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Three Ways the Inflation Reduction Act Advances Green Banking

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The Inflation Reduction Act was signed into law on Tuesday, August 16 and significantly advances the innovative financing method known as green banking. Here are three ways the Act furthers that investment technique in support of clean technology and reducing air pollution.

WHAT MATTERS

> Provisions in the Inflation Reduction Act significantly advance innovative financing methods known collectively as green banking. Those interested in taking advantage of the opportunities created through the Act should pay specific attention to the grant provisions around eligible recipients and qualified projects.

Accelerated Funding

The Inflation Reduction Act includes $27 billion for a Greenhouse Gas Reduction Fund (GGRF) to provide low-cost financing through national or local green banks. The creation of the GGRF is meant to speed up the deployment of these investments. Of those funds, $20 billion is designated for state and federal green bank funding to provide direct investments (including private sector partners) to reduce greenhouse gas emissions. In addition, $7 billion of that $20 billion is earmarked for low-income and disadvantaged communities for green technology projects and emission reduction activities.

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Amendment of the Clean Air Act

While they often differ in scope and approach, green banks deploy government and private investments to fund low carbon, climate resilient infrastructure in order to combat climate change and its effects, and by doing so minimize air pollution. Thus, the governing federal law for GGRF is the Clean Air Act. In order for the Environmental Protection Act (EPA) to administer funds established in the Inflation Reduction Act, the Clean Air Act was amended to authorize it for this use. The EPA Administrator will provide funding directly to the green banks and has the authority to qualify the use of funds awarded, such as those designated for low-income and disadvantaged communities.

Clear Path for Private Sector Participation

Green banks currently exist in California, Connecticut, Colorado, Florida, Maryland, and New York. Though state, local, and tribal governments are all eligible to apply for green bank funds, and it is meant to incentivize increased state climate action, the Act also establishes a path for advisory firms and funds to get involved with green banking. These non-government entities must be non-profit organizations designed to provide and leverage capital for renewable energy projects. The qualified projects include those deploying zero-emission technologies, those reducing or avoiding greenhouse gas emissions or other forms of air pollution, and those assisting communities in efforts to reduce or avoid emissions and air pollution. Additionally, the direct investments by governmental green banks include provisions for private sector partners.

Green banks have momentum and are a proven finance model that uses public and philanthropic funds to mobilize private investment in renewable energy, energy efficiency, and other decarbonization technologies. With the Inflation Reduction Act now law, more states will form green banks and more non-government non-profit organizations will be established to capitalize on the federal funding and further green projects.

Pitfalls to Avoid

The EPA has indicated in various presentations that fraud related to grants will be taken seriously. Any EPA or other governmental application must be thoroughly reviewed to avoid grant applications containing incorrect or overstated information about anticipated expenses. Green banks and their co-investors should carefully review the information in any application to make sure it is supported. Parties should also note that initiatives like the GGRF create fertile grounds for other crimes, such as embezzlement.

Take Action

Those wanting to get involved in the green banking industry now should study the grant provisions in the Inflation Reduction Act, follow its implementation and ensure they meet the criteria for eligible recipients and qualified projects in order to build on the opportunities the Act creates without inadvertently falling into regulatory traps.

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As the EPA begins to administer the Act and releases more information, Burr & Forman's green banking team will continue to share updates.