Climate Adaptation Plan

2022 Progress Report

Agency	US International Development Finance Corporation
Climate Adaptation Official	Jake Levine
Agency Climate Adaptation Webpage	http://www.dfc.gov/climate

SECTION 1: UPDATES ON PRIORITY ACTIONS

Priority Action Progress			
Action	**Current Status**	**Estimated date of completion**	**Brief Description of Progress**
	Not started/In progress/Complete	**Month/Year**	**1-2 sentences describing progress to date**
Drive DFC investments toward adaptation & resilience climate objectives	In progress	Ongoing	DFC has established a Working Group focused on building related pipeline.
Mobilize additional private climate finance capital	In progress	Ongoing	DFC has a strong track record in mobilizing private capital through its investments but is focused on accelerating efforts to do more with regards to mobilizing adaptation capital specifically. One relevant workstream emerging from DFC's Office of Development Policy is an effort to more precisely evaluate how much mobilization occurs as a result of any given financing.
Enhance portfolio diversity to reduce risk	In progress	Ongoing	DFC is working proactively on the development and implementation of a climate-related business development strategy to increase the diversity of its investment portfolio and reduce risks.
Integrate climate risk analysis when developing deals	In progress	Dec 2023	DFC is implementing the pilot use of a climate risk analysis tool, part of the agency's effort to update our climate risk screening under EO 13677. Lessons of this pilot will be used to scale risk analysis efforts across DFC's investment pipeline.
Embed climate lens into transactions and impact measurement	In progress	Oct 2022	DFC is updating its impact management tool, the Impact Quotient, to include climate-related metrics and outcomes. DFC's screening memo template has also been updated to include a question about climate-alignment which is used to screen all new potential transactions.

SECTION 2: UPDATES ON OTHER INITIAL PLAN TOPICS

1. Climate-Risk Reduction:

A. Does the agency use a structured method for assessing operating risk to climate-related hazards[1] (e.g., making facilities and infrastructure more resilient to climate hazards such as flooding, extreme heat)? **No**

DFC's operating risks relating to climate-related hazards is minimal given the size of the agency and the very limited number of physical assets. DFC is committed to reducing vulnerabilities and improving resilience for its own assets, which include personnel, facilities, data systems, and vehicles. As such, DFC will integrate consideration of climate change impacts and adaptation into the planning, operations, policies, and programs of its assets. DFC is located in a multi-tenant, commercially owned facility in the heart of Washington, D.C. DFC leases approximately 174,000 square feet including one data center via a full-service lease and DFC has limited control over the operations and maintenance of the facility. DFC fleet consists of three vehicles directly leased from the General Service Administration.

During recent renovations DFC installed office lighting occupancy sensors, changed out compact fluorescents for LED lighting whenever possible, used Zero VOC paints, and improved efficiency in our HVAC systems operations. Our new appliances (refrigerators, ice makers, dishwashers) are all Energy Star rated. Acoustical ceiling tile used is 91% bio-based, carpeting is cradle to cradle certified and Green label plus certified manufactured in a LEED certified mill. The wallcoverings are PVC free and Green Guard certified. Acoustical and tack-able panels are Green Guard Gold Certified recycled content (76% post-consumer).

B. Did the agency use a method for assessing fiscal risk exposure due to climate change (e.g. likely changes in asset values as a result of physical climate risk and/or climate policy impacts)? **No**

- **i.** If yes, what are the major financial risks expected in the near term and in the longer term?
- **ii.** If no, what barriers exist for developing a robust assessment of climate risk exposure?

Given the nature of DFC's mandate – to invest in highly developmental projects with a focus on low-income and lower-middle income countries – assessing climate risk exposure to DFC's investment portfolio is hindered by several factors including, *inter alia*, limited access to robust data and information regarding investee operation and value chain climate vulnerability; lack of downscaled data (subnational level) with respect to specific physical climate risks in countries where DFC is invested, and; DFC investee's lack of knowledge about and assessment capacity for climate-related risks. Moreover, until recently, there did not exist robust frameworks for incorporating climate-related risks into the investment decision-making process for financial institutions.

C. What agency actions have been taken since October 2021 and what planned actions over the next year will help to reduce the agency's climate related financial risks?

DFC is currently reviewing multiple approaches for assessing, mainstreaming and reporting climate-related financial risks, which include both physical climate risks and transition risk. DFC has incorporated climate resiliency screening into its existing environmental and social impact assessment process. Using publicly available climate-change data, screening tools and information, and inter-agency collaboration, the environmental and social team developed a reference checklist for use in conducting the climate resiliency screening. Coordination with internal stakeholders as well as external advisors is undertaken to gain additional input. Results of the climate resiliency screening are documented in DFC's internal environmental and social assessments. DFC has also begun to speak with external providers of climate risk analytic tools. as a possible approach for the evaluation and

[1] Climate hazards or physical climate risks can be either acute or chronic. Acute risks include droughts, floods, extreme precipitation and wildfires, and extreme temperatures. Chronic risks include slowly rising temperatures, sea level rise etc.

quantification of portfolio climate-related financial risk. The agency is also undertaking an internal exercise to facilitate possible future reporting on climate-related risks in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and OMB Circular A-136. DFC will also upgrade the internal greenhouse gas emissions accounting system to capture the emissions intensity of its portfolio more accurately as one input to gauge low-carbon transition risk of the portfolio. Finally, DFC is contemplating procuring external expertise to assist with the physical climate risk assessment of potential investments during the screening and due diligence phase of the agency investment cycle.

2. Climate Vulnerability Assessments:

A. Has the agency completed its climate vulnerability assessment? **Yes**

When drafting the Climate Action Plan in 2021, DFC assessed the climate vulnerability of the agency and mapped out its key vulnerabilities as a financial services agency and how to address them. These are included in the original Climate Action Plan document published in September 2021.

3. Climate Literacy:

A. Has the agency conducted or begun to develop climate training programs on a broad scale? **Yes**
B. How is the agency fostering a culture of knowledge and practice for climate adaptation?
C. How did employees put the knowledge into practice?

DFC's Office of the Chief Climate Officer and Office of Development Policy have developed multiple resources to increase awareness and knowledge of climate related impacts and transaction opportunities. These resources include a technical sectoral landscaping document and a quick reference guide. There's also a central repository of information in the internal website of DFC that all employees have access to where self-guided resources are available. DFC's leadership team has hosted multiple agency-wide brown bag presentations covering a range of topics including carbon markets, emerging finance opportunities in e-mobility, DFC's adaptation investment strategy, and the World Bank's Climate Assessment for Financial Institutions tool. DFC staff have also participated in significant numbers in climate-related trainings held outside the agency.

DFC's Finance Officers have begun to put the knowledge into practice by flagging transactions that could have positive climate impacts to the Office of Development Policy and the Office of the Chief Climate Officer to confirm which projects should and should not be considered as contributing to climate finance flows.

While DFC has begun to develop and deploy the resources outlined above, there is still more work to be done especially to increase awareness of climate risks and how investment teams can go about identifying and addressing them while working with potential clients.

4. Tribal Engagement:

A. Did implementation of the Plan include consideration of Tribal Treaty Rights? **No**

DFC does not engage with tribes in the United States as we work entirely internationally. DFC isn't subject to Tribal Treaty Rights or ITEK but we do consider indigenous rights in all of our transactions.

B. Did implementation of your Plan include consideration of Indigenous Traditional Ecological Knowledge (ITEK)? **Yes**

DFC does consider indigenous rights in all our transactions. DFC's Environmental and Social Policy and Procedures implements applicable environmental and social requirements contained in U.S. law and the International Finance Corporation's Performance Standards on Social and Environmental Sustainability. ITEK is covered under both Performance Standard 8 on Cultural Heritage and Performance Standard 6 on Biodiversity. DFC takes a broad view in its analysis for ecological services and impacts of potential transactions which includes indigenous people.

5. Environmental Justice:

A. Has the agency considered environmental justice in the implementation of the Plan? **Yes**

DFC's Office of Development Policy primarily looks at environmental justice from the lenses of worker's rights and stakeholder acceptance. For example, we require a review of HR Policies of potential clients to ensure they are nondiscriminatory. Also, community stakeholder perspectives about a potential transaction is part of DFC's considerations when conducting due diligence.

In response to Executive Order 13985, DFC has also developed a dedicated Equity Action Plan which outlines DFC's approach to catalyzing inclusive growth in the markets where it operates. Simply targeting top line economic growth (ex. as measured by GDP) would be insufficient to achieve DFC's poverty reduction and sustainability goals; inequality leads to value gains at the top of societies. Inclusive growth means every dollar goes further in reducing poverty and building sustainable political economic systems. As such, targeting underserved communities is a key driver of inclusive growth.

DFC is also a key implementing agency of the Administration's Just Energy Transition Partnerships (JETP) aiming to mobilize billions of dollars of private and donor finance across several bilateral and multilateral partnerships to boost the transition to low-carbon economies – environmental justice is a key consideration of the JETPs. A JETP has been formally established with the Government of South Africa, and additional JETP initiatives are now underway in partnership with Indonesia, Vietnam, India, and Senegal.

6. Partnerships:

A. Since October 2021, did the agency expand existing or establish new interagency or external partnerships on climate adaptation? **Yes.**

While DFC has not established new partnerships on climate partnerships since October 2021, the agency has expanded existing partnerships with actors including USAID adaptation counterparts, Climate Policy Initiative, Convergence Blended Finance, and the Adaptation and Resilience Investors Collaborative. In the coming year we aim to expand and establish new partnerships including with actors such as the Global Commission on Adaptation, the Global Innovation Fund and the Global Resilience Partnership.

SECTION 3: NEW TOPICS FROM E.O. 14057

1. Policy Review:

A. What is the agency's approach to reviewing agency policies to ensure climate-resilient investment and to removing maladaptive policies and programs (Section 209 of Executive Order 14057)?

i. What, if any, barriers have you identified to completing this policy review?

DFC's dual mandate of advancing sustainable development and addressing national security sometimes result in DFC's evaluating transactions that are not consistent with the Administration's climate finance goals and policy. For example, DFC will screen and evaluate financing several fossil fuel projects that have the potential to deliver significant developmental (e.g., power generation in IDA-eligible countries) or strategic (e.g., diversification of Eastern European energy supply) outcomes.

2. Climate Scenario Analysis:

A. Does the agency use climate projections in decision-making? **No**

i. If yes, what approach was taken to incorporating it into agency process and decisions?
ii. If no, how does the agency plan to incorporate climate projections in future planning?

In terms of agency operations, DFC does not incorporate climate projections into decisions for reasons described above with respect to risk. With respect to the investment portfolio, DFC currently screens all projects for climate resilience in alignment with EO 13677. This process makes use of publicly available data and information (e.g., World Bank Climate Change Knowledge Portal), which an environmental impact analyst uses to assess the potential future climate impacts to the investment in question. DFC is piloting the use of an MS Excel based tool that will help to standardize this assessment.

As described above, the agency is contemplating obtaining external expertise to facilitate the screening of DFC investments for physical climate risks. DFC welcomes assistance in accessing and applying climate projects to enhance financial decisions.

B. Does the agency have the climate data and information it needs for its decision-making? **No**

i. If yes, what is the primary information source(s)?
ii. If no, what would be helpful to have?

DFC has announced ambitious climate targets according to the agency action plan, including the goal of attaining net zero emissions by 2040, a full decade earlier than most bilateral DFIs. Therefore, agency decision-making on climate risk must be informed by robust data and scenarios out to at least mid-century and ideally to 2100. As one pillar of the US government commitments under the Paris Agreement, DFC climate finance must be informed by the goals laid out in Article 2.1 and Article 4.1. Therefore, access to data and information such as climate projections for 1.5- and 2-degrees scenarios would be beneficial for DFC's decision-making processes. In addition, tools and projections to ensure agency investments are aligned with the mid-century low-carbon transition would also be welcome.

C. Identify the offices within the agency that are already incorporating climate information into decision-making. Use of a visual or organizational chart is encouraged.

DFC is working to include climate information and considerations into decision making across the agency. This includes our Office of Development Policy, our Office of Financial and Portfolio Management, and all the deal origination teams across our Structured Finance and Insurance Group, Office of Development Credit, Office of Equity and Investment Funds, and our Technical Assistance grant-making team. DFC's Offices of the Chief Executive Officer, Chief Climate Officer, and Chief Development Officer regularly incorporate climate information into decision-making. The focus of these offices has been to better incorporate such information and decision-making practices into the career-led offices for the purpose of achieving durability of the Administration's climate policy. Climate-alignment has been included the earliest stages of the deal life cycle when potential transactions are going through initial screening which means climate is conserved for everyone at least at that earliest point.