

2019



Climate


ACTIVITY REPORT

#WorldInCommon



AFD

AGENCE FRANÇAISE
DE DÉVELOPPEMENT



The effects of climate change are putting people and ecosystems in peril, especially in the developing countries most vulnerable to climate change. To limit the increase in global temperatures by the end of the century, we need to accelerate the transition to low-carbon societies. And to minimize the irremediable impacts of climate change, we need to strengthen the resilience of these societies.

Since the adoption of the Paris Agreement and the Sustainable Development Goals (SDGs), it has become clear that climate change and development constitute two challenges that must be considered together, rather than pursuing each in opposition to the other. As a development finance institution, AFD supports the emergence of more sustainable development models, as does its subsidiary Proparco, dedicated to financing the private sector. Its climate actions mirror the objectives of the Paris Agreement: they seek to limit greenhouse gas emissions, encourage adaptation by people and ecosystems to the effects of climate change, and align financial flows with long-term, low-carbon and resilient development.

AFD Group's climate strategy

Since 2015, tackling climate change has been a core aspect of the AFD Group identity. This positioning has been strengthened by the adoption of a 2017-2022 climate strategy that reflects the Group's ambition to support the implementation of the Paris Agreement and low-carbon and resilient transitions in developing and emerging countries.

To achieve this goal, AFD has taken four commitments:

1 Ensure that its activity is «100% Paris Agreement»

AFD Group has undertaken to make all of its financing consistent with low-carbon and resilient development and to support guide the long-term climate strategies of the countries in which it operates.

3 Redirect financial flows

AFD Group seeks to maximize the leverage of its financing on the orientation of public and private investments. The Group also contributes to coordinating the climate bond market.

2 Increase climate financing

AFD Group has set the goal of reaching €5 billion in climate finance annually by 2020 in the countries where it operates, not including Overseas France. Of this amount, €1.5 billion is earmarked for adaptation to the impacts of climate change. At least 50% of AFD's annual financial commitments must provide benefits for the climate.

4 Create solutions together

AFD uses its influence to innovate, co-create, and capitalize on good practices. It does so in collaboration with financial and institutional stakeholders, as well as researchers and civil society. AFD participates in COPs and World Climate Summits, including in its role as Chair of the International Development Finance Club (IDFC) since 2017.

Work on climate-related financial risks

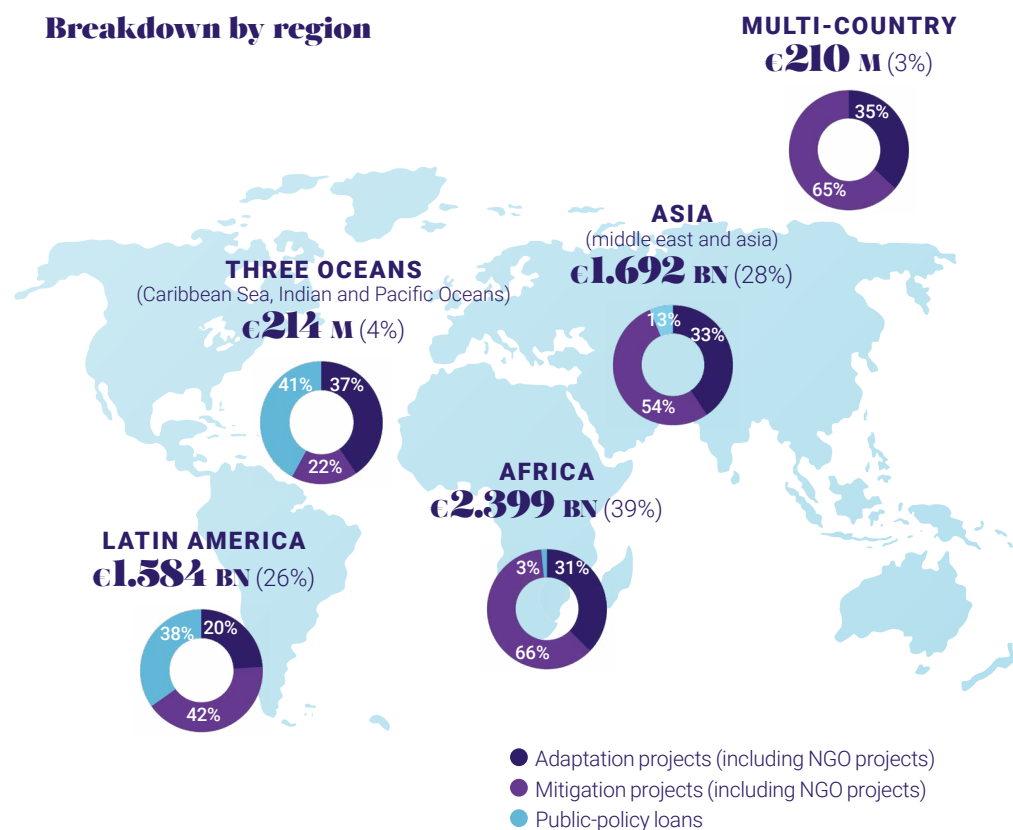
Climate-related financial risks fall into three categories: the physical risks associated with the impacts of climate change, the transition risks resulting from the processes of shifting to a low-carbon world and to public policies likely to be implemented, and the risks of climate-related litigations.

AFD is developing analyses on transition risks, in South Africa for example, in partnership with the think tank Climate Policy Initiative. This type of study is one of the many types of support available through AFD's 2050 Facility (see page 17).

At the same time, AFD is continuing to integrate climate-related financial risks into its risk-analysis processes: a mapping of the exposure of AFD's portfolio to physical risks has led to the development of a methodology for assessing these risks and to operational tools enabling the Group to measure them systematically. Work to monitor transition risks will start in 2020.

Our climate activity in 2019

Breakdown by region

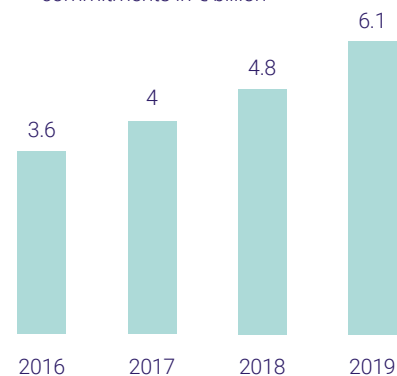


€6.1 BN
in total commitments (273 projects)
including €1.1 billion
for the least developed countries
(45% of the Group's total commitments
in these countries).

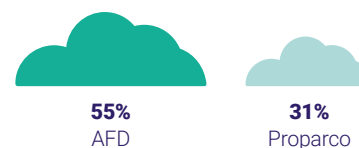
In 2019, despite the increase in its volume of activity (+23%), AFD Group fulfilled its target of 50% of financial commitments contributing to the fight against climate change and its effects.

Trend since 2016

commitments in € billion

**€40 BN**in total
climate financing
since 2005

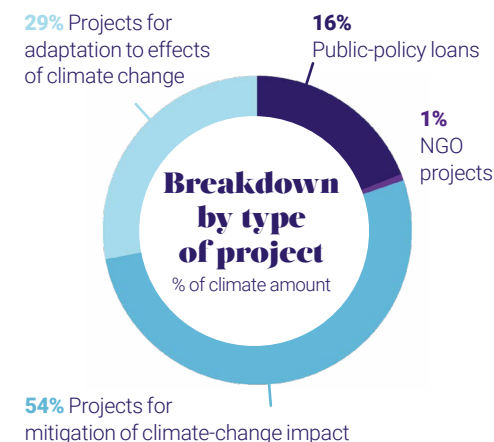
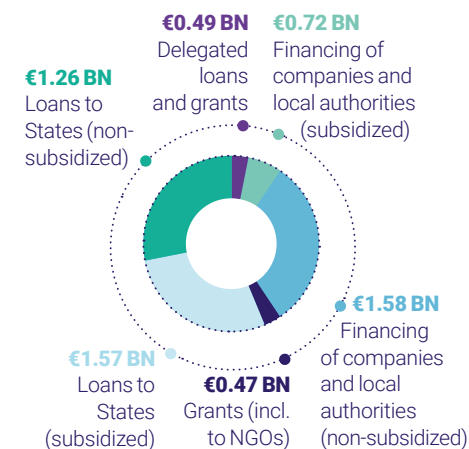
Share of commitments with climate benefits



These % are calculated based on the annual commitments in developing countries, excluding general budget support, debt-reduction mechanisms (C2D), ARIZ guarantees, FEXTE, Proparco sub-participation, FFEM projects, and projects in Overseas France Departments and Territories. In short, €12.1 billion out of the Group's €14.6 of financing.

Breakdown by tool

commitments in € billion

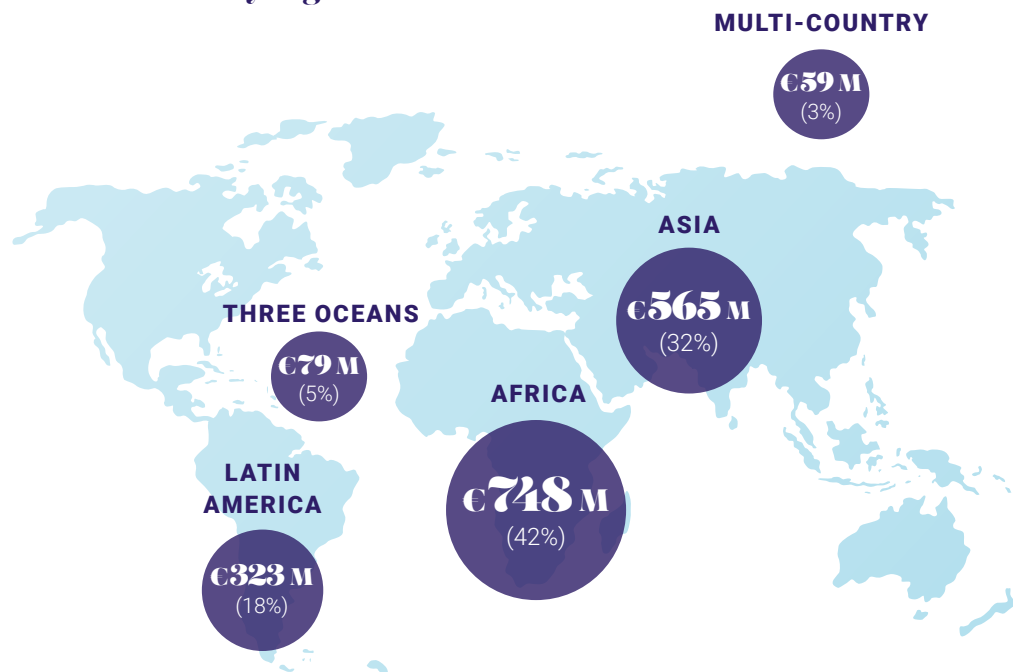


NATURE-BASED SOLUTIONS

Ecosystems absorb more than 44% of greenhouse gas emissions each year. Their preservation and good management are thus essential to mitigate global climate change and help countries adapt to its effects. This is why AFD promotes nature-based solutions in the countries where it operates, while including natural capital in its investment strategies. A good illustration of this is the Joint Pacific Initiative for Biodiversity, Climate Change and Resilience. This initiative seeks to help small islands of the Pacific and their populations adapt to the effects of climate change and protect their biodiversity by implementing nature-based solutions.

Adapting to the effects of climate change

Breakdown by region



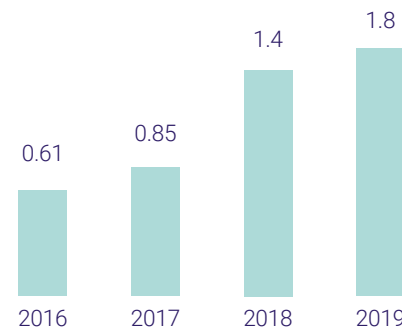
€1.8 BN

in financing for **adaptation projects**
41% of which are in Africa.

In 2019, in addition to the €1.8 billion allocated to adaptation projects, €200 million was granted to public-policy loans for adaptation, making a total of €2 billion available for adaptation.

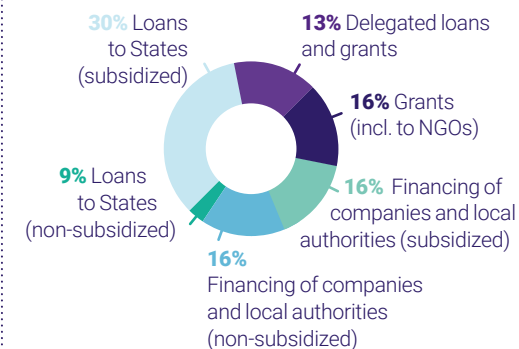
Trend since 2016

commitments in € billion

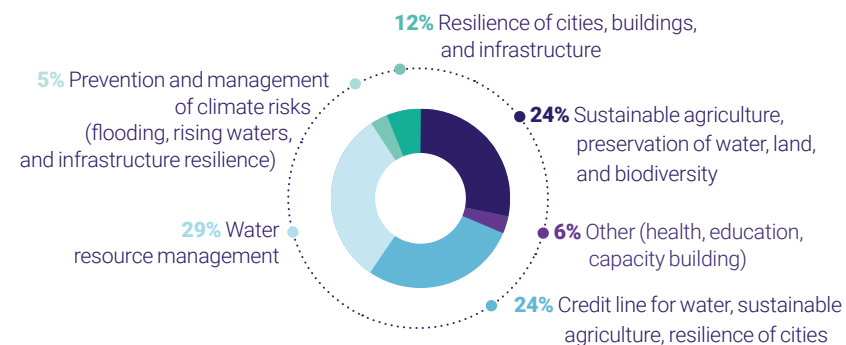


Breakdown by tool

% based on commitment amounts



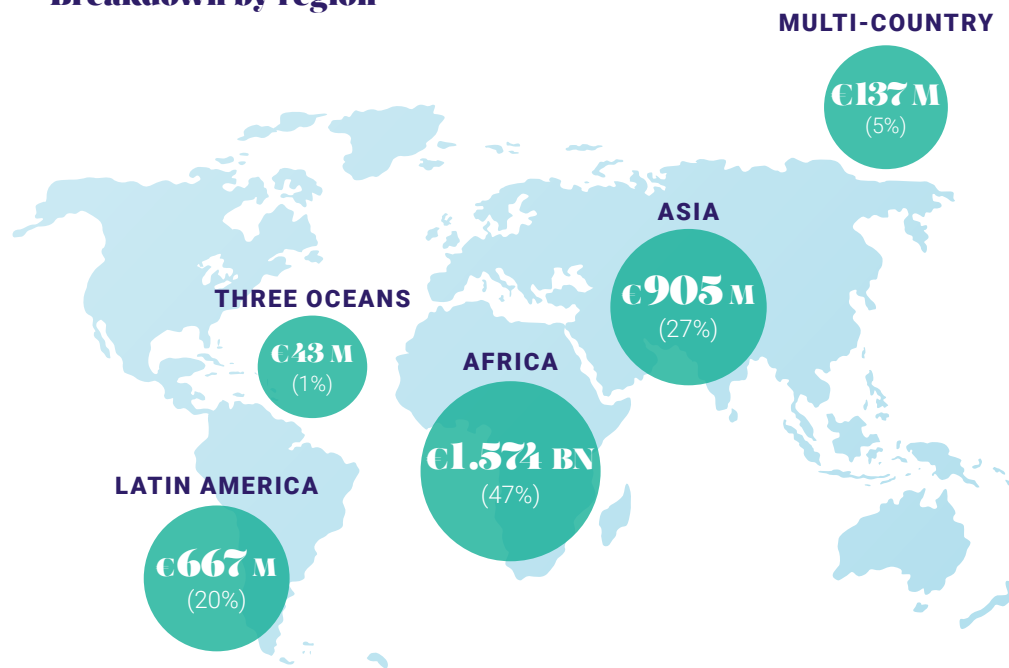
Breakdown by sector



Adaptation's purpose is to deal with current and future climate change that may affect the projects themselves (project adaptation) or their environment (adaptation via the project). Such climate-change effects include more intense droughts, increased flood risks, rise in sea level, and other events. Adaptation includes risk management within the entire value chain, whether upstream (e.g. its suppliers) or downstream (e.g. its markets and access routes). For example, AFD is financing an investment and capacity-building program for the National Water and Sanitation Office in Burkina Faso, to diversify and secure water resources in the Sahelian region of the country.

Mitigating the impact of climate change

Breakdown by region




€3.3 BN
in financing
for mitigation projects.

9.9 million

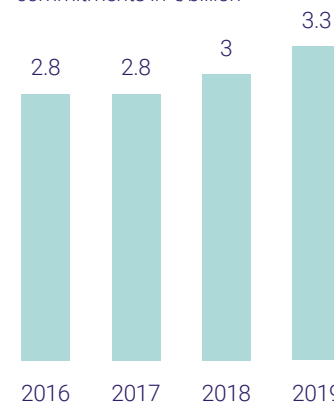
tons of CO₂ equivalent

saved each year throughout the life of projects financed in 2019.

AFD has adopted the tracking methods of the *International Financial Institution Framework for a Harmonized Approach to Greenhouse Gas Accounting*.

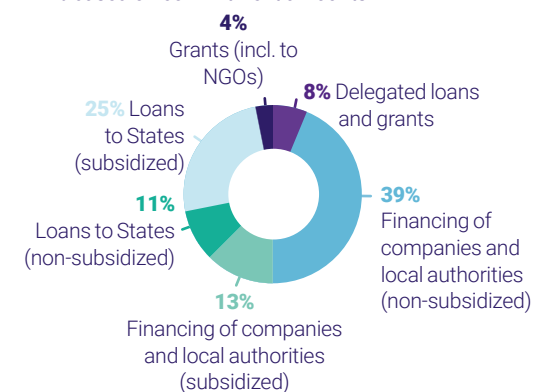
Trend since 2016

commitments in € billion

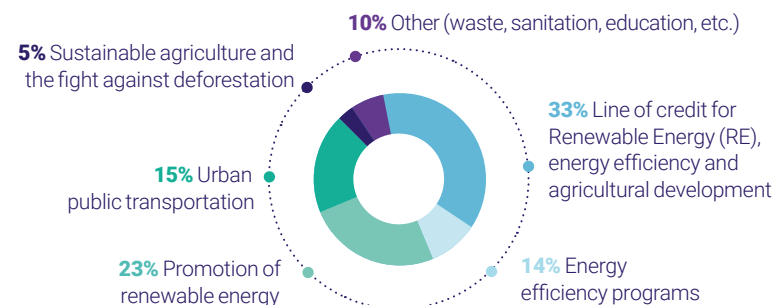


Breakdown by tool

% based on commitment amounts



Breakdown by sector

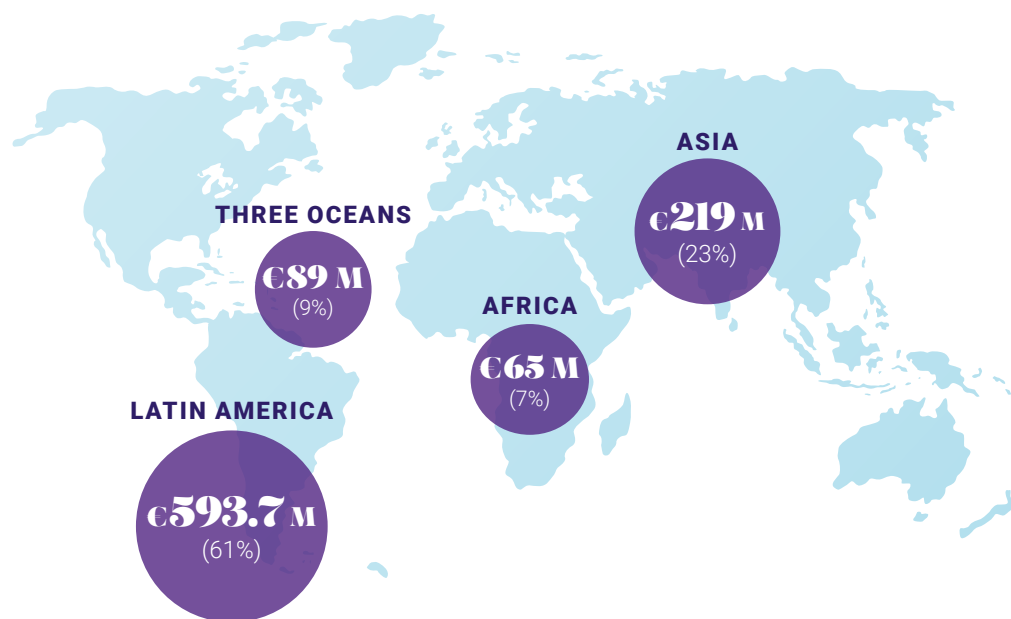


The main objective of mitigation projects is to reduce or avoid greenhouse gas emissions.

They can also promote carbon storage (e.g. in the ground or in trees). Some of the most common ways to achieve this are through deployment of renewable energies, low-carbon development of cities (e.g. by supporting public transport policies), energy efficiency, waste treatment and recycling, combating deforestation, and support for sustainable agriculture to cope with global warming. In Côte d'Ivoire, AFD is financing the setting up of a pilot floating solar power plant with 20-MW capacity. This will reduce the use of natural gas, an adjustable variable of Côte d'Ivoire's current energy mix. The project also includes a component to improve the management of intermittent solar power generation.

Supporting public policies for the climate

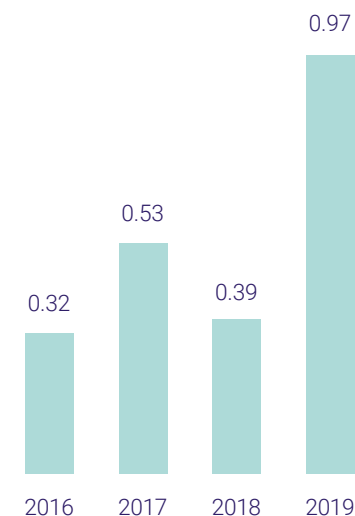
Breakdown by region



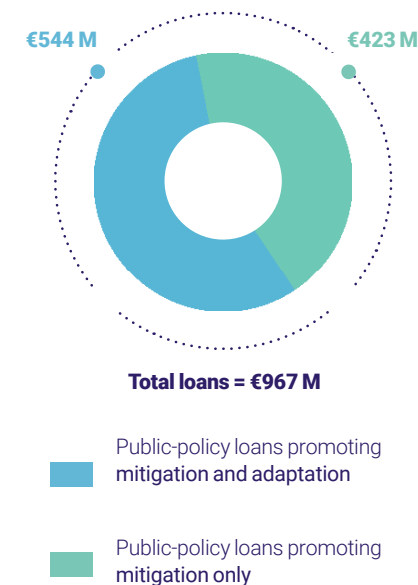
In 2019, AFD Group's public-policy loans to support the climate reached €967 million. These loans take the form of budget or sectoral support. They represent a crucial aspect in promoting low-carbon and resilient development trajectories.

Trend since 2016

commitments in € billion



Adaptation/mitigation breakdown



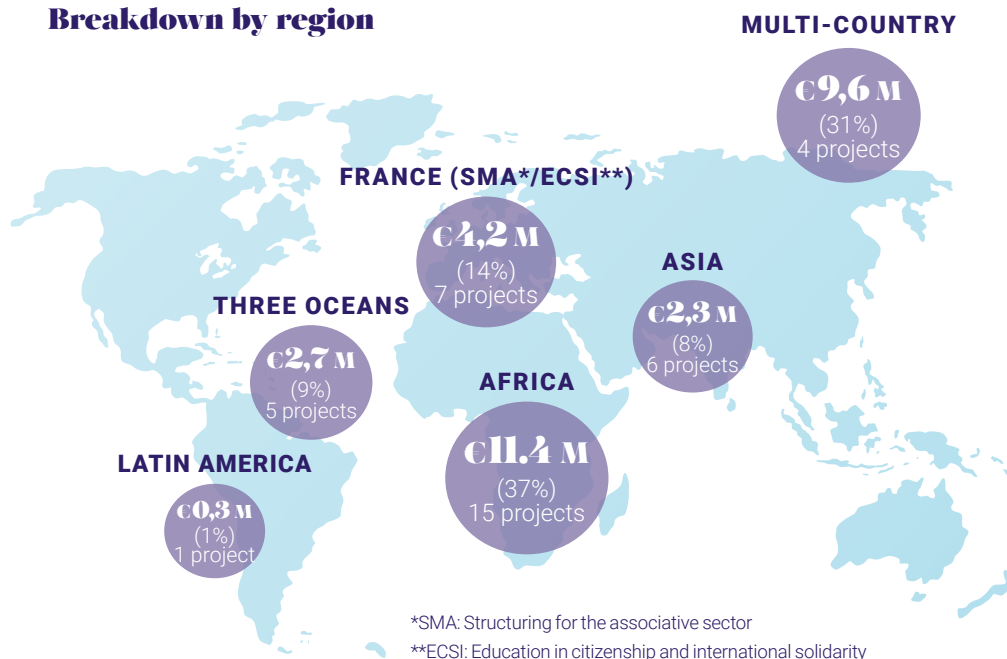
Public-policy loans act as budget support to back up a sectoral or multi-sectoral policy.

They have three components: fund transfers, dialogue on public policy based on a matrix of indicators, and technical cooperation. In 2019 AFD allocated a loan of €344 million to the Republic of Costa Rica to help it implement its 2018-2050 decarbonization plan. The plan focuses on governance and four of the sectors with the highest emissions or significant carbon sequestration potential: transport, agriculture, environment and forests.

A public-policy loan of €250 million was also granted to Mexico, to support alignment of the country's public and private financial flows with the mitigation and adaptation objectives of the Paris Agreement. Technical cooperation is mainly focused on sustainable finance and green budgeting.

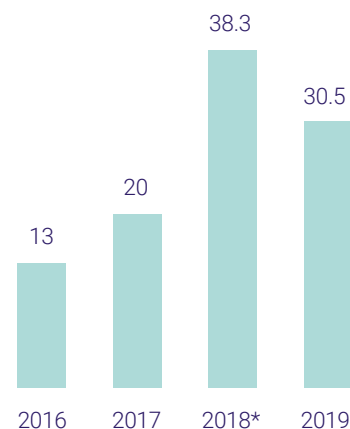
Supporting civil society's work for the climate

Breakdown by region



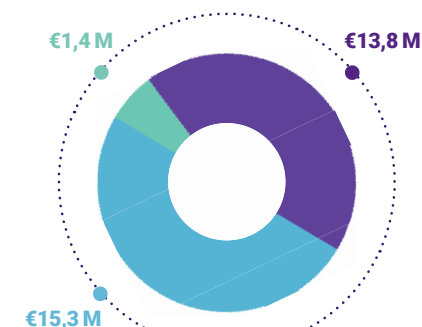
Trend since 2016

commitments in €M



*Exceptional year in 2018 due to the financing of several large-scale programs in sustainable agriculture.

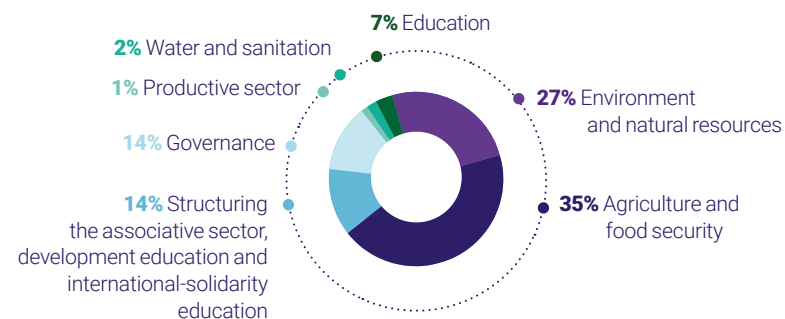
Adaptation/mitigation breakdown



Total commitments = €30.5 M

- Mitigation projects
- Adaptation projects
- Mitigation and adaptation projects

Breakdown by sector



CLIMATE AND BIODIVERSITY CAPACITY BUILDING FOR FRENCH CSOs

The urgency of climate change and the worldwide loss of biodiversity justify the strengthening of CSO action on these issues. That's why AFD has lent its support to **Climate Action Network - France**, whose actions encourage governments and citizens to take measures to limit the impact of human activities on the climate. It also backs the **Ocean & Climate Platform**, which works to raise public awareness and conduct advocacy to ensure that ocean, climate, and biodiversity issues are better taken into account in national and international policies. This type of support seeks to assess the implementation of French and international commitments to climate change mitigation (Paris Agreement) and biodiversity. The visibility of French CSOs will also be enhanced through their participation in international meetings.



63%
of climate-protection projects

also promote biodiversity, and more than 60% of them include pro-gender activities.



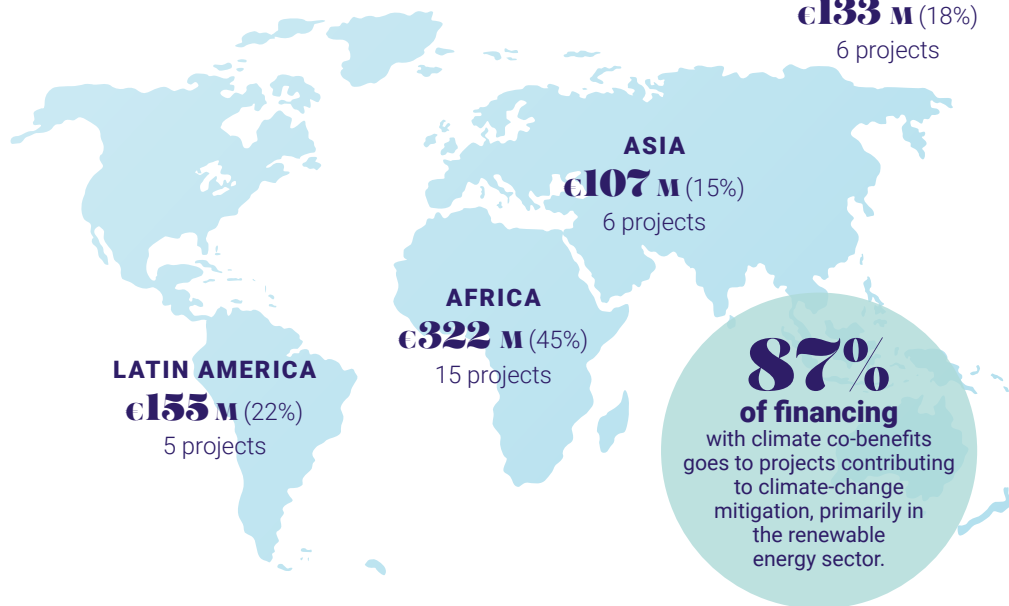
€30.5 M

was granted to CSO* climate projects, accounting for 1/3 of total grants to civil society initiatives.

*CSO : Civil Society Organizations

Mobilizing the private sector to mitigate climate change

Breakdown by region



32 projects have climate co-benefits and promote low-carbon growth.

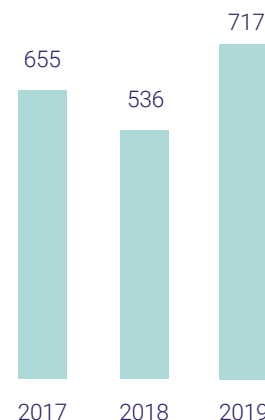


€717 M in financing with climate benefits authorized in 2019 by Proparco.

To better consider the climate challenges of the projects supported, Proparco integrated the "100% Paris Agreement" dimension into its pre-trial phase in 2019. This has enabled systematic analysis of how Proparco's financing and direct investments (excluding intermediation) align with the Paris Agreement.

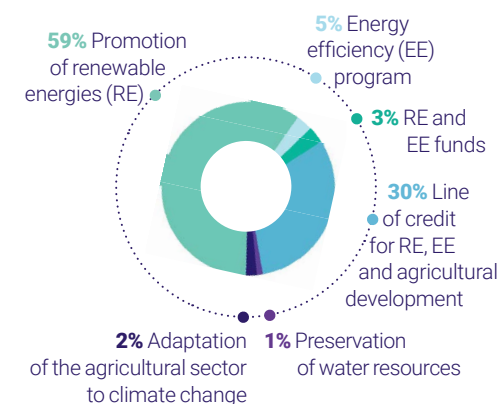
Trend since 2017

commitments in €M



Breakdown by sector

% based on commitment amounts



A STRATEGIC PARTNERSHIP WITH THE GREEN CLIMATE FUND (GCF)

Since 2016, Proparco has been an accredited entity with GCF. This partnership helps Proparco strengthen its support to the private sector for low-carbon transitions. Access to GCF allows Proparco to be a grant manager and to benefit from guarantees (as is also the case for its mobilization of European Commission funds). Thanks to the partnership, Proparco can also act as manager of subsidized loans and capital investments with a risky profile. These tools are complementary to one another, and help build on the incentives provided by Proparco's financing, particularly when combined with other resources.

Promoting private investment in solar energy.

In Senegal, Proparco has helped finance two solar power plants as part of the "Scaling Solar" initiative. These two plants, Kahone and Touba, should produce the equivalent of the annual electricity consumption of 595,000 people and avoid 86,800 tons of CO₂ equivalent per year on average, for 25 years.

Focus on two key partnerships...



The International Development Finance Club (IDFC), created in 2011 and chaired by AFD since 2017, is a group of 26 national and regional development banks. It is a global provider of public financing for development and the climate, with cumulative assets of US\$4 trillion and annual commitments exceeding US\$600 billion, including an average of US\$150 billion per year in climate finance.

October 2019 saw the launch of the IDFC Climate Facility, on the sidelines of the annual meetings of the World Bank and IMF in New York. Its objective is to help make the Club become a key player in international climate finance, by

facilitating cooperation among and capacity building for its members.

In 2019, IDFC and the Green Climate Fund (GCF) also strengthened their collaboration by signing a statement of partnership at the first joint IDFC/GCF event at COP25.

A good illustration of AFD's partnership with IDFC is the financing of six lines of credit for IDFC members in 2019, including €590 M of climate finance.

www.idfc.org/



The Green Climate Fund (GCF) provides financial support to developing countries to help them limit their greenhouse gas emissions and adapt to the impacts of climate change.

AFD became an accredited entity to GCF in 2015, since which time AFD Group has modified some of its internal procedures in order to improve the effectiveness of its actions.

The initial changes made include implementation of a mechanism for managing environmental and social (E&S) claims, improvement of the transparency of E&S studies, strengthening of gender due diligence, and consolidation of our accounting methods for climate finance.

This partnership also facilitates actions in places where people are most vulnerable. GCF provides for 50% of its resources to be allocated to adaptation projects, half of which are for African States, small island developing States, and least developed countries. Designed to take risks in the investments it finances, GCF makes it possible to take action in riskier sectors and on riskier terms. Four projects benefiting from more than €300 million in co-financing from GCF are currently being implemented by AFD.

www.greenclimate.fund

and two operational tools



Adapt'Action is a facility for studies and capacity building. It was launched in 2017. Endowed with €30 million in funds, it supports 15 of the most vulnerable countries and regional organizations, to help them meet the challenge of implementing the adaptation aspect of their climate commitments (NDCs).

Adapt'Action is a catalyst for change ranging from the strengthening of climate governance and "acclimatization" of sectoral public policies to increasing adaptation of the project design stage ("adaptation by design"). Finally, Adapt'Action is a vehicle for innovation, working in several regions.

In the Caribbean, it reduces disaster risk via Ecosystem-based Adaptation, Forecast-based Financing, and Adaptive Social Protection. In Mauritius, Guinea, and the Congo, it helps integrate solutions aimed at resiliency into infrastructure planning and investments. In Senegal and Madagascar, it consolidates the role of adaptation in education and vocational training. And in Ghana, it develops health projects that integrate the impacts of climate change. Adapt'Action uses cross-cutting methods to aim for better understanding of climate issues for gender equality and nature-based solutions.

www.afd.fr/adaptaction | #adaptaction



In 2019, the first tranche of the Facility, amounting to €10 million, enabled several achievements:

- 18 support projects were approved, for a total of €9.5 million.
- Actions were carried out in 16 countries: 47% in Asia, 36% in Africa, and 17% in Latin America.
- Nearly 70% of first-tranche financing was dedicated to studies in support of energy transition policies (28%), decarbonization trajectories (26%), and the socio-economic impacts of climate change (14%).
- 15% supported climate governance projects.

On December 19, 2019, the Board of Directors approved the second tranche of the 2050 Facility, amounting to €20 million.

This enables the 2050 Facility to finance analysis of the economic, budgetary, and environmental impacts of global low-carbon transition trajectories for Indonesia, as well as a prospective analysis in Morocco aimed at anticipating the potential impacts of climate change on the agricultural sector. Some of the countries where AFD operates face serious climate issues, and this support reinforces our commitment to help them develop and implement their low-carbon and resilient development strategies.

www.afd.fr/facilite-2050

Our methodology

Our methodologies for tracking climate finance for mitigation and adaptation are based on the common principles agreed in 2015 by IDFC members and multilateral development banks.

What comes under “adaptation”?

A project contributes to adaptation when it limits or reduces the vulnerability of goods, people, and ecosystems to the consequences of climate change. A project (or a project component) is recognized as coming under “climate adaptation” based on:

- analysis of the vulnerability to climate change;
- the way in which the project’s documentation expresses the desire to deal with identified climate risks and climate-change vulnerabilities;
- demonstration of the benefits resulting from actions planned by the project, as they pertain to climate-change vulnerabilities identified in the area.

What comes under “mitigation”?

A project works toward mitigation when it helps reduce or sequester greenhouse gas (GHG) emissions compared to a benchmark situation in the absence of the project.

A project (or a component) is recognized as contributing to “climate mitigation” when:

- the estimation of its carbon footprint shows that it reduces or avoids GHG emissions;
- the financing is dedicated to actions working toward mitigation (studies, capacity building, and credit lines to banks).

AFD Group’s methodology is strictly compatible with the Common Accounting Principles for Mitigation Finance approved by IDFC and the multilateral development banks.

What about public-policy financing?

The climate tracking of budget support must report on the content of both political and sectoral dialog carried out with the counterpart, and the expected climate-related impacts.

First of all, climate finance accounting is conditional on the supported public policy contributing to the country’s low-carbon and/or resiliency trajectories, through one or more cross-cutting climate activities.

There are three tracking possibilities:

- 1/ Pro-rata of climate indicators in the public-policy matrix in relation to all the indicators.
- 2/ Pro-rata of the financing earmarked for climate actions or indicators.
- 3/ In the absence of a matrix, it is possible to set the value of the climate commitment at a maximum of 40%, as long as a cross-cutting climate activity exists.

What about CSO projects?

Civil Society Organizations contribute to AFD Group’s climate activity by developing projects that:

- have direct benefits for the climate in terms of emission mitigation or adaptation to climate change;
- influence stakeholders in the public sphere, so that climate issues are incorporated in public policies;
- contribute to structuring CSOs that work on climate issues in France and on education in development and international solidarity.



Towards a world in common

Agence Française de Développement (AFD) is a public financial institution that finances, supports and accelerates transitions towards a more just and sustainable world. As a French overseas aid platform for sustainable development and investment, we and our partners create shared solutions, with and for the people of the global South.

Our teams are active in more than 4,000 projects in the field – in the French overseas departments and some 115 countries. They strive to promote health, education and gender equality, and are working to protect our common resources – peace, biodiversity and a stable climate.

It's our way of contributing to the commitment that France and the French people have made to achieve the Sustainable Development Goals. Towards a world in common.

