



# Climate Action in Financial Institutions

PRINCIPLES FOR MAINSTREAMING CLIMATE ACTION

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## Assessment of Projects' GHG Emissions at AFD: Implementation of a Comprehensive Carbon Footprint Tool

Principle

Related Work Stream(s)

<p>PRINCIPLE 4: <b>IMPROVE Climate Performance</b></p>	 <p>MAPPING REPORTING INITIATIVES AND UNDERSTANDING IMPLEMENTATION CHALLENGES</p>
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Date Policy/ Tool Established	How Established?	How Implemented	Additional Capacity Required (e.g., staff, resources, other)
2007, re- designed in 2011	First by internal procedure; later integrated as a pillar of AFD's Climate Change and Development Strategy	Carbon footprint measurement is systematized in AFD's operating procedures and is an integral part of appraisal process and documentation.	Required development of a specific tool and procedures and an important training program. The Carbon Footprint Tool was designed with the help of external consultants.

### Key Lessons

- The Carbon Footprint Tool is a powerful vector to disseminate knowledge about climate change issues and related opportunities and risks both internally and with clients and partners.
- As a result, the early implementation of the tool within AFD tremendously facilitated further climate change mainstreaming actions the following years.
- The integration of carbon footprinting within operational procedures and the elaboration of a significant training program were also key.
- Next steps relate to the elaboration of harmonized frameworks for GHG accounting across financial institutions, and further analysis of the potential strategic implications of carbon footprint assessments.

## Introduction

The assessment of the climate impacts of projects has become overtime an important element of the systematic assessment of the overall impacts of the projects AFD appraises for financing. This exercise is complementary to the accounting exercise of the amount of climate finance AFD deploys, and constitutes a key piece of the technical assessment of projects.

AFD assesses in particular ex-ante projects greenhouse gas (GHG) effects in view of:

- quantifying projects impacts on GHG emissions,
- guiding the project teams and clients, throughout the appraisal process of projects, in identifying optimization opportunities and evaluating alternative technological options,
- evaluating projects' fossil fuel dependency and associated operational risks,

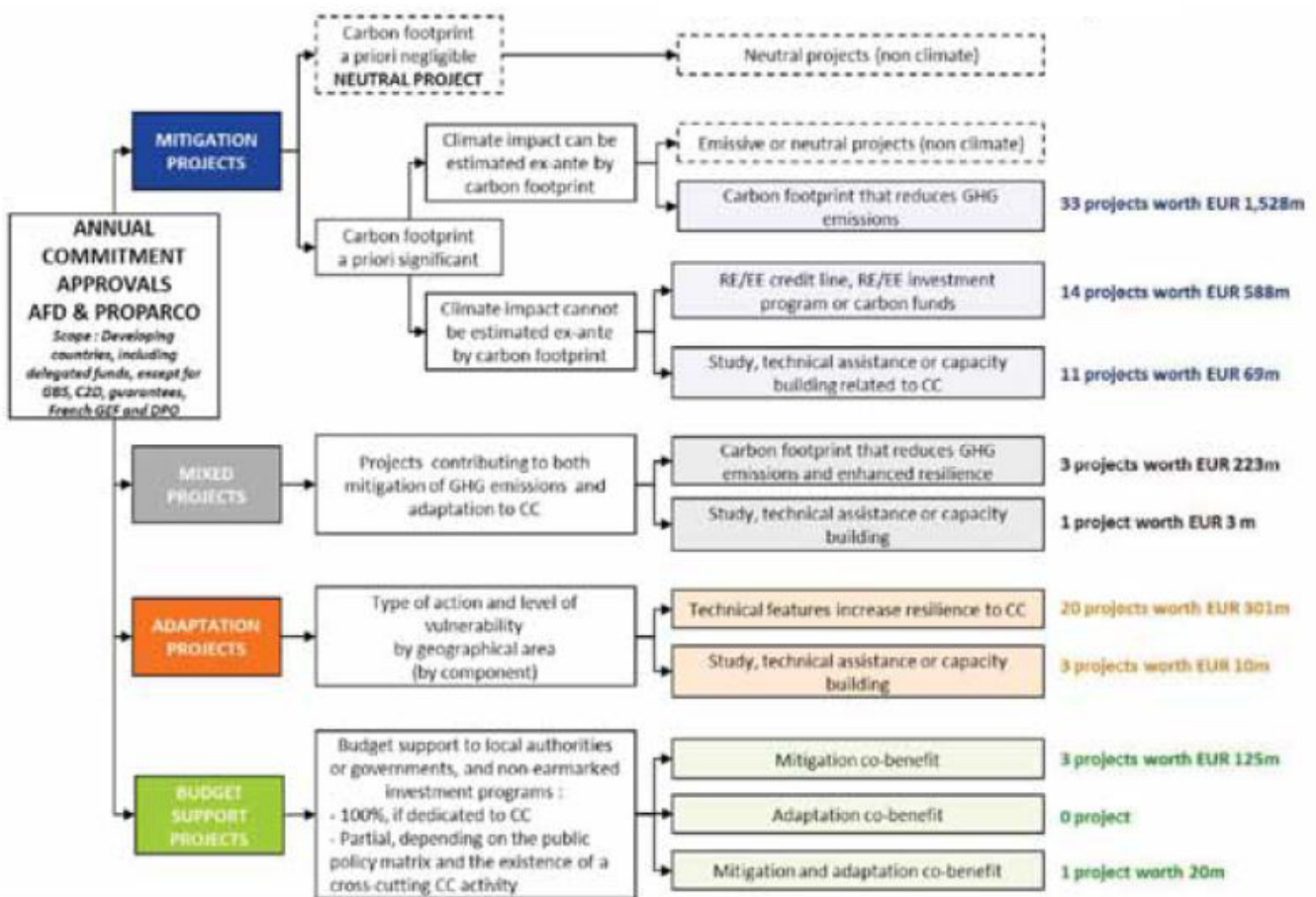
- obtaining input data for project eligibility against a selectivity matrix designed to avoid very emissive projects,
- contributing to AFD Group's accountability efforts by communicating on the anticipated benefits of its mitigation climate financings.

## Development and Design

As early as 2007, AFD developed its own tool to quantify the estimated emissions and emissions reductions of projects under appraisal. A comprehensive Carbon Footprint Tool was re-designed with the help of a consultancy in 2011. The tool is in line with best international practice and with international standards.

It covers GHG emissions, reduced or avoided, by projects throughout their lifecycle. This includes both the construction phase (materials used for construction, energy consumed during construction) and the operating phase (burning of fossil fuels, emissions generated by the project, grid electricity

**FIGURE 1 Mapping of "Climate" Projects in 2014**



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

consumed, materials used, fertilizers used, emissions from waste, freight, passenger transport, land use, use of utilities/ factories and emissions associated with the end of project life).

The AFD's carbon footprint methodology is calibrated to produce conservative estimates: in case of doubt, an underestimation of avoided emissions or an overestimation of GHG emissions generated is preferred. The estimation takes into account direct and indirect emissions and thus includes upstream and downstream emissions of projects ("Scope 3"). The tool is dove-tailed to different types of projects and it calculates the carbon footprint based on the latest data available on GHG emissions by sector.

The net carbon footprint is obtained by comparing the project's emissions to a reference or baseline scenario. Emissions generated by a project are compared to a scenario without the project where no alternative action or technology is deployed—except for renewable energy projects, where a baseline based on the existing mix is considered. Choosing such a reference scenario is in line with AFD's conservative approach and ambition to account for net emissions reductions (while emissive low-carbon projects are also supported). For example, if a factory-refurbishing project improves energy efficiency while at the same time increasing production, overall GHG gross emissions can increase and the AFD carbon footprint calculation will in such case show an increase in emissions, even though GHG emissions per unit produced have decreased.

## Implementation

The carbon footprint measurement is systematized in AFD's operating procedures and is an integral part of the project appraisal documents. This includes the carbon footprint estimation, data on the main sources of emissions and a list of potential actions to further limit emissions.

Based on a rough carbon footprint measurement conducted during the upstream project identification, a more detailed and refined carbon footprint calculation is conducted during the project appraisal process. The aim of the ex-ante carbon footprint is to provide an order of magnitude for GHG emissions that a future project will create or abate, as opposed to achieving extremely precise figures, which would often imply narrowing the analysis. An overall scheme of the process as applied to the 2014 AFD portfolio is presented in the Figure.

## Experience and Impact

AFD publishes information yearly regarding the volume.<sup>1</sup> and nature of its climate finance portfolio, including data disaggregated by geography, sector and types of financing instrument, which is based inter alia on the systematic assessment of projects as described above. Moreover, this approach has enabled AFD to disclose since 2011 an overall figure<sup>2</sup> regarding emissions reductions for the portfolio of mitigation projects it supports (excluding credit lines or budgetary support).

In parallel AFD is involved in the efforts of IFIs (notably through the IFI working group on GHG accounting) to develop joint approaches toward GHG accounting applied to various sectors.

The implementation of the Carbon Footprint Tool has been a key element to mainstream climate change considerations not only within AFD but also when engaging with clients and stakeholders, as it helps identify opportunities and risks, and evaluate alternative options when relevant.

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1 In 2014, AFD has committed the equivalent of EUR 2.9 billion for development projects and programs with climate co-benefits on mitigation and adaptation..

2 Mitigation projects and programs (excluding credit line or budget support) supported by AFD in 2014 will lead to an estimated reduction of emissions of 4.3 MteqCO<sub>2</sub>/year.