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How the United States Can Remain Engaged in International Climate Finance

A discussion paper

By Gwynne Taraska, Susan Biniaz, Leonardo Martinez-Diaz, Niranjali Amerasinghe, Joe Thwaites, and Howard Marano September 6, 2017

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Introduction and summary

International climate finance is a primary means for the United States to support the global fight against climate change.[1] Finance for climate preparedness helps the most vulnerable developing countries manage climate-induced risks to human health, food security, and regional stability. Meanwhile, finance for clean energy can help prevent further climate change and the associated damage around the globe. Investment in low-carbon and climate-resilient development is therefore persuasive from the perspectives of both humanitarianism and self-interest.[2]

For these reasons, the United States has a bipartisan history of financially supporting international climate efforts. During the George W. Bush administration, for example, the United States pledged $2 billion to the Climate Investment Funds (CIFs), a set of multilateral funds that support clean energy and climate preparedness projects in developing countries.[3] The United States met that pledge in full, with the final installment delivered in 2016.[4]

Under former President Barack Obama, the United States pledged $3 billion to the Green Climate Fund (GCF), a multilateral fund that provides grants, loans, and equity financing for projects that reduce greenhouse gas emissions and promote climate adaptation, particularly in the poorest and most vulnerable countries. The GCF has approved $2.2 billion for 43 projects since the fund became operational in 2015—from renewable energy in the Pacific islands to flood early-warning systems in Malawi—and has many more projects in the pipeline.[5] More than 40 countries have collectively pledged more than $10 billion to the fund to date.[6]

The climate finance gap

So far, the United States has delivered $1 billion to the GCF. The current administration, however, has targeted contributions to the GCF for elimination in its 2018 federal budget proposal.[7] It has also cited the U.S. pledge to the GCF as one of its main reasons for opposing the Paris Agreement—although contributions to the GCF are voluntary and the fund is not mentioned in the pact.

A withdrawal of U.S. climate finance would have real consequences: more carbon pollution and less climate resilience in the countries that most need assistance. Each $1 billion provided to the GCF, for example, could prevent nearly a half billion tons of carbon pollution and increase the climate preparedness of more than 55 million people, based on past allocations of the fund. It could also lead to more than $2.4 billion in co-financing, given that the GCF leverages funding from other donors, multilateral banks, and the private sector.[8]

More broadly, a withdrawal of U.S. climate finance would undermine America's leadership in the global climate effort and could suppress ambition with respect to emissions reductions in low-income countries.

Since the current administration announced its intention to withdraw the United States from the Paris Agreement, Americans have committed to climate action in unprecedented numbers. To date, these commitments have focused largely on domestic emissions reductions, but there is interest among U.S. citizens, businesses, states, and cities in providing or mobilizing international climate finance.

One option for facilitating contributions from Americans is to create a finance vehicle—referred to in this discussion paper as America's Climate Fund—that could pool funding from a variety of U.S. private and nonfederal sources and disburse them to existing multilateral finance channels that promote low-carbon and climate-resilient development in countries that need assistance.

This fund would not lessen the responsibility of the federal government to provide international climate finance—and it would not offset the federal funding shortfall. However, it would signal that Americans remain engaged in the global climate effort; would support projects on the ground that aid the poorest and most vulnerable populations; and could potentially facilitate increased climate finance from other countries. The fund would also help maintain momentum behind the Paris Agreement, which will be important as countries take stock of global progress on climate change in 2018.

The purpose of this paper is to raise the possibility of an American climate fund and prompt discussion of its viability and potential characteristics, including the U.S. climate leaders that could provide or mobilize contributions; the legal character of the fund; and several of the multilateral finance channels to which it could disburse contributions.

U.S. climate leaders that could provide or mobilize finance

An all-hands-on-deck effort is needed to continue U.S. engagement on international climate finance. Nonfederal leaders across the United States—from individuals, nongovernmental groups, and businesses to state and city governments—could have roles to play in providing or mobilizing contributions to the global climate effort, including to America's Climate Fund.

Individuals, nonprofits, and businesses

The United States is among the most charitable nations in the world, both in terms of contributions as a percentage of gross domestic product (GDP) and in terms of the share of the population making charitable donations.[9] In 2016, U.S. charitable giving was $390 billion, of which $22 billion supported international causes.[10] Even a fraction of this amount through crowdfunding for America's Climate Fund would be a profound contribution to low-carbon and climate-resilient development in vulnerable regions.

Both individuals and groups in the United States have shown their willingness to support the global climate effort. Faith-based organizations, for example, including groups representing a multitude of faiths and denominations, have made funding for the GCF a priority in their policy agendas. Meanwhile, millions of individual Americans are making personal climate commitments through the "I Am Still In" petition in support of the Paris Agreement.[11]

U.S. businesses, for their part, are positioning themselves to lead the global shift to clean energy. More than 1,700 U.S. businesses and investors—including businesses in every state—have now joined cities, states, and universities to form "We Are Still In," the largest national coalition that supports climate action.[12] Businesses in the coalition currently represent $2.5 trillion in total assets under management and include 40 Fortune 500 companies.[13]

States and cities

In recent months, state and city governments have been particularly outspoken in supporting climate action. More than 350 mayors, representing a population larger than that of France, have now pledged to support the goals of the Paris Agreement.[14] Similarly, 13 U.S. states and Puerto Rico have joined the U.S. Climate Alliance, which has pledged to pursue emissions reductions consistent with the pact.[15] The U.S. Climate Alliance represents approximately 108 million people and $7 trillion in GDP, or 38 percent of the U.S. economy. It would be the 12th largest country in terms of population and the third largest in terms of GDP, after China and ahead of Japan.[16]

To date, the missions of these coalitions do not explicitly include mobilization of international climate finance. Several states and cities, however, have expressed interest in a collective finance effort. Last month, the Seattle City Council passed a resolution that identifies international climate finance as an integral part of supporting the goals of the Paris Agreement.[17] The resolution also directs its sustainability office to research the options for collaborating with other city and state governments—as well as businesses and communities—to work toward U.S. climate commitments.

Options for the legal character of America's Climate Fund

There are several options, each with its own set of considerations, for the location of an American climate fund that could pool contributions from U.S. individuals, businesses, nongovernmental groups, and potentially state and city governments in order to support existing multilateral climate funds.

Option 1: A nongovernmental, nonprofit entity

The fund could sit with a nonprofit entity that is not affiliated with a state or city government. Financial and nonfinancial support from cities and states, however, could be crucial in galvanizing nongovernmental contributions. The considerations include:

- A nonprofit organization would provide a permanent home that would be immune to changes in state and city leadership.
- Contributions to an entity that is a 501(c)(3) would be tax-deductible in the United States.
- If the fund aims to contribute to the GCF, this would likely require a decision from the GCF board akin to the arrangement that the U.N. Foundation entered into with the board of the Adaptation Fund.[18] The constraints of the GCF and other multilateral funds with respect to contributors are discussed below.

Option 2: A state or city fund

Alternatively, a single U.S. city or state government could establish the fund, which would accept contributions from other subnational governments, private citizens, and nonprofit groups. The considerations include:

- The GCF would be able to accept these contributions without any further board decisions, as the contributions would be coming from a governmental entity. It would not be relevant that the governmental entity was subnational; other subnational governments—including the city of Paris and three Belgian regions—have made contributions to the GCF.[19]

- A city or state interested in serving as the home of the fund would need to ensure that the fund was consistent with its laws and policies, both in terms of accepting contributions and disbursing them overseas. For the GCF, it should be noted that it is a nonprofit legal entity incorporated in South Korea.

- If the host city or state were going to contribute some of its own resources to the fund—and this would be very much encouraged—it would need to determine whether there were legal constraints on spending public funds outside its territory.

- It would be desirable to ensure that contributions to the fund were tax-deductible. This is an issue that needs further analysis.

Option 3: A state- or city-affiliated nonprofit

A hybrid option is also possible: The fund could sit with an entity that is a 501(c)(3) but is affiliated with a state or city government, such as the Mayor's Fund to Advance New York City, which has supported international disaster relief efforts.[20] This option shares a subset of considerations with the other two:

- Contributions to such an entity would be tax-deductible as a 501(c)(3).

- If the fund aims to contribute to the GCF, this would likely require a decision from the GCF board.

- If the host city or state were going to contribute some of its own resources to the fund, it would need to determine whether there were legal constraints on spending public funds outside its territory.

Another possibility to consider in addition to these options is for Americans to contribute to an existing multilateral climate fund through a crowdfunding platform; many of the same issues would arise.

Potential recipients of contributions from America's Climate Fund

A number of multilateral climate funds support projects that promote clean energy or climate preparedness in developing countries and could serve as recipients of contributions from America's Climate Fund. Setting up America's Climate Fund to make direct contributions to projects in developing countries would entail large startup costs; contributing to existing multilateral institutions is therefore likely to be more efficient. The legal character of the fund could affect its set of possible recipients, given that some multilateral climate funds do not yet have a precedent of accepting contributions from nonprofits.

Green Climate Fund

- **About the fund.** The GCF is currently the largest and most politically significant multilateral climate fund. It supports both greenhouse gas emissions mitigation and climate change adaptation activities. The fund is well-known for its focus on vulnerable developing countries, including least developed countries, African states, and small-island states, as well as for its focus on leveraging private sector investment.

- **Relationship to the Paris Agreement.** The GCF is designated as one of the finance channels that serve the goals of the agreement.[21]

- **Possible contributors.** The GCF's charter authorizes it to accept contributions "from a variety of other sources, public and private."[22] As noted, the GCF currently accepts contributions from governments, including subnational ones, but the GCF board has not yet adopted guidelines permitting nongovernmental contributions. The board is expected to consider this question in the coming months.

Adaptation Fund

- **About the fund.** The Adaptation Fund supports climate adaptation projects in vulnerable developing countries. It does not finance clean energy or other emissions reduction projects.

- **Relationship to the Paris Agreement.** The Adaptation Fund is expected to serve the agreement, pending a decision due by the end of 2018 resolving technical considerations raised by countries.[23]

- **Possible contributors.** The Adaptation Fund can accept nongovernmental contributions. Nongovernmental entities, including foundations, nongovernmental organizations, corporations, and individuals can contribute to the fund once a donation agreement is established.[24] Individuals can also make contributions to the fund that are tax-deductible in the United States through the U.N. Foundation.[25]

Least Developed Countries Fund

- **About the fund.** The Least Developed Countries Fund (LDCF) supports climate change adaptation plans and projects in the world's poorest countries. Like the Adaptation Fund, the LDCF is limited in scope to adaptation and does not support clean energy or other emissions reduction projects.

- **Relationship to the Paris Agreement.** The LDCF is designated as a finance channel that serves the agreement.[26]

- **Possible contributors.** The LDCF can receive funds from subnational governments. Quebec, for example, donated $6 million CAD in 2015.[27] The fund does not have a precedent of receiving nongovernmental contributions.

Complementary funding efforts

It is interesting to note that some proponents of international climate finance are considering policies that could allow citizens to opt in to support America's Climate Fund or multilateral climate funds. This fall, for example, the Commonwealth of Massachusetts will consider legislation to add a check-off option on the state tax return form permitting voluntary contributions to the LDCF.[28]

Elsewhere, proponents are considering how revenues from carbon pricing programs could support international climate finance. For example, California State Sen. Bob Wieckowski (D) has introduced a bill to amend the cap-and-trade program such that state residents would receive carbon dividends. One possibility is for the state to allow residents to opt out of dividends and direct them to a state fund that supports the global climate effort.[29]

Moving forward

Typically, finance for international climate purposes has been largely in the domain of the federal government. But these are not normal times in the United States—and the coming years are critical for bending down the global emissions curve. By providing and mobilizing international climate finance, U.S. citizens, businesses, organizations, states, and cities can support the global climate effort, show the world that Americans care about climate efforts abroad, and protect U.S. interests that are threatened by climate change.

These climate leaders across the United States are currently preparing to show their dedication to reduce carbon pollution at upcoming international events, including the 23rd session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP23), French President Emmanuel Macron's climate summit in France in December 2017, and the Global Climate Action summit in California in September 2018. Such events will also serve as important opportunities to show engagement on international climate finance.

About the authors

Gwynne Taraska is the associate director of energy and environment policy at the Center for American Progress.

Susan Biniaz is a former climate lawyer at the U.S. Department of State.

Leonardo Martinez-Diaz is the global director of the Sustainable Finance Center at the World Resources Institute.

Niranjali Amerasinghe is an associate in the Sustainable Finance Center at the World Resources Institute.

Joe Thwaites is an associate in the Sustainable Finance Center at the World Resources Institute.

Howard Marano is a research assistant at the Center for American Progress.

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