



USAID PROGRESS ON CLIMATE FINANCE

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Recent reports including by the IPCC now estimate that the world will require up to \$5 trillion in funding for climate-related activities annually by 2030 (about seven-fold above recent levels) to be on the transition path to a sustainable, true net-zero emissions, and more resilient world. At COP26, USAID set a target of mobilizing \$150 billion in climate finance by 2030 from public and private sources. This goal represents a significant increase compared to climate finance mobilized by the Agency in recent years. It is also one of six targets for 2030 under the USAID Climate Strategy. The Agency’s climate finance goal is part of a global effort to substantially increase global climate finance flows to match projected needs.

USAID’S ROLE

To address the funding gap in climate finance (both mitigation and adaptation), USAID has launched or joined a variety of efforts across the U.S. Government and/or with private sector partners. They include: the President’s Emergency Plan for Adaptation and Resilience (PREPARE), which seeks to increase financing for more than 500 million people in partner countries to adapt to and manage the impacts of climate change through locally-led development; the Climate Finance for Development Accelerator (CFDA), a mechanism to leverage up to \$250 million over eight years which in turn will seek to mobilize \$2.5 billion of private sources of finance for adaptation and mitigation by 2030; and a pledge at the Climate Leaders Summit in April 2021 to double private sector investments in adaptation and resilience in 20 climate-vulnerable countries.

PHOTO: YURIY SKOCHILOV / USAID

There are five key barriers to securing finance that USAID plans to tackle. There's the high cost of capital due to underdeveloped financial markets and high debt, insufficient regulations and capacity on sustainable investments, high risks (real or perceived), and undeveloped policy, legal, regulatory frameworks that support private investment.

USAID seeks to ameliorate these barriers through the following actions:

1. **Supporting companies and governments** to develop a pipeline of viable, investment-ready projects.
2. **Governance and structural support** to strengthen government policies and institutional frameworks that mobilize investment.
3. **Convening stakeholders** across government, the private sector, and civil society to advocate for political, regulatory, or financial reforms that may lead to systems change and share realistic assessments of risk and income potential.
4. **Financial instruments and transaction advisory services** to increase public-private sector partnerships in high-risk sectors to ramp up climate investments in developing countries.

ACHIEVEMENTS TO DATE

USAID has spent the last year setting up activities and mechanisms that are essential to meeting the COP26 announcement and climate finance target. USAID has been coordinating internally to integrate climate finance throughout Agency programming. In particular, a series of working groups crafted the Agency's \$150 Billion Roadmap, a living document that aims to guide our climate finance work. Key mechanisms and activities include:

- The **Climate Finance for Development Accelerator (CFDA)**, which aims to mobilize financial flows and private sector actions to address climate change and support the transition to an equitable and resilient net-zero economy. CFDA will deliver catalytic facilitation and incentives for private sector actions, steer a learning and capacity building agenda to scale up successful approaches, identify and help to address barriers to public financing (e.g., the Green Climate Fund), and disseminate and communicate success stories.
- **HEARTH** (Heart + Earth = Health, Ecosystems and Agriculture for Resilient, Thriving Societies) has so far produced 15 private sector partnerships with primary goals to reduce deforestation and/or increase community resilience and business sustainability in climate-sensitive landscapes, leveraging more than \$80 million of private sector funds.
- USAID, Germany, the Netherlands, Sweden, and the European Union are partners in the **Water and Energy for Food Grand Challenge**. WE4F supports more than 125 local small and medium enterprises to raise climate finance, and helps farmers in Africa and Asia access climate-smart innovations. To date, 500,000 people have used WE4F's climate-smart innovations, which have saved more than 500 million kWh of energy, helped farmers produce more than 2 million tons of food, reduced GHG emissions by 50 million tons (CO₂e), and helped SMEs raise more than \$30.5 million from investors.

UNLOCKING MARKETS FOR CONSERVATION – USAID MEXICO

USAID is supporting Mexico in its ambitious climate goals through a number of ongoing initiatives that enhance transparency and use market-based solutions to reduce deforestation and land degradation and provide much-needed financing for land conservation and restoration. USAID’s support includes partnering with the private sector and key communities to promote sustainable value chains, and working with the Government of Mexico to improve forest management systems to reduce illegal logging. The Pronatura Mexico program aims to conserve and protect over 200,000 hectares by: (1) generating carbon credits, (2) public policy and market strengthening, and (3) organizational capacity strengthening. In addition, in partnership with local NGOs, USAID will seek to reduce an estimated 3 million metric tons of CO₂ in Mexico.

The [Sustainable Landscapes Ventures](#) activity aims to unlock \$25 million of additional mobilized funds for targeted landscapes. Through this activity, USAID will support the development of an equity fund to make equity investment in the transition to regenerative practices in agriculture, forestry, and tourism. Additionally, in collaboration with the U.S. International Development Finance Corporation (DFC), USAID is providing a [\\$10 million loan portfolio guarantee](#) for Conservation International Foundation’s impact investment fund, Conservation International Ventures. The financing will provide capital for investments that will help conserve, restore, and sustainably manage critical ecosystems in Mexico, Peru, and Colombia. Investments under the guarantee could include ocean health solutions such as mangrove restoration, sustainable livestock, regenerative agriculture, sustainable harvesting from forests, ecotourism, and more. These investments will seek to promote sustainability, biodiversity, and improve local livelihoods. The USAID missions in Mexico, Peru, and Colombia are also supporting the guarantee through technical assistance.

MOVING FORWARD

The largest barrier the Agency faces in achieving its target of mobilizing \$150 billion in public and private climate finance by 2030 is the same that the sector at large faces: the funding gap is significant, and the risks are often too high and returns too low to entice the private sector to mobilize funds. That being the case, USAID is focused on leveraging its on-the-ground experience, convening power, technical capacity, and grant-making mandate to collaborate on the de-risking of climate finance investments. In addition to the above-mentioned climate finance programming, USAID is launching a number of new programs at COP27 that aim to address the climate finance gap, including new capacity building programs, a call to action for private sector adaptation investments, and a gender and climate finance facility.

A CALL TO ACTION ON ADAPTATION

This Call to Action focuses on company-led commitments tackling adaptation solutions within their own operations, products, and services; and private grant financing, putting organizational resources towards emerging adaptation challenges. This Call to Action will mobilize private sector efforts supporting the objectives of the President’s Emergency Plan for Adaptation and Resilience (PREPARE). The long-term goal of the Call to Action is to socialize the concept of resilient-investment with the private sector, providing more opportunities for company-led adaptation initiatives, including through co-financing projects. The Call to Action will be officially launched at a high-level event at COP27 and will be open for rolling commitments through COP28.

GENDER AND CLIMATE FINANCE

The first activity under CFDA will be announced at COP27 for a Climate Gender Equity Fund. This facility will leverage private capital and catalyze gender-responsive investment to maximize access to networks, skills, technology, and resources that women and girls need to scale and develop climate mitigation and adaptation solutions. The facility also seeks to address critical gaps in the climate finance ecosystem so that women and girls gain the tools and knowledge they need to succeed in their climate actions.

PROGRAM TO ACCELERATE CLIMATE FINANCE (ACCELERATOR)

The Accelerator will be launched in FY23 in Rwanda and Colombia; the learnings from these pilots will help expand the program to other jurisdictions, and ongoing collaboration with GFANZ, UNEP FI and World Bank may help introduce an international finance commitment to the Accelerator.

JOINT GREEN FINANCE PILOT

The U.S. government's Millennium Challenge Corporation (MCC) and USAID are collaborating to improve capacity and enabling conditions that accelerate the use of green finance mechanisms in low and lower-middle income countries. The Agencies' efforts are targeting countries across various geographies and sectoral strengths which can then be scaled and replicated. The Joint Green Finance Pilot will support potential green bonds via MCC technical assistance in Indonesia, Mozambique, and Zambia, and USAID support for the development of green bonds in up to five additional countries via public-private partnerships.