

UNITED STATES OF AMERICA

SECOND BIENNIAL COMMUNICATION PURSUANT TO ARTICLE 9.5 OF THE PARIS AGREEMENT

INTRODUCTION

The United States is pleased to submit this Second Biennial Communication on indicative quantitative and qualitative information related to Article 9, paragraphs 1 and 3 of the Paris Agreement in accordance with Article 9, paragraph 5 of the Paris Agreement and consistent with decision 12/CMA.1.

This submission builds upon the [First Biennial Communication of the United States Pursuant to Article 9.5 of the Paris Agreement](#) and highlights the continued efforts of the Biden Administration to scale-up investments in climate action globally, including supporting developing country partners in their pursuit of ambitious mitigation action and building climate resilience.

As part of these efforts, President Biden announced at the 2021 United Nations General Assembly his intention to work with Congress to quadruple U.S. international public climate finance to over \$11 billion per year by 2024, including a six-fold increase in adaptation finance to over \$3 billion per year. The United States is currently engaged in a whole-of-government approach to scale-up public climate finance, as well as mobilize and align finance to tackle the climate crisis. This is reflected in a number of the Administration's key policies and plans including:

- [Executive Order 14008 on Tackling the Climate Crisis at Home and Abroad](#)
- [The U.S. International Climate Finance Plan](#)
- [The President's Emergency Plan for Adaptation and Resilience \(PREPARE\)](#)
- [The Plan to Conserve Global Forests: Critical Carbon Sinks](#)

This submission 1) provides background on the national context of the United States as it relates to international climate finance, 2) describes the key strategies, plans, and actions the United States is taking to scale-up finance to support developing countries efforts to build resilience and reduce their emissions consistent with a pathway toward achieving net-zero global emissions by 2050 and keeping a limit of 1.5°C of warming within reach, and 3) reflects on barriers, challenges, and lessons learned from the our experience in doing so.



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NATIONAL CONTEXT

The United States makes strategic use of a wide variety of channels and instruments to provide and mobilize finance to tackle the climate crisis effectively and efficiently, leveraging the full breadth of tools and expertise available across U.S. government agencies. These include bilateral channels, such as concessional, grant-based finance through the United States Agency for International Development (USAID), the Department of State (DOS), the Millennium Challenge Corporation (MCC), and the United States Trade and Development Agency (USTDA). It also includes development finance through the U.S. Development Finance Corporation (DFC) and export credit through the Export-Import Bank of the United States (EXIM). The United States also provides and mobilizes finance through multilateral channels, including through the multilateral development banks and climate-related multilateral funds, such as the Green Climate Fund, the Global Environment Facility, the Climate Investment Funds, the Adaptation Fund, and the Least Developed Countries Fund.

Given that these channels are demand-based, coupled with the fact that U.S. bilateral channels depend on annual appropriations from Congress, it is not possible for the United States to forecast or project future climate finance levels or quantitative ex-ante information. In this context, the Executive Branch of the United States government works with the U.S. Congress to appropriate new and additional funding on an annual basis.

The United States anticipates that the whole-of-government approach to scale-up investments in climate action, detailed below, will lead to substantial increases in mobilized finance beginning in 2021 in support of the Administration's climate goals.

STRATEGIES, PLANS, AND ACTIONS

As articulated in the U.S. International Climate Finance Plan, the U.S. strategy for providing and mobilizing finance to tackle the climate crisis centers around four key pillars: (1) scaling up climate finance and enhancing its impact; (2) mobilizing private finance; (3) taking steps to end international official financing for carbon-intensive fossil fuel-based energy; (4) making capital flows consistent with low-emissions, climate-resilient pathways.

1. SCALING UP CLIMATE FINANCE AND ENHANCING ITS IMPACT

The Administration is embracing ambitious but attainable goals regarding the quantity of public climate finance provided by the United States, recognizing the urgency of a global effort to tackle the climate crisis and re-establishing U.S. leadership in international climate diplomacy. As the United States scales up its international climate finance, we plan to ensure greater impact and coordination among the various departments and agencies involved in providing or mobilizing this finance. Greater impact will require stronger in-house capacity



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and expertise, as well as new partnerships and relationships inside and outside the U.S. Government. Achieving greater impact will also require a more strategic and coordinated use of the wide range of bilateral and multilateral channels, tools, and instruments available to the United States across departments and agencies. In doing so, the United States will ensure that our instruments and approaches continue to be fit-for-purpose for the specific geography and context in which they are deployed, including by prioritizing the most concessional resources where they are needed most, such as in the poorest and most vulnerable countries, such as Small Island Developing States (SIDS) and the Least Developed Countries (LDCs), or contexts in which mobilizing private investments for climate action is currently challenging.

Moreover, continued efforts are needed to align our diplomatic and development capabilities toward strengthening the global response to climate change, consistent with the achievement of the long-term goals of the Paris Agreement and the effective implementation of the Agreement by its Parties. This includes: supporting the development and achievement of nationally determined contributions (NDCs); the formulation of long-term strategies with pathways toward mid-century net-zero emissions, consistent with keeping a limit of 1.5°C of warming within reach; making financial flows consistent with a pathway toward low greenhouse gas emissions and climate resilient development; the submission of timely and transparent reporting; and the development of national adaptation plans (NAPs).

STRATEGIC USE OF FINANCIAL INSTRUMENTS

One key aspect of strengthening the global response to climate change is the strategic use of a wide variety of financial instruments, deploying those tools and approaches that are most appropriate in a given context. This includes:

- **GRANT-BASED TECHNICAL ASSISTANCE.** Investment into low-emissions, climate-resilient development requires the presence of both viable investment opportunities and appropriate domestic enabling environments. Technical assistance can help developing countries strengthen their investment policy frameworks, develop national or sectoral low-carbon, climate-resilient strategies, and increase their readiness to access available funds. It can also be used to help develop an investment-ready project pipeline, including by supporting feasibility studies and project preparation.
- **RISK MITIGATION TOOLS.** Even with the right regulatory policies and incentives in place, it can be difficult to attract both foreign and domestic investors looking to support climate action in emerging markets, particularly where new technologies or approaches are involved. Where risk mitigation products are unavailable or otherwise too expensive to access domestically, political risk insurance, regulatory



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risk insurance, first loss equity, and partial risk guarantees can play a key role in de-risking investments and catalyzing additional climate finance flows.

- **LOW-COST, LONG-TENOR DEBT FINANCING.** Many climate projects are sensitive to financing costs, particularly the cost of debt. Working with relatively new technologies or approaches in developing markets where interest rates may be high and long tenors unavailable, project developers sometimes struggle to access the low-cost financing at the volume or under the appropriate terms to advance work. Countries that benefit from low cost of borrowing can help channel low-cost, long-tenor loans not otherwise available.

PRIORITIZING CLIMATE IN PUBLIC INVESTMENTS

The United States will continue to mobilize a whole-of-government effort and work with the private sector to target financial interventions and investments in order to maximize the impact of bilateral and multilateral engagement and diplomacy to achieve the goals of the Paris Agreement. This includes efforts to integrate climate change considerations, including resilience, in development activities:

- **THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)** launched in April 2022 the [USAID Climate Strategy 2022-2030](#), which guides a whole-of-agency approach to reduce global greenhouse gas emissions, help partner countries build resilience to climate change, and improve operations. The strategy was developed through a highly participatory process and is built on five foundational principles: locally-led development, equity and inclusion, private sector engagement, nature-based solutions, and evidence and innovation. The strategy includes six high-level, ambitious targets for achievement by 2030, including to align USAID development portfolios with countries' climate change mitigation and adaptation commitments in at least 80 countries by 2024.
- **THE U.S. DEVELOPMENT FINANCE CORPORATION (DFC)** continues to support investment in climate change mitigation, resilience, and adaptation in developing countries. This includes the [DFC Climate Action Plan Under Executive Order 14008](#), launched in September 2021, which specifically seeks to leverage DFC's development mandate and diverse financing tools to advance climate change adaptation in developing countries through trailblazing adaptation investments, building a cutting-edge climate portfolio, and mobilizing climate capital.
- **THE DEPARTMENT OF THE TREASURY** has directed U.S. executive directors in multilateral development banks (MDBs) of which the United States is a shareholder



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to help ensure, in partnership with other shareholders, that those institutions set and apply ambitious climate finance targets and policies to their operations and programming. Treasury will also seek to have the MDBs build on the significant levels of climate finance they already provide by: promoting a strong role for the MDBs in supporting developing countries' efforts to implement their climate commitments, strengthen their NDCs, develop long-term net-zero strategies, and to integrate greenhouse gas emissions reduction and climate resilience into their long-term strategies; engaging with the MDBs to prioritize the adoption of methodologies and policies that will accelerate their full alignment with the long-term goals of the Paris Agreement; calling on MDBs to develop plans to continue to scale-up climate finance, including climate change adaptation financing.

- **THE MILLENNIUM CHALLENGE CORPORATION (MCC)** launched in 2021 its [Climate Strategy](#) and Climate Action Plan, which will expand and deepen MCC's attention to climate change across its investment portfolio and business operations, working with country partners to: promote climate-smart development and sustainable infrastructure across all key sectors, including energy, roads, agriculture and water; support Nationally Determined Contributions (NDCs) in partner countries; urge important policy and institutional reforms that support a just transition toward low carbon development; strengthen the integration of climate considerations into policies, guidelines, analytical tools, and decision-making; focus on the needs of women and those most vulnerable to climate change, and of those living in climate vulnerable areas in designing and implementing investments; collaborate with new partners and expanding the use of blended finance tools to mobilize private capital into climate activities; and aligning operations with climate aspirations and seek innovative ways to reduce MCC's carbon footprint.
- **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 greenhouse gas emission and promote clean energy, helping to drive down the costs of current and future technologies critical to climate action around the world. These efforts have been dramatically advanced by the Inflation Reduction Act, which will further accelerate and enhance innovation and deployment of clean energy technologies, driving the global clean energy economy forward. DOE will further advance these goals and continue to strengthen global preparedness and resilience to the impacts of climate change through DOE



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multilateral engagements, including the Clean Energy Ministerial, Mission Innovation, the G7, the G20, and DOE's leadership in the International Energy Agency.

- **THE U.S. TRADE AND DEVELOPMENT AGENCY (USTDA)** plans to dedicate up to \$60 million over three years to advance climate-smart infrastructure solutions that will open emerging markets for the export of U.S.-manufactured goods, technologies, and services. Under its Global Partnership for Climate-Smart Infrastructure, USTDA will prioritize project preparation and partnership-building activities that directly support the financing and implementation of low and zero-carbon emission projects in emerging markets.

SUPPORT FOR KEY MULTILATERAL FUNDS

The United States supports a number of key multilateral funds, which in turn support mitigation and adaptation in developing countries, including:

- **THE CLEAN TECHNOLOGY FUND (CTF).** In 2022 the United States announced a loan of \$950 million to the Clean Technology Fund (CTF), a multilateral trust fund which helps to scale up low carbon technologies in developing countries. This funding supports the CTF's Accelerating Coal Transition Investment Program and will be used to support Just Energy Transition Partnerships (JETPs), building on multilateral development bank expertise and engagement in partner countries. Programs to be financed could include: projects to install renewable energy; retire older coal plants and repurpose their infrastructure for new uses; and support programs to promote new investment and employment in communities affected by energy transition.
- **THE GLOBAL ENVIRONMENT FACILITY (GEF).** In April 2022 the United States pledged \$600.8 million over the next four years to support the eighth replenishment of the Global Environmental Facility (GEF-8). This is the United States' largest GEF pledge ever and supports the Administration's commitment to addressing climate change, conserving global carbon sinks and other critical ecosystems, and restoring the health of our ocean. Further, the United States has strongly supported the GEF's efforts to support implementation of the Paris Agreement's Enhanced Transparency Framework, including increasing the available financing for the preparation of Biennial Transparency Reports.
- **THE ADAPTATION FUND.** In 2021 the United States announced our intention to make a first-ever contribution to the Adaptation Fund through an initial pledge of \$50 million. In 2022, President Biden announced that the United States intends to double



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this multi-year pledge to \$100 million. These funds will support the Adaptation Fund's efforts to finance concrete projects and programs that help vulnerable communities in developing countries adapt to climate change, in particular as the Fund transitions to exclusively serve the Paris Agreement.

- **THE LEAST DEVELOPED COUNTRIES FUND (LDCF).** In 2021 the United States announced a multi-year contribution of \$25 million to the LDCF, which will enable Least Developed Countries to prepare for a more resilient future by addressing their short-, medium-, and long-term resilience needs and reduce climate change vulnerability in priority sectors and ecosystems.

BOOSTING INVESTMENTS IN ADAPTATION AND RESILIENCE

The United States remains committed to the aim of achieving a balance in the provision of scaled-up financial resources between mitigation and adaptation. In this regard, the United States launched the President's Emergency Plan for Adaptation and Resilience (PREPARE) in November 2021 as the cornerstone of the U.S. foreign policy response to address the increasingly devastating impacts of the global climate crisis, improve the ability of vulnerable communities around the world to confront them, and, as a result, bolster stability and security. PREPARE aims to help more than half a billion people in developing countries to adapt to and manage the impacts of climate change by 2030. PREPARE activates a whole-of-government effort that aims to accelerate adaptation action and support in countries and communities vulnerable to the impacts of climate change.

In 2022, the United States launched the [PREPARE Action Plan](#), which defines strategic objectives that support the three inter-related and mutually reinforcing pillars of PREPARE: (1) PREPARE Knowledge: Information is Power; (2) PREPARE Plans and Programs: Mainstream and Integrate Adaptation, Build Relationships, Execute; and (3) PREPARE Resources: Mobilize Finance and Private Capital.

PREPARE Resources recognizes that current finance for adaptation is insufficient, with a strong reliance on limited overseas development assistance, and often does not reach the people most affected by intensifying climate impacts. In response to this challenge and in support of the U.S. International Climate Finance Plan, PREPARE will accelerate financing of adaptation measures by enhancing engagement with multilateral funds, strengthening capacity of partner countries to access finance for adaptation, developing bankable investments, mobilizing private capital, and supporting the development of climate risk finance strategies. PREPARE Resources will prioritize the following four objectives:



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- Increase the amount and quality of finance that accelerates climate adaptation and resilience and supports gender-responsive, locally-led adaptation.
- Assist partner governments to assess, plan, and budget for adaptation costs, and scale up financing in all sectors.
- Facilitate increased investment from the philanthropic and private sectors to advance adaptation and resilience in climate-vulnerable partner countries.
- Increase and enhance the use and effectiveness of disaster risk financing tools to support climate resilience.

ALIGNING SUPPORT WITH COUNTRY NEEDS, STRATEGIES, AND PRIORITIES

The United States remains fully committed to aligning support with country needs, strategies, and priorities. In coordination with all relevant U.S. Government departments and agencies, the United States will engage with foreign counterparts on their climate priorities, including on the development and implementation of NDCs and net-zero strategies; technology innovation and deployment; the development and implementation of NAPs; and enhancement of adaptation and resilience capabilities (e.g., early-warning systems, vulnerability assessments, and integration of climate change adaptation into broader environment, development, and economic frameworks). Departments and agencies will strengthen engagement, as appropriate, in key multilateral and regional initiatives, partnerships, and instruments designed to address climate change (e.g., the NDC Partnership, the Low Emission Development Strategies Global Partnership, the Net-Zero Pathways Partnership, NAP Global Network).

ENHANCING TECHNICAL ASSISTANCE AND BUILDING LONG-TERM CAPACITY

- **THE DEPARTMENT OF STATE** will leverage its substantial diplomatic assets and foreign assistance to catalyze greater support among governments, civil society leaders, private sector representatives, and others for investments that accelerate the decarbonization agenda and keep a limit of 1.5°C of warming within reach.
- **THE 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. It will also explore how OTA can respond to requests by developing countries to provide climate finance related technical assistance and capacity building to finance ministries. Treasury will continue



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to support efforts to strengthen public financial management in developing countries and emerging markets, which may free up more financial resources that can be directed toward climate goals.

- **THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)** will substantially ramp up in-country assistance, including additional staff, to support policies, programs, and development activities that will help countries build capacity to realize greater climate ambition and resilience in all sectors.
- **THE MILLENNIUM CHALLENGE CORPORATION (MCC)** will provide technical assistance and support through its country compacts and threshold programs which strengthen partner country policies and institutional capacity to design, implement, and leverage climate-smart development and sustainable infrastructure, aligning this technical assistance with partner country NDCs wherever possible.
- **THE U.S. DEPARTMENT OF ENERGY (DOE)** will leverage its scientific and research and development expertise through its program offices and National Laboratory network to build deployment capacity with developing country partners and foster partnerships to accelerate commercialization of energy technologies vital to decarbonization.

ENHANCING COORDINATION AND ACCESSIBILITY OF SUPPORT

The United States will enhance strategic coordination among U.S. government departments and agencies that provide and mobilize international climate finance and relevant technical assistance to ensure the complementarity of agency efforts, instruments, and expertise. With more than twenty U.S. government agencies involved in the provision and mobilization of international climate finance, each with specific instruments, mandates, and expertise, enhanced coordination will be critical to ensuring the United States is most effectively and efficiently harnessing its resources towards the goal of achieving net-zero emissions by 2050 and keeping a limit of 1.5°C of warming within reach.

The Department of the Treasury, the Department of State, and other relevant departments and agencies will work with relevant multilateral funds to identify steps to enhance access to public and private finance for climate change mitigation and adaptation. This will include considering the impact that relevant institutional policies have on accessibility, with a view to ensuring that policies and procedures are fit-for-purpose and do not pose an unnecessary burden. In this regard, working to help ensure that these institutions function efficiently and



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effectively — by avoiding unnecessary bureaucracy and inefficiency that raises administrative cost — is good for both U.S. taxpayers and the funds' recipients.

2. MOBILIZING PRIVATE FINANCE

Public financing alone will not be enough to meet the challenges posed by climate change. Public interventions, including public finance, must also mobilize private capital. Despite sustained efforts, the amount of private dollars mobilized by each dollar of public finance invested has remained below levels needed to keep the goal of limiting warming to 1.5°C within reach. These efforts will have to increase significantly, including through:

BUILDING STRONGER INVESTABLE PROJECT PIPELINES

- **THE U.S. DEVELOPMENT FINANCE CORPORATION (DFC)** will increase its climate-related investments so that, beginning in FY2023, at least one-third of all its investments will be linked to addressing the climate crisis. DFC will collaborate with USAID, MCC, State, Commerce, EXIM, 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.
- **THE U.S. TRADE AND DEVELOPMENT AGENCY (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 EXIM. All USTDA activities will facilitate U.S. exports and jobs for the American middle class while ensuring climate finance helps protect and advance longstanding international development goals, including promoting sustainable and inclusive economic growth.
- **THE MILLENNIUM CHALLENGE CORPORATION (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.



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- **THE EXPORT-IMPORT BANK OF THE UNITED STATES (EXIM)** will identify ways to significantly increase, per its mandate, support for environmentally beneficial, renewable energy, energy efficiency, and energy storage exports from the United States. EXIM will work within the interagency group to develop a metric to measure U.S. jobs that support climate finance objectives.
- **THE DEPARTMENT OF THE TREASURY AND THE DEPARTMENT OF STATE** will work together to increase the Green Climate Fund's mobilization of private-sector capital for climate adaptation and mitigation and to introduce financial innovations that attract private sector investments on a large scale, including through the implementation of the Green Climate Fund's Private Sector Strategy.
- **THE DEPARTMENT OF THE TREASURY** will support the MDBs' efforts to strengthen enabling environments for private climate finance and identify steps MDB private sector arms can take to strengthen their mobilization of private capital for climate mitigation and adaptation while minimizing investments in carbon-intensive activities. Treasury will also conduct climate-focused policy dialogues with bilateral partners to help catalyze private investment in sustainable, quality infrastructure, and meet NDC goals.
- **THE DEPARTMENT OF STATE** will leverage its diplomatic initiatives, technical support to governments, and partnerships with the private sector to create greater market and policy certainty in partner countries to enable mobilization of climate finance at scale.
- **THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (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 finance.

DOING MORE WITH EXISTING RESOURCES

Treasury will continue efforts to explore, along with other shareholders, how MDBs may be able to deploy their balance sheets more efficiently, including for climate finance, while



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remaining consistent with their mandates and maintaining financial sustainability in line with their strong credit ratings.

PURSUING NEW AND INNOVATIVE APPROACHES

The Department of State is partnering with the Rockefeller Foundation and the Bezos Earth Fund to develop the Energy Transition Accelerator (ETA), an innovative, independent initiative to catalyze private capital to accelerate the transition to clean power in emerging and developing economies. The ETA will support country-driven energy transition strategies through a high-integrity jurisdictional crediting framework that will generate carbon credits representing verified greenhouse gas emissions reductions, which participating developing country jurisdictions can market to qualified private sector and sovereign government buyers. It also will generate new finance to support adaptation efforts in vulnerable countries.

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

Scaling back public investments in carbon-intensive fossil fuel-based energy is the necessary corollary to increasing investments in climate-friendly activities. Achieving our shared climate objectives depends not only on how much we are investing in low-emissions activities, but also on how much we are scaling down support for high-emissions activities. Shifting investment from those that support fossil fuel use, or other high-emission activities, towards lower-emission alternatives remains a priority of the United States. This effort involves both bilateral and multilateral agencies that provide financing for energy projects and other engagements.

- **ALL RELEVANT U.S. GOVERNMENT DEPARTMENTS AND 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.
- **THE DEPARTMENT OF STATE AND THE DEPARTMENT OF THE TREASURY**, and other relevant departments and agencies, in coordination with the National Security Council (NSC), recognizing the importance of international cooperation, will work with other countries, through both bilateral and multilateral engagements, to promote the flow of capital toward climate-aligned investments and away from high-carbon investments. This includes efforts to promote the phasing-out of inefficient fossil fuel subsidies internationally, which undermine international



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climate finance efforts. We will work actively towards outcomes with other countries to adopt similar policies as soon as possible.

- **THE DEPARTMENT OF THE TREASURY**, with partners in the OECD and in close partnership with other U.S. government departments and agencies, will continue to 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 continue to advocate to further incentivize ECA support for climate-aligned investments (e.g., broadening 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.
- **THE DEPARTMENT OF THE TREASURY** will use [its guidance on fossil fuel energy activities at the MDBs](#), which it will use as part of its criteria when casting U.S. votes on specific projects. Treasury will engage with other shareholders and MDB management to shape MDB strategies and policies in line with this guidance and to align with the Paris Agreement.
- **THE U.S. DEVELOPMENT FINANCE CORPORATION (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.

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

Financial markets are increasingly demanding investment opportunities that are consistent with low GHG-emissions and climate-resilient pathways. Supporting the flow of capital toward activities that are consistent with those pathways requires building an ecosystem of data, information, practices, and procedures that enable financial market actors to internalize climate-related considerations into their decisions. Over time, the more market participants do this, the greater the volume of capital that will shift toward more environmentally sustainable investments. This concept is embodied in the Paris Agreement's Article 2.1(c) and has been widely embraced by financial policy makers and regulators around the world.

Four elements are especially important: (1) improving information on climate-related risks and opportunities; (2) identifying climate-aligned investments; (3) managing climate-related financial risks; and (4) aligning portfolios and strategies with climate objectives.



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To this end, the Treasury Department, in coordination with other U.S. agencies and regulatory bodies as appropriate, will continue to:

- Co-chair the G20 Sustainable Finance Working Group, which has developed an initial [Sustainable Finance Roadmap](#) that is focused on (1) market development and approaches to align investments to sustainability goals; (2) consistent, comparable, and decision-useful information on sustainability risks, opportunities, and impacts; (3) assessment and management of climate and other sustainability risks; (4) the role of international financial institutions, public finance, and incentives; and (5) cross-cutting issues.
- Engage in work at the Financial Stability Board (FSB), the International Association of Insurance Supervisors, the G20, and the IMF to improve the data available for assessing and monitoring climate-related financial risks and coordinate with U.S. regulators and other agencies working on climate-related financial data in the financial standard setting bodies.
- Engage with the 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 towards 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.
- Support U.S. financial institution engagement with, and implement the best practices emerging from, voluntary, private-sector coalitions working on targets, strategies, and metrics intended to achieve net-zero emissions portfolios and institutional strategies.
- Support such coalitions in expanding their work across different financial sector stakeholders and encourage them to work on methodologies and reporting to ensure net-zero targets are credible and accountable. Increase engagement with U.S. industry to better understand and, as needed, advocate for specific methods to assess net-zero emissions progress geared toward U.S. market conditions.
- Work with the Department of State, USAID, DFC, and other agencies to promote climate-aligned infrastructure development. The Department of State, DFC, USAID, and Treasury will support the development of indicators to identify climate-aligned infrastructure projects for investors through the implementation of the G20 Principles for Quality Infrastructure Investment.



BARRIERS, CHALLENGES, AND LESSONS LEARNED

FOSSIL FUEL SUBSIDIES

In efforts to scale-up low-carbon, climate-resilient finance in developing countries, one of the barriers encountered is inefficient fossil fuel subsidies. Such subsidies encourage wasteful consumption, reduce energy security, impede investment in clean energy sources, and undermine efforts to deal with the threat of climate change.

The Fifth Biennial Assessment and Overview of Climate Finance Flows shows that countries spent over \$450 billion subsidizing fossil fuels from 2019 to 2020. Some of these subsidies are designed to protect poor and vulnerable populations from energy insecurity, but many others are regressive and disproportionately benefit the wealthy, while also distorting local markets for clean energy and contributing to the climate crisis.

ENABLING ENVIRONMENTS

It is also critical to support the development of policy environments that encourage and enable impactful public and private investments in climate action. Climate-specific risk factors require the introduction of domestic policies with a sufficient degree of long-term certainty about regulatory structure and incentives to provide private investors the confidence they need to make low-carbon, climate-resilient investments. The introduction of carbon pricing, vehicle efficiency standards, appliance standards, and lowest-cost auctions for renewable energy, as well as the elimination of fossil fuel subsidies, are all examples of enabling conditions in various sectors.

Non-climate specific risk factors require improving the general investment climate, including through the development of legal systems that promote contract enforceability; good governance practices; implementation of strong fiscal policies; and support for robust and accountable institutions. Ultimately, finance will flow and investment patterns will shift as a result of the domestic policies and incentives developing countries establish. To this end, the U.S. is active in providing technical assistance to help developing countries strengthen domestic policy frameworks and build the capacity to improve their own enabling environments.

