CLIMATE – DEVELOPMENT STRATEGY 2017-2022

Midterm review

June 2020

AGENCE FRANÇAISE DE DÉVELOPPEMENT

List of acronyms used

ADFIAP	Association of Development Financing Institutions in Asia and the Pacific
ALIDE	Asociación Latinoamericana de Instituciones Financieras para el Desarrollo
BNDES	Banco Nacional de Desenvolvimento Econômico e Social
C2D	Debt Reduction-Development Contract
CABEI	Central American Bank for Economic Integration
CAF	Corporacion Andina de Fomento - Development Bank of Latin America
CAT DDO	Catastrophe-deferred drawdown option
CDG	Caisse des Dépôts et de Gestion (Deposit and Management Fund)
CGDEV	Center for Global Development
CICID	Interministerial Committee for International Cooperation and Development
CICLIA	Cities and Climate Change in Sub-Saharan Africa Initiative
CIF	Cross-cutting Intervention Framework
COM	Contract of Objectives and Means
COP	Conference of the Parties
CPI	Climate Policy Initiative
DBSA	Development Bank of Southern Africa
EDFI	European Development Finance Institution
EEB	Energy Efficiency in Buildings
FMO	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden
GEF	Global Environment Facility
I4CE	Institute for Climate Economics
IFC	International Finance Corporation
IDFC	International Development Finance Club
IPBES	Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services
IPCC	Intergovernmental Panel on Climate Change
KFW	Kreditanstalt Für Wiederaufbau
MDB	Multilateral Development Bank
NAMA	Nationally Appropriate Mitigation Action
NDC	Nationally determined contributions to the Paris Agreement
NGO	Non-Governmental Organisation
OECD	Organisation for Economic Co-operation and Development
OECS	Organization of Eastern Caribbean States
PPL	Public Policy Loans
PT-SMI	PT Sarana Multi Infrastruktur
SDAO	Sustainable Development Analysis and Opinion
SDG	Sustainable Development Goals
SIDBI	Small Industries Development Bank of India
SUNREF	Sustainable Use of Natural Resources and Energy Finance
SMES	Small and Medium Enterprises
TCFD	Task force on Climate related Financial Disclosure
TDB	Trade and Development Bank
TSKB	Turkiye Sinai Kalkinma Bankasi
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNDESA	United Nations Department of Economic and Social Affairs
WADB	West African Development Bank
WRI	World Resources Institute

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FOREWORD

This midterm review confirms that AFD is on track to meet, or has already met, many of the targets set in the 2017-2022 climate strategy. Significant progress has been made in relation to the volume of climate finance, AFD’s influence in debates about alignment with the Paris Agreement, the Group's leadership in coping with climate change, and recognition of the role of development banks and their IDFC platform, chaired by AFD.

However, there is still room for improvement, particularly in terms of aligning projects and practices with the Paris Agreement and taking climate considerations into account in all sectors and geographical areas of intervention. Several projects launched within the framework of this midterm review are moving towards a more comprehensive and ambitious application of the climate strategy and are preparing the groundwork for a post-2022 strategy.

The current Covid-19 crisis raises the possibility that the Group’s progress in fighting climate change may be undermined by short-term solutions which delay or run counter to the long-term ecological transition underway. Intensified attention and proactivity is needed for the climate strategy to be implemented in a way to inflect the transitions at a national scale. Remaining on course with climate objectives and Sustainable Development Goals represents an opportunity for a sustainable recovery, and will help reduce countries’ vulnerability in the face of future, recurring crises.

Summary

Two years after the adoption of the climate strategy, this midterm review provides a progress report on the strategy's objectives.

The climate strategy 2017-2022 was adopted in November 2017 as part of France's strong commitment to climate change, calling on AFD to become "the first development bank to implement the Paris Agreement".

The year 2020 was to be decisive for climate and biodiversity. The review aimed: a) to take stock of the commitments made in 2017 and their implementation, and b) to push for more ambitious global goals for the climate starting in 2020.

The current Covid-19 crisis raises the possibility that the Group's progress in fighting climate change may be undermined by short-term solutions which delay or run counter to the long-term ecological transition underway. Intensified attention and proactivity is needed for the climate strategy to be implemented. Instead of weakening or compromising on the climate objectives, this crisis should be seen as an opportunity for the AFD Group to confirm their collective commitment to the Paris Agreement and the Sustainable Development Goals, in line with the 100% Paris Agreement and 100% Social Link pillars of the AFD Group's main strategy.

The AFD Group is on track to reach, or has already reached, many of its climate objectives.

The climate strategy has had a strong impact on the Group's activity. Through its flagship "100% Paris Agreement" commitment, AFD became a pioneer, increasing its influence among funding agencies, particularly through the IDFC, which AFD has chaired since 2017. The strategy has strengthened the teams' "climate reflex", driven since 2012 by the goal to devote 50% of its funding each year to projects with climate co-benefits. AFD has actively encouraged IDFC members to increase their climate goals and supported their international recognition.

Using the Sustainable Development Analysis Grid – updated to include a climate component – AFD has gauged its projects' consistency with Paris Agreement objectives since January 2018. AFD has worked to implement the Paris Agreement using tools such as "country climate fact sheets"; the Adapt'Action Facility, which is dedicated to supporting 15 of the most vulnerable countries; and the 2050 Facility, with long-term targets. There is still considerable room for progress in creating standard procedures for assessing alignment with the Agreement, particularly in sensitive sectors, financial intermediation operations, and between AFD and its Proparco subsidiary.

The volume of the Group's climate finance has met and exceeded the targets set for 2020, reaching €6 billion for climate finance, including €2 billion for adaptation in 2019, reflecting the spread of climate change coping and mitigation across AFD's operations. Reaching the target of 50% of projects with climate co-benefits – the most ambitious of any funding agency – is a major challenge that will require a greater effort on climate issues in certain regions, particularly in Overseas France and in Proparco's banking sector.

The Group's efforts to redirect financial flows have increased, through the mobilisation of the private sector on climate change, innovative guarantee products, support for financial systems, and the strategic partnership with the Green Fund. AFD has continued its work to influence and co-build standards with its peers and on the international scene, particularly with regard to

aligning practices with the Paris Agreement. AFD has shared with its peers and partners its progress in incorporating climate and transition-related financial risks in its overall risk analysis. Finally, it has demonstrated its willingness to maintain a regular dialogue with NGOs and civil society on climate issues.

To advance still further, AFD is raising its ambitions, starting in 2020 in the following 5 areas:

1. *Contribute to a pro-climate recovery in the context of the Covid-19 crisis*. The Group is investing in the Just Transition approach, which emphasises both environmental and social SDGs, as part of its support for climate adaptation and mitigation strategies. AFD will develop a specific approach for Africa that further incorporates social issues in its support for adaptation and mitigation.

2. *Strengthen our operational, strategic and internal alignment with the Paris Agreement*. The Group has adopted the methodological framework for alignment proposed by I4CE and CPI to guide the overall alignment, and has set a roadmap for 2022 with new methodologies in terms of financial intermediation and a calculation of the carbon footprint of the Group's annual portfolios of operations. AFD also includes the alignment of its internal practices and sets a target for reducing its own carbon footprint.

3. *Use climate finance as a lever for financing SDGs*. The Group will promote climate synergies with the social sectors, particularly in the areas of gender equality, health and education. It will double the share of climate finance favourable to biodiversity from 15% in 2018 to 30% by 2025. To better quantify the impact of its financing, AFD will develop impact measurement tools and ex-post evaluations of climate projects. Based on its 2019 performance, AFD Group is able to generate up to €30 billion in climate finance, including €10 billion for adaptation by 2025. Furthermore, the Group's mobilisation of investments, particularly private investments for the climate, must be taken into consideration in conjunction with its own commitments.

4. *Amplify financial flow redirection*. The Group will develop a specific offer to support financial systems, with the aim of creating a transformational effect on the strategies and operations of financial institutions (FIs), and will contribute to debates on best practices in green finance at the international level. The Group will also work to strengthen its leverage on the private sector and its ties with IDFC members to support them in their move towards more ambitious practices of redirecting financial flows towards the climate.

5. *Improve our practices and continue to produce new ideas.* AFD will continue to integrate climate financial risks into its internal processes and support its partners. It will remain attentive to best practices in the field of sustainable finance and climate bonds, as well as to European regulations in this area. Internally, AFD will create a policy to orient its own investments towards sustainable investments. Finally, AFD will reinforce its accountability on its climate-related activities, enriching the Open data platform and drawing on international standards such as the TCFD recommendations for its climate accountability.

I. A RENEWED CONTEXT

The climate strategy and midterm review

1. The 2017-2022 climate strategy was adopted in November 2017 as part of France's robust action on climate change. As the custodian of the Paris Agreement at a time when the United States announced their withdrawal, France changed AFD's mandate in July 2017 so that it would become "the first development bank to implement the Paris Agreement". The climate strategy charts an ambitious course for the AFD Group, based on four commitments (Appendix 1): i) ensure a "100% Paris Agreement" compatible activity, ii) increase volumes of climate finance, iii) contribute to the redirection of financial flows towards climate, iv) co-build solutions and bring influence to bear on standards.

2. AFD committed to presenting a progress report on the implementation of the Climate Strategy to its Board of Directors. To this end, this midterm review was carried out in the first half of 2020 (see Appendix 2). It was based on a broad consultation within the Group, at the head office and with Regional Offices and Directorates, as well as through an online survey that received 340 responses, representing a participation of more than 10% of the Group's employees. An external consultation was also carried out with ministries, the Chair of the Board of Directors, the main think tanks and NGO partners, as well as funding agencies.

A decisive year for the climate in a turbulent international context

3. Over the past three years, the climate has remained a high priority for the AFD Group, which was yet taking decisive steps to ensure a growth of its overall financial commitments, and become a development platform. In 2018 and 2019, the alarming IPCC reports on the effects of a 1.5°C temperature increase, as well as the IPBES report on the degradation of biodiversity, increased public awareness of climate issues and put pressure on public and private decision-makers. A UNEP report states that even if each signatory country respected its own contribution to the Paris Agreement, global temperature rise would range on average from 2.7°C to 3.2°C. In 2019, not a month went by without an environmental crisis. Global CO_2 emissions have continued to rise. Summits of Heads of State and non-State actors, as well as numerous citizen and youth events have filled the climate calendar.

4. 2020 was to be a decisive year for the climate: raising ambitions through new Nationally Determined Contributions (NDCs) and long-term strategies, fulfilling the Copenhagen pledge to provide $100 billion per year to assist countries in the Global South, as well as adopting a new international governance framework on biodiversity. In 2020, countries are one-third of the way to 2030 -the deadline for achieving the Sustainable Development Goals (SDGs) - including the climate goal, which is among the furthest behind. However, the international community's action on the climate, already weakened by the governments of the United States, Brazil and Australia, was brutally shaken by the Covid-19 pandemic. The postponement of climate and biodiversity conferences to 2021 in the face of the international health, economic and social **crisis**, has shown how the environmental crisis can be quickly pushed to the back seat.

5. The many proposals for a sustainable recovery that emerged at the time demonstrate, on the contrary, the opportunity for an integrated approach which seeks to override the "world before": make a solid investment in a different development model, based on low carbon use, and which will protect economies and populations from next waves of crises generated by climate change. The Just Transition (cf. section III A) now appears more necessary than ever to ensure a sustainable recovery, both with regards to the Paris Agreement and the SDGs, and to make the

ecological transition a tool for social justice, just as social justice is a driving force for the ecological transition. The *Finance in Common* Summit of Public Development Banks will be held by AFD in November 2020 with the aim of mobilising these key actors in favour of a sustainable recovery that is compatible with the SDGs and the Paris Agreement.

II. MIDTERM REVIEW OF THE CLIMATE STRATEGY

A. What the strategy has changed

The flagship "100% Paris Agreement" commitment

6. The Climate and Development Strategy 2017-2022 was designed to take the Paris Agreement into account in the Group's activities. It confirmed that the climate is an essential element of its identity, going beyond the target, set in 2012, of dedicating 50% of its financing to projects with climate co-benefits. This gave the AFD Group a pioneering and innovative role, since no development bank at the time had made a commitment in relation to the Paris Agreement. This role has been multiplied thanks to the Group's partnership strategy, which is strongly influenced by climate issues, particularly within the *International Development Finance Club* (IDFC) which AFD has chaired since 2017.

7. This commitment was then taken to the level of the AFD Group's main strategy, whose objectives[1] are subject of regular Executive Committee meetings. The "Climate Executive Committee" has been leading the implementation of the climate strategy since 2018[2]. Moreover, the ambition was supported through the decisions of the Interministerial Committee for International Cooperation and Development (CICID)[3] in 2018, then in the Contract of Objectives and Means (COM) in 2020. Thus, although the "100% Paris Agreement" commitment was initially focussed on operations, it has now been expanded to include the entire climate strategy, and covers the objective of alignment with the Paris Agreement, borne by the IDFC and multilateral development banks.

Impacts on AFD Group partnerships and outreach

8. AFD has pursued an unprecedented partnership strategy for the climate since 2017. AFD's chairing of the IDFC, which coincided with the adoption of the climate strategy and its flagship "100% Paris Agreement" commitment, provided a solid foundation to strengthen AFD's influence within the donor landscape and in its relations with national and international policy-makers, private actors and civil society. Through its production of knowledge (focus 6), AFD has been able to actively contribute to discussions around financial climate risks (the low-carbon transition ones). The Group has also been involved in the modelling of macro-economic climate impacts.

9. Thus, after influencing climate finance accounting principles prior to COP21, AFD has since taken a stand on the subject of alignment with the Paris Agreement. At the One Planet Summit in 2017, AFD, backed by its pioneering commitment, managed to prompt a joint declaration

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[1] https://www.afd.fr/en/ressources/afd-group-2018-2022-strategy-summary

[2] Follow-up of the strategic projects arising from this, review of the upcoming important deadlines for the Group in relation to the climate, and, if necessary, arbitration on specific topics or substantive climate issues requiring a decision at the level of the Executive Committee. The work of the Climate Executive Committee is supported by a shared office to ensure the overall coherence of the thematic Executive Committees.

[3] https://www.afd.fr/fr/actualites/cicid-2018-lafd-au-service-de-la-politique-partenariale-dun-monde-en-commun

between the IDFC and the multilateral development banks, who committed to align their financial flows with the Paris Agreement. More recently, in 2019, Britain's Department for International Development (DFID), has also committed to making its activity fully compatible with the Paris Agreement, and the multilateral development banks have unveiled details of their operational framework for alignment, which is strongly inspired by AFD's own framework.

10. AFD has also contributed to the international climate agenda. AFD helped create initiatives and coalitions at the One Planet Summit in Paris, New York and Nairobi. The Group's performance illustrated the implementation of France's ambitious commitments, such as its contribution to the International Solar Alliance, which will increase from €1 to €1.5 billion by 2022. AFD Group's visibility has been considerably enhanced as a result.

11. Furthermore, climate has remained one of the Group's major communication priorities for the general public, with active participation in climate summits and conferences as well as its chairmanship of the IDFC, confirming its proactive position since COP21 in 2015. Under AFD chairmanship, the IDFC has received unprecedented recognition on the international scene. Through the IDFC, the role of national and regional development banks has also gained recognition.

Impact on operational strategies and project portfolios

12. AFD's portfolio has become increasingly aligned with the Paris Agreement through the expansion of its climate mandate to new regions beginning in 2005. This was followed by its 50% target for climate finance, and by the implementation since 2012, of a selectivity grid that strongly limits the financing of projects with high emissions. In 2017, the "100% Paris Agreement" commitment then extended the "climate" perspective to all of the Group's operations. To this end, the sharing of climate expertise within the project teams beyond the Climate Division and the opinion issuers - ensures the durability of this strategic shift to better support the identification of climate co-benefits, the search for positive impacts, through projects that support climate-resilient and low-carbon development trajectories, and the verification of the compatibility of each action with the Paris Agreement.

13. Since 2018, the climate strategy has been taken into account in sector-specific strategies - in particular the Energy Transition Strategy[4] - regional strategies and some country strategies. The sector-specific strategies specify areas of exclusion (such as coal, exploration, production and transport of hydrocarbons) and the financing conditions for sectors that are deemed sensitive, requiring greater selectivity of projects (gas, aerospace, etc.). These variations of the "100% Paris Agreement" commitment play a fundamental role in identifying projects. In addition, several tools have been reinforced or developed to support this objective, such as the country climate fact sheets and the part of the sustainable development analysis grid assessing the degree to which projects are low-carbon and climate-resilient (focus 1).

Impacts on the teams

14. In order to disseminate climate expertise within the Group, a network of climate contacts has gradually been created, now comprising nearly 90 agents across all departments at AFD and Proparco's head office and networks. These agents are a valuable means of disseminating

[4] Energy Transition Strategy: https://www.afd.fr/fr/ressources/strategie-transition-energetique-2019-2022

climate-related information, supporting the steering of climate objectives and the implementation of the strategy, and building climate expertise in their teams.

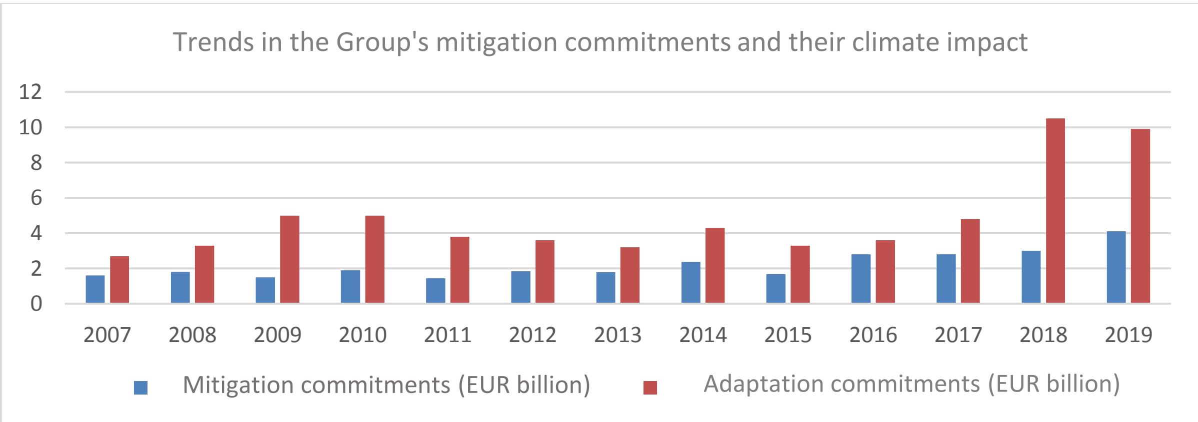
15. The climate training offer has also been boosted with the development of a half-day climate training programme as part of the induction period for new hires, as well as regional training for field officers. Between 2017 and the first half of 2020, 32 sessions were organized for 527 AFD Group agents, i.e. a total of 5,439 hours of climate training. In addition, training on sustainable development includes Climate and its reconciliation with other SDGs from an operational perspective. Several communication channels have been mobilised to raise awareness about the climate strategy and its objectives: the intranet, conferences on climate issues, both internally or with partners (IPCC, International Energy Agency, I4CE, etc.).

16. These efforts match employee's explicit wish that AFD Group go even further, including with regard to its inner workings, as shown by the emergence of an employee collective to discuss this issue. However, the responses to the online questionnaire on the perception of the climate strategy at AFD indicate that the employee's level of knowledge and ownership of the strategy is lower than the perceived impact of the climate strategy on their daily work (see Appendix 10). To date, the fight against climate change is still sometimes seen as a source of constraints rather than opportunities to come up with new and innovative projects, and some fear it risks crowding out other SDGs, even though the aim is to work in synergy. This can generate the sense that the meaning of the development mission has changed, causing a lack of motivation and other difficulties in implementing the strategy.

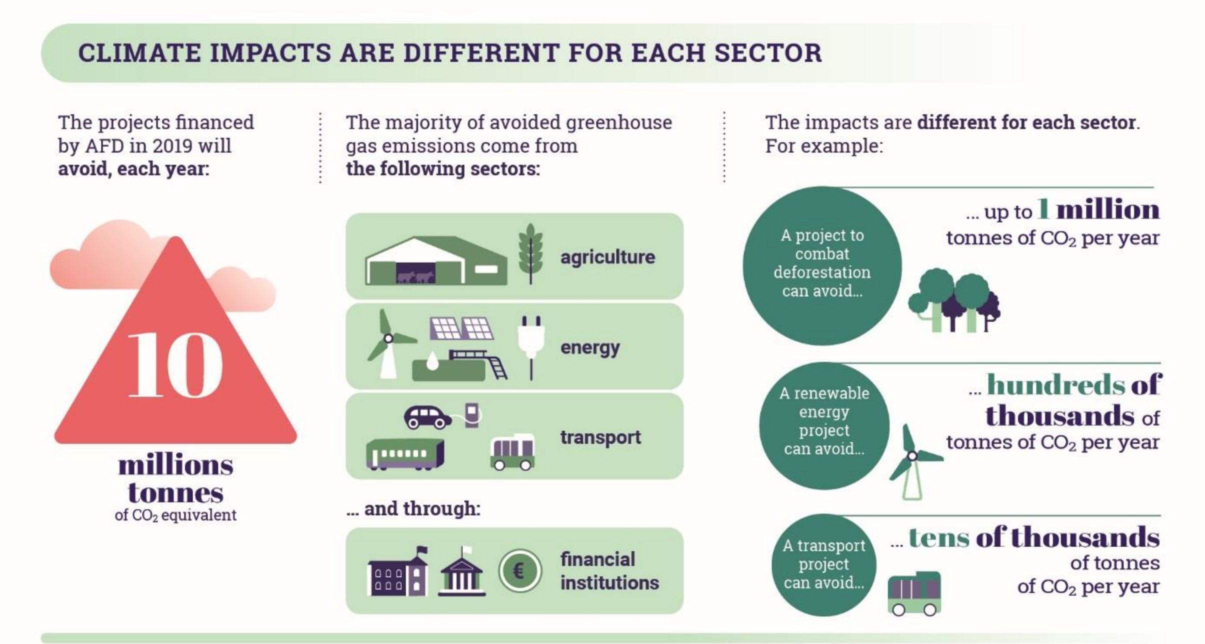
Impact on the climate

17. AFD's climate objectives have historically been formulated in terms of the amounts invested in climate co-benefit projects, and not in terms of climate *impact*. The very notion of co-benefits means that one development project pursues, possibly before the climate objective, other objectives. Moreover, projects with climate co-benefits are not selected with a view to maximising climate impact, but rather to achieve the corresponding objectives in terms of climate finance. On climate, as with the other SDGs, AFD had not set quantitative *impact* targets until 2020, even if they were recorded and reported.

18. This being said, there has been a favourable evolution of AFD's main indicator of *ex ante* impact on the climate: the tonnes of CO_2 that will be avoided annually, over their lifetime, thanks to mitigation projects approved by the Group.



19. Greenhouse gas emission reductions are most pronounced in agriculture, energy, transport, and through FIs. The social sectors currently contribute only a minority share to mitigation. The climate impacts of projects vary, depending on the sector: while emissions avoided in transport projects rarely exceed 50,000 tonnes of CO_2 per year, a level that is easily surpassed with renewable energy projects, forestry projects can see favourable carbon balances in the order of one million tonnes of CO_2 avoided per year. In addition, some projects in the agricultural sector for instance, may substantially help communities increase their climate-resilience, but do little to reduce emissions.



20. The variability in avoided emissions means that the majority of the overall impact can be attributed to a limited number of projects. This characteristic explains the weak correlation between the amounts of money committed and emissions avoided. Likewise, the sharp rise in 2018 and 2019 to about 10 million tonnes of CO_2 equivalent per year- well above the historical average of less than 4 million tonnes - is attributable to a few high-impact projects.

21. While the water, sanitation and agriculture sectors account for the majority of adaptation financing, it is more difficult to provide an aggregated overview of their co-benefits, as the aim of avoiding or limiting severe impacts can neither be measured directly, nor with a single indicator. Depending on the project, the co-benefits can include increased capacity for the adaptation and resilience of populations, infrastructures, economic activity and ecosystems. The results will vary from sector to sector (water savings, sustainable management of agricultural land, etc.) or through the number of beneficiaries of more resilient services (or the corresponding jobs) for which AFD does not currently have a consolidated accountability framework. Moreover, some impacts are context-specific: for example, saving water in a context of increased rainfall is not necessarily the result of adaptation.

B. Commitment 1: Ensure a "100% Paris Agreement" compatible activity

A new dynamic, one that is more ambitious for the climate

22. AFD has positioned itself for the 3rd core objective of the Paris Agreement, referred to in Article 2.1.c, namely, "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development". To this end, AFD has been assessing its operations since January 2018 to ensure that they are consistent with decarbonisation and resilience trajectories, and with respect to national climate policies, NDCs and the main climate issues of the countries in question (mitigation, adaptation). The assessment is carried out by the project teams through a sustainable development analysis, whose approach to the climate aspect was updated in 2017 with this in mind. For each country that AFD operates in, "country climate fact sheets" have been developed to inform the sustainable development analyses of projects, support public policy dialogue with national authorities, and draft all geographic strategies. These fact sheets, together with the sector-specific strategies, contribute to the identification of projects upstream.

23. For its part, Proparco has created a "Paris Agreement" analysis of its direct financing, adapted to its own operational cycle. Using the same methodological basis, operations identified as presenting a risk of misalignment with the Paris Agreement are subject to a specific evaluation by a team independent of the operation, with a recommendation for further investigation. This applies to about 10% to 20% of the operations. For both AFD and Proparco, projects that could lead to the long-term locking of emissions, which is inconsistent with a decarbonisation trajectory, are considered to be incompatible with the Paris Agreement, and are therefore "abandoned" by the Group at the appraisal stage, often as early as the identification stage. For Proparco, this was the case for nearly 12 projects in one year.

FOCUS 1: The climate aspects of the Sustainable Development Analysis and Opinion[5] (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 guidelines relating to the climate strategy and the compatibility of projects with the Paris Agreement: the new grid outlines 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 locking effect".

The selectivity implied by the "100% Paris Agreement" commitment is first of all applied by the operational teams when identifying projects, with possible support from the Climate Division as a member of the project team. In order to increase this selectivity and to better characterise aligned vs. non-aligned projects, country climate fact sheets, sector grids (for energy for example) and prospecting portfolio reviews have been developed. In the instructions, selectivity is again shared but relies heavily on the SD[6] opinion rather than on internal decision-making bodies.

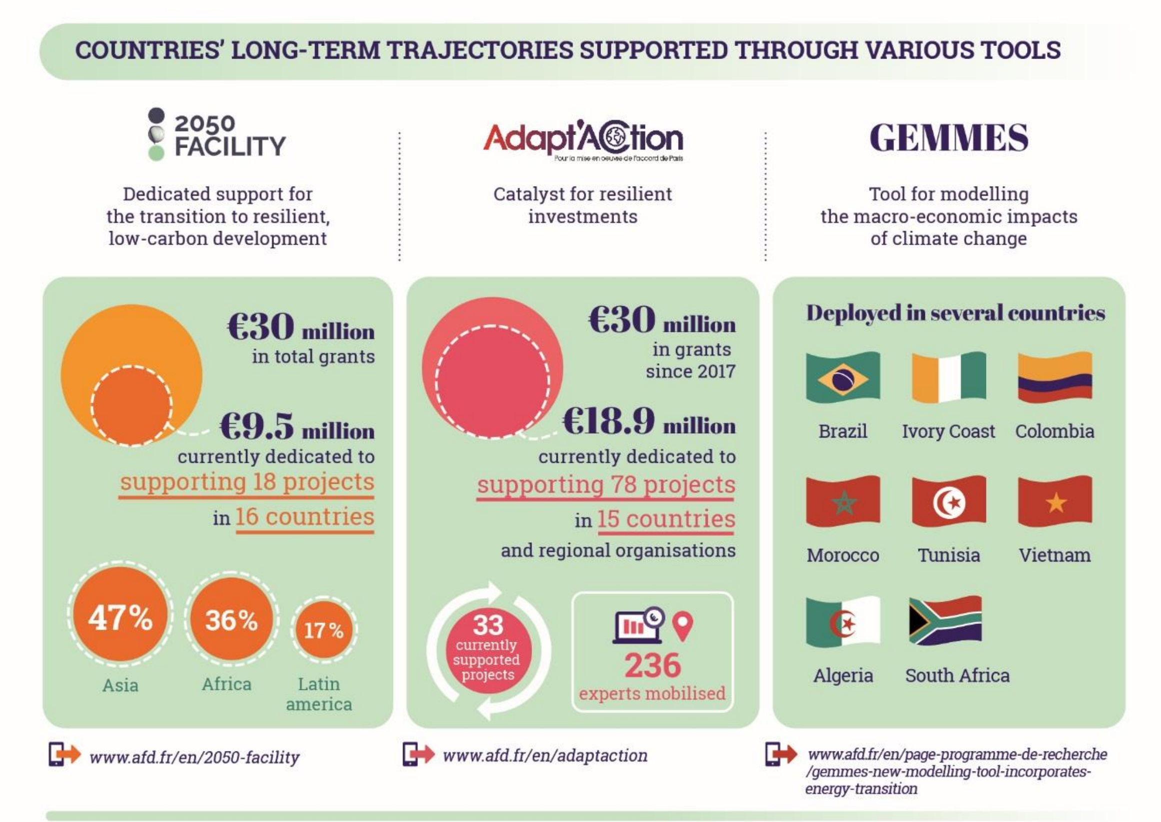
[5] https://www.afd.fr/en/ressources/sustainable-development-analysis

[6] In 2019, projects with an SD opinion accounted for 83% of the amounts allocated by AFD.

Supporting climate projects to supporting long-term strategies

24. The "100% Paris Agreement" commitment has led AFD to focus on countries' long-term trajectories. With the creation of the 2050 Facility (see Appendix 6), endowed with €30 million in grants, AFD has created a support plan to help countries define these trajectories. In its first phase, the Facility approved 18 grants totalling €9.5 million in 16 countries (47% in Asia, 36% in Africa and 17% in Latin America). The majority of this support focussed on financing studies of energy transition policies, the development of decarbonisation trajectories and long-term strategies, and the assessment of the socioeconomic impacts of climate change.

25. Through the development of GEMMES, the climate macroeconomic impact modelling tool, AFD has contributed to the creation of knowledge on long-term impacts. The tool is being rolled out in several countries (Brazil, Côte d'Ivoire, Colombia, Morocco, Tunisia, Vietnam, Algeria, South Africa), and its results have paved the way for a dialogue with the authorities on their long-term strategies, in conjunction with or in addition to support from the 2050 Facility.

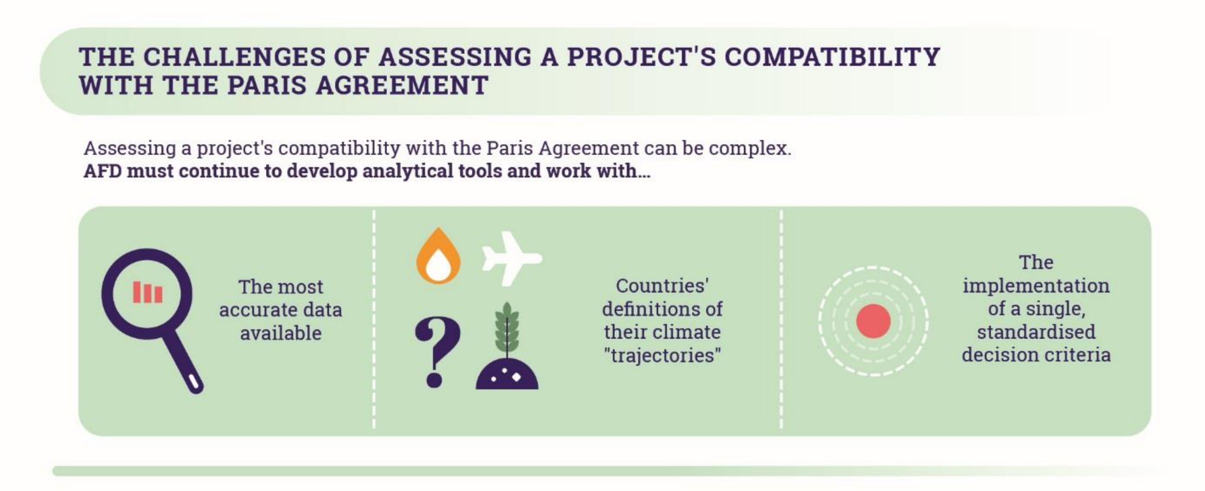


26. The Adapt'Action Facility (see Appendix 5), endowed with €30 million since 2017, supports 15 countries and regional organisations that are vulnerable to the impacts of climate change in order to increase their resilience in different areas. Adapt'Action acts as a catalyst for investments that aim to ensure a solid trajectory in the face of the consequences of climate change, while transforming institutional frameworks to better address current and future risks ("enabling environment" concept). With Expertise France it leads actions to strengthen climate governance, including making the NDCs more ambitious, and it supports the integration of sector-specific adaptation strategies and policies. Of the 84 supports identified and co-constructed with partner countries and regional organizations, 32 are ongoing, with more than 130 experts in the field.

Margins for progress remain significant

27. The "100% Paris Agreement" has been translated from commitment to action and progressively deployed across the AFD Group. Some of the Group's activities still require methodological adjustments in order to be perfectly integrated. This is the case of financial intermediation operations not dedicated to climate projects, as the NGOs Oxfam and the French Climate Action Network noted in their 2019 report "Lift the veil on fossils". Proparco especially uses diversified financing tools for banks (such as equity, subordinated debt, financing for SMEs) and had initially excluded the financial sector from its analyses of compatibility with the Paris Agreement for lack of a robust methodology.

28. The internal ownership of the "100% Paris Agreement" commitment has been progressive, requiring communication and training to avoid misunderstandings, such as imagining that 100% of the projects financed would be climate-focussed. Moreover, since the AFD was, until very recently, the only development bank to use this type of tool, it was not possible to compare them with similar outside opinions. Fears may also have risen about the impact this new, Group specific diligence, disconnected from its peers' practices. Today, all the multilateral development banks, including the IFC, have adopted an operational framework for assessing projects' alignment with the Paris Agreement, which should gradually provide greater peace of mind, even if these banks have not yet made the commitment to finance 100% aligned projects. There will therefore be more opportunities for cooperation, including in banking intermediation.



29. The assessment of a project's compatibility with the Paris Agreement is sometimes difficult, given the frequent lack of data , countries' varying definitions of "trajectories" for the climate, and the absence of a single, standardised set of criteria by which projects are defined as compliant or not. The analyses, which are often expert and sometimes qualitative, lead to internal debate, particularly for high-emissions sectors (such as natural gas, air transport, mining and metallurgy, fertiliser production) and call for the continued development of tools to better guide the analysis.

30. Generally, when the analysis and debates do not lead to the conclusion that projects are incompatible with the Paris Agreement, they are rated "0", which means that the project is deemed to be "without effect on the levers of change" or "without significant impact" but remains "consistent with a low-carbon trajectory or adaptation objective". In 2019, more than 50% of the projects were awarded with a neutral rating on one of the "low carbon" or "resilience" aspects of

the sustainable development analysis. As with all other aspects of the sustainable development analysis, the "100% Paris Agreement" approach involves seeking to optimise the positive impacts of projects to assist with the countries' transition. On the other hand, specifically on the issue of climate, this approach emphasises the obligation to "do no harm" to the objectives of the Paris Agreement, which has focussed the majority of efforts on project analyses.

FOCUS 2: Debate on the compatibility of certain projects with the Paris Agreement

The SDAO scheme allows us to determine whether operations align with national climate priorities and what are their specific levers to contribute to a resilient low-carbon trajectory, and, if necessary, to rule out projects that are not aligned with these policies. Several projects were abandoned for this reason, such as the financing of a training centre in Nigeria aimed at developing the oil and gas industry there.

The SDAO scheme also generates debate throughout the appraisal process and calls for vigilance during the project implementation phase. Projects whose compatibility was questioned nevertheless received a "favourable SD opinion with recommendations", or even a SD opinion with reservations, and were presented to the Board of Directors. This is the case of the public policy loan in the Philippines dedicated to the promotion of Public–Private Partnerships (PPPs) for infrastructure, some of which will have a negative impact on the low-carbon transition. Also, the line of credit granted to IDC, a national bank in South Africa, to support its internal consolidation raised questions, asits operations are highly bound up with the coal industry.

Some projects that received SD opinions with reservations were nevertheless granted by the Board of Directors. This is the case of a motorway with an urban section in Kampala, Uganda. The reason for the said reservations was primarily related to the environmental and social risks, but it also did not approve the choice of a high-emissions mode of transport in an interurban section, whereas a railway line already existed along the motorway's planned route.

For Proparco, the financing of the Azito gas-fired power plant in Côte d'Ivoire also gave rise to debate: although the construction of the plant was indeed planned as part of the country's low-carbon strategy, this financing involved the AFD Group in a highly emissive fossil fuel energy project. The project was nevertheless awarded. In the absence of credible alternative solutions in the short term, the Group has committed to this financing to make a comprehensive, large-scale financial offer and to support Côte d'Ivoire in its transition. The project has been accompanied by actions to accelerate the development of renewable energies.

C. Commitment 2: Increasing climate finance volumes

Objectives achieved despite strong business growth.

31. The target of 50% climate finance in foreign countries, set at Group level since 2018, has been reached: it represents on average 54% of AFD's financial commitments and 36% of Proparco's commitments, demonstrating the wide dissemination of climate finance in the Group's operations. These also include funds delegated to AFD, from the EU for example, from the Green Fund, and NAMA; they do not cover global budget support, portfolio guarantees (ARIZ), study funds or C2Ds. In 2019, the Group met 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 adaptation by 2020. With €6 billion of climate finance, including €2 billion for adaptation, AFD Group reached unprecedented figures in 2019.[7]

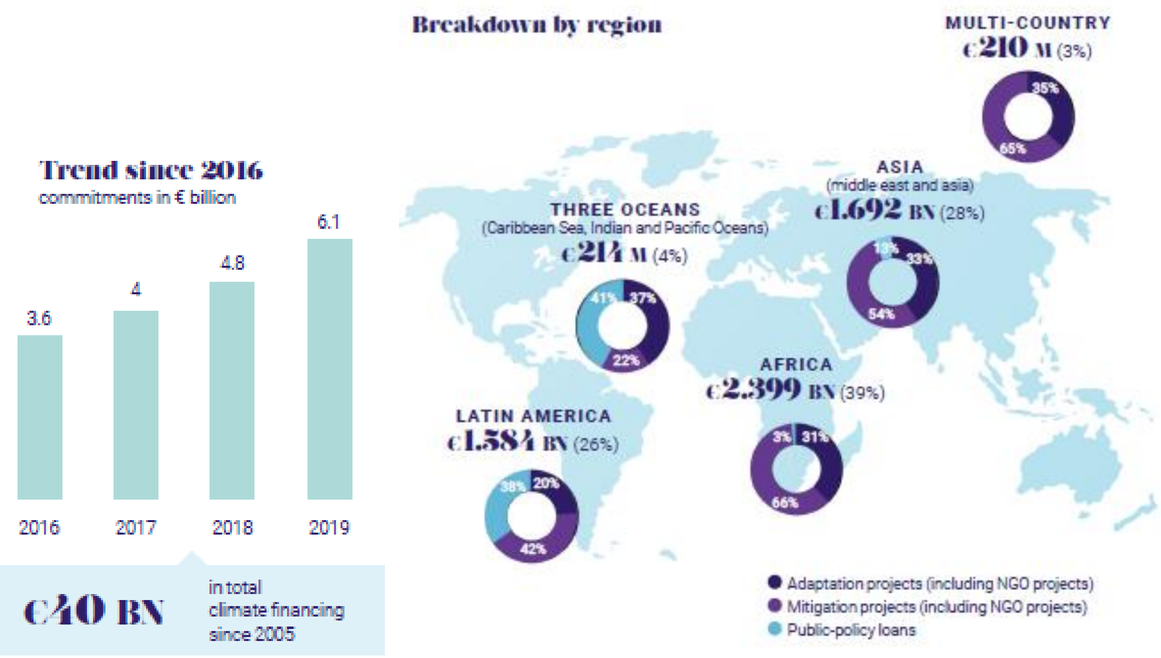
[7] https://www.afd.fr/fr/ressources/climat-bilan-d-activite-2019

32. Reaching this annual target of 50% climate finance, the highest target among funding agencies, remains a challenge. As the overall business was strongly growing, a tight management of the 50% climate finance target was required from the early start of each year, with each technical and geographical team. In addition, the achievement of climate targets had to be combined with the inclusion in AFD's mandate of new sectors of competence, such as higher education, governance, or creative and cultural industries. However, in these sectors, a climate impact is more difficult to determine, conversations about climate seem less obvious to engage in with other parties, and in some cases the climate requirement is seen as posing a risk of crowding out projects aiming at other SDGs. The mobilisation of experts from the climate division, as well as training, to spread best practices and support the climate approach from the earliest stages of project appraisal has contributed to the Group's overall effort.

33. And yet, the French overseas territories were not included in the scope of the calculation until 2020.Although the challenges of adapting to climate change or producing renewable energy for less energy dependency are significant in most French overseas territories, climate finance rates in French overseas territories are on average well below 50% for the moment. This is linked to the very broad mandate of AFD's intervention in Overseas France, and to the main form of this intervention, i.e. the financing of the investment budgets of local authorities, whose method of accounting in climate finance is complex.

34. Moreover, the 50% target at Group level makes it necessary, in the long term, for Proparco to move towards this objective, following a trajectory for progress that is adapted to its scope of intervention. Its new strategy plans to reach a 44% share of climate finance by 2022, compared to 30% currently, thus contributing a more significant proportion than, for example, the IFC within the World Bank Group. Particular attention will be paid to supporting banks with climate integration. Indeed, the bulk of Proparco's climate finance today comes from infrastructure and manufacturing sector financing, while banks account for nearly half of annual financing.

Changes in climate commitments since 2016 (in € billion)



One objective with differentiated geographical mandates

35. In 2018, the reorganisation of AFD into 4 major regions (Africa, Middle East and Asia, Latin America, Three Oceans) involved a redefinition of climate objectives by region. While Latin America remains with an indicative target of 70%, the target for Africa has gone from 30% to 40% following the absorption of the former Mediterranean mandate into others, while that of the Middle East and Asia is set at 65%. These objectives reflect AFD's different mandates depending on the countries' types, especially the emerging countries where there is a mandate for green and inclusive growth.

36. Over the last two years, the 50% target has been achieved thanks to levels of climate finance that were above target in Africa and Latin America, but below target in the Middle East and Asia. Climate finance in the major emerging countries averaged only 60% over the 2017-2019 period, showing a reduced focus on climate in 2017, within the mandate for green and inclusive growth. An analysis of the changes to the AFD Group's portfolio (see Appendix 3) shows, however, that the climate strategy has strengthened the search for climate co-benefits across all sectors, geographical locations, and types of operations. In particular, in 2018 and 2019, the ratio of climate projects increased significantly in Latin America and in the Middle East and Asia.

Climate finance tools adapt to changing portfolios and needs

37. Funding dedicated to <u>adaptation</u> has increased since 2017, partly thanks to several project preparation funds, such as CICLIA for the resilience of African cities, or the Adapt'Action Facility, which finances vulnerability and feasibility studies in order to integrate resilience issues in a multi-faceted way. Adapt'Action supported the preparation of 11 resilient projects to date, to the tune of €411 million from AFD's portfolio, including €104 million co-financed with the Green Fund and €26 million with other sources of financing, such as the European Union. These projects include the sustainable development of grassland farming in Niger, the strengthening of hydro-meteorological services in the Indian Ocean, forest conservation in Madagascar, and resilient agriculture in Tunisia. The internal mainstreaming of adaptation, deployed at AFD's head office and 13 field offices by 5 regional coordinators, has boosted the integration of adaptation and resilience issues right from the project design stage (adaptation by design) in key sectors (such as agriculture, water and sanitation, urban development, disaster risk reduction) and has also contributed to a better understanding of gender and climate issues. In addition to specific studies and deliverables, such as a toolkit to help OECS island member states in the Caribbean better integrate adaptation, nature-based solutions and gender equality, Adapt'Action also addresses gender issues in vulnerability studies and feasibility studies for projects co-financed by AFD.

38. Furthermore, since 2018, AFD has started to use contingency loans (CATDDO/*Standby* Credit) in collaboration with the World Bank, for example in Madagascar. These loans are intended to help countries respond rapidly to climate and health disasters, and also to support them in reforming their public policies and strengthening their climate governance. The CATDDO approach is in its pilot phase until 2021 and will be able to finance up to €500 million. This type of innovative tool represents an accelerator for long-term reforms and makes it possible to combine social and climate action.

39. Concerning funding dedicated to <u>mitigation</u>, in order to stimulate projects and investments in key sectors of the energy transition, methodological adjustments have been developed for tracking and accounting projects with climate co-benefits (see Appendix 13). In 2019, a new

methodology was adopted regarding accounting for energy efficiency projects in buildings (EEB), a sector that accounts for nearly 20% of global CO_2 emissions, and where resilience benefits can also be found. That year, €300 million of climate finance came from EEB projects, of which €150M were the result of the new methodology.

40. Furthermore, a new approach was developed in early 2020 in the financial sector to support the pro-climate evolution of the strategy, tools and portfolios of partner FIs, in addition to more traditional intermediation operations that focus on underlying assets that generate climate co-benefits.

41. AFD has also expanded the use of delegated climate funds via the Green Climate Fund (see below) and the NAMA Facility dedicated to financing mitigation projects and for which three projects have been pre-selected: in the coffee sector in Peru, waste management in Mozambique and energy efficiency in buildings in Morocco.

Methodological difficulties in accounting for climate finance remain

42. The aforementioned changes in accounting methodologies allow AFD to measure more effectively the energy efficiency of projects in key sectors like construction. However, as AFD's methodologies change, it remains cautious and, in comparison with its peers, more conservative in accounting for such energy efficiency projects. AFD is thus the only agency to systematically require the calculation of a carbon footprint, to ensure that the gains due to greater efficiency are not cancelled out by increased production capacity. In some cases this makes the climate accounting difficult, such as for electricity networks.

43. The climate accounting for public policy loans (PPLs) is complex, as well as the quantification of their impact. It does not generally come from clearly identified investments, but from a set of climate measures and indicators, which makes it difficult to define precisely which portion of the investment can be accounted for its climate co-benefits However, the increase in PPLs in AFD's portfolio, as in Latin America and the Middle East and Asia, raises the stakes for achieving climate finance objectives, compared to more traditional infrastructure projects. There must be a clearer and more detailed description of their climate co-benefits at the appraisal stage, for example looking at their leverage on the establishment, strengthening or implementation of climate public policies or sector specific policies which aim to contribute to the country's low-carbon trajectory. PPLs, in particular, are operations that seek systemic or structural transformation and may lend themselves more easily to analyses of compatibility with the Paris Agreement.

44. This tension, which is not unique to PPLs, is a challenge of the methodological transition between the "50% climate co-benefit" commitment and the "100% Paris Agreement" one, which they are now part of. There is no strict correlation between the existence of climate co-benefits and the climate rating of a project in the SD analysis, which can lead to misunderstandings, especially when a project that generates climate co-benefits does not automatically lead to a positive rating in the SD analysis grid, or vice versa. In practice, the share of projects with climate co-benefits but rated "0" for the climate aspect in the SD grid was 7%, and the share of projects in the opposite situation was 29%.

D. Commitment 3: Contribute to the redirection of financial flows towards climate

AFD and Proparco have pursued their efforts to mobilise the private sector to help the climate

45. In 2018, the AFD Group mobilized €2.07 billion of private finance for climate, i.e. 56% more than in 2017. The vast majority of this mobilised private finance relates to mitigation projects, which illustrates the difficulty that the private sector has in financing adaptation. Equity investments, which have the strongest leverage effect, have increased drastically, from €200,000 in 2017 to €143 million in 2018, and come exclusively from Proparco[8].

Financial instrument	Mobilisation ratio
Sovereign loan	0.12
Non-sovereign loan	0.77
Line of credit	1
Capital investment	5

46. AFD also developed new green and innovative financial products. In terms of guarantees, AFD is a founding member of a regional green electricity trading platform that aims to reduce risks for investors. In the event of payment default by a national electricity company, the capacity to pay is guaranteed by the funds provided by its investors and, ultimately, by AFD's financial guarantee. The Group also takes part in assuming responsibility for the possible first losses of the climate fund managed by BlackRock dedicated to financing renewable energy and energy efficiency in Asia, Africa and Latin America. In addition, AFD and the World Bank officially launched the Solar Risk Mitigation Initiative (SRMI) to facilitate the implementation of private solar energy projects in emerging and developing countries and to mobilise up to $500 million from public FIs and private actors.

47. However, the development of innovative operations to support the redirection of private financial flows encounters some difficulties. Thus, while climate credit lines can reach large volumes, this is not the case for other, more innovative products that require special due diligence, a stronger appetite for risk, or even dedicated resources in the form of subsidies or equity capital, and are generally tailor-made with context-specific arrangements and instruments. These *de-risking* instruments (guarantees, contribution to first-loss funds, etc.) nevertheless have a very strong potential knock-on effect by encouraging other players to invest in virtuous projects that are considered too risky.

A strategic and operational partnership with the Green Climate Fund

48. AFD's strategy regarding the Green Climate Fund (GCF) foresees selectiveness with the number of projects to be presented in view of the appraisal costs, but allows seeking large volumes of co-financing. Since its accreditation in 2015, AFD has obtained nearly €300 million in co-financing from the GCF for 4 projects: flood risk reduction in Senegal; agricultural adaptation in Morocco; wastewater reuse and agricultural adaptation in Gaza; and a major programme to transform financial systems for the climate in 17 countries, including 16 in Africa. This programme aims to support local public and private FIs, through appropriate financial resources and capacity building, to develop their strategies and practices in favour of financing climate projects.

49. The GCF’s complex bureaucratic procedures are an obstacle to private sector financing: the long appraisal times hardly correspond to the private sector's desire for speed. This is why

[8] As part of its new strategy, Proparco is committed to doubling the amount of private financing mobilised.

Proparco, which has been accredited with the GCF for more than three years, has not yet submitted any proposal for operations, due, among other things, to a lack of foreseeability on the fund approval schedule.

FOCUS 3: TFSC Programme by AFD Group and the Green Climate Fund
Building on its experience with SUNREF credit lines, in 2018 AFD obtained €240 million in GCF co-financing for its "Transforming Financial Systems for Climate" programme. This demonstrates the confidence AFD has in redirecting financial flows to climate-friendly sectors. This programme is designed to allocate 40% of the funding for adaptation projects and 60% for mitigation and aims to mobilise a total of €1.5 billion, i.e. a leverage effect of 1:6 times the GCF contribution. This will be mobilised through AFD co-financing (€413 million), the contribution of FIs (€246 million) and project owners in the form of *equity* (€613 million). Launched at the end of 2018 by the GCF and AFD, the programme is now entering a concrete implementation phase.

IDFC, a platform for investment redirection

50. AFD also seeks to directly support its IDFC partners in redirecting investments in their countries of intervention. This Club of 26 national and regional institutions, representing more than $4 trillion in assets under management, is a key player in supporting economic transformations. Because of their close relationships with national and sub-national governments and the economic and private fabric, these banks have the potential to influence the design of public investment policies. They can also redirect financial flows towards long-term sustainable transformations, through credit lines that are totally or partially dedicated to climate investments, often supplemented with technical assistance to raise awareness of climate issues.

51. AFD already supports many IDFC members on all continents, for example: CAF (Latin America), BNDES (Brazil), CABEI (Central America), TSKB (Turkey), TDB (Southern and East Africa), DBSA (South Africa), CDG (Morocco), BOAD (West Africa), SIDBI (India) and PT-SMI (Indonesia). A partnership between the GCF and IDFC was signed in June 2019 to improve their mutual knowledge and increase access to the Fund for Club members who are accredited or in the process of accreditation. To date, 13 IDFC members are accredited with the GCF, representing 15% of the total number of accredited entities, of whom 6 have submitted 13 projects for a total amount of $827 million.

52. The coordination of the IDFC Climate Club is, however, limited by the heterogeneity of member banks, which are all involved in different ways. One challenge for AFD, as co-facilitator of the climate working group alongside CAF, is to maintain the Club's visibility and influence by promoting climate issues and leading members towards a greater consideration of climate issues. Convergence can be found with other thematic groups that have been developed (biodiversity, cities). For example, discussions about the methodology of accounting for biodiversity financing - and in particular for projects with a dual climate and biodiversity co-benefit - have been initiated, with the goal of better integration of this aspect into the mapping of green and climate finance for the IDFC.

53. In 2019, the Club decided to set up a technical support facility for its members, which aims to build i) collaboration and knowledge-sharing among members on climate, and ii) members' abilities on climate. The Climate Facility is managed by a coordination unit based at AFD and overseen by the Club. AFD and CAF, as well as KFW and TSKB, made contributions in the form of funding and/or provision of staff. With the support of the Facility, IDFC had a booth at

COP25 adjacent to the MDBs, and hosted some 20 events and conferences for the first time under its own banner.

FOCUS 4: IDFC contribution to the New York Climate Summit
The Club's decisive role in supporting resilient low-carbon development was mentioned by the Secretary General of the United Nations and French President Emmanuel Macron at the Climate Summit in September 2019. On this occasion, the IDFC indicated for the first time that it has the potential to mobilize $1 trillion for the climate by 2025, entered into a strategic partnership with the Green Fund to channel international financial flows to the national and local levels, and announced the creation of the Climate Facility.

E. Commitment 4: Co-build solutions and influence to bear on standards

Bringing the subject of alignment with the Paris Agreement to peers' attention

54. AFD continued to influence alignment practices through the publication of a position paper by IDFC and through debates between peers, *think tanks*, NGOs and private actors during COPs. In partnership with the European Climate Foundation, AFD has also commissioned a study with two prestigious *think tanks*, I4CE and CPI, to define alignment and participate in the work of its partners, such as the OECD.

55. Through its climate activity, AFD's bilateral relations have been boosted with several IDFC members, UN agencies (UNEP, UNDP, UNDESA), multilateral banks in the framework of IDFC-MDBs working groups on climate finance, and regional networks (ALIDE, ADFIAP). AFD also continued to play an active role in the Climate Action in Financial Institutions initiative, which has become a platform for discussions between public and private stakeholders on innovative topics such as alignment with the Paris Agreement and financial climate risks. Proparco plays an influential role within the European EDFIs by participating in a working group aimed at defining a common understanding of projects with climate co-benefits.

A proactive involvement on the subject of financial climate risks

56. Financial climate risks fall into three categories: physical, transition and litigation risks. Since 2017, AFD Group has been working to integrate financial climate risks into its risk analysis processes through various projects. An initial mapping of AFD's portfolio's exposure to physical risks has been carried out. This led to the development of a methodology for assessing physical risks and the implementation of operational tools enabling the Group to systematically measure these risks when granting new loans and to engage in dialogue with its most exposed borrowers.

57. The Group has also included a climate risks assessment as part of its service offer to financial institutions, including central banks, to identify potential collaborations. In addition, the study conducted in collaboration with the CPI think tank on transitional financial climate risks in South Africa has had a significant impact in the country. This analysis is currently supporting a better accounting of financial climate risks by the Development Bank of South Africa (DBSA) and facilitate the public policy dialogue on low-carbon transition led by AFD with national authorities. Finally, AFD is also interested in the issue of legal and reputation-related risks related to climate change and is considering new studies dedicated to climate litigation risks.

AFD Group: the interface between the Paris financial centre and development

58. In 2014, AFD was the first French public issuer of a *green bond* on the capital markets. In 2017, AFD set up a programmatic framework to facilitate the regular implementation of this type of issuance. AFD has now issued 4 climate bond, for a total of €3.25 billion with initial maturities of between 5 and 10 years. The most recent issue of €1 billion in February 2020 was a complete success with an order book of more than €5 billion, i.e. an issue that was oversubscribed five-fold. About 150 projects were selected as underlying assets, for a total outstanding amount of around €4.6 billion. The selected mitigation projects have a cumulative impact of approximately 17 million tonnes of CO_2 avoided per year. On the strength of its experience, AFD is increasingly solicited by partners, notably the IDFC, wishing to issue *green bonds*, and seeking support organising these operations.

Increased collaboration with civil society actors

59. Partnerships have also been improved with civil society. With regard to *think tanks*, the Agency supported the international development of I4CE, commissioned a study from CGDEV on the role of national development banks, and collaborated with CPI on the publication of the annual IDFC Green Finance Mapping. Subsidies for climate projects led by NGOs increased from €20 million in 2017 to €30.5 million in 2019, i.e. a third of the total amount of subsidies granted to civil society's initiatives. The projects supported have evolved: in addition to adaptation programmes, AFD is now funding advocacy activities with new partners, such as the Climate Action Network and the Oceans and Climate Platform. Technical discussions were reinforced with climate NGOs and found a new forum for discussion with a number of civil society actors, ministries and private actors within a "Partners Committee", which meets twice a year and whose agenda is co-designed with the NGOs.

A search for increased transparency

60. The Group's climate results are published in its annual report, its annual climate brochure, its extra-financial performance statement, as well as its reports to the EU and the OECD, in the IDFC's annual climate report, its report to investors on its *green bonds*. AFD's annual report on climate activities has been considerably expanded, with a wider range of quantitative data (climate finance volumes by geographic region, sector, adaptation/mitigation share, financing to Least Developed Countries, financing to civil society, to the private sector), as well as information on AFD's partnership activities with the IDFC and the Green Fund.

61. A major effort to systematise and improve the reliability of climate data has been in the works since 2017. The 50% climate finance target can now be piloted in AFD's information system, which enables analyses to be done by country, geographic area and sector. These technological advances now make it possible to consider the integration of climate data into the AFD Group's Open Data and to strengthen its transparency.

III. ENHANCING AFD GROUP'S CLIMATE AMBITIONS IN 2020

A. Contributing to a pro-climate recovery in the context of the Covid-19 crisis

62. Responses to the crisis must not only address health and economic needs, but also its underlying causes and must strengthen societies' long-term resilience to the multiple risks they are exposed to, climate change in particular. The SDGs, the Sendai Framework for Action, the Paris Agreement and future biodiversity protection objectives, as well as the Group's environmental and social due diligence standards, once again provide strong guidelines for a response that focuses on societies' resilience and national trajectories that are more in line with development that respects global limits. Fuelled by AFD's knowledge production (see Appendix 11), public policy discussions on a pro-climate recovery could include budget funding, whose demand could increase.

The Just Transition to address the social and climate crisis

63. The subject of just transition has gained momentum worldwide in recent years: in France in autumn 2018 with the yellow vest movement triggered by the fuel tax increase; in Ecuador in 2019, where blockades and demonstrations paralysed the country following the end of fuel subsidies. This concept is included in the preamble of the Paris Agreement "taking into account the imperatives of a just transition of the workforce and the creation of decent and quality jobs". The Silesia Declaration, supported by Poland at COP24, recognises "the challenges faced by sectors, cities and regions in transition from fossil fuels and high-emitting industries and the importance to ensure a decent future for workers impacted by the transition".

64. In the context of the social crisis created by Covid-19, the just transition offers an opportunity to combine environmental and social SDGs so that the objectives of preserving the planet and social justice work together rather than in opposition, to get out of the vicious circle where inequality and ecological degradation feed off of one another. This vital integrated approach echoes the two structuring commitments of AFD's Srategy: "100% social link" and "100% Paris Agreement". To achieve this, AFD is launching a project in 2020 with the aim of giving the Group a shared vision of a just transition, breaking it down by sector and geographical area and engaging in dialogue with its partners and peers. Several countries have already showed interest in working on the issue.

A new, Africa-specific climate approach

65. Africa, the continent that is least responsible for causing climate change and yet the most vulnerable to its effects, requires above all an approach that integrates both social and environmental issues, in order to seize the still under-exploited opportunities to deploy an innovative climate offer to its African partners. This approach, which must go beyond the logic of supply and must generate effective demand from the Group's clients and partners, has to be built by the teams at the head office with the network of regional directorates and embassies, which are in dialogue with local knowledge-producing institutions, and are better able to combine the issues of the most vulnerable with the narrative of the just transition.

66. This approach requires sustaining an ambitious public policy dialogue with African partners in order to enhance the long-term impacts of their investment decisions, especially in low-income countries. This dialogue leads to innovative projects such as adaptive social protection (ASP), training programmes held in buildings that are better suited to local climatic conditions for higher-quality learning, better resilience to climate catastrophes in disadvantaged districts, or, support for local and regional development banks to expand their climate-related offer for their clients. Support for the just transition, such as initiatives launched in South Africa within the

framework of national debates on energy efficiency and fuel wood, also has to be developed. Likewise, pioneering approaches to support for governments and local authorities could be explored on the basis of Adapt'Action's experience and project preparation funds, including for training and capacity building of civil servants from partner states in the development of national contributions to the Paris Agreement.

B. Strenghtening alignment with the Paris Agreement

A framework to increase the compatibility of operations with the Paris Agreement

67. The "100% Paris Agreement" commitment focusses on the compatibility of operations with resilient, low-carbon trajectories. Since 2017, the concept of "alignment with the Paris Agreement" has come a long way and encourages a holistic approach. In order to implement this commitment, the AFD Group has adopted a roadmap for alignment with the Paris Agreement (see Appendix 5).

68. To continue working on its climate strategy’s first commitment, the AFD Group has decided to use the methodological framework for alignment with the Paris Agreement as defined by CPI and I4CE for the benefit of IDFC members. This framework defines three levels of alignment for development banks: 1) at the country level through public policy dialogue, 2) at the strategic level for the institution itself, and 3) at the operational level[9].

69. Based on an analysis of the gap between what has been achieved and what remains to be done to be completely aligned by 2022, a roadmap has been drawn up: actions include a sector-specific capitalisation to be carried out with the aim of defining for each sector (such as energy, transport, agriculture) the types of projects that are aligned or misaligned, and defining what are the key alignment criteria. The AFD Group plans to develop a specific methodology to assess compatibility with the Paris Agreement for all financial intermediation operations, bearing in mind that these alignment analyses are more complex in the context of indirect financing. This topic is currently informing several research projects (including WRI, Germanwatch, NewClimate Institute) and investor coalitions and will soon be taken up by the multilateral development banks.

70. These sector-specific actions will complement the country-by-country analysis, to support more detailed analyses of projects’alignment, as well as of intervention strategies, with the deployment of a sustainable development analysis method at the level of the portfolios of the regional directorates, for example. These studies will be complementary to the updating of the AFD Group's exclusion list in 2020.

Calculation of the carbon footprint of projects portfolios

71. Being an organisation that is "100% Paris Agreement" also implies being able to estimate the overall carbon footprint of its portfolio of operations, even if a distinction must be drawn between the possible aim of portfolio neutrality and the aim of the climate strategy, which supports countries' transition to carbon neutrality.

[9] It also identifies three criteria to guide operational alignment: i) an application to all activities, operations and geographical locations, ii) a long-term horizon to evaluate operations, including those with climate co-benefits, and not to lock countries and partners into trajectories that create emissions or are poorly adapted, and iii) going beyond "do no harm" and financing profound transformations of societies and systems by working on public policy.

72. By 2022, the Group aims to be in a position to assess future emissions from its annual project portfolio, in accordance with the COM, and to be able to fully account for avoided emissions. There are many methodological pitfalls, both for the calculation itself, but also for the interpretation of the results obtained and the definition of what the desirable evolution is.

73. In order to inform AFD's reflection on carbon neutrality, an analysis of best practices was launched in early 2020. This analysis will provide a better understanding of the practices and methodologies adopted by development banks, e.g. KFW, FMO, World Bank and IFC, as well as commercial banks and corporations, in calculating absolute and avoided emissions from their operations.

FOCUS 5: Project and portfolio approaches

The compatibility of the Group's operations with the Paris Agreement is based on project analyses in the context of each country, using criteria such as the risks of political misalignment, emissions lock-in, maladaptation, or the positive transformational effects of projects (ability to replicate, flexibility to adapt in the face of uncertainties, etc.). These analyses are placed in the context of the long-term reflection on transitions. Hence the importance of country fact sheets and support for long-term plans (Adapt' Action, Facility 2050, CICLIA). This approach has been adopted by the multilateral banks as well, for their own operations. There is no quantitative measure of compatibility, aggregated on a portfolio basis.

On the other hand, with regards to mitigation, methods for measuring the alignment of a project with a 2°C or 1.5°C scenario (carefully defined, context-specific) have been developed, based on the measurement of absolute emissions. This is a separate approach, used on a portfolio scale, where one virtuous project can offset another.

The difference between the two approaches is similar to the difference between, on the one hand, supporting countries' transition to carbon neutrality and, on the other hand, seeking carbon neutrality in AFD's work, and therefore its portfolio.

Applying alignment with the Paris Agreement to the Group's internal practices

74. AFD’s "internal" alignment with the Paris Agreement is not a new challenge: since 2006, the Group has been measuring its internal environmental footprint, and since 2007 has been offsetting greenhouse gas emissions from internal operations, working to reduce its water and energy consumption and has promoted environmentally friendly means of transport for its employees. However, until now, the Group's climate strategy has mainly focussed on operations that AFD finances. Compatibility with the Paris Agreement did not explicitly take into account the Group's own internal actions.

75. In order to better respond to the desire for consistency— voted in (88% of favourable respondents) by the Group’s employees themselves —between its inner workings and the demanding message it conveys to its partners and clients, the AFD Group is extending its climate strategy to its internal practices and aims to develop an even more ambitious policy in terms of reducing travel-related emissions, responsible purchasing practices and strengthening Green information technology.

76. The Group has rapidly adapted its working methods to face the current health crisis, demonstrating its potential to apply as early as 2020 principles of sobriety and resilience, along with an objective of reducing its operating carbon footprint and offsetting residual emissions. This objective is fully aligned with the Group's corporate project and the French policy of carbon neutrality by 2050. It has the potential to impact a wide range of issues: buildings, mobility, purchasing, investments and employee savings, and governance (see Appendix 6).

C. Using climate finance as a lever for financing SDGs

Maintaining climate finance volumes

77. In 2019, AFD met and exceeded its climate finance targets set for 2020, i.e. €5 billion, including €1.5 billion for adaptation. For 2020, it is still too early to assess the impact of the Covid-19 crisis on the Group's activity and the amounts dedicated to climate finance, and it may be necessary to take the average of 2019 and 2020.

78. Based on its 2019 performance, and considering that its total financial commitment trajectory is now stable at around €14 billion per year, the Group intends to maintain an ambitious course for its climate finance and is in a position to generate up to €30 billion for the climate, including €10 billion dedicated to adaptation by 2025. In particular, the share of Proparco's climate finance should follow a trajectory of growth until it reaches a point where 42% of its projects have climate co-benefits in 2022. This level of ambition is superior to those of its peers, in particular the IFC. Over the 2020-2022 period, Proparco is pursuing the objective of granting at least €3.5 billion in financing for projects with climate co-benefits.

Improving public policy support to help States and local authorities set more ambitious targets

79. The AFD Group will continue to boost its support for national and local authorities in developing public policies that are compatible with resilient low-carbon trajectories. Within the framework of this public policy dialogue, and if necessary in addition to PPLs, studies, technical assistance and capacity building activities will be proposed as part of a Group's effort including Expertise France.

80. The reorganisation of existing facilities, such as Adapt'Action and the 2050 Facility, and the creation of new tools will be studied in order to finance such activities, which are adapted to the context and meet the authorities' expectations: integrated macro-economic and climate modelling, assessment of climate financial risks, greening of public finance management, diagnosis of vulnerability to climate change, or modelling of decarbonisation trajectories.

81. The partnerships (with think tanks and universities, UN agencies, banks and bilateral and multilateral agencies) mobilised in this context of support for public policy will be studied in order to prioritise and strengthen them with a view to greater complementarity and effectiveness. Finally, an increased number of climate experts in the regional offices would allow for more fluid dialogue in the field and closer and more proactive support, which would accelerate the reorientation of the Group's project portfolio.

Evolving the AFD Group's accounting methodologies

82. Methodologies for accounting for climate finance are the backbone of AFD's accountability in terms of climate finance, both in France and abroad. AFD follows the "Common Accounting Principles" adopted by the multilateral banks and the IDFC in 2015. The Group's application of these principles has been more demanding and more conservative than many of its peers in maintaining strong environmental integrity.

83. However, it appears that methodological changes in high-priority sectors (waste, infrastructure/indirect support to low-carbon transport, land use) may be required to overcome blind spots or to adapt to the challenges and reality of constantly evolving sectors (see previous discussion of energy efficient buildings). In addition, projects with no immediate climate co-benefits but which help to "prepare" for medium- and long-term effects on the transition to resilient and low-carbon world will have to be better promoted.

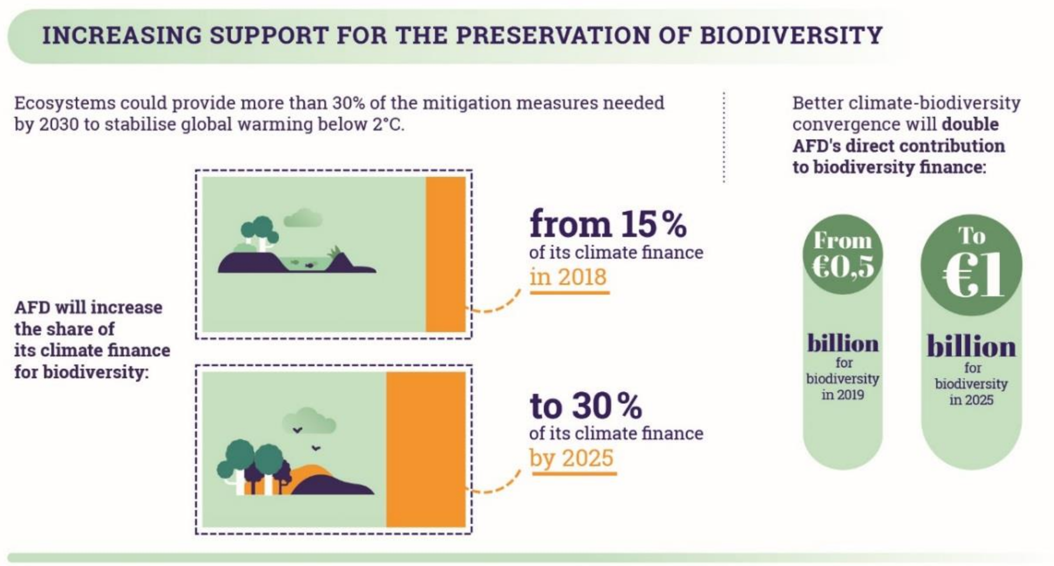
Determining and monitoring more effectively the Group's impact on the climate

84. The AFD Group currently has several climate indicators: i) tonnes of CO_2 emissions avoided; ii) the share of financing authorisations in foreign countries with a climate co-benefit; iii) the share of financing authorisations in foreign countries with an adaptation co-benefit; iv) the share of financing authorisations contributing to the protection of biodiversity in foreign countries and Overseas France (AFD and Proparco), and v) the areas benefiting from biodiversity conservation/restoration programmes (AFD).

85. All of these indicators relate to the financial commitments of projects, or to ex ante evaluated result targets, not to the results actually achieved throughout the life of the projects and funding (ex post monitoring and analysis). To prepare for the Group's next version of its climate strategy, thought will have to be given as to how better define the impacts sought ex ante, for example by using cost-benefit studies designed to capture and value the scope of adaptation measures and the emissions avoided, and to identify which impact monitoring systems should be deployed, including retrospective assessments, with their methodological specificities.

Increasing support for biodiversity conservation and nature-based solutions

86. In pursuing its 50% climate finance target, the AFD Group will increase its search for synergies between climate and other SDGs. In order to contribute to the biodiversity agenda, AFD will increase the share of its climate finance that is favourable to biodiversity from 15% in 2018 to 30% by 2025. This improved climate–biodiversity convergence will double AFD's direct contribution to biodiversity from €0.5 billion in 2019 to €1 billion in 2025. In order to achieve this convergence, the Group plans, firstly, an increased effort to implement solutions favourable to biodiversity and climate in the agriculture, forestry and water sectors, and also to seek their integration in its infrastructure operations.



87. AFD will promote this climate–biodiversity convergence to its peers and the IDFC, in their coordinated messaging and presence at international events, while seeking to create coalitions at the French or international level. One example would be to set the IDFC and the development banks on the road to climate and biodiversity convergence by strengthening the ties between the climate and biodiversity groups. This will also involve creating alliances with strategic actors (NGOs, Costa Rica, etc.) and mobilising biodiversity and climate finance (private sector, GCF, GEF, etc.) to contribute to the success of the biodiversity action.

88. The calculation of climate issues in operations that contribute to improving the quality and functioning of ecosystems also presents a number of challenges, given the complexity of impact chains. AFD's new commitment to the convergence between climate and biodiversity should allow to keep on improving the performance of tools and methods for assessing the climate contributions of biodiversity-friendly operations.

FOCUS 6: The "100% Paris Agreement" commitment in AFD's research

The share of climate-related issues in AFD's research increased from 30% in 2018 to 67% in 2019. Knowledge production has primarily focussed on the convergence between climate and biodiversity, the construction of development trajectories compatible with a drastic reduction in emissions and resilient to climate change, as well as the redirection of investments and the measurement of climate risks (see Appendix 11). Today, the Covid-19 crisis is redirecting this research towards highlighting modes of development that are harmful to biodiversity and the climate and which lead to a reduced resilience to the disasters linked to them; promoting the prevention of these risks; strengthening public policy dialogue to change the trajectories of the Group's partners; developing practical tools to allow partners to measure and oversee sustainability; and the Group's implementation of the just transition (see Appendix 12).

Better exploiting climate synergies with other SDGs

89. In several sectors, the search for climate co-benefits that are not fully exploited will be strengthened and encouraged. This will allow us to seek a better understanding and operational application of the subject of just transition, digital and synergies between gender and climate projects. For projects related to cities, water and sanitation, agriculture and land use, sector-specific toolkits will be developed, and peer sharing of best practices to better define resilience and include it in the early stages of appraisal will be carried out to maximise the integration of adaptation and resilience, in particular for Proparco. The margins for seeking climate co-benefits in governance projects are large, particularly in terms of climate justice and green budgets. The margins in the health and education sectors (see Appendix) - for example, energy efficiency in buildings, adaptive social protection, environmental awareness and training - will also be stimulated by the exchange of best practices among peers. Furthermore, the identification, still in its infancy, of climate co-benefits in the digital environment will be integrated into the sector specific strategy.

D. Amplifying the redirection of financial flows

Accompanying the transition of financial systems…

90. AFD and Proparco have recently developed new approaches. The "pro-climate" approach aims to transform their partner FIs' operations and strategies. A climate action plan, which is required for the granting of a credit line, will include the monitoring of key indicators such as the exposure of the FIs' portfolio to fossil fuels (percentage of the asset portfolio concentrated on the coal, oil and gas sectors), an increase in the share of climate investments and/or the decrease in the share of brown investments in the portfolio. This approach, which is complementary to projects targeting the financing of climate assets through credit lines, will be the subject of an evaluation in 2021 to assess its progress and areas for improvement.

91. Changing the norms and standards of financial systems towards a resilient low-carbon development also involves the mobilisation of regulators and supervisors of financial systems in the countries where AFD works. This will be sought through an offer that is to be launched

by the end of 2020 on the greening of financial systems and a strategic dialogue with these actors in the framework of projects mobilising a plurality of instruments (PPL, technical assistance grants, etc.). The participation and influence of actors at the international level will also be enhanced, for example through the accreditation of the IDFC as an observer in the NGFS (Network for Greening the Financial System) network of central banks.

…and private investments

92. AFD Group will work to better account for its influence over the private sector in order to report more thoroughly on the climate finance that is mobilised globally. Existing instruments such as credit lines are effective levers for directing financing towards resilient low-carbon development. In order to transform private sector financing institutions, the use of innovative financial products will be increased.

93. Thus, AFD will continue to innovate in terms of public payment guarantees, which are currently being developed, and in key sectors such as energy efficiency in buildings. This implies securing resources dedicated to first-loss participation in innovative projects, or for Proparco, access to subsidised resources and sufficient subsidies or the possibility for climate operations to benefit from concessional funds.

… while also relying on public development banks.

94. Strengthening ties, particularly bilateral ones, with IDFC members at a technical level will be one of the priorities for the coming years, particularly on matters related to alignment with the Paris Agreement and financial climate risks. AFD will work to offer credit lines beyond IDFC members it already collaborates with. In addition, the development of joint programmes between IDFC members and submitted to the Green Climate Fund will be explored with the aim of adopting the most ambitious climate practices and standards. The operationalisation of the IDFC Climate Facility will be a key tool for this ambition.

FOCUS 7: The role of national and regional public development banks

As they collectively account for 10% of the world's annual investment, i.e. $2 trillion, the 450 multilateral, national and regional public development banks, particularly the IDFC members, have a decisive role to play in implementing SDGs, the Paris Agreement and protecting biodiversity.

Consolidating the mandate of these banks is the aim of the "Common Finance" Summit, which will bring together these public development banks for the first time in Paris in November 2020. In the context of the Covid-19 crisis, this summit will highlight the critical role of public development banks both during the crisis and in the recovery phases, when it is essential to help economies move in the right direction, balancing short-term stimulus with long-term benefits for both nature and society.

E. Improving the Group’s practices and remain proactive to influence the climate debate

AFD is innovative and must remain open to learning about the climate

95. On financial climate risks, AFD will conduct new country studies on the impacts of physical and transition risks on economies and their main actors. It will continue to work on integrating these risks into its own risk analyses, including in its financial reporting and risk appetite framework. It will continue to roll out its support on these subjects with the Group's financial partners. Finally, it will work to integrate litigation risks both in its operations and internally.

96. The work being done on the European taxonomy on sustainable finance, as well as the updating of the accounting principles of multilateral banks, will lead to higher standards for many of AFD's partner institutions and provide an opportunity to further improve reporting requirements for climate bond issues.

97. AFD's Climate Bonds will therefore be pursued and strengthened and may serve as a springboard for the creation of a new framework for "SDG" bonds issues that cover a growing share of operations, in line with the Group's sustainable development mandate. Internally, AFD will define an investment policy in favour of green investments to guide its own cash investments.

98. AFD Group will increase its accountability for its climate activities, both from a quantitative and qualitative point of view. The adoption of an international reporting standard, in line with the TCFD's recommendations, will be explored with the aim of standardising climate-related information (climate finance, "100% Paris Agreement", Corporate Social Responsibility of Organizations, green bonds, and taking climate risks into account in risk analyses).

AFD's influence depends on its ability to stay ahead of the climate debate

99. Past experience, particularly with regard to the carbon balance methodology and the 50% target for climate finance, has proven AFD's ability to influence standards in advance. AFD's added value as "lead climber" enables it to explore and highlight innovative approaches in debates with its peers and partners, notably among multilateral banks. This positioning will need to continue on next frontier issues such as alignment, financial climate risks and the just transition.

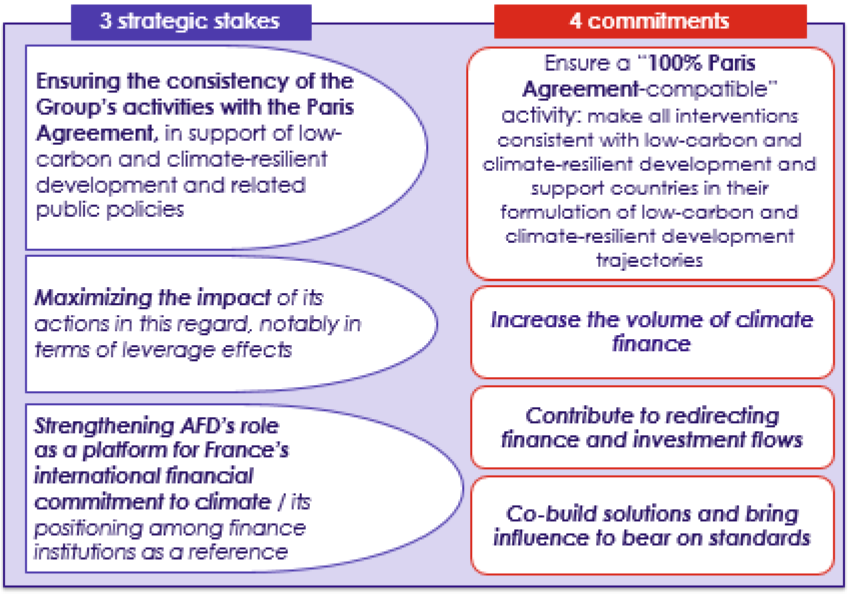
100. The Group will therefore continue to play an active role in initiatives that promote exchanges between practitioners such as IDFC, Climate Action in Financial Institutions, Finance for Tomorrow, but also funding agencies, the OECD and the UNFCCC to promote these issues among its peers and climate finance stakeholders. This is at the core of new workstreams identified in this review.

***

LIST OF APPENDICES

Appendix 1 - Logical Framework for the Climate-Development Strategy 2017-2022

Since its adoption in November 2017, the climate strategy has been deployed across the AFD Group, focussing on its 3 strategic challenges and 4 commitments:



The climate strategy includes many activities, commitments and several indicators. They are structured around 8 workstreams. It should be noted that the midterm review of the climate strategy covers in a concise and prioritised way a large share of these activities but was not intended to provide an exhaustive assessment of each of them.

Commitment I: Ensure a 100% Paris Agreement compatible activity: making all AFD Group financing consistent withresilient low-carbon development and supporting the creation of resilient low-carbon trajectories by each country.

1) Implement a "100% Paris Agreement" process at Group level
   1. Systematic analysis of projects' consistency with countries' resilient low-carbon trajectories, via the Sustainable Development Analysis and Opinion
   2. For all countries, analysis of their public climate policies, NDCs and trajectories, through the development of country fact sheets and their inclusion in the Group's strategies
   3. Support countries in the development of long-term strategies: Facility 2050 up to 20 countries, public policy dialogue, GEMMES, etc.
   4. Update the current selection grid

Commitment II: Increase volumes of climate finance

2) Impact of climate finance
   5. At least 50% of annual commitments with climate co-benefits: expanded to Group level with the inclusion of Overseas France projects and Proparco
   6. Target of €5 billion/year by 2020 in foreign countries, including €1.2 billion/year (raised to €1.5 billion/year) for adaptation, with a concentration in Africa, LDCs and Small Island States
   7. Variation of the 50% target by geographical region

8. Deployment of the Adapt'Action Facility
9. Contribution to international initiatives: €3 billion for AREI (2016-2020)
10. Convergence between climate, risk reduction and biodiversity objectives
11. Accounting framework for climate finance unchanged

Commitment III: Contribute to the redirection of financial flows towards climate

3) Knock-on effect
   12. Mobilisation of private climate finance and support for local financial systems
   13. Development of high-volume, high-impact climate tools
   14. Deployment of public policy loans
   15. Use of mixing to promote the knock-on effect
   16. Education, inclusion process included in interventions
   17. Financing through delegated funds (Green Fund, NAMA, EU, CAFI, etc.)
   18. Regular issuance of green bonds

4) Financial climate risks
   19. Integration of financial climate risks (physical and transition) into risk analysis processes
   20. Contribution to the international dynamic for the development and communication of standards and practices
   21. Use in public policy dialogues in countries of intervention

Commitment IV: Co-build solutions and bring influence to bear on standards

5) Partnerships
   22. Financial actors in development: MDBs and IDFC development banks, notably via AFD role as chair
   23. Coalitions of actors: from the agenda for action, think tanks of countries in the Global South, United Nations
   24. Participation in international forums related to green finance
   25. International institutions and civil society (including NGO/think tank resonance groups)
   26. French development aid actors on climate change and close synergy with the CDC

6) Production of knowledge
   27. Long-term analytical tools for the transition (GEMMES, modelling, socio-ecological systems), financial climate risks, etc.
   28. Support for public policy debate and influence within conferences

7) Internal and external implementation of the climate targets
   29. Communication strategy
   30. Climate and development education in France

8) Transparency and reliability in monitoring climate finance
   31. Annual review of the project portfolio for climate co-benefit and impacts
   32. Accountability in terms of consistency with resilient low-carbon development trajectories
   33. Compliance with French and international obligations
   34. Midterm review in 2020 on the implementation of the climate strategy

APPENDIX 2 - MIDTERM REVIEW METHODOLOGY

Schedule

November 2017
Climate strategy 2017-2022 adopted

January 2020
Framework
- Method, allocation of roles

February-March 2020
1st Steering committee
1st internal and external consultation
- Information gathering Analysis and drafting of the review

April 2020
2nd Steering committee
2nd internal and external consultation

May 2020
Final version
- Presentation at the 3rd Steering committee and 'Planet' Executive Committee (COMEX)

June 2020
Presentation to the Board of Directors
- Adoption of the review

Second half of 2020 and 2021
Internal and external communication
Launch of the projects initiated by the review
Promotion during diplomatic climate and biodiversity events

The review was carried out in the first half of 2020 and was led under the leadership of Climate and the Strategy Divisions. Flexible governance was set up with a steering committee made up of some 15 representatives of the AFD Group, which met three times.

2 main objectives

Take stock of the 2017 commitments' implementation

2017

2020

Increase AFD's climate ambition by taking into account new dynamics and best practices on key subjects

- alignment with the Paris Agreement
- climate-biodiversity convergence

... and by launching structuring projects to fully complete the climate strategy by 2022

- a just transition
- a sustainable post-Covid recovery

A broad internal and external consultation

Nearly 30 interviews, including a sample of 3 agencies and regional offices, were conducted across AFD Group and Expertise France, with managers and respective climate contacts.

An online perception survey was sent to the Group's 3,400 agents: There were 339 responses from staff members at the head office, field offices (21%) and at Proparco (18%), who provided qualitative information on their assimilation of the climate strategy and suggestions for improvement.

More than 230 comments were provided by the entities consulted.

A consultation of the French Ministries (Bercy, Foreign Affairs, Ecological and Fair Transition), as well as the President of AFD's Board of Directors, Laurence Tubiana.

Members of the Partners Committee: think tanks, NGOs (French Climate Action Network, Coordination Sud/Geres, Oxfam, Greenpeace), private actors, ministries.

Other partners and peers, especially English-speaking ones: MDBs, IDFC, think tanks (CPI, I4CE, WRI), OECD and others.

90

More than 90 comments were provided externally.

An inclusive approach

A large majority of the activities, commitments and/or indicators included in the strategy have been addressed, although the review is not meant to be exhaustive.

Several projects have been launched and identified within the review and may continue until the end of 2022 and will help contribute to our future strategy.

APPENDIX 3 - ANALYSIS OF THE GROUP'S 2017-2019 CLIMATE AUTHORISATIONS

1. General overview

Since 2017, the year AFD Group adopted its climate strategy for the 2017-2022 period, the annual volume of the Group's "climate" commitments in foreign countries has continuously increased from €4 billion to €6.1 billion, i.e. an increase of 52.5% over the period. The share of the Group's annual financing accounted for under the "climate" heading has remained stable over the three years, reaching the 50% target set by the strategy each year. This average reflects variations within the Group. AFD's share of climate finance has increased from 50% to 55% of its annual portfolio, while Proparco's has varied considerably, with a high of 47% in 2017 and a low of 31% of the subsidiary's portfolio in 2019.

2. Proparco climate finance

Between 2017 and 2019, Proparco has financed projects with climate co-benefits to the tune of €1.9 billion, representing on average 36% of its portfolio. Climate change mitigation projects make up the bulk of this funding, but the share of commitments for adaptation co-benefits, which was non-existent in 2017, is increasing significantly. This momentum has been driven in particular by the financing of projects and credit lines in the areas of agricultural development and water resource conservation. Proparco's commitments for mitigation projects with co-benefits mainly concern the renewable energy and energy efficiency sectors, which have been growing since 2017, and to a lesser extent public urban transport and biofuels, and finally sustainable agriculture and deforestation projects.

Africa and Latin America are the two geographical areas where most of the subsidiary's climate finance was concentrated over the period, with total volumes of €680 million and €612 million, respectively representing 39% and 49% of Proparco's investments in these regions. The climate co-benefit projects financed in these areas mainly concern the energy transition. In the Middle East and Asia, where climate finance is only half as important as in Africa, water resource preservation projects play a significant role, behind renewable energy and energy efficiency projects.

3. AFD's climate finance (without Proparco)
    a. By geographical region

AFD's climate activity over the 2017-2019 period was largely concentrated in Africa, worth a total of €5.4 billion, representing on average 45% of AFD's commitments in the area. In terms of funding volumes, the increase is significant (+38%) and is mainly driven by the increase in financing for adaptation projects and public policies (+137%).

The Middle East and Asia are the second geographical area with the highest volume of climate finance, with a total of €3.9 billion over the three-year period. On average, 57% of the commitments in this area contribute to the financing of projects with climate co-benefits. These commitments have increased in volume (+84%), particularly in terms of adaptation projects (+140% compared to +57% for mitigation).

In the Americas, 79% of AFD's grants over the period went to projects with climate co-benefits, for a total amount of €2.7 billion. This is the geographical area in which the share of commitments with climate co-benefits is the highest. This proportion grew strongly between 2017 and 2019 (from 65% to 87%) as did the volume of climate finance, which increased by 124%. This growth was mainly driven by financing for mitigation projects (+227%).

The "Three Oceans" zone accounts for 4% of total climate finance volumes for the period, amounting to €555 million. On average, 58% of AFD's commitments in this area contribute to the financing of projects with climate co-benefits. This ratio dropped sharply in 2019, although the annual amount of climate finance in the zone has increased since 2017 (+56%).

Between 2017 and 2019, although the average share of climate financing is high in the commitments in major emerging countries such as Mexico (93%), Brazil (74%) and India (73%), this proportion is more moderate in China (62%) and Turkey (57%). Finally, the share of commitments for projects with climate co-benefits is low in Indonesia (33%) and South Africa (16%) in view of their status as emerging countries in relation to the averages for the geographical areas in which they are located (57% in the Middle East and Asia ; 45% in Africa).

These analyses show that within the Middle East and Asia department, and within the purview of the "green growth and solidarity" mandate, the share of climate-related projects declined, particularly in 2017, while the share of adaptation projects has increased significantly, which reflects a change in the types of climate projects financed, several of which also deal with biodiversity (e.g., in China).

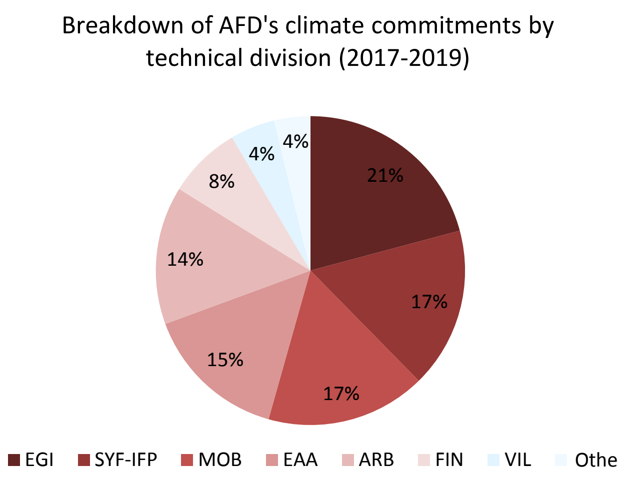
b. By sector

Key: ARB = Agriculture, Rural Development, Biodiversity. CCC = Crisis and Conflict. EAA = water and sanitation. EDU = Education. EGI = Energy. FIN = structured finance. GOV= governance. IFP-SYF = Financial Systems. MOB: Transport. SAN = Health. VIL = Urban Development.

The sector that contributed the most to the volume of AFD's climate commitments from 2017 to 2019 is energy (21% of climate finance), followed by the financial systems sector (17%), transport and mobility (16%), water and sanitation (15%) and finally agriculture, rural development and biodiversity (14%). The sum of the climate commitments in these five technical divisions represents more than 80% of AFD's climate finance over the period.

On average, 70% of the commitments in the Energy division contributed to the financing of projects with climate co-benefits. Funding for adaptation projects increased in 2019, reaching amounts five times higher than in 2017.

The share of climate commitments in the financial systems sector has increased since 2017 to reach 61% in 2019. The amount of financing for climate commitments related to adaptation rose sharply over the period (+718%). In 2019 SYF-IFP became the division that contributed the largest share of AFD's climate finance, thanks in particular to a very high level of climate activity in Africa and Latin America.



Within the Transport and Mobility Division, 66% of financing was awarded to projects with climate co-benefits, mainly in terms of mitigation. The share of commitments for projects with adaptation co-benefits remained low (1.6%). Africa's predominant position in climate finance projects in this sector is on the decline, in favour of the Middle East and Asia, where mobility projects play a significant role in the region's climate portfolio.

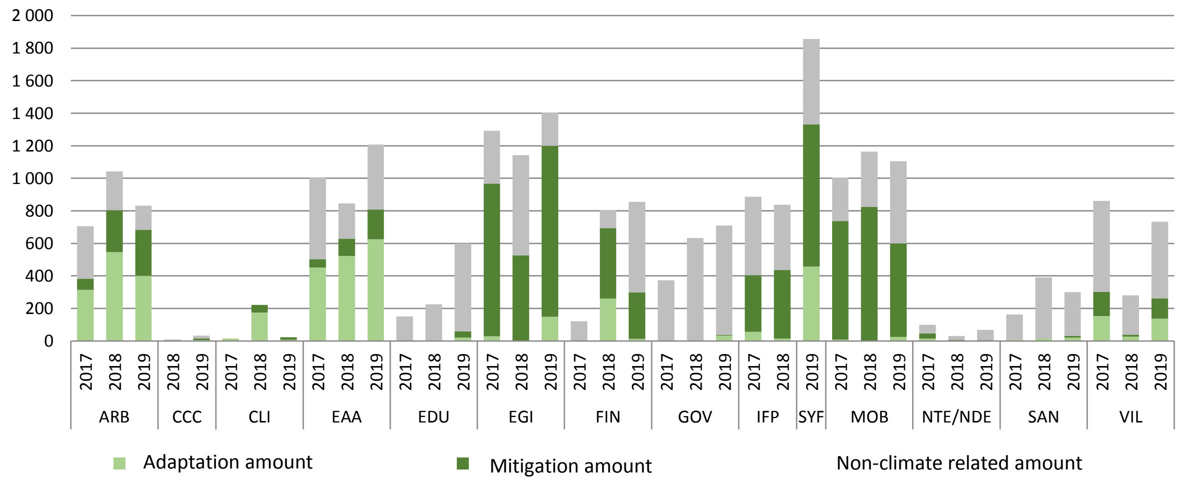
In the water and sanitation sector, projects with adaptation co-benefits account for most of the volume of climate finance, which accounts for 63% of the division's total commitments. Climate finance in this sector is the largest in Africa and the Middle East and Asia, where it has been growing steadily.

Between 2017 and 2019, 73% of financing for agriculture, rural development and biodiversity conservation projects showed co-benefits for the climate, with a majority of operations in favour of adaptation and a marked increase in the volume of financing for projects with mitigation co-benefits (+ 330%).

Although it contributed less to AFD's climate finance volume between 2017 and 2019 than in the previous strategy, the urban development, planning and housing sector is not negligible. Some 32% of its commitments over the period contributed to the financing of projects with adaptation and mitigation co-benefits in almost equal shares.

Finally, in social sectors, the financing of development projects with co-benefits for mitigation and adaptation has slightly increased in the fields of education and health. This progress was supported by efforts to train teams and mainstream climate change within the various divisions.

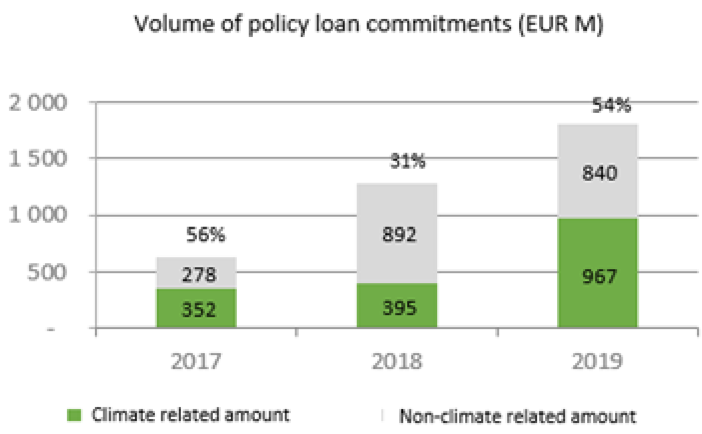
Breakdown of AFD's climate commitments by technical division between 2017 and 2019 in EURM



c. <u>Focus on adaptation</u>

The volume of financing for adaptation projects increased steadily from 2017 to 2019 (+82%), reaching €2 billion (33% of the Group's climate finance) and a cumulative sum of €4.7 billion, i.e., twice as much in three years as during the five-year period covering the previous climate CIF (€2.3 billion between 2012 and 2016). Over the 2017-2019 period, funding for adaptation projects accounted for 32% of total climate funding (compared to 16% between 2012 and 2016). This growth has been supported by a diversification of sectors contributing to adaptation financing within the Group, including projects in the financial systems, social and energy sectors. Funding for projects with adaptation co-benefits has grown primarily in Africa and the Middle East and Asia, which have the largest cumulative amounts in terms of adaptation.

d. Focus on mitigation

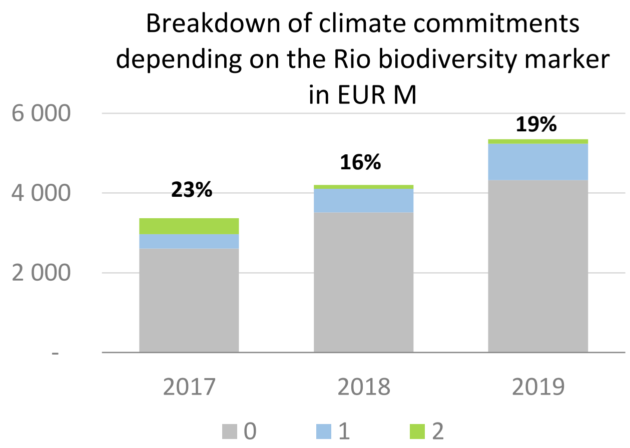


Between 2017 and 2019, mitigation accounted for the majority of the Group's climate finance (68%) and this volume increased substantially (+38%). As with adaptation to climate change, an increasing number of technical divisions have contributed to mitigation efforts. While the energy and mobility sectors were responsible for the bulk of the volume over the period, projects from the economic and financial transition also contributed significantly and the sectors mobilised for the ecological transition and natural resource management increasingly contributed to this amount.

e. Supporting public policies

Since 2017, 43% of public policy loans have supported the implementation of national adaptation and mitigation policies, increasing from €352 million to €967 million in 2019. This momentum has been supported by growing support efforts in Latin America and the Middle East and Asia, where the volume of financing devoted to climate change resilience policies has increased.

f. Climate and biodiversity convergence



Between 2017 and 2019, an average of 19% of the climate commitments came from projects making a primary or secondary contribution to biodiversity, and their volume increased over the period to reach €1 billion in 2019. AFD aims to increase this share to 30% by 2025.

Of the commitments that make a major contribution to biodiversity, 79% concern projects with climate co-benefits. This share reaches 50% for funding that has no positive impact on biodiversity.

APPENDIX 4 - INTERNAL PERCEPTION OF THE STRATEGY (QUESTIONNAIRE RESULTS)

1) Questionnaire methodology and respondent profile

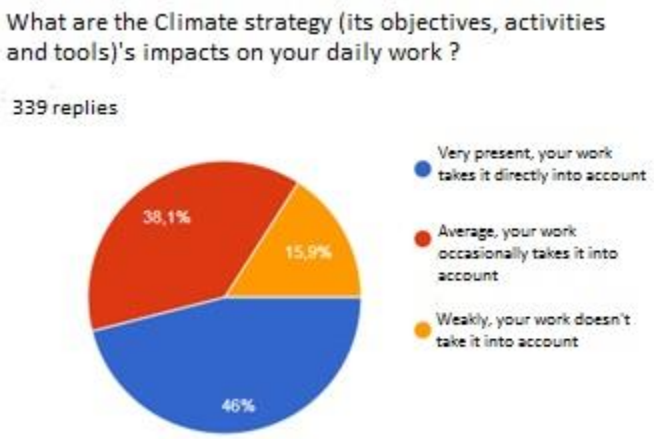
In order to collect qualitative information on the appropriation and understanding of the climate strategy by the AFD Group agents, an online perception survey was conducted. It was distributed to the 3400 recipients listed in the Group mailing lists, and specifically to the network of climate contacts and the Directors of agencies and Regional Directorates in order to involve the entire network in the exercise as much as possible. The response rate to this questionnaire was 10% (339 agents), which is considered to be the threshold of representativeness of the Group.

The majority of respondents were already working at the Group in 2017 when the climate strategy was adopted. 21% of respondents are in the network, all geographical areas combined, and 13% work at Proparco. The profile of respondents from all of AFD's departments (DOE, IRS, SPC, DEF, DEF, HRD, SGN, DXR) shows that attention to climate issues extends well beyond the operations directorate where the climate division is located.

2) Analysis of questionnaire responses

The impact of the strategy on one's work considered separately from one's level of knowledge

Although the climate strategy is mostly perceived as "very present" in the respondents' daily work, their **level of knowledge** of the climate strategy is "average" for ¾ of the respondents and "low" for 5% of them (their knowledge of the appendices is even lower).



Continued need for awareness raising and training

Responses revealed high expectations in terms of awareness and training to use the strategy's operational tools. The climate tools and training are unevenly known and are under-exploited, revealing a persistent need for communication and support, particularly for vulnerability assessment tools (71% of respondents were not aware of their existence, even though they would be useful in their work), carbon footprint (55%) and the selectivity grid (67%). The country climate fact sheets and the SD analysis grid on its climate aspect (5a and 5b) seem to be better known.

However, 88% of the respondents said they were aware of the existence of training provided by CLI (3-day training, climate treadmill, carbon footprint, EXACT) and have heard of the internal database La Ruche Climat and the Climate Action group, even if only a minority participated.

Difficulties in appropriating the strategy and tools

The challenges are not just related to the strategy: frequent changes to tools and internal procedures, particularly worsened in agencies; a sense of lack of time and prioritization at the project team level; a lack of resources and support from the climate team in relation to high demand; the feeling that the climate project is highly complex; confusion about where tools can be found (La Ruche, Gaïa, etc.); and the impression that certain sectors (social, governance) are less concerned by climate.

Suggestions for improving buy-in and making the strategy operational

Suggestions about training and awareness-raising were numerous and consistent: developing an online training **course,** particularly for the agencies, which would be **mandatory** in order to standardise everyone's knowledge of the issues, or at least for the **managers of all of the Group's projects**, or as well as agency directors; modules for using climate tools with video tutorials.

In terms of communication about the strategy, both internally and externally, suggestions focussed on clarifying where staff can find the resources, organising **news** briefs on the strategy, regular presentations of **model projects**, where we can capitalise on and promote the teams' hard work.

The need to increase operational capacity was also stressed. Some ideas mentioned were the development of **sector-specific toolkits, support for dialogue with partners and other parties**, **increasing climate expertise throughout the project cycle** (as far upstream as possible), and **support** from the climate department **for regional,** technical and geographical management, particularly in sectors where the connection with climate is least obvious, with the aim of maximising climate co-benefits. More generally, the respondents are looking for a **geographically- and sector-specific** approach to the strategy, with **examples of real-life situations** and **concrete examples**.

Internal alignment and professional practices: See Appendix 6 - Internal alignment

APPENDIX 5 - AFD GROUP PARIS AGREEMENT ALIGNMENT ROADMAP

1) Alignment with the Paris Agreement is gaining ground, both at AFD and on the international scene

On the international partnership scene, the concept of alignment emerged at the 2017 *One Planet Summit* when IDFC members under AFD's chairmanship, and the multilateral banks published a joint statement committing to "alignment with the Paris Agreement". Since 2018, alignment has gained momentum among development funding agencies, thanks to the publication of the 6 MDB pillars and 6 IDFC principles on alignment, the Science Based Targets initiative for private actors, and the publication of research papers from think tanks (E3G, WRI, Germanwatch, NCI, I4CE, CPI) and NGOs (the French Climate Action Network, Oxfam), as well as international negotiations with the UNFCCC.

2) The need for a global approach to align with the Paris Agreement

At the request of IDFC members, CPI and I4CE were commissioned to conduct a study to define a methodological framework to help IDFC members, MDBs and the financial community define their alignment strategies. This framework comprises three major aspects:
- Global scope: financial institutions (FIs) must integrate climate considerations into all their activities and across their entire geographical scope.
- A time horizon that considers the long term: care must be taken to ensure that the projects financed do not lock countries into long-term trajectories of high emissions or insufficient adaptation measures.
- A strengthened ambition through three principles:
  - Do no harm: gradually reduce, then stop financing, whether directly or through intermediaries, all actions that are not consistent with long-term resilient low-carbon trajectories;
  - Financing activities that have climate co-benefits;
  - Giving priority to actions that result in an in-depth transformation of systems and value chains, in particular by impacting standards, transparency and regulation.

Specifically for IDFC members, the study presents an ideal case of aligning a development bank with the Paris Agreement. This alignment takes place on at three levels: 1) alignment through public policy dialogue, 2) strategic alignment of the institution itself, 3) alignment of operations.

In order to deepen its holistic approach to alignment with the Paris Agreement, AFD Group has developed the roadmap presented below, which will be implemented by 2022. It is based on the methodological framework for alignment developed by I4CE and CPI.

Paris Agreement Alignment Roadmap			
Area of focus	**Actions**	**Achievements**	**Planned workstreams**
1. Strategic alignment through dialogue with countries and counterparties	1 - Increase governments' capacity to develop climate-friendly public policies and reforms	2050 Facility /Adapt'Action facility	- Extend the Facilities to other countries and capitalize on their experiences. - Create country-specific dialogue depending on climate issues and development level. - Better integration of resilience into long-term strategies.
	2 – Facilitate interministerial and multi-stakeholder (private sector, civil society)'s dialogue	PPL /Adapt'Action and 2050 facilities	- Systematically include climate in dialogue and PPL. - Measure the impact of climate PPLs.
	3 - Support governments in identifying climate risks to better account for them and encourage public policy dialogue on climate change	Research programmes (GEMMES, studies) /technical assistance	- Systematically include the climate risk approach in public policy dialogue. - Replicate CPI study on transition risks in South Africa. - Implement financial climate risk roadmap.
	4 - Be proactive in working with partners to understand their alignment strategy and prioritise funding, and work to influence partners	Facility 2050/Adapt'Action facility/technical assistance/public policy dialogue/civil society studies	- Systematically include Paris Agreement alignment strategies in dialogue with non-sovereign and sovereign entities. - Participate in research, sharing best practices and discussions with partners (peers, civil society, institutions, etc.)
2. Operational alignment	1 - Set up a process to evaluate each operation that is financed	Systematic analysis of the countries' climate context/carbon balance/selection grid/SD opinion	- Develop sector-specific tools to strengthen the operational analysis based on the following criteria: NDCs, sector standards to aim for a 2°C or 1.5°C trajectory - Improve knowledge about alignment criteria in the land sector, work on long-term trajectories and behavioural transitions
			Assess the alignment of financial intermediation operations
			For each technical department, consider what the trajectory towards carbon neutrality would look like and define suitable indicators to be followed.
			Use an internal carbon price.
			Update exclusion lists at AFD Group level, based on sector-specific strategies that have already been adopted
			Calculate the absolute emissions of AFD Group's portfolio and study a strategy for AFD's alignment with the Paris Agreement using absolute emissions
	2 - Work with partners to prepare operations well in advance	Adapt'Action Facility, CICLIA/CICLASIA facilities	- Extend project preparation Facilities - Support implementation of NDCs, as well as review and enhancement

	3 - Promote private sector participation	Combine resources	- Include private sector mobilisation and leverage in the climate figures - Increase private sector involvement on adaptation
3. Alignment of the institution itself	1 - Have a mandate that is consistent with the Paris Agreement	Include the “100% Paris Agreement” commitment in the Group's strategy documents	- Reinforce implementation within Proparco - Apply the 100% Paris Agreement commitment to Expertise France
	2 - Adopt a definition of alignment at AFD Group level and commit each entity to applying it to its business	Country fact sheets with analysis of climate issues. SD opinion consistent with NDCs and climate fact sheets. 50% climate co-benefits	- Adjust AFD Group’s definition and alignment framework. - Reflect on the desired change to the project portfolio’s carbon footprint to meet the objective of supporting countries' low-carbon transition.
	3 - Update the institution's risk appetite framework to consider financial climate risks	Implement a physical risk assessment and monitoring process for borrowers	Include financial climate risks in the RAF Implement a transition risk assessment and monitoring process for borrowers in order to better assist them
	4 - Implement internal alignment internally to the institution itself	Offset the Group’s emissions from inner workings. SGN Roadmap and corporate social responsibility policies	- Create an AFD Group-level emission reductions objective for inner workings - Strengthen and adapt emissions reductions to internal sector-specific policies (purchasing, real estate, treasury...) - Explore offsetting via AFD carbon sink projects (forests, oceans...)
	5 - Assess and report on progress	SD analysis and opinion /climate co-benefits /project assessments	Communicate on the progress made with the alignment roadmap to the Climate Executive Committee Increase accountability on climate issues (broaden scope of the climate report) and provide specific accountability on 100% PA both to the directors and externally Consider whether to apply international accountability standards Enrich the *Open Data* platform with regards to climate

Appendix 6 - Internal alignment: Contributions from AFD Group agents

How can AFD's 100% Paris Agreement alignment be expanded internally? In the online questionnaire submitted to all Group employees (see Appendix 4), as well as in several specific consultations, "internal alignment" was defined as the consistency of internal actions with the Paris Agreement. This was widely supported by the respondents, who identified multiple challenges:

Coherence

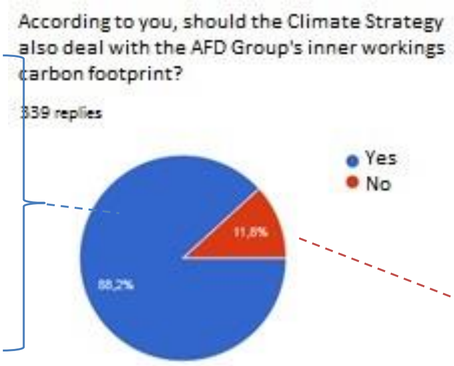
Externally: leading by example, credibility, accountability, clarity	Internally: unite staff around shared/applied values, create sense of belonging and cohesion	But also: challenges in terms of innovation, performance, savings

Respondents were mainly concerned about the "carbon footprint" of the Group's inner workings, expressing their wish to measure the footprint in a comprehensive but also an individual and empowering way that stressed personal responsibility. They also want this measure to lower carbon emissions, refine **reduction** targets and ultimately to reach **carbon neutrality**[10].

To this end, it seems necessary to rely on both the climate strategy and the Group's corporate social responsibility policy:

<u>Climate strategy 2017-2022</u>

Need for strategic support at the Group level for an ambitious operational internal climate challenge, piloted by the Executive Management and benefiting from the Climate division's complementary expertise, particularly its experience in tracking carbon footprints. In the long run, there is a need to overcome the dissociation of projects and staff impacts.



<u>The Group's corporate social responsibility policy 2018-2022</u>

General Secretariat's expertise already includes climate aspects, build on what is already in place

The study of respondents' proposals for ways to reduce the carbon footprint could be done in a working group, particularly within the framework of the company project ("exemplary and attractive AFD" programme), with a participative approach that ensures as much team involvement as possible, including not only project teams who are in contact with partners, but their colleagues.

[10] Insofar as the head office has been offsetting greenhouse gas emissions from the 3 areas of focus of internal operations since 2007 (and the Group has done so since 2013), improvements should focus on offsetting methods (funds, buying carbon credits), with a more territorial approach (offsetting where we create emissions).

<u>Contributors' proposals for ways to reduce the Group's carbon footprint</u>

Buildings[11]	thermal, electricity	✓ Carbon footprint: broaden the selection of sources of indirect emissions (carbon emissions from the generation of electricity, heating and cooling) related to the Group's activities; ✓ A new building for the head office and the network's local properties that have been renovated to meet the highest standards of energy consumption, increased energy production adapted to local renewable energy sources (such as photovoltaic panels, solar water heaters) ✓ Raise employee awareness about their energy consumption in the office (e.g. appliances on standby, digital use, air conditioning)
Buildings[11]	waste production	✓ Less waste production and increased recycling; ✓ Raising awareness of the carbon footprint of paper consumption; encouraging use of recycled paper ✓ Finish making public procurement procedures digital (zero paper and printing) ✓ Streamlining residual waste sorting equipment
Purchasing		✓ Reduced carbon footprint of canteen meals (including meat consumption and waste recycling) ✓ Increasing environmental/carbon clauses in AFD Group's procurement policy and with service providers ✓ External opinion on procurement
Treasury		✓ Climate/Green investments
Employee savings scheme		✓ Company Savings Plan (CSP) and profit-sharing: influence the climate criteria for Socially Responsible Investment (SRI) funds
Mobility		✓ Improving the performance of the videoconferencing system/NICT at head office and network; turning "bad travel practices" into "good digital practices" through fungibility of credits (e.g. savings made on flying are reinvested in the videoconferencing system and equipment) ✓ Reducing air travel: increasing decentralisation to the regional directorates to avoid sending people out from the head office; grouping together the project managers' geographic areas to they can visit "2 countries in 1 mission" ; awareness-raising/empowerment of agents (tell them about alternatives to plane travel, carbon footprint of travel by allocation and how to reduce it); incentives to fly economy class instead of business by giving 1 extra day of recovery; no more domestic flights to destinations that are less than 6 hours away by train; ✓ Reducing air freight for moves, offering less carbon-intensive alternatives, offering furnished AFD housing to reduce the volume of objects moved ✓ Encourage use of less-polluting modes of transport: fleet of electric vehicles in the network

[11] Ranking modelled on the internal alignment framework developed by the multilateral banks.

APPENDIX 7 - THE ADAPT'ACTION FACILITY, A CATALYST FOR INNOVATION

The Adapt'Action Facility, with a budget of €30 million, supports 15 of the most vulnerable countries and regional organisations to help them meet the challenge of implementing the Paris Agreement through the adaptation aspects of their climate commitments (NDCs).

The Adapt'Action Facility comprises three complementary focus areas:

1- Increasing climate governance to ensure effective implementation of nationally determined contributions (NDCs);
2- Translation of the NDCs into sector-specific public policies and developing concrete action plans in key sectors (e.g. water resource management, agriculture, risk reduction in the face of extreme climate events);
3- Support for development of transformational programmes and projects (e.g. vulnerability studies, capacity building

The project's contracting authority is the Climate division, with Expertise France as the delegated contracting authority for focus area 1, dedicated to climate governance.

Deployment of the Facility

After an initial start-up phase (creation of tools, prioritisation, first identification missions, establishment of a framework agreement with five consortia of consultancy firms), the Facility entered its second phase in 2018. This second phase was marked both by the start of implementation and a major reorganisation of resources (recruitment of 5 Regional Coordinators and reinforcement of the team at the head office) to ensure a better match with the Facility's objectives.

In 2019, the Facility entered its third phase with an acceleration of support in the field and an increasing leverage effect. This is achieved through vulnerability and feasibility studies. Adapt'Action is currently supporting the preparation of 11 resilient projects which represent a volume of €411 million in AFD's portfolio, including €104 million co-financed with the Green Fund and €26 million with other sources of financing, notably the European Union. Midway through 2020, 35 of the 84 support projects planned in the 3 focus areas are either being implemented or are completed.

This increase in the Facility's profile has been highlighted at various levels, within the Conference of Parties (COP 22, 23 and 24), and also in presentations to students and the general public, including regional Climate Weeks and the One Planet and Climate Chance summits.

A catalyst for change and innovation

Adapt'Action is also a catalyst for innovative approaches and techniques to promote resilience investments for sustainable development, in an enabling environment for the right consideration of the climate change impacts**:** strengthening climate governance and supporting the integration of adaptation into sector-specific public policy helps to position AFD's 15 field offices and 6 regional departments as platforms for dialogue between Ministries of the Environment, Finance and Planning, various sector-specific Ministries and technical and financial partners.

Adapt'Action promotes a paradigm shift that extends beyond creating climate co-benefits: adaptation is increasingly integrated right from the project design stage (adaptation by design), using a co-construction approach that includes partners, sector experts and adaptation experts in defining and monitoring the feasibility and vulnerability studies.

Adapt'Action is also a vector for innovation, for example in reducing disaster-related risks in the Caribbean (nature-based solutions, Forecast-based Financing and Adaptive Social Protection); integrating resilient solutions into infrastructure planning and investments in Mauritius, Guinea and Congo; strengthening the place of adaptation in education and vocational training in Senegal and Madagascar; and developing health projects that address the impacts of climate change in Ghana and Cuba. With the support of the Economic Diagnostics and Public Policy Department (ECO) and the Water and Sanitation Division (EAA), Adapt'Action also supports the development of Climate and Meteorological Services in the Indian Ocean, Guinea, Côte d'Ivoire, Cameroon, and the Dominican Republic. With a cross-cutting approach, Adapt'Action contributes to a better understanding of gender and climate issues.

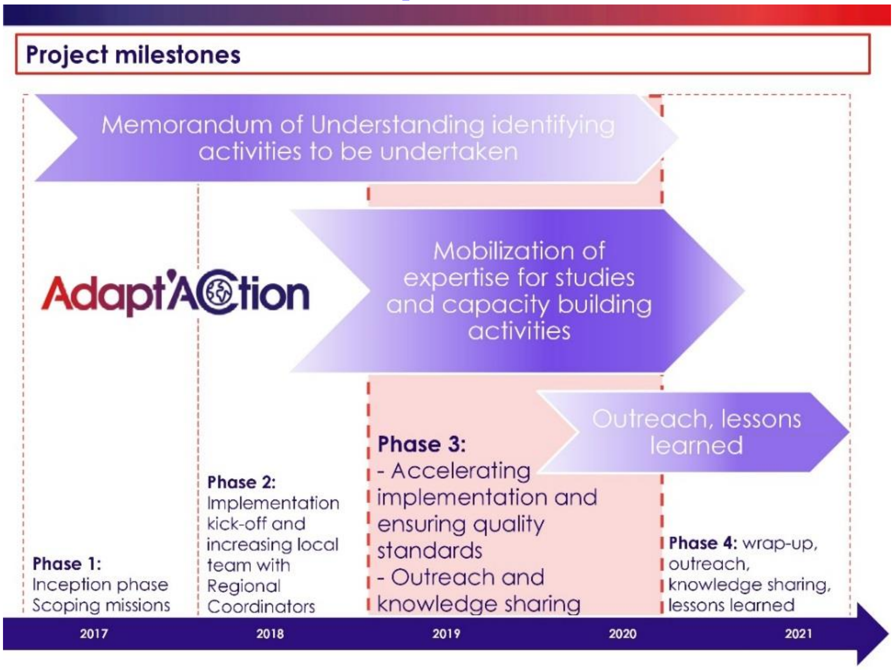
Prospects

The Adapt'Action project's landing phase, initially planned for April 2021, will soon be updated to take account of the recent challenges, including the Covid-19 crisis which required missions of the design offices in the partner countries to be suspended.

While continuing to provide support, the project's next phase will focus on promoting and capitalising on the climate studies and knowledge created within the framework of Adapt' Action's three focus areas (governance, public policy, vulnerability and feasibility studies).

This will be an opportunity to imagine a second phase of the project, taking into account the increased role of the Regional Directorates and the integration of Expertise France within the AFD Group.

- ➔ To learn more: www.afd.fr/adaptaction; La Ruche Climat



APPENDIX 8 - THE 2050 FACILITY, A TOOL TO SUPPORT RESILIENT, LOW-CARBON DEVELOPMENT STRATEGIES

Why create a 2050 Facility?

The 2050 Facility, which France announced at the *One Planet Summit* in December 2017, is a programme with a €30 million budget for grants. It aims to support some 30 countries in AFD's scope of work, helping them to design and implement low-carbon, resilient development strategies over the long term (by 2050).

Through technical cooperation and capacity-building activities, the 2050 Facility's support is intended to:

i) Define realistic objectives that combine a comprehensive vision of long-term socioeconomic development trajectories, with emission reduction targets in a more resilient environment,

ii) Give partners the means to take informed shorter-term decisions, especially with regard to the review of planned Nationally Determined Contributions (NDCs),

iii) Help identify priorities for public and private investments needed to implement the structural transformations of economies in relation to long-term decarbonisation and resilience scenarios;

How are we doing?

Following an initial tranche of aid of €10 million (July 2018) and a second one of €20 million (December 2019) by the Board of Directors, 29 supports have been approved so far and are currently being implemented, for a total budget of €17 million. These actions are currently underway in about 20 countries, with 42% of funding in the Middle East and Asia, 30% in Africa and 28% in Latin America (as of 30/04/2020).

These include:

- Analyses of the socioeconomic impacts of climate change, through the use of the GEMMES macroeconomic model developed by AFD and adapted to the scale of certain economies (Vietnam, Morocco), in partnership with local teams with a view to transferring the methodological tools.

- The Carbon-Free Development Trajectories programme in Africa, implemented by IDDRI to support the development of analytical capacities in several African countries (Nigeria and Senegal are the initial targets) to allow them to develop long-term strategies that include Sustainable Development Goals and climate issues.

- Modelling of energy transition scenarios and support for energy policies that support a low-carbon transition (Algeria, China, Côte d'Ivoire, India, Indonesia), in order to accelerate the energy transition in these countries towards more efficient, low-carbon, resilient energy services.

- Analyses of the risks associated with low-carbon transitions in countries which account for a large share of global GHG emissions and a variety of risks depending on their economic characteristics (Indonesia, China, India, Colombia, and Morocco). These analyses are a useful tool for dialogue between AFD and actors in the financial sector (especially development banks), as these institutions must both manage their risks and promote investment strategies compatible with the goals of the Paris Agreement.

- The development of Colombia’s low-carbon, resilient 2050 strategy. This project, implemented by Expertise France and as a complement to UNDP support, requires the coordination of many activities that all contribute to this objective before submitting the strategy to the UNFCCC at the end of 2020.

An essential dialogue tool for reimagining development trajectories

The 2050 Facility is an important lever in AFD's climate strategy to increase public policy dialogue with its partners on long-term development issues. Analyses of low-carbon development scenarios and transition risks should allow to assess the consistency of projects in key sectors with the structural transformations that are deemed necessary to meet the goals of the Paris Agreement, and to identify possible obstacles that will need to be addressed in terms of sector-specific, regulatory or fiscal policies. In countries eligible for public policy loans (PPLs), AFD's support through budget financing operations is another means to encourage reform in addition to the Facility's actions (as in Colombia or Costa Rica, for example).

AFD's direct ownership of the project as contracting authority makes it possible to involve its research partners (IDDRI, IRD, CIRAD, CPI,) and create a network of actors who are at the forefront of developing methodologies adapted to beneficiary countries’ specific situations. In addition to carrying out studies that contribute to long-term strategies, it is just as important to transfer knowledge about AFD’s analytical tools to its national partners, as they will need to review their strategies regularly in the light of technical and economic change and an evolving international context. This is where short- and medium-term support with a capacity-building component are also relevant.

It should be noted, however, that in some countries there is a lack of strong political buy-in and ambition for long-term strategies, which can lead to delays in the implementation of support. This situation requires AFD to develop a narrative that can be understood not only by the authorities in charge of climate policy, but also by those responsible for planning and finance, who often have more sway among institutions.

This is particularly the case in LDCs, where the identification of support can be slowed down by a lack of capacity (LDCs account for 13% in terms of the amount of the current portfolio, with a target of 25%). The Facility’s natural tendency is to accelerate this process, bearing in mind that the call for long-term strategies by 2020 provides a deadline, but the preparation of these strategies in most countries will go beyond that date.

For this reason, close coordination with the other actors involved in supporting long-term strategies is essential. This is already the case with the 2050 Pathways platform, and coordination is also underway through initiatives such as the EU SPIPA programme (Strategic Partnership for the Implementation of the Paris Agreement), which targets G20 countries; the NDC Partnership, which provides information about countries' needs in terms of technical support in implementing NDCs; and with Germany’s IKI programme. Avenues for cooperation in Africa are currently being explored with the Global Green Growth Institute (GGGI) in the framework of the MoU signed with AFD in January 2020.

APPENDIX 9 - SOCIAL SECTORS AND CLIMATE: EXAMPLES OF PROJECTS AND TOOLS

<table>
<tr><th></th><th>Social protection</th><th>Health</th><th>Education, training</th></tr>
<tr><td>Issues</td><td colspan="3">Social resilience to climate change (breaking the vicious circle of inequality and climate change, preventing climate change from exacerbating existing social[12] and health[13] risks)
Just Transition: Social acceptability of a low-carbon, resilient transition and maximising the social benefits of the transition
To a lesser extent, reducing the carbon footprint of the social sectors</td></tr>
<tr><td>Strategies</td><td colspan="3">Health and Social Protection 2015-2019 strategy ; Education, Training, Employment 2016-2020 strategy
Climate - Development 2017-2022 strategy (Appendix 8b, Social sectors, p.69)</td></tr>
<tr><td rowspan="2">Aims</td><td>I. Ensuring social protection of populations who are impacted by the low-carbon transition and maximising social benefits generated by the low-carbon transition
II. Strengthening vulnerable populations' adaptation to climate change through social protection (adaptive social protection)</td><td>I. Preventing health risks related to climate change and ensuring continuity of care during extreme weather events
II. Promoting healthier, low-carbon diets</td><td>I. Developing the knowledge and skills to change consumption and production patterns in the transition to a low-carbon economy
II. Anticipating what jobs will be created, transformed or lost by the transition</td></tr>
<tr><td colspan="3">III. Increasing resilience and reducing the carbon footprint in building and renovating public and private infrastructure and buildings in the health and education sectors.</td></tr>
</table>

[12] E.g. job and income loss. In 2005, Hurricane Katrina caused the loss of 40,000 local jobs, most of which were held by African-American women (ILO, 2013).

[13] In particular:
- The increased intensity and/or frequency of extreme weather events (floods, drought, cyclones, etc.), the rise in sea level, or a decrease in agricultural yield, which lead to increased risks in terms of food insecurity, lack of access to drinking water and water-related diseases (diarrhoea, cholera, etc.);
- Change in the distribution and spread of infectious diseases that are spread by mosquitoes, which have direct impacts on humans (malaria, dengue, zika, etc.) and on animals with consequences for humans (herd decimation, zoonoses, such as Rift Valley Fever, etc.);
- Change in temperature and increase in extreme heat waves which lead to hyperthermia, dehydration, etc. This can increase mortality rates, especially among the elderly and children;
- Increase in displaced populations (migration, pastoralism, etc.) with health consequences;
- Heightened impact of air pollution on health (asthma, bronchitis, cancer, etc.) due to higher temperatures.

According to the WHO, climate change could cause more than 250,000 additional deaths per year between 2030 and 2050, and the increased cost to health could amount to $2.4 billion. This will have an impact on the health of people living in the least developed countries in particular, where the intensity of climate change is greater and they have the least capacity to cope with the consequences.

Operations	1. Analysis of financial climate risks before defining social protection policy 2. Social support for the low-carbon transition[14], especially: i. ensuring a basic income (unemployment insurance, pension schemes, transfer of rights for labour mobility, etc.) and training during the transition from jobs in polluting industries to newly created green jobs ii. offsetting the cost of green energy for low-income households iii. cash transfers to very poor populations who adapt their lifestyles and work to preserve carbon sinks (soil conservation, reforestation, etc.) 3. Maximising the social benefits of reforms that reduce energy and food subsidies that pollute and are socially unfair (because they mainly go to the households that consume the most): using the savings generated in reducing public spending on subsidies to implement more effective and fairer social protection programmes (e.g. cash transfers) 4. Limiting the increase in poverty after a climate disaster, food insecurity and loss of assets[15]: emergency funds to affected households, formal social insurance mechanisms (e.g. health, retirement, unemployment.) for populations that are not poor but still vulnerable; labour-intensive work programmes (LIWP) to transfer money to populations impacted by a crisis, particularly after a climate shock, while contributing to the community 5. Anticipating these catastrophes by increasing the resilience of vulnerable households and their living environments: i. productive social safety nets with conditional or unconditional cash transfers and food grants (beneficiaries must participate in more sustainable activities, such as rehabilitation of land and water resources, and diversification of their sources of income)	1. Prospective risk management[16]: strengthening infectious disease monitoring systems, taking into account changes in climatic parameters (changes in terms of the emergence or geographical distribution of diseases) to better understand health risks within the framework of a resilient development trajectory for the areas concerned 2. Guiding public health policy and allocation of resources in line with observed trends; developing capacities to implement national strategies for adaptation and reducing the risks of disasters[17]: i. Support for the health/adaptation component of NDCs in developing countries; ii. Updating or implementing standards and legislation (location of health infrastructure in safe areas, building standards, etc.); iii. Providing universal health coverage to build resilience to "natural" disasters, especially for the poorest, who often have no coverage; iv. Increasing health care systems' resilience in coping with exogenous disasters/continuity of care; inclusion of health care actors in early warning systems and contingency plans at hospital level	1. Teaching about the climate change-related challenges (adaptation and mitigation) throughout the education and training systems[18]: increasing the ability to provide a critical analysis of the sustainability of complex systems (society, environment, economy, etc., at local to global scales); developing a positive attitude towards the transition to a low-carbon economy; in particular, training future experts, professionals and administrative staff in resilience in the most-impacted sectors. 2. Anticipating the shift in the global workforce caused by the transition[19]: i. Developing and contributing to the expertise and skills required for the transition; sharing knowledge and skills to adapt people's lives and livelihoods to the ecological, social and economic reality of a changing environment; training in sectors that create low-carbon jobs (in agriculture, forestry, fishery, energy, construction, industry, transport, recycling for example) ii. Anticipating and planning the retraining of employees in "old" sectors (such as coal or certain types of agriculture)

[14] The Green Climate Fund has already financed the FOA PROZEA project (Poverty, Reforestation, Energy and Climate Change Project). See the concept note submitted by the World Bank in Africa (Madagascar, Senegal and Tanzania (Adaptive Social Protection in Africa: Fostering resilience against climate-related disasters). Work is underway in the Dominican Republic.

[15] See CML1472 (Adaptive social protection project and study of the causes of climate-related vulnerability in Mali in partnership with the World Bank's "Sahel Adaptive Social Protection Trust Fund" programme)

[16] See CZZ2146 (ECOMORE 2: support for epidemiological monitoring in the Indian Ocean, run by the Pasteur Institute, with a "climate-sensitive" aspect with the IRD) + CCD1051 (Project to fight cholera in Uvira in DRC - the impact of cholera increases as temperatures rise)

[17] See CTN1241 (Bioclimatic hospital resilient to rising temperatures and with high energy efficiency in Gafsa in Tunisia)

[18] See CCI1598 (Training farmers on techniques and value chains that are more resilient to climate change)

[19] See CMR1208 (Training of electrical technicians in Mauritania on installing and maintaining of solar facilities as part of the country's shift to a low-carbon policy)

	ii. linking social protection programmes with weather warning and information systems to help plan social safety net programmes; targeting populations who are most vulnerable to the risk of natural disasters	3. Healthy, low-carbon diets and food systems: promoting research into their combined contribution to public health and the reduction of GHG emissions; sharing recommendations and influencing public policy (agriculture, trade, transport, health) through a coherent and inclusive approach by local communities, civil society and the private sector.	
	1. Support for the prospective/needs assessment component of partner policies: not just adding climate considerations to existing social policies, but also developing policies that respond to new needs 2. Improving the resilience and energy efficiency (construction and renovation to the highest standards; bioclimatic buildings; use of local building materials) of public and private buildings in the health care[20] and education sectors[21]		
Tools available to operational staff	a. Adapt'Action Facility b. 2050 Facility c. Country fact sheets: strategic analysis to be updated by AFD Group field offices d. Just Transition: toolkit in development. e. Accounting methodology for climate finance in buildings f. Standard terms of reference for vulnerability studies in the social sectors		
	g. Adapt'Action studies: a. Caribbean (OECS): Concept Note: Regional disaster-responsive social protection support project (carried out by ODI). b. Dominican Republic: Feasibility study for a Cuenca Yaque del Sur climate change adaptation project with an Adaptive Social Protection Component (final results expected in June 2021)	h. "Food and Climate" fact sheet	i. Adapt'Action studies: a. Madagascar: ongoing study of vocational training and higher education needs to help the country move in a low-carbon and climate-resilient direction (focus on the construction, tourism, hotel and food service industries) b. Tunisia (Expertise France): support for the inclusion of adaptation in the agricultural sector's research, education and training systems c. Senegal: "Skills-building strategy for a development approach that is climate-resilient and creates jobs" (2021) j. Note: "Education, training, employment: skills needed to face the challenges related to climate change"

[20] See CTN1241 (Bioclimatic hospital resilient to rising temperatures and with high energy efficiency in Gafsa in Tunisia)

[21] See CCI1598 (bioclimatic agricultural high schools, which are more comfortable in hot weather and more energy-efficient)

APPENDIX 10 - CLIMATE AND BIODIVERSITY: PLANETARY AMBITIONS

Climate and biodiversity are closely related

In 2015, the Paris Agreement recognised the role of forests, oceans, agricultural soils, wetlands and other ecosystems in absorbing CO_2 and helping make societies more resilient to the impacts of climate change.

Worldwide, the decline in biodiversity is speeding the decline in nature's contribution to people's well-being, human development and resolving the climate and social crisis. According to the Intergovernmental Platform on Biodiversity and Ecosystem Services (IPBES), more than two-thirds of the world's ecosystems - which are vital for humankind - are in decline, and some are on the brink of collapse.

Recent scientific studies [22]estimate that nature-based solutions could provide more than 30% of the mitigation effects needed by 2030 to stabilise warming below 2°C, by limiting greenhouse gas emissions and optimising the absorption of carbon sinks.

Conversely, limiting the rise in average temperatures by 2°C or even 1.5°C in 2100 is essential to preserving our biosphere.

Mobilising climate finance for biodiversity

However, the share of international climate finance today that is favourable to biodiversity or would mobilise ecosystems is estimated at only 2%[23], a far cry from the 30% share of the mitigation effects provided by biodiversity and ecosystems. AFD is no exception.

AFD implements France's commitment to reaching €5 billion per year in climate finance (including €1.5 billion for adaptation projects) by 2020. This dual objective was surpassed as early as 2019, with €6.1 billion in climate finance, including €2 billion for adaptation. Within the framework of its biodiversity roadmap, AFD has also committed to an annual funding level of €0.5 billion for biodiversity starting in 2020.

Despite reaching these climate and biodiversity targets, only 15% of AFD's climate finance goes to projects with positive impacts on biodiversity, a share that represents less than 10% of AFD's total financial commitments.

In light of this, AFD now aims to include the importance of biodiversity in achieving the aims of the Paris Agreement and the Sustainable Development Goals by committing to an increase in the use of climate solutions that are favourable to biodiversity.

AFD has thus decided to set a target of 30% of its climate finance for biodiversity by 2025.

Achieving this goal will require changes in its climate portfolio to promote an increased consideration of biodiversity, particularly in the water, sanitation, agriculture, livestock and oceans related sectors, where the potential is greatest. The urban, mobility and energy sectors, as well as the financial sector, will also need to focus a share of their climate finance to biodiversity.

Moreover, with the aim of aligning AFD financing with protecting biodiversity, **AFD will also increase its vigilance with regard to projects with strong negative impacts on biodiversity.**

[22] Natural Climate Solutions, Griscom et al., PNAS, 2017
[23] Estimate from Conservancy International, 2019

This will be reflected in the definition of exclusion criteria, and a project-by-project analysis that may lead to the exclusion of projects that are harmful to biodiversity.

A new coalition of financial actors in favour of Climate and Biodiversity

AFD would like to promote an initiative in 2020/2021 for the convergence of climate and biodiversity-related finance that can unite sustainable development funding groups by leveraging the momentum of the 2020/2021 international agenda: the UNSG Biodiversity Summit in New York, the “Finance in common Summit” in Paris with development banks, the IUCN Congress in Marseille, the COP15 biodiversity summit in Kunming and the COP26 climate summit in Glasgow in November 2021.

AFD, not just as a French institution, but also as Chair of the IDFC, the Club of the 26 largest national and regional development banks, **could also lead a coalition of financial actors to follow its example on combining Biodiversity and Climate.**

Thus, a collective target of 30% biodiversity-friendly climate finance by 2030—in line with the countries' "30 by 2030" agenda—could be adopted. For development funding agencies who already measure their climate finance, this will require them to identify climate projects that also promote biodiversity, through some sort of "marker", and will also require increased understanding of the use of nature and ecosystem services based solutions, and the analysis of the impacts of their investments on biodiversity.

APPENDIX 11 - CREATION OF KNOWLEDGE ON CLIMATE AND BIODIVERSITY

Updated context: climate, biodiversity and the Covid-19 crisis

AFD's Strategic Plan, the Climate Strategy 2017-2022, the Biodiversity strategy 2015-2018 and the eponymous Roadmap 2019-2022, as well as AFD Group's Research, Innovation and Knowledge Strategy 2019-2022, have resulted in ambitious work on transitions, alignment with the Paris Agreement, financial climate risks, adaptation issues, inequality and the environment, and environmental commons. It has made AFD one of the leading funding agencies in these new forms of development actions. Moreover, the urgent need for more ambitious greenhouse gas reduction goals after the recent reports from the IPCC (on climate) and IPBES (on biodiversity) is all the more reason for further study into the convergence of climate and biodiversity issues.

AFD's priorities in contributing to generating knowledge about climate and biodiversity issues are in line with the Group's strategic objectives. Studies and research on the commitment to 100% alignment with the Paris Agreement represent 67% of the financial commitments to knowledge production in 2019 (€11 million). 30% and 20% of the total financial commitments for 2019 are related to climate (€4.8 million) and biodiversity (€3.3 million) respectively.

The crisis due to the Covid-19 pandemic naturally falls within the scope of AFD's future knowledge production, particularly with regard to biodiversity and climate issues. Today, the ties between health and biodiversity and how they interact with climate change have emerged as a topic to be studied in research programmes. The issue of the just transition could be linked to the imperatives of a low carbon, resilient transition with increased attention to issues of social justice and inequality in partner countries.

Three major areas of knowledge production

- *Creating development trajectories that are compatible with a major reduction in emissions (mitigation) and resilient to climate change (adaptation)*

As part of the implementation of the Paris Agreement, planning exercises in partner countries include the GEMMES programmes (e.g. Brazil, Côte d'Ivoire, Colombia, Morocco, Tunisia, Vietnam,), which focus either on mitigation or adaptation, depending on the country. Energy sector modelling has also provided valuable understanding of trajectories that are compatible with the Paris Agreement, sometimes combining them with the macroeconomic part of the GEMMES programmes (Côte d'Ivoire, Algeria). At a microeconomic level, a focus on climate and meteorological services has allowed AFD to increase its expertise on this crucial aspect of adaptation in the agricultural industry. A body of work on adaptation to sea level change is also being developed following the IPCC report on oceans. Finally, thanks to growing recognition in the scientific community, nature-based climate solutions deserve to play a larger role in research and operations, as should the risks caused by some low-carbon investment policies on critical ecosystem services or natural resources (water resources, wetlands and aquatic environments).

- *Redirecting investments and measuring climate risks (climate finance)*

From early on, AFD was interested in the question of redirecting flows for its borrowers through credit lines (SUNREF) and offers to support the financial system, its partners (the Green Fund, IDFC) and even its creditors through climate bonds. At the same time, there is growing interest from central banks in financial climate risks (notably through the rise of the NGFS) and the work commissioned by the Financial Stability Board leading to the TCFD's recommendations.

In addition to the theoretical publications from the first GEMMES model (the *Coping with the collapse* article), more empirical initiatives have emerged, especially in partnership with the Climate Policy Initiative (CPI) think tank. Its first country study on transition risks in South

Africa enjoyed high visibility, as it was the first of its kind. Today the aim is to extend this flagship programme to a number of countries where AFD is present (China, India, Indonesia, Morocco and Colombia). These studies identify the impact as well as the costs and benefits of low-carbon transitions. They also feed into public policy dialogue and are effective for advocacy purposes because they can be applied to any country, irrespective of its current ambition in coping with climate change.

- *Emergence of the biodiversity agenda and convergence with climate issues.*

Within the framework of the Biodiversity Roadmap 2019-2022, AFD aims to increase the Group's ability to mainstream biodiversity issues. The aim is to create the concepts, expertise, and financial and technical assistance services that will allow AFD to support its partners and clients in shifting to more resource-efficient development. In particular, there is the question of support for biodiversity strategies developed by countries (NBASPS: National Biodiversity Strategy and Action Plan), and the development of a national map of the areas that are protected from artificialisation and production use, to meet the objective of having 30% of the planet protected, which is currently being negotiated at the international level.

Recent publications from both the IPCC and IPBES have raised awareness of the structural interdependence between climate and biodiversity. The subject is thus within the scope of the Biodiversity Facility, and its importance is growing within the 2050 Facility as well as in AFD's dialogue with the Green Fund, which is expected to be increasingly engaged in the search for nature-based solutions. Generally speaking, the question must be asked to make projects more responsive to both environmental, economic and social priorities- such as social equality and gender equality. Resolving existing tensions between climate and biodiversity SDGs on the one hand and social SDGs on the other would be particularly useful to explore, within the scope of AFD's work on strong sustainability and future SDG alignment.

Creating knowledge to support dialogue

A *large share of in-house expertise and thematic units such as the Climate division give AFD's analyses credibility and enable the deployment of "long-term" tools* to *support public policy dialogue* with AFD's partners. All of the projects financed through the 2050 Facility require a Memorandum of Understanding to be signed with a partner Ministry. The Strategic Dialogue Memoranda created within the Economic Diagnostics and Public Policy Department allow AFD to hold high-level discussions on a set of strategic issues for partner countries over several consecutive years, in which climate issues are systematically addressed. Longevity and recognised expertise undoubtedly help AFD to foster dialogue and trust in working with its partners.

AFD is engaged in extensive collaboration with research partners in the Global South. In fact,91% of studies and research on the commitment to the Paris Agreement, in terms of the financial volume committed in 2019, involve at least one partner from a country where AFD intervenes. This makes it more likely that the countries concerned will make use of the results and tools developed. Research programmes systematically include a research institution or think-tank in the partner country. The *operational anchoring of the research programs*, notably through thematic support units and technical divisions, strengthens the cohesion between research, action and public policy.

Taking stock: climate and biodiversity issues in a post-Covid-19 world

The Covid-19 crisis has shed new light on a number of areas. First, the crisis highlights the structural fragility of the world economy when faced with pandemics, most of which arise from <u>unbalanced development patterns that lead to an accelerated destruction of biodiversity, sacrificing the resilience of a productive matrix that is already weakened by climate change</u>. It also reveals the weakness of oversight in the medium- to long-term, and in anticipating and integrating early information and warnings. The health/biodiversity/climate nexus is key to assessing development strategies and must be refined in AFD operations. AFD could assist discussions about the interdependence of resource-intensive development modes with those that consume large amounts of resources.

In this light, the *"One-Health" approach should be the subject of particular attention*. It must move beyond palliative crisis management to promote prevention and the creation of resilient infrastructures by public authorities, even if this means bearing recurring costs. This is essential for health and veterinary surveillance, in terms of reactive response and care, and the connections between animal health, human health and the environment.

Understanding financial dynamics will be even more crucial in the coming period to create sustainable trajectories in economies that have been deeply affected by the crisis. The concept of a "biodiversity-related financial risk" is emerging, and France has led an initiative that echoes the aforementioned TCFD - the Task Force on Nature-related impact & Financial risk Disclosure (TNFD). AFD is now a partner in this initiative and is co-financing the studies.

But the Covid-19 crisis is also a serious threat to the continued pursuit of climate objectives that could be set aside in the face of social, health and financial emergencies that appear more pressing. Here, the *central concept of a just transition*, with its symbiosis between environmental and social SDGs, becomes more evident: the goal is to ensure that global conservation and social justice objectives reinforce each other rather than one coming at the expense of another. The relationship between inequality and environmental change, which has already been explored in a study within the EU-funded Inequality Facility, is likely to be on the agenda once again.

Finally, imagining a sustainable world as a counterpoint to this crisis requires practical tools for measuring and managing sustainability. The SGAP (sustainability gap) project, led by AFD and University College London, aims to develop an index to measure countries' environmental footprint that is methodologically robust and simple enough to be adopted by public decision-makers. Any such criteria will have to take the global commons into consideration.

Appendix 12 - Framework on Just Transition and Prospects for the AFD Group

The results of the first quadrennial assessment of the implementation of the sustainable development goals (SDGs) are undeniable: the current global development model is unsustainable. In particular, the report points to the role and consequences of increasing social inequality and the potentially irreversible disappearance of the natural environment. It calls for transformational approaches that take into account the interdependence of SDGs in addressing the sustainable development challenge. It provides a warning against the idea of economic growth at all costs, and points to the risk of a point of no return, both ecologically and in terms of human development.

The challenges of the ecological transition (greenhouse gas emissions, loss of biodiversity, multiple forms of pollution, depletion of resources, "maladaptation") combined with an explosive increase in inequality (wealth, opportunities, between groups and regions) require a historic effort to counter the devastating effects (economic, social, health, security, political and geopolitical) for human society and for the planet. Many observers no longer shy away from predicting the inevitable collapse of the thermo-industrial civilization.

Ecological degradation and social decline are trapped in a vicious circle. Climate change and environmental decline increase inequality by impacting the poorest most. Conversely, resistance to ecological transition policies is growing in many countries because of the negative impact these policies have on vulnerable populations.

These observations require us to reflect on the dominant development paradigm, if we consider that growth has not allowed us to reduce inequality and has led to increased pressure on ecosystems and the planet that could become irremediable in the near future. This is the message of the work of a growing number of economists, including Kate Raworth, who offers a regenerative and distributive vision of the world economy rather than a vision of infinite and unequal growth in a world of finite resources. But this post-growth society that many economists call for, whether it is chosen or forced upon us through environmental constraints (and whose beginnings can be felt with the Covid-19 crisis), will have particularly strong consequences on the poorest populations. Everything must be done to anticipate and mitigate them.

In light of these challenges, the concept of the just transition is a source of reflection and practical solutions. However, the definition of the just transition varies, ranging from taking into account a coal mine closure’s impact on jobs to a complete re-imagining of development models.

The concept of the Just Transition emerged from the convergence of the labour and environmental movements in the United States in the 1980s. Led by international trade unions, it spread worldwide and was taken up by international organisations. It appears in many international agreements, texts, declarations and benchmarks - including the Paris Agreement, the European Green Deal and the American Green New Deal. Environmental NGOs are also starting to take up the subject, with some of them being very active and promoting an ambitious vision in this area. Funding agencies and the world of responsible finance are also starting to get on board.

The just transition requires reflection and action with regards to the interactions between environmental and social SDGs and must ensure that global conservation and social justice goals reinforce one another, while reducing opposition.

The aim is to make the ecological transition a tool for social justice, while social justice is a driving force for the ecological transition in a context of sustainable development. This vital integrated approach echoes the two structuring commitments of AFD's SOP: the 100% social link and 100% Paris Agreement.

This general observation calls for further integrated approaches that allow social and human development issues to be fully present in the ecological transition.

With this in mind, an internal consultation is launched in 2020 to review AFD’s practices and to better support its partners in combining the two social and environmental dimensions in their public policies, programmes and development projects. It will allow to clarify the definition and the scope to be given to the just transition within AFD Group. Identifying within the Group’s portfolio the existing best practices and tensions, analysing the needs of its geographical and technical departments on the matter, as well as its partners’ demand, the consultation will also explore the selection criteria needed to qualify just transition projects. By the end of the year, it should result in a just transition roadmap for the Group.

APPENDIX 13 - ACCOUNTING METHODOLOGY FOR CLIMATE FINANCE

AFD Group's accounting of climate finance is based on the Common Accounting Principles for mitigation and adaptation finance agreed in 2015 by IDFC members and multilateral development banks. Based on the documentation provided by the project team, the Climate division studies the elements that contribute to this accounting. Accounting is done in two separate steps:

- Project eligibility for climate accounting: a project is eligible if it i) has a carbon footprint which reduces or avoids GHG emissions, stores carbon, or contributes to mitigation; or ii) contributes to reducing exposure to climate risks, thereby contributing to adaptation. In the case of public policy funding, the existence of a cross-cutting "climate" activity is necessary.

- Determining the share of financing that is included in the climate accounting: the total value of the elements that directly contribute to reducing emissions or adapting to climate change is included. This requires a detailed breakdown of the project budget and using very conservative approach if there is any doubt. This calculated volume is reported at the latest at the Credit committee.

A carbon footprint measurement is required for all projects, unless it can be demonstrated that it cannot be measured. In general, AFD considers that a project has a climate/mitigation co-benefit when the reduction in emissions is greater than 10,000 t CO_2 equiv./year. For small projects, particularly in Overseas France, this threshold may be lowered.

In order to better assist the AFD Group's partners in making their transition, several updates have recently been made to the methodology to account for climate co-benefits. They are presented below.

1- <u>Update of the accounting for public policy projects</u>

The climate co-benefit accounting methodology for public policy loans (PPL) has been updated to better account for the data from the sector-specific public policy dialogue led through the PPL with regard to the country's low-carbon, resilient trajectories; to better reflect climate impacts in accounting for co-benefits and to avoid ignoring other objectives (such as gender).

This update clarifies how to benefit from flat-rate accounting at 40%, which is based in particular on the Sustainable Development analysis climate rating (5a and 5b).

2- <u>Accounting methodology for energy efficiency building projects</u>

This new methodology applies to financing building projects (renovation and new construction) in terms of both mitigation (energy efficiency) and adaptation, and has taken into account a review of International Financial Institutions (IFIs)' practices in this area.

As regards mitigation, this new methodology first recommends that construction projects for energy-efficient buildings with emissions savings starting at 20% be considered eligible for climate accounting - the average energy performance of the same type of building in the country of question should serve as a reference. Second, it includes in the accounting the costs of construction of new buildings and their energy systems as well as investments in energy efficiency in renovation projects. With regard to adaptation, the eligibility criteria of the existing methodology remain the same. However, the new methodology uses a flat rate to account for the effective consideration of each climatic risk (heat, floods, etc.).

A review of this methodology is planned after one year to make adjustments if necessary.

3- Methodology: "Pro-climate" approach with financial institutions (FIs) and promotion of climate co-benefits

This new methodology concerns non-dedicated climate credit lines, which are different from climate credit lines allocated to eligible investments based on predefined criteria. It aims to support the FIs' transformation in favour of more climate-friendly policies.

The "non-dedicated climate credit lines" approach consists of i) a strategic, operational dialogue with the given FI on climate finance; ii) support for the FI in drawing up and implementing a climate finance strategy, with or without technical assistance financed by the AFD Group; iii) a disbursable credit line backed by a progress matrix or climate action plan aimed at making the FI's climate finance goals a reality.

A climate diagnostic for the FI, which is developed during the appraisal, is used to identify measures of the FI's progress, written down in an action plan, which comprises a methodology, targets to be achieved, and a framework for monitoring and evaluation with qualitative and quantitative indicators.

The inclusion of this type of instrument in the climate finance accounting will be progressive (40%, 70% and 100%), depending on how ambitious the FI's action plan is in relation to its starting point, the recommended approach and the means of monitoring and incentives to which the bank agrees.

A few pilot operations for AFD and Proparco are planned for 2020. The objective is to roll out this approach, which is complementary to the "assigned" approach, depending on the context and opportunities that are identified in terms of leverage on the financial players' transformation. This cross-cutting study will be enriched over time with the lessons learnt from the filed projects, and the pilot projects will be reviewed after one year.

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