

CLIMATE BOND FRAMEWORK

The purpose of this document is to describe AFD's climate bond framework and associated procedures. This framework is fully compliant with the four components of the Green Bond Principles:

1. Use of proceeds ;
2. Process for project evaluation and selection;
3. Management of proceeds;
4. Reporting.

It also applies the recommendation to use the services of an external opinion.

Background to AFD Climate bond framework and issuances

Mandate and missions

The articles of incorporation¹ of Agence Française de Développement (AFD) define its two main missions as follows:

- Contribute to the fulfilment of the French state development aid policy, and
- Contribute to the development of French overseas territories and New Caledonia.

AFD is a development finance institution that has been working to fight poverty and foster economic growth in developing countries and the French overseas Communities for more than seventy years. It executes the policy defined by the French Government.

AFD is present on five continents where it has an international network of more than seventy offices, including nine in the French Overseas Communities and one in Brussels. It finances and supports projects that promote a more sustainable and shared economic growth, improve living condition for the poorest, contribute to protecting the planet and help stabilizing fragile or post-conflict states. Its subsidiary, Proparco, held at 64%, supports private investment in developing countries.

AFD also works with French and international academic networks to feed into debates and forward planning on development.

AFD aims at achieving excellence in terms of social and environmental responsibility, professional ethics, accountability, transparency and effectiveness of its action.

AFD Group's climate strategy²

AFD was one of the first donors to integrate the fight against climate change in its strategy³. This shift was initiated more than ten years ago, based on the one hand, on the principle that the fight against climate change is embedded in the countries trajectories and development policies, opportunities and threats alike, and on the other hand, on the implication of all the stakeholders, governments, corporates, official institutions and society as a whole. Over the past decade, the climate strategy has become a marker of AFD's identity through three fundamental commitments:

¹ <https://www.afd.fr/en/governance>

² AFD' climate strategic intervention framework for 2012-2016 (in French): <https://www.afd.fr/sites/afd/files/2017-09/cadre-intervention-climat-note-generale.pdf>

³ Climate section of AFD's website (in French): <https://www.afd.fr/fr/page-thematique-axe/climat>

1- Estimation of projects impact

AFD Group has implemented a systematic procedure to evaluate the "climate" impact of projects financed by AFD and PROPARGO in developing countries. All directly funded projects must be subject to an *ex ante* analysis of their level of greenhouse gas emissions⁴ (excluding budget support, financial intermediation and capacity building) and/or their impact in terms of adaptation to the effects of climate change.

2- Financial commitments

For the period 2012-2016, AFD Group has committed to achieve a significant level of climate activity: 50% of AFD's activity in developing countries and 30% of PROPARGO's activity (private sector financing arm) in developing countries. For AFD, these objectives were broken down geographically: 70% of the projects in Asia and Latin America, 50% in the Mediterranean area and 30% in Sub-Saharan Africa.

In 2016, AFD achieved a level of 52% of its activity related to climate, and Proparco achieved 36%.⁵ In amounts, it represents EUR 3,583 billion of commitments dedicated to climate in 2016 by AFD Group: EUR 3,102 billion by AFD and EUR 402 million by Proparco.

For the period 2017-2022, AFD group has a unique goal to achieve 50% of its activity related to climate.

3- Selection of operations

The impact of every AFD projects in terms of greenhouse gas emissions is taken into account by applying a selection grid. It may lead to the elimination of certain projects during the appraisal phase, depending on the level of development of countries and their climate policies. There are 3 categories in this grid: mitigation or "neutral" projects, emissive projects or high-emission projects. AFD then excludes any project that emits more than one million tons of CO₂ per year, with some exceptions for few loans in Least Developed Countries with clear climate action plans.

Furthermore, AFD promotes the integration of "climate" best practices within financial institutions through the Mainstreaming Initiative⁶ for which it is one of the initiators and lead donor.

This strategy has deeply reshaped AFD's portfolio, but also its internal processes, both in terms of project management and decision making, as much as its partnership approach. These key features are staying at the core of the strategy moving forward.

In addition, for the period 2017-2022, AFD's new objectives are to insure the consistency between the 2015 Paris agreements and AFD's actions by accompanying low carbon and resilient development dynamics; maximizing the impact in terms of leverage and ripple effect, both in financial and non-financial terms and strengthening the key role of AFD in the international financing commitments of the French State.

Climate bond issuance as part of this strategy

As a bilateral financial institution, AFD has a key role to play in supporting the development of climate finance as a whole. As a frequent issuer, it also has a duty to support the development of the green bond market. This relates to the commitment to contribute to channeling financial flows and investments. Hence AFD's framework is focusing on climate related projects, seen under various angles: mitigation, but also adaptation and support for the implementation of climate change prevention policies.

This framework is designed to address each topic providing the investors with a reliable and robust reporting depending on the specificities of the underlying projects. It is also designed to allow a recurrent access to the market for AFD, and as a result, to provide the investors community with frequent issues of climate bonds.

⁴ https://www.afd.fr/sites/afd/files/2017-10/carbon-footprint-user-guide-methodology_0.pdf

⁵ <https://www.afd.fr/sites/afd/files/2017-10/climate-activity-afd-group.pdf>

⁶ <https://www.mainstreamingclimate.org/>

1. Use of proceeds

Eligible Climate Projects include future or existing projects⁷, i.e. projects for which appraisal and disbursement have not yet been initiated, and projects initiated (existing projects since January 1st, 2011), taking place in :

- Sub-Saharan Africa
- Asia
- Mediterranean and Middle East
- Latin America
- French Overseas Departments

The proceeds of the bonds are deemed to support a designed portfolio of climate projects, which addresses among others the following topics:

- renewable energy ;
- energy efficiency ;
- low carbon public transportation ;
- biological sequestration ;
- water management ;
- waste-to-energy;
- any other topics identified by the selection committee.

Those projects will be distinguished in three categories: Mitigation projects, Adaptation projects and Mixed projects (projects contributing to both mitigation of greenhouse gas emissions and adaptation to climate change).

Category	Definition	Eligibility Criteria	Sectors
Mitigation ⁸	A project contributes to mitigation when it allows the GHG emissions to be reduced compared to a benchmark situation without a project. AFD's methodology is strictly compatible with the Common Principles for Climate Mitigation Finance Tracking approved by the International Development Finance Club (IDFC) and multilateral development banks (MDBs).	(i) the estimate of the carbon footprint of the project demonstrates that it results in the reduction or avoidance of GHG emissions, superior to 10 000 teq CO ₂ / year	Renewable energy Energy efficiency Fuel switch Low Carbon public transportation Biological sequestration Water management resulting in the reduction or avoidance of GHG emissions Waste management resulting in the reduction or avoidance of GHG emissions Any other topics that could be identified in the future
		or (ii) if the carbon footprint cannot be estimated at the time when the commitment is approved, the financing will be dedicated to actions contributing to mitigation. The ex-ante carbon footprint analysis will be provided by financial intermediaries; the eligibility criterion remains unchanged at 10 000 teq CO ₂ / year.	Intermediated bank credit lines for renewable energy and energy efficiency projects

⁷ Projects financed by AFD have long appraisal and disbursement periods (up to five, even sometimes seven years). Restricting proceeds only to new projects would mean the funds would be unused for quite a long period of time. Both long amortizing nature of the loans and the commitment to maintain an asset portfolio in excess of the size of the issue portfolio (see next section) imply the financing of new projects.

⁸ AFD's carbon footprint methodology; https://www.afd.fr/sites/afd/files/2017-10/carbon-footprint-user-guide-methodology_0.pdf

Category	Definition	Eligibility Criteria	Sectors
Adaptation	<p>A project (or project component) contributes to adaptation when it limits or reduces the vulnerability of assets, people and ecosystems to the consequences of climate change.</p> <p>AFD's accounting approach for adaptation financing is based on the Common Principles for Climate Change Adaptation Finance Tracking approved by the International Development Finance Club (IDFC) and multilateral development banks (MDBs).</p>	<p>A project (or project component) is accounted for under "climate/adaptation" on the basis of :</p> <p>(1) the analysis showing the context of vulnerability to climate change in the project implementation area; and (2) the demonstration of the beneficial impact of the actions planned by the project on the issues of vulnerability to climate change identified in the geographical area; and (3) the fact that the project documentation sets out the clear objective of addressing the identified climate risks and vulnerabilities to climate change.</p>	<p>Water management projects</p> <p>Waste management projects</p> <p>For instance: Protection against flooding; Stress-resilient agricultural systems; Sustainable forest management and avoided deforestation...</p>
Mixed projects	<p>Projects contributing to both mitigation of GHG emissions and adaptation to climate change</p>	<p>Projects that reduce GHG emissions and increase resilience to climate change</p>	<p>Above sectors</p>

For Mitigation projects, AFD retains a threshold set at a minimum of 10 000 ton eq /year for its practices. Due to calculation and assumptions in AFD methodology, any emission reduction below this threshold is deemed as not robust enough to classify the project as mitigation according to AFD's approach. For Adaptation projects, only loans that are 100% dedicated to adaptation will be included in the asset pool.

Indirect loans through credit lines financing mitigation project will be eligible to the asset pool, taking into account they must account for a mitigation effect superior to 10 000 teq CO₂ per year. For credit lines, the carbon footprint *ex ante* evaluation is provided by the borrowing financial institution or its designed experts, using AFD's carbon footprint methodology.

Finally, AFD might, in the future, integrate budget support loans to central governments and local authorities. Such budget support would be specifically earmarked for the implementation of climate change prevention policies, tracked to 100%. Integration will be subject to developing of a robust reporting methodology for this type of loans. This work will be carried out by the selection committee.

2. Asset Quality assessment and selection process

General project evaluation and governance framework

Exclusion list

AFD is not involved in the financing of disputable activities such as: production or sale of arms, ammunitions, tobacco, strong alcohol intended for human consumption or Tobacco, gaming establishment, casinos or any equivalent undertaking, activities using forced or child labor. The full fifteen points of the exclusion list are detailed on AFD's website⁹. Moreover, since an AFD Board decision in 2013, no coal power plant can be financed.

Evaluation process

Eligible Climate Projects follow AFD group's internal assessment process called "the project life cycle"¹⁰. During this process, AFD project team examines the underlying hypothesis and the conclusions of the feasibility study. It also assess that the principles of aid efficiency are enforced: local appropriation, coordination amongst the donors, articulation with local policy. Every project is successively submitted for its review to an Identification Committee and a Credit Committee, before being submitted to AFD Board, finally responsible to approve financing commitments. The Committees ensure the respect by the project of AFD's procedures and discuss the benefits and risks of the project.

Beyond the usual technical, financial, political and economic risks measurement procedures, the project team is also in charge of assessing the sustainable development impact¹¹ under six different angles:

- Economic development
- Social well-being and the reduction of social imbalances
- Gender equality
- Conservation of biodiversity, management of natural environments and resources
- The fight against climate change and its impacts
- The sustainability of the project impacts and governance framework

At the end of this process, the formal sustainable development opinion is given by the Direction in charge of Strategy, independent from the project team.

During the appraisal period, the project will also be submitted to other diligences:

- An analysis of environmental and social risks by specialized experts. For projects with high risks on environmental and social issues, special diligences and monitoring are maintained during the whole life of the project;
- Two last diligences conducted by the Direction in charge of Risks:
 - Anti-laundering and KYC survey lead by Permanent Control unit;
 - An internal second opinion led by a dedicated unit, reviewing the entire project.

As indicated at the beginning of this framework, a carbon footprint measure is systematically computed ex-ante.

These several opinions highlight positive impacts and potential weaknesses of a project. These opinions are taken into account to strengthen diligences and measures in order to reduce and constrain the underlying risks with the project. All of these opinions and diligences have been raised along the appraisal period, ensuring an assessment as complete as possible, and are in the hands of AFD Board for approval.

At a later stage, projects are regularly monitored in all their components, objectives and estimated risks – including ESG – from AFD field offices around the world. Most of the time, disbursement of loans does not happen at once but in stages; so disbursements are before authorized by local offices and AFD specific experts if needed.

⁹ https://www.afd.fr/sites/afd/files/2017-10/exclusion-list-afd_0.pdf

¹⁰ In French, a short graph summarizing the project cycle: <https://www.afd.fr/fr/media/download/7913>

¹¹ <https://www.afd.fr/sites/afd/files/2017-10/methodology-guide-sustainable-development-opinion-mechanism.pdf>

Regarding credit lines, subprojects are monitored by the intermediary bank according to criteria incorporated by AFD in the loan documentation. The intermediary bank must report to AFD before asking for new disbursements.

[Corporate responsibility report¹²](#)

Approved in 2014 by AFD's Board of Directors, the CSR roadmap covers the period 2014-2016 and takes place as AFD Group's policy on social responsibility.

This policy is set around the following three strategic themes, as described in the roadmap:

1. Accountability, information, dialog : these are the conditions to build a relationship based on trust with our stakeholders,
2. Ensure and promote sustainable development in our projects : the social responsibility is the main issue for a developing and aid institution,
3. Promote an internal social and environmental responsibility.

The strategic themes are implemented around six commitments, as follow:

- i) Transparency and dialog with stakeholders,
- ii) Integrate sustainable development in our operations,
- iii) Ethics and fair practices in financial transactions,
- iv) Responsible and fair management of all staff,
- v) In-house environmental and social responsibility,
- vi) Governance and management of the CSR policy.

The next CSR policy will cover the 2017-2020 period and shall be enforced by the end of the year 2017. After the assessment of the 2014-2016 roadmap, the next CSR policy shall pursue, consolidate and strengthen the six current commitments.

[Transparency](#)

The climate strategic intervention framework¹³ is a public document, subject to a dialogue with the stakeholders (civil society, ministries, members of Parliament, researchers, etc...). For each strategic document produced by AFD's technical departments this exercise takes place prior to being put before the Board of Directors.

AFD, as a French public institution subject to the French Monetary and Financial Code and which regularly borrows on financial markets, makes available a large amount of information concerning its activity to third parties, within the limits authorized by the obligations of banking secrecy.

The transparency commitments for projects and operations allow structured information to be published on the website by project (with the exception of information covered by banking regulation and its provisions concerning the confidentiality of transactions, or information for which the client has refused dissemination). They are published when the financing is allocated, on the open data website of AFD¹⁴.

[Submitting an environmental and social complaint¹⁵](#)

Any person or group of persons affected by an AFD-funded project from an environmental or social point of view may submit a complaint via this complaint mechanism. Once the complaint has been submitted, it is recorded by the Mechanism Secretariat, under the supervision of AFD's Ethics Advisor. A panel of independent experts subsequently decides whether it is eligible and, if this is the case, handles the complaint. Thanks to this mechanism, AFD is strengthening the monitoring of the environmental and social risks of the projects it finances. The aim is to enhance its transparency and accountability towards its partners.

¹² <https://www.afd.fr/sites/afd/files/2017-09/corporate-social-responsability-afd.pdf>

¹³ AFD' climate strategic intervention framework for 2012-2016 (in French): <https://www.afd.fr/sites/afd/files/2017-09/cadre-intervention-climat-note-generale.pdf>

¹⁴ <https://opendata.afd.fr/page/accueil/>

¹⁵ <https://www.afd.fr/un-developpement-responsable#1669>

Eligible Climate Projects selection process

A dedicated selection committee, specifically designed for the purpose of insuring the Climate Bond Framework governance, screens the asset pool on a semi-annual basis. It is important to note that this committee is independent from the standard appraisal process of a project (see above "Evaluation process"), and operates downstream. Existing projects are confirmed, or discarded if needed, new projects are added to the pool.

Along with maintaining the asset pool, this committee also supervises the reporting and indicators, insuring availability and quality of data. It discusses new reporting approaches, and indicators methodologies. It validates the use of a type of project under the framework especially for projects with no CO2 mitigation measurement.

The selection committee is composed, among others, of members of project officers, climate experts, environmental and social experts, funding officers¹⁶:

- Operations executive direction (DOE), such as
 - Portfolio Management and Support department (GPS),
 - Environmental, Social, Sustainability Support division (AES),
 - Climate Change division (CLI),
 - Financial Institutions division (IFP),
- Operations direction of Proparco (DOP) and Finance department of Proparco (DAF),
- Strategy and communication executive direction (SPC)
- Finance direction (DFC), such as
 - Treasury, Funding and Financial Market Operations division (DFM),
 - Financial Communication Unit (COF).

The Secretariat of this dedicated committee is led by the Finance department.

3. Management of proceeds

AFD's Climate Bond Framework is based on an assets and liabilities perspective: pool of AFD's climate bonds is then backed to the portfolio of eligible assets. AFD will also communicate about the average term and the remaining length of the projects and the bonds. Moreover, in order to guarantee that the proceeds of the bonds are always directed to the projects, AFD will keep a buffer such that its climate bonds never exceed 75 per cent of the assets.

The net proceeds of the bonds issued under AFD's Climate Bond Framework, valued on a euro equivalent basis, will be managed in cash or in money market products before being allocated to eligible assets within six months after the bond issuance. Over the life of the bonds, the proceeds may be used to finance new assets that will be incorporated to the portfolio of climate projects or refinance existing transactions.

It order to provide maximum comfort regarding the management of proceeds AFD commits to maintaining the total amount of climate bonds outstanding to 75 percent of the size of the Climate assets pool.

4. Reporting

AFD reports on its Climate Bond Framework on a yearly basis. For more background on AFD overall SRI approach, the reporting is included in the corporate responsibility report. It includes both assets portfolio and climate bonds issued.

On the assets side, certain restrictions may limit AFD's ability to report on certain projects. As a result, quantitative reports on carbon footprint are provided at the aggregated level by sectors and by

¹⁶ AFD's organization chart : <https://www.afd.fr/en/media/download/7492>

geographical region. However, AFD commits to illustrating with as many examples as possible, when the measurement of the carbon footprint is not relevant, as for adaptation projects.

The eligible assets are reported by categories:

- (i) Mitigation projects directly financed
AFD provides the carbon footprint calculated ex-ante by AFD project team.
- (ii) Mitigation projects financed through intermediaries
AFD provides the carbon footprint calculated ex-ante by the intermediaries aggregated by sectors and geography.
- (iii) Adaptation projects
AFD may provide output measures when available and relevant, otherwise when authorized, AFD discloses the details of the project. For examples, measures could be: area preserved, people connected to sanitation service, capacity of drinking water...
- (iv) Budget support loans
AFD will not integrate these assets in the pool at first stage. If AFD was to integrate some of the assets, AFD would provide monitoring indicators and measures as much as possible.

AFD also provides the number of projects, the outstanding amounts, the remaining amounts still to be disbursed and the average remaining life.

On the bonds side, the report lists all existing AFD's climate bonds under the Framework and their remaining life. The liabilities profile is to be compared to the profile of the assets pool, with the outstanding amount of AFD's climate bonds under 75 per cent of the outstanding amount of the assets pool at the date of the reporting.

5. External reviews

As a member of the Green Bond Principles, AFD Group follows the recommendation related to the use of external reviews.

Independent second party opinion on the framework

A second opinion on the above framework is provided by CICERO:

<https://www.afd.fr/sites/afd/files/2017-10/cicero-second-opinion-afd-climate-bond-framework.pdf>

Annual certification by the auditors

AFD commits that the accuracy and completeness of the reporting on its Climate Bond Framework will be certified by its external auditors.

6. Appendix

The full « mapping » of AFD climate projects is as follows. Of course, non-climate projects will not be included in the asset pool. Only climate projects detailed in the above framework will be included in the asset pool.

