

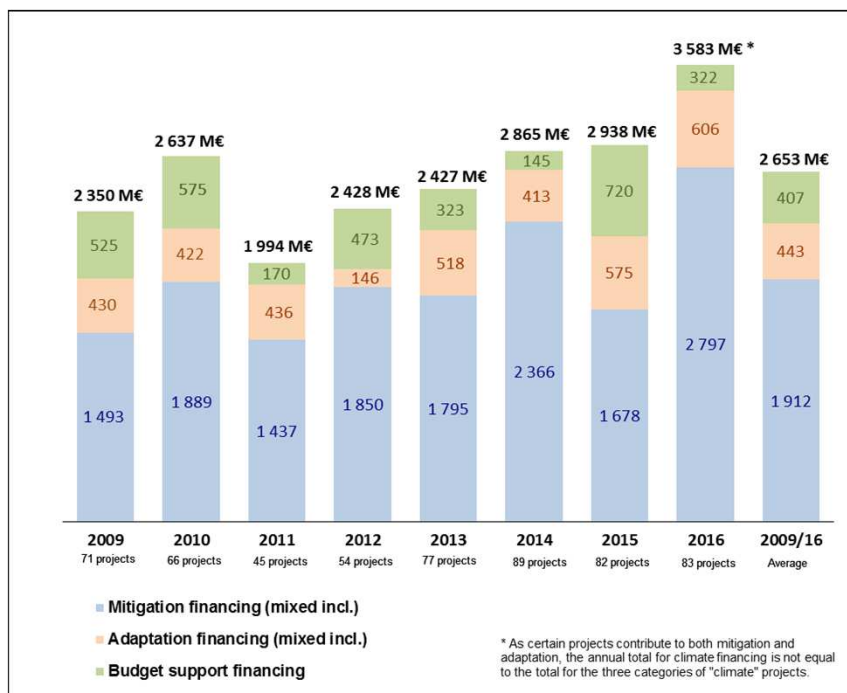
Over 3.5 billion euros dedicated to climate: commitments continuously rising

In 2016, **AFD Group committed EUR 3.583 billion** to “climate” financing, corresponding to a participation in the financing of 83 development projects which have co-benefits for the fight against climate change and its impacts. This level of commitment saw a marked increase compared to 2015 (+22%), bringing total AFD Group financing with a “climate” co-benefit committed since 2005 to over EUR 24 bn.

With some EUR 3.102 billion in “climate” finance approvals in its countries of operation in 2016, AFD (excluding PROPARCO) reached a level of 52% (against 55% in 2015) of “climate” allocations,⁽¹⁾ with a growth in volume of 17%.

Almost all the regions where AFD operates exceeded their geographical targets. The “climate” activity reached EUR 729 million in Sub-Saharan Africa (33% of AFD's activity in the region), EUR 761 million in Latin America (71% of activity in the region) and EUR 725 million in the Mediterranean (67% of activity in the region). Asia fell slightly short of its objective, at EUR 805 million, *i.e.* 67% of activity in the region, but did nevertheless rise by 6% in absolute value terms.

With EUR 481 million of “climate” finance approvals, PROPARCO reached a record level of activity with a “climate” co-benefit since AFD Group's climate strategy was defined in 2012 (36%, against 26% in 2015). These financings mainly contributed to private renewable energy programs.



In 2016, there was a sharp rise (+66%) in the Group's financing allocated for **mitigation** (reduction of greenhouse gas emissions) to EUR 2,797 million⁽²⁾ (including 17% financed by PROPARCO), brought about by a large number of sustainable urban transport and renewable energy projects. Allocations for **adaptation** remained relatively stable (+5%), reaching EUR 606 million and accounted for 17% of total “climate” activity (more or less constant year-on-year). Finally, the “climate” activity conducted with **budget support**, sectoral support or to support crosscutting climate policies, saw a decline compared to the previous year (-55%) and stood at EUR 322 million (*i.e.* less than 10% of the Group's climate activity in 2016).

(1) This ratio is calculated on the basis of annual allocations in developing countries, excluding global budget support (GBS), the debt reduction mechanism (French C2D Debt Reduction-Development Contracts), guarantees, FEXTE and PROPARCO's sub-participation (which is included in PROPARCO's commitments).

(2) As certain projects contribute to both mitigation and adaptation, the annual total for climate finance is not equal to the total for the three categories of climate projects (mitigation, adaptation, budget support).

The three pillars of AFD Group's climate strategy:

1 Financial commitment

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

> **30%** of PROPARCO's activity (private sector financing arm) in developing countries

For AFD, these objectives are broken down geographically: 70% in Asia and Latin America, 50% in the Mediterranean and 30% in Sub-Saharan Africa.

2 Estimation of project impacts

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

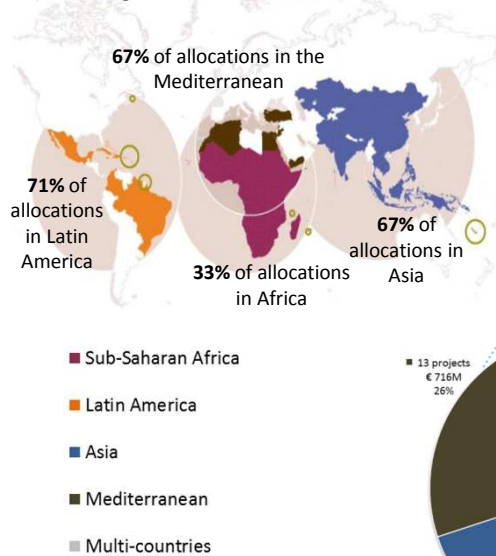
3 Selectivity of operations

The impact of projects in terms of greenhouse gas emissions is taken into account by applying a selectivity grid. It may lead to the elimination of certain projects from eligibility for financing by AFD, 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.

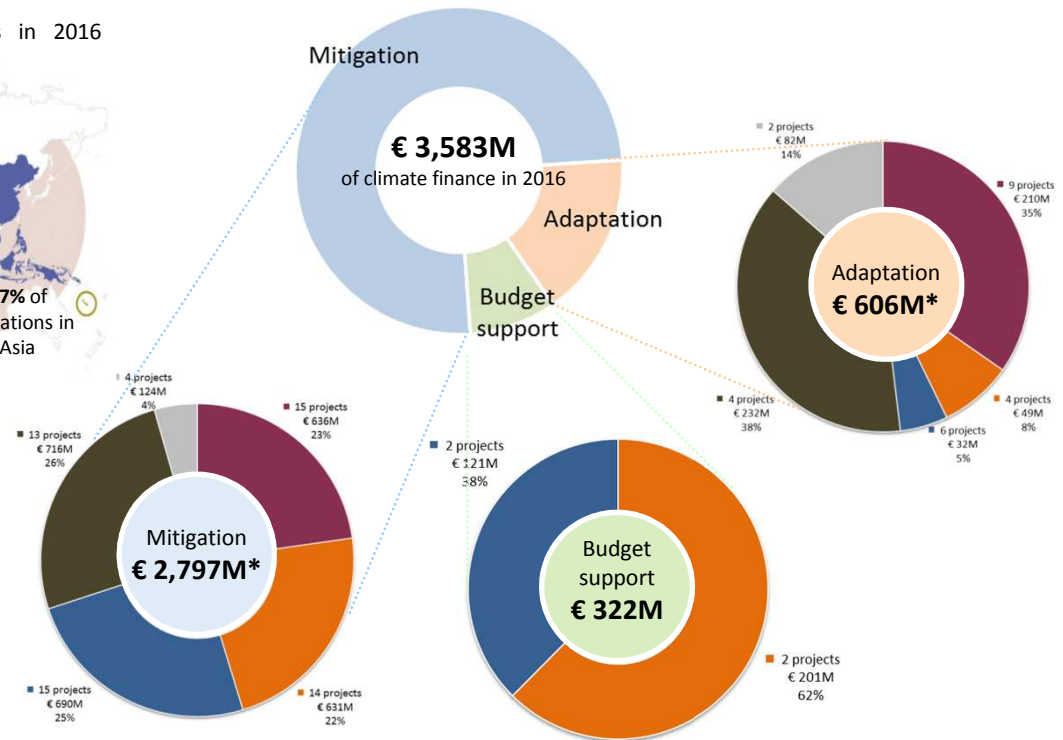
Furthermore, AFD promotes the integration of “climate” best practices within financial institutions through the Mainstreaming Initiative for which it is one of the initiators and lead donor.

Geographical breakdown of AFD Group's "climate" allocations in 2016

Scope of AFD's climate projects in 2016 (excluding PROPARCO):



* including projects contributing to both mitigation and adaptation. These projects are not counted twice in the annual total.



Mitigation. In 2016, the Group's four geographical areas of operation each accounted for almost a quarter of commitments for mitigation. There has been a marked increase in this field in all geographical areas compared to 2015 (+66%), particularly in the Mediterranean, thanks to financing for several intra-urban public transport projects and substantial credit lines to regional banks in the renewable energies and energy efficiency sectors.

Adaptation. The activity to support adaptation to the impacts of climate change followed past trends and in 2016 once again mainly focused on Sub-Saharan Africa and the Mediterranean (with each accounting for a third of Group financing in this field), with a sharp rise in volume. Conversely, there was a marked decline in the number of adaptation projects financed in Asia and Latin America compared to 2015.

Budget support. There was a sharp decline in budget support in 2016 compared to 2015 (-55%). This year it only concerned Asia and Latin America (which alone accounted for about two-thirds of Group financing in this field). These commitments have supported the climate policies of Colombia and Vietnam and promoted the integration of climate issues into the sectors of energy in Pakistan and biodiversity conservation in Mexico.

Financing contributing to climate change adaptation

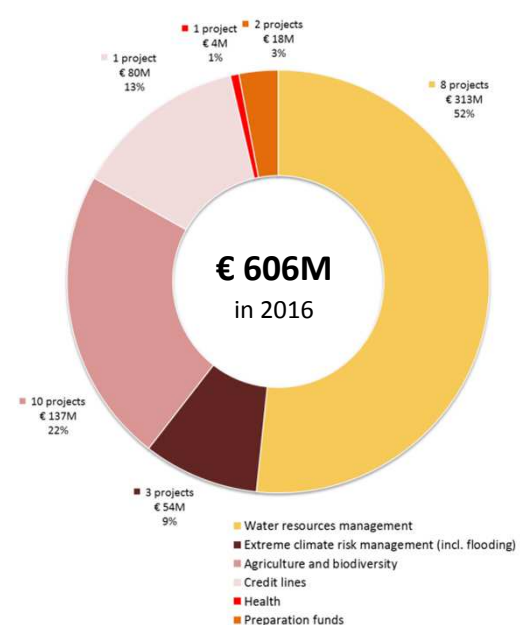
Following on from 2015, in 2016 the sectoral breakdown of financial commitments for climate change adaptation was dominated by a large number of financial allocations to improve **water resources management and the security of water supply** in regions marked by a risk of water stress exacerbated by climate change (over half the Group's adaptation activity).

The **agriculture and biodiversity sector** was the Group's second main area of operation for adaptation (almost a third of commitments in 2016 if the agricultural credit line to IFAD is included). This financing in particular promoted the development of **agricultural practices adapted** to the impacts of climate change, mainly in Sub-

Saharan-Africa and the Mediterranean, and actions to **preserve natural capital**, particularly in Asia.

The remainder of the portfolio was made up of several projects for the management of **extreme climate risks**, with a focus on **flood risks in urban areas**, via the construction or rehabilitation of stormwater drainage systems in Sub-Saharan Africa.

Finally, it is worth noting a first project in the health sector to **strengthen epidemiologic monitoring systems** in several Southeast Asian countries. The aim is to more effectively monitor the outbreak and spread of vector-borne diseases which are likely to be exacerbated by climate change.



Financing contributing to climate change mitigation

In 2016, the Group's mitigation activity was marked by a sharp increase in the amount of financing for **public transport**, following a significant decline in 2015. The 8 projects in this sector accounted for 35% of mitigation financing (i.e. close to EUR 1 billion) and financed the construction of the Nagpur metro in India, the extension of the metros of Mexico City and Istanbul, and the upgrading of Alexandria's tramway in Egypt.

There was a sharp increase in the volume of **direct financing for renewable energy projects** (all technologies taken together), which accounted for almost a third of the Group's mitigation activity in 2016 (ratio stable compared to 2015). These projects have contributed to increasing water production capacity in Pakistan and Côte d'Ivoire and to solar energy development in Bolivia, Benin and Central America, for example.

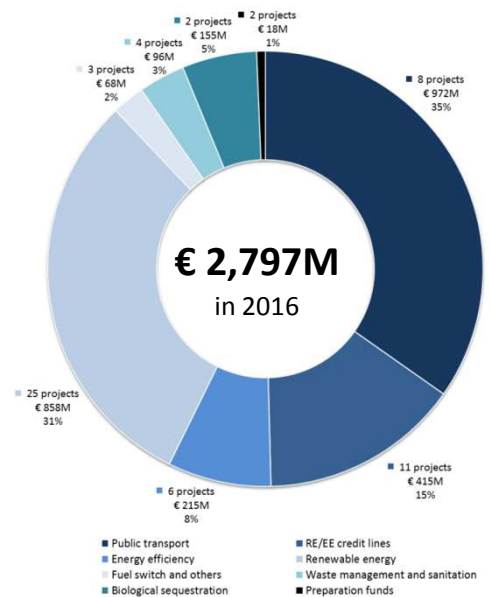
The creation of the African Renewable Energy Scale-Up (ARE-Scale Up) Facility will also contribute to the implementation of ReN projects in Africa.

Energy efficiency projects, which saw a decline compared to 2015, involved upgrading power transmission and distribution grids in Sri Lanka, Brazil and Pakistan.

Support for renewable energies and energy efficiency *via* **banking intermediation** continued to be a major trend for the Group's mitigation activity in 2016, although there was a slight decrease in volume compared to 2015. This type of financing is more effective in reaching key actors in the energy transition: small and medium-sized enterprises, industries and local authorities.

The amounts earmarked for mitigation in the fields of **solid waste management**

and **sanitation** (biogas development) and **biological sequestration** (carbon storage in soils and vegetation) stood at EUR 96M and EUR 155M this year, respectively.



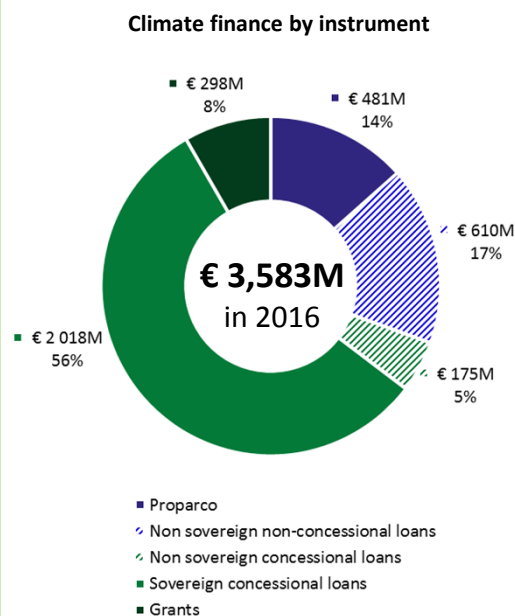
-3.6 million tCO₂eq/year

A procedure for the systematic analysis of the carbon footprint of directly financed projects was introduced in 2011. From the time a project is identified, it is ranked according to its impact in terms of greenhouse gas (GHG) emissions and an assessment is made of the emissions when this impact is significant and measurable. This assessment is made by AFD's teams (or in certain cases by the co-financier or beneficiary) using an ad hoc calculation tool, according to a standardized methodology available on the Group's website.⁽¹⁾ Furthermore, AFD has promoted and adheres to the IFI harmonization policy for carbon footprint estimations released at COP21.⁽²⁾ In 2016, the 39 mitigation projects which were financed or cofinanced by the Group and subject to a significant and calculable *ex ante* assessment will contribute to reducing or avoiding GHG emissions by 3.6 MtCO₂eq a year throughout their lifespans.

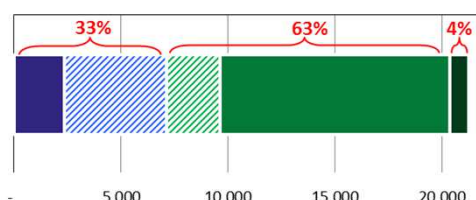
(1) <http://climat.afd.fr>

(2) International Financial Institution Framework for a Harmonized Approach to Greenhouse Gas Accounting.

Instruments mobilized to finance "climate" projects



"Climate" financing in 2009 - 2016 (in €M)



In 2016, 61% of the Group's "climate" activity was financed *via* sovereign or non-sovereign **concessional loans**, which accounted for some EUR 2.2 billion, a sharp rise compared to 2015.

However, the Group's level of "climate" activity financed *via* **non-concessional** and non-sovereign instruments fell by 30% compared to the previous year, despite the increase in PROPARCO financing, and in 2016 stood at over EUR 1 billion (i.e. 31% of "climate" allocations).

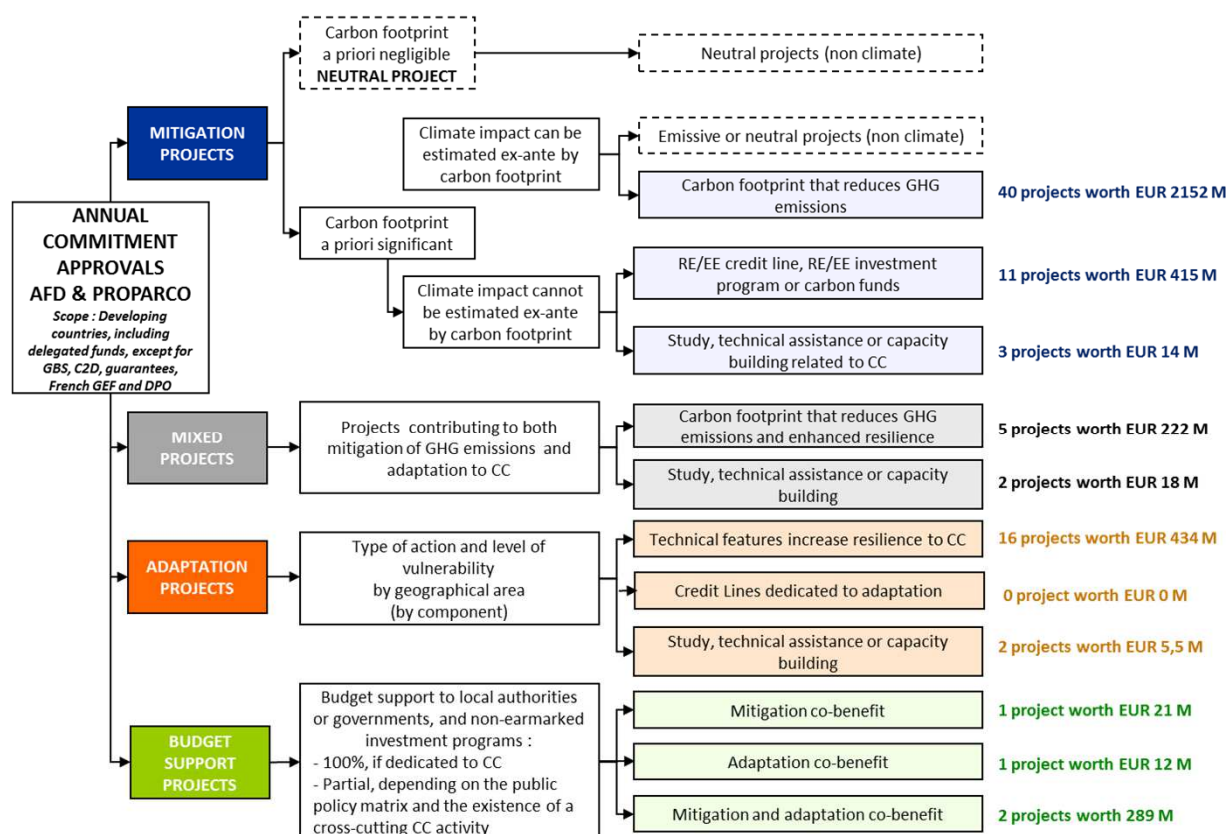
Finally, despite the fact that the proportion of **grants** earmarked for "climate" projects remains relatively low compared to total Group commitments (8%), the amount more than doubled compared to 2015, with some EUR 300M. This is due to the increasing effort to mobilize external resources delegated to AFD and to the creation of various "climate" project preparation funds (such as Ciclia, Euroclima+). In 2016, AFD also obtained its **first Green Fund financing** of EUR 15M, which will support a flood risk control program for urban areas in Senegal.

Accounting method

The monitoring of AFD Group's "climate" activity is based on a systematic review, at appraisal stage, of the financial allocations of AFD and PROPARGO with regard to their climate impact. AFD considers as "climate" projects development projects which have one or more of the three types of co-benefit depending on the climate issue involved.

Mitigation of greenhouse gas (GHG) emissions or carbon sequestration	A project contributes to mitigation when it allows the GHG emissions to be reduced compared to a benchmark situation without a project. A project is rated as a "climate/mitigation" project when: (1) the estimate of its carbon footprint demonstrates that it reduces or avoids (for renewable energy projects) GHG emissions; (2) or if the carbon footprint cannot be estimated at the time when the commitment is approved, this financing will be dedicated to actions contributing to mitigation (studies, capacity building and intermediated bank credit lines for renewable energy and energy efficiency projects). This methodology is strictly compatible with the Common Principles for Climate Change Adaptation Finance Tracking approved by the International Development Finance Club (IDFC) and multilateral development banks (MDBs).
Adaptation to climate change	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. 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). A project (or project component) is accounted for under "climate/adaptation" on the basis of (1) the analysis of the context of vulnerability to climate change in the project implementation area; (2) the demonstration of the beneficial impact of the actions planned for the project on the issues of vulnerability to climate change identified in the geographical area; (3) the fact that the project documentation sets out the objective of addressing the identified climate risks and vulnerabilities to climate change.
Support for the implementation of climate change prevention policies	For budget and sectorial support, there are three accounting possibilities: (1) budget support specifically earmarked for the climate (climate loans or support for national climate plans) are tracked to 100%; (2) for other sectorial budget support or support for local authorities, the methodology adopted aims at taking into consideration the content of the policy and sectorial dialogue with the counterparty (monitoring of common indicators) and the impacts on climate change prevention of the integrated approach it promotes. This method is based on a proportional tracking of the "climate" monitoring indicators compared to all the indicators in the matrix for monitoring the public policy implemented, and is supported by a positive action list for which it is considered that they have a climate co-benefit due to their very nature; (3) in the absence of public policy monitoring indicators, standardized and shared with the counterparty, it is possible to give the financing contribution a value of 40%, provided there is a cross-cutting "climate" activity allowing the dynamics underlying the action of the local authority or State to be identified.

Mapping of "climate" projects in 2016



For more information about AFD Group's commitments, "climate" activities, accounting and impact measurement methodologies, please refer to the "climate" section of AFD's website: <http://climat.afd.fr>