2nd Progress report to the Sustainable Blue Economy Finance Principles

AFD - July 2024

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AFD's history is closely linked to the sea: since its creation, it has been working to the development of French overseas departments and coastal and island countries.

In 2019, AFD adopted its first strategy dedicated to the oceans. In a context of growing awareness of the cumulative pressures on marine environments, in connection with the international agendas on biodiversity and climate and considering the strong French support of these topics, the objective is to ensure that the activities of the group respect the balance between the good ecological status of the oceans and its multiple uses.

Greater attention to marine ecosystems is also seen as an axis of AFD's roadmap on biodiversity (€1,1 bn of biodiversity finance in 2023) and its ongoing alignment with the Global Biodiversity Framework, which implies:

- The preservation of terrestrial and marine ecosystems, aiming at the protection of 30% of the surface of the planet.
- The integration of biodiversity in all sectors of intervention: agroecology, integrated management of rural and coastal territories, access to water and sanitation, but also urban development, infrastructure, social sectors, finance, blue economy. SDG 14 and 15 thus underpin the achievement of many others.

AFD group is also fully committed to the preparation of UNOC-3 in France with Costa Rica and currently working on a 2024-2026 blue action plan

1. Ocean strategy and finance

1.1 Ocean strategy

In 2019, a 1st specific "oceans" strategy was adopted. It includes the following 5 axes:

- **Improve governance of marine and coastal wetlands and resources**

AFD supports public policies, institutions and organizations promoting good governance and sustainable management of marine and coastal activities through an ecosystem and co-management approach.

- **Promoting sustainable and inclusive competitive maritime sectors**

AFD encourages the consideration of the highest social, environmental, health and safety standards in traditional and emerging maritime sectors.

- **Conserve marine and coastal ecosystems and control anthropogenic pressures**

The protection of marine ecosystems requires the reduction of pollution at sea (plastic, chemical, biological).

- **Strengthen the resilience of ecosystems, populations and infrastructure by promoting nature-based solutions**

- **Supporting island and overseas territories**

1.2 2023 ocean investments

AFD's ocean-related activity has amounted to almost € 9 billion commitments since 2008, including € 882 million in 2022 and 819 milion in 2023. This assessment takes into account all projects whose activities depend on the ocean or its state and/or all projects that may impact the state of the ocean on the littoral strip (30 km from the coast). A weighting of the total amount is then carried out with regard to the components of the projects and their links with the ocean.

Out of the total 2023 commitments (€819 million), 69% have biodiversity co-benefits and 99% climate co-benefits.

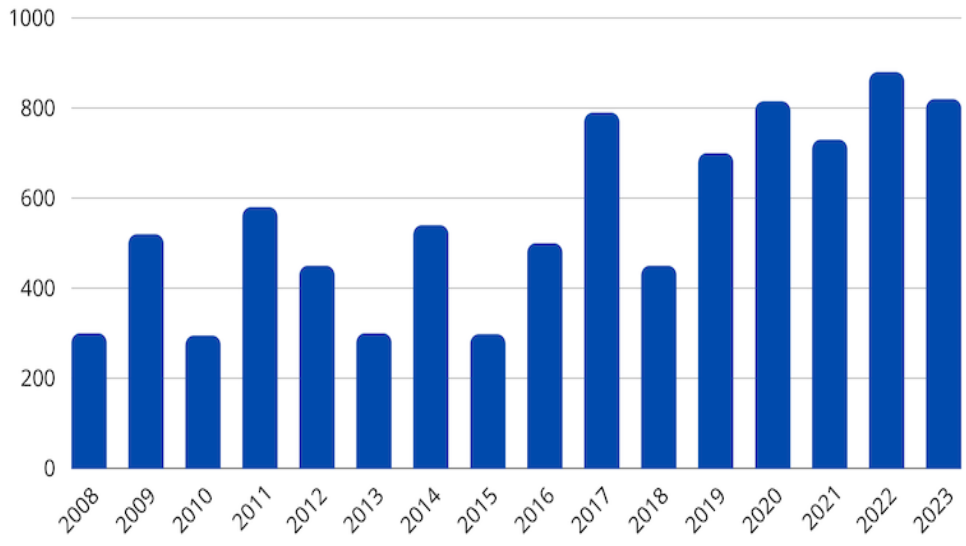

Figure 1 : ocean finance since 2008 (€ million)

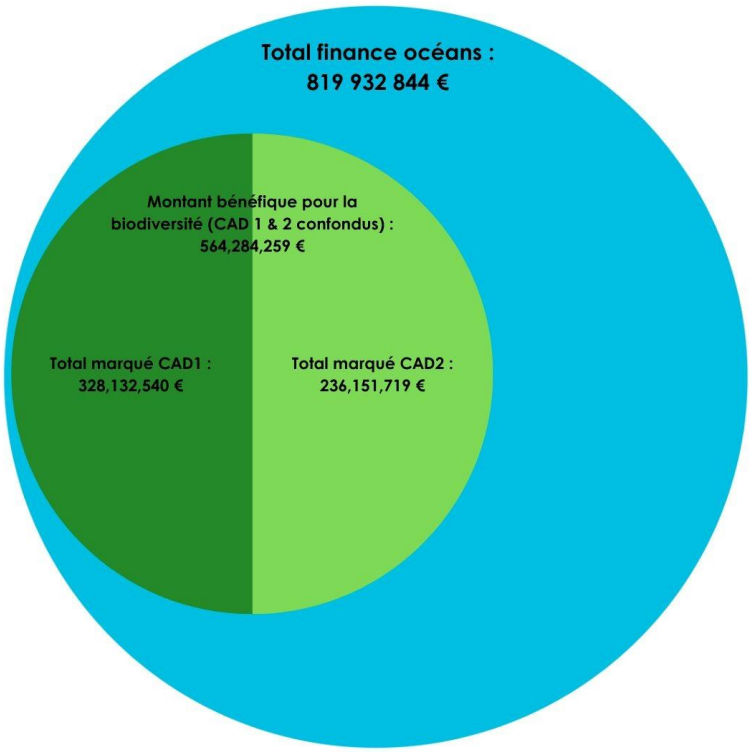

Figure 2 : ocean finance and ocean finance with biodiversity cobenefits in 2023

1.3 recent investments and initiatives

Aong recent investments and initiatives can be mentioned:

- Participation in the Blue Action Fund (€10 million) and the MedFund (€4 million);

- Project to support Senegal's marine protected areas policy in the mangrove areas of Casamance and Sine-Saloum (€5 million);

- Support for the implementation of the IORA Blue Economy Action Plan in the fields of sustainable management of fisheries resources and protection of the marine environment (€1.05 million)

- Sustainable Coastal and Marine Fisheries Project in Cambodia (Loan, €40 million)

- PEUL waste management project for the coastal town of Lomé in Togo

- WACA project to finance the West African coastal management programme and prevent coastal erosion in Togo (€35 million);

- Active participation in the multi-donor Clean Oceans initiative, alongside the EIB, KfW, EBRD, CDP, ICO-AECID.

- In 2022, Proparco participated in IFC's landmark $150 million blue syndicated loan for Bank of Qingdao (BQD), marking its and IFC's first blue finance investment in China.

- "Marine Debris" Public based loan (€ 200 million) in Indonesia

- A grant to Tara foundation (€ 0,35 million) for youth sensibilisation on ocean protection.

- A new initiative within the Finance in Common summit (FiCS) to harmonize Public development banks approach and methodologies on sustainable blue economy. The deliverables planned for UNOC-3 include a common investment framework. The working group inclue EIB, ADB, BID, KfW, EBRD, BOAD, CDP, CAF and AFD.

- A Blue Carbon facility (€ 6 million).

AFD is also improving its offer and technical expertise on the following emerging topics: circular economy, plastic pollution, 30x30 including in the high seas, decarbonization of maritime transport and blue finance.

2. Implementation of the principles

AFD is a bilateral bank and development agency that operates through loans and grants in more than 100 countries. Supporting the development agenda, the SDGs and more particularly the implementatoin of the Paris Agreement and the Global biodiversity framework, is therefore its "raison d'être".

The SBEFP are already widely taken into account by the entire project appraisal and accountability process and in particular the following 3 phases: E&S safeguards, Sustainable development analysis, biodiversity finance tracking and rating.

2.1 Environmental and social safeguards

Any development operation may involve potentially adverse risks, particularly in terms of environmental and social impacts. Consequently, AFD's financing is conditional upon the implementation by the client of continuous and systematic environmental and social assessment procedures to (i) assess the environmental and social impacts of operations, (ii) propose appropriate measures to avoid the negative impacts or, when they are unavoidable, reduce or offset them in an appropriate manner, (iii) monitor the application of such measures during the implementation phase of the operation, and (iv) conduct an ex post evaluation of the effectiveness of the proposed measures.[1]

[1] https://www.afd.fr/fr/ressources/politique-de-maitrise-des-risques-environnementaux-et-sociaux-lies-aux-operations-financees-par-lafd

AFD is compliant with the 10 World Bank environmental and social Standards (ESS), the mechanism for addressing environmental and social issues in project design, implementation and operation. These 10 ESS norms overlap with many of the SBEFP, notably the 4 following ones:

- ESS1: assessment and management of environmental and social risks and impactssessment and Management of Environmental and Social Risks and Impacts
- ESS3 Resource Efficiency and Pollution Prevention and Management
- ESS6: Biodiversity Conservation and Sustainable Management of Living Natural Resources
- ESS10: Stakeholder Engagement and Information Disclosure

The objective of this step is to ensure that no project has a residual negative impact on coastal and marine ecosystems.

2.2 Sustainable development analysis

Established in 2014, the sustainable development mechanism allows the AFD Group to ensure the alignment of all the projects funded with the SDGs. The contribution of each project to sustainable development is analysed. The aim is to optimize the positive impacts of projects and to exclude those that could have a negative impact on one or more dimensions of the sustainable development.

All projects financed by AFD are subject to this analysis which covers the 17 Sustainable Development Goals (SDGs) across six cross-cutting dimensions (biodiversity, climate, social, gender, governance and economy, which are all rated -3 to +3).

The process includes:

- The completion of an analysis of the expected impacts of projects on each of the six dimensions of sustainable development by the project teams;
- The production of a «sustainable development opinion» issued by a structure independent of the operational divisions, in order to inform the decision of the AFD bodies.

2.3 Biodiversity rating and footprint

To qualify the positive impacts and ensure a real accountability on biodiversity, AFD also uses a specific tracking and rating methodology; in order to be consideted "Nature positive" and be part of AFD's biodiversity finance, the project must be explicitly designed to produce a net gain for biodiversity with reference to a scientific baseline comparing scenarios with and without the project.

If the project is considered as a biodiversity one, a financial contribution to biodiversity is then calculated using a discount rate depending on the levers identified for the project (conservation, restoration, integrated spatial management, public policies, management of natural resources, local pollution).

Out of the € 1,1 bn million of finance biodiversity in 2023, 28% (€238 million) has positive impact on ocean and coastal ecosystems.

AFD group is also pilot testing various methodologies to asses the biodiversity footprint of the projects, including on marine/coastal ecosystems.

3. Room for progress

3.1 Remaining challenges

The level of appropriation of the SBEFP is improving at AFD even though no specific program has been implemented since the adhesion in 2022, considering (i) the overlap with existing internal diligences and analysis presented above (ii) the relatively low part of the portfolio dedicated to marine issues (iii) the priority given to the global roadmap on biodiversity and its tools.

Reference to the Principles has been very useful during many operational discussions on blue economy, blue loans and blue bonds, especially for Proparco: the development of the investment framework for Bank of Qingdao was for instance done with the help of the UNEP FI and IFC frameworks. Within the FiCS ocean Working group with other development banks, UNEP FI sectorial guidance will be used.

The AFD group is however not in a position to conduct a detailed project-by-project analysis of the impacts on the ocean. Two pillars seem therefore difficult to apply for the moment:

- *Risk-aware: "We will endeavour to base our investment decisions on holistic and long-term assessments that account for economic, social and environmental values, quantified risks and systemic impacts and will adapt our decision-processes making and activities to reflect new knowledge of the potential risks, cumulative impacts and opportunities associated with our business activities."* There is no holistic assessment of all the different scopes of project activity over the long term.

- *"We will endeavour to identify the systemic and cumulative impacts of our investments, activities and projects across value chains."* No portfolio approach to cumulative project impact is yet done at this stage.

3.2 Blue action plan (2024-2026)

AFD group is currently implementing a dedicated Blue Action Plan (2024-2026) with the following actions, among others :

- Improving biodiversity % of ocean related projects (61 % in 2022, 69% in 2023)
- Harmonize definitions and tracking of ocean related investments with other PDB's (within FiCS WG)
- Develop dedicated blue finance tools (credits, bonds, loans)
- Support the implementation of the marine dimension of the Global Biodiversity Framework.
- Improve accountability and transparency.

3.3 Profundo WWF Benchmark and recommandations

In 2023, Profundo conducted an in depth independent research, commissioned by WWF, to assess and influence financial flows to support a Sustainable Blue Economy in the SWIO region.

According to the report: "*The average consolidated score for the financial institutions is 2.3 out of 10, with scores ranging from 0 to 6.4: none of them are categorized as a 'leader' (reserved for banks scoring more than 7.5 out of 10)*

(…)

Four financial institutions rank as frontrunners: these include one development bank (AFD Group) and three European financial institutions (Société Générale, Government Pension Fund Global and Standard Chartered)

(…)

Only one of the 25 financial institutions, namely AFD Group, is a signatory to the Sustainable Blue Economy Finance Principles and publicly reports on their implementation. AFD and the Norwegian investor, Government Pension Fund Global (GPFG), are the only financial institutions to disclose a cross-cutting policy on the ocean.

(…)

None of the selected financial institutions discloses its impact or dependence on marine ecosystems. Momentum in this space is growing, however, with three banks (AFD Group, Absa Group and Credit Agricole) reporting some steps to assess their biodiversity footprint."

3.4 Independant evaluation of AFD action for marine and coastal biodiversity in the Mediteranean

In 2022-2023, AFD commissioned Altai Consulting and Vertigo Lab to conduct an analysis and evaluation exercise on the "Ocean" operations of AFD Group and the French Facility for Global Environment (FFEM) in the Mediterranean. The overall aim of the exercise was to contribute to the mainstreaming of Ocean issues within AFD Group, through a participatory retrospective approach, with the aim of:

• Understanding AFD Group's strategic positioning on Ocean issues in relation to other donors active in countries bordering the Mediterranean.

• Characterizing AFD Group's operations in the Mediterranean in terms of their interrelations with the marine environment and their potential effects on this environment, and mapping operations on the basis of these ssues by analyzing a portfolio of AFD and FFEM operations in four southern Mediterranean countries (Algeria, Egypt, Morocco, Tunisia).

• Evaluating the extent to which marine and coastal ecosystem protection issues are taken into account, both at the level of the portfolio of operations and at the level of five targeted projects in Tunisia - including two projects co-financed by the FFEM.

A first stage of cross-cutting analysis (October 2022 - June 2023) focused on a sample of 40 "Ocean" projects related to the Mediterranean Sea allocated over a 13-year period (2008-2021), from AFD's technical divisions and attached to the North Africa Regional Office, to which Expertise France (EF) and FFEM projects were added.

The second phase of the study involved the targeted evaluation of a cluster of five projects in Tunisia from the initial sample, with the aim of specifically analyzing the level of consideration given to issues

linked to marine and coastal ecosystems at the time of project appraisal, their consistency with existing strategies, and the results achieved with regard to these issues.

The executive summary of the report can be read here.

Results and recommendations

Internal coherence. AFD's intervention strategy for the Ocean is consistent with the French political dynamic, which aims to give visibility to the oceans and position France as a leader in marine biodiversity protection issues. However, except for the water and sanitation sector, sectoral intervention strategies and projects concerning the maritime economy rarely take into account marine environment protection issues.

External coherence. AFD and FFEM have positioned themselves in line with national and regional policies, in particular through their multi-country operations, which align with regional policies relating to the preservation of marine and coastal ecosystems. There are numerous multi-donor initiatives on blue economy and marine biodiversity issues in the Mediterranean, but little coordination between donors in these fields

Relevance. Many efforts have been made in recent years to take greater account of marine and coastal biodiversity issues in AFD operations, but the results of these actions are not yet very visible and must continue to be reinforced and systematized. Most of the elements of the biodiversity analysis are carried out ex ante and are not systematically monitored. As far as the projects analyzed are concerned, AFD's approach is still mainly risk-based, to avoid possible negative impacts on ecosystems. However, recent initiatives show that this approach is evolving towards a "positive" approach in terms of marine biodiversity protection.

Effectiveness and effects. The logical frameworks of the projects analyzed make little provision for outcome and impact indicators. Consequently, it was not possible to use the data to measure their impact on marine and coastal ecosystems. However, the absence of results does not necessarily mean the absence of effects: data may not (yet) have been collected or may not be directly and systematically available. The analysis therefore focused on the expected effects on these ecosystems.