

U.S. climate finance increases through non-climate programs with climate benefits

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Summary

On the first day of the UNFCCC Conference in Durban, South Africa, the United States announced fast start climate finance to date totaling \$5.1 billion, with substantial increases from \$2.0 billion in FY2010 to \$3.1 billion from FY2011. These are impressive numbers in the context of a global three-year commitment to mobilize \$30 billion of finance from 2010-2012ⁱ – both in the total amount and in the increase from 2010 to 2011.

Close inspection of these numbersⁱⁱ reveals a substantial and real increase in U.S. climate finance coming from non-traditional sources. Three important trends combine to yield this conclusion:

- **There has been a major increase in U.S. efforts to leverage private sector investment for climate outcomes through clean energy lending by the Overseas Private Investment Corporation and the Export-Import Bank.**
- **Several non-climate programs are producing increasingly substantial climate co-benefits – so-called “indirect” climate finance.**
- **At the same time, there has been a real decline – about 13% – in funding for core climate change foreign assistance programs.**

In Detail

There has been a major increase in U.S. efforts to leverage private sector investment for climate outcomes through clean energy lending by the Overseas Private Investment Corporation (OPIC) and the Export-Import Bank (Ex-Im).

In FY2010, Ex-Im and OPIC provided about \$250 and \$150 million respectively for a total of \$400 million in development finance and export credit – including investments, direct loans, loan guarantees and insurance – to support the deployment of U.S. clean energy technology in developing countries by leveraging private sector investments. In FY2011, OPIC finance ballooned by almost a billion dollars to over \$1.1 billion while Ex-Im support decreased somewhat to \$190 million for a total of \$1.3 billion. Fully a third of the total amount of U.S. climate finance to date (\$1.7 out of \$5.1 billion) and most of the total increase from FY2010 to FY2011 (\$900 million of \$1.1 billion, or 82%) is from these sources.

Clearly there are qualitative differences between traditional climate finance – both direct and indirect – and the type of development finance and export credit for clean energy projects that OPIC and Ex-Im provide – most of which is paid back over time, and much of which goes to U.S. companies. Developed countries agreed in the Copenhagen Accord “to provide new and additional resources ... approaching USD 30 billion” – with no requirement that resources be provided in the

form of a grant. Many developed countries other than the United States – most notably Japan – are including large amounts of clean energy financing in accounting of their fast start contributions.

However, simply adding clean energy finance that helps support U.S. clean energy industries to U.S. public sector climate development assistance to developing countries – even if both are critical to shifting towards lower emissions and climate-resilient development pathways – is like adding apples and oranges. They represent different theories of change, and if one were going to add them together, the real value to developing countries of concessional U.S. clean energy financing – the grant equivalent value – should be used. Pending a full project-by-project analysis, we estimate that the grant equivalent value of this packageⁱⁱⁱ is about \$965 million for the two years – \$750 million lower than the \$1.7 billion in total financing counted in the U.S total.

The major increase in U.S. efforts to leverage private sector finance also significantly alters the balance between the three core climate pillars, because such efforts are focused almost entirely on clean energy. The FY2011 breakdown for climate finance other than from OPIC and Ex-Im is 51% clean energy, 18% sustainable landscapes, and 31% adaptation, but including these shifts the balance to 72% / 11% / 18% (dollar-for-dollar) or 65% / 13% / 22% (grant equivalent).

Several non-climate programs are producing increasingly substantial climate co-benefits – so-called “indirect” climate finance.

These traditional foreign aid programs directed primarily towards other purposes – such as for biodiversity or food and water security – are counted towards contributing to U.S. climate development assistance if they meet well-defined criteria agreed to in international contexts such as the OECD.^{iv}

The biggest piece of the United States’ increase in this type of indirect climate finance is a real and substantial jump in the amount of foreign aid committed by the Millennium Challenge Corporation (MCC) with significant climate co-benefits. While the primary goal of the MCC is to support poverty reduction in developing countries through sustainable economic growth, MCC partner countries have increasingly identified and requested funding for programs that meet the poverty reduction objective in part by providing clean energy and improving forest management.

About \$188 million of FY2010 MCC grant commitments contributed to U.S. climate finance, consisting primarily of \$47 million to Mongolia for clean energy related projects and \$139 million to Malawi for hydropower related efforts^v. In FY2011 this amount jumped by almost \$300 million to over \$472 million, including \$140 million from FY2011 to the Malawi efforts plus \$332 million to support “green prosperity” programs in Indonesia that will reduce poverty by helping deliver clean energy to the rural poor and by improving land use planning and forest management to increase productivity while reducing deforestation emissions.

Beyond the very real increase in indirect climate support through the MCC, there also appears to be a trend towards identifying and counting climate benefits from a broader sweep of existing

programs and agencies. Two examples stand out. First, it appears that a larger number of the USAID food security and water security programs have been identified and counted as indirect climate finance in FY2011 than in FY2010. In FY2010, projects totaling about \$126 million mention “food security” or “water security” in their description^{vi}, while in FY2011 this amount jumps to over \$266 million, with \$100 million of the increase lumped together and described as a global program supporting “agriculture and food security.” This increase in food security and water security programs tallied as contributing to climate adaptation is largely driving the increase in the adaptation total. Second, funding from the U.S. Trade and Development Agency was included in the FY2011 tally for the first time, in the form of grants to more than 20 countries in support of clean energy technology deployment.

The significant increase in the amount of traditional foreign aid directed primarily towards other goals but counted as indirect climate finance is the result of not simply a more careful accounting of programs with climate co-benefits, but of real efforts to integrate climate goals into a broad range of related foreign aid efforts (including biodiversity, poverty reduction, food security, water security, energy access, and more). This is a positive trend that increases the contribution of U.S. investments abroad towards solving the climate crisis.

At the same time, there has been a real decline – about 13% – in funding for core climate change foreign assistance programs.

Foreign aid funding programmed through the Global Climate Change Initiative (GCCII) with climate purposes as the primary goals (what the U.S. administration has called “direct” or “core” climate finance) suffered a very real decline from FY2010 to FY2011, driven entirely by smaller Congressionally-appropriated contributions to the World Bank managed Climate Investment Funds.

While core support flowing through USAID and the State Department for the three climate pillars increased by about 1% from \$507 million in FY2010 to \$523 million in FY2011^{vii}, U.S. multilateral climate contributions flowing through the Treasury decreased by almost a third from \$435 million in FY2010 to \$300 million in FY2011. Total U.S. contributions to the Climate Investment Funds dropped from \$375 million in FY2010 to \$235 million in FY2011, as a result of major decreases in contributions to the Clean Technology Fund (CTF) and to the Pilot Program for Climate Resilience (PPCR).

The decline in core climate funding took place in the context of an irregular appropriations process in FY2011 that left much discretion to the Administration, which it clearly used to prioritize the core climate efforts in the face of tighter foreign aid budgets. However, as a result of this past summer’s budget deal and automatic budget cuts required by current law, the budget outlook for FY2012 and beyond looks bleak for foreign assistance programs overall, and core climate funding will likely face further challenges.

ⁱ FCCC/CP/2009/11/Add.1 “Scaled up, new and additional, predictable and adequate funding as well as improved access shall be provided to developing countries, in accordance with the relevant provisions of the Convention, to enable and support enhanced action on mitigation, including substantial finance to reduce emissions from deforestation and forest degradation (REDD-plus), adaptation, technology development and transfer and capacity-building, for enhanced implementation of the Convention. The collective commitment by developed countries is to provide new and additional resources, including forestry and investments through international institutions, approaching USD 30 billion for the period 2010–2012 with balanced allocation between adaptation and mitigation. Funding for adaptation will be prioritized for the most vulnerable developing countries, such as the least developed countries, small island developing States and Africa.”

ⁱⁱ <http://www.state.gov/g/oes/climate/faststart/index.htm>

ⁱⁱⁱ These estimates of grant-equivalent value are summaries of project-level estimates for each OPIC and ExIm project in the Fast Start Fact Sheets, obtained by applying the income group average grant element on new external debt commitments as tabulated by the World Bank for both multilateral and bilateral loans in 2009 (<http://data.worldbank.org/indicator/DT.GRE.OFFT> and <http://data.worldbank.org/about/country-classifications/country-and-lending-groups>). Of course, this rough estimate glosses over many important details, including the important fact that a small portion of this financing is provided in the form of insurance instruments rather than grants.

^{iv} See, for example, OECD guidelines for Rio climate markers: <http://www.oecd.org/dac/stats/rioconventions>

^v It is important to note that MCC support to Malawi was put on hold after a government crackdown on protesters in July of 2011, pending a review of whether Malawi still meets the MCC’s requirements for “just and democratic governance.”

^{vi} Certainly there are programs funded through the adaptation pillar of the GCCI that are have climate goals as the primary aim, and mention food security and water security in their descriptions. These rough estimates give a general picture of the trend pending a more complete analysis of the funding source for each program listed in the fast start fact sheets.

^{vii} These estimates of total Global Climate Change Initiative from <http://foreignassistance.gov/> are based on the planned expenditures for each pillar and each operating unit as reported to Congress in the so-called “653(a)” report for each year. Given agency and operating unit discretionary spending, these estimates are likely to change in ex-post analyses.