




Financial Systems

ACTIVITY REPORT

2023



Recent crises (including the 2008 financial crisis and the Covid pandemic) have shown that financial systems play a crucial role in helping to build countries' resilience and develop the trajectories they wish to follow. Indeed, underlying weaknesses can disrupt financial activities, resulting in crises that have devastating effects.

Conversely, financial systems can have a decisive effect on development by helping finance the achievement of the Sustainable Development Goals (SDGs). It's with this in mind that the Agenda 2030 and the Paris Agreement have called on financial players to support sustainable low-carbon investments in both the Global North and the Global South.

In 2023, the geopolitical and economic situations were characterized by ever-increasing uncertainty and national debt levels. In response, financial systems (especially central banks and public development banks) are key to raising the funds needed to achieve the SDGs and implement the Paris Agreement. Financial players are part of the solution, whether it be for a just energy transition, food security, or mobilization of the private sector.

This year, AFD Group once again increased the volume of financing it has committed or signed in support of private and public financial systems (€3.3 BN committed and €1.9 BN signed).

The projects it supports seek to:

- Improve the regulation of financial activities
- Assist green, digital, and other financial players in their transitions
- Facilitate access to appropriate financial services.

AFD Group's Financial Systems strategy

In 2018, AFD Group adopted a dedicated strategy to work toward building inclusive, sustainable, and responsible financial systems.



AFD Group supports local financial systems in three areas:

1

Access



We promote widespread access to financial services adapted to the needs of people and businesses, by:

- Serving people excluded from financial systems
- Supporting the financing of very small, small, and medium-sized businesses

2

Transition



We help build a new sustainable financing model that plays a key role in economic, social, and environmental transitions by:

- Combining the right financial support and technical assistance to help change financing practices
- Developing a dedicated approach to the community of public development banks, enabling AFD Group to play a leading role

3

Consolidation



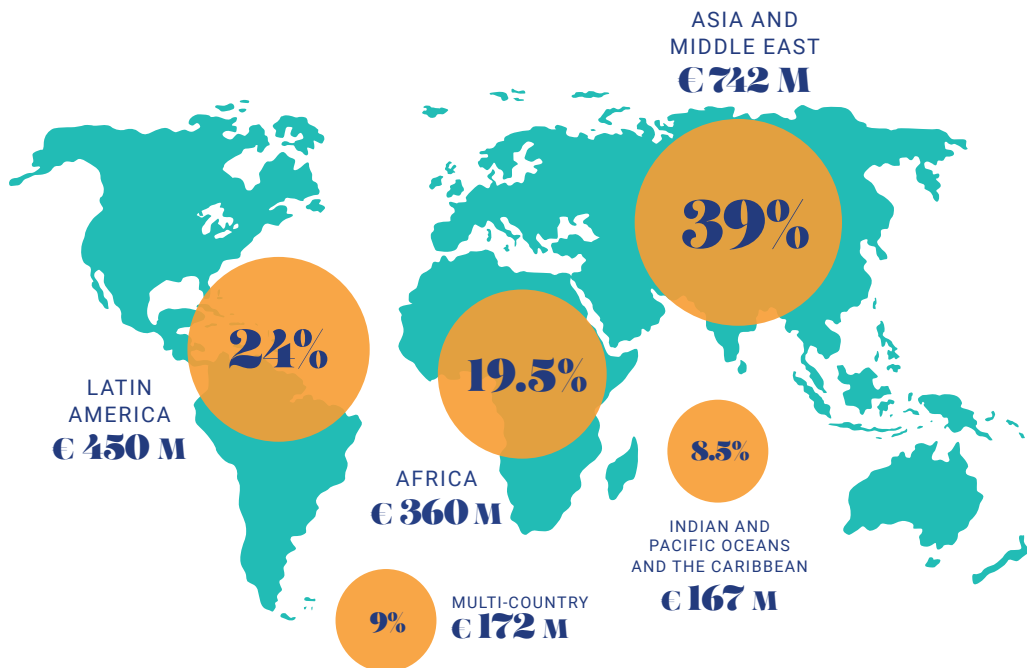
We consolidate financial systems to ensure their stability by:

- Establishing a structured operational approach to strengthen the regulation of financial systems
- Stimulating the development of new financing vehicles and tools

Our activity to support financial systems in 2023

Regional breakdown

of projects signed by AFD and Proparco in foreign countries in 2023



€1.891 M

signed by AFD Group
targeting the sector in 2023

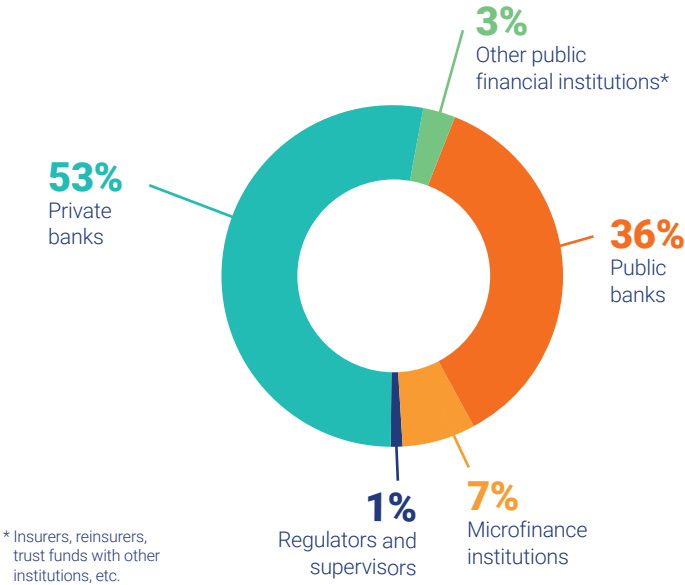
(40% AFD and 60% Proparco)

€3.320 M

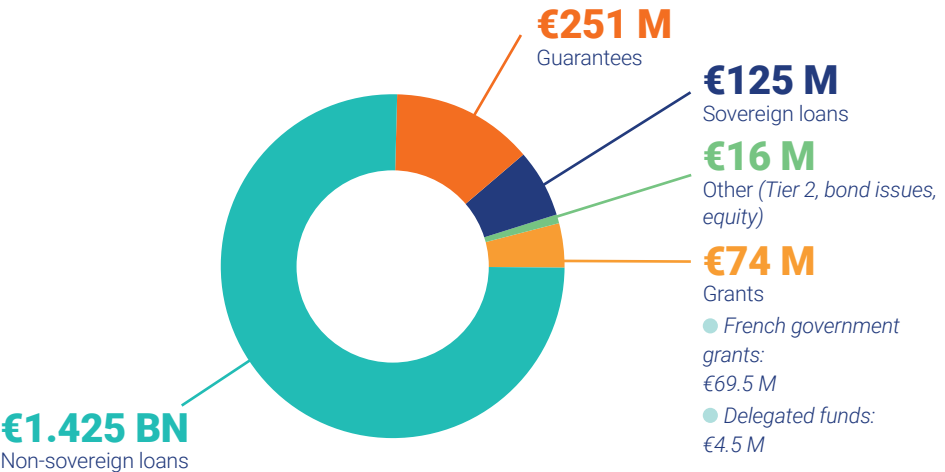
committed by AFD Group
targeting the sector in 2023

(51% AFD and 49% Proparco)

Our beneficiaries (in volume, by agreements signed)



Our tools (in volume, by agreements signed)



Our contributions to the SDGs

The June 2023 Summit for a New Global Financing Pact reaffirmed the need to mobilize all sources of financing to meet the dual challenge of reducing inequalities and preserving the planet. Meanwhile, the Paris Pact for People & the Planet and the roadmap it has developed have clearly recognized the fact that national financial systems – and especially public development banks and financial regulators – can raise funds and act as a driving force for the implementation of the SDGs and the Paris Agreement.

AFD Group therefore focuses its operations on:



supporting banks

to help them better target the SDGs through their investments



strengthening regulation and supervision

to improve both the resilience of financial systems and financial inclusion, and to support the low-carbon trajectories of its partner countries

Contribution of projects financed in 2023 to the SDGs:



59% of AFD Group projects provide a climate benefit (94% of projects signed by AFD and 47% signed by Proparco).

1,550,000 Teq CO₂/year will be avoided by projects signed by AFD Group.



38% of new projects signed by AFD will have a positive impact on reducing inequalities.



90% of the projects signed by AFD will have a positive impact on the governance of financial institutions.



1,252,000 direct and indirect jobs will be created or supported by the projects signed by AFD Group.

164 financial institutions received AFD Group financing.



39% of financing signed by AFD Group will have a positive impact on gender equality.



All the new projects signed by AFD will have a positive impact on raising funds. They will generate €1.8 BN in investment.

Examples of new projects financed

Nigeria



Women's entrepreneurship support, with the Development Bank of Nigeria (DBN)

AFD has provided a new line of credit (€50 M) to the DBN. By financing businesses owned or managed by women, it will help reduce gender inequalities in Nigeria. Loans from the program are expected to benefit 13,000 MSMEs (of which 15% are first-time buyers) that meet gender criteria. The project also provides for a capacity-building program for the DBN and its partner financial institutions.

Pacific



Helping Pacific Island countries to deal with climate change

AFD has approved strategic support for central banks and public development banks in the Pacific region, to strengthen the capacity of its island states to deal with the effects of climate change. The €6M grant, implemented by the Global Green Growth Institute (GGGI), benefits six central banks of countries in the region (Papua New Guinea, Vanuatu, Fiji, Solomon Islands, Samoa and Tonga) and the Association of Development Financing Institutions in the Pacific (ADFIP).

Africa



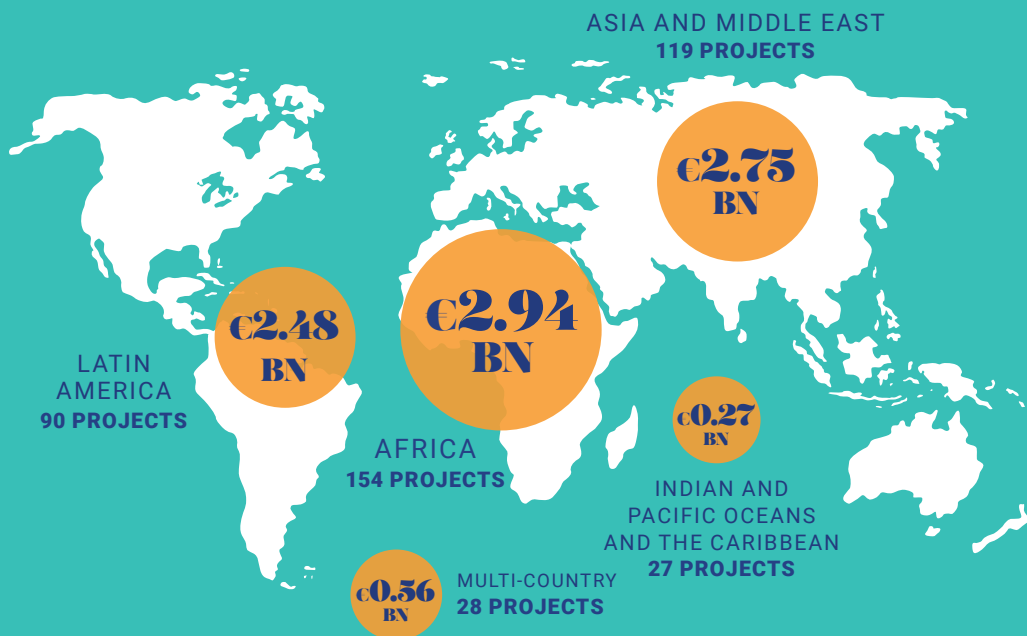
Guidance for ECOBANK Group's sustainable-development and climate-change strategy

Proparco led a consortium of European development finance institutions to provide Ecobank a €200 M loan to support its sustainable-development and climate-change strategy. This is the first sustainability-linked loan granted to a financial institution in sub-Saharan Africa that is conditional on a far-reaching climate action plan. Proparco will provide technical support to the parent company to achieve these objectives.

Projects being implemented

AFD's financial systems activities also involve managing a portfolio of projects currently being implemented, representing 18% of AFD Group's total outstanding loans. AFD Group's teams are active in implementing projects and capacity-building activities for financial players, as well as in public policy dialog with the entire financial ecosystem.

Regional breakdown



418

Projects under implementation

(excluding study funds)
as of December 31, 2023



Financing portfolio

€9 BN

(€1.9 BN disbursed in 2023)

Two illustrative projects



Support for financing energy-efficient housing in Armenia

The residential building sector is responsible for 35% of energy consumption in Armenia. That's why AFD has been supporting the National Mortgage Company (NMC) since 2013 in financing energy renovation for housing. The projects have financed over 15,000 loans and generated energy savings of 51 GWh per year, while the reduction in greenhouse gas emissions is estimated at over 21,000 t-qCO₂ per year. The program has also had a significant impact on public policy: NMC was the driving force behind Armenia's energy passport scheme, which gradually became compulsory for all new building construction in the country from January 1, 2024. AFD is currently pursuing its cooperation with NMC via support for its first green bond issue.

**Non-sovereign loan €13.7 M in 2013
€24.2 M in 2021**

EU grant: €1.5 M



Boosting the financial inclusion of intra-continental refugees, displaced persons, and temporary migrants

(Mercy Corps, Kiva, Cohere, Handicap International, Fundacion Capital, IRAM)

Following a call for proposals, AFD is financing two selected projects, through FISONG.

In Uganda, Mercy Corps, Kiva, and Cohere have developed an innovative financing scheme to encourage financial institutions to extend and adapt their financial services to refugees: 2,237 people (refugees and members of host communities) gained access to credit, and more than 1,250 people received financial education training.

In Colombia, Handicap International and Fundacion Capital are helping to improve the quality of life of migrants, especially women, through financial inclusion. The project made it possible to design two smartphone applications dedicated to financial education.

More than 1,500 people were trained in the use of financial services, and more than 550 (of whom 81% women) were able to access a formal financial service. Finally, IRAM supports partner NGO teams in conducting cross-capitalization to encourage the emergence of shared knowledge.

Grant: €2.4 M

Accountability and knowledge production

An accountability framework that better reflects how AFD's financial systems activity helps achieve the SDGs



For the past several years, AFD Group has imposed on itself an accountability framework with a twofold objective: to measure the effectiveness of its action with players in the sector and to make its results align with the SDGs. In 2023, an in-depth analysis of the links established between the indicators forming this framework and each SDG target was carried out, to better account for the im-

pact of these operations on the SDGs. This work reflects AFD's determination to meet its accountability obligations by adopting a results-based approach. The methodological framework for some indicators will be overhauled in 2024, based on the conclusions of this project.

Studies to document the inclusivity of Proparco's microfinance operations, with a focus on fragile contexts



Proparco financed "60 Decibel"¹ studies for some of its clients in 2022-2023. One of the team's objectives was to validate the hypothesis that Proparco's support for certain microfinance institutions (MFIs) that are fragile or operating in a difficult context is still relevant in terms of its impact on financial inclusion, despite an often high financial risk. Analysis of the findings of 12 studies has shown that, in countries with a low penetration of financial services, our client MFIs are the first to provide access to credit for the vast majority of their clients.

What's more, the MFIs with the highest inclusivity indices² are also those with a majority of rural and agricultural clients and/or that mainly provide group loans. Finally – and this was the main objective of the study – indicators of first access to credit and inclusivity are generally better for "riskier" clients who are fragile or operating in a difficult context (examples include NRSP in Pakistan, Proximity in Myanmar, AB Bank in Zambia, BRAC in Liberia).

¹ Studies similar to impact studies.

² Gap between the proportion of MFI clients living below the poverty line and the proportion of the population of the country living below the poverty line.

Partnerships for greater impact on the ground



CGAP is the world's leading consultative body dedicated to increasing financial inclusion and to enabling the development of more sustainable, resilient, and equitable financial ecosystems. AFD Group renewed its assistance to CGAP in 2023 by contributing €2 M to finance its 2024-2028 strategy. This support will help CGAP to fund research and pilot projects as well as to enrich discussions with their member donors on six priorities:

- Mobilizing financial services for climate change adaptation/mitigation and for a just transition
- Mobilizing financial services for women and SMEs, to develop new economic opportunities
- Increasing the scale and comprehensiveness of financial inclusion
- Promoting positive ecosystems of responsible finance and improving financial sector regulation
- Improving the effectiveness of social impact investment and the inclusiveness of voluntary carbon markets
- Gaining better understanding of the most efficient paths to financial inclusion, depending on the context and type of beneficiary

Friendship Facility



Under the "Friendship Facility" financing agreement established in 2011, Proparco, FMO (the Dutch entrepreneurial development bank), and DEG (the German investment and development company) propose and implement joint projects to serve clients more effectively.

Proparco took part in six Friendship Facility projects in 2023, for which a total of €252 M in loans was granted on its behalf. Four projects led by Proparco helped raise a total of €456 M for its clients (from Proparco and other participants).

Towards a world in common

Agence Française de Développement (AFD) Group finances, supports and accelerates the transitions necessary for a more just and resilient world. It thus contributes to implementing France's policy on sustainable development and international solidarity. It is with and for communities that we build, with our partners, solutions in more than 160 countries, as well as in 11 French over-seas departments and territories.

Our objective: To reconcile economic development with the pre-servation of common goods: the climate, biodiversity, peace, gender equality, education and health. Our teams are involved in more than 3,600 projects in the field, which are part of the commitment of France and the French people to fulfilling the Sustainable Development Goals. For a world in common.



www.afd.fr - Twitter : @AFD_France - Facebook : AFDOfficiel

5, rue Roland-Barthes - 75598 Paris Cedex 12 - France

Tél : +33 1 53 44 31 31