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U.S. International Climate Finance: A Primer

International Environmental Assistance

Many governments hold that environmental degradation and climate change pose international and transboundary risks to human populations, economies, and ecosystems. To confront these challenges, governments have negotiated various international agreements to protect the environment, reduce pollution, conserve natural resources, and promote sustainable growth. While some governments and some observers call upon higher-income countries to take the lead in addressing these issues, many recognize that such efforts are unlikely to be sufficient without similar measures being taken in lower-income countries.

However, lower-income countries, which face poverty and economic growth challenges, may not have the financial resources, technological know-how, and/or institutional capacity to deploy environmentally protective measures on their own. Therefore, international financial assistance, or foreign aid, has been one method for higher-income governments to support actions on global environmental problems in lower-income countries. Often, this assistance can serve as a cost-effective strategy for donor countries to provide greater market access abroad for their environmental goods and services while providing increased environmental benefits at home.

The United States and other higher-income countries have committed to providing financial assistance for global environmental initiatives through a variety of international agreements, including, among others, the Montreal Protocol (1987), the United Nations Framework Convention on Climate Change (UNFCCC, 1992), and the U.N. Convention to Combat Desertification (1994). International financial assistance takes many forms, from fiscal transfers to market transactions. It may include grants, loans, loan guarantees, export credits, insurance products, and private-sector investment. It may be structured as official bilateral development assistance or as contributions to multilateral development banks and other international financial institutions and environmental funds.

Ultimately, U.S. government assistance to lower-income countries for environmental initiatives is determined by Congress. Congressional committees of jurisdiction include, but are not limited to, the House Committees on Foreign Affairs, Financial Services, and Appropriations and the Senate Committees on Foreign Relations, and Appropriations.

Climate Finance Under the UNFCCC

The UNFCCC is the principal international treaty to acknowledge and address human-driven climate change. The United States ratified the treaty in 1992 (U.S. Treaty Number: 102-38).

Among the obligations outlined in Article 4 of the Convention, higher-income Parties (i.e., those listed in Annex II of the Convention, which were members of the Organisation for Economic Co-operation and Development in 1992) committed themselves to provide unspecified amounts of new and additional financial resources to assist developing-country Parties (not specified in the text) in meeting the full cost of their reporting requirements and the full incremental cost of implementing greenhouse gas reduction and adaptation measures under the Convention. Further, “the implementation of these commitments shall take into account the need for adequacy and predictability in the flow of funds and the importance of appropriate burden sharing among the developed country Parties.”

Over the past several decades, the United States has delivered financial and technical assistance for climate change activities in the developing world through a variety of bilateral and multilateral programs. U.S.-sponsored bilateral assistance has come through programs at the U.S. Agency for International Development, the U.S. State Department, the Millennium Challenge Corporation, the Export-Import Bank, and the International Development Finance Corporation, among others.

U.S.-sponsored multilateral assistance has come through contributions by the U.S. Departments of State and the Treasury to environmental funds at various international financial institutions and organizations such as the Global Environment Facility (GEF), the Green Climate Fund (GCF), the U.N. Development Program, the U.N. Environment Program, the UNFCCC’s Special Climate Change Fund and Least Developed Country Fund, and the World Bank’s Climate Investment Funds, among others. Each channel has its own mission and particular capacities.

Global Environment Facility

The GEF was established in 1991 as an independent international financial institution to provide grants, promote cooperation, and foster actions in lower-income countries to protect the global environment. The GEF subsequently became an official operating entity of the financial mechanism of several international environmental agreements, including the UNFCCC.

The GEF is structured to provide grant-based financing to cover the additional or “incremental” costs associated with transforming projects with national development benefits into ones with global environmental benefits. GEF partners with international institutions, nongovernmental organizations, and the private sector to assist lower-income countries with environmental projects related to six areas: biodiversity, climate change, international waters, the stratospheric ozone layer, land degradation, and persistent organic pollutants.

The George H. W. Bush Administration supported the establishment of the GEF in 1991. The United States has made commitments to all six GEF resource replenishments, including $430 million in 1994, $430 million in 1998, $430 million in 2002, $320 million in 2006, $575 million in 2010, $546 million in 2014, and $273 million in 2018, for a total of just over $3.0 billion. U.S. commitments correspond to about 12% of the GEF's total.

Other UNFCCC financial entities that operate under the direction of the GEF include the Adaptation Fund (established in 2001 to finance adaptation projects); the Special Climate Change Fund (established in 2001 to finance projects relating to adaptation, technology transfer, and capacity building); and the Least Developed Country Fund (established in 2001 to support the world's most vulnerable countries).

World Bank Climate Investment Funds

In February 2008, outside of the UNFCCC negotiations, Japan, the United Kingdom, and the United States announced their intention to create a set of funds at the World Bank to help low- and lower-middle-income countries "bridge the gap between dirty and clean energy" and "boost the World Bank's ability to help developing countries tackle climate change" (Former Secretary of the Treasury, Henry Paulson). The World Bank Climate Investment Funds (CIFs) included (1) the Clean Technology Fund, which sought to provide financing—principally to larger emerging economies and to regional groups—for demonstrating, deploying, and diffusing large-scale clean energy investments with the potential for long-term avoidance of greenhouse gas emissions; and (2) the Strategic Climate Fund, which supported three programs that aimed to pilot new and scaled-up approaches to address climate change challenges in lower-income countries.

Overall, 14 contributor countries pledged $8.1 billion to the funds since 2008. The United States pledged and contributed $2 billion between 2010 and 2016. The funds were programmed to sunset upon the commencement of a specialized climate change fund negotiated under the UNFCCC (i.e., the 2014 Green Climate Fund; see below). However, the CIFs' project pipelines are still active, and some governments and stakeholders have supported new contributions for additional projects.

Finance Under the Cancun Agreement

The 2009 UNFCCC Conference of Parties (COP) in Copenhagen, Denmark, took note of a nonlegal political document called the Copenhagen Accord. The following year, in Cancun, Mexico, the COP officially adopted many of the accord's elements into the Cancun Agreements (CA), including several quantified financial arrangements. Principally, the CA puts forth a collective commitment by developed country Parties (not specified in the text) to achieve a goal of mobilizing jointly $100 billion per year by 2020 to address the climate finance needs of developing countries (also not specified in the text) (1/CP.16§98). The CA states that "funds provided to developing country Parties may come from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources" (1/CP.16§99).

Finance Under the Paris Agreement

In 2015, the COP in Paris, France, adopted the Paris Agreement (PA). The PA reiterates the obligation in the Convention for developed country Parties (not specified in the text) to seek to mobilize financial support to assist developing country Parties (also not specified in the text) with climate change mitigation and adaptation efforts (Article 9.1). Also, for the first time under the UNFCCC, the PA encourages all Parties to provide financial support voluntarily, regardless of their developmental standing (Article 9.2). The agreement states that developed country Parties should take the lead in mobilizing climate finance and that the mobilized resources may come from a wide variety of sources. It adds that the mobilization of climate finance "should represent a progression beyond previous efforts" (Article 9.3). The COP decision to carry out the PA (1/CP.21) uses exhortatory language to restate the CA's collective pledge by developed countries of $100 billion annually by 2020 and calls for continuing this collective mobilization through 2025. In addition, the Parties agree to set, prior to their 2025 meeting, a new collective, quantified goal for mobilizing financial resources of not less than $100 billion annually to assist developing-country Parties.

The Green Climate Fund

The GCF is another official operating entity of the financial mechanism of the UNFCCC. The fund was proposed during the 2009 COP in Copenhagen, Denmark, and its design was agreed to by all Parties during the 2011 COP in Durban, South Africa. The GCF was made operational in 2014. The GCF aims to assist lower-income countries in their efforts to combat climate change through the provision of grants and other concessional financing for mitigation and adaptation projects, programs, and activities. The GCF is capitalized by "financial inputs from developed country Parties to the Convention" and "may also receive financial inputs from a variety of other sources, public and private, including alternative sources" (3/CP.17§§A29-A30).

The GCF was officially opened for capitalization at the U.N. Climate Summit in September 2014. Initial funding came from Germany, France, and a dozen other countries that pledged approximately $2.3 billion. Further pledges brought the initial contribution to approximately $10 billion. In 2019, the GCF initiated its first replenishment process for the years 2020-2023. As of January 31, 2022, 34 contributors have pledged $10 billion for GCF-1.

In 2014, the Obama Administration announced an initial U.S. pledge of $3 billion over four years, and made two separate contributions of $500 million on March 8, 2016, and on January 17, 2017. The funds were obligated with FY2016 budget authority from the State Department's "Economic Support Fund" account. No contribution was made for FY2017. The United States did not contribute funds to the GCF during the Trump Administration. For discussion of U.S. climate finance under the Biden Administration, see CRS In Focus IF12036, *U.S. International Climate Finance: FY2022*.

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