April 13, 2022

The Honorable Phil Ting
Assemblymember, District 19
California State Capitol
Sacramento, CA 05814

RE: California Asian Pacific Chamber of Commerce, SSBCI and Inclusive Economic Growth: The Just Transition Plan/Framework

Dear Honorable Assemblymember Ting:

The California Asian Pacific Chamber of Commerce is concerned about the access to affordable capital for the clean energy "Just Transition" and we feel the State should look carefully at the growing concern of small business owners, especially minority business owners and businesses in underserved communities, for their ability to access affordable capital when it comes to infrastructure investments in their businesses to adhere to government mandates and benchmarks for a "Just Transition".

Many small and minority-owned businesses are already over-leveraged due to debt taken on to survive the pandemic, and now entering our third pandemic year, and growing inflation, affordable capital for these businesses to make the "Just Transition" is extremely daunting, if not impossible.

We encourage the Legislature to prioritize this matter and consider whether or not the State could stand-up a "Small Business Green Recovery Fund", a financial mechanism proposed by the Brookings Institute, or something similar, to help bridge the financing gap for small and minority-owned businesses to be able to afford the coming "Just Transition".

Sincerely,

Pat Fong Kushida
President/CEO
California Asian Chamber of Commerce

Attachment

BROOKINGS

Small Business Green Recovery Fund to power US climate transition

Addisu Lashitew | Monday, March 1, 2021

Summary

The U.S. private sector faces the twin challenges of recovering from the devastating effects of the pandemic and transitioning to a low-carbon economy. The Biden administration's plan for "building back better" underscores the need to support small businesses and advance racial equity, to which it has proposed a $30 billion Small Business Opportunity Fund. There is, however, a need for cross-cutting policy initiatives that exploit the unique opportunity presented by the pandemic to simultaneously advance sustainability and rapid economic recovery. This proposal calls for a $50 billion federal "Small Business Green Recovery Fund" that promotes green innovations and investments among small businesses thatadvance climate change mitigation, adaptation, and other sustainability solutions.

The fund will cater to the diverse financial needs of small businesses by offering financial support in the form of green grants, green loans, and green bonds. The *greengrants* scheme aims to bolster the ability of the Small Business Administration to support green innovations and investments to small businesses that face limited and costly access to financial markets. The remaining components of the Fund are to be channeled on a commercial basis through intermediary financial institutions by building on the experiences of the Paycheck Protection and the Mainstreet Lending Programs. The *green loans* scheme will provide financing for green projects that small businesses would otherwise struggle to implement due to their high upfront and borrowing costs. The *green bonds* scheme will avail financing for green bond issuances by small and medium financial institutions that offer climate financing forsmall businesses. Identification of green projects that are eligible for funding, and assessment and verification of their environmental impacts will be based

on decentralized, market-based screening and verification protocols. Overall, the proposed Fund will boost competitiveness and sustainable recovery, simultaneouslycontributing to the Biden administration's multipronged agenda to advance racial equity and inclusion, to revitalize American industries ("Made in all of America"), andto achieve carbonneutrality by 2050 through "clean energy revolution and environmental justice."

Challenge

Small businesses with 500 or fewer employees numbered 30.2 million in 2018, making up 99.9 percent of the total number of businesses in the U.S. They employed 58.9 million workers,[1] equivalent to 47.5 percent of the U.S. workforce, and contributed to 43.5 percent of non-farm GDP in 2014.[2] They also registered faster growth, paid higher wages, and contributed to 30 percent of total merchandise exports. Just above 28 percent of small businesses were owned by minorities and 33 percent by women in 2018, which makes them key drivers of inclusion and local economic growth. The vast majority of them operate in services industries such as real estate, accommodation and food services, wholesale and retail trade, construction,and professional services, where they contribute to at least to half of total employment.[3]

Estimates from OECD economies with similar economic structures to the U.S suggestthat small businesses contribute to 60-70 percent of total industrial pollution.
Achieving climate transition will thus require new investments and technological innovations to overhaul production processes, consumption patterns, and supply chain linkages in the small business ecosystem. The Biden administration's plan to achieve 100 percent clean energy and net-zero emissions by 2050 is thus unlikely to be met without measures that incentivize small businesses to make these investments. Climate transition can also provide businesses with vast growth opportunities through innovations and investments that improve energy efficiency andby providing access to the growing market for sustainable goods and services. One of the goals of climate policy should hence be enabling small businesses to get ahead ofthe climate transition curve to take advantage of it for improving their productivity, growth, and competitiveness.

The Biden administration's plan to reignite climate transition will face a hurdle in effectively

mobilizing small businesses that were disproportionately hurt by the pandemic. From 75-90 percent of small businesses were negatively affected by the precipitous fall of demand in the face of mandatory business closures and social distancing requirements, according to the Small Business Pulse Survey (SBPS) by the U.S. Census Bureau.[4] In late April 2020, 31 percent of small businesses struggled to pay bills, 25 percent were unable to pay rent, 24 percent could not pay wages, and 23percent failed to meet their debt obligations. These severe effects of the pandemic are also likely to persist, with many small businesses remaining financially weakened and heavily indebted to effectively respond to the climate transition challenge.

Even before the pandemic, the vast majority of small businesses were severely under- prepared to deal with the effects of climate change. Small businesses that have innovative ideas to launch green products often fail to do so, due in part to prohibitively high upfront investments for acquiring capital equipment or developing new technologies. Being young and capital-light, small businesses generally lack credithistory and assets that can serve as collateral, which leads to limited and costly access to external financing[5]. Finally, a broad range of size-related constraints creates scale diseconomies for sustainable investments, making it unprofitable for small businesses to invest without financial support. For example, surveys show that energy efficiency investments are less likely to reduce operational costs among smallbusinesses, suggesting the need for financial subsidies to make these investments financially viable.

The combined effect of these constraints is that, without sufficient financial incentivesand technical support, small businesses could be less willing to invest in green technologies. Unless climate policy effectively circumvents these disadvantages, thereis a risk that small businesses will be left behind in climate transition, which could eventually expose them to greater climate risk and loss of competitiveness. The process could hollow out local economies, increase the market power of large firms, and worsen income inequalities across individuals and communities. If supported by tailored policies to improve their competitiveness, however, small businesses can leverage their agility and innovativeness to become major sources of growth and employment in emerging green industries. A healthy economic recovery will hence require policies that simultaneously revitalize the competitiveness of small businessesand improve their capacity to invest in sustainable solutions.

Limits of historic and existing policies

Small businesses are considered to be risky borrowers with a comparatively greater chance of bankruptcy, which increases their borrowing costs. For green financing initiatives, the additional cost of monitoring and assessing sustainability performance further increases the cost of capital. In many OECD countries, therefore, national and multilateral development banks seek to lower the cost of green financing through various risk-sharing mechanisms such as concessional loans, first-loss investments, and guarantees. For example, the European Investment Bank (EIB), which serves as Europe's climate bank towards meeting COP21 targets, has committed $100 billion toclimate-related projects over 2016 -2020.

In contrast, there are no major federal funding programs that provide climate financing for small businesses in the U.S.[6] The Small Business Administration (SBA)and the Treasury have several generic small business financing programs, many of which were introduced or extended to contain economic freefall during the COVID-19pandemic. The major small business financing programs are described below.

Pre-pandemic small business funds

The **Small Business Lending Program** was introduced by the Treasury in 2010 to encourage financial institutions to provide loans for small businesses. Throughthis program, the Treasury has invested over $4.0 billion in 332 community banks and community development loan funds (CDLFs) since its establishment.

Economic Injury Disaster Loans (EIDL) program provides an upfront advance payment of up to $2 million for small businesses that are unable to meet their debt obligations or pay for their operating expenses due to natural disasters. Funding is provided in a form of loans that can be repaid over a period of up to 30 years. EIDL was vastly expanded to offer relief to businesses affected by the pandemic. By late 2020, it distributed 3.6 million loans with a value of $194 billion—an amount far greater than what the program had given out in its history of 67 years.

State Small Business Credit Initiative (SSBCI) was introduced in 2010 with afunding of $1.5 billion to strengthen state programs that financed small businesses. The Treasury awarded funding to most U.S. states to complementtheir funding for new or existing state programs through various financing programs.

SBA Grants are several small-scale grants that are administered by the SBA tostimulate small business exporting, innovation, etc.

Post-pandemic small business funds

Payment Protection Program (PPP) is a part of the CARES Act that is implemented by the Small Business Administration with support from the Department of the Treasury. The PPP was budgeted with $659 billion in forgivable loans for small businesses with 500 or fewer employees. This programprovided small businesses with funds to pay for eight to 24 weeks of payroll, mortgages, rent, and utility costs. The program, which ended on August 8, 2020,provided forgivable loans with an interest rate of 1 percent and a maturity of two to five years. The Mainstreet Lending Program, another element of the CARES Act, also provided additional loans of $75 billion for small businesses.

SBA Loan Forgiveness Program exempts small businesses from existing non- disaster SBA loan payments over the period of six months during the pandemic.Beneficiaries are small business owners participating in the agency's various microlending programs.
Proposed legislation titled the Jobs and Neighborhood Investment Act aspires to make a new, $17.9 billion investment in low-income and minority communities that have been hard-hit by the COVID-19 crisis. The legislation intends to provide eligible community development financial institutions (CDFIs) and Minority Depository Institutions (MDIs) with capital, liquidity, and operationalcapacity to expand the flow of credit to small businesses in underserved, minority, and historically disadvantaged communities.

The financial support programs introduced by the CARES Act have demonstrated howfederal assistance can be channeled to contain economic collapse in the face of an unprecedented crisis. However, the programs have also revealed the limits of the approach, which can be taken into

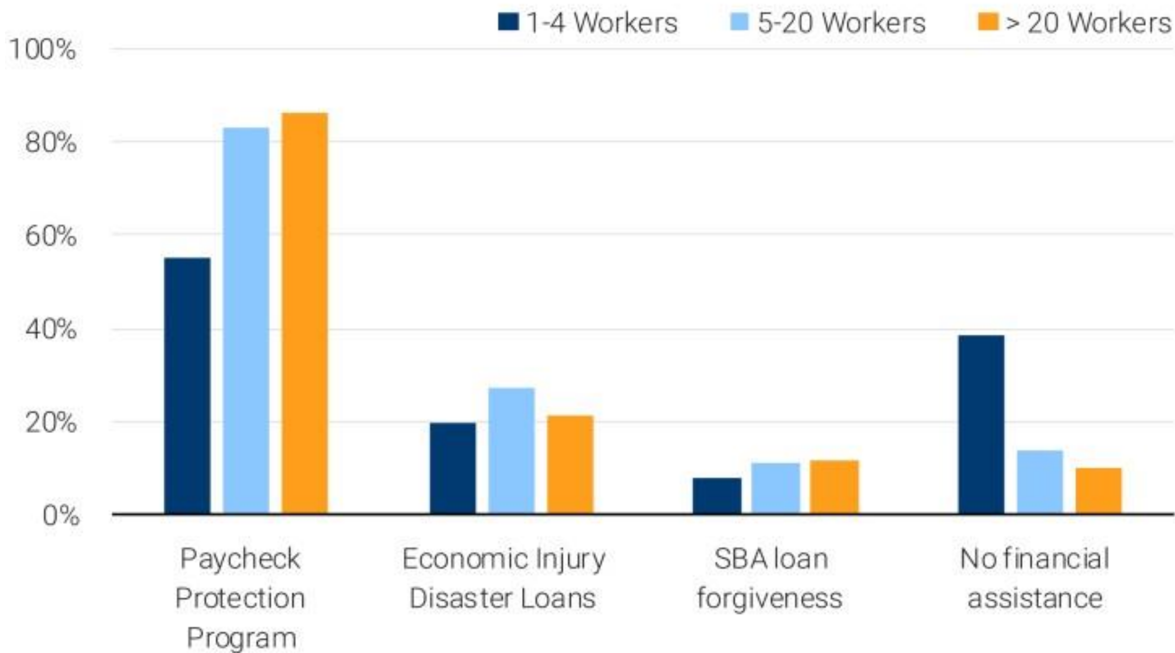
account in designing future programs.

First, none of these policies prioritized climate transition, which would require long- term, preferably subsidized, financing schemes. These programs hence represent amissed opportunity for "building back better" by linking economic recovery with climate transition. By contrast, the European Union has set aside 25 percent of its 750 billion euro recovery fund for projects that advance climate transition, and France has likewise dedicated one-third of its 100 billion euro economic stimulus package forgreen initiatives[7].

Second, evidence shows that federal assistance during the COVID-19 crisis has been unequally shared. For example, while the PPP managed to reach 5.2 million small businesses by November 2020, just one percent of these borrowers (who received at least $1.4 million) received more than a quarter of the $523 billion disbursed. This size bias could have a lasting distorting effect that skews the competitive edge againstsmall businesses.

Third, federal support was perceived to be too little given the magnitude of the crisis.The PPP, for example, only supported between eight and 24 weeks of payroll costs, while average closure during the pandemic was significantly longer for a large percentage of businesses.

Access to financial assistance was also inversely correlated with size: 38 percent of microenterprises (with less than five employees) received no form of financial assistance during the pandemic, compared to 10 percent of businesses with 20 or more employees (Figure 1). Overall, none of the existing financial assistance programsare geared toward catalyzing green transformation in the private sector. Considering the significance of small businesses for economic and employment growth, social inclusion, and climate transition, there is a clear need for a cross-cutting policy initiative that promotes green recovery and long-term competitiveness among them.



Policy recommendations

The best way to enable green recovery would be creating a Small Business Green Fund (SBGF) dedicated to financing climate transition among small businesses. Building on the experiences of the Paycheck Protection Program (PPP) and the Mainstreet Lending Program (MLP), the fund can be channeled through intermediaryfinancial institutions in exchange for an operating fee that is paid by the government.Community Development Financial Institutions (CDFIs), Minority Depository Institutions, and other smaller, minority-oriented financial institutions could be prioritized to ensure fair representation of minorities, thus avoiding a repeat of the mistakes of the PPP and MLP programs that arguably benefited larger and better connected businesses. The Fund will contribute towards a number of national policypriorities that form the centerpiece of President Biden's reform agenda, including racial equity and inclusion, the "made in all of America" program to revitalize American industries, and the commitment to achieve carbon neutrality by 2050 bybringing about "clean energy revolution and environmental justice.

Green projects that are eligible for funding are identified through standardized instruments for classifying sustainability performance, as explained in the next subsection. A decentralized, market-based approach for identifying, assessing, and verifying sustainability performance will be more effective in maximizing impact since policymakers may not necessarily know a priori the types of sustainable solutions thatare most appropriate for climate transition among millions of businesses. To accommodate the diverse financial demands of small businesses, the fund is proposed to have components of *green grants, green loans*, and *green bonds* that differ in size, structure, interest rate, and maturity. Table 1 outlines the potential structure of these financial schemes and suggests a potential size for these funds.

A Green Grants Fund will support sustainable investments and other expenditures by small businesses (with 50 workers or less) that have little or norecourse to external financing for their projects. Small grants of up to $100,000can be used to fully cover small green investments by eligible businesses (such as solar panel fittings), while larger grants of up to $1,000,000 could be used tosubsidize (by up to 50 percent) the investment cost of keystone green projects.Examples of such projects include research and development costs for producingmarketable low-carbon technologies that can support climate transition. The fund is best administered by the Small Business Administration agency, which has experience in administering grants for small businesses. A portion of the fund can be dedicated to bolstering the capacity of the SBA to provide financial and technical support to facilitate climate transition.

A Green Loans Fund will provide small, affordable loans for financing projects that go beyond regulatory requirements and use the best available technology and/or the best environmental management practices. This fund will target smallbusinesses employing 20 to 500 employees that need long-term finance for executing green projects. These loans can be structured based on the experiences of the Main Street Lending Program (MLP), which provided loans with a five-year maturity period, with deferral of principal payments for up to two years and deferral of interest payments for one year. As in MLP, lending financial institutions will take full responsibility for receiving applications and approving loans. The SBA (or the Treasury) participates in the program by purchasing a portion of the green loans, with the lending institution retaining the remaining share. To address different levels of financial need, the size of green loans couldrange between $100,000 and $50 million. Very small loans below $100,000 arebest excluded to keep transaction costs

low and to avoid increasing operating costs that could make the program expensive.

A Green Bonds Fund will finance green bond issuances by financial institutions that provide funding for green projects by small enterprises. It will also be used to provide (partial) guarantees and other credit enhancements for (nonfinancial) small business bond issuers to help them gain more favorable access to capital markets. Size restriction can be placed on the intermediary financial institutions to ensure that the fund does not go to institutions that are capable of independently issuing green bonds. To execute the Green Bonds Fund, the Treasury would have to partner with financial institutions that have experience instructuring and underwriting green bond issuances, such as such as the International Financial Corporation (IFC) or private banks. The partnering intermediaries can play an important role by providing technical assistance to the beneficiary financial institutions on the processes of bond issuance and subsequent distribution of proceeds.

Green bonds are innovative financial instruments that provide issuers with long-term loans conditional on green use of proceeds, which is tracked through impact reportingand external reviews. Although the market of green bonds is growing rapidly, it is dominated by sovereigns and large corporations, with an average issue size of $107 million in 2018. The large average size of green bonds could be due to the high transaction cost of issuing them, which limits the access of small businesses to the green bond market. The proposed fund will mitigate that by financing the purchase of green bonds issued by small and medium financial institutions that cater to small businesses. In addition, the fund can be used to provide credit enhancements in the form of partial guarantees to (nonfinancial) small businesses that face limited or costly access to securities markets. The green fund can also be used to complement private investment in green bond issuances by financing risky junior and mezzanine tranches, with the private sector financing less risky senior tranches. These risk mitigation measures can facilitate the maturity of the green bonds market by allowing small business issuers to build credit ratings, while also crowding in green investments by the private sector. To reduce transaction costs and attract institutionalinvestors who have a preference for large issuances, the proposed fund can target green bonds with an issue size of up to $500 million.

Table 1. Description of proposed financial instruments

	Green Grants	Green Loans	Green Bonds
Targeted beneficiaries*	Micro-businesses (1-50 employees)	Small businesses (21-500 employees)	Small and medium financial institutions
Fund size	$10 billion	$20 billion	$20 billion
Maturity	—	5+2 years	10+2 years
Size	Up to $1,000,000	$100,000 – $50 million	Up to $500 million
Administration	SBA	SBA/Treasury + Financial institutions	Treasury + (Multilateral) financial institutions
Similar programs	—	Paycheck Protection Program	IFC-Amundi Green Bond Fund**

*Targeted beneficiaries can be defined with a combination of number of employees and revenues at a given year.

**The IFC-Amundi Green Bond Fund, which was established in 2018, raised $1.4 billion from institutional investors, which will be reinvested over its seven-year lifetime. It aims to encourage green bond issuance by financial institutions in emerging countries.

Environmental due diligence

The green loans and green bonds schemes will be governed by detailed contractual agreements between the federal agencies administering the funds and financial intermediaries distributing them. The agreements will stipulate the beneficiaries of thefunds, the specific environmental issues to be targeted, and procedures for interim monitoring and final evaluation of performance. It will also specify which external standards will be used for identifying projects that qualify for funding, and the measurement frameworks to be used for monitoring and evaluating performance. Climate financing in the European Union's recovery fund, for example, is guided by thesustainable finance taxonomy that provides a classification system for the sustainability impacts of various climate-related activities.

The agreements can also specify priority areas of economic activity that should be targeted by the financial intermediaries. Priority sectors or activities should be identified based on their emissions abatement potential; their contribution to green growth and jobs; their financial needs and; their ability to draw in private sector capital. Potential priority industries are those directly contributing to the developmentof climate technologies (e.g., innovators or producers of solar and hydrogen technologies) and industries with large carbon footprints (e.g., manufacturing, construction, agribusiness, transportation, and logistics, etc.).

Green projects that should be eligible or top priorities for funding can be identified through standardized instruments developed for this purpose. The EU's sustainable finance taxonomy, for example, defines sustainable economic activities as those making a substantive contribution to one of the following six environmental objectives:

(1) Climate change adaptation; (2) climate change mitigation; (3) protection of marineand water resources; (4) transition to circular economy; (5) pollution prevention and control and; (6) biodiversity protection. The taxonomy identifies sustainability screening criteria for 70 economic activities that have significant emissions footprintsand hence need to be prioritized for climate change mitigation. The framework does not privilege specific economic activities as a priority for climate change adaptation, but provides sustainability screening criteria for a non-exhaustible list of 68 climate change adaptation activities.

There are a number of voluntary private sector standards for identifying projects that qualify for green financing. The Green Bond Principles (GBP) by the International Capital Market Association (ICMA) are widely used in the green bonds market to promote the transparency and integrity of disclosure and impact evaluation. The principles also provide a nonexclusive list of the types of project that can qualify for green bond financing including, inter alia, those contributing to improvements in renewable energy, energy efficiency, pollution control and prevention, resource conservation, sustainable land use, biodiversity preservation, climate change adaption, and eco-efficiency. The Science Based Targets Initiative (SBTi) helps small businesses with developing emissions reduction targets needed to meet the climate goals of the Paris Agreement, while also offering guidance on assessing and verifyingperformance. Lending institutions for the Small Business Green Recovery Fund can berequired to adopt one or more third-party standards for identifying green projects.

Green loans and green bonds will require ex ante and ex post due diligence to ensurethat the beneficiaries use the funds for the intended purpose. As the ultimate lender and investor, the SBA/the Treasury can demand a high degree of transparency on theuse of proceeds, and the social and environmental impact of the investments. This could entail measurement, disclosure and verification of the environmental impact created through the use of proceeds using the best available standards. Typically, green bond issuers provide different types of external reviews to showcase the sustainable use of proceeds including audited verification, consultant review (e.g. second-party opinion), and certification against third-party standards (e.g. Climate Bond Standard). Although verification should ideally involve accredited, third-party auditors to confirm that performance and reporting follow agreed-upon standards, in practice less stringent verification mechanisms are used because of their costliness and complexity. The EU’s upcoming legislation for Green Bond Standards is expected to address this limitation by proposing a centralized accreditation regime for auditors to enhance transparency, accountability, comparability, and credibility in the green bond market.

Conclusion

The proposed Small Business Green Recovery Fund aims to rejuvenate economic recovery while also catalyzing the transition to climate neutrality by 2050. The fund will incentivize small businesses to innovate and deploy green technologies, ensuring that climate transition gains momentum across the whole spectrum of businesses rather than remaining confined to large corporations. It will help reduce the growing performance gap between small businesses that were severely hit by the pandemic and larger enterprises that weathered the pandemic relatively well, and hence are more capable of making long-term green investments. By facilitating climate transitionin women- and minority-owned small businesses, it will also counteract income inequalities across businesses and communities that accelerated during the pandemic.

The proposed fund will advance multiple national goals and contribute to the Biden administration's plan for "building back better" toward an inclusive, climate-resilient, and globally competitive economy. The fund will draw in billions of dollars in additionalprivate sector investment in green technologies, spawning the development and diffusion of innovations that will enable the U.S. to meet its obligations under the ParisAgreement. The fund will also spur the growth of the sustainable finance ecosystem bysupporting the development, diversification, and deepening of the emerging green bonds market, thus promoting U.S. leadership in this strategic sector.

Footnotes

1. 1 Only 20 percent of small businesses, however, hired additional workers, the remainingbeing self-employing sole proprietorships. The share of minority-owned small businesses that employ workers is estimated to be much smaller at 7.5 percent.
2. 2 Kobe, K., & Schwinn, R. (2017). Small Business GDP 1998-2014. *U.S. Small Business Administration Office of Advocacy. SBA Research paper*.
3. 3 OECD Structural and Demographic Business Statistics Database 2018. http://dx.doi.org/10.1787/sdbs-data-en Charts B, E. OECD Timely Indicators of Entrepreneurship Database 2018.
4. 4 In late April 2020, 89.9 percent of small businesses reported experiencing a negativeeffect on operations due to COVID-19; this figure fell to 75 percent by mid-November.
5. 5 Siemer, M. (2019). Employment effects of financial constraints during the Great Recession. *Review of Economics and Statistics*, *101*(1), 16-29.
6. 6 This is not counting some state-level green financing initiatives. California's Treasurer's Office, for example, has invested in World Bank Green Bonds, helping generate proceeds for funding sustainable projects.
7. 7 In both the European Union and France, green strings were attached to government budgetary spending, but not on businesses receiving recovery support, to avoid cumbersome regulations that would hold back business recovery.