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HEARING ON U.S. CLIMATE FINANCE INITIATIVES

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Introduction

Madam Chairwoman, Ranking Member Rogers, and Members of the Committee – I appreciate the opportunity to testify today and discuss with you the role of the U.S. International Development Finance Corporation (DFC) in carrying out the Biden Administration's climate finance agenda.

Climate change is not only an urgent crisis, but also represents a once-in-a-generation chance to build anew – and to build better. The United States vision for climate action is fundamentally driven by the extraordinary opportunity it presents for global economic revitalization and equity—for job creation, healthier communities, and racial justice. Realizing this vision requires substantial and sustained investment in the parts of the world simultaneously experiencing the worst impacts of climate change and the greatest pressure to invest in fossil fuel infrastructure that will put us on an unsustainable emissions trajectory.

But there is currently a significant financing gap for climate solutions in the developing world. DFC has the power to help close this gap by deploying its financial tools to catalyze private sector investment in a clean energy transition that will create more just outcomes, and position American companies and values at the forefront of the greatest economic opportunity of our generation.

DFC's Investment Tools

DFC uses a series of financial tools to mobilize capital from the private sector for clean energy projects, projects that sequester carbon naturally, and for infrastructure that reduces carbon in the atmosphere. These tools include direct loans and project finance, insurance, equity investments, investments in emerging market private equity funds, and technical assistance funding. There is intense interest now from the private sector, multilateral development banks, and other development finance institutions in contributing much-needed capital to cutting-edge climate mitigation and adaptation financing projects. We are working closely with partners and clients across the globe to capitalize on that interest and create innovative blended finance instruments, and to take on appropriate levels of risk in pursuit of capital mobilization.

We carefully review each transaction for additionality – in other words, for DFC-supported projects, we step in to help fill a need for financing would otherwise go unmet by private investors alone. DFC support can break through tractable but persistent challenges to mobilize the significant resources needed to build clean energy infrastructure that enables economic growth, reduces emissions, helps to meet emissions reductions targets, and helps to mitigate the impacts of climate change.

DFC has built a portfolio that lays a foundation for our ambitious climate finance goals. As of December 31, 2020, one-third of DFC's active portfolio is in the energy sector. DFC's current energy portfolio includes over 120 transactions totaling over $10.5 billion. Half of the agency's energy generation portfolio – more than $5 billion in investments – is in the renewables sector. In addition to energy projects, we have begun to increase our investments in food security and agriculture, with $213 million committed in this sector in 2020. Supporting sustainable agriculture allows us to support key efforts in adaptation and resilience to address climate-driven food scarcity.

We are positioned to do much more. We are making climate finance central to our development mission. We will significantly increase the amount of financing that we provide to climate-related projects, review each of our projects with a climate-focused lens, and encourage an agencywide approach to address climate impacts across the breadth of sectors in which DFC invests, including infrastructure, healthcare, and financial inclusion.

Climate Commitments

DFC's investments are a core pillar of the broader Biden-Harris Administration U.S. International Climate Finance Plan ("Plan"), a whole-of-government initiative which aims to significantly increase the United States' annual public climate finance to developing countries to support climate mitigation, as well as adaptation through projects such as flood resistant infrastructure.

DFC specializes in supporting commercially viable projects in low- and lower-middle income countries that meet our rigorous investment criteria. The tools of the various agencies implementing the U.S. International Climate Finance Plan, including DFC, are complementary. As we pursue our work, the Department of State, for example, is working to create an environment that supports clean energy investment, the Department of Energy is advancing research into state-of-the-art and breakthrough technologies that hold the promise of cheap and scalable zero emissions energy and transportation, and USAID is on the ground, providing grant funding and technical assistance to promising early-stage businesses that unlock the power of finance for economic growth and social impact.

To advance the Plan, DFC will expand its support for climate-linked projects so they account for at least 33 percent of new investments beginning in Fiscal Year 2023. DFC's portfolio will be net-zero for climate emissions by 2040. In other words, by the year 2040, any residual carbon emissions associated with our investments will have been completely offset by investments in carbon removal. DFC is also committed to providing $50 million in technical assistance over the next five years to projects that advance U.S. and international climate objectives. DFC's commitments go far beyond financing for renewable energy solutions, however. We will dramatically scale up our investment in projects in other traditionally carbon-intensive industries, such as transport and food systems, and to address climate adaptation and resilience.

We have already taken steps toward achieving these commitments, including by opening a Call for Applications from private equity, growth capital, infrastructure, and venture capital fund managers seeking DFC investment for funds targeting climate mitigation and community resilience solutions. We have opened a separate Call for Applications for distributed energy projects. We aim to expand the pipeline of climate-focused investments by targeted outreach to the private sector, partner DFIs, and other government agencies.

Chief Climate Officer

As DFC's first-ever Chief Climate Officer, I look forward to the opportunity to lead DFC's efforts to deliver on these commitments and integrate a climate focus throughout all of DFC's lines of operations. I will work with DFC's climate experts to ensure that we are building trust and accountability within the international development finance community through measurable and verifiable reporting of DFC's portfolio greenhouse gas emissions. I will coordinate closely with the interagency to ensure that DFC's investment tools support a whole-of-government effort to scale up our response to meet the magnitude of the climate crisis.

We will also work closely with international partners to assess their needs and jointly develop pipelines of potential climate-focused investments, including those that improve adaptation and resilience to the effects of climate change — effects which we can already observe and are likely to worsen in the near term. I will work with our Chief Development Officer to update DFC's inaugural development strategy, our Roadmap for Impact, to prioritize climate-focused investments, such as projects that reduce emissions, increase clean energy usage, protect ecosystems, and enhance resilience.

Opportunities

Addressing climate change requires immediate action on a massive scale. In 2015, over 190 countries including ours came together to sign the Paris Agreement and made commitments to reduce their greenhouse gas emissions with the goal of limiting average temperature rise across the globe to 1.5 degrees Celsius or less. In the intervening years since Paris, the science has only become clearer, with the Intergovernmental Panel on Climate Change (IPCC) reporting in 2018 that our actions in the next decade will determine whether we can meet this challenge. To meet the moment, developing nations have stepped up their ambition, dramatically increasing the amount of energy they generate and use from low- and zero-carbon resources. India, for example, is seeking to add 175 gigawatts (GW) of renewable capacity by the year 2022 and is aiming for 450 GW by 2030. Indonesia, as another example, has set out to achieve 23 percent renewable energy use by 2025, and 31 percent by 2050, up from approximately 9 percent in 2020.

But with rising demand for energy brought by economic growth and a desire on the part of developing countries to diversify their energy mix, the need for investments in energy generation has increased dramatically. This presents a promising opportunity for U.S. companies to invest. The rest of the world is not waiting for the U.S. to take the lead. If the energy financing gap goes unmet by proven and responsible actors, there is a danger that it may be filled by those that would disregard environmental regulation, oversight, and pollution controls. Working with the private sector, DFC can and must provide a more attractive option, which would enhance U.S. competitiveness, and dovetail with our domestic agenda to invest in American manufacturing, jobs, and clean energy businesses at home. The alternative is a world that increasingly depends on infrastructure constructed by our adversaries. (Researchers at Princeton estimate, for example, that from 2000 to 2017, China invested approximately $115 billion in 462 overseas power plants. Almost half of the new power plants China is financing (48 percent) are coal-fired.)

Opportunities are not limited to the power sector alone. There are immense opportunities in e-mobility, mass transit, trade, industrial processes, and agriculture to significantly enhance resilience, opportunities for sustainable economic growth, and emission reductions in developing economies. These opportunities can also be geopolitically strategic. For example, hundreds of thousands of people have emigrated from the Northern Triangle in part due to agricultural challenges caused by climate change. By investing in sustainable agriculture, we can help address some of the root causes of migration to the United States.

Projects

DFC has already started setting a positive example for climate investment. DFC financing supported the construction of Indonesia's first utility scale wind power plant consisting of 30 wind turbines and a three-kilometer transmission line that connects to the grid. The new plant has added 75 MW of renewable power and expanded the country's capacity to generate clean energy. DFC also has considerable experience in this sector in India, including debt facilities totaling $600 million with ReNew Power to develop solar and wind projects, and loans totaling $77.3 million to UPC Renewables to finance 150 MW of solar projects in Rajasthan. In Kenya, DFC provided financing and reinsurance to support construction of the 100 MW Kipeto Wind Power Project, along with a 15-mile transmission line to connect to the national grid. The plant, which is scheduled to be fully operational in July, is the second-largest wind power project in Kenya and has the capacity to supply power to approximately 250,000 households, based on current energy use for typical families.

Food security and agriculture projects are a growing part of our portfolio. DFC hired additional staff with expertise in sustainable agriculture and food security in order to continue developing our portfolio of projects. One example of a project we have supported in this sector is a $35 million in investment support to Root Capital, a nonprofit impact investor headquartered in Massachusetts, that will provide financing to small and growing agricultural businesses in Latin America, sub-Saharan Africa, and Southeast Asia. Last year, DFC committed to invest $22 million direct loan to Forest First Colombia S.A.S. to support the expansion of sustainable forestry on degraded land in eastern Colombia, one of the country's poorest regions.

Partnerships

DFC is committed to a multilateral approach to addressing the climate crisis. DFC collaborates with other countries' development banks and development finance institutions (DFIs), as well as with private philanthropies and closely with USAID and MCC. These partnerships are essential to building out our pipeline of climate-linked transactions and they help achieve better results. On May 6, DFC announced that we would join G7 DFIs under the DFIs+ Adaptation and Resilience Collaborative. DFC will support the Collaborative's plan to increase investments in adaptation and resilience and engage in further joint work towards the adoption of a common methodological approach for identifying eligible investments and reporting on progress. The Plan also aims to fast-track the integration of physical climate risks and opportunities in capital allocation decision-making.

We are also partnering on various initiatives to expand access to distributed renewable energy (DRE) solutions, which would help connect the hardest to reach people to sources of clean energy. For example, in February, DFC and the Shell Foundation signed an MOU intended to build a pipeline of fast-growing, high-impact businesses that deliver DRE to households, farmers, and non-farm businesses in off-grid areas. Under the MOU, the Shell Foundation will deploy more than $45 million grant funding by 2025 to early stage companies, with DFC approving up to $100 million in debt and equity investment to support the growth of these businesses, leveraging capital to enable larger scale.

Measuring Outcomes

If DFC is to have a meaningful impact on reducing greenhouse gas emissions, we must work transparently and through credible reporting methodologies. DFC is already a leader in the U.S. government for measuring and reporting on the greenhouse gas emissions of its programs, and it was the first agency to report on private finance mobilized using a standard methodology that can be reported to the Organization for Economic Cooperation and Development (OECD). In measuring progress toward net-zero portfolio emissions, DFC will evaluate both the direct and indirect emissions of all projects in its portfolio, including loans, equity, insurance, co-investments, and the down-stream investments of funds. DFC will not claim credit for so-called "avoided emissions." DFC will pursue investments that sequester carbon, such as sustainable forestry projects, will offset the residual carbon in its portfolio, and we will seek to utilize the full span of our financial tools to support innovation in carbon sequestration. DFC's methodologies for measuring carbon emissions will be further refined in conjunction with our partners and other agencies, and our greenhouse gas emissions reporting will continue to be audited by an independent accounting firm.

Supporting Reliability and Access in Highly-Developmental Contexts

Clean energy is increasingly cost-competitive with fossil energy. A 2020 report by the International Renewable Energy Agency (IRENA), for example, shows that more than half of the renewable capacity added in 2019 achieved lower power costs than the cheapest new coal plants. Domestically, some baseload renewable energy (i.e., solar plus battery storage) projects now regularly outcompete natural gas-fired generation projects. However, there remain instances in developing economies where zero emissions power technology cannot alone meet the energy needs of the very poor and disconnected.

We will retain the ability to support the most highly strategic and developmentally impactful carbon-emitting projects through 2030, within the confines of our net-zero commitment. For example, we are exploring a natural gas project in Sierra Leone which would provide enough electricity to power 25 percent of homes in the country, while still only consuming a small portion of our greenhouse gas emissions cap. It is also important to note that the stable electricity generated by this project would also facilitate the integration of renewable sources into Sierra Leone's grid in the longer term. However, consistent with administration policy, DFC will prioritize lower emissions projects and closely consider any alternatives to carbon-intensive projects when determining whether to support a fossil fuel project, and fossil fuel projects will be phased out after 2030. In all cases, we will do everything we can to support projects that demonstrate that new and innovative clean energy technologies are ripe for deployment *everywhere*, and that DFC is a creative, problem-solving agency at the forefront of those development efforts.

Conclusion

DFC plays a central role in advancing the Biden administration's climate finance priorities. We do so with a focus not only on preventing and mitigating the effects of climate change, but also on strengthening the ability of the United States to compete in and lead the clean energy economy of the future. We will help the United States deliver on the promises made at the President's Leaders Summit on Climate and serve as an example for other developed nations as they pursue their own climate finance initiatives. We do so out of a strong belief in the power of clean energy to lift people out of poverty, to provide pathways into good jobs, and to create healthy communities. Our focus on climate is at its core is about providing those that aspire to join the growing global middle class with the dignity that they deserve: the dignity that comes with clean air, reliable sources of food and water, and access to electricity. I look forward to sharing more with the Committee about DFC's efforts to advance this agenda, and I look forward to your questions.

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