Federal Financing via Independent Institutions

Precedents for the National Climate Bank

Summary

The National Climate Bank Act of 2019 was introduced in the U.S. Senate on July 8, and in the House on December 12, 2019. It forms an independent nonpartisan non-profit institution called the National Climate Bank (Climate Bank) to finance climate solutions at scale and bring clean energy investment to under-served areas.

This institution will be capitalized with $35 billion in federal funds, and charged with investing capital in partnership with the private sector in order to get the most impact out of each public dollar. It will invest across sectors in a range of projects that reduce greenhouse gas emissions, lower costs, and increase access for consumers, including clean energy and supporting infrastructure, energy efficiency, clean transportation, and agriculture. The Climate Bank's enabling legislation empowers it to do this using a variety of methods, including by:

- Directly financing large-scale projects across economic sectors.
- Forming new state and local Green Banks with start-up funding and technical assistance, and provide lending capital to new and existing state and local Green Banks.
- Investing in communities to ensure the clean energy transition is fair to all, prioritizing under-served communities and those that stand to face the worst impacts of pollution and climate change.

A key feature of the National Climate Bank's design is its establishment as an independent nonprofit, capitalized with federal funds but also able to mobilize private and philanthropic investment dollars.

This approach carries unique advantages compared to a more typical model where programs are funded directly through government agencies. There are also a number of precedents that show how such a structure can work. These entities differ in mission, but each demonstrates the effectiveness of a variety of innovative funding models. They:

- **Mobilize private investment**. Federal finance entities deploy public capital to specifically drive private investment into target sectors or markets.
- **Establish new nonprofits**. Non-profits formed by the federal government and funded with both public and private capital then invest into target sectors and markets.
- **Independently invest federal funds**. Non-governmental entities receive federal funds and independently invest them in service of a mission, outside of the federal government.

This paper discusses their lessons and precedents for the National Climate Bank, including relevant details of their formation, legal status, capitalization, governance, mission, and accomplishments.

Federal Finance Entities Driving Private Investment

The federal government provides billions of dollars of public financing every year to support agriculture, housing, small businesses, rural development and a range of other sectors. Some of this activity is carried out within existing government agencies, and at other times the federal government has created new dedicated government entities.

Several such entities are specifically designed to catalyze private co-investment into underserved sectors or markets. These entities share similarities with the proposed National Climate Bank, in that they are meant to address market failures by directing public investment in ways meant to mobilize additional private investment.

US International Development Finance Corporation (USIDFC)

The US International Development Finance Corporation (USIDFC) was originally established in 1971 as the Overseas Private Investment Corporation (OPIC) through an act of Congress, and was reorganized as the USIDFC through the BUILD Act of 2018.[1] The USIDFC is a wholly owned government corporation, and carries the full faith and credit of the US government.

Its enabling statute describes the purpose of the USIDFC as follows:

> "[T]o mobilize and facilitate the participation of private sector capital and skills in the economic development of less developed countries… and countries in transition from nonmarket to market economies, in order to complement the development assistance objectives, and advance the foreign policy interests, of the United States."[2]

The USIDFC seeks to "crowd-in" private sector investment in less developed countries. It offers two major products to the market: debt financing and political risk insurance.

The corporation's debt financing can be offered as either loans or loan guarantees with medium- to long-term options, aimed at countries where conventional financial institutions often are reluctant or unable to lend.

While the USIDFC is intended to facilitate private sector participation in less developed countries and countries in transition from non-market to market economies, it is also permitted to work in upper-middle income countries if there is a national economic or foreign policy rationale or if the work will further development outcomes in the poorest part of those countries.[3]

The USIDFC has a seven-person board whose members include the CEO of the USIDFC, the Secretary of State (ex officio Chair of the Board), the Administrator of USAID (ex officio Vice Chair of the Board), the Secretary of the Treasury, the Secretary of Commerce, and four representatives appointed by the President with the advice and consent of the Senate. These are selected from four separate lists of five people each. One list is submitted by the majority leader

[1] "The BUILD Act Has Passed. What's Next?" Center for Strategic and International Studies. Oct. 12, 2018.

[2] 22 U.S.C. § 9612(b).

[3] "The BUILD Act Has Passed. What's Next?" Center for Strategic and International Studies. Oct. 12, 2018; 22 U.S.C. § 9612(c).

of the Senate after consultation with the Chair of the Senate Foreign Relations Committee. One list is submitted by the minority leader of the Senate after consultation with the ranking member of the Senate Foreign Relations Committee.

On the House side, one list is submitted by the Speaker of the House after consultation with the Chair of the House Foreign Affairs Committee, and one is submitted by the minority leader of the House after consultation with the ranking member of the House Foreign Affairs Committee. This process supports the representation of bipartisan interests on the board, while also maintaining a degree of independence from politics.

The organization is statutorily assigned a CEO, Deputy CEO, Chief Risk Officer, Chief Development Officer, Inspector General's office, and a nine-person development advisory council. It is allowed a maximum contingent liability of $60b, and has a limitation that the organization's equity investments must not exceed 30% of the total amount of all equity investment in the project and provided that equity investments make up less than 35% of the corporation's aggregate financial exposure.

The USIDFC operates as a financially self-sustaining agency, with FY 2018 combined total exposure of $22.8b and net cost of operations of $149m. The USIDFC maintains corporate reserves of $5.8b in Treasury securities.[4]

In using public funds to mobilize private investment towards a defined purpose, the USIDFC is broadly similar in purpose to the Climate Bank. The USIDIFC's achievement of self-sustainability is also an important precedent, which the Climate Bank would aim to replicate. After its initial infusion of public funds the Climate Bank would be expected to operate sustainably based on revenue from its investments.

Export-Import Bank (EX-IM)

The Export-Import Bank (EX-IM or the Bank) was established in 1934 to assist in sustaining US employment during the Great Depression, specifically by supporting US exports to the Soviet Union. The organization was originally an export financing agency, meant to help businesses financially cover their needs during the time gap between an export order being placed and the payment being received.

Like the USDIFC, the EX-IM Bank is an independent agency in the form of an independent federal agency. The EX-IM Bank has $1 billion in capital stock subscribed by the United States.

EX-IM's charter describes the purpose of the Bank:

> "To aid in financing and to facilitate exports of goods and services, imports, and the exchange of commodities and services between the United States or any of its territories or insular possessions and any foreign country or the agencies or nationals of any such country, and in so doing to contribute to the employment of United States workers." [5]

The Bank also has an explicit statutory mandate to avoid competition with private capital:

> "It is also the policy of the United States that the Bank in the exercise of its functions should supplement and encourage, and not compete with, private capital; that the Bank, in determining whether to provide support for a

[4] "Annual Management Report for Fiscal Years 2018 and 2017." OPIC. November 9, 2019.

[5] 12 U.S.C. § 635(a)(1).

transaction under the loan, guarantee, or insurance program, or any combination thereof, shall consider the need to involve private capital in support of United States exports as well as the cost of the transaction calculated in accordance with the requirements of the Federal Credit Reform Act of 1990." [6]

In 2018, the Bank authorized $3.3b in loan guarantees, insurance, and direct loans in support of an estimated value of $6.787b of US export sales supporting an estimated 33,000 US jobs.[7]

The Bank's lending cap is frozen in place if the organization's default rate exceeds 2% at any one time. The Bank is required to hold reserve accounts in the amount of 5% of total outstanding dollar value at any one time. At least 25% of the Banks annual aggregate spend must benefit small businesses.

The Bank offers a suite of products including loans, loan guarantees, and insurance. Loans offered by the Bank can be either long-term loans (greater than 7-year tenor and more than $10 million in value) or working capital loans (up to one-year tenor). These loans can be structured finance transactions (tenor of 10-12 years), project finance transactions (tenor of up to 14 years), and renewable energy transactions (tenor of up to 18 years).[8]

Guarantees offered by the Bank can be long-term (7+ year tenor, more than $10 million), medium-term (tenor of between 1-7 years, less than $10 million), or working capital guarantees of up to one-year tenor.

The Bank has a senate-confirmed CEO and First Vice President as statutorily-mandated staff. Statutorily, the Board Chair is the CEO of the Bank, and the Board Vice-Chair is the First Vice President. The Board is rounded out by three additional Senate-confirmed members, including at least one small business representative.

The Bank also has a seventeen-person Advisory Committee, which is appointed by the Board on the recommendation of the President. Its members are required to be broadly representative of NGOs, think tanks, advocacy organizations, foundations, and other institutions engaged in international development.[9]

There are a number of statutorily-mandated entities within the Bank: a Small Business Division, an Office of Financing for Socially and Economically Disadvantaged Small Business Concerns and Small Business Concerns Owned by Women, and an Office of Ethics. There is also a Chief Risk Officer within the organization and a Risk Management Committee, whose membership is composed of the full Board of Directors.[10]

Like the EX-IM Bank, the National Climate Bank would aim to encourage and mobilize private capital rather than compete for the same projects. Capitalizing projects that would have been financed anyway would not be an effective way to achieve impact either for EX-IM or for the Climate Bank. When public funds are used to make nonviable deals into attractive investment opportunities, all parties benefit.

Department of Energy Loan Programs Office (LPO)

The Department of Energy Loan Program Office (LPO) is an office within the Department of Energy that came into existence when Congress

[6] Id. at § 635(b)(1)(B).
[7] "Export-Import Bank of the United States 2018 Annual Report."
[8] "Export-Import Bank: Frequently Asked Questions." Congressional Research Service. April 13, 2019.
[9] 22 U.S.C § 9613 (i)(2).
[10] 12 U.S.C. § 635a.

enacted Title XVII of the Energy Policy Act of 2005 to provide incentives for innovative technologies and authorize the Department of Energy to issue loan guarantees[11] The American Recovery and Reinvestment Act subsequently added Section 1705 to the EPAct to reauthorize and expand financing available for certain renewable energy systems, electric power transmission systems, and leading edge biofuels.[12] This expanded program under section 1705 expired in 2011, but the original program established by Title XVII remains operational.

Applications to the LPO are submitted and reviewed on a rolling basis. After an application is reviewed and approved, the LPO and the applicant reach agreement on a term sheet and conditional commitments. After final negotiations, the two parties sign a final loan guarantee agreement.

The LPO supports projects that meet the following four criteria:

- Utilize a new or significantly improved technology.
- Avoid, reduce, or sequester greenhouse gasses.
- Are located in the United States.
- Have a reasonable prospect of repayment.[13]

To date, more than $40 billion in loans and loan guarantees for 30 projects have been committed through the LPO.[14]

Currently, there is $17.7 billion in direct loan authority to support US manufacturing of fuel-efficient, advanced technology vehicles and qualifying components available, $8.5b in loan guarantee authority available for innovative advanced fossil energy projects, $8.8 billion in loan guarantee authority available for innovative advanced nuclear energy projects, up to $4.5 billion in loan guarantee authority for innovative renewable energy and efficient energy projects, and up to $2 billion in partial loan guarantee authority for tribal energy development projects available. The total credit subsidy cost of all LPO financed projects has been $2.21 billion to date, including $807 million for loans that have defaulted.

The commitments made by the LPO enjoy the full faith and credit of the United States,[15] and the LPO is permitted to charge and collect fees associated with the financing that is extended. Guarantees extended through the LPO are required to adhere to the Davis-Bacon Act, the Cargo Preference Act, and the National Environmental Policy Act.[16]

While the LPO may appear similar to the Climate Bank in its purpose and its financial offerings, important differences exist between these institutions. The LPO has operated successfully to provide critical capital for first-of-kind commercial demonstrations of new technologies. It addresses the commercialization "valley of death", and helps new technologies prove that they can be deployed at scale.

The National Climate Bank then fills the role of actually facilitating that deployment, focusing on projects closer to the edge of commercial viability. The LPO and National Climate Bank should be seen as complementary continuous links in an effective public finance strategy to support clean energy development and deployment.

[11] 42 U.S.C. § 16511 et seq.

[12] "History of the Loan Programs Office." US Department of Energy.

[13] "Title XVII Project Eligibility." US Department of Energy.

[14] "Loan Programs Office: About Us." US Department of Energy.

[15] 10 C.F.R. § 609.12.

[16] Id. at §§ 609.8, 609.4.

Federally Formed & Funded Non-Profits

The federal government has a long legacy of forming private non-profit corporations to implement charitable purposes. These are often funded with public dollars, but then they are also free to raise other funds from private sources. They have greater independence and insulation from political trends than agencies or corporations owned by the federal government. The National Climate Bank has been proposed to be incorporated as a 501c3 non-profit corporation based on this model.

A 501c3 corporation is a tax-exempt organization that has no legal owners. A non-profit must be incorporated by a person or group of people, and depending on the jurisdiction, some number of founding board members must be identified in the incorporating documents.

Separate and subsequent to that incorporation, the organization must adopt bylaws that define many operating aspects of the non-profit, including the full board composition, the method by which a board is selected, and the terms of board membership. In a typical non-profit, the board is "self-perpetuating." This means that as the terms of board members ends, or as board members leave, the remaining board members vote among themselves to replace them. In this way, the board (and therefore the non-profit itself) perpetuates itself.

Neighborhood Reinvestment Corporation

The Neighborhood Reinvestment Corporation, originally called NeighborWorks America, was created by an act of Congress in 1978.[17] The Neighborhood Reinvestment Corporation is a federally created non-profit, and is exempt from federal, state and local taxation.[18] The organization was created to formally support a network of local Neighborhood Housing Services (NHS) organizations, which were collectively inspired by a single initiative in Pittsburgh in 1968.[19] NeighborWorks America receives an annual appropriation from Congress: in FY 2019, NWA received $150 million for its "core" appropriation.[20]

These local NHS programs helped low-income residents secure low-cost loans and other assistance to maintain and improve their homes, as well as to buy their first homes and avoid foreclosure.[21] Their offerings varied (and still vary) by geography. Some provide financial and credit counseling, or help prospective homeowners to find affordable properties.[22] Some are federally certified Community Development Financial Institutions (CDFIs),[23] a status which allows them to secure low-cost capital from the federal government and re-lend it to their clients.

The Neighborhood Reinvestment Corporation ties these diverse local institutions together around their common mission, provides a pathway for federal support in the form of funds, technical assistance, and the sharing and tracking

[17] 42 U.S.C. § 8102(a).

[18] Id. at § 8102(d).

[19] "Policy Guide: NeighborWorks America." Community-Wealth.

[20] "Neighborhood Reinvestment Appropriation." National NeighborWorks Association.

[21] "Our Mission and History." Ithaca Neighborhood Housing Services (INHS).

[22] "Our Programs and Services." Neighborhood Housing Services of Jamaica (NHSJ).

[23] "Our Mission and Vision." Neighborhood Housing Services of New York City.

of data.[24] Today, the organization has nearly 250 members.[25] It receives direct annual federal appropriations, as well as funding from corporations, foundations, and other partners.[26] These funds are distributed to member organizations in the form of grants, which they can use to attract additional funding to expand their local impact.

The Board of Directors governing the Neighborhood Reinvestment Corporation is established in the statute, and is comprised of the heads of six federal agencies including the FDIC and the Federal Reserve System. The law also specifies that the Board of Directors shall elect a Chair, appoint an Executive Director, and create by-laws and administrative procedures.[27]

The overall structure of the Neighborhood Reinvestment Corporation bears some similarities to the National Climate Bank that go beyond its status as a federally chartered nonprofit. In connecting and supporting a pre-existing network of local and community institutions, the Neighborhood Reinvestment Corporation creates a comparable relationship to the one that the Climate Bank would have with the network of state and local Green Banks.

Foundation for Food and Agriculture Research (FFAR)

FFAR was established by the Agricultural Act of 2014, commonly known as the Farm Bill.[28] By establishing FFAR as a nonprofit with the ability to combine public and private investment, its creators sought to increase the total investment impact it could put towards research and development in agricultural technologies to feed a growing global population.

FFAR was initially capitalized with $200 million in federal dollars, and required to match those funds with equal or greater non-federal dollars. The Agricultural Improvement Act of 2018 then appropriated an additional $185 million to FFAR, with the request to develop a strategic plan describing a path for sustainability.[29]

The organization has six defined research areas, and award grants ranging in size from tens of thousands of dollars to over $1 million at a time.[30] FFAR describes their process as follows:

> "We engage stakeholders across academia, public sector and private companies to identify pressing research ideas with potential to fill critical knowledge gaps and advance science. While an independent nonprofit, the Foundation complements and advances the United States Department of Agriculture's (USDA) mission and builds programs that are of mutual interest to USDA and the agricultural community at-large. We fund only the most innovative, actionable science with the potential for positive impact in the United States and around the world."

FFAR works with its private contributors to provide benefits in addition to the output of the actual funded research. At the highest level, private contributors are granted perks including on-site briefings directly from FFAR's executive

[24] 42 U.S.C. § 8105.

[25] "Become a Member." NeighborWorks America.

[26] "2018 Annual Report." NeighborWorks America.

[27] 42 U.S.C. § 8103.

[28] 7 U.S.C. § 5939; "Our History." FFAR.

[29] "2019 Strategic and Sustainability Plan." FFAR.

[30] "Our Awards." FFAR.

director. However, FFAR also specifies that contributions must align with the organization's mission and meet the approval of the Board of Directors.[31]

FFAR's founding legislation specified that the Board of Directors consists of five ex-officio nonvoting members from different offices within the Department of Agriculture and the National Science Foundation, which would appoint 15 voting members. Of these, 8 shall be selected from a list of candidates to be provided by the National Academy of Sciences; and 7 shall be selected from lists of candidates provided by industry.[32] The Foundation hired its first employee in October 2014, and the hiring committee then selected Dr. Sally Rockey to be the Foundation's first Executive Director in September 2015.[33]

In seeking a path to financial self-sustainability, FFAR will follow precedents set by other organizations including the USIDFC, described above. This self-sustainability is an important reason why institutions established using this model can be particularly cost-effective uses of taxpayer funds. For the National Climate Bank, whose mission is to achieve maximum impact with each public dollar, cost-effectiveness and self-sustainability will be key components of its design.

Foundation for the National Institutes of Health (FNIH)

The FNIH was established by Congress as an independent nonprofit in 1990.[34] It began its work in 1996, with the mission of facilitating scientific and medical research at the National Institutes of Health (NIH) and worldwide. It is empowered to raise private funds and create public-private partnerships in support of NIH's mission.[35] The FNIH reports that to date, it has raised more than $80 for every dollar of NIH funding.[36] In 2018, FNIH received $2 million from NIH, comprising about 3% of FNIH's total revenue and support.[37] FNIH is not named in NIH's budget requests to Congress or in Congressional appropriations language to NIH.

FNIH provides direct financial support to biomedical science researchers, but also undertakes a range of other activities. For example, FNIH supports programs that provide funding and training for early-career scientists, and holds events and conferences to allow researchers to facilitate the sharing of data and ideas. FNIH also conducts outreach and sponsors exhibits to help the public develop a broader understanding of biomedical science.[38]

Part of FNIH's value as an independent organization is its ability to be a resource for unbiased scientific expertise, and to neutrally facilitate conversations that would not otherwise be possible. Exchanges of scientific ideas among private sector entities, and between the private sector and government, can face barriers due to competitive concerns among private companies. FNIH can mediate between these entities.

In selecting private partners, FNIH seeks to strategically draw in expertise, including from scientists, business leaders, donors, physicians, and advocates. Guidelines govern FNIH's investments, stipulating that "motives for participation of the potential funders do not

[31] "Contributor Benefits." FFAR.

[32] H.R. 2642: Agricultural Act of 2014. Subtitle F., Sec. 7601. Via FFAR.

[33] "Our History." FFAR.

[34] 42 U.S.C. § 290b.

[35] "About Us." FNIH.

[36] "Biomedical Science Needs To Achieve More in a Limited World." Capabilities Brochure. FNIH.

[37] "2018 Annual Report." FNIH.

[38] "Biomedical Science Needs To Achieve More in a Limited World." Capabilities Brochure. FNIH.

undermine the project." FNIH policy, for example, excludes participation from the tobacco industry.[39]

FNIH has ex-officio nonvoting directors comprised of: the Director of the NIH, the Chairman and ranking minority member of the Subcommittee on Health and the Environment (Committee on Energy and Commerce) or their designees, in the case of the House of Representatives; the Chairman and ranking minority member of the Committee on Labor and Human Resources or their designees, in the case of the Senate; and the Commissioner of Food and Drugs.[40]

The ex officio members of the Board appoint voting members from among a list of candidates provided by the National Academy of Sciences. The term of office of each appointed member of the Board is 5 years. Any vacancy in the membership of the Board is filled in the manner in which the original position was made.

As with FNIH, an important benefit of the National Climate Bank's independent nonprofit status would be its ability to use technical expertise to make unbiased investment decisions, and to mediate between stakeholders that might otherwise have competitive relationships.

Other Independent Entities Investing Federal Funds

The last set of precedents are entities that sit entirely outside of government and are not operated for or on behalf of the federal government, but which receive federal funds to invest in a mission-based activity. These institutions have an extensive track record using billions in capital to invest in large-scale projects across the globe, and help show how the National Climate Bank could multiply the impact of its starting capital through leverage and recycling.

The World Bank

The World Bank is an international development financial institution (DFI) that provides loans and grants to governments of low- and middle-income countries. Its mission is the reduction of poverty. The World Bank, also known as the International Bank for Reconstruction and Development (IBRD), was originally created in 1944 at the Bretton Woods Monetary Conference in New Hampshire. Its initial mandate was to help rebuild European countries in the aftermath of World War II.[41] In the 1970s, the Bank shifted its attention to poverty eradication. Development projects include the construction of infrastructure, projects related to food production, rural and urban development, and population, health and nutrition to serve the poor.[42]

The World Bank is owned and governed by its member countries. Governments around the world provide capital to the World Bank in exchange for shares and voting rights.[43] The

[39] "Frequently Asked Questions." FNIH.

[40] 42 U.S. Code § 290b(d).

[41] Cf. International Bank for Reconstruction and Development, Articles of Agreement, Article I.

[42] "History." The World Bank.

[43] Some capital is directly "paid in" and some is made available and is "callable" if the World Bank needs it.

World Bank treats this capital as "equity" and then raises the majority of its lending capital in capital markets by issuing bonds. Some of the largest shareholders in the World Bank include the United States, Japan, Germany and China. Voting rights are allocated by shares. The total amount of capital paid into the World Bank's IBRD is $270 billion. The World Bank's shareholders most recently endorsed additional capital allocations to the World Bank in April of 2018 of $7.5 billion new paid-in capital for IBRD and $52.6 billion new callable capital increase for IBRD.[44]

The World Bank headquarters are in Washington DC, and the United States has a controlling voting interest. The President of the World Bank is traditionally from the United States as a matter of custom. Due to its large equity base from sovereign governments, the World Bank consistently enjoys a AAA credit rating, even though the World Bank's debt is not guaranteed by the shareholding governments. This strong credit rating allows the World Bank to raise debt at very low rates.[45]

The United States is the largest contributor to the World Bank; accounting for the largest share of the IBRD's capital, $46.4 billion (17.25%) of a total of $270 billion. Of the U.S. total contribution of $46.4 billion, $2.9 billion is paid-in capital. This amount has been fully authorized and appropriated by Congress over the course of several appropriations measures since the World Bank's founding. Each of these authorizations and appropriations was done as a one-off event, with the approval of Congress each time, and was part of a larger capital raise of other contributors from other countries, and from the capital markets.

The remaining portion of the U.S. subscription, totaling $43.5 billion, is in the form of callable capital, and has also been fully authorized by Congress. However, only $7.7 billion of that $43.5 billion has been fully appropriated and could be used by the World Bank without need for further U.S. congressional action.[46] That is, the United States has made numerous appropriations to the World Bank over many years, both in the form of paid in capital and callable capital. All of the paid in capital, and a portion of the callable capital has already been appropriated and can therefore be "called" without the need for congressional approval. Further capital calls beyond the $7.7 billion in callable capital (which would only happen in extreme circumstances of severe credit distress at World Bank) would require additional congressional approval.

Since the 1982 foreign operations appropriations bill was adopted, Congress has authorized but not appropriated new callable capital. U.S. law (22 U.S.C. § 286c) requires that Congress give its assent before the United States can vote in favor of a new IBRD funding plan that increases U.S. contributions.[47]

The World Bank grows its capital base in four primary ways:

- Receiving additional paid in and callable capital from country shareholders.
- Receiving additional government donor capital.
- Bond issuances on the international capital markets.

[44] "World Bank Group Shareholders Endorse Transformative Capital Package." The World Bank. April 21, 2018.

[45] "Research Update: International Bank for Reconstruction and Development 'AAA / A-1+' Ratings Affirmed on Revised Criteria, Outlook Stable." S&P Global Ratings. Feb. 13, 2019.

[46] "2018 World Bank Capital Increase Proposal." Congressional Research Service. Dec. 14, 2018.

[47] Ibid.

- Return on investment.

The World Bank is comprised of two institutions: the International Bank for Reconstruction and Development (IBRD), which lends to middle income countries, and the International Development Association (IDA), which lends to low-income countries.[48] These loans are primarily sovereign-backed, meaning they are backed by the ability of the borrower government to repay them. In part due to its ability to raise money at low costs, and its ability to raise additional grant financing from country donors, the World Bank offers financing to low- and middle-income countries at low rates and flexible terms.

The IBRD arm of the World Bank focuses on sovereign lending to middle-income countries, offering flexible loans with maturities as long as 30 years. The IDA arm of the World Bank focuses on low-income countries, and offers grants and loans with maturities ranging from 25 to 40 years, grace periods of 5 to 10 years, and interest rates of 2.8% or 1.25%, depending on level of development and indebtedness.

The World Bank facilitates private investment by acting as an intermediary: issuing bonds in the international private capital markets, and then lending to sovereign backed development projects in low- and middle-income countries. In addition, the World Bank can require that certain projects have co-investors (either public or private) participating in a deal.[49]

The World Bank, like most DFIs, has stated goals of catalyzing more private investment. Due to the variety of financial products and services offered by DFIs, and lack of consistency on definitions and methodologies, tracking private sector mobilization is a challenge.[50] Looking at the "climate sector" in particular, the World Bank invested just over $9 billion in 2014. In that same year, the World Bank estimated private co-finance at $1.194 billion (for a ratio of 1 : 0.13) and public co-finance of $10.471 billion (for a ratio of 1 : 1.13).[51] In 2018, it was estimated that the World Bank Group (including IBRD, IDA, IFC and MIGA) invested 13.435 billion in climate sectors, with private direct mobilization of 5.590 billion (for a ratio of 1 : 0.42), and public direct mobilization of 12.977 billion (for a ratio of 1 : 0.97).[52]

Like the World Bank, the Climate Bank would not be backed by the full faith and credit of the U.S. government, and would raise capital based on its own creditworthiness. The Climate Bank would similarly seek to leverage its balance sheet and recycle capital into new loans and products as available. The example set by development banks like the World Bank is a key component of CGC's finding in a separate analysis that the National Climate Bank can feasibly turn its $35 billion of public capital into $1 trillion of total investment over its 30-year charter.

One difference between the World Bank and existing green banks is the role of leverage at the project level. Development banks do not optimize individual projects to draw in private capital as green banks do, meaning that the Climate Bank could be expected to achieve a higher

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[48] The larger World Bank Group also includes the sister organizations International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for the Settlement of Investment Disputes (ICSID).

[49] As part of the larger World Bank Group, the IFC offers financing to private (non-sovereign) actors in countries if they meet investment criteria and development objectives, and MIGA offers political risk insurance to encourage public and private investment.

[50] "Reference Guide: MDB Methodology for Private Investment Mobilization." World Bank. June 2018.

[51] "Tracking Climate Co-Finance: Approach Proposed by MDBs." Dec. 4, 2015.

[52] "MDB Climate Finance Hit Record High of 43.1 Billion in 2018." World Bank. June 13, 2019.

mobilization ratio and create more opportunities for private investment.

The Climate Investment Funds (CIF)

The CIFs are a group of donor Trust Funds established in 2008 to support developing countries' efforts to invest in climate-friendly projects. The CIFs disperse funding to 72 developing and middle-income countries.[53] The CIFs have a total capitalization of $8.3 billion, and these funds are comprised entirely of country donor money from 14 upper-income nations including Japan, the UK, the United States and Germany. The CIFs' capitalization comes from donors in the form of grants only (not equity or loans), and the CIFs do not raise additional money in the capital markets. The CIFs are headquartered in Washington DC and structured as a donor trust fund, with the World Bank serving in the trustee role with fiduciary responsibilities. The CIFs are governed by a rotating trust fund committee composed of country representatives.

The CIFs are able to provide developing countries grants, concessional loans, risk mitigation instruments, and equity. CIFs administrators seek to use these instruments to leverage significant co-financing from the private sector, multilateral development banks, (MDBs) and other sources. Total CIF funding of $8.3 billion is expected to attract an additional $58 billion of co-financing for a portfolio of over 300 projects and counting.[54] The CIFs are composed of sub-funds or "windows", notably the Clean Technology Fund (CTF), the Strategic Climate Fund (SCF), the Forest Investment Program (FIP), the Pilot Program Climate Resilience (PPCR) and the Scaling Up Renewable Energy Program (SREP).

The CIFs were established in 2008 and use a model of "equitable governance that fosters participation, partnership, and transparent decision making."[55] The CIFs operate with "trust fund committees" that have equal representation of donor and recipient countries, consensus decision-making, and active observer status for private sector, civil society, and indigenous peoples representatives. The two primary trust funds that comprise the CIFs, the CTF and the SCF, are each governed by a committee that oversees and decides on operations and activities.[56] The CIF Trust Fund committees are composed of 8 representatives from contributor (donor) countries, and 8 representatives from recipient countries. Contributor countries are given an 18-month rotation on the committees, and a minimum contribution size is required for eligibility to sit on the trust fund committee. Trust fund committee observers (from civil society, private sector and indigenous peoples groups) have no voting rights.[57]

The U.S. has pledged just over $2 billion to the CIFs, out of the total of over $8 billion in total CIF funds, making it the second largest contributor after the United Kingdom. The initial U.S. pledge to contribute $2 billion to the CIFs was made at the 34th G8 Summit held in Hokkaido, Japan in 2008 under the Bush Administration.

After this pledge, Congress approved the funding in several discrete tranches. For FY2010, Congress approved $375 million for the CIF (the Consolidated Appropriations Act, 2010, H.R. 3288; P.L. 111-117); for FY2011, Congress approved $234.5 million (the Department of Defense and Full-Year Continuing

53 "History of the CIF." Climate Investment Funds.

54 "Climate Investment Funds." Devex.

55 "Governance." Climate Investment Funds.

56 Ibid

57 "Governance Framework for the Clean Technology Fund." Climate Investment Funds. June 2014.

Appropriations Act, 2011, H.R. 1473; P.L. 112-10); and for FY2012, Congress approved $234.5 million (the Consolidated Appropriations Act, 2012, H.R. 2055; P.L. 112-74), followed by several more appropriations.[58]

The U.S., as one of the largest contributors, sits on the trust fund committees and has voting rights on the CIFs' investment through the trust fund committees. Individual representatives from contributor countries serve for 18 month rotations.

The CIFs offers grants, concessional loans, risk mitigation instruments, and equity to developing countries that are eligible under the CIF framework. CIF rules require, however, that all CIF funds flow through a Multilateral Development Bank (MDB), such as the African Development Bank, the Asian Development Bank, the Inter-American Development Bank, the European Bank for Reconstruction and Development (EBRD) or the World Bank Group. In order for countries or other actors (such as national development banks) to access CIFs, an application must be developed and submitted by an MDB partner, who then channels CIF funding (along with any of the MDB's matching funds) directly to the country or local project.

The CTF has the following goals with respect to offering funding via the MDBs:

- Finance at scale in the near-to-medium term to meet investment needs to support rapid deployment of low carbon technologies and increase energy efficiency.
- Optimize blending with MDB financing, as well as with bilateral and other sources of finance, to provide incentives for low carbon development.
- Provide a range of financial products to leverage greater private sector investments.
- Provide financial instruments integrated into mainstream development finance and policy dialogue.[59]

To date the CIFs have made over 300 investments in 72 developing and middle-income countries to scale up renewable energy and clean technologies, mainstream climate resilience in development plans and action, and support the sustainable management of forests. Most programs and projects are still in the early stages of implementation, but CIF reports that its funding allocated has already totaled more than $5.7 billion, and CIF funding has already contributed to over 3 gigawatts of new renewable energy capacity and close to 3 million people have benefitted from CIF-supported climate resilience measures.[60]

The size and scope of the CIF provide a view towards the scale of impact that the National Climate Bank seeks to accomplish within the US. Capitalized with billions of dollars, the Climate Bank would work to multiply that impact many times over, construct gigawatts of new clean power capacity, and serve millions of people.

[58] "International Climate Change Financing: The Climate Investment Funds." Congressional Research Service. March 1, 2012.

[59] "Governance Framework for the Clean Technology Fund." Climate Investment Funds. June 2014.

[60] "History of the CIF." Climate Investment Funds.

Conclusions

These precedents show that the proposed structure and functions of the National Climate Bank are not unique, although its mission and impact would be.

- Federal finance entities like the EX-IM Bank and the USDIFC have established how US public funds can be used to deploy public capital to drive greater private investment into target sectors.

- Nonprofit entities like NeighborWorks America and the FNIH show how the federal government can form new nonprofit corporations with the independence and freedom to engage with the private sector in ways that a wholly-owned government corporation cannot.

- International development finance institutions like the World Bank and the CIFs show the massive scale that can be achieved when billions in public funds are combined with the ability to mobilize private capital and recycle funds.

In all cases, lessons can be learned from these entities' legal status, funding mechanisms, governance structure, mission and outcomes. In particular, these precedents provide clear reasons to create the National Climate Bank as a federally chartered non-profit entity that is not an agency or instrumentality or the government. Its independent status would ensure its perpetuity as set forth in its organizing documents, freeing the entity from the effects of policy changes caused by changing administrations. The institution's structure would be critical to its ability to mobilize capital, as lenders and investors' perception of the Climate Bank's independence and stability will affect the terms upon which it can secure and mobilize private capital.

Meaningful greenhouse gas emissions reductions to address the climate crisis will require significant investments to transform the energy sector and the nation's infrastructure on a large scale. Learning form established precedents and creating an effective institutional framework for the Climate Bank will be critical.