



Climate

ACTIVITY REPORT

2020



Climate change and development: two challenges to face at once

To mitigate the increasing effects of climate change, it is necessary to strengthen the resilience of people and ecosystems in vulnerable countries. At the same time, keeping the global temperature increase well below 2 °C and if possible, 1.5 °C, requires supporting low-carbon development models.

Five years after the adoption of the Paris Agreement and Sustainable Development Goals (SDGs) – the fight against climate change being SDG 13 – it is essential to accelerate the transition towards low-carbon and resilient societies. The AFD Group is fully engaged in contributing to the emergence of more sustainable development models, and combining climate objectives and social objectives. Its ambition: to be a public development bank that is 100% Paris Agreement and 100% Social Link.

The AFD Group's climate finance and activities mirror the objectives of the Paris Agreement. They seek to limit greenhouse gas emissions, strengthen the adaptation and resilience of people and ecosystems to the effects of climate change, and align financial flows with long-term, low-carbon and resilient development pathways.

AFD Group's climate strategy

The climate strategy for 2017-2022 has marked a turning point in the action of the AFD Group, which comprises AFD and its private sector financing branch Proparco. The 100% Paris Agreement objective makes climate a strategic and operational compass for all the Group's activities.

In 2020, a review of the climate strategy conducted a mid-term assessment of the commitments made in 2017:

1 Ensure that its activity is "100% Paris Agreement"

This pioneering commitment became operational with the establishment of a Paris Agreement accounting analysis for all projects, and thanks to the implementation of the Adapt'Action and 2050 Facilities, as well as country-specific climate analyses. The objective is to ensure that projects are compatible with low-carbon and resilient trajectories.

2 Increase climate finance

In 2019, the AFD Group had already exceeded its targets for 2020, with €6 billion of climate finance, including €2 billion for adaptation. The target of 50% of financing having climate benefits, the most ambitious among development banks, has accelerated the mainstreaming of climate into the Group's operations.

3 Redirect financial flows

The Group has stepped up its efforts to redirect financial flows towards investments compatible with the Paris Agreement by mobilizing the private sector and innovative guarantee products, supporting financial systems, issuing climate bonds and through its partnership with the Green Climate Fund.

4 Create solutions together

The AFD Group promotes the alignment with the Paris Agreement at IDFC and with development banks and EDFIs, with recent ambitious announcements in this field, and with its partners. AFD participates in the exchange of good practices on subjects with high potential, such as climate finance risks, and has established an ongoing dialogue with civil society.

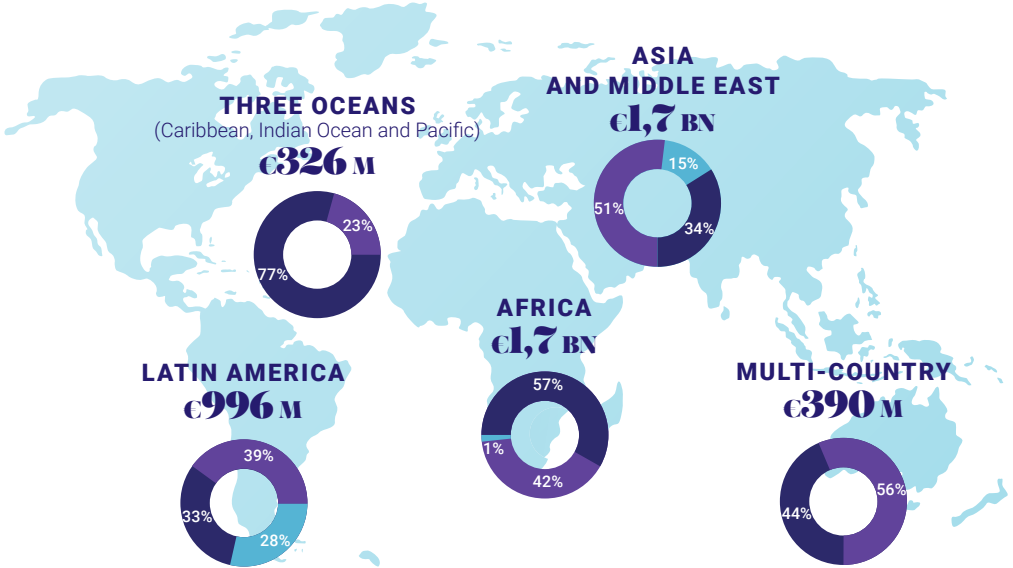
5 Align the AFD Group's internal practices

In keeping with the climate objectives it promotes among its partners and clients, the AFD Group has now made aligning its internal practices and controlling its emissions and environmental impact a fully-fledged component of its climate strategy.

 **The full review is available here:** <https://www.afd.fr/en/ressources/climate-development-2017-2022-strategy-midterm-review>

Our climate activity in 2020

Breakdown by region



€5,2 BN

committed in developing countries (202 projects) with an additional €149 M in the French Overseas Territories

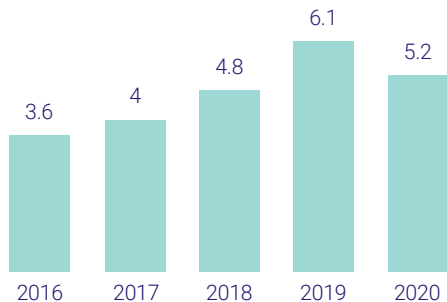
AFD has exceeded its 2020 target of €5 billion of climate finance, including €1.5 billion for climate change adaptation.

- Adaptation projects (incl. NGO projects)
- Mitigation projects (incl. NGO projects)
- Public policy loans

Following continuous growth since 2017, the amount of the Group's climate commitments in developing countries and the French Overseas Territories declined by 16% compared to 2019, due to the effects of the Covid-19 crisis. However, financing for adaptation increased by 15% compared to 2019.

Trend since 2016

commitments in € BN



€23.7 BN

Total climate finance in developing countries since 2016

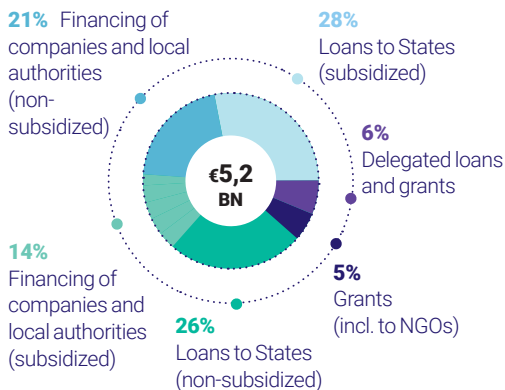
Share of commitments with climate benefits



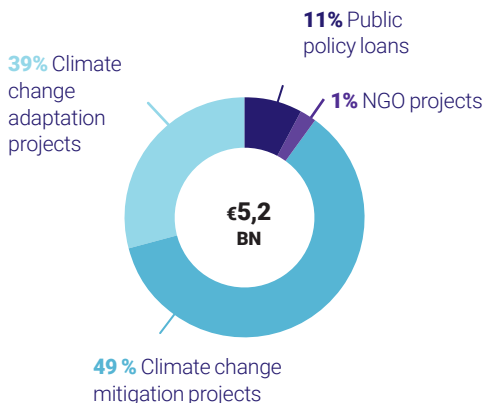
Since 2017, the AFD Group has earmarked at least 50% of its financing every year in developing countries for projects with climate benefits.

The percentages are calculated based on annual commitments in developing countries, excluding global budget support, debt reduction mechanisms (C2D) and ARIZ* guarantees. (*Support for the Risk of Financing Private Investment in AFD's Areas of Operation.)

Breakdown by financial tool



Breakdown by type of operation



Convergence between climate and biodiversity

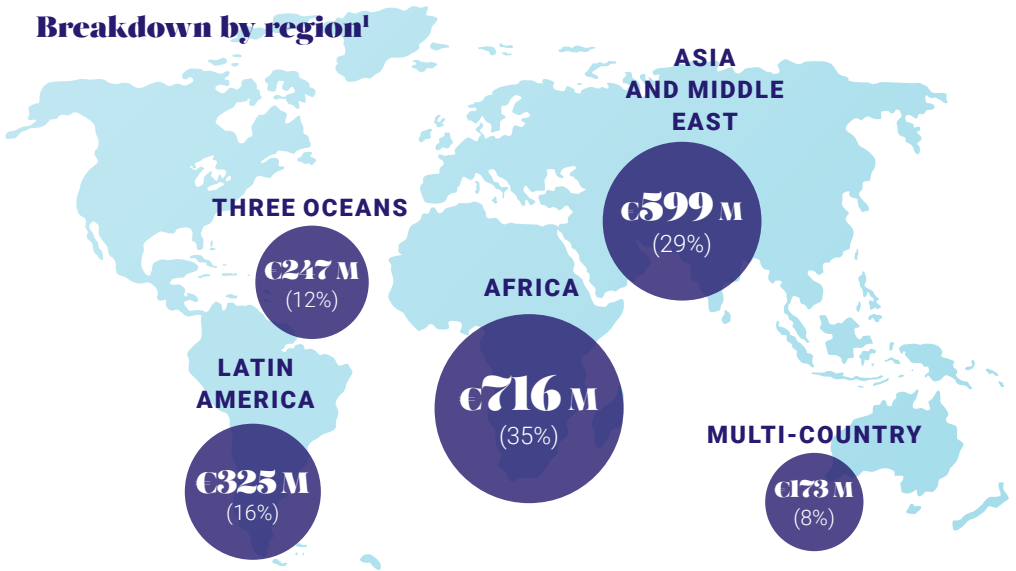


Climate and biodiversity are intrinsically linked. Ecosystems could provide 30% of the emission reductions required for the achievement of the objectives of the Paris Agreement. AFD has committed to 30% of its climate finance having biodiversity co-benefits by 2025. In 2020, 21% of climate finance contributed to biodiversity conservation through integrated territorial development operations or sector-based approaches (e.g. for drinking water, agriculture and fisheries), which promote nature-based solutions.

Adapting to the effects of climate change

Adaptation's purpose is to deal with current and future climate change (more intense droughts, increased flood risks, rise in sea levels), which may affect the projects themselves (project adaptation) or their environment (adaptation via the project). This includes risk management within the entire value chain, whether upstream (e.g. suppliers in the case of an agriculture sector) or downstream (e.g. markets and access routes).

Breakdown by region¹



€2,1 BN

in financing for adaptation projects in developing countries

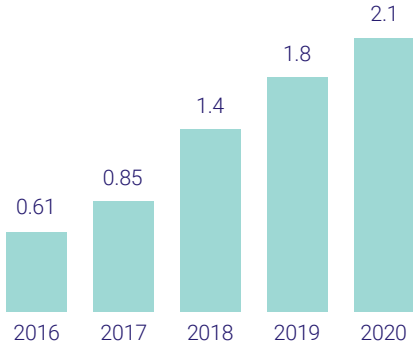
With the current Covid-19 crisis, investments in adaptation and resilience projects in developing countries² increased by 15% compared to 2019 and adaptation as a proportion of AFD's climate finance reached 40%.

1 • AFD and Proparco activities in developing countries (excl. public policy loans and NGO financing). Financing for adaptation in the French Overseas Territories stood at €23.9 million and has been added to this overall figure.

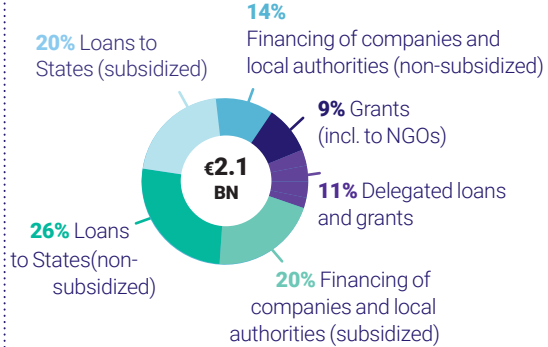
2 • AFD and Proparco activities in developing countries (excl. public policy loans and NGO financing).

Trend since 2016

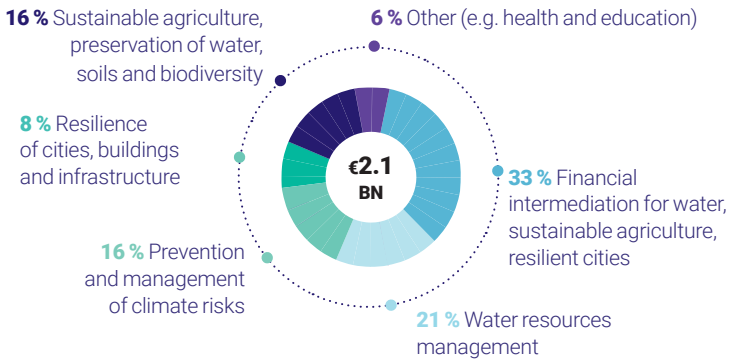
commitments in € BN



Breakdown by financial tool



Breakdown by sector



Adaptation and the Green Climate Fund

Between 2015 and 2020, AFD obtained over €330 million in co-financing from the Green Climate Fund for five projects, four of which directly address adaptation issues in countries and regions that are vulnerable to the effects of climate change. In 2020, AFD obtained \$38 million from the Green Climate Fund for a project to promote nature-based solutions for the protection of critical ecosystems in the Indian Ocean.

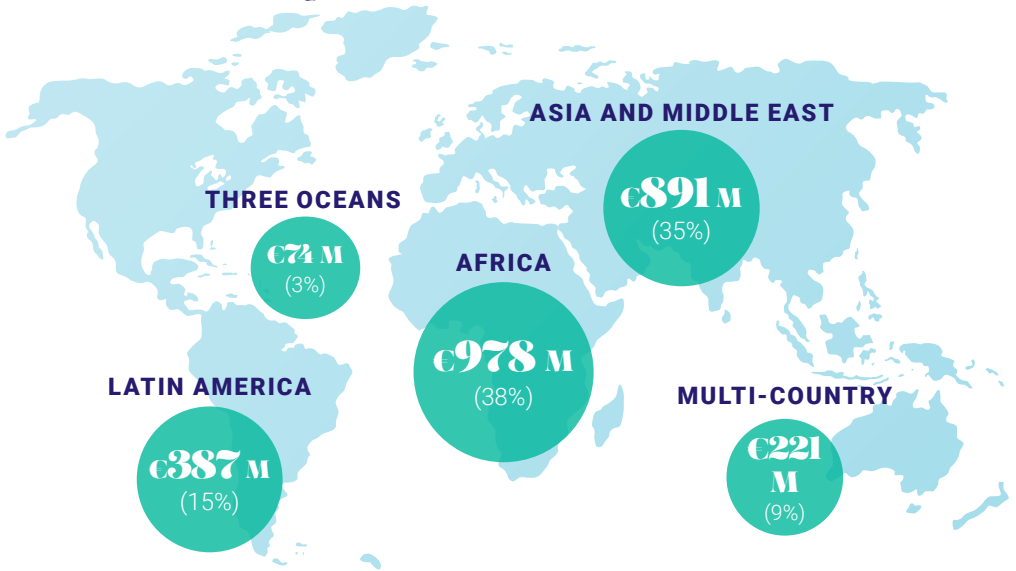


In **Lebanon**, the project to reduce flood risks in the Bekaa region combines investments in flood management with an emergency approach by offering job opportunities to local people, in particular from refugee camps. This project is implemented by a consortium of Lebanese, French and international NGOs via AFD's Minka Peace and Resilience Fund.

Mitigating the impact of climate change

The objective of mitigation projects is to reduce and avoid greenhouse gas (GHG) emissions, or promote carbon storage. Some of the most common ways to achieve this are through deployment of renewable energies, low-carbon development of cities (e.g. by supporting public transport policies), energy efficiency, waste treatment and recycling, combating deforestation and support for low-carbon agriculture.

Breakdown by region³



€2,6 BN

of commitments allocated to mitigation projects in developing countries

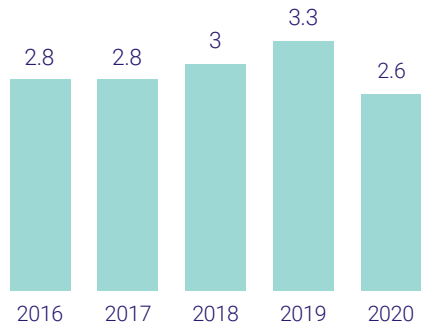
4.6 million

tons of CO₂ equivalent

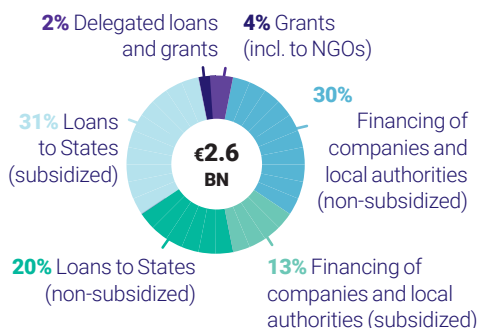
will be saved every year throughout the lifespan of mitigation projects financed in 2020.⁴

Trend since 2016

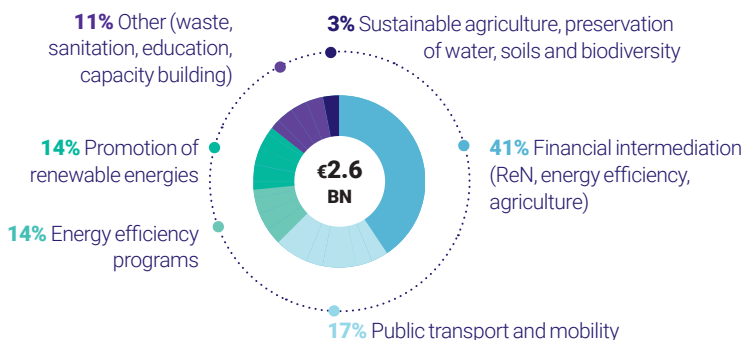
commitments in € BN



Breakdown by financial tool



Breakdown by sector



In **Nigeria**, the AFD Group, via its subsidiary Proparco, is supporting decentralized energy solutions for commercial and industrial (C&I) companies by assisting Daystar Power, one of the main providers of hybrid solar energy solutions for companies in West Africa. The facilities are expected to supply some 153 GWh of reliable and clean electricity to companies per year by 2025. This will contribute to reducing their dependence on diesel and improving their energy supply. It will also avoid 127,000 teq CO₂ per year.

3 • AFD and Proparco activities in developing countries (excl. public policy loans and NGO financing). Financing for mitigation in the French Overseas Territories stood at €125.1 million and has been added to this overall figure.

4 • AFD calculates the emissions saved with tools and methodologies compatible with the harmonized approach to greenhouse gas accounting of international financial institutions (see p. 19)

Supporting public policies for climate

Public policy loans (PPLs) are a key tool for supporting the formulation and implementation of public policies targeting low-carbon and resilient development trajectories. They have three components: budget support, a dialogue backed by a matrix of indicators, and technical cooperation. The AFD Group also combines these loans with activities for studies, technical assistance and capacity building.

Breakdown by region

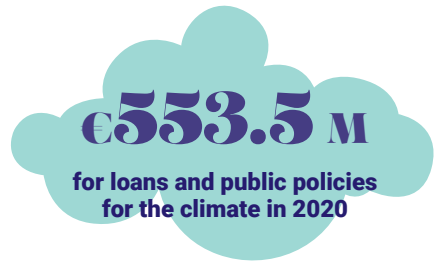
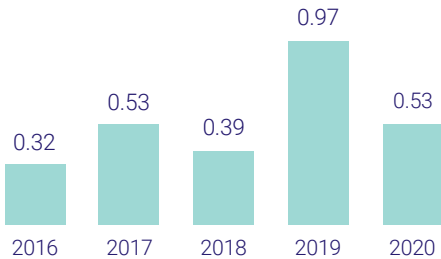
LATIN AMERICA
€284.7 M (53%)

ASIA AND MIDDLE EAST
€256.7 M (44%)

AFRICA
€12.1 M (2%)

Trend since 2016

commitments in € BN



=



+



The Energy-Climate public policy loan allocated to **Uzbekistan** aims to support the implementation of reforms in the energy sector. It contributes to lowering the carbon intensity of the energy mix, to reducing electricity losses and to improving energy efficiency.

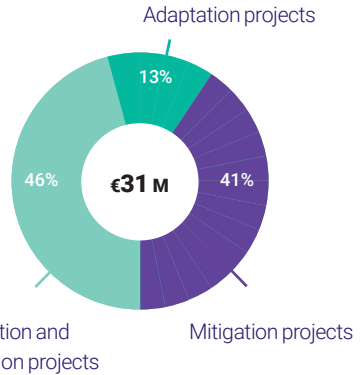
Supporting civil society's work for the climate



39
CSO projects
provided climate benefits in 2020
worth a total of

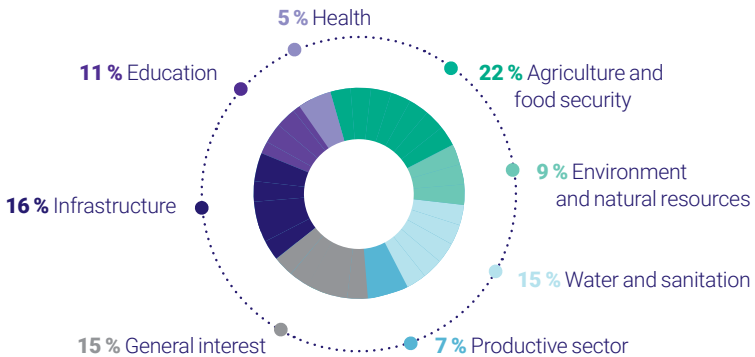


€31M i.e. 1/3
in commitments to civil society



41% of climate finance targets activities in Africa. Commitments to CSOs for the climate have seen a 2.5-fold increase since 2016.

Breakdown by sector

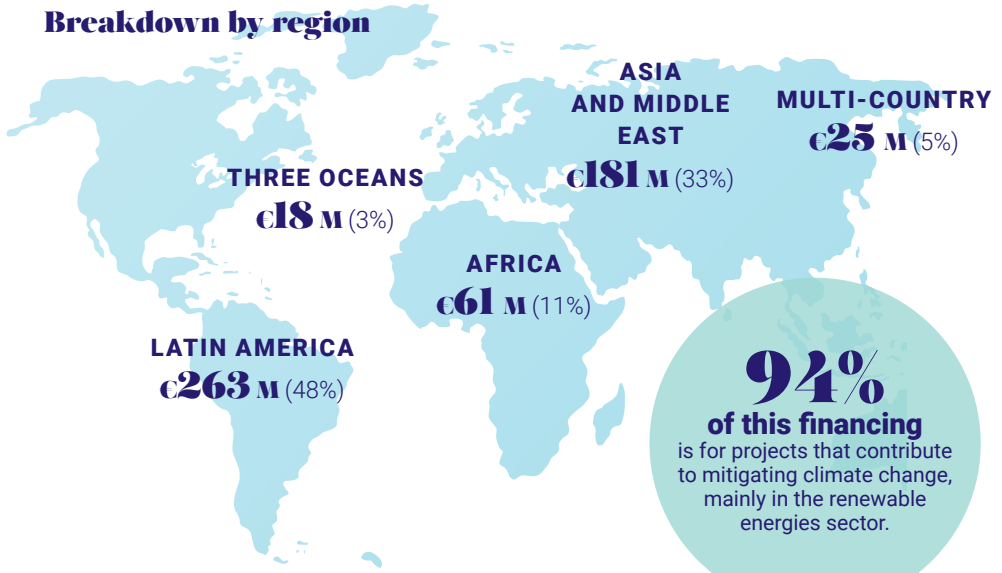


22 projects, totaling €15 million, also have benefits for biodiversity: they contribute to preserving ecosystems through agroecology, protected areas and reforestation.

Mobilizing the private sector for the climate

In 2020, despite the marked decline in its level of activity due to the Covid-19 crisis (-25%), Proparco's share of climate finance stood at 32%.

Breakdown by region



94%
of this financing
is for projects that contribute
to mitigating climate change,
mainly in the renewable
energies sector.



€548 M
of financing

with climate benefits approved
by Proparco in 2020 for 24
projects

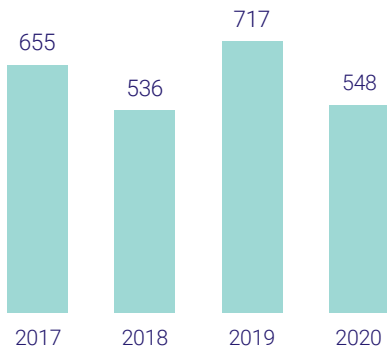
In 2020, Proparco also continued its financial commitments to climate change adaptation by approving three projects to improve water resources management.



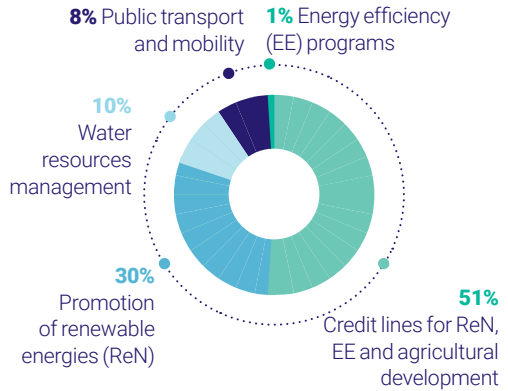
In **Kenya**, a loan of \$18.7 million has been allocated to Kenya Nut Company, including \$4 million to set up a drip irrigation system. It will lead to significant water savings in a context of increasingly variable rainfall and droughts.

Trend since 2017

commitments in € M



Breakdown by sector



Climate strategy and new ambitions

Promoting low-carbon development, resilient to the impacts of climate change, is central to Proparco's strategy for 2020-2022. It has committed to gradually increase the share of its projects with climate benefits from now until 2022, develop innovative approaches, and double its capacity to mobilize private finance for sustainable development.

New "pro-climate" approach to support banks

To encourage private financial institutions to further integrate climate into their strategies and operations, Proparco has developed a "pro-climate" technical assistance initiative.



To assist Banco Promerica and PFC Group in **Costa Rica** with the implementation of their climate ambition, Proparco has conducted a diagnosis, as well as awareness-raising sessions on this issue. The climate action plan formalized with the bank sets out the activities targeted for 2021-2022: measurements of the carbon footprint and consideration of the risks related to climate change.

Mobilizing partners and investors

In 2020, despite the postponement of the main events on the climate and biodiversity agenda, AFD worked to keep the climate and Sustainable Development Goals (SDGs) at the top of the international agenda.



Finance
en Commun

The first Finance in Common Summit (FICS) was held in November 2020. For the first time, it virtually gathered the 450 Public Development Banks that account for 10% of global investment every year. They committed to align their financing with the Paris Agreement and SDGs through concrete actions: ending investments in the coal sector, supporting biodiversity and accelerating investments in renewable energies. On this occasion, Proparco and the **European Development Finance Institutions (EDFI)** made ambitious commitments to reduce fossil fuel financing and promote adaptation and a fair transition.



International
Development
Finance Club

The International Development Finance Club (IDFC), chaired by AFD since 2017, gathers 26 national, regional and bilateral development banks. IDFC has committed to make its alignment with the Paris Agreement operational before COP26. The club has strengthened its activities with **the IDFC Climate Facility**, which is dedicated to cooperation between the club members.

Climate bond issues

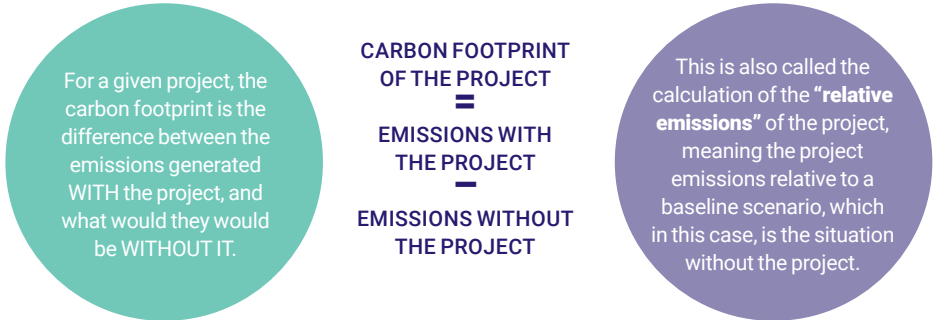
AFD has been regularly issuing climate bonds since 2014. The total outstanding amount as of 31 December 2020 stands at €3.25 billion and includes a climate bond issue of €1 billion in February 2020. A further step was taken in October 2020 with a bond issue based on the Sustainable Development Goals and a first SDG bond issue of €2 billion.

Private finance mobilized for the climate

€1.7 billion of private finance was mobilized by the AFD Group's climate projects in 2020, including €424 million by Proparco. The credit lines allocated to public development banks and commercial banks account for 91% of this total.

AFD's carbon footprint assessment

As early as possible, the AFD Group assesses the carbon footprint of projects considered for financing, especially infrastructure projects.



A favorable carbon footprint, meaning negative relative emissions, is the main criterion to highlight the project’s benefits for climate change mitigation: emissions with the project are lower than emissions without the project. The project therefore contributes to a reduction in greenhouse gas emissions.

The impact of mitigation projects in 2020 (shown on page 8) stands at 4.6 M teq CO₂ avoided every year. Other projects approved in 2020, which are not mitigation projects, have positive relative emissions that stand at 0.8 M teq CO₂ per year. Consequently, in 2020, the positive impact of mitigation projects is higher than the negative impact of the rest of the portfolio. In addition, the AFD Group’s financing in the sectors of agriculture, energy, transport, water, financial systems and cities have a generally positive carbon footprint, which stands at 3.8 M teq CO₂ avoided per year. For 2020, this result is due to a number of deferred investments and a lower amount of infrastructure financing than in 2019, including in traditionally highly emitting sectors such as livestock raising, irrigated rice cultivation and industry.

Emissions related to projects financed in 2020 in the sectors of agriculture, energy, transport, water, financial systems and cities:

M teq CO ₂ per year	Mitigation projects	Other projects	Total relative emissions
Relative emissions	-4.6	0.8	-3.8

Climate risks

The AFD Group wishes to take a proactive approach to climate finance risks, both physical and related to the transition. It has therefore adopted a roadmap, based on four areas of work and articulating the Group's cross-functional, operational and partnership-based activities. This new type of risk is now included in its credit risk analysis processes.

Roadmap adopted in 2019

1 • Integration of climate finance risks in the AFD Group's work

3 • Contribution to the adoption of climate finance risk analysis tools by AFD's financial partners

2 • Use of climate finance risks for public policy dialogue

4 • Contribution to international debates and the definition of standards for climate finance risks

TCFD recommendations

In 2018, the Taskforce on Climate-Related Financial Disclosures (TCFD) published recommendations on the transparency of companies and financial institutions in terms of the integration of climate-related risks and opportunities. In 2020, over 1,500 companies and financial institutions adopted these recommendations. An overview of AFD's position:

1

Governance: AFD's Board of Directors approves the climate strategy, and the funded operations submitted to it include an analysis of their compatibility with the Paris Agreement. AFD's Executive Committee meets four times a year to supervise the implementation of the climate strategy. A cross-functional climate team, a network of 90 focal points and a team dedicated to environmental support ensure that climate is taken into account in projects.

2

Strategy: AFD has an extensive strategic corpus with a climate strategy adopted in 2017 and a strategy for 2018-2022 that sets out the 100% Paris Agreement commitment of the climate strategy. In addition, a roadmap on climate finance risks has been implemented since 2019.

3

Risk management: In addition to the tools used to analyze funded projects, such as the Climate Vulnerability Screening tool, the AFD Group has integrated physical climate risks into its processes to analyze credit risks and the exposure of its loan portfolio to these risks. In 2020, the Group launched a similar process on the transition risks, took part in the ACPR's climate stress test exercise, and conducted studies on the impact of the low-carbon transition on national economies, including via the GEMMES model.

4

Metrics: The AFD Group has adopted a climate finance target to dedicate 50% of annual financing to projects with climate benefits. At the same time, the Analysis Mechanism and Sustainable Development Opinion ensure that the 100% Paris Agreement objective is respected in terms of resilience and low-carbon transition. The Group also keeps count of CO₂ emissions avoided through its mitigation projects, climate finance for biodiversity, and mobilized private financing.

Transparency and accountability

AFD is accountable for its climate activity, meaning the share of all the financing approved by its governing bodies with climate benefits in developing countries and the French Overseas Territories. This includes financing through delegations of funds, for example, from the European Union or the Green Climate Fund.

Among this financing, France also reports to the UNFCCC every two years on financing approved for developing countries on behalf of France under the United Nations Framework Convention on Climate Change: <https://unfccc.int/BRs>

AFD also reports to the OECD's Development Assistance Committee when financing agreements are signed. The proportion of financing with climate benefits is not specified in this report, but it is indicated through the Rio Markers for Climate.

For example, a project with €100 million of financing from AFD, including €50 million for adaptation, will be reported by AFD and by France to the UNFCCC as €50 million of climate finance for adaptation in the year of its approval. The same project will subsequently be reported to the OECD for the amount of €100 million when the financing agreement is signed, with the Rio Marker for Adaptation.

The data given in this report are available on AFD's OpenData platform: <https://opendata.afd.fr>

To consult examples of climate projects financed by the AFD Group, a world tour of solutions is also available on AFD's website:

<https://www.afd.fr/en/ressources/world-tour-climate-solutions-2020-edition>



Methodology and definitions

Our methodologies for tracking climate finance for mitigation and adaptation are based on the common principles⁵ agreed in 2015 by members of the International Development Finance Club (IDFC) and multilateral development banks.

What comes under “adaptation”?

A project contributes to adaptation when it limits or reduces the exposure of goods, people and ecosystems to the consequences of climate change, based on an analysis of the vulnerability to climate change, the project’s objective of dealing with climate risks and vulnerabilities, and the benefits resulting from actions planned by the project for the vulnerabilities identified in the area.

What comes under “mitigation”?

A project contributes to mitigation when it helps reduce greenhouse gas (GHG) emissions compared to a benchmark situation in the absence of the project, or if it is dedicated to actions for mitigation (e.g. studies and capacity building).

What about public policy loans?

The climate tracking of public policy loans must report on political and sectorial dialogue carried out with the counterparty and the expected climate-related impacts. It is conducted: i) in proportion to the climate indicators in the public policy or in proportion to the investment volumes related to the climate; ii) through a flat rate of 40% if the financing is rated +2 or +3 according to the sustainable development analysis on the climate and if the climate objectives are formalized and monitored.

What about civil society organizations’ projects?

French civil society organizations (CSOs) contribute to the AFD Group’s climate activity by developing projects and initiatives that have direct climate benefits, influence stakeholders in the public sphere so that climate issues are incorporated in public policies, and contribute to mobilization on climate issues in France, as well as to education in development and international solidarity.

And climate finance for biodiversity?

AFD has pledged to ensure that 30% of its climate finance also benefits biodiversity by 2025. To calculate this percentage, AFD rates the funded projects using the OECD Rio/Biodiversity marker aligned with the guidelines of the United Nations Convention on Biological Diversity (CBD):

- DAC 0: the projects do not contribute to the objectives of the CBD
- DAC 1: the projects contribute to the objectives of the CBD in a secondary way
- DAC 2: the main objectives of the projects are one or several of the objectives of the CBD.

The share of climate finance in projects with a DAC Rio/Biodiversity marker 1 or 2 is counted as “climate-biodiversity” finance. This share is added to AFD’s total climate finance to calculate the percentage of climate finance that benefits biodiversity.

5 • https://www.idfc.org/wp-content/uploads/2020/08/idfc_mdb_common_principles_mitigation_finance_tracking_2015.pdf

https://www.idfc.org/wp-content/uploads/2019/04/common_principles_for_climate_adaption_finance_tracking_jul_09.pdf

Towards a World in Common

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

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

Towards a world in common.



www.afd.fr/en

Twitter: @AFD_en - Facebook : AFDOfficiel - Instagram : afd_france

5, rue Roland-Barthes - 75598 Paris cedex 12 - France

Tel: +33 1 53 44 31 31