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TCFD^{*} Report

^{*} Task Force on
Climate-related Financial Disclosure

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I am proud to present the first TCFD report for the Agence Française de Développement (AFD) Group. It demonstrates once again AFD Group's full commitment to the fight against climate change, in line with its "100% Paris Agreement" flagship commitment.

Created in 2016 by the G20, the Task Force on Climate-related Financial Disclosure (TCFD) aims to improve corporate climate financial transparency. In 2017, the TCFD produced a series of recommendations to improve the stakeholders' voluntary transparency on how they are integrating climate-related risks and opportunities according to four main thematic areas: governance, strategy, risk management, and metrics and targets.

Since the COP21 and the work of the TCFD, we know that climate change constitutes a risk for the real economy as well as for global financial stability. Moreover, financial institutions like AFD know that a better understanding of the risks they are facing is a powerful lever for finding new solutions and helping to stave off crises through the best possible investments.

The TCFD distinguishes two main risk categories: physical risks and transition risks. **Physical risks** result from the damage that climate change causes to economic actors through (i) extreme weather and climate events (storms, heat waves, episodic coastal flooding) and (ii) chronic, longer-term shifts in climate

patterns (changes in rainfall or mean temperatures, rising sea levels, etc.). **Transition risks** stem from the impacts on economic actors of transitioning to a low-carbon economy, especially when these adjustments are poorly anticipated or occur very suddenly. The transition may be driven by policy measures, technological progress or changes in consumer behaviour.

The work of the TCFD has inspired other initiatives to better integrate climate-related financial risks. I am thinking of the creation of the Network for Greening the Financial System (NGFS), which gathers together supervisors and central banks around climate-related financial risks. I am also thinking of French and European regulations, which are playing a full role in supporting economic and financial players in their efforts to achieve greater transparency. Finally, I am thinking of the recent creation of the TNFD (Task Force on Nature-related Financial Disclosure) on biodiversity risks, inspired by the successful experience of the TCFD on climate change, which will host within its secretariat a "development finance hub" structured by AFD.

AFD Group is fully committed to the issue of climate risk in two ways: as a financial institution and as a development agency.

As a financial institution, AFD Group is continuously progressing in building and improving its capabilities to measure the climate-related financial risks that may affect the repayment capacity of its clients (governments, local authorities, public or private companies and banks) and to report to the regulator. AFD Group was one of the first French banks to analyse the exposure of its loan portfolio to physical risks and to develop an innovative methodology to assess its clients' exposure to these risks.

As a "100% Paris Agreement" development agency, climate-related opportunities and risks play a central role in our governance, in our dialogue with clients and partners, in the choice of operations financed, and in the various indicators used to manage the Group's activities. This is what this report establishes and documents, in the hope of exchanging views on these subjects on a regular basis with all our clients and partners.

Helping our clients and partners to become aware of the financial risks of climate change, and helping them to better identify development opportunities in light of the objectives of the Paris Agreement: this must be one of the main missions of a public development bank.

In this spirit and to contribute to the in-depth transformation of all financial institutions, I was honoured to bring together in Paris, for the very first time, the 500 public development banks for the Finance in Common Summit (FiCS) organised in November 2020. These institutions — national, regional, international and multilateral — which represent 10% of the investments made each year in the world, can help transform financial systems towards new models of low-carbon and resilient development. This coalition of banks will meet for a second edition of the FiCS on October 19 and 20 in Rome, a few days before the opening of the COP26 in Glasgow. The TCFD analysis, which has established itself as an international reference framework for aligning with the Paris Agreement, will play a central role there so that a growing number of public and private financial institutions can join in ●

Rémy Rioux, CEO, Agence Française de Développement



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I. Governance and actors

A ■ THE DECISION-MAKING BODIES

Status

Created in 1941, the Agence Française de Développement is the world's oldest development bank. It has the status of an EPIC (public industrial and commercial undertaking), is subject to banking regulations and wholly owned by the French State. AFD operates in 115 countries through its network of 85 agencies and employs 2,650 staff.

AFD is a financial institution with a development mandate that implements the bulk of France's development policy. Its objectives and means are defined and renewed every two years by the Ministry for Europe and Foreign Affairs, the Ministry of the Economy and Finance and the Ministry for Overseas France.

The Board of Directors

AFD's Board of Directors (BD) has been chaired by Laurence Tubiana since June 2013. It comprises 17 members: 6 State representatives, 5 qualified members appointed for their expertise in economic and financial issues, ecology and sustainable development, 4 Members of Parliament and 2 employee-elected members. A government commissioner also sits on the Board.

The BD deliberates on the strategic orientations. It approves the climate strategy (2017) and AFD Group's corporate social responsibility (CSR) Policy, and is kept informed of their implementation and updates. The mid-term review of the climate strategy also received the BD's approval in July 2020.

The BD deliberates on AFD's operations and financial aid granted, based on project presentation documents that systematically outline the operation's consistency with the climate strategy, the climate risks relating to the operation, and a qualitative analysis of the operation's alignment with the Paris Agreement (on the low-carbon transition and resilience).

Proparco's BD sets out the orientations of Proparco's activity and ensures their implementation. It has validated Proparco's climate strategy, which implements the Group strategy.

The Executive Committee

AFD's Executive Committee (COMEX) comprises the CEO of the Group as well as his two deputies, all executive directors, the head of internal audit and the CEO of Proparco. COMEX meets four times a year to deal specifically with topics related to climate and biodiversity. It oversees the implementation of AFD Group's climate strategy objectives, reviews the international agenda, settles arbitrations on the methodological elements for reporting climate finance (including the share allocated to biodiversity), monitors annual financing in terms of climate finance and keeps informed of work on climate-related financial risks, as well as the measures taken to offset the environmental footprint of AFD's internal operations. To ensure the convergence of the climate and biodiversity agendas, the scope of the "Climate COMEX" has expanded to become a "Planet COMEX".

Proparco's COMEX comprises senior management and the directors of Proparco's various departments. It discusses internal orientations and policies and steers operations, including their climate dimension, to achieve the different objectives: annual percentage of projects presenting climate co-benefits (44% by 2022), alignment of operations with the Paris Agreement, steering of objectives related to the reduction of greenhouse gas (GHG) emissions ●

B ■ THE COMMITTEES

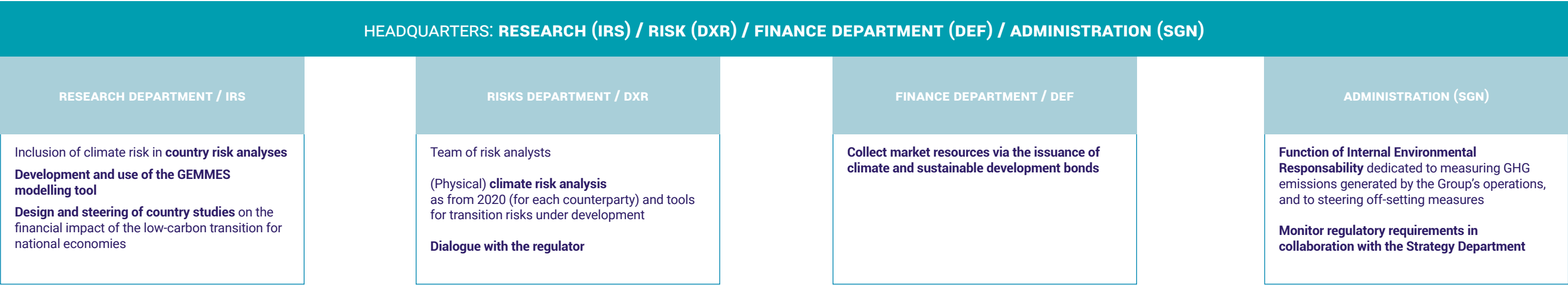
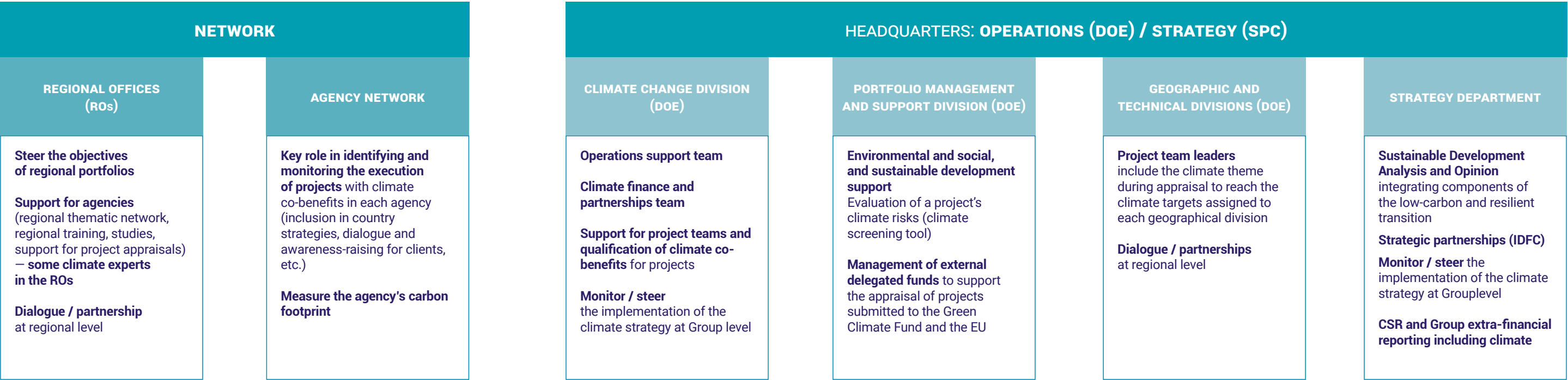
The Risk Committee

Reporting to the Board of Directors, the Group's Risk Committee is tasked with (i) regularly examining the strategies, policies, procedures, systems, tools and limits, and underlying assumptions, (ii) assessing all major risks, risk management policies and modifications made to these, (iii) assessing the steps taken to ensure business continuity, and (iv) advising the Board of Directors on AFD Group's overall strategy and risk appetite.

The Thematic Bond Monitoring Committee, which followed on from the Climate Bond Monitoring Committee in 2021

This comprises representatives from the Finance Department, Strategy Department, Operations Department, and Proparco's Risks Department, it convenes every six months and reviews the pool of assets underlying AFD Group's climate, social and sustainable bond issues to ensure compliance with the criteria set out under the framework for thematic bonds issue.

The Audit Committee is responsible, across all of AFD, for verifying the quality of information provided and assessing the relevance of the accounting methods, as well as the quality of the Agency's internal auditing. The Audit Committee comprises a Board member and four external individuals ●



NETWORK OF CLIMATE LEADS AT HEADQUARTERS, IN LOCAL AGENCIES AND REGIONAL OFFICES

C ■ THE TECHNICAL TEAMS SUPPORTING CLIMATE DUE DILIGENCE

A team dedicated to climate, supported by a network of 90 climate focal points: a 17-person division manages climate subjects within AFD Group. The team is located in AFD's Operations Department, has a cross-cutting mandate encompassing the whole Group,¹ and is in charge of developing and monitoring the implementation of the Group's climate strategy. The team has two main missions. Firstly, it supports the operational teams in bolstering the uptake of climate-related subjects in the Group's operations. For this, it develops tools in order to identify climate adaptation and mitigation issues in each country, and work on low-carbon and resilient development trajectories. It develops and updates methodologies for accounting climate finance. It calculates the contribution of AFD-funded projects to climate-change adaptation and mitigation and ensures their accountability. Secondly, the team drives the mobilisation of international climate financing, particularly with the Green Climate Fund, and maintains partnership ties with other donors, French and international think tanks, French banks, NGOs and ministries. It supports French environmental diplomacy in international negotiations, mobilises its peers (IDFC multilateral or national and regional banks)² and promotes AFD Group's climate results. Given the Group's climate ambition, an effort has been made to decentralise climate expertise. The Climate Division draws on a network of over 90 focal points working at the

Group's headquarters, in all the executive departments and AFD's regional offices, and in some countries. These climate leads are responsible for helping the teams to integrate climate issues into their activities and for coordinating the contributions of their respective structures to the climate strategy objectives.

At AFD, a 22-strong team dedicated to assistance on environmental and social topics ensures that environmental and social due diligence is performed on the projects financed, with particular attention paid to climate-related risks. This is to ensure that the environmental and social risks and impacts of each project presented to the decision-making bodies are assessed and remedial measures identified.

Proparco has a dedicated department (A2D – Sustainable Development Support Department) which has reinforced resources and operates at the same hierarchical level as the operational departments. It comprises Proparco experts in (i) environmental, social and governance fields and (ii) impact measurement. The Impact Measurement Unit analyses the environmental, social and economic impacts of projects financed by Proparco. It is also responsible for qualifying climate projects and analysing whether direct financing operations comply with the Paris Agreement. Another division conducts these analyses for projects undertaken with financial institutions ●

- ① MAYOTTE - Combani hill reservoir
- ② ETHIOPIA - Ashegoda wind farm
- ③ BENIN - Agro-ecological transition of cotton areas
- ④ INDIA - New Era solar plant
- ⑤ BOLIVIA - Oruro solar power plant

1 - Including Proparco, which draws on this expertise and also has in-house expertise.
2 - International Development Finance Club – a network of 26 national, regional and bilateral development banks(cf. Box, p.16).



2. Strategy

A ■ HOW THE GROUP'S CLIMATE STRATEGY HAS CHANGED

In 2017, the French government announced its Climate Plan whereby AFD Group would become the first bilateral development bank specifically mandated to implement the Paris Agreement. AFD Group has incorporated this commitment into its Climate Strategy 2017-2022 and the **AFD Group Strategy** adopted in 2018 by pledging to become 100% Paris Agreement compliant. This commitment sets a strong and clear course for AFD Group, which is committed to making all of its activities compatible with a low-carbon transition and resilient development.

Establishing a climate strategy for AFD Group: in 2007, AFD took on a "green and inclusive growth" mandate with a strong focus on climate in emerging countries, and its first climate strategy. Since then, climate has become increasingly important in AFD's financing activities. It became a strong marker of the bank's identity in 2012, with the adoption of three fundamental commitments: (i) systematically measure the carbon footprint of the operations financed and evaluate their potential benefits for climate change adaptation and mitigation, (ii) reach the target of devoting 50% of financing to projects with climate co-benefits in foreign states, and lastly (iii) select projects based on their impact on climate, taking into account the level of development of the countries which leads to a halt to financing for projects with high emissions in emerging countries.

The Group's current climate strategy was adopted in 2017 for a 6-year period (2017-2022). This operational and partnership-based strategy rests on four major commitments:

- **Ensure a 100% Paris Agreement compatible activity:** this means that AFD evaluates each operation it finances to ensure its coherence with low-carbon and resilient trajectories, in line with national climate policies, nationally determined contributions (NDCs) and the country's main climate challenges (mitigation, adaptation). This commitment is implemented in the sectoral strategies that specify the financing conditions for sectors deemed sensitive and requiring greater

selectivity (gas, aviation, etc.), or even exclusion (finance for coal-fired power plants since 2019, etc.).

- **Increase volumes of climate finance:** dedicate 50% of financing per year to projects or public policies presenting climate co-benefits, with a quantitative target of €5 billion for climate, including €1.5 billion for adaptation by 2020. The activities of Proparco and AFD for projects in French overseas territories are now integrated into the 50% target, which covers the entire AFD Group.

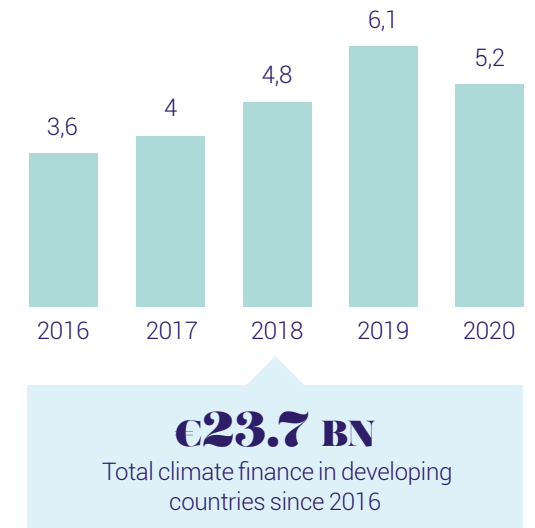
- **Contribute to redirecting financial flows and investment towards climate:** this commitment has notably led the Group to deploy more cofinancing, particularly with members of the International Development Finance Club (IDFC), develop climate support for the Group's partner public and private financial institutions, mobilise private finance to a greater extent, develop new and innovative financial products, and seek climate financing resources from the Green Climate Fund or the European Union. At the same time, AFD continues to play an active role on the markets through its issuance of climate bonds — with the Group's outstanding amount for climate bonds totalling €3.25 billion as at 31 December 2020, added to which is the total outstanding amount of €2 billion for sustainable bonds.³

- **Co-build solutions and help shape new standards:** regarding IDFC alignment with the Paris Agreement and climate-related financial risks, AFD Group contributes to the debates and shares its experience within different existing work groups and networks. As IDFC chair since 2017, AFD is continuing to mobilise public development banks towards more effectively integrating climate into their strategies and operations, and working to improve recognition of these actors in international financial architecture ●

The Climate Strategy 2017-2022 Midterm Review, conducted in 2020 has helped to heighten to Group's climate ambitions. It has confirmed the need to contribute to a pro-climate recovery following the Covid-19 crisis, strengthen the operational application of the Paris Agreement alignment commitment, use climate finance to leverage financing for the Sustainable Development Goals (SDGs), especially biodiversity, and intensify the redirection of financial flows from the private sector and IDFC partners.

A fifth commitment has now been added to the climate strategy: apply the Paris Agreement alignment to internal practices. The Group has committed to developing an even more ambitious policy with respect to controlling travel-related emissions, responsible procurement practices and strengthening Green IT ●

Trend since 2016
commitments in € BN



B ■ THE ROADMAP FOR CLIMATE-RELATED FINANCIAL RISKS

A climate risk roadmap was approved by the Planet COMEX in 2019. This revolves around 4 main focus areas: (i) integration of financial climate risks by AFD Group in its internal processes as a credit institution, (ii) inclusion of financial risk topics in the public policy dialogue with the Group's borrowers (central governments, local authorities, companies), (iii) preparation of an offer and analytical tools enabling AFD Group's financial partners to better integrate climate

risks, and finally (iv) contribution to international debates and development of standards designed for climate-related financial risks. This cross-cutting roadmap mobilises teams from the Risks, Operations, Strategy and Research Departments in AFD Group and Proparco, and is monitored by the Planet COMEX (see Section 3 for more details) ●

C ■ OWNERSHIP OF THE CLIMATE OBJECTIVES

A sustained training effort

To ensure that AFD Group staff are well acquainted with the climate strategy and fully appropriate it, and ensure its implementation by all the executive departments, a three-day training seminar is organised each year in addition to the regular climate training courses for new AFD hires. Between 2017 and the first semester 2020, 32 sessions were organised for 527 AFD Group employees, which represented a total of 5,439 hours of climate training. Part of this training focuses on climate-

related financial risks. Moreover, since 2020, in-house training on country risks includes a session dedicated to the assessment of physical climate risks and their macroeconomic consequences. Each year, hundreds of staff also follow numerous training courses that approach climate issues through a more sectoral prism (training on "energy transition", "financial systems", "transport", "water and sanitation", "sustainable cities", etc.) ●

³ - <https://www.afd.fr/en/actualites/communiqu%C3%A9-de-presse/sustainable-finance-success-afds-first-sdg-bond-issue-total-2-billion-euros>

3. Risk management

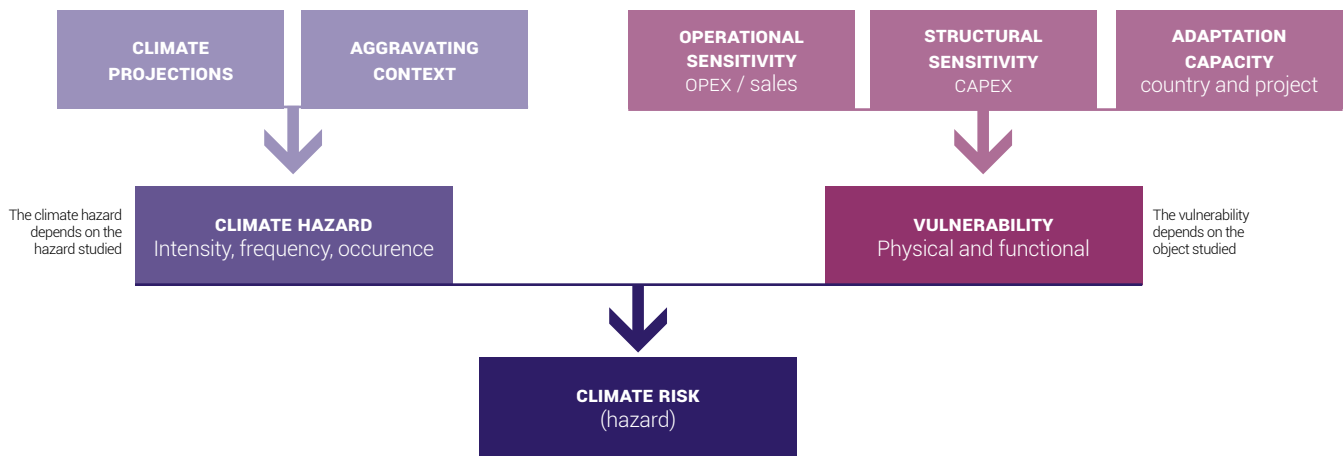
A ■ INTEGRATION OF PHYSICAL RISKS

For funded projects, a climate risk analysis has been in place since 2015 to characterise the level of functional and/or structural risk that each project could encounter during its life cycle due to the expected climate-change effects (climate screening). The purpose of the climate-screening approach is to identify – at the earliest possible stage ahead of appraisal – those projects that present a significant level of risk, so that adequate risk mitigation measures can be planned during the appraisal process if need be.

The approach relies on an internal online Climate Screening tool, which has been designed as a user-friendly tool for non-experts in order to anticipate and respond to a project's climate adaptation issues and identify and promote opportunities to incorporate associated climate co-benefits. The methodology used by the tool to analyse the climate vulnerability of an AFD project is summarised in the diagram below:

Focus on methodology

For each project, the level of risk is assessed for 9 climate hazards: increase in average temperature, increase in average rainfall. Decrease in average rainfall, heatwaves, wildfires, water scarcity, floods and landslides, cyclones, coastal erosion and flooding.



In 2020, the tool was updated and disseminated throughout AFD Group so as to increase the number of users. Originally in French, the tool is now available in Spanish and English.

For borrowers, the rating methods – which assign a credit rating to non-sovereign borrowers – requires that their exposure to physical shocks, their capacity to assess the impacts and manage these risks be taken into account in the qualitative part of the analysis, be it their direct exposure (via their assets) or indirect exposure (via their value chains). Nevertheless, due to the difficulty of dovetailing climate models with financial analyses (mainly due to the time horizons involved) and the need to foreground the importance of climate risk as a full-blown topic requiring analysis,

AFD Group developed a “physical risks” tool to rate its borrowers, on top of the existing risk assessment tools. This tool is a matrix that compares country and sector for each climate event and determines whether the borrower is in a very high/high/medium/low risk zone. Once a zone of risk has been identified, risk-mitigation measures can be integrated based on questionnaires for each type of borrower and a final exposure score is assigned to the borrower. This score is then fed into AFD’s information systems, along with the credit rating for the counterparty involved. This makes it possible to have an annual aggregate view of the risk for the portfolio. If a high risk is identified for a given client, AFD can propose assistance to the client in defining and setting up an adaptation strategy.

Sector-country matrix for physical risks

Country Sector	Mayotte Water distribution		Initial score (identification committee)	Red flags triggering specific due diligence	Risk mitigation techniques identified during the due diligence process?	Final score
Cyclones	Country level risk score Sector level risk score	● ●	●	!	yes	●
Sea level rise	Country level risk score Sector level risk score	● ●	●	!	no	●
Extreme precipitations	Country level risk score Sector level risk score	● ●	●	!	no	●
Water stress	Country level risk score Sector level risk score	● ●	●	!	yes	●
Thermal stress	Country level risk score Sector level risk score	● ●	●	✓		●

For sovereign borrowers, a methodological framework has also been designed to evaluate the macroeconomic and financial consequences of physical climate risk. The assessment of the physical climate risk level by economic sector for a given country (a sector-country matrix) is set against the country's economic and public finance structures to determine which risks could impact the government's ability to repay its debt. This involves mobilising Indicators such as the weight of the economic sectors vulnerable to climate change effects with respect to total added value, exports (and thus the country's capacity to generate revenue in foreign currency) and government revenue. Likewise, an analysis of the economic consequences of previous major climate-related shocks (e.g., cyclones, flooding or drought) is carried out (long-term impact on real GDP growth and public spending, etc.). Lastly, the consequences of global warming are likely to trigger more social tensions (migration, more intense competition for access to resources, etc.) that have significant consequences for public finances (increased transfers from central government to local authorities, etc.).

For AFD's loan portfolio: In 2018, AFD Group mapped the exposure of its portfolio to physical climate risks. A physical risk assessment for each borrower mentioned above was carried out. The sample analysed represented 80% of AFD Group's loan portfolio as at 31/12/2017, 60% of total assets and 20% of its borrowers, i.e. nearly 200 borrowers. Each borrower had been assigned a physical risk exposure score, which was broken down into 5 climate hazards (thermal stress, extreme precipitation, sea level rise, cyclones, water stress). In total, 61% of the borrowers sample was flagged with points requiring attention, meaning that these borrowers had a climate hazard exposure score greater than or equal to the 90th percentile of AFD's sample. Further, 15% of the counterparties (14% in terms of credit exposure) were flagged as having two points requiring attention, while only 6 counterparties (i.e., 3% of the counterparties and 2% in terms of credit exposure) had three points needing attention ●

B ■ INTEGRATION OF TRANSITION RISKS

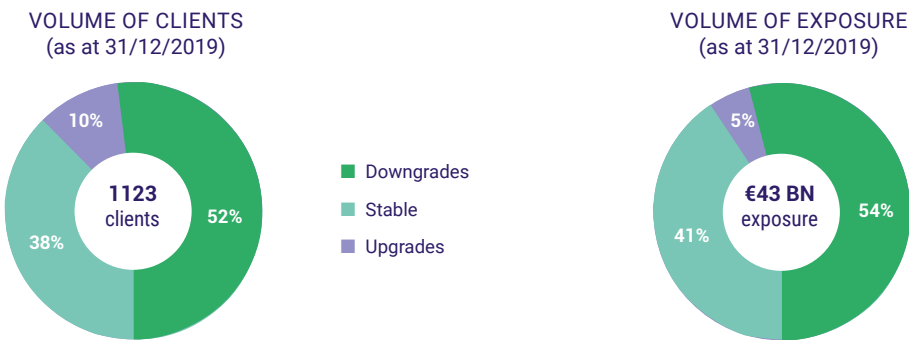
For funded projects: AFD Group systematically measures the carbon footprint of each project it finances.⁴ The emissions generated and those reduced or avoided by a project are calculated ex ante using a tool based on ADEME's Bilan Carbone (carbon footprint) tool. Each year, AFD Group publishes the volume of aggregate emissions avoided by its mitigation projects. It has also put in place selectivity criteria for its operations, thus making it possible to limit the emissions impact of its project portfolio while also taking into account a country's level of development. This selectivity may mean that certain projects are deemed ineligible for AFD financing. The grid differentiates 3 categories: a mitigation or "neutral" project, an emissive project or a highly emissive project, i.e., it produces more than 1 million tonnes of CO2 per year and is therefore excluded from AFD financing (exceptions can be made for priority poor countries in sub-Saharan Africa).

For borrowers, the methodologies for rating non-sovereign borrowers take transition risks into account to analyse the borrower's positioning on its market and, in particular, the risk of technological change. In the course of 2021, this analysis will be supplemented with the deployment of a "transition risk" rating tool for all AFD's borrowers. In the case of sovereign borrowers, an analysis of how energy systems could impact macroeconomic balances has been integrated into AFD's country/sovereign risk assessment methodology. This assesses a country's energy vulnerability and its macroeconomic consequences. A study is now underway to quantify the carbon intensity and ecological footprint of some relevant economic aggregates (fiscal revenue, exports, etc.) so as to assess sovereign borrowers' exposure to transition risks.

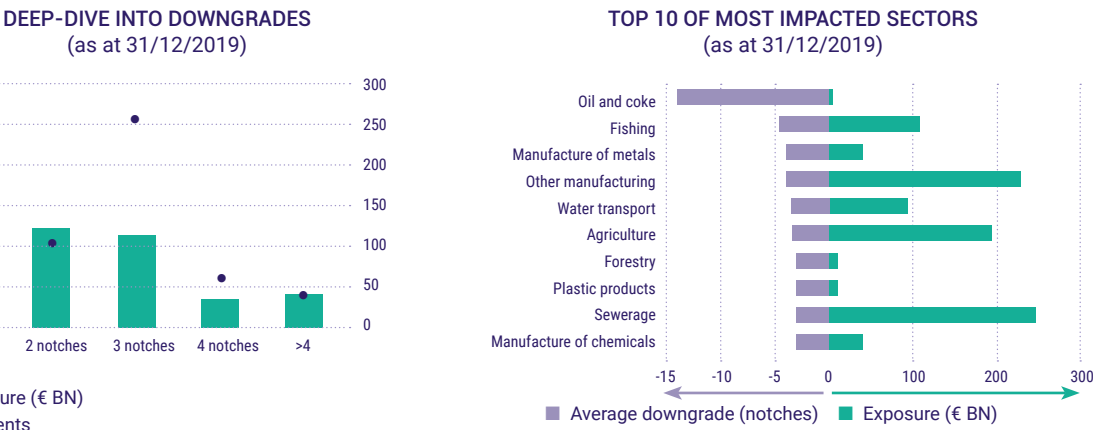
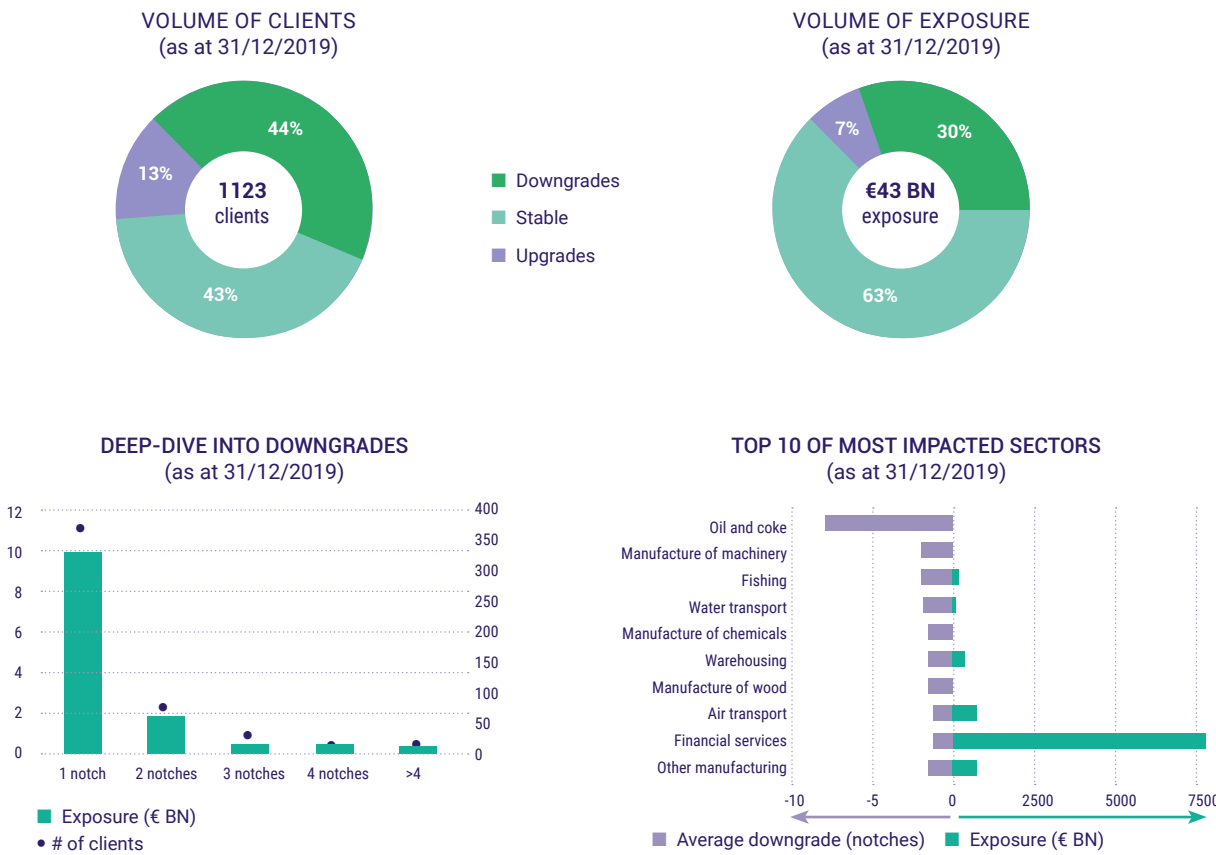
In 2020, AFD Group participated in a pilot stress-test exercise led by the ACPR (the French prudential supervisory authority). When adapted and applied to AFD's portfolio, **the stress-test** framework designed by the French regulator proved to have a limited impact on the portfolio's credit ratings, even in the most adverse

scenario (average downgrade of 1 notch by 2050 in the "accelerated transition" scenario, average downgrade of 0.03 notch in the central scenario of an "orderly transition").

Evolution of credit ratings 2019-2050 (adverse scenario)



Evolution of credit ratings 2019-2050 (orderly transition)



This strong resilience results from the fact that AFD has low levels of exposure on the most highly emissive sectors, given that the Agency complies with the Group's "50% Climate" and "100% Paris Agreement" strategy. This exercise nonetheless helped to identify the financial

sector as a potential contagion channel for transition risks in AFD's portfolio and one that requires work to firm up the methodology and analysis ●

4 - Excluding budgetary support and some financial intermediation operations.

C ■ ASSISTANCE FOR PARTNERS AND CLIENTS

In addition to managing its own risks, AFD engages efforts to raise the awareness of its partners and clients, particularly those in the financial sector, on the theme of climate-related financial risks. This is carried out through the offer of technical assistance, which has been deployed since 2019 for financial system actors who are AFD partners.

On this count, AFD Group's offer aims to build financial systems that are resilient to climate risks and help to promote the transition towards more sustainable economic models. The offer focuses on two areas:

- ▶ incentivising financial system stakeholders to adopt the approaches and tools ensuring the integration of climate-related financial risks, and
- ▶ mobilising climate risk considerations in the public policy dialogue with financial regulators and supervisors. Several projects incorporate this dimension not only with financial institutions, but also with financial system regulators and supervisors.

AFD also develops research programmes in close collaboration with governments, central banks and regulatory authorities, in view of carrying out in-depth diagnostics of climate-related financial risks and preparing public policy recommendations and risk management strategies for non-sovereign actors. For this, AFD mobilises its in-house macroeconomic modelling capabilities through the GEMMES⁵ programme to co-build analyses of the effects of climate change or public energy transition policies, with its (institutional and academic) partners. The macroeconomic modelling tools developed in this programme allow the socio-economic impacts of public policy choices for climate action to be assessed. The goal of these decision-support tools is to inform ministries and decision-makers on how to reconcile their ambitions for economic objectives and climate objectives



The International Development Finance Club (IDFC), created in 2011, is a network of 26 national and regional development banks around the world, mostly operating in emerging markets. IDFC is the foremost provider of public development and climate finance globally, with combined assets worth USD 4,000 billion and over USD 600 billion in annual commitments, including USD 150 billion for climate finance. IDFC members have the unique function of supporting domestic policies while transferring international priorities into their own constituencies. The Club has pledged to mobilise USD 1 trillion for climate investment between 2020 and 2025, with an increasing share being earmarked for adaptation.

Chaired by AFD since 2017, the Club is a vector of influence on the community of public development banks (PDBs), and especially on climate agendas. It played a leading role in driving the commitment, within the global Coalition of 450 PDBs, to align with the Paris Agreement and SDGs at the first ever Finance in Common Summit in November 2020. This commitment will be supported by the AFD-hosted **IDFC Climate Facility**, which aims to increase cooperation on climate among IDFC members and strengthen their capacity to integrate climate change into their financing. Several major projects are in progress, particularly aimed at integrating physical and transition risks, designing a toolbox for climate finance accounting, and developing an operational framework and tools to align IDFC members with the Paris Agreement.

AFD is also developing a research programme on transition risks and opportunities based on a microeconomic and financial approach. A first pilot study was conducted in South Africa⁶ and similar studies are planned for other geographies. The purpose of these studies is to inform public decision-making on the low-carbon transition in a large number of sectors (energy, fossil resources, transport, industry, agriculture). The approach used is based on a disaggregated analysis of transition scenarios, economic relationships and the actors' dynamics. This makes it possible for companies, financial institutions and local authorities to reflect on strategies enabling them to reduce and more effectively manage their exposure to transition risks, and leverage the opportunities offered by this transition. This research programme and the accompanying multi-stakeholder dialogue aim for better integration of the potential economic effects of the dynamics created by the low-carbon transition in order to bolster the financial and social stability of these dynamics ●



MAYOTTE - Photovoltaic power station

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5 - The purpose of the research project, "GEMMES" (General Monetary and Multisectoral Macrodynamics for the Ecological Shift), is to develop a macroeconomic modelling tool able to inform public action on energy transitions scenarios.

6 - <https://www.climatepolicyinitiative.org/publication/understanding-the-impact-of-a-low-carbon-transition-on-south-africa/>



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INDIA - Cochin Metro
BRAZIL - BRT of Curitiba

4. Measuring risks and opportunities

A ■ CLIMATE FINANCE AND CO₂ TONNES AVOIDED

Climate finance: In 2012, AFD pledged to devote 50% of its financing to projects presenting climate co-benefits. Since 2018, the scope of this commitment has been expanded to the whole AFD Group (including Proparco and AFD activities in Overseas France). In 2019, the Group reached and exceeded the climate finance targets set in 2015 and raised in 2017, i.e., €5 billion for the climate, including €1.5 billion for climate adaptation by 2020. Despite the Covid-19 crisis, AFD Group reached its climate finance target in 2020, with €5.2 billion of climate finance, including €2.1 billion for adaptation. The amount dedicated to **mitigation** totalled €2.6 billion, which will save 4.6 million tonnes of CO₂ each year over the lifespan of the projects. The overarching goal of these mitigation projects is to reduce and avoid greenhouse gas emissions. They can also promote carbon sequestration (e.g., through soil and biomass). To achieve this, they very often aim for the deployment of renewable energies, low-carbon development for cities (e.g., by supporting public transport policies), energy efficiency, waste processing and recycling, the fight against deforestation and support for sustainable agriculture in a context of global warming.

In 2020, €2.1 billion of project financing was committed to **adaptation**. The goal of adaptation is to tackle current and future changes in climate (more intense droughts, increased risks of flooding, rising sea levels, etc.) that pose a threat to the projects themselves (adaptation of the project) or to their environment (adaptation through the project). This includes risk management across the whole value chain of a project, both upstream (e.g. its suppliers) and downstream (its outlets, access roads).

In 2020, climate-related **policy-based loans** amounted to €553.5 million. These loans are issued as sectoral budget support. They form a crucial vector to support the emergence of low-carbon and resilient development trajectories.

As part of its financing for climate co-benefits, AFD Group now tracks financing that supports **nature-based solutions**. In 2019, €400 million of climate financing was allocated to projects presenting benefits for biodiversity. This share will continue to increase in line with AFD's new commitment to earmark 30% of its climate finance for nature-based solutions by 2025.⁷

In geographical terms, in 2020, the activity dedicated to climate was concentrated on Africa (€1.7 billion), Asia and Middle East (€1.7 billion), Latin America (€996 million) and the Three Oceans⁸ (€326 million) ●

7 - The share of climate financing in projects with an OECD-CAD Rio Biodiversity marker 1 or 2 is counted as "climate-biodiversity" finance. This share is added to AFD's total climate finance to calculate the percentage of climate finance benefiting biodiversity.

8 - Countries of the Pacific, Atlantic and Indian Oceans.

B ■ ALIGNMENT WITH THE PARIS AGREEMENT

At AFD

AFD Group has ramped up its commitment to ensure that its activity is 100% Paris Agreement compliant by adopting a holistic roadmap. This defines three levels of alignment with the Paris Agreement:

- 1) alignment at country level through public policy dialogue,
- 2) alignment at the strategic level for the institution itself, and
- 3) alignment at the operational level.

Since 2017, AFD has developed several tools to make it easier for the operational teams to analyse this alignment:

Sustainable Development Analysis and Opinion (SDAO):

Created in 2013, the SDAO system aims to facilitate the interdisciplinary consideration of sustainable development issues in the Group's financing operations. In 2017, it evolved to incorporate the new orientations relating to the climate strategy and the consistency of projects with the Paris Agreement: the new analytical grid details the criteria for rating "low carbon" (dimension 5a) and/or "resilient" (dimension 5b) projects, using a largely qualitative approach.

The rating is on a scale from -2 to +3: projects that receive a negative rating are those that are "inconsistent with the country's climate policy objectives or the issues identified in the framework of the analysis of its low-carbon trajectory", "inconsistent with the adaptation objectives of public policies and representing a risk of increasing the vulnerability of the area", "exposed to negative climate risks without taking adaptation measures to deal with them", or "involving a long-term structural lock-in effect".

The selectivity implied by the "100% Paris Agreement" commitment is first of all applied by the operational teams when identifying projects. The projects are then submitted for a Sustainable Development Opinion,⁹ which analyses in particular each operation's alignment with the Paris Agreement in terms of the low-carbon transition and resilience, as mentioned above. In 2019, nearly two-thirds of projects (in financing volume) were awarded a positive rating on these counts (i.e., the projects benefited the climate). The remaining third of the projects were compatible (a "0" neutral rating).

Country analyses

For each country of operation, "country climate fact sheets" have been created to inform the sustainable development analyses of projects, support the public policy dialogue with national authorities, and draft all the geographic strategies. These fact sheets, together with the sectoral strategies, help to identify projects upstream.

AFD has deployed three tools to support the long-term trajectories of countries. The 2050 Facility to support the transition towards low-carbon and resilient trajectories, the Adapt'Action Facility to catalyse resilient investments in the most vulnerable countries, and the GEMMES modelling tool to identify the macroeconomic impacts of climate change.

Proparco's Paris Agreement analysis:

In November 2018, Proparco formalised its approach to the "100% Paris Agreement" commitment, pledging to cease financing operations incompatible with the Paris Agreement objectives.

In order to comply with that commitment, Proparco undertakes specific analyses on the matter, based on various elements including the carbon footprint, project data, feasibility study and the Environmental and Social impact study, the country's nationally determined contribution to the Paris Agreement, the in-house country climate fact sheet and other supplementary data on the country or sector.

Proparco's approach focuses most of the efforts on the analysis of operations that present a high risk due to:

- 1) a high level of GHG emissions from the investment or the sector (the carbon footprint approach);
- 2) a vulnerability to climate change ("vulnerability" screening approach) and
- 3) the project's direct or induced structural effect on the economy of a country, sector, territory or community (a relative evaluation by the project team).

The final financing/investment decision takes into account the recommendations resulting from the analysis described above. When the risk of inconsistency seems high or when the team lacks sufficient elements to undertake the analysis, the arbitration of Executive Management is required ●



IDFC's Alignment with the Paris Agreement

Following the declaration made at the 2017 One Planet Summit, the 26 IDFC member banks have continued to make headway in defining the operationalisation of their commitment to align with the Paris Climate Agreement. At the COP24 in 2018, they published a position paper with six key points that they deemed to be a definition of Paris Agreement alignment:

- 1. increasingly mobilise finance for climate action,
- 2. support country-led climate policies,
- 3. catalyse investments and mobilise private capital (local and international),
- 4. finance adaptation and resilience, particularly in the most vulnerable countries,
- 5. support the transition from fossil fuels towards renewables, and
- 6. transform the internal practices of the member institutions.

At the Climate Action Summit in 2019, the banks within the IDFC network strengthened their commitments. They announced

- the mobilisation of one trillion dollars for climate by 2025,
- a partnership with the Green Climate Fund, and
- the creation of an IDFC Climate Facility for capacity building.

At the 2020 Finance in Common Summit, the commitment made by IDFC members to align with the Paris Agreement was reiterated and amplified by the Coalition of the 450 public development banks.

9 - Based on a sample of 243 AFD operations having received a sustainable development opinion, for a cumulative amount of €9.1 billion approved in 2019. This represents 83% of the amounts committed by AFD.

C ■ GREEN AND SUSTAINABLE BONDS ISSUANCE PROGRAMS

In 2014, AFD was the first institution in France's public sector to issue a climate bond (€1 billion 10-year bond). In 2017, it adopted a dedicated climate bond framework for its climate bond issuance and continued its policy to issue these bonds on a regular basis.

The Group took a new step forward in 2020 with the publication of a new Climate Bond Framework focussed on the Sustainable Development Goals (SDGs).¹⁰ This new reference document aims to reflect the Group's actions in their full environmental and social dimensions; it adheres to the four pillars of the Green Bond Principles & Social Bond Principles

to which AFD has adhered. These involve justifying the use of funds, putting in place a robust appraisal process for funded projects, monitoring flows and the requirement for robust reporting. The Group thus issued a 7-year SDG loan of €2 billion in October 2020, in the sustainable bond format. As at 31 December 2020, the climate bond portfolio – included in this new framework – stood at €3.25 billion and the sustainable bond portfolio at €2 billion ●

D ■ MOBILISING THE PRIVATE SECTOR FOR CLIMATE

Mobilise the private sector to mitigate GHG emissions

In 2020, Proparco supported the energy transition while also improving access to renewable energy for companies and populations by financing 13 projects that should help avoid the emission the emission of 719,000 tCO2e on average per year, 85% of which are in lower-middle-income countries and 28% in fragile or conflict-affected countries. Totalling €266 million of climate co-benefits, this financing includes:

- Seven lines of credit wholly or partly dedicated to climate for financial institutions in Kenya, Costa Rica, Paraguay, Brazil, Turkey and Vietnam,
- Two "company" projects: one in the agricultural sector in Nigeria, the other in the services sector in Cameroon,
- Four solar energy infrastructure projects.

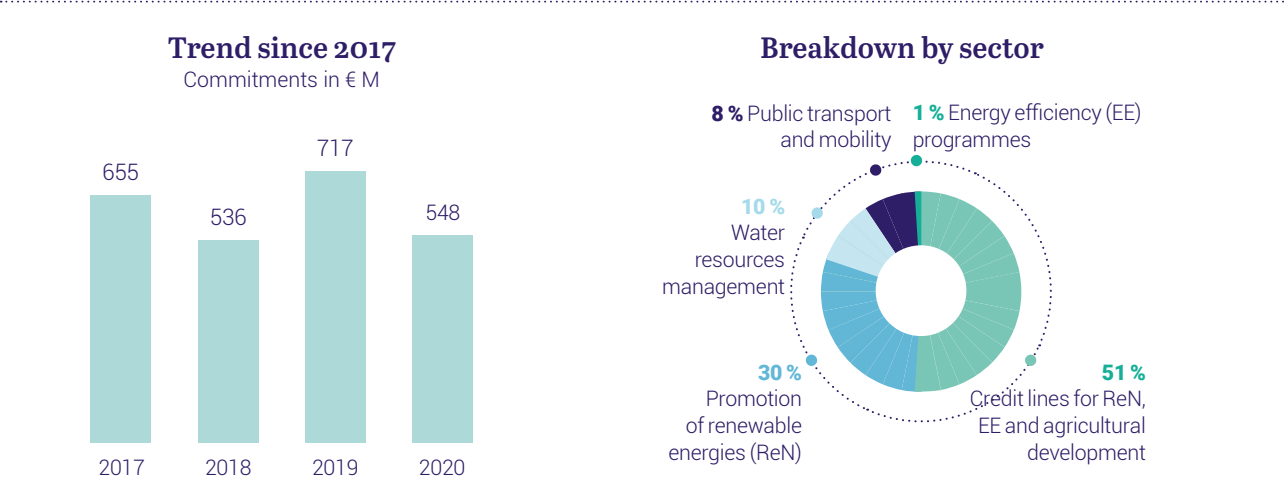
Mobilise the private sector to implement more resilient practices

In 2020, Proparco ramped up its financing for private sector projects that contributed to adaptation or to stronger resilience of economies and populations to climate change impacts, with the signature of three projects incorporating an adaptation component. This represents €19 million of co-benefits in sectors that are particularly exposed to climate change, i.e., agriculture and manufacturing industries in Zimbabwe, Kenya and Egypt.

Mobilise private finance for climate

In 2020, €1.7 billion of private finance was mobilised for projects with climate co-benefits. This financing was approved by AFD Group in line with the methodology developed by the OECD and included €424 million for Proparco-approved projects. This represents a mobilisation ratio of 0.31. The lines of credit granted to public development banks and commercial banks are the main instrument used to mobilise private funds: 91% of private finance mobilised in 2020 ●

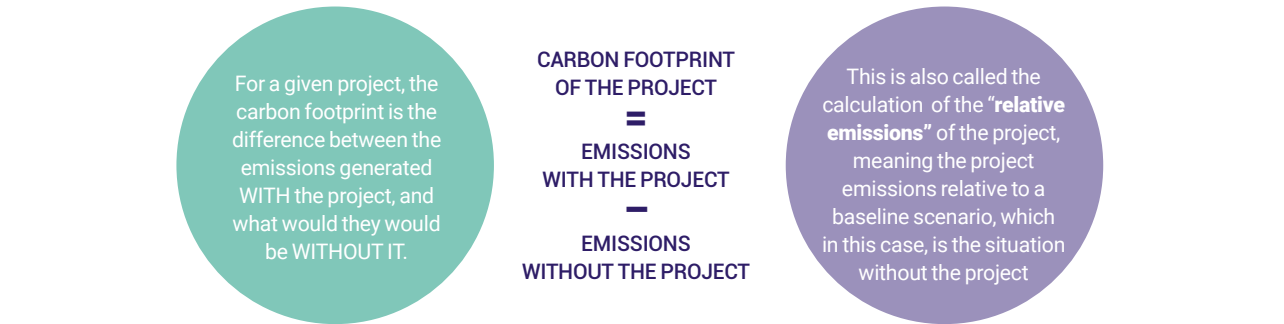
Climate financing for the private sector since 2017 and the sector breakdown in 2020



E ■ CARBON EMISSIONS

As far upstream as possible, AFD Group produces the "carbon footprint" for projects that it is considering financing, mainly infrastructure projects.

For a specific project, the carbon footprint represents the difference between the emissions generated with, and without the project:



A positive carbon footprint, meaning one with negative relative emissions, is the main criterion applied to show a project's co-benefits regarding climate change mitigation: if the emissions with the project are lower than the emissions without the project, this means that the project helps to reduce GHG emissions.

This reasoning can be applied to an entire project portfolio. The impact of the 2020 mitigation projects stands at 4.6 MtCO2 avoided per year. The other projects approved in 2020, which are not mitigation projects, have positive relative emissions amounting

to 0.8 MtCO2 per year. In 2020, the positive impact of mitigation projects thus greatly exceeds the negative impact of the rest of the portfolio, and AFD Group financing in the sectors of agriculture, energy, transport, water, financial systems and cities overall show a positive carbon footprint of 3.8 MtCO2 avoided per year.

For 2020, this result can be explained by the many postponements of infrastructure investment and financing, including in sectors such as livestock farming, irrigated rice growing or industry, which traditionally emit high levels of GHG ●

Relative emissions of projects financed in 2020 in the sectors of agriculture, energy, transport, water, financial systems and cities

MtCO2e per year	Mitigation projects	Other projects	Total relative emissions
Relative emissions	-4.6	0.8	-3.8

10 - <https://www.afd.fr/sites/afd/files/2020-10-07-33-42/cadre-emission-odd-afd.pdf>

F ■ THE GROUP'S CARBON FOOTPRINT

At institutional level, AFD Group measures and offsets its CO₂ emissions (scope 1 and 2).

Since 2006, the Group has been measuring its in-house environmental footprint and since 2007 has been offsetting the GHG emissions from its internal operations. It is working to reduce its water and energy consumption and promote soft transport modes for its employees, through an awareness-raising approach. These actions are currently being developed and implemented under the CSR Policy 2018-2022, which aims to control the Group's direct environmental and social footprint.¹¹ The 100% Paris Agreement and 100% Social Link commitments are also leading AFD Group to accelerate progress on its trajectory to reduce its direct carbon footprint and adopt more responsible collective and individual behaviours in its internal functioning.

AFD Group is mobilising to manage its direct GHG emissions by acting simultaneously on reducing these emissions and offsetting them by actions that contribute to the SDGs.

This thrust focusses on four areas:

1. producing the Group's Bilan Carbone (carbon footprint assessment), in line with the ADEME methodology integrating scopes 1 and 2, for AFD Group's internal operations,
2. implementing a priority action plan to reduce AFD's ecological footprint, especially on the following themes: responsible procurement, energy efficiency and renewable energies, travel, waste management,
3. voluntary offsetting of the GHG emissions generated by its activity by financing environmental projects in developing countries (purchase of carbon credits),¹²
4. internal awareness-raising on the 100% Paris Agreement and 100% social link challenges.

AFD's in-house carbon footprint

At headquarters: the footprint shows a 23% reduction in GHG emissions between 2020 (21,388 tCO₂e, i.e. 12.2 tCO₂e per employee) and 2019 (27,939 tCO₂e, i.e. 16.7 tCO₂e per employee). This reduction is mostly due to the impact of the pandemic, which led to a significant drop in staff field-trips.

In the network of regional and local offices: as the footprint of the Group's network each year is produced at the end of the first semester of the following year, the figures cited here are those for 2019. The activities of the 90 agencies included in the total scope generated about 12,600 tCO₂e, i.e. an 11% increase compared to the 2018 emissions. The per-agency emissions rate, however, decreased due to the extension of the network — an average 140 tCO₂e per agency in 2019 compared to 147 tCO₂e in 2018 — while the emissions per employee rose slightly — 12 tCO₂e on average per employee in 2019 compared to 11 tCO₂e in 2018 — which correlated with the increase in air travel (+14% of GHG emissions for this item).

Since 2020, the implementation of the "Low-Carbon Trajectory" has aimed to define all the actions intended to limit the impact of AFD's professional activities on the climate and the environment. The project also seeks to assist staff in adopting more eco-responsible behaviours by limiting their consumption of polluting resources and optimising

the use of resources within a collective as well as individual framework. Based on a precise review of the initiatives already in place and observed external best practices, an action plan must be defined with quantified and measurable objectives ●

¹¹ - <https://www.afd.fr/en/ressources/afd-groups-corporate-social-responsibility-policy-2018-2022>

¹² - In 2020, AFD thus supported two projects: a biogas project in Sichuan (China) and one for improved cooking stoves in Uganda, both of which have a Gold Standard label and produce significant environmental and social co-benefits.



For a world in common

AFD Group implements France's policy in the areas of development and international solidarity. The Group includes Agence Française de Développement (AFD), which finances the public sector and NGOs, as well as research and education in sustainable development; its subsidiary Proparco, which is dedicated to private sector financing; and soon, Expertise France, a technical cooperation agency. The Group finances, supports and accelerates transitions towards a fairer, more resilient world.

With our partners, we are building shared solutions with and for the people of the Global South. Our teams are at work on more than 4,000 projects in the field, in the French Overseas Departments and Territories, in 115 countries and in regions in crisis. We strive to protect global public goods – promoting a stable climate, biodiversity and peace, as well as gender equality, education and healthcare. In this way, we contribute to the commitment of France and the French people to achieve the Sustainable Development Goals (SDGs). Towards a world in common.



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