

CLIMATE INVESTMENT FUNDS

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Washington, D.C.
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**PROPOSAL TO CONSIDER ACCEPTING THE AFD AS NEW IMPLEMENTING AGENCY OF THE
CLIMATE INVESTMENT FUNDS
(SUBMITTED BY THE TRUST FUND COMMITTEE MEMBER FROM FRANCE)**

The May 1-2, 2012 Joint CTF-SCF Trust Fund Committee will discuss the possibility to include new major development agencies as Implementing Agencies for the CIF. In this context, the French Government is presenting for consideration by the Committee the long-standing involvement and deep expertise of the French Development Agency (AFD) in this field.

AFD, as a development finance institution, integrates climate change as a core component of its development and cooperation strategies: it helps its partners in developing and emerging countries address new climate-driven priorities, integrating climate-change challenges in development strategies and improving resilience to its consequences. Cumulated during the last three years, more than € 7 billion were committed to finance projects and programs contributing to the fight against climate change and to the adaptation to its impacts. In 2011, AFD adopted an ambitious climate strategy with the objective to make climate-related financing commitments equal to 50 percent of AFD's foreign-aid funding, representing on the average € 2.5 billion per year.

The present document briefly introduces AFD, its climate change strategy and climate-related activities, and advocates for AFD to become a CIF Implementing Agency.

Presentation of AFD activities

The *Agence Française de Développement* is a public development finance institution that has worked to fight poverty and support economic growth in developing countries and the French Overseas Territories for seventy years. Through offices in more than 60 countries, AFD provides financing and support for projects that improve people's living conditions, promote economic growth and protect the planet. In 2011, AFD committed over €7 billion in Africa, Asia, the Mediterranean Basin, the Middle East, South America, and the French Overseas Territories.

AFD uses a wide range of financial instruments to underwrite its activities: grants, subsidies, guarantees, loans, equity shareholdings, co-financing and local bank intermediation. All of these instruments are untied.

AFD's financing, know-how and more than a thousand employees and agents support social, economic and environmental projects in such diverse sectors as rural development, urban infrastructure, transportation, agriculture, education, banking and microfinance, energy, health care, telecommunications, mining, housing, eco-tourism.

AFD's climate change strategy

As part of its 2012-16 action plan, AFD aims to capitalize on its experience thus far, acting as a major financier in the international fight against climate change. Its experiences and capacities in terms of climate financing position **AFD as a full-fledged stakeholder in the architecture of international climate finance**. AFD also has the experience and ability to **implement European and other international climate-related resources and mandates**.

AFD grounds its climate strategy and identity on **three structural pillars**:

(1) An ambitious and sustained objective to make climate-related financing commitments equal to **50 percent of AFD's foreign-aid funding and 30 percent of PROPARCO's**, its private-sector subsidiary;

(2) **Systematic measurement of all projects' carbon footprints**, using a robust method. AFD's operational procedure manual includes this provision; it prescribes estimating carbon footprints as early as possible during the project review phase. AFD plays a **pioneering role**

among international financial institutions and development banks for carbon-footprint measurement issues, receiving many requests for cooperation from other financial institutions in developed and developing countries.

(3) **A policy of selecting projects according to their climate impacts**, considering countries' development levels.

These guidelines and the related operational interventions are differentiated according to each region's specificities.

AFD's activities towards climate change

(a) Main figures and activities

AFD is one of the most important international public actors in financing the fight against climate change.

AFD's commitments to fighting climate change are growing rapidly. Over the last three years, AFD and PROPARCO committed more than **€7 billion** to "climate projects" and programs that had a climate¹ benefit. In particular, more than €6 billion financed GHG emissions-reduction projects (those commitments are dominated by the energy sector, both through direct projects and financial intermediation mainly via credit lines dedicated to clean energy, and sustainable transportation), and more than €1 billion financed adaptation projects (the majority of those commitments are carried out via projects relating to water resources conservation). About €400 million pursued both objectives.

Financing provided by AFD over the last three years will enable the implementation of projects that will reduce or avoid emissions equal to **14 million metric tons carbon-dioxide equivalent (tCO₂e) per year** for the next 20 years; these projects will also significantly help populations' and economies' adapt to the effects of climate change.

AFD has developed a particularly robust tool for quantifying GHG emissions and reductions generated by the projects it contributes to finance, making it possible to calculate expected climate-change mitigation impacts. AFD is one of the few donors to have reached this stage with its Carbon Footprint Tool and related methodology. AFD is leading the effort

¹ AFD qualifies projects as "climate projects" when (i) total GHG emissions reductions are higher than the level of emissions a project generates during its lifetime (mitigation), and/or when (ii) population, goods and ecosystems vulnerability to climate change impacts is lowered (adaptation). In addition to these directly climate-related projects, AFD provides budget aid, intermediated credit lines and capacity-building support dedicated to fighting climate change.

to harmonize carbon-footprint measurement approaches, with several other international donors, such as the International Finance Corporation (IFC), the European Bank for Reconstruction and Development (EBRD), the Interamerican Development Bank, (IDB), etc...

AFD's climate-related interventions have mainly focused on renewable energy and energy efficiency, involving urban transportation, local governments, forestry and agriculture, in Africa, in the Mediterranean area and in emerging Asia and Latin America. AFD's mandate to promote "green and inclusive growth" in emerging countries allowed it to meet these countries' high expectations for climate change-related technology and innovation transfers. In such countries, AFD contributed to the implementation of policies aiming at curbing the environmental impacts of rapid growth. North Africa also presents many opportunities for this type of interventions, i.e. building structural elements for sustainable development, such as low-carbon energy, sustainable cities and transportation, water management and so on. Sub-Saharan Africa also presents opportunities to gain value from the region's considerable natural resources and renewable energy potential and to adapt the respective economies and societies to climate change through dams, geothermal power plants and access to moderns energy and power services, and by managing forests, water, agriculture and other natural assets.

(b) Innovative tools to fund climate change

One of AFD's key innovations has been to **increase private-sector involvement** in fighting climate change, either directly or through **credit lines to the banking sector**, for example in Indonesia, India, Turkey and in some African countries. Its success has had some transformative effect on these emerging countries' economies, by allowing small, medium and large public and mostly private sector enterprises to begin upgrading their energy systems. This benefits their competitiveness and crucially helps them fight climate change. Several operations also have contributed to renewable energy development.

AFD's innovative operations also include the provision of technical, institutional and budget support to countries that design, adopt and implement nationwide plans to integrate the environment and climate change issues into their development strategy. AFD's **financing of "National Climate Plans"** anticipated one of the operational arrangements that emerged from the climate negotiations, as it helps meet the challenge of transforming countries' economic models. Such operations promote crosscutting discussions about policy with partner countries,

going beyond sector approaches and analyzing multiple sectors, incentivizing inter-ministerial and multi-stakeholder dialogues, and facilitating the necessary compromises to help restructure the economy.

AFD has experience in supporting the institutional process and high-level inter-ministerial discussions essential to shifting paradigms. Together with other International Finance Institutions, it has helped fund national climate plans for Indonesia (2008, 2009, 2010), Vietnam (2010 and 2011), Mauritius (2009) and Mexico (2009 and 2010). It also has experience in other downstream forms of intervention. These include assisting the development of sector policies and of nationally appropriate mitigation actions (NAMA) like for instance in Turkey, or supporting regional energy conglomerates in Colombia.

AFD's partnerships with Financing Institutions

AFD has **co-financed many projects with Financing Institutions**. Over the last three years, co-financing represented about 40% of the portfolio in commitments. Co-financing partners include European Institutions (EIB, European Commission, KFW²), the World Bank, JICA as well as regional banks (Asian Development Bank, African Development Bank and Inter-American Development Bank).

AFD has already co-financed (i) projects **already receiving financial support from the Climate Investment Funds** (Ouarzazate Solar Power in Morocco, Concentrated Solar Power (CSP) plant and wind farm in South Africa), (ii) projects **identified to receive coming support from the CIF** (Bus Rapid Transit (BRT) system in Cebu in Philippines).

Moreover, **AFD has developed over many years strong partnerships with national and regional development banks**, such as the Development Bank of Southern Africa (DBSA) and the West African Development Bank (BOAD). AFD's promotes the inclusion of such regional banks in international climate finance schemes. In the same spirit, AFD has strengthened its partnerships with key United Nations programs on the environment (UNEP) and development (UNDP).

² Moreover, AFD is part, along with the KFW Bankengruppe and the EIB, of the "MRI" network (Mutual Reliance Initiative) which aims to simplify procedures for co-financing between the three institutions from the perspective of the aid efficiency.

AFD's skills to become an IA

AFD has significant comparative advantages when it comes to financing the fight against climate change in developing countries:

- a **critical mass** of interventions among the international community of development banks;
- a **variety of flexible tools** to address diverse situations and the complexity of actions against climate change;
- solid **experience-based expertise** and **proven innovation** capacities;
- use in its procedures, practices and guidelines of **international references and standards**³ ;
- considerable field knowledge, local and international **partnerships**, and **relationships** with complementary multilateral donors.

Becoming an Implementation Agency for the CIF will be consistent with CIF's objectives of promoting transformational impacts in the fight against climate change as well as with AFD's role as a pivotal actor in this area. The assets and tools deployed over the years by AFD to contribute to the climate and development agendas, will represent an added strength for the CIFs. They will help increase the mobilisation of financial and technical capacities to implement low carbon and climate resilient investment plans, while enhancing cohesion and synergies.

³ In particular, as for the environmental and social risk management, AFD uses the safeguard policies of the World Bank for the public sector and Performance Standards of IFC for the private sector.