

**VIGEO OPINION**

**SCOPE:**

Vigeo was commissioned to provide an independent opinion on the sustainable credentials of AFD's (French Development Bank) Climate Bond, according to the Vigeo Environmental, Social and Governance (ESG) assessment methodology. The steps include:

- Analysis of issuer Corporate Social Responsibility (CSR) performance, controversies and allegations on ESG issues and capacity to mitigate these risks
- Identification of the project's climate benefits and analysis of ESG integration in the project funding approach
- Assessment of reporting capacity and commitments for project fund allocation, climate outcomes and ESG project governance.

**SUMMARY:**

In light of our review and interactions with AFD, Vigeo confirms AFD is issuing a « Climate Bond » to finance future and ongoing investments (projects existing since January 1<sup>st</sup>, 2011 – date of first disbursement), for climate attenuation projects that contribute to the transition to a low-carbon and climate resilient economy, in line with its sustainable development commitments and climate strategy.

**1. Issuer**

- **Level of CSR performance:** As of June 2014, AFD's overall CSR performance is considered as **robust\*\*** in absolute terms. Among the best performers, AFD is ranked 4<sup>th</sup> of 58 in the "Retail & Specialised Banks – Europe" Vigeo sector. AFD displays a homogeneous approach to the management of its ESG responsibilities, with robust performance in the Environment, Social and Governance pillars, and particularly advanced in Community Involvement and Business Behaviour domains. AFD is **not involved** in any of the 9 disputable activities analysed by Vigeo.
- **ESG controversies:** As of 2014/07/25, AFD is not involved in controversies within Vigeo's scope of analysis
- **ESG risk mitigation:** Vigeo's level of assurance on AFD's management of its CSR risks ranges **from moderate\*\* to reasonable\*\***. In particular, our level of assurance regarding management of its human capital risks is moderate while our level of assurance regarding management of reputation, operational efficiency and legal security risk is reasonable.

**2. Projects**

- **Project identification:** In alignment with AFD's Climate Strategy, the agency will refinance and finance climate projects which are **clearly defined** as:
  - Projects with an ex-ante analysis of its carbon footprint
  - Projects of climate change mitigation: carbon footprint <-10 kteq CO2 / year
  - Projects aligned with local public policies
- **Project funding:** The analysis process for eligible projects is clearly defined and includes compliance with relevant screening criteria, in the domains of Climate Change, Environment, Human Resources, Human Rights, Business Behaviour, Local Communities and Governance. The screening process is based on AFD's project financing approach, whose framework is publicly available on AFD's website, aiming at responsible financing of projects.

**3. Reporting**

AFD is committed to report, in its annual CSR Report verified by its statutory auditors and available on AFD's website, on :

- The fund allocation to eligible projects, at a sector and geographic level, in line with usual banking practices, verified by its statutory auditors. The latter will also verify that the amount of funds dedicated to the selected projects is at least equivalent to the amount of proceeds obtained through the bond
- A selection of project examples.
- Climate performance via ex-ante carbon footprint measurement at a sector level.
- ESG governance. As it is not a project owner, AFD does not commit to report on the responsible management of the projects it finances, therefore Vigeo's opinion does not address this issue. However, AFD commits to report on the effective ESG risk assessment of the projects it finances.
- **Level of reporting commitment:** Vigeo's level of assurance on AFD's commitment on reporting on the project ranges **from reasonable\*\***, for transparency on fund allocation and project climate outcomes, **to weak\*\*** for ESG governance of projects.

**\* Second Party Opinion**

This opinion is to be considered as the "Second Party Opinion" described in the Voluntary Process Guidelines for Issuing Green Bonds, issued by Green Bond Principles, January 13<sup>th</sup> 2014. Vigeo considers that this Green Bond is aligned with the Green Bond Principles, dated January 13<sup>th</sup> 2014.

**Disclaimer**

This opinion aims to explain for investors why the Green Bond is considered as sustainable and responsible, based on the information which has been made available to Vigeo and which has been analysed by Vigeo. Providing this opinion does not mean that Vigeo certifies the materiality, the excellence or the irreversibility of the projects financed by the Green Bond. AFD is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and their monitoring. The opinion delivered by Vigeo neither focuses on financial performance of the Green Bond, nor on the effective allocation of funds' use of proceeds. Vigeo is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction. The opinion delivered on stakeholder-related ESG controversies is not a conclusion on the creditworthiness of AFD or its financial obligations.

Project Manager  
Laurie Chesné

CSR Auditor  
Éloi Tostivint

\*\* Vigeo's scales are defined as follows:  
Performance: Advanced, Robust, Limited, Weak  
Ability to mitigate ESG controversies: Advanced, Robust, Limited, Weak  
Level of assurance : Reasonable, Moderate, Weak

Paris, September 2<sup>nd</sup> 2014.




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## METHODOLOGY

In Vigeo's view, environmental, social and governance factors are intertwined and complementary and cannot be separated when assessing the management of CSR in any organization or in any activity, including the issuance of green bonds.

In this sense, we write an opinion on the issuer's social responsibility as a corporate organization, and on the objectives, the management and the reporting of the projects financed by the green bond.

### 1. Analysis of the issuer regarding international standards in terms of social responsibility

AFD has been evaluated by Vigeo Rating on its social responsibility performance, based on a rating framework aligned with public international standards, in compliance with the ISO 26000 norm, and organized in 6 domains: Environment, Human Resources, Human Rights, Community Involvement, Business Behaviour and Corporate Governance. Vigeo's review uses publicly available information from the company and stakeholders.

An analysis of controversies and allegations on each domain of sustainability has been conducted, regarding frequency, severity and responsiveness.

9 disputable activities have been analysed following 30 parameters to verify if the agency is involved in one of them: Alcohol, Animal maltreatment, Armament, Hazardous chemicals, Gambling, GMOs in food & feed, Nuclear energy, Sex industry, Tobacco.

### 2. Analysis of the financed projects

A Green Bond Framework has been developed with Vigeo to define the use of proceeds requirements and to review the environmental and social criteria, that such projects should meet in order to be eligible, and the selected indicators in order to report regularly on project climate outcomes and ESG Governance.

#### 2.1. Use of proceeds requirements

The Use-of-proceeds requirements are defined to ensure that the funds raised are used to finance eligible climate projects and are traceable within the issuing organisation. These requirement must be met by the AFD Group for each endorsed project; they include Eligible Climate Projects definition and Management of Proceeds.

The climate purpose of eligible projects as part of the Bond has been precisely defined, in regards to AFD's strategy, as climate change mitigation. Thereby, the projects endorsed by AFD as part of the bond must match one of these eligible sectors detailed in a dedicated page below:

<i>Renewable energy supply</i>	<i>Low carbon transport</i>
<i>Energy efficiency</i>	<i>Biological carbon sequestration projects</i>

The net proceeds of the issuance will be used to finance, in whole or in part, climate projects and will be managed within AFD's treasury liquidity portfolio, in cash or other liquid instruments, before being allocated to eligible projects within 6 months of the date of issuance.

#### 2.2. Environmental Social and Governance criteria

Based on a set of texts, including the Climate Action Plan 2012-2016, the CSR (Corporate Social Responsibility) policy, the Reference Document, the AFD's Guide of the overall Environmental and Social Classification and of internal interviews concerning project management and practices in place, Vigeo reviewed AFD's financing approach regarding the integration of ESG criteria (Environment, Social / Societal and Governance) during projects evaluation and selection, in order to ascertain the responsible nature of the financing approach used for every financed project.

Each project endorsed shall benefit (or have benefited) from the ESG assessment during the selection and evaluation phases, such as described in AFD's financing approach.

In total 12 criteria have been defined and aligned to 5 domains within AFD's CSR strategy:

- Social responsibility : Ensure respect of human rights, communities' well-being, responsible relationships and working conditions
- Environmental responsibility : Manage environmental impacts
- Local development and communities' well being : Contribute to local social and economic development and well-being of communities
- Business behaviour : promote ethical practices throughout the supply chain, and sustainable relationships with suppliers and customers
- Project governance : Ensure appropriate ESG assessment and project compliance

These 12 criteria are available on AFD's website and detailed in a dedicated page below.

### 3. Analysis of reporting indicators

Reporting indicators on the projects financed by the bond are selected from AFD's already existing indicators to report annually to investors, in line with usual banking practices, on fund allocation broken down by financial sector and by geographical zone, on climate purpose of the projects broken down by financial sector and on global ESG governance.

Vigeo has assessed the relevance of these indicators according to three principles: completeness, effectiveness and intelligibility for stakeholders.

These reporting indicators are detailed in a dedicated page below and will be used by AFD to report annually in a dedicated Climate Bond section in its CSR Report.

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## Use of proceeds requirements

“**Eligible Climate Projects**” include eligible climate change mitigation projects\* of the AFD Group, that is to say development projects which have positive co-benefits regarding climate, whose expected GHG emissions reductions are superior to those generated during the whole lifespan of the projects, which belong to one of the eligible sectors (as defined below) and that meet a set climate, environmental and social criteria defined with Vigeo and available on AFD’s website.

\*Climate change mitigation project means the following criteria are met :

- Projects with an ex-ante analysis of its carbon footprint
- Projects of climate change mitigation : carbon footprint <-10 kteq CO<sub>2</sub> / year
- Projects aligned with local public policies

Eligible Climate Projects include **future or existing** projects, i.e. projects where appraisal and disbursement have not yet been initiated and projects initiated since 2011 (existing projects since January 1<sup>st</sup>, 2011 – date of first disbursement), taking place in :

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

Sectors	Definitions	Project examples
Renewable energy supply	<ul style="list-style-type: none"> <li>– Generation of electricity or heat from renewable sources. [Renewable sources are defined here as energy sources derived from natural processes that are replenished constantly and virtually inexhaustible in duration (wind, water, sun and earth)]</li> <li>– Production of long-lived products or equipment for the generation of renewable energy.</li> <li>– Biofuels</li> </ul>	<ul style="list-style-type: none"> <li>✓ Moroccan solar plan (PSM) – goal of minimum 2000 MW by 2020 : solar energy complex of 500 MW in Quarzazate</li> </ul>
Energy efficiency	<ul style="list-style-type: none"> <li>– Energy efficiency improvement leading to decreasing GHG emissions</li> <li>– Alternative energy investments</li> <li>– Production of long-lived products or equipment for the energy efficiency</li> <li>– Fuel switches</li> </ul>	<ul style="list-style-type: none"> <li>✓ Implementation of a program in Kenya that aims at supporting the access to electricity of about 350 000 people every year for a period of 5 years by financing the supply and the distribution of energy-saving light bulbs for about 1.1 million of households, while diminishing the impact of the increasing number of connections under peak load</li> </ul>
Low carbon transport	<ul style="list-style-type: none"> <li>– Vehicle energy efficiency fleet retrofit</li> <li>– Modal change</li> <li>– Low carbon urban development</li> </ul>	<ul style="list-style-type: none"> <li>✓ Contribution to the transformation plan of the central-eastern city of Medellín (Colombia), by developing urban infrastructures, especially collective transport</li> <li>✓ Contribution to the financing of the city of Bangalore (India) subway</li> </ul>
Biological carbon sequestration	<ul style="list-style-type: none"> <li>– Afforestation, reforestation and sustainable forest management</li> <li>– REDD+</li> <li>– Climate smart agriculture</li> </ul>	<ul style="list-style-type: none"> <li>✓ Support to the creation of 10.000 to 15.000 hectares of new village plantations of rubber trees in the south of Ghana</li> </ul>

## Management of proceeds

Pending the allocation of funds, the net proceeds of the amount of the issue will be managed by the issuer, at its discretion, in cash or other negotiable liquid instruments in its liquidity portfolio, in accordance with its selection criteria applied to the management of its treasury.

The proceeds will be used initially to finance an existing asset pool, with proceeds allocated to eligible projects within 6 months from the date of issuance.

Over the life of the issue, the funds raised may be used to finance future projects, which will be integrated into the asset pool, the amount of outstanding loans awarded to eligible projects remaining at least equivalent to the amount of the issue, on the basis of an annual verification as at 31/12.

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## ESG Criteria

Criteria	Commitments
<b>Social responsibility</b>	<b>Ensure respect of human rights, communities' well-being, responsible relations and working conditions</b>
Respect of fundamental human and labour rights	Risk analysis on fundamental human rights, in accordance with international standards, and deployment of procedures determined during the appraisal stage, notably on: child labour, forced or compulsory labour, respect for the rights of indigenous peoples, displacement of local populations, taking into account freedom of association and the right to collective bargaining
	The project takes into account the needs and interests of men and women and/or dialogue has begun with the beneficiary on gender equality in the sector/structure in question, or the project's impact is neutral in this dimension
Quality of working and employment conditions	Analysis of contracts and wages during the conduct of the project to ensure that the workers involved have an employment contract and at least the legal minimum wage. (For Proparco, this analysis is only conducted at borrower and first-order sub-contractor levels).
	Assessment of working conditions and employment (health, safety and hygiene of workers, weekly working hours, welfare) included in the analysis of social risks, and deployment of associated procedures. (For Proparco, this analysis is only conducted at borrower and first-order sub-contractor levels).
<b>Environmental responsibility</b>	<b>Manage environmental impacts</b>
Environmental Management	Assessment of ecological risks (damage to the natural environment and biodiversity), pollution (water, air, soil) and nuisances (noise, waste, ...), natural hazards, technological and health risks related to the project, and identification of mitigation measures and/or associated compensation
Preservation of biodiversity, management of ecosystems and natural resources	The project has a positive or neutral ecological assessment in comparison to the initial situation prior to the project beginning, particularly in terms of impacts on ecosystems, natural resources, the water cycle and soil fertility
<b>Local development and communities' well being</b>	<b>Contribute to local social and economic development and well-being of communities</b>
Contribution to social and economic development of the territory	The project generates a positive impact on at least one economic sector, or the economic impact of the project is neutral
	Systematic evaluation of the project's costs and benefits at the community and stakeholder levels, and identification of associated procedures if necessary
Local Consultation	Consultation with local stakeholders at the appraisal stage and integration of their expectations in the project planning documents (A-classified projects)
Social well-being and reduction of social inequalities	Evaluation of project impacts on the health and safety and living conditions of populations, and on natural, historical and/or cultural heritage, and identification of associated procedures
	The project contributes to the improvement or maintenance of individual well-being (fair access to essential goods and services, resiliency to risk, and capacity development) and/or group well-being (improvement of social ties: social inclusion, collective responsibility, belonging to society)
<b>Business behavior</b>	<b>promote ethical practices throughout the supply chain, and sustainable relationships with suppliers and customers</b>
Customer safety	Integration of specifications for the security of future users of services/goods provided for in the project, through technical requirements during the award of contracts
Responsible procurement	<u>Direct relationship between AFD and the supplier</u> Systematic integration of an E&S clause in the award of contracts and in the ensuing contracts emitted
	<u>Relationship between AFD and the beneficiary</u> Incitement to add environmental and social criteria in the supply chain during the award of contracts and in the contracts for works emitted by the beneficiary
Business ethics	Application of exclusionary situations to the beneficiary and statement of integrity and commitment issued by the beneficiary to limit any reputational, legal and judicial risk, during the appraisal stage
	Project complies with the rules and procedures to combat money laundering, the financing of terrorism, anti-competitive practices, corruption, and fraud, based on the knowledge of procedures of the beneficiary

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	Project is conducted in accordance with the AFD Group's Charter of Professional Ethics, especially according to the rules and procedures for selection and calls for tender of suppliers and the prevention of conflicts of interest. (This commitment does not apply to Proparco, since the involvement of Proparco in project occurs too late to enable the integration of this commitment in the financing approach)
	Information request system relative to the project in place, in accordance with the policy of transparency, within the framework of the Professional Ethics Council of the AFD Group
<b>Project governance</b>	<b>Ensure appropriate ESG assessment and project compliance</b>
Integrating ESG risks	Application of the exclusion list at project level according to ethical, regulatory, environmental and social criteria based on the requirements of international standards
	Classification of the project, from the identification phase, depending on its level of E&S risk and integration of E&S commitments of the beneficiary in the financing agreement, based on determined procedures
	Independent second opinion on the project's contribution to sustainable development of a "favorable" level, or "favorable with recommendations" or "not applicable" ("reserved" level excluded) (applicable to AFD projects awarded as of March 2013)
	Appointment of an internal social and environmental expert to the project team who is present in each of the instruction and monitoring committees, and as cross support throughout the life cycle of the project (projects classified as A and B)
	The resources allocated or in place contribute to strengthening or maintaining management capacities beyond the contracting and financial durability of the project
Audit and project monitoring	Annual assessment (biannual for AFD projects) of the overall quality of the project, reflecting the level of response to commitments, and setting up a supervisory mission if necessary (i.e. at least for AFD projects with C and D quality scores)
	Regular analysis of the effectiveness of the E&S approach by the AFD Group from periodic reports produced by the beneficiary and/or supervisory missions carried out by the project manager (projects classified as A and B)
	Ex-post E&S evaluation, engaged six months after project completion, verifying the extent to which E&S risks were controlled and planned measures were deployed (A-classified projects)
	Notice of non-objection provided at each step of control at the payment stage and during project implementation, intended to ensure compliance with the required conditions of integrity, transparency, fairness and efficiency and to limit opportunities for fraud, corruption or the financing of terrorism in the market

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## Reporting indicators

Reporting indicators on the projects that are financed through the Bond are selected from existing AFD data in order to report annually in a dedicated Climate Bond section in its CSR Report available on AFD's website and verified by its statutory auditors on :

- The fund allocation to eligible projects, at a sector and geographic level, in line with usual banking practices, verified by its statutory auditors. The latter will also verify that the amount of funds dedicated to the selected projects is at least equivalent to the amount of proceeds obtained through the bond
- Climate performance via ex-ante carbon footprint measurement at sector level
- ESG governance. As it is not a project owner, AFD does not commit to report on the responsible management of the projects it finances. However, AFD commits to report on the effective ESG risk assessment of the projects it finances

Subject of reporting	Criterion measured	AFD reporting indicator
Allocation of funds	Description of projects financed, in line with usual banking practices (without disclosing the beneficiary and project detail), by sector and by region	Sector breakdown: amount in € of disbursement / sector Geographical distribution: amount in € of disbursement / geographical area
	Emission characterization	- Cumulative number of projects - Examples of project / sector
	Monitoring of total disbursements evolution	- Weighted average (by the amount of projects) of projects disbursements rates. (the disbursement rate corresponding to the share of disbursed amount in total amount of support)
Climate objective	Carbon footprint (scopes 1,2 and 3 to the extent possible) by sector and ex-ante of projects as a whole	- GHG emissions reduced and /or avoided in tCO <sub>2</sub> e by sector and region

Subject of reporting	Criterion measured	AFD reporting indicator	Proparco reporting indicator
ESG governance of the project	Level of potential environmental and social risk of projects	Breakdown of projects by category (scale: A, B, C)	Breakdown of projects by category (scale: A, B +, B, C)
	Annual (biannual for AFD projects) evaluation of the overall quality of the projects, evaluated over the entire implementation period of the project	Biannual quality rating: Distribution of projects by level (scale: A, B, C, D)	Annual quality rating: Distribution of projects by level (scale: A, B, C)

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