



# 2023 Climate-related Disclosure

Climate and nature action 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 and nature action must be scaled to respond to the climate emergency and achieve the objectives of the Paris Agreement. 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 Disclosures (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 and make better-informed decisions on capital allocation and strategic planning. 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 nearly 5,000 organizations supporting the TCFD recommendations globally, including more than 1,800 financial institutions responsible for over US\$222 trillion of assets<sup>1</sup>. Since 2021, FinDev Canada has been committed to progressively implement the TCFD recommendations and report on progress, including through this third climate-related disclosure, which summarizes FinDev Canada's current practices that will continue to evolve to meet the TCFD recommendations<sup>2</sup>.

## Governance

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### ***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 and nature action 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 a climate-resilient and low carbon economy, including renewable energy as well as sustainable agriculture and 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.

In 2023, the Board received quarterly updates through FinDev Canada's management report, including on our climate change strategy and portfolio metrics such as climate finance targets and greenhouse gas (GHG) emissions. In the same year, as part of the update of FinDev Canada's Enterprise Risk Management Framework, Management discussed with the Board FinDev Canada's exposure to climate change risks and the organization's approach to progressively incorporate climate risks into our financial risk management and reporting. The Board approved the updating of FinDev Canada's Enterprise Risk Management Framework to include climate-related physical and transition risks as financial risks.

The assessment of climate-related opportunities is integrated into FinDev Canada's financing and investment decision making process. An analysis of current and potential positive contribution to climate mitigation and adaptation is performed for every new financing and investment opportunity, and on an annual basis for all assets in the portfolio. FinDev Canada assesses physical and transition risk for every new transaction at pre-screening and due diligence.

Climate related risks and 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 executive 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.

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<sup>1</sup>Source: p. 81, 2023 TCFD Status Report: Task Force on Climate-related Financial Disclosures - Financial Stability Board ([fsb.org](https://www.fsb.org)).

<sup>2</sup>As of October 2023, the TCFD has fulfilled its remit and disbanded, and the IFRS Foundation has taken over the monitoring of the progress of companies' climate-related disclosures.

## Strategy

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

FinDev Canada has a higher exposure to climate change physical risks than to transition risks due to our geographical and sectoral focus. On the one hand, our target geographies (the Indo Pacific, Latin America & the Caribbean, and Sub-Saharan Africa) 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 sustainable agriculture and forestry.

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.

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 to keep a global temperature rise well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C. 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. As part of the portfolio level initiatives, we developed a menu of core climate action technical assistance interventions available to support our clients, including to develop their capacity to identify and manage climate change physical and transition risks, measure and reduce their GHG emissions, and embed climate change considerations into their governance, strategy, risk management and reporting.

## Risk Management

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

In 2022, FinDev Canada developed its climate related physical risk assessment approach for new investment and financing transactions. This approach is based on the assessment of context specific climate-related physical 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. Using this approach, climate change physical risks were assessed for new direct transactions (corporates and projects) in 2022, and for all new transactions in 2023.

Beginning 2023, FinDev Canada also assessed climate-related transition risks for all new transactions. Our transition risk assessment approach is currently at a high-level, based on counterparties' portfolio concentration in high-emitting sectors.

FinDev Canada is further developing its climate risk assessment approach, with the objective to enhance our risk assessment at the transaction level, develop a climate risk approach at the aggregate portfolio level, and deepen climate risk management into our investment process.

## 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 to climate-related financing and investment of 30% as of December 31, 2023. Climate-related financing and investment ('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 financing and investments commitments by 2025.

To date, FinDev Canada has built a portfolio with net negative emissions for both annual GHG emissions from our 2023 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 GHG emissions and carbon removal/sequestered emissions (Table X). Since the attributed sequestered emissions are larger than the attributed generated emissions, we consider our portfolio to be net negative. 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<sup>3</sup>.

TABLE X. FINDEV CANADA FINANCED GENERATED, SEQUESTERED AND AVOIDED GHG EMISSIONS (TCO<sub>2</sub>E)

| Categories            | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   | 2018–2023 total |
|-----------------------|--------|--------|--------|--------|--------|--------|-----------------|
| Generated emissions   | 252    | 1,325  | 1,998  | 3,051  | 3,631  | 14,324 | 24,581          |
| Sequestered emissions | 0      | 0      | 10,682 | 26,040 | 36,132 | 40,374 | 113,228         |
| Avoided emissions     | 15,310 | 25,045 | 22,517 | 32,145 | 46,017 | 30,654 | 171,688         |

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 28% of financed generated emissions in 2023.
- Internally developed criteria in line with the PCAF Standard as detailed here for indirect investments in funds and financial intermediaries, which represent 72% of financed generated emissions in 2023.

These emissions are attributed to FinDev Canada based on our proportion of financing and cover 100% of our loans and equity investments. In terms of GHG data, 84% of emissions were reported by our clients and investees in 2023 and 16% were estimated using the Joint Impact Model, for a combined PCAF weighted data quality score of 2.9 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.

<sup>3</sup>For example: Science-based targets (2023) *SBTi Corporate Net-zero Standard* (p.31). [Net-Zero-Standard.pdf](https://sciencebasedtargets.org/Net-Zero-Standard.pdf) ([sciencebasedtargets.org](https://sciencebasedtargets.org))