

## The Time is Ripe!

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### SUPPORT FROM US SUB-NATIONALS FOR THE LEAST DEVELOPED COUNTRIES FUND OF THE PARIS AGREEMENT

#### Q & A Note

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#### WHAT'S THE BIG IDEA?

Generating new (innovative) sources of funding from US states, regions, and cities, for the [Least Developed Countries Fund](#) (LDCF) of the Financial Mechanism of the [UNFCCC/Paris Agreement](#).

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## Why support the Financial Mechanism?

Developing countries know full well that they will have to cover the lion's share of the costs of dealing with climate change and its adverse impacts. At the same time, there is a strong feeling of injustice, particularly among the poorest and most vulnerable countries, about the disproportion of the burden they are forced to take on in this fight, relative to the respective differentiated responsibilities.

Why should this not simply be discounted as 'life isn't fair, live with it'? Everyone agrees that the international climate regime under the UNFCCC and the Paris Agreement *is not sufficient* to solve the climate change problem. However, I firmly believe that, while not sufficient, the international regime *is necessary* for us to get to grips with global climate change. Why? We need most, if not all, countries to ratchet up their mitigation ambitions significantly if we are to get on top of the problem, and this requires international collaboration (see '[Why an effective Ambition Mechanism is vital to deliver the Paris Agreement](#)'). Yet this will not be forthcoming if the regime is seen to be blatantly unfair (see '[Justice is still critical in the post-Paris world of "nationally determined" climate action](#)'): there is nothing more effective at scuppering a government initiative anywhere in the world than the claim that 'this is unfair to us'. A solution requires a lot of goodwill and good faith from everyone, and not only with regard to mitigation.

It is true that the sums of money flowing through the Financial Mechanism are minuscule in comparison to what developing countries will have to spend themselves in combatting climate change and its adverse impacts. Yet it is also clear that the Financial Mechanism was never going to be able, or was even intended, to cover all these costs. The purpose of the Financial Mechanism, as I see it, is first and foremost to enable the developed world to signal to developing countries that, despite all constraints, the developed world is not just turning a blind eye to the plight of developing countries, particularly the poorest and most vulnerable among them. In other words, the Financial Mechanism can serve as a beacon for the developed world to signal to developing countries that their plight is recognized and appreciated, so as to reduce the prevailing sense of injustice which otherwise will scupper all efforts to enhance mitigation ambitions.

## Why US sub-nationals?

With the advent of the Trump administration we are facing an annual shortfall of \$1 billion in international climate support for developing countries from Washington. While it is unlikely that this (Trump) hole could be filled through US sub-national contributions, it is as important to check the adverse fall-out from the policies of the Trump administration by raising at least some American contributions for the Financial Mechanism, as it is for sub-nationals to demonstrate state action on reducing emissions (see '[Think Local, Act Global! State and City Climate Leadership Includes Global Finance](#)'). After the repudiation of the Paris Agreement by the Trump administration, it is therefore very encouraging to see that American sub-nationals are picking up the baton, including:

- the [United States Climate Alliance](#), initially founded by Governors Brown (California), Cuomo (New York), and Inslee (Washington), and since then joined by the Governors of Connecticut, Delaware, Hawaii, Massachusetts, Minnesota, Oregon, Puerto Rico, Rhode Island, Vermont, and Virginia; and
- [We Are Still In](#), a broad-based coalition of, at the time of writing, nine states (California, Connecticut, Hawaii, New York, North Carolina, Oregon, Rhode Island, Virginia, and Washington), 149 cities and counties, over 900 businesses/investors, and over 180 college/universities.

However, it must not be forgotten that the [Paris Agreement](#) is not just about emission reductions. It is equally about providing **financial contributions** to (particularly vulnerable) developing countries, as part of the ‘Nationally Determined Contributions’ (NDCs) – indeed that is where the term ‘contribution’ originated in this context (see [‘US cities and states back Paris deal but ignore climate finance’](#)). In particular, Article 9.3 of the Agreement stipulates that:

*“As part of a global effort, developed country Parties should continue to take the lead in mobilizing climate finance from a wide variety of sources, instruments and channels, noting the significant role of public funds, through a variety of actions, including supporting country-driven strategies, and taking into account the needs and priorities of developing country Parties. Such mobilization of climate finance should represent a progression beyond previous efforts.”*

While it is true that, as a recent *Washington Post* article puts it: [“Michael Bloomberg’s millions can’t compensate for Trump’s climate policies”](#), a clear signal could be sent by American sub-nationals that they really are ‘still in’ if they contribute to the LDCF, keeping in mind Michael Bloomberg’s \$15 million as an annual benchmark.

### **What is the LDCF?**

The Least Developed Countries Fund (LDCF) of the UN Framework Convention on Climate Change is managed by the DC-based Global Environment Facility (GEF), which is a spin-off of the World Bank, itself the Trustee of the LDCF.

The GEF Council (the GEF’s main governing body) serves as the board of directors of the LDCF. It comprises: 32 Members appointed by constituencies of GEF member countries (14 from developed countries, 16 from developing countries, and two from economies in transition). The US has a ‘single country constituency’, that is to say it always has both a member and an alternate member on the Council, usually from the Treasury and the State Department.

The LDCF is periodically assessed by the [Independent Evaluation Office](#) of the GEF. The last such [programme evaluation was published in June 2016](#)

### **Why support the LDCF?**

For one, there is the issue of the **significance of a contribution**. For example, to be significant in terms of the multi-billion dollar GCF, a contribution should be able to fund at least a ‘small’ project, which in the parlance of the GCF means at least \$10 million. The same amount would cover around 5 per cent of the [annual funding requirement of the LDCF](#), and be equivalent to 20 per cent of the [US funding pledge in Paris](#). In short, there is little doubt that ‘micro’ contributions, to use the GCF jargon, are more significant to the LDCF than they would be to the GCF.

Moreover, at the time of writing, one and a half years after it began approving projects and programmes in November 2015, the GCF, has [committed just over \\$2 billion to approved activities](#). This means that – taking into account Trump’s renegeing on the outstanding signed US pledge of \$2 billion – there are still around \$6 billion to be committed which, at the current speed, will take around four and a half years, well after the current US presidential term. So, unlike the LDCF, the GCF is unlikely to run out of money to fund its projects and programmes in the near term.

A second politically relevant reason is that the LDCF provides funding *only to the 48 members of the Least Developed Countries Group* (see Box 1), and not to middle income countries or ‘emerging economies’ such as China, which could be politically sensitive in the US context.

#### **Box 1. Who are the LDCs?**

The **Least Developed Countries (LDC)** Group is a group of countries comprising 51 nations (with a total population of 880 million people) that have the lowest indicators of socioeconomic development, and the lowest Human Development Index ratings, of all countries in the world. As such, LDCs are the most vulnerable to the adverse impacts of climate change while being the least responsible for it

A country is classified among the Least Developed Countries if it meets three criteria:

- Poverty – adjustable criterion based on GNI per capita averaged over three years. As of 2015 a country must have a GNI per capita of less than US \$1,035 to be included on the list, and of greater than \$1,242 to graduate from it.
- Human resource weakness (based on indicators of nutrition, health, education, and adult literacy) and
- Economic vulnerability (based on: instability of agricultural production, instability of exports of goods and services, economic importance of non-traditional activities, merchandise export concentration, handicap of economic smallness, and the percentage of population displaced by natural disasters)

Thirdly, while the LDCF at present mainly funds adaptation projects, it is not limited to doing so. Indeed, the LDC Group itself is pushing to *enhance the in-country capacity* of LDCs to generate fundable climate project proposals and to identify suitable funding sources for them, nationally or internationally, with the aim of overcoming one of the biggest endemic problems in climate finance in the LDCs: the so-called ‘lack of absorptive capacity’, i.e. the lack of fundable projects.

Last, but certainly not least, Article 9.4 of the [Paris Agreement](#) stipulates that the provision of scaled-up climate finance should, inter alia, take into account the “*needs of developing country Parties, especially those that are particularly vulnerable to the adverse effects of climate change and have significant capacity constraints, such as the least developed countries ...*”.

#### **Why not the Green Climate Fund?**

Apart from the issue of ‘contribution significance’ discussed above, the main reason is architectural: the GCF can only function ‘at scale’, without leaving anybody behind, if there are small dedicated multilateral funds such as the LDCF or the Adaptation Fund that can take care of micro- and nano-projects.

In the early days of the GCF – between September 2012 and September 2013 (GCFB.2 – GCFB. 5) – there was a lot of debate around the GCF ‘Business model framework’. Although the notion was not uncontested and was seen by some as being too close to private sector language it can, in some cases, be useful to look at private sector practices when discussing architectural options for multilateral climate funding. In this context, two ‘bread-and-butter’ business model distinctions are particularly useful, namely: *wholesale* vs *retail*, and *in-house* vs *outsourced*.

Concurring with the vision of Nick Dyer (former UK GCF Board member), I believe that ultimately the GCF should be purely a wholesale organization, outsourcing the management of any micro- (and nano-) projects to specialized retail outlets. Such outsourcing would preferably take place at the country level through [Enhanced Direct Access](#) and, where this is not possible, through multilateral ‘retail funds’, such as the LDCF or the Adaptation Fund. In other words, I do not think that turning

the GCF into a Megastore retailer working out of Songdo is a viable option if it is to start working ‘at scale’. What is needed is a division of labour between the GCF as a wholesale fund that only deals with programmes, and retail entities that deal with individual micro- and nano-projects on the ground.<sup>2</sup> For more on this see: [‘On the Virtues of Strategic Divisions of Labour’](#), in particular section 3.2 on ‘International Division of Labour’.

## How?

There are many ways in which sub-national support for the LDCF can be provided. The following list, with predictability/sustainability and potential scale of contribution rankings, merely reflects some which I have direct knowledge of.

### I. Sub-national budgetary contributions.

The best example of sub-national contributions to the Financial Mechanism is no doubt the pledges that were made at COP 21 in Paris, most notably Quebec’s pledge of CA\$ 6 million to the LDCF (see [‘In Paris it became “chic” for sub-nationals to provide multilateral support for climate change finance. Now it must become “de rigueur”!’](#))

Contributions of this kind can be significant in scale, and they can have significant symbolic value, but like conventional (i.e. national) budgetary contributions, they are not always as predictable as desired, indeed they can unfortunately end up being a ‘flash in the pan’.

Predictability/sustainability: ★ Potential contribution scale: ★★★

### II. Government crowd funding:

Many states in the US have [‘check-off options’](#) in their personal income tax returns through which individuals can choose to contribute part of any refund to certain causes.

On 27 March, State Senator Michael Barrett filed [‘An Act enabling taxpayer donations to the Least Developed Countries Fund, an initiative of the U.N. Framework Convention on Climate Change’](#) in the Massachusetts Senate. The act proposes to create a [‘Massachusetts UN Least Developed Countries Fund \(MLDCF\)’](#) which would be replenished through such an income tax refund check-off programme and any other public and private sector contributions for the benefit of the UNFCCC Least Developed Countries Fund. ([Fact sheet](#))

Being established through a legislative act provides this tool with a considerable life expectancy and, judging from past experience, with considerable predictability. The main drawback is that while the symbolic value is considerable, the potential contribution scale is very small (maybe \$100,000 p.a. in the case of the MLDCF; see [‘Tax-form donations fuel select charitable causes’](#)).

Predictability/sustainability: ★★★ Potential contribution scale: ★

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<sup>2</sup> Public sector stakeholders sometimes give the impression that outsourcing is to be avoided in principle, because it is thought to amount to nothing but the introduction of ‘another layer of bureaucracy’ that just adds additional overheads/transaction costs. There is no doubt that this can happen, and that it should be avoided. But it is not inevitable: otherwise why would the private sector engage in it? It is simply a matter of inefficient (i.e. bad) outsourcing. Outsourcing can, (particularly when this relates to outsourcing into recipient countries) not only increase the effectiveness and efficiency of the business, it may be the only way forward for the business to reach the desired scale. (NB: outsourcing is also *not* tantamount to fragmentation!)

### III. Innovative Finance ('Shares of Proceeds')

The notion of a 'share of proceeds' has entered the climate change dictionary with the establishment of the Clean Development Mechanism under the Kyoto Protocol, where 2 per cent of the Certified Emission Reductions generated by CDM projects are given to the Adaptation Fund Board to be 'monetized' for the purpose of funding adaptation projects in developing countries. The term is also being used to refer to governments' monetary proceeds, such as (carbon) tax revenue and revenue from auctioning emission trading permits.

Both of these tools, i.e. the allocation of permits for monetization and the designation of a share of a monetary revenue source, are already in use (indeed the former is used in the context of the California Cap and Trade Programme; for more see Section 2.3 in '[Two Unconventional Options to Enhance Multilateral Climate Finance](#)')

A Bill (SB-775, see Box 2) recently introduced to the California State Senate to amend SB-32 'California Global Warming Solutions Act of 2006' envisages, among other things, the distribution of some of the auctioning revenue of the California Cap and Trade Programme (CTP) as a 'climate dividend' to all residents on a per capita basis. The motivation for this was to remedy what has been one of the key objections by the Environmental Justice community to the CTP in its current form: even though there is a provision for the auctioning revenue to be used for vulnerable communities (in California), this has not happened, according to the EJ movement.

#### Box 2. [SB-775 California Global Warming Solutions Act of 2006](#):

SB-775 creates three new funds (Section 4c):

- The California Climate and Clean Energy Research Fund;
- The California Climate Dividend Fund (CCDF); and
- California Climate Infrastructure Fund.

According to Section 6, the CCDF is to serve a newly established *California Climate Dividend Program*, to be administered by the Franchise Tax Board and guided by a new *Climate Dividend Access Board* of NGOs, including environmental justice organizations.

The resources allocated to the CCDF are to be disbursed "in the form [of] dividends to all residents of the state on a per capita basis ... for the public purpose of mitigating the costs of transitioning to a low-carbon economy." This is to be done through a programme designed by the Franchise Tax Board (in consultation with the Climate Dividend Access Board) that delivers quarterly per capita dividends to all residents and which may include the automatic enrollment of residents who have filed a state income tax return in the previous year.

Environmental justice, however, does not stop at national, or for that matter sub-national, borders and it is possible to ensure that international justice does not compete with (sub-) national justice. In the context of SB-775 this could, for example, be achieved by introducing a ***voluntary climate dividend check-off programme*** for the benefit of LDCs through the establishment of a *California Least Developed Countries Fund*, maybe with the additional provision that the climate dividends of the ***top x per cent earners*** are mandatorily checked off in that manner.

As concerns the predictability/sustainability and the potential contribution scale, these innovative finance instruments are the most promising of the three suggestions listed here. The main drawback is that they will, in most cases, involve legislation which is not always easy to pass.

Predictability/sustainability: ★★★ Potential contribution scale: ★★★