THE US EXIM BANK: HOW TO MAKE IT WORK FOR CLIMATE AND DEVELOPMENT

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1. BACKGROUND

Export credit agencies (ECAs) like the Export-Import Bank of the United States (EXIM) are government-backed private or public agencies with a mandate to promote national exports through loans, guarantees, and insurance to domestic companies or foreign buyers. EXIM exerts great leverage by reducing the risk of private investments and, consequently, supports the expansion of specific industry sectors such as aircraft, manufacturing, and oil and gas. In developing countries, ECAs often finance large-scale energy infrastructure projects with significant lifetimes that disproportionately benefit carbon-intensive industries, increasing greenhouse gas (GHG) emissions (OECD n.d.).

In fact, ECAs are the largest category of public finance institutions (PFIs) supporting fossil fuel investments. Between 2019 and 2021, G20 ECAs facilitated transactions amounting to $34 billion per year for fossil fuels, over 90 percent of which were for oil and gas. The share of clean energy transactions in ECA portfolios was considerably lower, with only $4.7 billion per year over the same period (Oil Change International 2021a). Such figures tend to be conservative and may be underestimating the actual fossil fuel activities, as ECAs are traditionally not transparent, often failing to publicly disclose the full extent of their portfolio activities against which to hold them accountable.

Within this context, this policy brief explores the role of EXIM for US climate and development policy and proposes recommendations for the reform of EXIM to ensure its alignment with these US policy objectives. The policy brief builds on a more detailed analysis developed in the joint study by Perspectives Climate Research and Oxfam America entitled “Alignment of the United States Export-Import Bank (EXIM) with US climate and development policy objectives.”

EXIM is the official ECA of the US, tasked with supporting American exports and creating American jobs by providing export credit and insurance where private financing is not available. EXIM operates within the guidelines set by the US Congress and the Organization for Economic Cooperation and Development (OECD) Arrangement on Export Credits that seeks to create a level playing field for officially supported export credits among its participants. Like other ECAs, EXIM does not have an explicit development-related or climate-related mandate. However, Congress has set specific targets for EXIM for providing no less than 5 percent of its total financing authority each financial year to renewable energies, energy efficiency, and storage—a modest target that has not been reached (Censkowsky et al. 2022).

The election of President Biden in 2020 marked a strategic shift in US climate and development policies. This followed a series of policy rollbacks under the Trump administration, during which the US somewhat erratically introduced climate policy blockages, including the exit from the Paris Agreement in 2017 (Daley 2020). The Biden administration has now begun to leverage climate policy as a strategic tool to implement its foreign policy and national security goals and establish US climate leadership. Indeed, Executive Order 14008 on Tackling the Climate Crisis at Home and Abroad adopted in 2021 and the US National Security Strategy of 2022 clearly state that climate change is an existential threat and combatting it is a central pillar of national security (The White House 2021a; The White House 2022).

To deliver on this strategic shift under the Biden administration, the US has steadily been expanding on a whole-of-government approach that leverages the strengths of different agencies, including EXIM. Washington considers this foundational to achieve its interdependent climate and development policy objectives and to effectively leverage the existing climate finance and investment mechanisms. In this regard, the Biden administration envisions EXIM playing a key role in the delivery of the US climate finance targets. EXIM is also encouraged to engage domestically and internationally, e.g., at the OECD,

1 These include Australia, Canada, the European Union, Japan, Korea, Aotearoa/New Zealand, Norway, Switzerland, Turkey, the United Kingdom, and the United States.
to support the development of policies that ensure official export financing is reoriented away from carbon-intensive, fossil fuel-based energy, and to increase support for climate-friendly activities (The White House 2021b).

The Biden administration has also established avenues to assert American dominance in different technology-driven industries, ushering in a new era of green industrial policy for the US (Feingold 2023). The Inflation Reduction Act (IRA) and Creating Helpful Incentives to Produce Semiconductors and Science Act (CHIPS and Science Act) aim to rewire strategic technology supply chains, including electric vehicles, batteries, and renewable energy components to outpace China’s advancements in these sectors. Since the entry into force of the IRA and the CHIPSS Act in August 2022, more than $200 billion in investments have been committed in these strategic sectors in the US (Financial Times 2023).

The White House urged EXIM to establish a domestic financing program to boost export-oriented manufacturing in some of these sectors. Recognizing that the sectors essentially rely on critical minerals, the Biden administration also seeks to leverage US investments abroad to incentivize environmentally and socially responsible production that adheres to high environmental, social, and governance (ESG) standards. This implies that EXIM and other US agencies must adopt stringent risk management practices to ensure that mining operations do not contribute to environmental harm and human rights violations. As a financial institution, EXIM is also expected to increase transparency through disclosures on climate-related financial risk, which may include providing a climate-oriented view of its trade and export finance activities, including across value chains, to promote understanding of the climate impacts of its activities. However, a key question remains on how to accelerate the mobilization of EXIM in favor of the climate and development objectives of the Biden administration.

2. WHY EXIM MUST BE REFORMED

The desire for reforms of EXIM is widespread (e.g., Reinsch and Lobo 2019). However, there is still limited agreement on the direction of these reforms and their potential economic impacts. Climate and development objectives might have been much less of a concern in previous decades, and until recently EXIM has continued to support the most climate-damaging sectors within its $40+ billion portfolio, including aircraft (more than 1/3 of the total of all commitments) and oil and gas (1/4) (Censkowsky et al. 2022). Consequently, with at least 60 percent of EXIM’s current portfolio directly supporting fossil fuel-producing or -dependent sectors, EXIM faces a huge challenge in becoming aligned with President Biden’s climate ambitions and the Paris Agreement, as well as in stopping its contributions to human rights and environmental violations. Transparency and accountability remain another concern since the exact amount and share of fossil fuels in EXIM’s portfolio are difficult to assess (see more Censkowsky et al. 2022).

On the clean energy side, EXIM already has the mandate to increasingly support “environmentally beneficial exports,” including renewable energies, at a level of no less than 5 percent of its total financing authority each fiscal year (Office of the Law Revision Counsel 2022). However, in 2021, only $72 million or 1.25 percent of EXIM’s new authorizations could be considered environmentally beneficial—and only 0.2 percent were for renewable energies (Censkowsky et al. 2022). This is only a fraction of what a small country like Denmark does. It has been supporting renewable energies with at least $1 billion or 75 percent of its portfolio every year since 2015 (Export Finance for Future 2022). EXIM will therefore have to step up its game on clean energy finance, not least because President Biden’s 2021 Executive Order on Tackling the Climate Crisis at Home and Abroad, together with the accompanying International

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2 See: Executive Order 14017 on America’s Supply Chains (2021)
3 See: Executive Order 14030 on Climate-Related Financial Risk (2021)
4 However, the term “environmentally beneficial exports” is not clearly defined in EXIM’s charter.
Climate Finance Plan, aims to make EXIM a key player in doubling American international climate finance by 2024 (Renberg 2021).

3. HOW BEST TO REFORM EXIM—RECOMMENDATIONS

To address the challenges set out in this brief, EXIM should assess its strategic capabilities at the intersection of trade, finance, and climate policy. At the same time, the Biden administration should augment and further harmonize its climate and development policy at the implementation level. As indicated in the policies, the administration considers EXIM a key lever for making considerable investments related to climate change. However, this will need to be backed by a better alignment between the government’s commitments on tackling climate change domestically and abroad. Finally, Congress could play a key role in paving the way for a Paris-aligned EXIM. As the guardian authority of EXIM’s charter, avenues for fundamental climate-related reform should be approved and integrated into EXIM’s official mandate.

(1) Update EXIM’s institutional governance to respond to climate change and development priorities

The US and EXIM should follow the lead of other PFIs and ECAs that are forging ahead with more progressive policies integrating climate and broader social and environmental concerns. For instance, the government of the UK as of March 2021 committed to end support for the fossil fuel energy sector overseas (including through export finance), other than in limited circumstances (UK Department for Business, Energy & Industrial Strategy (BEIS) 2021), although there may have been some breaches of this policy recently (Crisp 2023). Bpifrance Assurance Export, the official ECA of France, has also adopted a fossil fuel phase-out policy that seeks to stop support for most fossil fuel value chain transaction as of January 2023 (Schmidt et al. 2023).

The Biden administration and the US Congress should also ensure that EXIM’s leadership can drive and respond to the US climate and development objectives. This means that the leadership should have clear roles and responsibilities that can properly manage climate change risks and steer the strategy of EXIM to proactively respond to some of the grand challenges as pertains to climate and development. EXIM’s management can in turn enhance the climate expertise within EXIM by upskilling staff or recruiting specialists in climate finance, renewable energy, sustainable infrastructure, and environmental risk assessment. This will enable EXIM to better evaluate climate-related risks (including transition risks) and opportunities associated with potential projects.

(2) Improve EXIM’s internal policies towards Paris alignment and sustainable development goals

Strengthening EXIM’s policies and procedures in the short term can make it an effective catalyst in driving climate action while also supporting development outcomes. A critical aspect would be a clear commitment and actionable plan to phase out public finance for fossil fuels both domestically and abroad. The Biden administration’s commitments at high-level, international climate fora—most notably the Paris Agreement and the Glasgow Statement—should be followed by concrete government guidelines that can be adopted at agency level to phase out financial support for fossil fuel infrastructure. This may require the update of the charter to address the nondiscrimination clause issue.

This would further imply the need for EXIM to adopt an internal climate policy that goes beyond its outdated Carbon Policy from 2009 and include clear targets for climate-friendly investment support (EXIM

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3 Compared to the average of provided public climate finance under the Obama Administration.
Such a policy can facilitate the much-needed investments in renewable energy, energy efficiency, and other climate-friendly technologies. While climate change is considered in a subgoal of EXIM’s 2022–2026 Strategic Plan, it needs to be expanded to ensure it is aligned with the goals of the Paris Agreement (Censkowski et al. 2022). This should be followed by implementing the recommendation of EXIM’s Subcommittee on Climate for the adoption of a net-zero target towards aligning EXIM’s portfolio with the US climate commitments and the Paris Agreement (EXIM 2022). Such a policy can in turn send a signal to investors and leverage support from the private sector for renewable energy projects and infrastructure.

We also recommend EXIM to adopt mechanisms that facilitate the alignment between the export priorities of the US with the national interests of developing country governments. This can support EXIM to broadly align its activities with the United Nations’ Sustainable Development Goals (SDGs). The Biden administration would further need to endorse the SDGs at the UN’s High-Level Political Forum on Sustainable Development as a signal of its commitment to the needs of its partner countries (Sachs et al. 2022).

Establish transparency and accountability in EXIM’s portfolio

EXIM has implemented policies to identify and manage environmental, social, and human rights risks. However, its portfolio reflects projects that are contrary to these commitments as indicated in the various accusations on human rights violations and environmental harm of projects it supports. We recommend that Congress update EXIM’s mandate and charter to better reflect the US’ environmental, social, and human rights policy objectives. Moreover, EXIM should also adopt robust risk management frameworks and due diligence procedures (including the assessment of transition risks in fossil fuel projects). EXIM should clearly spell out the consequences for those that fail to comply and promptly act against noncompliance.

Additionally, EXIM should seek to increase its transparency and accountability to the American people by adopting comprehensive climate-related financial and nonfinancial disclosure. This includes ensuring that it provides easily accessible information regarding its support to climate-related investment, such as renewable energy, and reports on the implications for GHG emissions of financed or insured activities at the aggregate portfolio level. Such an approach can improve EXIM’s accountability and act as a decision-making support tool for its management to advance EXIM’s operations.

To keep EXIM accountable to the above recommendations, Congress should consider expanding the mandate of the Office of the Inspector General (OIG). The OIG is responsible for making recommendations for corrective action in EXIM’s transactions and potential systemic improvements in EXIM’s policies and procedures. This may include an explicit mandate for the OIG to undertake a regular review of EXIM’s environmental and social risk management practices, and subjecting EXIM to judicial oversight for lack of compliance.

EXIM within the international export finance system

To make EXIM work for the US’ climate and development objectives, international influence levers should complement the national ones described above. As a promising starting point, an in-principle modernization agreement of the OECD’s Climate Change Sector Understanding (CCSU) has recently been reached after years of stalled negotiations (EXIM 2023). After participants have completed their formal internal decision-making processes and agreed to the OECD Arrangement on Officially Supported Export Credits text later in 2023, the OECD should subsequently start to introduce...
restrictions on export finance for fossil fuels by which the OECD members have to abide. EXIM should become a leader within the OECD’s Arrangement reform, and together with the US Treasury, table credible proposals to end support, specifically for oil and gas.

Export finance is also of relevance in other international fora such as the G7 or G20, but fossil fuel-related commitments that these groups make are not legally binding and can be backtracked on, as was recently demonstrated by the G7 Hiroshima Leaders’ Communiqué (G7 2023). Therefore, to further align with the US’ climate and development objectives, EXIM should also join the Export Finance for Future (E3F) Coalition of (so far) 10 European countries that aims to support a shift in investment patterns towards climate-neutral and -resilient export projects (E3F 2022).

(5) Reconsider the nondiscrimination clause of EXIM’s charter in light of the climate crisis

Under its official mandate, EXIM is not allowed to deny an application for financing “based solely on the industry, sector, or business that the application concerns; or promulgate or implement policies that discriminate against an application based solely on the industry, sector, or business that the application concerns.” These prohibitions apply specifically to the “exploration, development, production, or export of energy sources and the generation or transmission of electrical power, or combined heat and power, regardless of the energy source involved” (Export-Import Bank Act of 1945 2020). In line with Herz (2023), the authors of this report want to clarify the interpretation of this “nondiscrimination clause.”

Indeed, this prohibition applies only to applications that are solely denied based on industry, sector, or business. EXIM’s Board can effectively deny the approval of an application in line with its charter if additional reasons are met, such as nonalignment with US international climate and development commitments (e.g., under the Paris Agreement, the Glasgow Statement, or the Executive Order 14008 on Tackling the Climate Crisis at Home and Abroad) or national security considerations. Moreover, this prohibition clause does not prevent EXIM from applying certain eligibility criteria before approving project applications. For example, EXIM already conducts emissions reporting of projects with CO2 emissions above 25,000 tons/year. The agency could use such a carbon-intensity threshold to determine which projects can no longer receive funding. Reference benchmarks should be best-in-class taxonomies like the EU Taxonomy on Sustainable Finance, which proposes a declining threshold and technology-agnostic emissions intensity threshold of 100 g. CO2e/kWh for electricity generation, heat production, and the cogeneration of heat and electricity (TEG 2020a; TEG 2020b).

EXIM already applies a carbon-intensity threshold for high-emitting projects and could continue to do so to determine eligibility of support without sole considerations of industry, sector, or business. Also in other areas, additional eligibility criteria must be considered for denying applications from the fossil fuel sector. Furthermore, Herz (2023) suggests that the nondiscrimination clause does not apply to all energy-related infrastructure, e.g., midstream infrastructure or imports. Hence, EXIM, without violation of the charter, can effectively exclude support for pipelines, other transport facilities, and import terminals. Such an approach should also be undertaken in the domestic financing program under the Make More in America Initiative.

Finally, we recommend Congress to review the nondiscrimination clause and settle the debate as soon as possible by means of significantly updating EXIM’s role and powers in doubling down on achieving the US and international climate objectives. High-carbon intensive exports—in industries at home and projects abroad—must be ruled out to avert uncontrollable climate warming beyond 1.5°C.
4. CONCERNS AND CONSIDERATIONS REGARDING THE REFORMS

Ever since its founding in 1934, the very existence and legitimacy of EXIM has been contested, mostly by free-market groups such as Americans for Prosperity or organizations such as the Cato Institute (e.g., Censkowsky et al. 2022). These anti-EXIM actors have repeatedly launched campaigns to not reauthorize EXIM’s charter—a key political process that takes place every seven to 10 years (Reinsch and Lobo 2019)—accusing EXIM of “cronyism” by providing corporate welfare to elite multinationals such as Boeing (e.g., Lawder 2015). However, regular reauthorizations of EXIM are the very foundation for any reforms of EXIM, with the next reauthorization due in 2026.

Furthermore, in the past, changing political tides and interferences have led to operational lapses of EXIM. Most recently, in June 2015, Congress failed to reauthorize the charter when political gridlock prevented a majority vote, which left EXIM unable to operate for five months (Lawder 2015). In December 2015, the charter was finally reinstated by a simple majority vote in Congress after significant lobbying by business groups. However, regular reauthorizations of EXIM are the very foundation for any reforms of EXIM, with the next reauthorization due in 2026.

Opponents of reforming EXIM have frequently referred to the nondiscrimination clause in EXIM’s congressional mandate in the Export-Import Bank Act of 1945, which prevents EXIM from rejecting applications on the basis of industry, sector, or business (Censkowsky et al. 2022; Office of the Law Revision Counsel 2022). However, this does not effectively prevent EXIM from screening projects and developing internal criteria and procedures to screen and filter projects based on carbon intensity (Ombuya et al. 2023; Herz 2023).

For example, a leaked US Interim International Energy Engagement Guidance that lays out the approach for bilateral agencies to implement the Executive Order 14008: Tackling the Climate Crisis at Home and Abroad includes screening criteria for investments (Oil Change International 2021b). According to the guidance, the US will no longer offer bilateral support for unabated and partially abated coal, and for other carbon-intensive projects (including oil and gas) associated with a life-cycle carbon intensity above 250 grams CO$_2$e/kWh. However, the longer such a high-level official guideline is missing, the more loopholes for continued fossil fuel support can be exploited, locking in further fossil fuel dependence. The US should therefore urgently publish its Interim International Energy Engagement Guidance with robust screening criteria, since only becoming “export climate-neutral” rather than staying “export neutral” can be a way forward for EXIM to align with US’ climate and development objectives.

It is clear that EXIM’s track record indicates that its fossil fuel support outpaces that of renewable energy, accompanied by negative consequences to the environment and society. However, EXIM can still play a critical role in ensuring the US climate and development objectives. As of now, the political reality is that the Biden administration will need to develop credible guidelines for EXIM and other US government agencies to implement these objectives and ensure their effectiveness. Indeed, this would be a crucial precursor for the US to assert its climate leadership without undermining its international credibility.

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8 This Act formulates the overarching objective and purpose of EXIM as “to aid in financing and to facilitate exports of goods and services, imports, and the exchange of commodities and services between the United States […] and any foreign country […] [and] to contribute to the employment of United States workers.”

9 However, exceptions remain for projects that demonstrate a contribution to national security, geostrategic interests, and/or development/energy access benefits and where no other viable lower carbon alternatives exist.
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