Climate Adaptation Plan

2022 Progress Report

Agency	Millennium Challenge Corporation
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Agency Climate Adaptation Webpage	Climate-Smart Development | Millennium Challenge Corporation (mcc.gov)

SECTION 1: UPDATES ON PRIORITY ACTIONS

1. Priority action progress summary

Priority Action Progress			
Action	**Current Status**	**Estimated date of completion**	**Brief Description of Progress**
Priority Action #1: Strengthen integration of climate adaptation considerations in analytical tools	In progress	September 2022 August 2022 December 2021	MCC is refining analytical tools for economic analysis tools to better reflect climate and environmental considerations. This includes: • MCC's constraints analysis and root-cause analysis (which inform MCC's sectoral focus) for Zambia and Belize • Climate vulnerability assessment in Sierra Leone • Guidance for environmental externalities (including greenhouse gases) in Cost-Benefit Analysis. These were subsequently tested in Malawi roads analysis and are generally on their way to being adopted, including health impacts of emissions in Kosovo, and ecosystem service valuation in Mozambique.
Priority Action #2: Fully integrate climate adaptation and related environmental consideration into all stages of program development and implementation	Approach to risk screening for climate physical risks completed. Piloting of new tools and country application ongoing	Ongoing	MCC's climate risk screening approach is well established. Adaptation risks are identified on an ongoing basis as newly eligible countries are selected and MCC investments are developed. Further integration focuses on addressing identified risks. Two-thirds of MCC's investments are in infrastructure and include integration of climate resilience considerations into feasibility studies for infrastructure.
Priority Action #3: Support policy and institutional reforms in adaptation to strengthen the resilience of MCC investments	In progress	Ongoing	MCC completed an assessment of its entire development pipeline to identify opportunities for strengthening climate integration, including supporting policy and institutional reforms (PIR). This includes supporting partner country Nationally Determined Contributions (NDCs), as well as support for partner country sectoral, master, and investment planning and to improve natural resource management. E.g., MCC's $202 million-dollar compact with Kosovo supports Kosovo's long-term Energy

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			Strategy and Energy Climate Plan and includes PIR related to battery storage and renewables.
Priority Action #4: Leverage blended finance to catalyze private capital for climate activities	In progress	Ongoing	MCC is working with partner countries, other U.S. Government entities, finance institutions, civil society, and other organizations to expand private finance for climate adaptation. This includes initiatives being developed for Kosovo and Malawi and under consideration in Indonesia, Zambia, and Mozambique.
Priority Action #5: Expand and deepen partnerships to further climate objectives	Award of a partnership agreement in progress	Ongoing Ongoing Ongoing Q2FY23 Q1FY23	MCC has established new interagency and external partnerships on climate adaption. This includes: • MCC's interagency work related to the President's Emergency Plan for Adaptation and Resilience (PREPARE) • MCC's interagency work with the Development Finance Corporation (DFC) • MCC's external partnership with the University of Massachusetts (UMASS) • A program partnership solicitation (launched in June 2022) in support of MCC funded Integrated Climate Management and Coastal Development Project in Mozambique. The partnership is expected to be awarded by early 2023 and continue for three years post award • Integrated Environmental-Economic Modeling partnership to support rigorous scenario-based characterization and order-of-magnitude quantification of environmental costs and benefits, especially those climate-related, in select countries.
Priority Action #6: Integrate adaptation and resilience considerations into MCC's facilities management and internal operations	In progress	Q3 FY23 Q2 FY23	• Since October of 2021, significant resources have been focused on re-entry, the development and implementation of MCC's Future of Work Strategy, and on the health and safety of our staff. As such our goal to assess opportunities to integrate adaptation and resilience into our internal operations to include procurement, logistics, travel, and financial management has been pushed out to FY23. • MCC is on track to commence lease planning activities in Q4 of FY22. This effort will include the capture of adaption

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			and resilience considerations as part of MCC's requirements.

2. Priority Action Progress Examples:

- The Millennium Challenge Corporation completed an assessment of its entire program development pipeline (compacts and thresholds) to identify opportunities for strengthening climate integration and scaling up climate finance. As a result of this effort, new opportunities for climate finance were identified in **Kosovo**, **Indonesia,** and **Mozambique**. This work also led to the development and application of new approaches to assessing climate change vulnerability and political economy in **Sierra Leone** to integrate low carbon development, adaptation, and resiliency considerations into compact development at the earliest stages. These new approaches are expected to be incorporated into future compact development processes and guidance.
- The Millennium Challenge Corporation has formed partnerships to leverage new analytical and operational tools to integrate climate related programs fully and systematically into compacts and threshold programs, including GIS-based climate risk assessments. For example, MCC and the Government of Mozambique are forming partnerships for the development, implementation, cost sharing, and long-term sustainability of coastal biodiversity and fisheries habitat management interventions that can increase ecosystem productivity, enhance sustainable livelihoods, mitigate climate change, and continue beyond the Compact implementation period until collapsing ecosystems are restored. MCC is also exploring the establishment of a REDD + program to invest in restoration and protection of coastal habitats such as mangroves and seagrasses which have significant carbon sequestration potential, with these landscapes absorbing 5 to 15 times the carbon of tropical rainforests.
- MCC's 20-million-dollar threshold program with the Government of Solomon Islands includes a $6.5 million dollar Forest Value Enhancement Project which aims to address ineffective management of natural resources in the forestry sector. The project aims to mitigate negative environmental impacts, increase, and more equitably share the community and national revenues from forest resources and achieve a more balanced regulatory and enforcement regime between logging and non-logging uses of forests.
- MCC's $300 million dollar compact with Lesotho places a strong emphasis on climate adaptation and resilience by replacing rain-fed agriculture with irrigated agriculture and working within communities to address land degradation that threatens Lesotho's water supply. MCC also seeks to leverage private finance to reduce food loss and waste. MCC's partnership with the University of Massachusetts (UMASS) is deploying analytics to identify and reduce climate vulnerabilities while enhancing co-benefits by tailoring nature-based solutions for climate resilience.
- MCC is exploring support for the issuance of green bonds to increase finance for investments in climate resilience. To that end, the Agency is analyzing options to support the development of a framework for green bonds, transaction structuring (including project identification), and credit enhancements to attract commercial investment.

SECTION 2: UPDATES ON OTHER INITIAL PLAN TOPICS

1. Climate-Risk Reduction:

To assess fiscal risk exposure to MCC's headquarters, the agency is following the framework outlined in the US Climate Resilience Toolkit to assess risks due to heat, flooding, and vector-borne diseases brought about by climate change and to define solutions to reduce the potential impact to its domestic operations. Since October of 2021, our primary focus has been on the development and implementation of MCC's Future of Work Strategy and on the health and safety of our staff. As such, the assessment of financial risk has not been completed. As we enter FY23, we will begin transitioning resources and expect to advance our goals of integrating adaptation and resilience considerations into the agency's facilities management and internal operations.

2. Climate Vulnerability Assessments:

MCC has not yet completed its climate vulnerability assessment for its headquarters. MCC originally planned to complete this in FY22 but has adjusted the target completion of the vulnerability assessment to Q3 of FY23.

In terms of MCC's program investments, MCC conducts climate change risk screening and vulnerability assessments for all international infrastructure investments. Climate change assessment is regularly included in the Environmental and Social Impact Assessment analysis; MCC is now integrating climate change vulnerability assessment earlier in the compact development cycle to more fully assess opportunities to support partner countries meet low carbon development goals and incorporate potential adaptation and resilience options into sector and infrastructure planning.

3. Climate Literacy:

MCC held an agency-wide meeting to ensure all staff were familiar with our Climate Change Strategy. Since then, departments and divisions have held all hands meetings to engage staff of the climate strategy. The agency has also hosted several speakers on a range of climate topics. These include the presentation of new tools to integrate climate considerations into MCC operations. With MCC's country focus, employees put the knowledge into practice through engagement internally and with our country partners.

4. Tribal Engagement:

MCC's work in low and lower middle-income countries does not relate to or implicate U.S. Tribal Treaty Rights (which are therefore not a factor in the Agency Climate Strategy). MCC does consider traditional knowledge, including of indigenous peoples, in the development and implementation of our programs. This is one element of MCC's commitment to the International Finance Corporation Performance Standard on Indigenous Peoples, which includes actions to respect and preserve the culture, knowledge, and practice of indigenous peoples.

5. Environmental Justice:

The world's poorest are more likely to live in locations that are highly exposed to climate risks and therefore often are the most affected. As a development agency dedicated to reducing poverty, the best way to achieve this is to fully integrate climate and related environmental considerations into all stages of program development and implementation, the core element of MCC's Climate Strategy.

6. Partnerships:

Since October 2021, MCC has established new interagency and external partnerships on climate adaption, as well as continued to implement existing partnerships. These include: MCC's interagency work related to the President's Emergency Plan for Adaptation and Resilience (PREPARE), MCC's interagency work with the Development Finance Corporation (DFC), and MCC's external partnership

with the University of Massachusetts (UMASS). MCC continues to pursue partnerships using MCC's Annual Program Statement (APS) and Program Partnership Solicitation (PPS).

- **Interagency partnerships.** From a USG agency-wide standpoint, MCC is playing a leadership role in support of the President's Emergency Plan for Adaptation and Resilience (PREPARE). MCC is co-chairing the infrastructure working group with USTDA and prioritizing efforts to, among other things, (1) increase finance for climate-resilient and adaptation-focused infrastructure, (2) leverage private and public finance for adaptation, and (3) ensure resilience is appropriately considered in the design, investment, and procurement decisions. MCC does a tremendous amount of work related to climate adaptation consistent with PREPARE (e.g., climate-resilient infra, agriculture, water resources programs, mobilizing private capital etc.) and has extensive experience in the infrastructure space – ensuring climate resilience and promoting what we refer to as "climate-smart development and sustainable infrastructure".

  Additionally, MCC continues to support its recently developed blended finance tool with DFC called the American Catalyst Facility for Development (ACFD). The ACFD establishes a dedicated pool of grant funding for projects within MCC programs to de-risk private sector investments in key sectors. Given the climate ambitions of both agencies, ACFD creates new opportunities to blend MCC grant finance with DFC instruments to crowd more private sector investors into climate investments in partner countries

- **Existing partnership.** MCC continues to implement its partnership with the University of Massachusetts to develop guidance that will enhance benefits of MCC's programs by incorporating climate and other deep uncertainties into the existing project development and economic analysis process. Following significant iteration, draft guidance has been submitted to MCC by the UMass consortium, and the consortium is also continuing engagement with the Lesotho II compact team to demonstrate application of the guidance in the context of landscape and water management – both to reduce climate vulnerabilities, and to identify potential co-benefits from deploying targeted land management approaches. One to two additional cases will be used to test the guidance during FY23.

- **Efforts to expand partnerships.** In Mozambique, MCC and the Government of Mozambique are forming partnerships for the development, implementation, cost sharing, and long-term sustainability of coastal biodiversity and fisheries habitat management interventions that can increase ecosystem productivity, enhance sustainable livelihoods, mitigate climate change, and continue beyond the Compact implementation period until collapsing ecosystems are restored. MCC developing a partnership on Integrated Environmental- Economic Modeling to augment and expand its existing analytical approaches with an integrated quantitative environmental and economic modeling framework in support of development planning. The aim of this proposed partnership is to support a rigorous scenario-based characterization and order-of-magnitude quantification of (especially climate-related) environmental costs and benefits. These quantitative estimates are intended, in turn, to inform the prioritization of promising sectors or programmatic areas for investments by the donor community in sustainable economic development. MCC aims to award and launch the Integrated Environmental-Economic Modeling partnership in Q1FY23.

SECTION 3: NEW TOPICS FROM E.O. 14057

1. Policy Review:

Upon issuance of Executive Order 14057, MCC completed an independent analysis and concluded that MCC has compliance obligations related to its DC-based operations. MCC plans to convene a discussion on the nature and scope of MCC's compliance with the spirit of the EO in its international work and will schedule that meeting after receiving and analyzing the implementing instructions on the

EO that the memorandum released alongside the EO had promised for early April. MCC will appreciate any update from CEQ on the timing of the release of those instructions.

Given that MCC has a single agency (leased) vehicle and the agency's office space is in a leased commercial facility that runs through December of 2025, the scope of these obligations for MCC internal operations is limited.

2. Climate Scenario Analysis:

MCC uses climate projections in decision-making. As a development agency working overseas, the most important use of climate projections is in the selection, siting, and design of MCC investments. For example, when estimating the costs and benefits of potential investments, MCC assesses the impacts of climate scenarios.

Currently MCC uses a range of climate information, depending on the need. The process begins with early screening of potential physical climate risks. This initial work is typically informed by public sources of climate risk information, such as the World Bank Climate Change Knowledge Portal. Later, as MCC identifies the potential type and location of investments, more detailed analyses are required. These are typically informed by downscaled data for the location and relevant climate risk factors.

To better inform investment decisions, MCC and our development partners would benefit from additional and better climate information. Given that roughly two thirds of MCC's investments are in infrastructure, that includes: (a) the re-analysis of climate model outputs to help increase their accuracy where local climate information is limited; (b) information to inform engineering decisions, such as extreme rainfall, extreme temperature, wind, sea level rise coupled with storm surge, and Intensity-Duration-Frequency curves; and (c) approaches to making better use of imperfect information (e.g., decision making under deep uncertainty).

All MCC Departments and Divisions are incorporating climate information into decision-making. Development of MCC investments is led by two departments, both of which are incorporating climate information in decision-making. The Department of Compact Operations leads the development of compacts (MCC's largest grant investments in a country, averaging $380 million). The Department of Policy and Evaluation leads the development of threshold programs (smaller grants to a country, typically $30 to $60 million). The Department of Administration and Finance, which is responsible for management of MCC internal operations, considers climate information in the management of the agency's Washington DC headquarters (the Department of State assumes responsibility for the management of the small offices that MCC maintains overseas) as well as procurement, logistics, travel, and financial management.

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Date