



Climate Action in Financial Institutions

PRINCIPLES FOR MAINSTREAMING CLIMATE ACTION

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AFD Strives to Reconcile Development and the Fight Against Climate Change: Dedicated Climate Change and Development Strategy

Principle

Related Work Stream(s)



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Date Policy/Tool Established	How Established?	How Implemented	Additional Capacity Required (e.g., staff, resources, other)
2012 (date it was formalized)	By Board approval.	Rolled out throughout AFD's activities over 4 years, building on previous activities and accumulated experience.	Required training and development of tools and procedures, some of which with the help of external consultants.
Key Lessons			
<ul style="list-style-type: none"> • AFD climate strategy was developed and eventually formalized after several years of development of climate activities (sector strategies, tools, allocation of human and financial resources . . .). • The strategy represents a step in a broader climate change mainstreaming process and is meant to be regularly updated based on accumulated learning and experience. • Strong managerial support over the long run and at all levels is required for a successful implementation of such a strategy. 			

Introduction

In 2012, the French Development Agency (AFD) formalized a dedicated strategy aiming at reconciling development and the fight against climate change. The AFD Group ***Climate Change and Development Strategy for 2012–2016***,¹ adopted by AFD's Board, structures and raises the level of ambition of the climate related activities of AFD.

This strategy is comprised of three pillars:

- **Pillar 1—Climate finance objectives:** Targets include committing at least 50% of its financial allocations to developing countries, as well as 30% of the allocations of Proparco, its private sector financing arm, to climate-related development programs. For AFD, these targets are broken down by geographical area: 70% in the Asian and Latin American regions, 50% in the Mediterranean region and 30% in Sub-Saharan Africa.
- **Pillar 2—Assessing climate change impacts in a systematic manner:** AFD will consistently quantify GHG emissions, and emissions reductions from projects it finances.
- **Pillar 3—Project selection according to Climate Impacts.** AFD pledges to consider the impacts that projects have on climate change in its funding appraisal and evaluation criteria.

This strategy also sets the overall objective of maintaining and further developing AFD's ambitious position as a financier of the international fight against

climate change. AFD sees this positioning as part of a renewed climate-oriented identity that integrates climate change and development in an operational manner—thereby “greening” its operations over time, building on the many synergies between these two imperatives, without sacrificing either objective for the sake of the other.

Development and Design

AFD's Climate Change and Development Strategy was developed tacking stock of its previous experience, including the progressive structuring of a portfolio of climate-smart development programs since the early 2000s and the development of a tool and procedures to quantify climate impacts.

For instance, AFD was one of the first few international financial institutions and development banks to begin quantifying (as early as 2007) the expected greenhouse gas emissions and emission reductions of the projects it contributes to finance. Consultants helped establish the carbon footprint tool. AFD regularly receives requests for cooperation in this area from other financial institutions in both developed and developing countries. Discussions with its partners and inputs from research of the scientific community have gradually made this tool more reliable. The Strategy was elaborated mostly internally, on the basis of external consultations (civil society, peers and key partners). Adding to strong managerial support, this approach proved key to build consensus around the strategy. The internal maturation process took a couple of years for the Strategy to be elaborated and finalized, before it was presented to AFD's Board in 2012.

¹ Available at http://www.afd.fr/webdav/site/afd/shared/PORTAILS/SECTEURS/CLIMAT/pdf/Climat_GB_HD.pdf.

FIGURE 1 AFD's Selectivity Grid

	Least Developed or Crisis Countries	Middle-Income Countries	Emerging Countries
Mitigation project ($< -10\text{ktCO}_2\text{e p.a.}$) Or project with low impact (between $-10\text{ktCO}_2\text{e p.a.}$ and $10\text{ktCO}_2\text{e p.a.}$)	AFD Group funding possible	AFD Group funding possible	AFD Group funding possible
Emissive project (between $10\text{ktCO}_2\text{e p.a.}$ and $1\text{MtCO}_2\text{e p.a.}$)	AFD Group funding possible	AFD Group funding possible	Possible if not concessional funding. Concessional funding possible if, and only if, the country has a climate policy.
Strongly emissive project ($> 1\text{MtCO}_2\text{e p.a.}$)	Funding possible. If the funding is concessional the country must have a climate policy.	No funding unless the country has a climate policy.	No AFD Group funding

Implementation

The implementation of AFD's climate change strategy throughout the Agency is facilitated and monitored by AFD's Climate Change Division. AFD implements each of the pillars in different ways. For example:

- Since 2012, all projects financed directly by AFD and Proparco in developing countries (excl. budget support, financial intermediation and capacity building) with a significant and quantifiable impact in terms of greenhouse gas emissions (increase or decrease) are required to undergo an ex ante analysis of their carbon footprint. AFD's operational procedure manual includes this provision and provides for a carbon footprint estimate as early as possible during the identification of the financing. The assessment is then gradually refined during the appraisal process.
- AFD employs a selectivity grid to determine project eligibility. Project impacts in terms of greenhouse gas emissions are taken into account, and projects are considered in light of AFD's mandate, the level of development of countries, its climate change strategy and the project's carbon footprint. AFD's selectivity grid is shown in Figure 1 on the following page.

Experience and Impact

Since 2005, AFD Group has allocated nearly EUR 18 billion for activities that have a positive co-benefit for climate change issues, representing these past few years between 5 and 10 percent of international public climate finance. AFD's commitment is also ambitious in that it implies that AFD's investment practices for energy, transportation and other sectors will increasingly take account of the benefits for the fight against climate change, and that new practices will emerge in sectors such as agriculture or urban development and city policies. The commitment was also designed to be fully aligned with AFD's development assistance objectives and not to compete with its poverty reduction or social development efforts. Finally, these objectives require AFD to consider climate-related operations in a multi-year horizon, aligning them with the progressive construction of countries' "climate" policies and the international climate architecture.

AFD is cognizant of the scale of the technical challenges that still need to be met in the context of the strategy. As such, the strategy is to be considered as an evolutionary stage, intended to thoroughly

examine complex issues and integrate major challenges related to climate change. These include the harmonization and enhancement of climate impact measurement and monitoring methods, finding practices and innovations that can transform development methods, or a greater involvement of the private sector and of countries' financial actors in the international climate finance architecture. In this respect, AFD intends to pursue and strengthen its partnership-based approach for exchanges and dialogue with all the stakeholders who contribute to efforts to the fight against climate change.