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An Overview of President Biden's FY2023 Budget Request: International Climate Finance

Last updated May 31, 2022

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Introduction

President Biden and Congress have identified addressing climate change — both home and abroad — as a top priority. As the latest UN Intergovernmental Panel on Climate Change (IPCC) report makes clear, countries must make drastic cuts in greenhouse gas emissions to meet the 2015 Paris Agreement's goal of restricting global warming to to 1.5°C above pre-industrial temperatures. Otherwise, it will soon be too late to avert climate catastrophe. Climate finance is a key part of the Paris Agreement's structure and is essential to meeting its objectives.

FY2023 Budget: International Climate Finance

President Biden's FY2023 budget request includes a topline of $11 billion for international climate finance. Of this, $5.3 billion is proposed appropriations. Nearly half of this total would come in the form of loans and other credit instruments. For example, the FY2023 budget request includes a total $550 million for the World Bank's Climate Investment Funds (CIF). This funding is intended to cover the subsidy cost of a loan estimated at $3.2 billion for the Accelerating Coal Transition (ACT) Investment Program, which aims to support developing countries' transition away from coal.

Overall, the FY2023 budget request still represents a significant increase compared to FY2022, when President Biden requested $2.7 billion and Congress appropriated approximately $1 billion. Among the most important of these proposed investments is $1.6 billion for the UN's Green Climate Fund (GCF), which did not receive any direct funding in last year's omnibus bill.[1] Under President Obama, the U.S. contributed a total of $1 billion to the GCF in two installments of $500 million. The GCF is the world's primary institution for supporting climate action in more than 100

[1] Although Congress did not single out the GCF for funding in the FY22 omnibus, the Biden Administration is still considering a range of options to steer limited amounts of unobligated funds from USAID and the State Department's Economic Support Fund (ESF) to finance the GCF.

developing countries. This proposed increase, however, is still insufficient to fulfill an annual pledge of $3 billion made by the U.S. under the Obama Administration in 2014. It is also noteworthy that the House-passed "America COMPETES Act," which is currently in conference committee, would authorize a two-year, $8 billion U.S. contribution to the GCF.[2] [3] This provision is not in the Senate-passed "United States Competition and Innovation Act" (USICA). President Biden's budget also includes $200 million in new mandatory spending for global clean energy manufacturing efforts at the Department of Energy (DOE). The program seeks to build resilient supply chains for clean energy.

U.S. Programs: International Climate Finance[4]

Program	FY23 Request	FY22 Estimated	Bilateral/ Multilateral	Grant/Loan
Green Climate Fund	$1.6 billion	N/A	Multilateral	Grant
State/USAID Bilateral Assistance[5]	$2.3 billion	$700 million	Bilateral	Grant
Department of Energy (DOE)	$200 million	N/A	Bilateral	Grant
World Bank CIF Clean Technology Fund (CTF)	$550 million	$300 million	Multilateral	Loan
Global Environmental Facility (GEF)	$150 million	$139 million	Multilateral	Grant
Montreal Multilateral Fund	$64 million	$52 million	Multilateral	Grant

[2] "America COMPETES Act of 2022," H.R. 4521, 117th Congress, § 30609 (2021).
[3] A conference committee is a temporary, ad hoc panel composed of members of the House and formed for the purpose of reconciling differences in similar legislation that has passed both chambers.
[4] President Biden's FY2023 topline budget request for international climate finance is artificially high. The FY2023 budget only requests $550 million for the World Bank's Climate Investment Funds, not $3.2 billion. The $550 million is intended to cover the subsidy cost of a loan estimated at $3.2 billion.
[5] State Department and USAID bilateral assistance are also used to fund two multilateral accounts — the Adaptation Fund and the Least Developed Countries Fund — neither of which appear as line items in the budget.

UNFCCC/IPCC	$21 million	$15 million	Multilateral	Grant

Other proposed appropriations include $2.3 billion in bilateral assistance from the U.S. Agency for International Development (USAID) and the State Department. U.S bilateral assistance is broken into three accounts: Sustainable Landscapes ("natural climate solutions"), Renewable Energy, and Adaptation. Approximately $650 million of this funding is explicitly designated for "mainstreaming" climate throughout all U.S. development funding. Further information will be available when the State Department releases its more detailed Congressional Budget Justification. For example, it will likely include allocations for the Adaptation Fund and Least Developed Countries Fund, both of which support vulnerable countries in planning for and adapting to the impacts of climate change.

Finally, President Biden's FY2023 budget requests $150.2 million for the Global Environment Facility (GEF), an increase of less than $1 million from FY2022. The GEF provides funding to protect biodiversity and address plastics and other chemical pollution including mercury. The GEF enjoys strong bipartisan support. In recent years, Congress rejected President Trump's efforts to cut funding, meaning the GEF represents one of the most promising vehicles for increased congressional appropriations.

Analysis: Increased Appropriations Needed

Although President Biden's requested budget for FY2023 is a positive step towards leading on international climate finance, it still does not provide the funding levels required to address the size and scope of the global climate crisis. The latest UN Intergovernmental Panel on Climate Change (IPCC) report makes clear that the world must make drastic cuts in greenhouse gas emissions to meet the 2015 Paris Agreement's goal of restricting global warming to "well below" 2°C, if not 1.5°C, above pre-industrial temperatures. Otherwise, it will soon be too late to avert climate catastrophe. According to the IPCC, this transformation will require $1.6 trillion to $3.8 trillion each year in international climate finance. While this may sound like an impossible goal, U.S. military expenditures in 2020 exceeded $700 billion while global defense spending was estimated at $2 trillion.

President Biden's budget request also only partially fulfills the pledges made at the Copenhagen Climate Conference (COP15). Under the Copenhagen Accord, wealthy countries, including the U.S. and Europe, agreed to provide $100 billion annually in climate finance by 2020. So far, they have failed to live up to these goals. In 2019, wealthy countries only delivered $78.9 billion in climate finance to developing countries, the vast majority of which came in the form of high-interest commercial loans, export credits, and private investments that deepen the indebtedness of developing countries.[6] Only $12.3 billion was provided as grants. An even smaller share of this funding has gone to the most vulnerable communities. Least Developed Countries (LDCs) have received 14% of these flows over the last years, with Small Island Developing States (SIDS) hovering around 2%.

Finally, President Biden's budget does not provide any funding for "loss and damage," which refers to the unadaptable impacts of the climate crisis such as sea level and temperature rises as well as extreme weather events such as hurricanes and cyclones. Wealthy countries, including the U.S. and Australia, remain staunchly opposed to funding for loss and damage citing concerns that it could open the door to potentially unlimited financial liabilities. After being denied a financial facility at COP26 in Glasgow, developing countries see its establishment as a top priority for COP27 in Sharm El Sheikh, Egypt. Debt cancellation to accelerate developing countries' transitions from fossil fuels would also send a signal of more serious trust-building with these countries.

Average Bilateral and Multilateral Climate Finance (2013-2018)[7]		
Country	**Average Climate Finance**	**Percentage of GDP**
Canada	$183 million	0.001%
France	$3.83 billion	0.146%
Germany	$6.23 billion	0.162%
Italy	$400 million	0.021%
Japan	$9.5 billion	0.188%
Sweden	$450 million	0.083%
United Kingdom	$1.45 billion	0.053%
United States	$1.95 billion	0.009%

Quality Versus Quantity

It is clear that the U.S. must contribute its fair share to international climate finance, but it must also improve the quality of the climate finance it provides. Currently, the U.S. provides the majority of its international climate finance through bilateral

[6] OECD analysis of overall climate funding relies on a misleading accounting methodology. Of the $78.9 billion that developed countries reported mobilizing in 2019, only $12.3 billion was provided as grants.
[7] Source: SCF second and third Biennial Assessments (2013–16) and developed countries' fourth Biennial Reports to the UNFCCC, common tabular format tables 7 and 7(b) (2017–18) (SCF 2016, 2018; UNFCCC 2020).

funding funneled through USAID, which lacks the same mechanisms for accountability as multilateral finance. President Biden signed an Executive Order last year to end international financing in carbon-intensive energy projects, but subsequent guidance from the Treasury Department left open the door for "narrow support for natural gas" and carbon capture projects. The Ukrainian energy crisis could further drive requests for waivers from U.S. policy prohibiting overseas finance of fossil fuels projects.

Additionally, multilateral climate finance is crucial to ensure maximum flexibility and ownership of projects in developing countries. Bilateral assistance is important and can be very effective, but because it is directed by USAID it often includes restrictions on the types of projects it can support. At UNFCCC negotiations, multilateral contributions carry a great deal of weight.

The Fossil Free Finance Act (H.R. 5253), introduced by Representative Mondaire Jones (NY-17) and Senator Markey (D-MA), would boost the quality of U.S. international climate finance by closing the loopholes outlined above to prohibit any U.S. bilateral financial support for fossil fuel projects. It would also require the U.S. to use its “voice and vote” at international financial institutions to oppose financial or technical assistance for any fossil fuel activity.

The U.S. should also begin the process of sunsetting funding for the World Bank CIFs now that the GCF is operational. The CIFs were established in 2008 as temporary funds on the premise that a new financial architecture would eventually replace them. They are not governed under the UNFCCC and its principles, and the sunset clauses of the CIFs clearly state that they “will take necessary steps to conclude its operations once a new [UNFCCC] financial architecture is effective."

Conclusion

As a wealthy country most responsible for the climate crisis, the U.S. has a responsibility to reduce its emissions on a faster timeline than developing countries and provide real leadership at the international level. To achieve these goals, President Biden and Congress must continue to work to increase both the quantity and quality of climate finance wherever opportunities arise. Although President Biden's FY2023 budget request represents a significant increase for international climate finance, Congress and the Administration must do more to adequately address the climate crisis. President Biden and Congress must target key multilateral funds, such as the GCF and GEF, for increased funding moving forward.

CPC Center thanks ActionAid USA and Oakland Institute for their comments and insights.