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PREPARING FOR COP26: UNITED STATES STRATEGY TO COMBAT CLIMATE CHANGE THROUGH INTERNATIONAL DEVELOPMENT

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Introduction

Chairman Castro, Chairman Keating, Ranking Member Malliotakis, Ranking Member Fitzpatrick, 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 advancing the President's international climate finance agenda.

In his speech last month to the United Nations General Assembly, President Biden not only recognized the seriousness of the climate crisis and the urgency this moment requires, but also reminded nations that making ambitious climate investments isn't just good climate policy—rather, it's a chance, as he said, "to invest in ourselves and our own future," to create good-paying jobs for workers, and to spur long-term economic growth.

DFC is well positioned to use its private sector investment tools to address the climate crisis in a way that creates pathways for economic mobility, provides opportunities for good work, and creates healthier, more vibrant communities. The President has recognized DFC's unique role and has called on DFC to do more. DFC is working with other G7 development finance institutions and U.S. Government agencies through the Build Back Better World (B3W) Initiative to dramatically increase the amount that we invest in climate solutions. Through B3W, we will offer countries a positive vision and a sustainable, transparent source of financing in contrast to coercive models driven by other governments.

DFC investments addressing the climate crisis—whether those are made in clean energy power projects, or climate resilient agriculture and food systems, or in nature-based solutions to help draw carbon from the atmosphere—will narrow the financing gap for climate solutions in developing countries and help the United States fulfill the President's historic commitment at the UN to further double our public international financing for climate solutions. Our efforts will continue to reflect a longstanding bipartisan focus under the BUILD Act on development: we aim to reach those that are poorest and most marginalized and support solutions that improve livelihoods. The needs of low and lower-income countries for energy, for clean air and water, and for economic opportunities are at the forefront of our agenda.

Addressing these needs will require significant investments.

DFC Role in Closing the Financing Gap

The total amount of capital needed to finance climate mitigation and adaptation across all industries, geographies, and finance institutions is $100-150 trillion by the year 2050. According to the IFC, approximately half of this financing gap is needed in emerging markets—roughly $1.5-2 trillion per year. The gap grows wider when you consider the cost of inaction: climate change is projected to cost emerging market countries anywhere between 1.5%-5% of GDP per year. The world must mobilize substantially more resources from the private sector and the capital markets to fill this gap.

The private sector and the capital markets increasingly recognize that filling this financing gap represents a tremendous opportunity for growth. That opportunity is to the tune of $23 trillion in climate-smart investments in emerging markets. DFC has a critical role to play in catalyzing investments in this space.

In pursuing these ambitious goals, DFC will draw from a strong history of using its financial tools—including direct loans and project finance, insurance, equity investments, investments in emerging market growth funds, and technical assistance funding—to advance development outcomes. DFC already supports projects in renewable energy, with more than $5 billion of investments in our current portfolio, representing about 16% of total exposure. DFC's support for renewable energy projects spans multiple administrations of both parties. In the last 5 years, DFC supported nearly 75 renewable energy projects. DFC has been one of the leading agencies to have successfully advanced Power Africa and Electrify Africa Act goals.

We are building on this experience to go much further, looking within DFC's existing portfolio to broaden our focus on climate-linked projects, including those that aid in adaptation and resilience to the effects of climate change. We are seeking to support projects that help sequester carbon from the atmosphere using nature-based solutions like forestry and agriculture. We are responding to the challenges of climate-driven food scarcity by scaling up investments in food security, with a commitment to invest $1 billion in such projects alongside the U.S. Agency for International Development over the next five years. We are also seeking to deploy innovative, carbon-reducing technologies in developing economies, including those in the electric mobility space, or in the low-carbon industrial sector.

To accomplish these goals, DFC 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 agency-wide approach to address climate impacts across the breadth of sectors in which DFC invests, including infrastructure, healthcare, and financial inclusion. We have pledged that climate-linked projects will account for at least 33 percent of new investments beginning in Fiscal Year 2023, and by 2040, DFC's portfolio will be net-zero for climate emissions – the most ambitious target among G7 DFIs.

Economic and Foreign Policy Opportunities

By investing in climate mitigation, adaptation, and resilience, DFC will support U.S. economic competitiveness and ensure that U.S. values remain at the forefront. Our competitors around the world seek to lead the development of these industries not because they recognize the dangers of climate change, but because they want to win the clean energy industries of the future. And they are not waiting for the United States to take the lead.

Our competitors have already mobilized aggressively to dominate energy markets, whether it's for natural gas or photovoltaic cells. While it is undeniable that the People's Republic of China is far and away the most polluting nation on Earth, the PRC also ranks first in the production of solar, wind, electric vehicles, batteries, and hydropower globally. That's because clean energy is the driving economic force of the future, and the world will only become more dependent on the PRC if we fail to support an alternative model that upholds fair competition, respect for human rights and the environment, and economic freedom.

Major global strategic opportunities are available where U.S. leadership would be welcome. One example of the market opportunity available can be found in India, which is seeking to add 175 gigawatts (GW) of solar capacity by the year 2022 and is aiming for 450 GW by 2030. It is in our interest to support responsible, values-driven companies in filling this gap. Working with the private sector, DFC can provide a more attractive option for developing countries, which would enhance U.S. competitiveness, and dovetail with our domestic agenda to invest in American manufacturing, jobs, and clean energy businesses at home.

Strategic imperatives do not exclusively exist in the energy sector. They abound in infrastructure for trade, construction and materials development, transportation, and natural capital preservation. Supporting food security and agriculture is an area where DFC already has tremendous experience, and can be a driver for advancing our climate and foreign policy goals together. According to data from the World Food Programme, 30 percent of households in Guatemala, El Salvador, Nicaragua, and Honduras with migrants cited the adverse effects of climate on their food production and access as the main reason for migration. By investing in more resilient resources, we can reduce long-term drivers of migration and provide for immediate needs. DFC has begun work in this area, including through a $35 million loan guaranty in support for Root Capital, an investor that focuses on expanding financing to small and growing agricultural businesses in Latin America, sub-Saharan Africa, and Southeast Asia. We will expand these efforts through a new dedicated food security team at DFC.

Conclusion

Articulating a vision for development that puts climate mitigation, adaptation, and resilience at the center will require substantial and sustained investment. At the UN General Assembly last month, President Biden announced that the United States will significantly ramp up our support for climate investment in developing economies: we aim for total public financing of $11.4 billion per year. This doubling of the U.S. commitment to climate finance reflects a U.S. international development policy that leads with sustainability and creates durable economic growth.

This commitment will require not just careful budgeting, but also sustained support from the Congress. And, thanks to bipartisan support in this and other key congressional committees, DFC has already begun to dramatically scale up its investments. The $6.7 billion DFC committed to development projects in FY 2021 is the largest annual investment of DFC or its predecessor since 1996. And, we are poised to keep growing our investments.

DFC will need continued support in order to execute on an ambitious agenda for the agency, which includes supporting climate objectives while enhancing U.S. competitiveness through B3W, meeting investment targets, and improving livelihoods for the poorest and most marginalized. Thank you for taking the time to learn more about our efforts, and I look forward to your questions.

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