



Climate Action in Financial Institutions

PRINCIPLES FOR MAINSTREAMING CLIMATE ACTION

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AFD's program to make the financial systems converge with the climate agenda

Institution

Principle



PRINCIPLE 3:
PROMOTE
Climate
Smart
Objectives

Publication date: 2020

Date policy / tool established	Additional capacity required (eg: staff, resources, other)	How established?
<p>In 2019, AFD Group launched a major program in partnership with the Green Climate Fund (GCF) named "Transforming Financial Systems for Climate" (TFSC) in 17 hosting countries, aimed at mobilizing Local Financial Institutions (LFIs) by building the financial instruments adapted to their needs and scale up private sector climate finance. By doing so, the program aims to create a market for investments in climate technologies.</p>	<p>The TFSC program is in line with the AFD Group's strategies: (i) to support the transformation of financial systems' practices to promote a sustainable pathways, and (ii) to redirect financing flows towards climate change mitigation and adaptation projects.</p> <p>The program did not therefore require the recruitment of extra staff resources. However, a consultant was mobilized during the instruction process of the program.</p>	<p>The program builds on over 15 years of experience in implementing green finance projects in 40 countries. AFD Group has made a funding proposal to the Green Climate Fund (GCF), which was approved on October 2018 by the GCF's Board and on November 2018 by the AFD's Board.</p> <p>The total budget is EUR 653 million, of which EUR 240 million from GCF and EUR 413 million from AFD Group (EUR 615 million in non-sovereign loans and EUR 38 million in technical assistance grants). The Funding Activity Agreement (FAA) between the GCF and AFD Group has been signed in June 2019. The effectiveness has been reached on October 2019. Since then, the program is under effective implementation.</p>

Monitoring, reporting tools	How implemented
<p>The monitoring and supervision (M&S) system is based on four elements:</p> <ul style="list-style-type: none"> • Semi-annual reporting from the LFI, including requirements on the LFI's strategy towards climate, the use of funds, environmental and social aspects, results and impacts indicators, etc. • Technical assistance mandated on each project using the TFSC's resources to measure and assess results and impacts; • Periodic supervision missions carried out by the AFD's project team and if needed the GCF supervision entity; • Ex-post evaluations delivered on each project using the TFSC's resources. <p>The TFSC's M&S procedures are compliant with the AFD Group's and the GCF's requirements, in particular the GCF accountability framework ("Performance measurement framework"). Semi-annual consolidated progress reports are produced by AFD Group to demonstrate the program's implementation.</p>	<p>(i) The GCF acts as the financing partner. As accredited entity, AFD is in charge of the program's execution in its entire lifecycle, from identification of operations in the potential 17 hosting countries to the ex post impacts evaluation.</p> <p>(ii) Acting as implementing entities, public and private LFIs on-lend the funds provided to project owners to finance eligible investments. These eligible investments are selected within the most promising thematic areas (renewable energy, energy efficiency, adaptation to climate change such as agro-forestry projects, water management projects, etc.), taking into consideration the context of local public policies and climate change priorities. The generic eligibility criteria have been drawn with the GCF for the entire TFSC program.</p>
Key Lessons	
<ul style="list-style-type: none"> • This partnership with the GCF allows AFD Group to scale up its blended finance towards climate objectives in its countries of interventions. This funding will lead to the gradual transformation of the strategy and practices of local financial players, and thus foster the emergence of a more sustainable socio-economic system, counting on a significant leverage effect on the private sector. • Moreover, this program allows AFD Group to maintain a strong and innovative position in climate finance initiatives to the benefit of our partnering institutions in potentially 17 hosting countries (financial institutions, financial regulators and supervisors, other institutional partners, etc.). Especially, additional efforts to bridge the climate adaption investment gap with the LFIs is a strong asset of the program. 	

Introduction

Since the 1960s, AFD has been engaged in an active partnership with financial institutions in its countries of operation to promote access to an adapted and diversified financial offer, to promote a sustainable finance model and to strengthen the architecture of the financial system to ensure its stability. AFD provides its expertise and appropriate financial resources to financial actors (financial institutions, regulators, supervisors) to make sustainable investments happen, while financial institutions provide their knowledge of their network, and their clients' confidence.

This solid track-record, which makes AFD one of the most dynamic partners in this sector, has made it possible to develop the SUNREF initiative (Sustainable Use of Natural Resources and Energy Finance) from 2006 in

order to promote investments in sustainable energy and environmental services in developing countries.

AFD has therefore a strong record of accomplishment in the implementation of this kind of financial tools worldwide. To date, more than 75 green finance projects have been successfully implemented in partnership with about 120 local financial institutions and institutional partners in more than 45 countries of operation, for a total commitment of over EUR 3.0 bn allocated by AFD, including EUR 1.7bn already disbursed (2014-2019).

The aim of the "Transforming Financial Systems for Climate" (TFSC) program is to deepen and to go beyond this experience by diversifying its portfolio with additional adaptation projects in sectors like smart agriculture, water management, resilient

infrastructures and sustainable housing. In parallel, the program will enhance its commitments on the mitigation side through additional and innovative projects in green infrastructure, waste management, forestry, and energy efficiency in buildings.

Through this approach, AFD will continue to assist local financial systems to scale up their effort towards climate finance.

Development and design

The goal of the program is to promote investments in climate technologies by addressing financial and technical barriers faced by the Local Financial Institutions (LFIs) and other stakeholders to enable adequate financing of such investments and projects carried by local economic actors. In this context, the program consists of two components:

- (i) Credit facilities to LFIs - This component consists of the provision of credit lines to LFIs with adapted financial incentives and eligibility criteria tailored to foster the best climate investments locally.
- (ii) Dedicated technical assistance (TA) programmes - This component consists of the provision of technical assistance to LFIs to minimise these risks by increasing their skills and competencies in the field of climate finance and of sustainable banking.

These two complementary components aim at contributing to the gradual transformation of the strategy and practices of financial actors. It thus promotes the emergence of a more sustainable socio-economic system that will depend upon the leverage effect it will have on the private sector. The first financial transfers will start within a few months. The expected impacts go beyond the sole framework of climate action.

Implementation

The GCF Board validated the program during its 21st Board in October, 2018: in order to go from the idea to validation, 18 months were needed during which a concept note was submitted, that gave rise to a funding proposal. Once AFD got the Board's approval, an independent panel of experts known as the IDAP, evaluated the program's structure. It could then be submitted to the GCF Board for an ultimate validation. The Funding Activity Agreement (FAA) has been signed in June, 2019 and the program is effective since October, 2019. This program is running until 2026.

Next steps

The TFSC program still has three years to commit all its funds, it is therefore necessary to continue developing the number of countries and partners. The AFD's Africa Division, together with Proparco, is handling the prospective part of the program and currently works on new opportunities in South Africa, West Africa, Nigeria and Morocco.