

**Statement of Acting Director for the Center for Environment, Energy, and Infrastructure,
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“Global Climate Finance”
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Chairwoman Lee, Ranking Member Rogers, Distinguished Members of this Subcommittee: Thank you for the opportunity to testify about the important role the U.S. Agency for International Development (USAID) plays in mobilizing climate finance and addressing the climate crisis. It is an honor to be here with you today. USAID is grateful for the ongoing collaboration with this Subcommittee as we work to align our efforts on climate change with the scope and complexity of the challenge.

There is perhaps no greater threat to global prosperity and security than climate change, what President Biden has called “the number one issue facing humanity.” Urgent action is needed to dramatically reduce greenhouse gas emissions and increase resilience to a changing climate. There is no time to waste – temperatures and sea levels are rising and much of the world is highly vulnerable to climate-related extremes, such as heat waves, droughts, floods, cyclones and wildfires.

Last month, President Biden convened a Leaders’ Summit on Climate to raise global ambitions to keep within reach the vital goal of limiting warming to 1.5 degrees Celsius. The United States is leading by example - announcing a bold commitment to reduce U.S. greenhouse gas emissions by 50-52 percent from 2005 levels by the end of this decade, and to achieve net-zero greenhouse gas emissions by 2050. However, approximately 85 percent of global emissions come from outside our borders - and about two-thirds of global emissions come from developing countries.

To avert climate catastrophe, we must work closely with partner countries to support their efforts to dramatically reduce emissions, while ensuring that there is a “just transition” that also prioritizes the sustainable growth of the least developed countries worldwide. This will require large-scale investments to transform economies, and reshape energy, food, and transport systems. It will require creating financial and other incentives to reward stewardship and spur restoration of forests and other carbon-rich landscapes at a grand scale.

It will also require addressing climate injustices and historical inequalities by empowering local communities, including women and Indigenous Peoples, to be agents of change on climate and the environment. Indigenous Peoples' rights must be respected, and their communities must be elevated, engaged, and supported as critical partners and sources of knowledge around carbon storage, pollution reduction, erosion, flood management, sustainable stewardship and development.

But even our most ambitious emission reduction efforts will not change the stark reality that the impacts of climate change are already happening. And from flooding to droughts and famine - the most vulnerable groups are being hit the hardest, further exacerbating existing inequalities. Building resilience against the impacts of climate change will also require mobilizing and aligning conflict-sensitive finance at scale.

Globally, the investments needed in climate mitigation and adaptation will require trillions of dollars - more than any government alone can finance. We need to mobilize funding from all sources - public and private; global and local - and guide those investments to the most effective solutions and to the most vulnerable communities with appropriate situational awareness.

To guide the U.S. Government's efforts in this regard, President Biden's Executive Order on tackling the Climate Crisis at Home and Abroad (E.O. 14008, signed January 27, 2021) called for the development of the first-ever U.S. International Climate Finance Plan. As part of this plan, USAID is working closely with U.S. Government and global partners to leverage our human and financial resources to mobilize climate finance to help our partner countries achieve our shared ambitious climate and development goals.

In coordination with the interagency, USAID is also developing a new Agency-wide climate strategy and a Climate Finance Action Plan to guide our efforts as an Agency, within the context of the broader U.S. Government-wide plans. We intend to achieve an average ratio of 20 dollars mobilized from other public and private sources for every USAID dollar spent.

However, it is important to remember that climate finance does not just mean raising money. It means solving problems. That requires both mobilizing resources and directing funding strategically to solutions on the ground in ways that drive real change, such as investments that scale up renewable energy capacity, transform agriculture to make food systems more climate-resilient, and update infrastructure to reduce the risk of future disasters.

In the countries where USAID works, there are often significant barriers in place to mobilizing finance and achieving results: investor reluctance due to real and perceived risks of investing in volatile markets and otherwise fragile or conflict affected regions; weak market systems and lack of regulatory and financial infrastructure; lack of government capacity to access international climate finance opportunities and meet investment requirements; security restrictions due to

active tensions and conflict; challenges around poor governance and inequity; and weaknesses in tax collection and public financial management.

USAID works on the ground with partner countries to overcome these barriers and build productive relationships that drive transformative change. We provide long-term technical assistance to strengthen human and institutional capacity, improve governance at national and local levels, increase confidence in partner governments, and strengthen social, fiscal and economic systems. USAID's on-the-ground technical assistance work complements and enhances other climate finance opportunities by: 1) helping to establish the enabling environment that attracts private investment; 2) mobilizing domestic revenue and improving public financial management to pay for climate mitigation and adaptation; 3) helping to develop a pipeline of investment-worthy projects and addressing the barriers to investment; 4) assisting partner countries in accessing climate finance opportunities and meeting requirements; 5) incentivizing and structuring private financial vehicles to leverage public funds for greater development impact; and 6) supporting financing in underserved sectors and for underserved communities through multiple risk management tools.

Let me give you some examples of how USAID does this and where we are seeing success on the ground:

1. Helping to establish the enabling environment that attracts private investment

Most USAID partner countries do not have sufficient funds to implement their Nationally Determined Contributions (NDCs) under the Paris Agreement or their National Adaptation Plans and priorities. USAID helps them unlock the necessary private investments to implement these commitments through our technical assistance, policy reform, and private sector engagement programs and partnerships.

Globally, private investment is essential to rapidly scale renewable energy. USAID is helping countries like India, Kazakhstan, Colombia, Malawi, and Zambia develop their policy, regulatory, and business environments to expand renewable energy through competitive energy auctions. Auctions provide incentives for investment by offering stable, long-term contracts to generators who in turn compete to deliver the lowest price. This competitive, transparent process helps countries meet their energy goals and attract private investment.

USAID provides essential technical assistance to support this process. In Colombia, for example, USAID supported the country's first ever renewable energy auction by working closely with the Government to prepare the draft and final policy documents and corresponding regulations. Colombia's auction is leveraging \$2 billion in expected private investment for new large-scale renewable energy plants, including \$255 million of U.S. investment towards government agencies seeking to build more resilient infrastructure. In Southern Africa, the Power Africa Initiative is working with the governments of Namibia and Botswana to support transparent and

competitive procurements to develop 3-5 Gigawatts of solar power to replace carbon-intensive electricity imported from South Africa. This is expected to attract over \$4 billion in public and private investments.

And, importantly, USAID helps mitigate risks for investors, governments, and local communities -- including Indigenous Peoples -- by working to strengthen the systems and institutions that support land and resource ownership, and resource management, which are key sources of uncertainty and costly conflict in many countries where we work. For example, in Mozambique, USAID is working with Portucel, an agroforestry company, to document the land claims of local community members. This work reduces a common risk the company faces when it leases land from the community: boundary conflicts between neighbors or between local farmers and the company over land rights and access. USAID's work helps reduce the risks the company faces and creates incentives to invest, expanding economic and social opportunities.

2. Mobilizing domestic revenue and improving public financial management to pay for climate mitigation and adaptation.

USAID's domestic resource mobilization programs provide a long-term path to sustainable finance by helping countries to better raise and spend their own funds. Successful domestic resource mobilization programs are highly cost-effective; they return many times what is invested in them. One analysis showed revenue increases of \$20 or more for every assistance dollar invested.

In the Philippines, USAID's Facilitating Public Investments Program helped the Government of the Philippines undertake a comprehensive tax reform that increased tax revenues by more than \$6 billion per year, which has expanded the fiscal space for vital domestic investments in addressing climate change.

In Vietnam, USAID's Payment for Forest Environmental Services program has helped Vietnam generate approximately \$720 million in domestic revenue to support the protection of roughly 6 million hectares of natural forests - approximately 42 percent of Vietnam's total forest cover. Annual revenues from the Payment for Forest Environment Services program account for 22 percent of the total budget for Vietnam's forestry sector.

USAID's support for Colombia's domestic carbon market is similarly providing a financial reward for forest conservation, raising \$66 million in 2019 from businesses seeking to offset a low but gradually increasing carbon tax and generating \$20 million in income for communities.

USAID is also working with partner governments to improve own-source investments in climate resilience. In Indonesia, for example, USAID's Climate Change Adaptation and Resilience project successfully supported mainstreaming of climate adaptation into three national policies,

building the capacity of 73 institutions, and resulting in roughly \$8 billion in government budgets available to fund adaptation actions over the next five years.

3. Developing a pipeline of investable projects and addressing the barriers to investment.

For climate finance to have an impact in developing countries, we need a pipeline of investable opportunities on the ground that investors can fund. USAID helps to stimulate investable opportunities through incubation and early-stage finance for emerging solutions to unlock frontier markets for climate technologies and approaches.

For example, in Brazil, USAID is working with private enterprises and investors to support conservation in the Amazon. We partnered with the private sector and the environmental science community to create the award-winning Althelia Amazon Biodiversity Fund which invests in value chains compatible with forest conservation and sustainable agriculture enterprises, creating local jobs and presenting an alternative model of development. This is also a good example of an innovative blended finance transaction. The Fund utilizes both first-loss protection through an investment by USAID partners, and a partial portfolio guarantee through the U.S. International Development Finance Corporation (DFC), to drive private investment.

In sub-Saharan Africa, Power Africa is helping to stimulate investment through its Private Sector Partnership model, which accelerates investments in clean energy. Power Africa, along with more than 150 private sector partners, about half of which are U.S. companies, encourages the private sector to play a leading role in facilitating renewable energy investments. To date Power Africa has assisted 126 transactions - collectively worth more than \$22 billion - to reach financial close by leveraging public and private sector funds. The pipeline of energy sector investments will translate into more renewable energy projects, more efficient delivery of electricity and less regional reliance on electricity generated by coal.

4. Assisting partner countries in accessing public climate finance opportunities and meeting requirements.

USAID's long-term technical assistance programs help partner countries build a track record of capacity to manage funding, undertake projects, and achieve tangible results. This institutional capacity strengthening in turn helps countries unlock opportunities to access and effectively use much larger pools of funding from multilateral climate funds and other sources.

For example, modest USAID support has enabled our partners in climate-vulnerable Pacific Island countries to build their capacity to access funding from an array of international donors for climate change mitigation and adaptation. USAID's technical assistance helped build institutional capacity in the Federated States of Micronesia and the Republic of Palau, which in turn helped to secure \$10.4 million in climate change-related grants from the Green Climate

Fund. In the Federated States of Micronesia, this involved helping the country to develop a strategy to improve climate resilience and increase food security for farming households.

Another example is Power Africa's Grid Management Support Program in Kenya. By helping Kenya build technical capacity to better manage their grid and advance clean energy projects onto their system, Kenya has been able to achieve one of the highest rates of renewable energy in the world - more than 90 percent.

These catalytic USAID investments provide an enormous return on investment by reducing the cost of climate shocks and stresses on communities and supporting climate change adaptation and resilience.

USAID support -- in conjunction with other U.S. Government agencies -- also increases partner country capacity to measure, report, and verify greenhouse gas emissions and carbon sequestration in forests and other lands. Having the capacity to conduct credible inventories and reporting not only responds to Paris Agreement reporting requirements, but also helps partner countries secure climate finance. USAID support for global programs such as SilvaCarbon helps countries improve forest monitoring systems that provide critical data to inform forest planning, protection, reforestation and other management or policy decisions. This information enables countries to meet finance requirements and demonstrate transparency. In Vietnam, Silvacarbon supported the government to complete their greenhouse gas inventory for forests and lands using international standards. As a result, they were the first country in Asia to sign an Emissions Reductions Payment Agreement with the World Bank, which will unlock up to \$51 million over the next 5 years.

5. Incentivizing and structuring private financial vehicles to leverage public funds for greater development impact.

Private capital is increasingly demonstrating an interest in climate finance. Morningstar issued a report that "as of December 2020, there were 400 mutual funds and exchange-traded funds globally that had climate change as a key theme, with collective assets under management of USD 177 billion. Global assets almost tripled in one year." USAID works with investors to help ensure these investments achieve climate objectives while also yielding positive development outcomes for communities.

Power Africa's early investment in the \$850 million Climate Investor One facility resulted in the development of a 60 megawatt wind farm in Djibouti that, when operational, will displace current fossil fuel generated power and move the country toward its Nationally Determined Contribution goals under the Paris Agreement while also expanding energy access and furthering sustainable development.

More than half of the people in sub-Saharan Africa do not have access to electricity, which limits access to quality health care, education, and economic opportunities for more than half a billion people. USAID's support of the Power Africa Initiative has helped off-grid energy companies access \$233 million in financing to grow their solar home system businesses - this represents more than 15 percent of total capital raised in the off-grid solar sector across sub-Saharan Africa. USAID's Power Africa team is providing technical support for DFC's recent Call for Applications for distributed renewable energy transactions, with the goal of identifying and strengthening business models that will provide productive levels of electricity to those who need it the most.

USAID also plays an important role in incentivizing finance for climate resilience, which attracts far less investment than mitigation. To further strengthen the climate resilience of small-holder farmers, USAID has invested in Aceli Africa, a blended finance mechanism that stimulates a broad range of banks and investors to lend to small and medium enterprises to implement climate-smart agriculture, restore forests, and avoid the destruction of existing forests. Importantly, Aceli also incentivizes lending to women-owned and youth-benefiting businesses.

USAID also works directly with several American companies and industry associations like Starbucks, Keurig Dr. Pepper, Hershey's, and the World Cocoa Foundation, to reduce carbon emissions and negative climate impacts on vulnerable populations around the world.

6. Supporting financing in underserved sectors through multiple risk management tools.

USAID is uniquely positioned to help communities and countries to identify, manage, reduce, and transfer climate-related disaster risks. Preparedness for climate-related shocks and stresses can reduce negative impacts on lives, health, food security, livelihoods and community assets, as well as prevent backsliding into poverty, further widening inequalities, and can support economic growth.

USAID plays a global leadership role promoting climate risk management and disaster risk financing, which are both essential for proactively managing climate risks. USAID supports a range of climate related disaster risk finance tools to promote early actions to build and strengthen early warning systems, scale up disaster risk reduction interventions and country-level disaster risk reduction plans, policies and financial support strategies to protect vulnerable people from the impacts of the climate crisis.

USAID provides financial and technical assistance to help communities and countries manage financial risks through better planning, preparation, risk reduction measures, and response to climate shocks. Disaster finance support comes in many forms -- from contingency plans to sovereign level risk insurance which enables countries to prepare for and --at least partially -- finance their own disaster responses.

Risk transfer instruments supported by USAID are an important tool in the toolbox. Risk pooling activities that pre-arrange finance help developing countries and donors better manage financing for climate-related risks before a disaster occurs. The African Risk Capacity (ARC) Replica program is one example of how USAID helps countries better manage climate-related financial risk and build capacity to design and implement a variety of disaster risk management financing tools.

In closing, USAID is accelerating the scale of our climate change adaptation and mitigation efforts to meet the urgency of this great challenge. We will use the full suite of tools at our disposal -- from institutional capacity building to private sector partnerships to innovative blended finance mechanisms -- to mobilize funding and apply it to solutions on the ground in support of the new International Climate Finance Plan and the Administration's bold climate agenda.

Thank you and I look forward to your questions.