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The International Climate Finance Plan

By Kevin L. Turner and Amy L. Edwards*

In this article, the authors discuss the five broad areas of focus of the International Climate Finance Plan that impact international, private sector development.

In the Biden administration's Executive Order 14008, "Tackling the Climate Crisis at Home and Abroad" ("EO"), on January 27, 2021, President Joe Biden called for a climate finance plan "making strategic use of multilateral and bilateral channels and institutions, to assist developing countries in implementing ambitious emissions reduction measures, protecting critical ecosystems, building resilience against the impacts of climate change, and promoting the flow of capital toward climate-aligned investments and away from high-carbon investments."

Building on this commitment, the administration on April 22, 2021, released the U.S. International Climate Finance Plan (the "International Climate Plan" or the "Plan").[1] The stated goal of the International Climate Plan is: "The United States intends to double, by 2024, our annual public climate finance to developing countries relative to the average level during the second half of the Obama-Biden Administration (FY 2013–2016). As part of this goal, the United States intends to triple our adaptation finance by 2024."

The International Climate Plan has five broad areas of focus, as outlined below, and this article focuses on the key items that impact international, private sector development.

SCALING-UP INTERNATIONAL CLIMATE FINANCE AND ENHANCING ITS IMPACT

- The Development Finance Corporation ("DFC") will update its development strategy not only to include climate for the first time, but also to make investments in climate mitigation and adaptation a top priority. DFC will release calls for applications for climate-focused investment funds and other climate-related investment opportunities in partnership with aligned organizations. DFC will hire its first Chief

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[1] https://www.whitehouse.gov/wp-content/uploads/2021/04/U.S.-International-Climate-Finance-Plan-4.22.21-Updated-Spacing.pdf.

Sustainability/Climate Officer to lead its internal and external coordination on climate-related investments. DFC also commits to providing $50 million in technical assistance over the next five years to projects that advance U.S. and international climate objectives.

- The Millennium Challenge Corporation ("MCC") adopted a new, agency-wide Climate Strategy in April 2021, centered on investing in climate-smart development and sustainable infrastructure and aims to have more than 50 percent of its program funding go to climate-related investments over the next five years.
- The U.S. Department of Energy ("DOE"), including through its National Laboratories, will continue to lead international efforts to research, develop and deploy technologies that reduce emissions, helping to drive down the costs of current and future technologies critical to reducing emissions around the world.
- The U.S. Trade and Development Agency ("USTDA") plans to dedicate up to $60 million over the next three years to advance climate-smart infrastructure solutions that will open emerging markets for the export of U.S.-manufactured goods, technologies and services.
- The U.S. Department of the Treasury, through its Office of Technical Assistance ("OTA"), will provide technical assistance to help governments mobilize private sector financing for high-quality infrastructure development, incorporating economic, environmental, social and governance standards consistent with the G20 Principles on Quality Infrastructure Investment.

MOBILIZING PRIVATE FINANCE INTERNATIONALLY

- DFC will increase its climate-related investments so that, beginning in FY2023, at least one-third of all its investments are linked to addressing the climate crisis. DFC will collaborate with U.S. Agency for International Development ("USAID"), MCC, State, Commerce, Export-Import Bank of the United States ("Ex-Im Bank") and USTDA, with the goal of developing stronger project pipelines in the areas of climate mitigation and adaptation. DFC will work to develop a risk-sharing platform with private sector insurance partners to reduce barriers to financing climate projects.
- USTDA will leverage its relationships with private banks and development finance institutions around the world to mobilize private financing for climate-smart infrastructure projects overseas that use U.S. goods, services and technologies. USTDA will also align its project

preparation activities, where appropriate, to support climate-smart infrastructure projects that are suitable to receive financing and other support from the DFC and Ex-Im Bank.

- MCC will explore opportunities to bring in new private sector partners and expand the use of blended finance to catalyze private sector finance aligned with climate objectives. MCC will also leverage private sector finance for climate solutions by "de-risking" investments through a closer partnership with DFC and possibly the development finance institutions of international partners.
- Ex-Im Bank will identify ways to significantly increase support for environmentally beneficial, renewable energy, energy efficiency and energy storage exports from the United States.
- USAID is scaling up private sector engagement to provide technical support to governments, including support for public-private partnerships; build the pipeline of activities; enhance the capacity of local private sector, civil society, and governments to access and use finance; and create policy environments to facilitate private sector climate finance. USAID is exploring ways to further mobilize private sector investment in humanitarian assistance, as well as in renewable energy/ energy efficiency, water security, climate-smart food and agriculture systems, adaptation, resilient infrastructure and natural climate solutions, in collaboration with DFC and other agencies.

ENDING INTERNATIONAL OFFICIAL FINANCING FOR CARBON-INTENSIVE FOSSIL FUEL-BASED ENERGY

- U.S. agencies will seek to end international investments in and support for carbon-intensive fossil fuel-based energy projects. However, in limited circumstances, there may be a compelling development or national security reason for U.S. support for a project to continue.
- DFC will implement a net-zero emissions strategy to transition its portfolio to net-zero emissions by 2040, including by increasing investment in projects that capture and store carbon.
- Treasury Department, with partners in the Organization for Economic Cooperation and Development ("OECD") and in close partnership with other U.S. government departments and agencies, will spearhead efforts to modify disciplines on official export financing provided by OECD export credit agencies ("ECAs"), to reorient financing away from carbon-intensive activities. It will also advocate to further incentivize ECA support for climate-aligned investments (e.g., broad-

ening the scope of projects eligible for preferential terms), including in the area of adaptation and resilience, and to adopt methodologies to take climate risks into account when assessing risks to prospective loans and existing portfolio assets. Further, the Treasury Department will develop guidance on fossil fuel energy activities at multilateral development banks ("MDBs"), which it will use as part of its criteria when casting U.S. votes on specific projects.

MAKING CAPITAL FLOWS CONSISTENT WITH LOW-EMISSIONS, CLIMATE-RESILIENT PATHWAYS

The Treasury Department, in coordination with other U.S. agencies, will:

- Engage with the Financial Stability Board ("FSB") and international insurance forums and coordinate with U.S. regulators engaging in financial standard-setting bodies and other forums, to improve approaches for assessing and managing climate-related financial risks;
- Support and help guide, in coordination with U.S. regulators, the direction of work undertaken by the International Financial Reporting Standards Foundation, the International Organization of Securities Commissions, and the FSB toward consistent, comparable and reliable climate-related financial disclosures and help shape any forthcoming recommendations or international standards to be compatible with the U.S. domestic framework and regulatory process; and
- Work with State, USAID, DFC and other agencies to promote climate-aligned infrastructure development, including by coordinating programs to facilitate climate-resilient investments under the Small and Less Populous Island Economies ("SALPIE") Initiative. The State, DFC, USAID and Treasury Department will support efforts such as the Blue Dot Network and the development of indicators to identify climate-aligned infrastructure projects for investors through the implementation of the G20 Principles for Quality Infrastructure Investment.

DEFINING, MEASURING, AND REPORTING U.S. INTERNATIONAL CLIMATE FINANCE

In order to provide for more detailed reporting, tracking finance for vulnerable populations, and enhanced reporting on mobilization and impact, the administration will:

- Work with agencies to ensure that the full range of relevant public and private finance mobilized is reported clearly, accurately, and consistently;

- Encourage departments and agencies to track and report specific results achieved on the ground by U.S. climate finance, which will facilitate analysis of the effectiveness of such finance and assess value-for-money. Agencies will also be encouraged to track U.S. climate finance flowing to Small Island Developing States and Least Developed Countries and to efforts supporting indigenous peoples, women and girls and other affected communities; and
- Encourage departments and agencies to track the amount of U.S. development finance that has been screened for, or made resilient to, future climate risks.

KEY TAKEAWAYS

- For businesses involved in the renewable energy, climate finance and climate technology sectors, there has never been a more unified, whole of U.S. government approach to supporting international project development in these areas. Now is the time to engage with DFC, Ex-Im, and other U.S. agencies regarding your viable, bankable projects;
- The goals set forth in the International Climate Plan are ambitious, and meeting these goals is not within the sole control of the administration;
- Achieving these goals is dependent upon the cooperation of foreign governments (especially developing countries) in shifting development priorities toward climate finance and renewable production, which may not be feasible on the ground in many of these countries; and

- Achieving these goals is largely dependent on the private sector. The U.S. model of development finance is grounded in mobilizing private sector capital in private sector-led projects. In short, there must be viable, bankable projects for U.S. government development finance capital and private sector capital to flow into.[2]

[2] For more detailed, agency-specific information related to the International Climate Plan, *see*:

- Development Finance Corporation, at https://www.dfc.gov/media/press-releases/dfc-commits-net-zero-2040-increases-climate-focused-investments;
- Export-Import Bank of the United States, at https://www.exim.gov/news/exim-announces-chairs-council-climate-advise-increasing-support-for-clean-energy-exports;
- U.S. Trade and Development Agency, at https://ustda.gov/ustda-launches-global-partnership-at-leaders-summit-on-climate/;
- Millennium Challenge Corporation, at https://www.mcc.gov/resources/doc/doc-042221-climate-commitment;
- U.S. Department of Energy, at https://www.energy.gov/articles/doe-launches-international-clean-energy-initiatives-tackle-climate-crisis;
- U.S. Agency for International Development, at https://www.usaid.gov/news-information/fact-sheets/apr-2021-leaders-summit-climate-usaid-announcements;
- U.S. Department of the Treasury, at https://home.treasury.gov/news/press-releases/jy0134; and
- U.S. Department of State, at https://www.state.gov/clean-energy-diplomacy-on-climate-bureau-of-energy-resources-enr/.