founded in December 2015 to foster collaboration and knowledge exchange among existing green banks, enabling them to share best practices and lessons learned. The GBN also aims to serve as a source of knowledge and a network for jurisdictions that seek to establish a green bank. The GBN founding members are the Clean Energy Finance Corporation (Australia), Connecticut Green Bank (US), Green Finance Organisation (Japan), GreenTech Malaysia, NY Green Bank (US), and Green Investment Group (UK). Visit us at greenbanknetwork.org/about-gbn.

About the Coalition for Green Capital

The Coalition for Green Capital (CGC) works to establish Green Banks on the state, federal, and international levels by conducting in-depth analyses, leading fundraising and business planning efforts, and providing specialized consulting services. With CGC's leadership and technical support, Connecticut created the first state Green Bank in the U.S. with near unanimous bipartisan support. CGC then followed that with work in New York, Hawaii, California, Maryland and many other states supporting Green Bank design and implementation.

CGC is working internationally on a number of Green Bank projects, including in South Africa where CGC worked with local stakeholders to design, raise capital and ultimately launch the first Green Bank in emerging markets—the Climate Finance Facility—and supported by the Green Climate Fund. CGC works on a number of other Green Bank scoping and design projects in Latin America, Africa and Southeast Asia.

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PROGRAM RELATED INVESTMENTS: Alternative Sources of Green Bank Investment Capital in the United States

Executive Summary

Green Banks have traditionally used public sector capital to leverage increased private sector investment.¹ The collective capital formation driven by that intersection has been impressive, but the pace of climate change is driving the need to expand the investment capital for Green Banks in the United States. Impact capital represents a natural, “third leg” of the capital stool for driving greater climate investments at Green Banks in the US.

The emergence of impact investing by philanthropic foundations, in particular their use of Program Related Investments (PRI), is proving fertile ground for expanding the pool of capital to a host of socially-oriented endeavors. This paper uncovers evidence that these green shoots of investment are starting to take hold within Green Bank activities. Drawing on conversations with foundations and selected case studies of existing Green Bank PRIs among Green Bank Network (GBN) members and similar entities in the US, this paper aims to highlight potential practices and financial structures that can catalyze greater climate-related investment through Green Banks.

This paper covers examples of Green Banks acting as effective and capable intermediaries of PRI capital. The PRI capital deployed to date, however, represents only the beginning of what could be possible. With continued innovation in and collaboration on financial structures, along with maturation in the overall PRI space, Green Banks are well positioned to scale PRI investments in the future.

1 OECD “Green Investment Banks Scaling up Private Investment in Low-carbon, Climate-resilient Infrastructure” May 31, 2016.



Introduction

DIVERSIFYING CAPITAL

Green Banks are mission-driven clean energy finance institutions. Green Banks use financing tools to overcome market barriers and increase investment in clean energy projects. US-based members of the Green Bank Network—the Connecticut Green Bank, NY Green Bank and Rhode Island Infrastructure Bank—are on track to collectively mobilize nearly \$3 billion in clean energy investment by early 2019.²

The public sector has historically been the main provider of investment capital to Green Banks in the US. However, the availability and amount of capital from public sources is not always certain. State and local budgets remain constrained: 30 states faced revenue shortfalls in fiscal years 2017 and 2018.³ This can limit the ability of states to entirely self-fund new Green Banks in their geographies, creating a challenging roadblock for Green Bank creation efforts. Even when public capital is promised, it remains vulnerable in the event of budgetary shortfalls. Facing a state budget deficit in 2017, the Connecticut legislature opted to cut \$32.6 million in funding allocated to the Connecticut Green Bank.⁴

Diversifying the capital sources used by Green Banks can mitigate the risks and alleviate the constraints of relying solely on public capital. In addition, new capital sources can also encourage or enable a Green Bank to create new investment structures. For example, an investment from a private capital provider can help the Green Bank build a pipeline to securitize its portfolio at a later date. The presence of a guarantee or subordinated debt from a philanthropic source can enable a Green Bank to crowd-in private capital investment into a transaction. There are many potential sources of alternative capital for Green Banks, including commercial debt providers, venture investors, and bond issuances.

One source of capital to gain traction recently is philanthropic or similar mission-driven capital. Foundations and impact investors are at a unique moment. The withdrawal of the US from the Paris Climate Agreement creates urgency for finding channels to tackle climate change absent federal regulatory action. Many large philanthropic foundations have set ambitious goals for their climate change programs, and are experimenting with financing to complement their grant-making activity. Younger generations are also seeking ways to drive social and environmental impact through their investments. According to a US Trust survey of high-net-worth individuals, 80% of Millennials expressed interest in social-impact investing (compared to 40% of Baby Boomers), with 28% making such investments.⁵

Green Banks can provide a market-responsive, innovative way of meeting climate goals while offering returns to mission-driven investors. Foundations have already supported Green Bank activity in a variety of ways, including to US-based members of the Green Bank Network, and there may be an opportunity to expand upon that work.

THE PRI OPPORTUNITY

This paper explores the opportunity for driving greater philanthropic investment in Green Banks. In particular, the paper focuses on the opportunity for foundations to provide Green Banks with capital in the form of program-related investments (PRIs). GrantSpace defines PRIs as “investments made by foundations to support charitable activities that involve the potential return of capital within an established time frame.”⁶ The potential for return distinguishes PRIs from more traditional grants.

PRIs can be deployed in a range of financing structures such as loans, credit enhancements, and guarantees. The ability of PRIs to support mission-driven projects com-

2 Annual Reports, NY Green Bank, Connecticut Green Bank and Rhode Island Infrastructure Bank.

3 Elizabeth McNichol and Samantha Waxman. “States Faced Revenue Shortfalls in 2017 Despite Growing Economy.” *Center on Budget and Policy Priorities*. October 4, 2017.

4 HartfordBusiness.com. “Financially wounded, pioneering CT Green Bank has a path forward.” January 8, 2018.

5 Bloomberg Intelligence. “Sustainable investing grows on pensions, millennials.” April 4, 2018.

6 GrantSpace. “What is a program-related investment?” Accessed August 17, 2018.

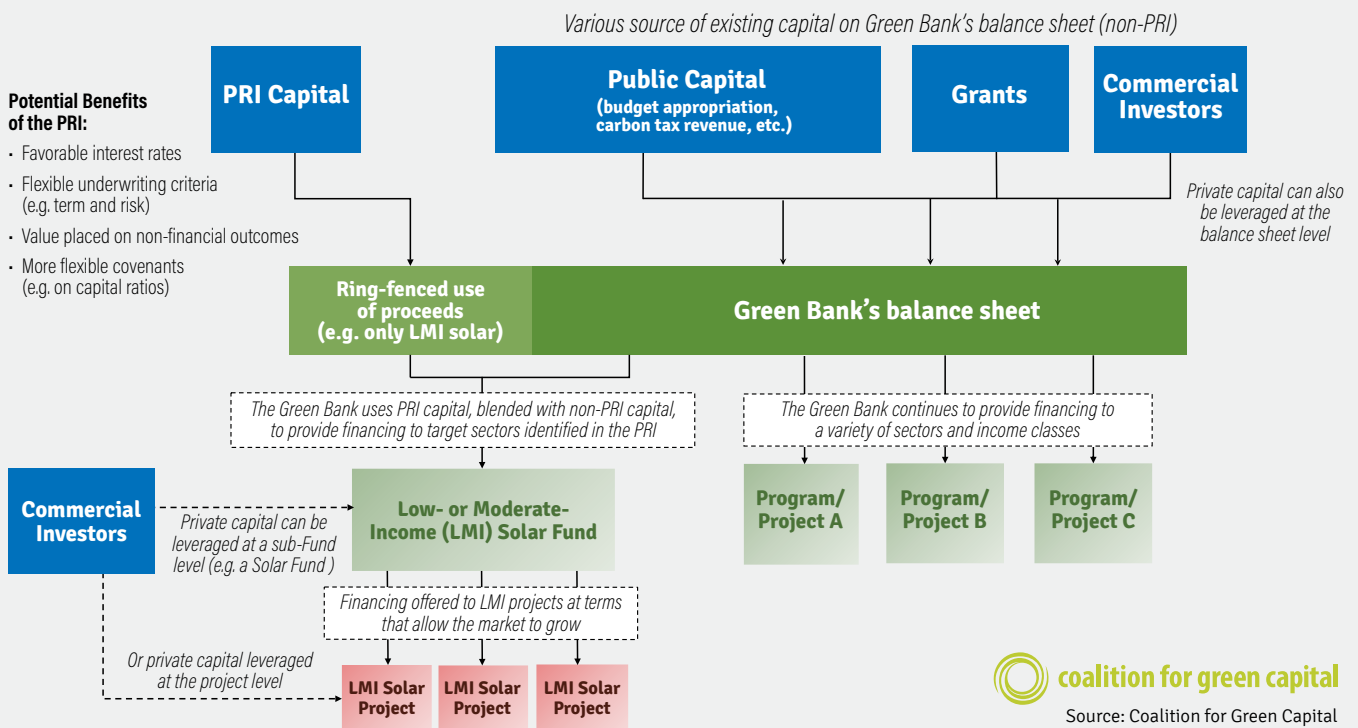
bined with the potentially lower cost of capital can enable Green Banks to enter markets that purely commercial capital will not or cannot. The presence of PRI capital can help the Green Bank crowd-in private sector investment, while preserving limited grant capital for other uses.

PRIs can provide many potential benefits to Green Banks. As mentioned above, PRIs diversify the sources of capital available to existing and emerging Green Banks beyond the traditional source of public sector capital. However, the characteristics of PRIs also make them a potentially powerful investment tool. PRIs are typically provided at lower rates and longer terms than commercial capital. These characteristics enable PRIs to be used for projects or portfolios that would not be able to be fully financed by commercial sources. As mission-driven lending, PRIs can also take on markets and projects that commercial actors are sometimes unable or unwilling to finance, such as smaller-scale projects or those targeting low- and moderate-income (LMI) customers.

In the context of the overall philanthropic activity, PRIs still represent a relatively small amount of investment. One study found that, among foundations that have most aggressively implemented “mission investment strategies” (PRIs and mission-related invested), two thirds of those foundations have invested less than 5% of their endowments over a six year period.⁷ However, the capital flowing through these channels is still significant. The same study estimated that \$1.3 billion of mission investment strategies were made from 2010-2015.

The first section of this paper reviews selected case studies of existing Green Bank PRIs among GBN members and similar entities in the US. The following sections identify current barriers to scaling up PRI investments and potential solutions. In gathering these insights, CGC spoke with Green Banks and similar entities, as well as several foundations about their approach to PRIs in general, and in climate in particular. We hope the outputs of this work will be useful in sparking conversations at both Green Banks and foundations about potential practices and structures to catalyze greater climate-related investment.

Hypothetical Program Related Investment (PRI) with a Green Bank



⁷ Richard Henriques et al. “Is There a Bigger Opportunity for Mission Investing by Private Foundations?” The Center for High Impact Philanthropy, University of Pennsylvania.

Example Investments

Green Banks and similar entities have already completed PRI transactions, potentially paving the way for future investments.

CONNECTICUT GREEN BANK

In December 2016, the Kresge Foundation invested \$14 million dollars in six community development finance institutions (CDFIs) and Development Finance Agencies (DFAs) through an initiative called Kresge Community Finance (KCF). The initiative was founded with the intent of “creating opportunity for low-income people in America’s cities.” Out of more than 130 organizations submitting proposals, the Connecticut Green Bank (CT Green Bank) was selected as one of six recipients and received a \$3 million loan for solar and storage projects in low to moderate income communities.

Application Before it began awarding money, KCF set a goal of investing part of its fund in clean energy and resilience projects for low income communities. Given the portfolio of the Connecticut Green Bank, the program related investment (PRI) from KCF was a natural fit. Including its predecessor organization, CT Green Bank has developed over 10 years of expertise in solar finance and works closely with a variety of state and local partners, including the Connecticut Housing Finance Authority, to develop clean energy projects for LMI communities. With a track record of supporting solar projects in more than 800 LMI certified households and increasing solar penetration in Connecticut LMI communities by 188%, CT Green Bank has experience working with customers with unconventional credit profiles to finance clean energy projects across the state. Although CT Green Bank had not developed products to finance storage projects before the grant was awarded, its expertise developing resilience projects for LMI communities and strategic focus on battery energy storage in Connecticut made it a strong candidate for the PRI.

Product KCF requires that the PRI be reinvested in solar and storage projects in LMI communities. This adds additional complexity to a market where tariff and whole-

sale market structures, especially demand charges and ISO New England markets, often fail to create meaningful market signals to support storage projects. The PRI provides an opportunity for investment in projects that can drive the market forward by proving project viability.

PRI Structure The PRI was structured as a low interest loan at 2% for 10 years, accompanied by a small grant to be used flexibly to support project development. Disbursements must occur within 18 months of closing. Other PRI structures, such as a guarantee, were not discussed. CT Green Bank has flexibility with respect to investing the \$3 million, including the specific projects and the associated repayment profile of those projects. Instead of focusing solely on municipalities with strong credit that are most likely to be safe investments, CT Green Bank has been able to focus on developing projects for community institutions that can prove the viability of the storage model and advance CT Green Bank’s broader resiliency mandate.

Reporting/Publicity CT Green Bank provides routine reporting to KCF on a quarterly basis. Key performance indicators for the projects include standard financial metrics as well as CO₂ reduction numbers. To date, KCF has not published any of these metrics in the media or on its private website. No publication requirements were included in the award.

Blended Capital One of the highlighted values of the PRI for CT Green Bank is its ability to integrate that capital into larger project capital stacks. The result of a blended capital approach is the ability to crowd-in larger pools of private capital, while allowing CT Green Bank to broaden its scope for project selection and work with nontraditional market segments.

Specifically, the PRI that CT Green Bank received provided low cost financing (again, 2% per annum) to support the low-income solar plus storage pilot. Using that financing, CT Green Bank is able to participate as a financier in the capital stack of likely projects. As a financier the Green Bank has the capacity to drive two important levers 1) lower the cost of capital and 2) underwriting the low-income risk exposure.

This blended capital approach is beneficial to maintaining the economics of the transaction and de-risking the project for other co-investors, thereby helping to crowd in additional private capital that would otherwise view the risk-return profiles of such projects unfavorably.

NEW YORK CITY ENERGY EFFICIENCY CORPORATION

The New York City Energy Efficiency Corporation (NYCEEC) is a nonprofit corporation that provides financing for energy efficiency and clean energy building projects, primarily in the multifamily and commercial real estate sectors. NYCEEC finances its operations through three main sources of revenue: earned income on lending, contract revenues and grants. NYCEEC draws on diverse sources of capital to make loans to the building owners and energy efficiency and clean energy project developers that are its end-use customers, including public capital, commercial capital and PRIs. PRIs have played an important role in creating NYCEEC's blended balance sheet capital. Over its seven years of operations, NYCEEC has worked with three PRI partners: two foundations that have provided a total of \$6 million in PRIs and one bank that provided a series of smaller, shorter-term PRIs. These PRIs have afforded NYCEEC greater flexibility to enable impactful projects that require concessionary capital, including longer terms.

Application Establishing a relationship that enables philanthropic foundations to feel comfortable making a PRI can be a lengthy process. For NYCEEC, it took up to two years per partner. Having 501(c)(3) status—a designation that the organization has been approved by the Internal Revenue Service (IRS) as a tax-exempt, charitable organization—was a critically important component for NYCEEC to secure foundation support. Some of the larger foundations engaged in a due diligence process that took several months, hiring a private consultant to help them vet NYCEEC's operations including portfolio statistics, back office operations, team members, and underwriting processes. Working with foundations that have an established diligence process for PRIs helps to clarify the needs and expectations for both the foundation and the recipient, creating a smoother transaction process.

Structure NYCEEC's PRIs have low interest rates and can have repayment terms of 15 years or longer. This has allowed NYCEEC to pair the PRI dollars with projects that needed long-term and/or more concessionary capital, often affordable housing retrofits or solar installations. Commercial capital, for example, may have only a five-year term, while affordable housing energy efficiency and clean energy projects can require terms of 15 years or longer to make economic sense for the borrower. Knowing that it has access to longer-term capital via PRIs can often enable NYCEEC to complete the capital stack for an affordable housing project.

In addition, NYCEEC's PRI capital typically has less restrictive debt covenants than commercial capital. Debt covenants are agreements between creditors and borrowers that place limits on what the borrower can do. It is common for commercial lenders to place covenants on, among other things, capital ratios and liability coverage ratios of the borrower. These types of covenants inherently limit the ability of an organization such as NYCEEC to achieve greater leverage on its balance sheet, restricting the number of clean energy projects it can ultimately finance. PRIs generally impose less limitations on the leverage thus allowing an organization like NYCEEC to drive greater environmental impact.

NYCEEC's PRI capital, however, does have "mission-aligned" covenants, meaning that it can only be used for projects that further certain goals. NYCEEC's PRIs are broadly constrained to affordable housing projects or projects that benefit LMI communities. Foundations, familiar with the IRS definition of "charitable purpose," have been more comfortable making investments in these sectors to date. Within this category of projects, however, the PRIs for NYCEEC are technology agnostic. NYCEEC can use its PRI dollars to finance energy efficiency, solar, or fuel oil replacement projects according to its priorities. NYCEEC's PRIs are similarly flexible in their use across varying geographies and project sizes.

Capital Management Blending PRI capital into NYCEEC's broader balance sheet offers unique benefits in helping the organization achieve its mission. However, juggling a range of capital sources with varying rate, terms, and covenants can quickly complicate capital man-

agement. For example, blending commercial capital with a distinct rate and term with capital from a shorter term, lower rate PRI, two-thirds of which must be allocated to affordable housing projects, can quickly become a difficult task. NYCEEC is familiar with using sophisticated models to manage its various capital resources, and is therefore able to smoothly incorporate PRIs into its capital stack and leverage the benefits they provide. Blending in PRIs could overcomplicate finance to the detriment of project execution for an organization with less expertise in capital management.

PRIs are a powerful tool that NYCEEC has successfully leveraged to augment its operations. Taking advantage of the relatively low rates and long terms for PRI, NYCEEC has been able to blend PRI with its other capital to successfully engage in difficult-to-finance projects. NYCEEC continues to seek future PRI opportunities as part of its greater capital raising strategy.

THE CLIMATE ACCESS FUND

The Climate Access Fund (CAF) is a new specialty Green Bank in Baltimore, focused on reducing home energy bills for LMI households in Maryland through access to solar power. Formed as an independent nonprofit, CAF was created without access to public funds for operations or financing. CAF was incubated by the Coalition for Green Capital with support from philanthropic foundations.

Maryland's recently launched Community Solar Pilot requires that at least 30% of the program's solar capacity be reserved for projects with carve outs for LMI customers. Adoption of solar by LMI households has traditionally lagged behind other income groups, and the pilot did not provide additional incentives beyond a dedicated carve-out for LMI projects. Guided by their investors, developers in Maryland tended towards serving the minimum number of LMI customers required by the regulation, and in some cases limited their outreach to only LMI customers with high FICO scores.

CAF's first product, developed over the course of 2018, focused on catalyzing the LMI community solar market. CAF obtained PRI commitments from Maryland-based foundations to capitalize a debt product offered at below-market rates, backed by a \$1 million guarantee from

Case Study: McKnight Foundation

While not a direct provider of capital to Green Banks, the McKnight Foundation has made clean energy-related impact investments to demonstrate the validity of alternative business models and drive markets forward.

With a loan originating in 2017, McKnight is providing \$8 million of a more than \$30 million, three-year loan facility with market-rate terms to PosiGen. To date, PosiGen owns more than 11,000 operating solar systems generating over 65 megawatts of low-carbon power of which 73% are on low-income homes. Customers save an average of \$528 annually.

McKnight has also invested in green intermediaries such as Generate Capital. Generate Capital is a specialty finance company that focuses on small-scale, hyper-efficient and renewable infrastructure projects other companies ignore. The company aligns with the program goals of McKnight's Midwest Climate & Energy program with a goal to build a clean, resilient, and economically healthy power sector. To support Generate, McKnight provided direct equity investment in 2015. In September, 2017, Generate raised a \$200 million funding round and McKnight has marked up its investment.



the Maryland Energy Administration. CAF aimed to be responsive to the investment preferences of foundations, raising a mix of recoverable grants, low-interest loans, and guarantees from foundations. The organization's emphasis on providing economic benefits to LMI households alongside access to clean energy was also crucial in aligning it with the programmatic focus of foundations.

While the investment size from local foundations may be smaller than that from national foundations, local foundations are well-positioned to provide seed-stage investments for early financing projects. Local foundations have a deep understanding of the actors and needs in their markets. The approval process for their investments may be less complex than at larger organizations, allowing them to nimbly provide capital for emerging financing vehicles such as the Climate Access Fund.



Barriers to Growth

There is growing interest in PRIs, with some transactions occurring to date in the Green Bank space. However, PRIs do not yet represent a significant source of Green Bank financing capital. Part of the challenge is the relative newness of PRIs as a tool at many foundations. Some foundations at the beginning of the PRI exploration process may still be setting up the strategies and internal controls to diligence and administer PRIs. But some challenges are more specific to the Green Bank landscape. Drawing from interviews with foundations and other market actors, this section explores some of the challenges both foundations and Green Banks face in finding and realizing opportunities to deploy PRI capital in Green Banks.

IDENTIFYING PROGRAMMATIC FIT

In conversations with leaders in the philanthropic community, foundations often highlighted the role of PRIs as supporting programmatic goals, not leading them. Green Banks—whose activities touch on a range of themes such as climate, housing, economic development, and resiliency do not always fit squarely into a single program box. This makes it challenging for Green Banks and foundations alike to identify the programmatic fit between the foundation and the Green Bank's operations.

In addition to thematic goals, foundations may have further operational requirements around their PRI investments, for example targeting a particular city or county. These requirements can be difficult to meet in the clean energy space. Unlike housing developers, clean energy developers often do not narrowly target particularly geographies or income groups.

Uncertainty about when and how PRIs in US clean energy and other sectors meet the IRS requirements can also be a barrier. The IRS requires private foundations to spend a certain amount of money or property for charitable purposes every year. PRIs can count towards this spending requirement, but only if three conditions are met:⁸

1. The primary purpose is to accomplish one or more of the foundation's exempt purposes,
2. Production of income or appreciation of property is not a significant purpose, and
3. Influencing legislation or taking part in political campaigns on behalf of candidates is not a purpose.

At foundations, especially those beginning to build up expertise in PRIs, there may still be unanswered questions about whether a clean energy investments qualifies as charitable. Any added legal review can create a more complex and expensive PRI process. Regardless of the feasibility of that review, a foundation may also be reluctant to take on greater perceived compliance risk by investing in a Green Bank.

To meet these needs, Green Banks may dedicate a portion of their portfolio to a particular geography or market segment. The PRI investments into Green Bank products to date, for example, have focused on the Green Bank's work in areas that have a long history of being clearly considered charitable causes: LMI relief and affordable housing. An explicit focus on these areas also directly addresses the potential tax-related concerns discussed above. Green Banks that engage in a range of clean energy development (e.g., including LMI and non-LMI customers in a single project), can make it challenging for Green Banks to achieve scale in their investments. The Green Bank may not be able to support a similar project by a developer if the customer segment varies.

GROWING CLEAN ENERGY FINANCE EXPERTISE

Compounding the challenge of identifying the programmatic fit with Green Banks is the need to draw on significant clean energy finance expertise in order to execute Green Bank investments. While exceptions exist, clean energy has not generally been an area of focus for US impact investing by foundations. A review by the Global Impact Investing Network (GIIN) of the use of guarantees in US investing found that the vast majority of guarantees supported development issues such as housing, economic

⁸ Internal Revenue Service. "Program-Related Investments." Accessed November 6, 2018.

development, or community real estate. Less than 10% of guarantees supported climate-related initiatives such as renewable energy or energy efficiency projects.⁹ The authors cited, among other reasons, investor familiarity with the structure of these transactions as well as the attractiveness of having “built-in” collateral with real asset transactions.

These findings were echoed in our interviews in the context of Green Bank PRIs. Respondents expressed greater familiarity with housing and other real estate-related markets, and often limited familiarity with Green Banks’ climate-focused investments. In raising capital for CAF, the Baltimore-based Green Bank focused on LMI community solar, several potential philanthropic investors had never invested in a renewable energy project and were thus unfamiliar with renewable energy project finance structures.

Overcoming this knowledge gap is made more challenging by the nature of the Green Bank landscape. The first US Green Banks are less than a decade old; recipients of investments in the affordable housing market often have decades of experience and data. Adding to the challenge for foundations is that Green Bank investments are not a unified asset class. Technologies, strategies, and market role vary across Green Banks. This increases the burden

on foundations seeking to understand which partners may be a fit for deploying capital through the Green Bank channel.

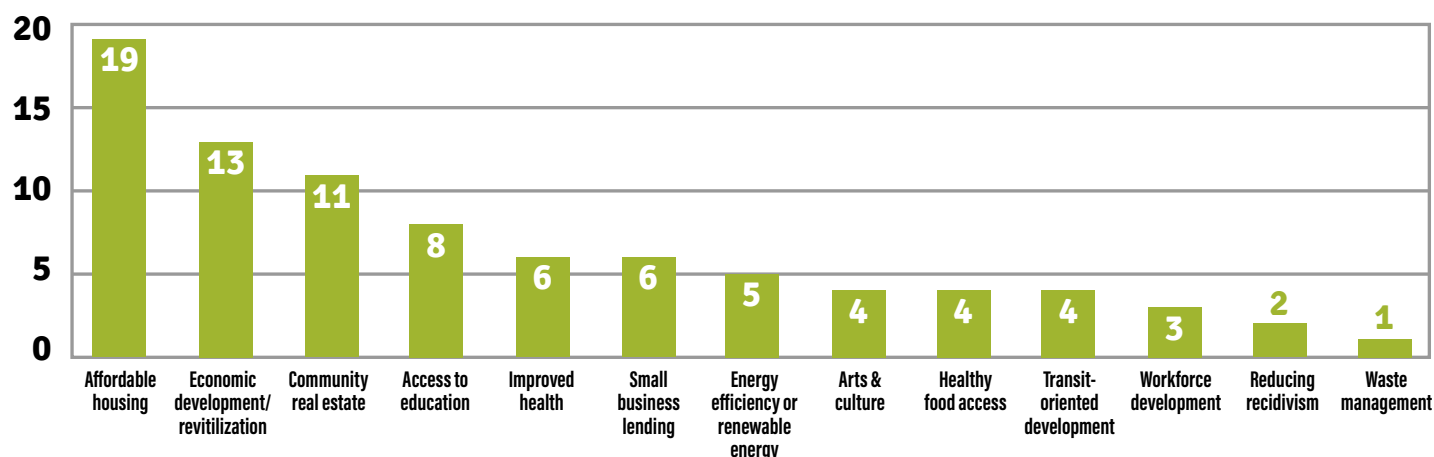
However, this lack of familiarity may not be an insurmountable barrier. Clean energy and energy efficiency projects, such as those sponsored by a Green Bank, can offer similar real asset protections to real estate-related investments. Given the comparatively deeper knowledge base about housing, foundations may be prone to believe that clean energy is not a good fit for PRIs simply because few PRIs have yet to be completed in this space.

BUILDING ORGANIZATIONAL CAPACITY

Building the operational capacity at foundations to originate, conduct diligence on, and manage PRI investments requires a significant commitment of time and financial resources. This is above and beyond the resources that are already dedicated to programmatic grant making, in order to achieve the social return of the PRI investment. Foundations have relied on intermediaries and outside advisors to streamline diligence. These two channels are discussed below.

Use of Guarantees in Philanthropies’ Impact Investing

n = 58 guarantees; some guarantees target multiple themes



Source: GIIN

⁹ Hannah Schiff and Hannah Dithrich. “Scaling the Use of Guarantees in US Community Investing.” *Global Impact Investing Network*. April 2017.

Investing through established intermediaries, such as CDFIs, is an approach foundations take to reduce the internal resources required to directly invest in deals. CDFIs undergo a rigorous process by the US Treasury Department to obtain their designation, and therefore are seen as competent and expert intermediaries of mission-related investing in local communities. For the foundation, an investment in an intermediary of this equivalence means there is a level of trust, and also risk mitigation, that comes from policies and procedures in place and experience in this type of work. Such established intermediaries tend to have protections in place, such as loan-loss reserves. Foundations do not routinely have comparable investment expertise in-house and commonly lack the desire to develop such capacities, particularly as a matter of standard practice.

Allowing the CDFI to underwrite and diligence investments at the deal level frees up the resources the foundation would otherwise need to diligence deals. While the approach is sound, the unfortunate reality is that many communities lack the deep pool of established intermediaries that can serve this role. As an example, in Cincinnati less than one percent of the region's nonprofit organizations have the ability to handle a direct investment.¹⁰ The gap between the investable intermediaries and the capacities of the foundations to do the underwriting represents a barrier to operationalizing and scaling PRI investments in clean energy.

In lieu of building the internal capacity, foundations also routinely employ external service providers to amplify their ability to invest directly in deals. The McKnight Foundation and others have called upon Imprint Capital to provide oversight, reporting, and due diligence of direct investment opportunities. While this is an added service cost, Imprint Capital provides the level of expertise and assurance that foundations can typically rely on, and does so in a more economically efficient manner than bringing equivalent expertise in-house at the foundation.

Beyond foundations, there can also be potential organizational capacity issues on the Green Bank side. As the NYCEEC case study discusses, there are important considerations to managing PRI capital alongside commercial

and grant capital on an organization's balance sheet. Green Banks managing PRI dollars will need to have the appropriate internal controls in place in order to ensure that PRI dollars are deployed only to qualified projects.

MOVING BEYOND BESPOKE SOLUTIONS

Given the early-stage nature of PRI investing, we heard that foundations are focused on successfully-executed deals as a pathway to garnering broader industry confidence. As a result, foundations often create highly-tailored PRI processes and investment structures that are suitable for a particular relationship, asset, and/or geography. However, this bespoke approach can create a barrier for replicating and scaling PRI models.

To counter the traditionally bespoke nature of PRIs, we are seeing the emergence of collaborative investment structures among foundations, supported by standard underwriting criteria across philanthropic investors. An example of a multi-foundation collaboration of this sort is the National Guarantee Bank (NGB).

The NGB—a national multi-funder facility—would make guarantees available across a wide swath of opportunities. Fundamentally, a facility of this sort provides a vehicle through which foundations can engage with a standardized financial solution, thereby streamlining the deployment of PRIs. It's ultimately more efficient for foundations to partner together and that is often seen on the grant making side, but this NGB represents a test-case for extending that collaboration and scale to the PRI side.

The implications of the NGB approach for Green Banks is significant. Principally, the NGB represents a new programmatic focus and commitment to use of guarantees among participating foundations. Partnered with a program area focus on clean energy, this new initiative could help drive standardization among clean energy finance intermediaries such as Green Banks. With a vehicle like the NGB, foundations can eliminate the largest hurdle to deploying guarantees to Green Banks by reducing the diligence cost associated with underwriting clean energy assets.

¹⁰ Amy L. Cheney, Kathryn E. Merchant, and Robert Killins Jr. "Impact Investing: A 21st Century Tool to Attract and Retain Donors" The Foundation Review, 2012.

Strategy

This section discusses potential approaches for mitigating or removing the barriers to PRI investment identified above.

BUILDING INTERMEDIARY CAPACITY

Having strong, well-established intermediaries will make it easier for other foundations to move into the Green Bank PRI investing space. Those intermediaries are critical at building pipeline opportunities and importantly conducting diligence on opportunities. In addition, intermediaries can also help to educate both Green Bank and foundations on the opportunity for programmatic alignment. We discovered, however, that the intermediary networks are often insufficiently scaled to meet the potential volume of PRI, particularly at the local level.

Greater Cincinnati Foundation (GCF), a 55-year-old community foundation with over \$500 million in assets, offers a lens on solving for intermediary capacity through its PRI strategy. Back in 2012, GCF realized that its aspirations for PRI investing would be limited by the fact that nonprofit organizations, even intermediaries, needed help to be able to manage debt and equity investments. As a response the GCF built into its PRI strategy a grant-making budget specifically to build the capacity of the nonprofit borrower or to provide technical assistance to an intermediary's ultimate borrowers. This is a bit of a longer runway strategy for building capacity. But by expressly building this capacity building focus into their nascent PRI program, GCF is priming the pump for long-term scale that can only come through intermediaries in their case, since they lack the capacity (or desire) to bring these technical underwriting capacities in-house.

The Kresge Foundation gained comfort in this intermediary approach, through the KCF. Fortunately for environmental and clean energy PRI growth, a Green Bank entity was the beneficiary of that intermediary-level investment. However, many Green Banks remain nascent and therefore out of scope of the KCF. Other state-level Green Banks could therefore benefit from an approach similar to what the GCF took in its PRI program by receiving focused capacity building grants to raise their level of ability

to manage debt and equity investments. The impact CT Green Bank has driven with the investment from KCF is significant, which indicates that this capacity building approach to intermediary investing, embedded within an established PRI program, can significantly amplify Green Bank PRI investments over the long term.

CREATING HYBRID FINANCING STRUCTURES

Increasingly philanthropic foundations are iterating on established and scalable financial innovations to structure transactions that meet the social objectives of PRI investment.

One such approach calls on established fund managers to partner with mission-oriented organizations, within the same investment vehicle. We will call this the hybrid approach of a fund investment vehicle that gives foundations a credible fund manager while also ensuring social impact.

Several foundations including F.B. Heron Foundation, the Annie E. Casey Foundation, and the Kellogg Foundation, proved out this hybrid approach by investing in a double-bottom line real estate fund. The partnership underlying the real estate fund between the Strategic Action Council (a 38-member coalition of community groups) and Kennedy Wilson, a national real estate manager, brought a community voice into the governance of the fund. This unique approach ensured the fund met both its financial and social objectives all while providing a standard investment vehicle for foundations to deploy capital at scale.

IDENTIFYING NIMBLE PARTNERS

We discovered that reaching beyond the large national foundations surfaced smaller local foundations that, with their nimble approach, are innovating in deploying PRIs. For example, the Solar and Energy Loan Fund (SELF) in Florida has successfully combined smaller-scale investments from faith-based groups with global crowdfunding and Community Reinvestment Act investments to support its financing of sustainable home renovations in LMI

communities. Specifically small community foundations are tasked to explore creative PRI opportunities to remain competitive. These smaller foundations, which hold billions of dollars in Donor Advised Funds, have ample creativity and drive to unleash meaningful PRIs for clean energy via Green Banks.

GCF is again an instructive example of how to innovate on PRIs within a smaller community foundation. Importantly, by deploying PRIs through their Donor Advised Funds, the GCF has found ways it can go beyond traditional housing and community development investments to investments that reduce a community's carbon footprint and create jobs.¹¹ At the same time, the foundation is able to offer their Donors a new investment option in a PRI that responds to the growing investment momentum of other ESG funds that the donor might otherwise consider.

In short, providing PRI fund options to Donors keeps community foundations as competitive landing spots for investor capital.

An example of how this played out with one of GCF's Donor Advised Funds is also illustrative of the impact this can have for Green Banks. One impact investment GCF offered to Donors was an opportunity to lend to the Greater Cincinnati Energy Alliance (GCEA). Structured as a 3%, \$500,000 investment in GCEA, the GCEA turned around that capital to offer 7% percent unsecured loans to homeowners to pay for energy-efficient retrofits. Homeowners were provided sufficient savings to repay the loan and the carbon footprint of Cincinnati was reduced as a result. This is the type of climate mitigation investing Green Banks do all the time. By turning to smaller and more nimble foundations, Green Banks may find these pools of PRI ready to invest in their pipelines.

Conclusions

Philanthropic foundations understand that they have the ability to drive deeper impact through PRIs. The timing could not be more ideal to drive that impact, as foundations are on the cusp of a generational change in leadership on investment committees, one that will accelerate new thinking about impact capital and usher in new opportunities.¹²

Meanwhile new collaborations occurring within the Green Bank ecosystem, including in the US members of the Green Bank Network, are strengthening the capacity of Green Banks to operate as intermediary channels for PRIs. One of the key findings of this research is the way in which new partnerships are fueling innovation in deploying PRIs through Green Banks in the US. Green Banks can plug into PRIs on a bi-lateral basis as CT Green Bank did with their partnership with Kresge. But an even greater opportunity exists for Green Banks to collaborate amongst each other to bring more scale for foundations to plug PRIs into efficiently.

11 Amy L. Cheney, Kathryn E. Merchant, and Robert Killins Jr. "Impact Investing: A 21st Century Tool to Attract and Retain Donors" The Foundation Review, 2012.

12 Hugh Lawson, Scott Brown, Elizabeth McGeeveran "Three Views on Impact Investing." Exchanges at Goldman Sachs, 2017.