

TCFD Report 2021

Climate action, including mitigation and adaptation, is one of FinDev Canada's three development impact goals and plays a key role in the realization of our mandate. We recognize that climate change is a global systemic issue that disproportionately affects developing countries, especially women and other vulnerable populations. Climate action must be scaled to achieve the objectives of the Paris Agreement and limit global warming to 1.5°C above preindustrial levels. FinDev Canada launched its [Climate Change Strategy](#) in 2021, which articulates how our [Climate Change Policy](#) is implemented across our activities.

The Task Force on Climate-related Finance Disclosure (TCFD) was established by the Financial Stability Board of the G20 to develop a consistent framework for climate-related financial disclosures, which is intended to help the financial community understand material climate change risks. Published in 2017, the TCFD recommendations are structured around four areas: governance, strategy, risk management, and metrics and targets. These recommendations have become the global reference for climate-related financial disclosures, with 3,100 organizations supporting the TCFD globally, including more than 1,000 financial institutions responsible for over US\$194 trillion of assets.

As a Canadian Crown corporation with less than \$1 billion in assets, FinDev Canada is required to report on its climate-related financial risks in line with the TCFD recommendations by 2024 at the latest.

FinDev Canada is committed to progressively implementing the TCFD recommendations and reporting on progress, including through this first TCFD disclosure, which summarizes FinDev Canada's current climate change practices that will continue to evolve to meet the TCFD recommendations.

Governance

Disclose the organization's governance around climate-related risks and opportunities.

Established under the Canadian Business Corporations Act (CBCA), FinDev Canada is a subsidiary of Export Development Canada (EDC), governed by an independent Board of Directors, appointed by EDC's Board of Directors. FinDev Canada's board is chaired by EDC's President and CEO, and composed of members of the EDC Board of Directors, as well as independent members with expertise and experience relevant to our business and markets.

Climate action, including mitigation and adaptation, is one of FinDev Canada's three development impact goals and plays a key role in the realization of our mandate. Since inception in 2018, FinDev Canada's investment strategy has intentionally focused on sectors that contribute to the transition to a low-carbon economy, including renewable energy and sustainable forestry.

In 2021, FinDev Canada adopted its first [Climate Change Policy](#) to promote climate action across our investments and operations, and its 2021–2024 [Climate Change Strategy](#), which describes the organization's areas of focus on climate action. The Board of Directors is accountable for the policy, which is an integral part of our overarching policy framework, while FinDev Canada's management is responsible for the implementation of the strategy.

The Board receives quarterly updates through FinDev Canada's management report, including on our climate change strategy, engagements, and metrics such as climate finance targets and portfolio greenhouse gas (GHG) emissions. Going forward, the Board will also be consulted regarding FinDev Canada's exposure to and management of climate change risks.

The assessment of climate-related opportunities is already integrated into FinDev Canada's investment decision-making process. An analysis of current and potential positive contribution to climate mitigation and adaptation is performed for every new investment opportunity, and on an annual basis for all portfolio investments. Climate-related opportunities at the transaction level are systematically described in investment documentation submitted to the Board and regularly discussed at investment committees, which include representation from FinDev Canada's CEO and management team. In addition, to align the impact and climate objectives with our own actions, FinDev Canada's performance-based compensation program integrates climate finance targets.

Strategy

Disclose, where material, the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy and financial planning.

Considering FinDev Canada's mandate, and the sectors and countries where we operate, we have a higher exposure to climate change physical risks than transition risks.

With an investment horizon of 1–25 years, FinDev Canada recognizes that climate change physical risks could materialize in the short-term (< 5 years), medium-term (5–15 years) and long-term (> 15 years) for our investments. Some of our clients are already impacted by climate-related hazards exacerbated by climate change, especially in the agricultural sector.

As part of the implementation of FinDev Canada's climate change strategy, we will avail support to our clients in developing their capacity to identify and manage climate change physical and transition risks.

FinDev Canada's climate change strategy is structured around three strategic considerations. First, as an investor committed to advancing gender equality across our portfolio, we **promote both gender and climate action** throughout our investment process, including at sourcing, due diligence, decision-making and post-investment support.

Second, we will **continue building a low-carbon portfolio** in line with the objectives of the Paris Agreement of reaching net-zero emissions.

Third, we are committed to **enabling climate adaptation and resilience** as the markets we serve are amongst the most vulnerable to climate change.

We are operationalizing our climate change strategy through four priorities for action, which encompass portfolio-level and institutional-level initiatives.

Risk Management

Disclose how the organization identifies, assesses and manages climate-related risks.

FinDev Canada has a higher exposure to climate change physical risks than transition risks due to our geographical and sectoral focus. On the one hand, our target geographies (Sub-Saharan Africa, Latin America and the Caribbean) have a higher vulnerability to climate change physical risks and limited adaptive capacity. On the other hand, FinDev Canada's investment strategy is focused on low-carbon sectors with lower exposure to climate change transition risks, some of which are well positioned to benefit from the transition to a low-carbon economy, such as renewable energy and forestry.

In 2021, FinDev Canada developed and piloted a climate change physical risk assessment approach for new and existing investments. This approach is based on the assessment of context-specific climate-related risks for each transaction. The inherent risk based on the hazard, exposure and vulnerability is first evaluated. Then, risk adaptation measures of counterparties are factored to obtain the residual climate risk for each transaction. This approach was piloted on a select number of transactions with higher climate risk exposure in 2021, and will continue to be rolled out in 2022. Moving forward, the outcome of this assessment will be included in investment documents, for consideration by investment committees and the Board of Directors. Building on this approach at the transaction level, FinDev Canada will then develop its climate risk management approach at the portfolio level.

Metrics and targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities, where such information is material.

FinDev Canada has no direct exposure to carbon-intensive assets and has a portfolio exposure of 24% to climate-related opportunities as of December 31, 2021. Climate-related opportunities, or 'climate finance', are measured according to the *MDB/IDFC Common Principles for Climate Mitigation Finance Tracking and the Common Principles for Climate Adaptation Finance Tracking*. FinDev Canada has committed to increase its climate finance allocation to 35% of its total investments by 2025.

To date, FinDev Canada has built a portfolio with net-negative emissions for both annual GHG emissions from our 2021 portfolio and cumulative GHG emissions since inception in 2018. In other words, since FinDev Canada's inception, our investments and loans have contributed to more carbon removal from the atmosphere than generated GHG emissions.

Our net-negative portfolio includes emissions from the real economy only, namely generated GHGs and carbon removal. We also measure the avoided emissions of our investments in renewable energy projects, which represent emissions that would have occurred without the implementation of the projects. Although avoided emissions represent a quantifiable positive contribution to decarbonization, they are calculated and reported separately from the net-negative framework, in line with international best practices.

FIGURE X. FINDEV CANADA FINANCED GENERATED, SEQUESTERED AND AVOIDED GHG EMISSIONS (tCO₂e)

Categories	2018	2019	2020	2021	2018–2021 total
Generated emissions	252	1,325	1,998	3,389	6,964
Sequestered emissions	0	0	10,682	26,040	36,722
Avoided emissions	15,310	25,045	22,517	32,939	95,811

FinDev Canada measures the generated, sequestered and avoided GHG emissions of every new investment and monitors these emissions at least annually during the investment period. Generated emissions include scope 1 and scope 2 GHG emissions associated with our loans and investments and are calculated using:

- The [PCAF Global GHG Accounting and Reporting Standard for the Financial Industry](#) (business loans and unlisted equity asset class) for loan and equity investments in private companies, which represent 64% of financed generated emissions in 2021
- Internally developed criteria in line with the PCAF Standard [as detailed here](#) for indirect investments in funds and financial intermediaries, which represent 36% of financed generated emissions in 2021

These emissions are attributed to FinDev Canada based on our proportion of financing and cover 100% of our loans and investments. In terms of GHG data, 53% of emissions were reported by our investees in 2021 and 47% were estimated using the [Joint Impact Model](#), for a combined PCAF weighted data quality score of 3.2 out of 5.

Beyond our net-negative portfolio, our commitment to carbon-neutral operations extends to FinDev Canada's scope 1 and 2 GHG emissions, as well as scope 3 GHG emissions from business travel. Together with scope 3 GHG emissions from investments, these activities represent the most significant emission sources over which FinDev Canada has control over. FinDev Canada has purchased [certified carbon credits to offset all of its historical operational emissions since inception in 2018](#).