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**Preparing for COP26: United States Strategy to Combat Climate Change through
International Development**
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Chairman Castro, Chairman Keating, Ranking Member Malliotakis, and Ranking Member Fitzpatrick, Distinguished Members of the Subcommittees: Thank you for the opportunity to testify on behalf of the Millennium Challenge Corporation and our climate work.

The Millennium Challenge Corporation (MCC) is an innovative and independent U.S. government development agency that partners with selected countries to reduce poverty through economic growth. Since 2004, MCC has invested \$14 billion dollars in grant funding in more than 40 countries in Africa, Asia, and Latin America. As a result of our large, targeted infrastructure investments we have completed over 3,000 kilometers of roads, improved the irrigation of over 200,000 hectares of farmland, and upgraded or built nearly 6,000 kilometers of transmission and distribution lines.

One of MCC's greatest strengths is our rigorous approach to data, monitoring and evaluation, and country-ownership. Decisions on where we work and what sectors we focus on are all driven by an evidence-based approach that is responsive to countries' needs and priorities. Both the evidence and our deep engagement with countries have pointed to the inextricable link between poverty, economic growth, and climate change. With a focus on low- and lower middle-income countries, we work in some of the countries that are the most vulnerable to the impacts of climate change, all while being the least responsible for it. Our country partners are at the forefront of the call asking for climate-related investments in agriculture, water and sanitation, renewable energy, and other climate-related infrastructure investments. For them, adaptation is a necessity, not a

luxury. For MCC, investing in adaptation is key to making our investments sustainable and making sure development dollars are protected and can have lasting impact.

Fortunately, MCC is building on a position of strength. Prior to the Biden Administration's commitment to climate change, over one-third of MCC's investment portfolio already included climate-related projects. Between FY 2015 and FY 2020, \$1.7 billion, or about 40 percent of the agency's program funds were in climate-related activities across a number of key sectors, including supporting regulatory reforms to require the use of recycled water for industry in Mongolia, helping reduce Malawi's dependence on the charcoal trade, and reducing reliance on fossil fuels in Indonesia by expanding renewable energy. MCC's portfolio has included climate-related projects in the past because the impacts of climate change directly affect MCC's mission to reduce poverty through sustainable economic growth.

As I mentioned, despite being the least responsible for global carbon emissions, many of the developing countries that MCC works with are the most at risk from climate change and the least able to afford its consequences. According to the World Bank, poorer countries face increasing risk of food insecurity, involuntary migration, health system failure, and rising economic vulnerability. The estimated cost of the damage to power generation and transport infrastructure systems alone in low- and lower middle-income countries, as caused by natural disasters, stands at roughly \$18 billion annually. The World Bank also highlights the strong economic case for investment in climate resilient infrastructure, noting that every dollar invested brings an estimated four dollars in economic benefits.¹

Without significant interventions, climate change, combined with the economic fallout from the COVID-19 pandemic, will reverse significant development gains made in low-income and lower middle-income countries, exacerbating global poverty and inequality. Indeed, reversal of development gains as a result of COVID's economic impacts is already a measurable reality with the first increase in global extreme poverty and food insecurity in 20 years.

In this context, investing in climate-smart development and sustainable infrastructure is critical to respond to countries' interest in enhancing their resilience to future crises, adapting to new

climate realities, reducing emissions, and stimulating economic growth. These needs also inform the Biden Administration's prioritization of climate, including through the Build Back Better World (B3W) Initiative. MCC's grant funding, close partnerships with government, and work in critical sectors like energy, water, transportation, and agriculture has made us highly effective at fostering economic growth in the face of a changing climate.

MCC was an early mover in integrating climate change adaptation, resilience and mitigation considerations into programs. As part of MCC's due diligence process, potential projects are evaluated for environmental and social risks as well as opportunities to enhance environmental and social benefits. MCC has been building climate considerations into programs for years because it helps spur sustainable economic development and reduce poverty. MCC's investments will continue to be grounded in a sound economic analysis of where the U.S. can have the most impactful development and economic return on investment. Based on our economic analysis work and knowledge of countries in our pipeline, we have estimated that over the next five years our climate-related activities portfolio will increase to at least 50 percent of MCC's programming.

Country ownership is a central tenet of MCC's model, and our work on climate is no exception. A wealth of research shows that development investments are more effective and sustainable when they reflect a country's priorities and strengthen a government's accountability to its citizens. MCC's partner countries exercise ownership when governments take the lead in setting priorities for MCC investments in close consultation with citizens, civil society, and the private sector. This ownership takes place within the framework of MCC's focused mandate and must be consistent with MCC's standards for accountability, transparency, and impact.

As part of our announcement of MCC's commitment on climate in April 2021, MCC committed to working with partner countries to invest in climate-smart development by supporting partner countries' efforts to meet their Nationally Determined Contributions (NDCs) under the Paris Agreement, promote low-carbon economic development, help countries transition away from fossil fuels, and integrate the needs of women and those most vulnerable to climate change into the designs and implementation of investments.

To achieve this, MCC will work with partner countries to promote climate smart development and sustainable infrastructure through our well-established model. MCC will ensure the long-term viability of these investments by remaining evidence-based and data-driven, as well as continuing to listen to our country partners, who are attuned to the risks posed by climate change, committed to addressing it over the medium- and long-term, and have innovative ideas about the best ways to tackle these challenges.

In addition, MCC's ability to drive policy and institutional reforms improves government transparency, promotes the sustainability of our investments, and enhances the protection and management of natural resources, helping our partner countries to reach their climate goals and better address economic and social problems exacerbated by climate change. Reforms are also critical to fostering an enabling environment for private sector growth and help ensure transformational and lasting change in the sectors in which we work.

For example, in Burkina Faso, MCC is strengthening policies and regulations governing the electricity sector and facilitating the transition away from fossil fuels through new solar generation deals with independent power producers. This will help Burkina Faso reduce its dependence on fossil fuels while meeting the country's growing demand for electricity. Energy from renewable sources is expected to help improve the lives of over 500,000 Burkinabe citizens. Likewise, the Water Supply Project in Mongolia is supporting regulatory reforms to require the use of recycled water for industry. This will strengthen the climate resilience of the capital city's water supply, which is increasingly at risk due to climate change, while paving the way for wastewater recycling for industrial uses throughout Mongolia. The Mongolia Compact is expected to benefit almost 2.5 million people over the next 30 years.

Whether upgrading design standards for roads to boost resilience against increased frequency and intensity of storms as we did in the Philippines, considering the implications of sea level rise for ports as we developed our compact with Tunisia, or supporting renewable energy, energy efficiency, and policy reforms as we are in Benin, Ghana, and Burkina Faso, MCC has a strong track record making investments to help our partners address the impacts of climate change.

In Malawi, MCC helped to reduce the country's dependence on the charcoal trade and improved land management through sustainable farming and tree planting practices. To do this, MCC supported roughly 900 Village Savings and Loans groups comprised of over 21,000 women and 5,600 men. MCC trained nearly 8,000 leaders in natural resource management, over half of whom were women. MCC grants from the Social and Gender Enhancement Fund engaged with more than 70 thousand community members through a grant facility to promote sustainable land management. These grants sought to reduce soil erosion and runoff that affected weed infestation for the hydropower plant that our compact supported.

The Benin Power Compact currently in implementation has the potential to leverage \$100 million in private investment and increase utility-scale and off-grid solar power generation, creating an enabling environment for independent power producers. This potential could deliver electricity to nearly 630,000 people in the poorest areas of Benin for the first time. In Indonesia, MCC reduced reliance on fossil fuels by expanding renewable energy, reduced land-based greenhouse gas emissions by improving land use practices and management of natural resources, and supported policy improvements through participatory land use planning. Preliminary modeling estimates that MCC's investments from the first compact with Indonesia are increasing economic productivity while reducing greenhouse gas emissions by up to 1 million tons of CO₂-equivalent per year through improved natural resource management, renewable energy generation, and sustainable agricultural practices.

MCC's compact with Niger focuses on agriculture and is working to strengthen rural communities' resilience to climate change. This includes the establishment of water points for livestock, restoration of degraded pasture lands in livestock corridors, promotion of sustainable land management for agriculture lands that includes controlling erosion through planting trees and shrubs and agroforestry activities. We are also focused on natural resource management in pastoral corridors or nomadic lands to train people on sustainable land management, develop a training plan and get it approved.

These are just a few examples of programs designed over the past decade through employment of MCC's model to support poverty reduction through economic growth in partner countries. MCC is also leading by example in seeking innovative ways to reduce the agency's carbon footprint and strengthen the climate resilience of MCC's operations.

In closing, a road can only spur economic growth and reduce poverty if it survives the storms that come its way. An irrigation system can only increase crop production if water is available. Understanding and preparing for future risks is essential to making sure that the economic benefits generated by MCC's investments are sustained over time.

Thank you again for the invitation to testify on MCC's climate work. I am happy to take any questions you may have on MCC, our model, or our work on climate and how it is linked to our mission.

ⁱ The World Bank. (2021, October 8). *Climate Change Overview*. <<https://www.worldbank.org/en/topic/climatechange/overview#1>>