

Mainstreaming Low-Carbon Climate-Resilient growth pathways into Development Finance Institutions' activities



A research program on the standards, tools and metrics to support transition to the low-carbon climate-resilient development model¹

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Paper 3

Case Study: Integration of Climate Change into the operational activities of *Agence Française de Développement*

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Abstract:

²This case study examines the AFD's integration of climate and transition-related information and tools into its activities. It first presents the general investment process and the range of financial instruments used by AFD. Second, the framework elaborated in paper 2 of this series is used to analyze the upstream and downstream integration of long-term climate and transition objectives. It begins with the analysis of the upstream standards and information that are applied to transpose AFD's global strategy and Climate Action Plan into local and sectoral intervention plans and to guide AFD's initial project screening. It then explores the tools and instruments that are used during downstream process for project and program level assessments and optimization, before the final investment decision is made. Although the tools and standards implemented by AFD constitute a solid base for mainstreaming climate considerations into its activities, it seems that they could be further developed to allow for a more qualitative assessment of a project's contribution to 'low-carbon transformation' of a given country's economy. A number of opportunities and challenges to build on AFD's existing tools are identified to take this next step – first among which is the need to work with recipient countries and other development finance institutions to identify country-specific low-carbon climate resilient development pathways.

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Acknowledgements & Methods

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Department	Interviewee	Date
Climate change (CLI)	Pierre Forestier & Ophelie Risler	12/09/2014
	Nicolas Rossin	03/10/2014
Environmental and social risk management (AES)	Jean Noel Roulleau	09/10/2014
Financial institutions and private sector (IFP)	Mustapha Kleiche, C�eline Boulay & C�eline Bernadat	30/09/2014
Asia (ASI)	Mounia Chakir	07/10/2014
Sustainable transports and energy (TED)	Arnaud Dauphin	20/10/2014
	Mathilde Bord-Laurans	07/10/2014
	Mathieu Bommier	
Proparco	Julia Richard de Chicourt	28/10/2014
	Bertrand-Hardy J�er�me	
UMR IRD- Dauphine University <i>D�veloppement, Institutions et Mondialisation (DIAL)</i>	Marc Raffinot	30/09/2014

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Disclaimer

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Executive Summary

The past decade has been marked by *Agence Française de Développement* (AFD)'s increasing involvement in international climate finance. In 2013, AFD's activity represented around 5% of total international public climate finance⁵ channeled by multilateral and bilateral development finance institutions and carbon funds as calculated by the Climate Policy Initiative. Using the framework developed in papers 1 and 2 of this series, this case study examines AFD's integration or "mainstreaming" of climate and long-term 'low-carbon climate resilient' transition objectives into its activities through the inclusion of related information, metrics and tools into its upstream and downstream decision-making process.

General Mandate and Activities of AFD

AFD Group⁶ is the public development finance institution charged with France's bilateral development activities for the last seventy years. AFD has the principal objective to "contribute to economic and social development in its geographical areas of operation". AFD's mandate and financing instruments are differentiated by region of intervention. In less-developed countries, AFD principally provides grants and budget support to contribute to the fight against poverty through infrastructure, urban development, agriculture, food security and access to healthcare, education and water projects. In middle-income countries, concessional loans are the main instrument used to support economic growth, reinforce territorial and social cohesion and improve environment and the quality of life of vulnerable populations. In emerging countries, most AFD loans are non-concessional loans – but often still at rates lower than those available in-country - with the principal mandate of financing green and inclusive growth. Through its subsidiary Proparco, AFD Group is also involved in direct private sector funding.

Inclusion of Climate Change by AFD

The AFD's formal inclusion of climate change into its strategy stems from the 2010 instruction from the Inter-ministerial Committee for International Cooperation and Development (CICID) to support "Green and Inclusive Growth" through its actions. AFD's climate strategy has been formalized by its transversal 2012 -2016 Climate Action Plan⁷ adopted by AFD's Board in November 2011. This plan has established three main priorities to drive AFD's financing operations: i) fostering a fundamental shift towards a more energy-efficient and lower-carbon economic development model; ii) valuing the climatic and environmental services provided by countries' natural resources; and iii) increasing the resilience to climate-change of people, goods and ecosystems. This action plan is also built on three pillars:

- The objective to make climate-related financing commitments equal to at least 50% of AFD's annual funding to developing countries, and 30% for its private sector subsidiary PROPARCO;
- A systematic measurement of the carbon footprint of funded projects, using a robust and transparent methodology;

⁵ The calculation is based on AFD's self-declared climate commitments in developing countries (AFD 2014) of 2,856 million USD in 2013 (2,150 million € converted using 2013 average exchange rate of 1,33 USD/€) and a total international climate finance of 59,200 million USD from bilateral, multilateral and funds from (Buchner et al. 2014)

⁶ AFD Group is made up of *Agence Française de Développement* and its subsidiary Proparco. Please note that in this case study, the acronym AFD does not include the activities of Proparco unless otherwise noted.

⁷ AFD (2012) : Climate Action Plan (2012-2016)

- A policy of selecting projects according to their climate impacts, taking into account the level of development of the countries in question.

The application of these three pillars aims to guarantee that the necessary efforts are undertaken to meet AFD's annual commitment objectives for projects with climate co-benefits. Individual financial commitments are classified as contributing to fulfilling AFD Group's objectives if they generate "climate co-benefits" through mitigation (emission reductions), adaptation (improved resiliency), or climate oriented capacity building and local policies strengthening in the form of Development Policy Operations (DPOs) or technical assistance.

AFD's portfolio of projects has evolved over the past decade to include a larger proportion of climate-related projects. Since 2005, a total of 18 billion euros of AFD's commitments have supported 'climate co-benefits' and thus been accounted for in AFD's international climate finance contribution. The share of climate finance projects in AFD's portfolio has increased from less than 17%⁸ in 2005 to 53% in 2014 (USD 2,865 millions)⁹. Between 2008 and 2014, the amount of financing that was committed to climate projects has increased by 69%. The financing of projects with GHG mitigation co-benefits continues to be the principal means of intervention and has increased by 82% in the same period. However, the financing of climate budget and sectoral support projects has also increased significantly by 123% and by 67% for adaptation projects.

Integration into upstream and downstream decision-making

Climate change has been integrated through different tools and procedures at the upstream and downstream level of decision making for financing allocated by the AFD (Figure 6). This case study used the analytical framework elaborated in paper 2 of this series looking at the upstream and downstream integration of climate and transition objectives (see Table 2).

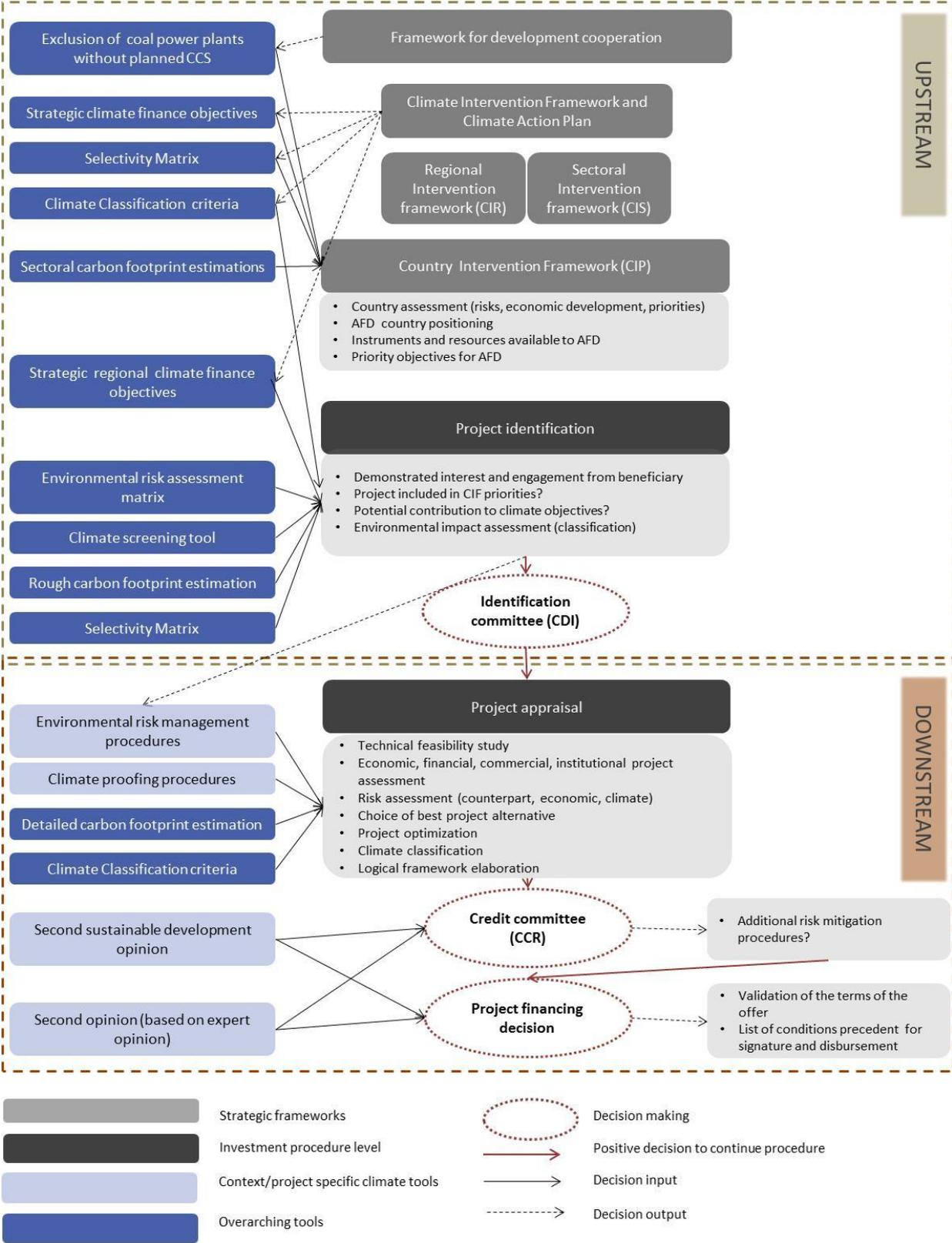
Upstream level - the integration of climate considerations into the broader investment framework

AFD has taken steps to integrate climate considerations at the upstream level to achieve the overarching objectives laid out in the 2012-2016 Climate Action Plan. Interviews with operational teams indicated that the strong commitment implied by the global (50%/30%) AFD Climate objective and the establishing of regional climate finance targets, has led to a "significant advantage" being given more and more to projects with climate co-benefits in the decision-making process. Concretely, this has occurred through the integration of climate into sectoral, regional and country strategic intervention frameworks as well as the use of a selectivity matrix in upstream project screening.

⁸ CPI (2011) : Public Climate Finance: A Survey of Systems to Monitor and Evaluate Climate Finance Effectiveness

⁹ These ratios are calculated on the basis of annual allocations in developing countries, excluding global budget support (GBS), debt reduction mechanisms (French C2D Debt Reduction-Development Contracts), guarantees, FEXTE and PROPARCO sub-participation (which are included in PROPARCO's commitments)

Figure 1 : Standards and tools applied by AFD in the investment decision-making process.



Source: Authors based on the revision of AFD documentation and interviews with AFD teams

Integration in strategic intervention frameworks and the classification of climate commitments

AFD's global climate commitment objectives are disaggregated at the regional level in line with broader regional mandates. AFD's regional strategies are elaborated by in-house technical teams through a dialogue with stakeholders before their final validation by the Board of Directors. One of the main upstream challenges for AFD is to match the Group's regional intervention frameworks with the investment needs expressed by the local counterparts in a manner coherent with the Group's Climate Action Plan.¹⁰

Climate objectives at the regional level are set in line with levels of development and their achievement is mutualized among countries within which the AFD is active in the region:

- In countries in Asia and Latin America regions, an ambitious target was set whereby 70% of AFD's financing should be dedicated to activities with a climate co-benefit. This target was set in line with the green and inclusive growth specific mandate that AFD has in these geographies and with the countries' needs.
- In the Mediterranean region this overarching objective was set at 50% to take into account important broad development-focused transition goals in this region in terms of energy, urban development and resilience together with economic and employment challenges.
- Finally, this objective was set at 30% in Sub Saharan Africa. This target takes into account the continent's potential for the deployment of green and renewable energy infrastructure to satisfy growing energy demand and the increasing need to integrate adaptation to climate change into countries' development pathways. The principal challenge of helping the African continent to tackle poverty and inclusive economic growth is also addressed.

In regional intervention frameworks, operational objectives are set for the region including indicative financing allocation levels taking climate as well as other overarching priorities into consideration. These indicative commitment targets are not formally binding, but are nevertheless seen as priorities by regional operational teams given the close attention that management gives to these objectives. In addition to its role as a transversal objective across all operations, supporting climate change projects and activities can be framed as a direct operational objective. The regional framework in turn identifies by operational objective the activities and principal countries where priority should be given.¹¹ This process occurs in collaboration with regional project teams and local public and private counterparties to ensure alignment with local priorities and needs.

The strategy laid out in the regional intervention frameworks is then used as a basis for country intervention. Opportunities to support the regional level priorities and operational objectives are then sought out at the country level. Contribution to the AFD's overarching regional climate target is thus taken into consideration in the country intervention frameworks through a selective prioritization of sectors and activities. This prioritization is dynamic and is adjusted as country intervention frameworks are updated. Close attention is given to the achievement of the regionally transposed climate targets by regional management instances and through Climate committees chaired by AFD's top management which take place three times a year. At these meetings the progress towards these regional objectives is verified.

Finally, given Proparco's business model whereby investment opportunities are demand driven, a geographical breakdown of operational objectives and a disaggregation of the 30% climate objective was not considered optimal. A more "positive list-based" approach is thus used to drive the allocation

¹⁰ AFD (2012) : Climate Action Plan (2012-2016)

¹¹ For an example, see AFD's 2013-2016 Asia Intervention Framework.

of financing toward sectors and technologies with a clear focus on renewable energy at all scales and through both direct contribution and support to the local banking sector.

The selectivity matrix: a key tool to facilitate project screening

In regards to project screening, AFD ensures that projects with extremely negative climate impacts are screened out de facto. In particular, AFD group decided in 2013 to formally forbid the financing of coal power plants that do not have an effective Carbon Capture and Storage (CCS) system in place. AFD's introduced an innovative specific climate selectivity matrix in its 2012-2016 climate strategy to reconcile climate and development considerations in the screening process. This matrix climate impact thresholds to facilitate project screening corresponding to the recipient country's level of development and how far they have gone in the development of an acceptable national climate strategy or policy. This selectivity matrix is a detailed grid elaborating on the maximum thresholds of CO₂ emissions for projects to be considered for financing respective to three types of countries (Least developed or crisis countries, Middle-income countries, Emerging countries) and the existence of an acceptable climate policy matrix in the recipient country.

Table 1: AFD's selectivity matrix

Type of project	Threshold	Least developed or crisis countries	Middle-income countries	Emerging countries
Mitigation projects	< -10KtCO ₂ e/year	AFD Group Funding possible.	AFD Group Funding possible.	AFD Group Funding possible.
Projects with non-significant Climate impact	between -10KtCO ₂ e/year and 10 KtCO ₂ e/year	AFD Group Funding possible.	AFD Group Funding possible.	AFD Group Funding possible.
Emissive projects	between 10KtCO ₂ e/year and 1MtCO ₂ e/year	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 projects	>1MtCO ₂ e/year	Funding possible. If the funding is concessional, the country must have an acceptable climate policy.	No funding unless the country has an acceptable climate policy.	No AFD Group funding.

Source: AFD - Climate Action Plan (2012-2016)

Downstream level - Project appraisal and risk screening preceding the final investment decision

Once a project has passed the initial screening phase, it enters into the appraisal process. The objective of the assessment of climate-related issues in this process is twofold.

- Firstly, the climate-component serves principally to assess and validate the climate co-benefits of projects that can be classified as contributing to AFD's objectives in this area. Based on more detailed carbon footprint estimations and climate co-benefit definitions, this process drives the tracking of AFD's contribution to its climate objectives.
- Secondly, the processes serve to identify how projects can be optimized to reduce their climate impacts. Case by case expertise is applied in the optimization of project specific choices in order to reduce climate impact during the lifespan of each project. This type of optimization does not occur systematically for all projects given timing and resource constraints, as well as the state of project advancement when AFD is contacted for financing.

In both cases, this is done in collaboration between the project team and AFD's transversal climate department. The process includes the use of the carbon footprint measurement tool, climate vulnerability screening and proofing tools and the inclusion of climate-related issues into other internal control procedures.

The carbon footprint measurement tool

A key piece for the AFD of the technical assessment of projects is the estimation of the project's GHG emissions. Based on the 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 at the downstream level.

The AFD's carbon footprint methodology is calibrated to produce conservative estimates; an underestimation of avoided emissions or an overestimation of GHG emissions generated is preferred. The tool covers the GHG emissions, reduced by projects throughout their lifecycle – including Scope 1, 2 and part of Scope 3 emissions. This thus includes emission generated during both the construction phase (materials used for construction, energy consumed during construction) and the operating phase (burning fossil fuels, emissions generated by the project grid electricity consumed, materials used by the activity, fertilizers used, emissions from waste fermentation, maintaining traffic and end of life).

The results of the quantification are contextualized by comparing them to a reference or baseline scenario. The AFD compares emissions generated by a project to a scenario without the project where no alternative action or technology is deployed, except for the renewable energy projects where the baseline is derived from the electricity production mix.¹² Carbon footprint measurements serve as input data for project eligibility - when compared to the selectivity matrix - and to a project's contribution to AFD's climate objectives - when compared to climate co-benefits definitions.

Climate vulnerability screening and climate proofing tool in under development

In 2015, AFD implemented a formal procedure to systematically address 'climate screening' at the downstream level which have been under development since 2012. Climate vulnerability is considered on par with other risks during the appraisal phase of a project and included as part of the technical and

¹² This varies from other project-based assessments (like the CDM) where the project scenario is compared with the next most viable or likely solution.

economic analysis. The climate screening tool aims to allow the classification of climate vulnerability based on: i) an institutional component, ii) a climate component including the amplitude and importance of temperature and rainfall changes, iii) a technical component including sensitivity analysis and (iv) contextual factors exacerbating climate risks. Thresholds are set beyond which a deeper analysis of the associated risk will have to be undertaken as part of environmental assessment studies and or the feasibility studies and propose adaptation measures if required. This latter part of the process is still undergoing a pilot testing phase.

The principal objective of the “climate screening” procedure is not to identify projects for exclusion. Rather, through the vulnerability rating process projects above an acceptable threshold of risk are identified. When this occurs, project teams have the objective to work with counterparties to identify options and determine the best alternative to reduce climate risk exposure.

Internal control procedures: Second opinion and second sustainable development opinion

Finally, at the final phases of investment decision making, the AFD has included specific internal control procedures. The Second Opinion is a dedicated team of the Risk Management Department that is responsible for formulating an “independent” opinion on counterparty and transaction risk as faced by appraised projects. The notion of risk is thus considered in broad terms and may include financial, institutional, technical, vulnerability and sometimes environmental and social risk aspects.

The *Second sustainable development opinion* is an internal review process established in 2014 that delivers an expert opinion on the level of sustainability of each project prior to investment decision. Six sustainable development criteria are reviewed including criteria to evaluate the contribution of the project to the fight against climate change and the preservation of the atmosphere. Climate change criteria is evaluated in coherence with the three pillars defined by the 2012-2016 Action Plan. This review results in a classification of the project’s contribution to sustainable development on a scale ranging from -2 to +3. A negative classification would refer to risks for which mitigation measures are considered insufficient.

This *Second sustainable development opinion* is essentially informative and aimed at fostering dialogue on issues and risks that may not have been identified during the earlier stages of appraisal. Together with the broader Second Opinion, it is one of the only two bodies that can formally request for a project to return to the credit committee before the final decision financing decision is taken by the AFD Board. The review is structured to provide recommendations to improve the quality of the project with regards its sustainable development impacts.

Taking stock and next steps to ensure that ‘climate-smart’ and ‘transition-smart’ decision making

As detailed in papers 1 and 2 of this series, despite the recent significant progress to mainstream climate change into development activities, the 2°C objective will necessitate further ambition to incite a ‘transition’ to a low-carbon climate-resilient economic model. The amounts required to achieve this transition are considerable and will require not only increasing flows to projects that reduce GHG emissions and increase resilience to climate change, but also capping – and reducing – investments in carbon-intensive activities and activities that increase the vulnerability of populations, ecosystems and infrastructures to climate change. Consistency with this objective may require changes in how DFIs integrate climate-related issues into their activities.

A key challenge resides in assisting recipient countries to develop strategies laying out preferred pathways to transition to a LCCR development model. These LCCR- development pathways could provide clarity on how a given country plans to achieve development objectives, while simultaneously contributing to the achievement of long-term climate goals. DFIs, in turn, could use these national strategies to prioritize support for development projects that also support a country’s transition to a

LCCR future. They could also scale up their work with national governments to support the development of domestic policy and regulatory frameworks that would support and prioritize the development and financing of these projects by local economic actors. The publication of Intended Nationally Determined Contributions (INDCs) within the framework of the UNFCCC appears to be a potentially useful development in this area as the financial plans are developed to implement the included actions.

Mainstreaming by DFIs would thus facilitate looking at how to achieve development objectives in a LCCR-coherent fashion rather than looking to finance individual “climate” investments. This would require a shift from ‘static’ assessment tools - that identify whether or not emissions are reduced or resiliency is increased by a single project or action – to a ‘dynamic’ process within which the ‘transition potential’ or ‘transition impact’ of a project or program is assessed within the context of national LCCR strategies. Thus, the coherence of DFI country intervention frameworks – as well as each investment - with the country-specific strategy to achieve the LCCR transition would be part of the ‘baseline’ against which investment decisions could be assessed.

Across the DFI community, a near-term priority should thus be the provision of assistance to recipient governments in the development of “country-specific LCCR-compatible development pathways” to achieve both long-term development and climate objectives. This process should avoid the repetition of past experiences where the development community was overly prescriptive and external benchmarks were applied to developing countries. These pathways or guiding strategies, tailored to the development needs, strengths and opportunities of each country to achieve a low-carbon climate resilient development model, should represent a shared vision between recipient governments, domestic private investors, and civil society. Furthermore, DFIs could strengthen collaboration across the entire donor community to coordinate and ensure the coherence of their interventions with nationally-determined LCCR pathways. These pathways should be revised to evolve over time as countries move ahead.

The tools and standards already implemented by AFD certainly constitute a solid base for mainstreaming climate considerations into its activities. The potential to strengthen the development and prioritization of the financing of projects that contribute to ‘low-carbon transformation’ of a given country’s economy remains to be exploited.

This case study has identified a number of entry points for the AFD to address opportunities and challenges to mainstreaming these issues. I4CE presents the following recommendations to be taken into consideration by the AFD as their strategy and operational guidelines evolve – but do not necessarily represent changes foreseen by the AFD at this time.

Upstream strategies and screening criteria

The integration of LCCR criteria into strategic intervention frameworks appears crucial to mainstreaming LCCR across AFD’s activities and aligning ambition with long-term goals. The development of such pathways should be done by national governments given the importance of contextualization and the need to implement economic and regulatory changes to foster such an economy-wide transition. Given that national engagement is key, it appears important for national governments to lead this process with assistance and technical support from the AFD and other development finance institutions to mutualize efforts. These pathways are a prerequisite for the elaboration of LCCR-driven operational targets for DFIs that could ultimately increase AFD’s potential to have a catalyzing effect on shifting a country’s economy towards a LCCR model.

- Increasing the ‘resolution’ of strategic intervention frameworks to include LCCR transition at the country level could help foster and align these strategic frameworks with individual national long-term LCCR objectives. The current regional disaggregation of climate commitments may

limit the identification and prioritization of support for country specific LCCR development pathways. Thus, to foster LCCR development, objectives could be set at country level and could be included in Country Intervention Frameworks, taking into account a country's individual level of development, and basic infrastructure and public policy needs as well as a potential LCCR development trajectory. This integration should focus on the different options and alternatives to reorient financing towards priority sectors, planning tools, policy support and individual projects that foster the achievement of development objectives using approaches, technologies, designs and methods coherent with the country's LCCR trajectory.

- However as seen in the case of many DFIs, while climate change is of increasing importance in the decision-making process, achieving AFD's broader global and regional financial objectives often remains at the heart of short-term operational focus. This suggests that to be effective in practice, additional climate and LCCR criteria must foster the prioritization of projects supporting a country's LCCR transition without overly limiting AFD's scope of intervention. This appears to require the definition of investment priorities and the development of tools that 1) are calibrated to country-level LCCR priorities, 2) allow the AFD to identify and prioritize support for projects and policy support programs inherently aligned with long-term climate and development objectives, and 3) assist in identifying non-climate specific development projects and programs whose alignment with the LCCR transition could be improved through the AFD's participation.

During upstream screening, AFD could foster the emergence of transformative change in key sectors by combining country-specific strategies and lists of priority investment sectors, value chains, and projects corresponding to a given country's chosen LCCR transition pathway. This should support both the deployment of low-carbon infrastructure investments and technologies as well as planning and policy measures to reduce the vulnerability and increase the resiliency of infrastructures, ecosystems and populations. The AFD and all other DFIs active in the country could use these common LCCR-coherent lists internally for project identification as well as communicated to counterparties to signal the priorities for support and foster project development in these sectors and value chains.

- The development of indicative, non-binding priority lists to facilitate that identification and clearly communicate to partners the AFD's aim to invest in: 1) sectors, value chains, technologies as well as projects clearly in line with the recipient country's LCCR transition; 2) areas of support and project types where AFD expertise, capacity building and or additional finance could reduce GHG impact and improve alignment with transition. These lists would not be designed to limit AFD to only investing in certain types of projects, but rather to clearly identify for operational teams and in-country counterparts the shared priorities of both the national and international development community.
- This could be complemented with the development of country-specific volumetric thresholds (emission performance standards) that could be applied to all development projects. These thresholds would become increasingly stringent over time to incite the optimization of GHG efficiency and resiliency of all development projects in line with national LCCR strategies. Ideally, these thresholds would not be designed to simply disqualify projects, but rather to identify where the involvement of AFD (whether through capacity building or financial support) could lead to the use of more efficient or transformative technologies and approaches to achieve the same development objectives.
- Both of these elements could be integrated into the existing AFD's selectivity matrix.

Furthermore, in AFD's upstream consideration of climate change, the definitions used to classify projects as climate-related using an estimate of their quantified climate co-benefits (GHG emission reduction, improved resiliency) have been a strong step forward. However, this approach does not appear to incentivize an assessment of the 'sufficiency' of the investments and actions in terms of

achieving the recipient country's long-term LCCR objectives. Further qualitative information on the project or investment's 'transition potential' or contribution could be of use. This could include an assessment of how the action supports the development of priority sectors, the introduction of new practices and technologies, its alignment with emission performance standards (see below), and/or the amounts allocated to support nationally-determined LCCR investment areas.

Downstream project assessment

DFIs appear to have the greatest potential at the upstream level to orient their activities towards country-specific LCCR development priorities. Nevertheless, at the downstream level, assessment could be refocused whenever possible on optimizing projects in terms of their contribution to both development and climate. Thus, when possible, regional and country teams should work with project promoters to compare different project alternatives and their respective 'transition impact' in line with a country's LCCR development strategy - or an appropriate proxy. Different technical or design alternatives could be considered to bring about the best available options.

From an operational perspective, the authors recognize that DFIs may not always have the influence or resources to directly influence the choice of final project alternatives. However, their ability to foster the transmission of knowledge and capacity to bring new approaches, methods, designs and technologies appears to be an important element to foster the linking of development and climate-related objectives both at upstream and downstream levels. This may require DFIs – including the AFD - to be involved at earlier stages of project and program development when both capacity and technical knowledge can be taken into consideration concerning available options to achieve a given set of development goals.

As such, AFD's existing assessment methods provide a robust basis that could be expanded. Overcoming two challenges appears necessary to improve the potential impact of this integration: 1) expanding the definition of climate co-benefits an assessment of the 'transition impact' of investments (see above); and 2) balancing the precision of information needed for decision-making and the resources required. While further research is needed at both theoretical and operational levels on this topic, a number of ways forward can be seen. These include the development of downstream assessment criteria for sectors, value chains, technologies, processes and projects that would be updated as a country's LCCR pathways evolve. Using the pre-established priority lists discussed in the upstream section and focusing on areas prioritized by domestic authorities, AFD could identify project-specific choices (technologies, processes, etc.) most coherent with long-term transition objectives.

The Carbon Footprint tool has been highlighted by AFD as a key component of its climate strategy.

- However, when considered alone, the carbon footprint tool as it is used at the project level may not allow a sufficient assessment of the contribution of a project to a countries LCCR transition. Operational teams may not have an incentive to search out and prioritize projects that contribute to a country's LCCR transition, but cannot be classified as contributing climate co-benefits (and thus the climate commitment) using the current definition.
- It is also important to note that interviews with AFD operational teams indicated that while rough estimates are used at early stages in upstream screening, there are a number of limitations on the use of this tool to assess and compare the options for projects during downstream project assessment. In many instances, this type of assessment does not occur given timing, resource constraints, the state of project advancement when AFD is contacted for financing, etc. As such, the identification of project alternatives and a detailed assessment of the GHG emissions may not occur early enough in the process to influence the final project alternative chosen. This indicates that internal discussion could be useful to find the balance

between resource needs and timing within the assessment stage and the granularity of GHG emission data necessary to compare project alternatives.

- Furthermore if a comparison of alternatives to achieve the development-related goals for a given project is expanded, this will require an equal expansion of qualitative considerations. These could include qualitative criteria based on country-specific LCCR development priorities used in the upstream process – and a-minima estimative quantitative data for each alternative that is regarded as ‘transition coherent’. Thus, additional qualitative data and guidance may also be required at the downstream level to assess and prioritize options particularly for project types key to achieving development objectives (energy, transport, waste management, agriculture and forestry, etc.).

The elaboration of climate risk screening and proofing tools that AFD has initiated should be pursued and it could be desirable for it to go beyond physical climate risk and introduce policy-related ‘carbon risk.’ The current economic and financial assessment practices do not systematically integrate the risks posed by policies that a country may need to apply for a transition to a low-carbon, resilient, development model. Facilitating the inclusion of a risk premium in a project’s financial analysis is worth exploring.

The current use of internal control procedures such as the sustainable development opinion could also be adapted for LCCR transition. Currently, the climate-related focus of the process is on assessing whether a project provides climate co-benefits and thus should be prioritized as contributing or having an adverse effect towards the achievement of AFD’s climate objectives. This process could be expanded to include a second opinion on the contribution of a given project or other form of intervention in supporting a country’s LCCR transition.

Table 2: Framework for Integrating LCCR Standards and Tools by Stage in Decision-Making Process (in gray) and its current application inside AFD (in blue)

Tool typology	Positive-List / Qualitative Impact	Volumetric Impact	Exposure
Assessment Tools	<ul style="list-style-type: none"> - Qualitative definitions of “climate” projects - Criteria for screening and exclusion for sectors and technologies 	<ul style="list-style-type: none"> - Quantitative methodologies (GHG emissions, energy use, etc.) - Emission performance thresholds and standards 	<ul style="list-style-type: none"> - Country-level vulnerability assessment tools and guidelines - Project level physical impact screening methods - Methods of calculating exposure to climate policy and regulatory changes
Stages	Upstream Policy and Screening		
Elaboration of strategic policy frameworks and tracking	Integration of climate-related criteria and priorities into sectoral plans through the inclusion of metric-based objectives and definitions <ul style="list-style-type: none"> - Set investment priorities based on climate-compatible sectors, technologies, risk and exposure levels - Set an exclusion to investments on highly emissive projects - Set quantitative objectives of climate related activities (eg. x% of climate investments in the overall or sectoral portfolios) - Set volumetric objectives on reduced emissions achieved through investments - Set a cap on total portfolio GHG emissions (including non-climate investments) 		
Elaboration of strategic policy frameworks and tracking at AFD	<ul style="list-style-type: none"> - <i>AFD defines geographic objectives comprised in a Climate intervention framework. These objectives are mainstreamed in the portfolio through :</i> <ul style="list-style-type: none"> - <i>Sectoral intervention frameworks (which include indicative sectoral objectives)</i> - <i>Regional intervention frameworks</i> - <i>Quantitative objectives of climate related activities have been set: at least 50% of AFD’s total activity needs to comprise climate co-benefits (declines at the regional level : 70% in Asia and Latin America, 50% in the Mediterranean zone and 30% in Africa) and 30% of Proparco’s activities.</i> - <i>Total reduced and avoided emissions are aggregated for AFD’s climate allocations. The GHG emissions of non-climate allocations are not accounted for the time being.</i> 		
Project Eligibility Screening	Screen for eligible project types, technologies, etc.	Screen activities based on rough estimates of: <ul style="list-style-type: none"> - Emissions performance compared to thresholds - Avoided emissions or impacts compared to baseline 	Identify and screen activities based on rough estimates of: <ul style="list-style-type: none"> - Vulnerability to physical risks (country, regional or other aggregated approaches) - Exposure of project types (sector, technologies) to climate policy risks
Project Eligibility Screening at AFD	<ul style="list-style-type: none"> - <i>AFD’s project screening process is twofold :</i> <ul style="list-style-type: none"> - <i>AFD ensures that projects with negative social and environmental impacts are screened out through an exclusion list. Also in March 2013 AFD’s board of directors has decided to ban any investment in coal installations except for those that include operational carbon capture and storage devices.</i> - <i>AFD introduces thresholds of climate impact to facilitate project screening according to the recipient countries’ level of development. Climate and development objectives are thus reconciled through a selectivity matrix. This selectivity matrix is a detailed grid elaborating on the maximum thresholds of CO₂ emissions for projects to be considered for financing respective to three types of countries (Least developed or crisis countries, Middle-income countries, Emerging countries)</i> 		

Case Study: Mainstreaming of Climate Change into the operational activities of the Agence Française de Développement

Stages	Downstream Assessment		
Options assessment and technical analysis	<ul style="list-style-type: none"> - Selection of project alternatives based on value chains, technologies and processes and eligibility lists established by country, sector, level of development 	<ul style="list-style-type: none"> - Detailed GHG footprint calculations of individual projects to compare options - Assess avoided emissions of individual technical options for projects 	<ul style="list-style-type: none"> - Detailed assessment of direct physical impacts - Detailed assessment of policy-risks and resulting impacts on financial returns and future cash flows.
Options assessment and technical analysis at AFD	<ul style="list-style-type: none"> - <i>Case by case expertise is applied in the optimization of project specific choices in order to reduce climate impact during the lifespan of each project.</i> 	<ul style="list-style-type: none"> - <i>Carbon footprint measurement tool systematized in AFD's operating procedures and integrated in the requirements for technical assessments (pre-feasibility studies, detailed feasibility studies...) to influence technical choices</i> 	<ul style="list-style-type: none"> - <i>Historically performed through the environmental and social risk management process at the local level.</i> - <i>Climate risk screening recently systematized for all projects with an internal web-based tool and in-depth analysis for projects deemed to be at risk (ongoing pilot phase).</i>
Economic and Financial Analysis		<ul style="list-style-type: none"> - Inclusion of emission data in economic analysis to assess welfare impacts - Integration of a social cost of carbon into economic analysis 	<ul style="list-style-type: none"> - Inclusion of quantified physical and climate risks in financial analysis - Integration of a "real" or "shadow" price of carbon in financial analysis
Economic and Financial Analysis at AFD		<ul style="list-style-type: none"> - N/A 	<ul style="list-style-type: none"> - N/A

Source: Authors based on the revision of AFD documentation and interviews with AFD teams

Case Study : Group AFD

1 Agence Française de Développement global strategy and mandates¹³

Agence Française de Développement (AFD) Group is the French Public Financial Institution (PFI) charged with France's bilateral development activities. AFD's mandate is defined by the policy set out in France's Framework Document for Development Cooperation with the prime objective to "contribute to economic and social development in its geographical areas of operation".

The past decade has been marked by AFD's increasing involvement in international climate finance discussions. Representing around 5% of total international public climate finance¹⁴ channeled by multilateral and bilateral Development Finance Institutions (DFI) and Carbon Funds in 2013 as calculated by the Climate Policy Initiative, AFD's portfolio and decision-making process have been analyzed in reports¹⁵ published by public or private international organizations. RICARDO-AEA (2013) particularly recognized AFD's efforts in the deployment of volumetric tools for measuring the GHG impact of its activities.

This case study examines the AFD's integration of climate and transition-related information and tools into its activities. It first presents the general investment process and the range of financial instruments used by AFD. Second, the framework elaborated in Paper 2 of this series¹⁶ is used to analyze the upstream and downstream integration of long-term climate and transition objectives. It begins with the analysis of the upstream standards and information that are applied to transpose AFD's global strategy and Climate Action Plan into local and sectoral intervention plans and to guide AFD's initial project screening. It then explores the tools and instruments that are used during downstream process for project and program level assessments and optimization, before the final investment decision is made. The report outlines how AFD is currently working with partner DFIs to coordinate efforts. It finishes by presenting the challenges and potential evolution in approach needed to achieve the necessary shift to solve the 'trillion dollar' climate finance challenge, involving not only an increase in flows to low-carbon projects, but equally capping – and reducing – investments in carbon-intensive activities. A shift appears necessary from a system of tools and indicators that focus principally on climate finance tracking to tools that assist in aligning both development and climate goals with the transition to a low-carbon climate-resilient economic model.

The objective of this case study is not to evaluate the efficiency or quantify the effectiveness of AFD's mainstreaming activities. Rather, the analysis provides a number of insights into the operational challenges and barriers to the systemic integration of the low-carbon, climate-resilient information into decision making that may be of use for other DFIs involved in similar processes. It aims to illustrate

¹³ In this document acronyms related to internal AFD procedures will be presented in its French version to facilitate comprehension and the retrieval of these tools in AFD documentation.

¹⁴ The calculation is based on AFD's self-declared climate commitment approvals in developing countries (AFD 2014) of 2,856 million USD in 2013 (2,150 million € converted using 2013 average exchange rate of 1,33 USD/€) and a total international climate finance of 59,200 million USD from bilateral, multilateral and funds from (CPI 2014)

¹⁵ See in particular : (Ricardo-AEA 2013) and (Buchner et al. 2012)

¹⁶ See Cochran et al. 2015.

the progress, and the key challenges that remain, for development finance institutions to assist recipient countries in aligning development and the 2°C climate challenge.

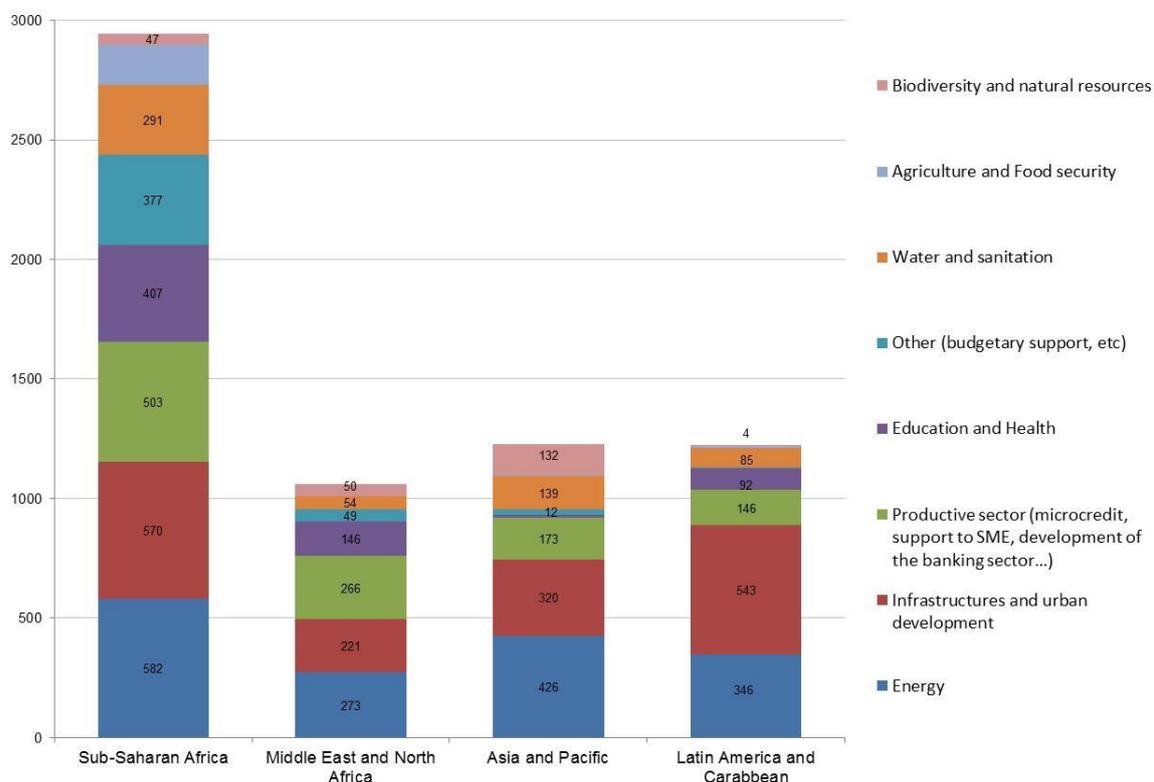
1.1 AFD's activities

Aside from the resources that AFD leverages from the capital markets, AFD receives resources from the French Government based on a set of objectives (See Box 1). To achieve these ambitious goals, AFD provides public authorities and private partners with specific financing for a wide range of activities, which it backs with extensive risk analysis, hedging instruments, and capacity building. AFD's mandate and financing instruments are differentiated according to its regions of intervention. In less-developed countries, AFD principally provides grants, concessional loans and budget support to contribute to the fight against poverty through infrastructure, urban development, agriculture, food security and access to healthcare, education and water projects. Concessional loans are the main instrument used in middle income-countries to support economic growth, reinforce territorial and social cohesion and improve the environment and the quality of life of vulnerable populations. In emerging countries, most AFD loans are non-concessional loans. However, in its effort to support green and sustainable growth, loans granted to these countries are often at rates below in-country markets¹⁷ with an explicit mandate to principally finance the transition to a green economy. Through the subsidiary Proparco, AFD Group is also involved in direct private sector funding.¹⁸

¹⁷ AFD is able to apply those rates for two reasons. AFD is not pursuing any commercial margin and can borrow at better rates from the international capital markets.

¹⁸ Please note that in this case study, the acronym AFD does not include the activities of Proparco unless otherwise noted.

Figure 2 : Breakdown of AFD’s funding approved by region and sector of intervention in 2014 (in M€)



Source: Authors using [AFD'scope 2015](#) - AFD website

Box 1 : AFD’s governance, mandate and global strategy

Status and mandate:

The statutes of *Agence Française de Développement* are laid out in Articles R513-22 through R513-42 of the French *Code Monétaire et Financier*. These articles set out the principal missions and governance of the institution. The two principal missions of AFD are:

1. Contribute to the implementation of national development assistance and policy;
2. Contribute to the development of departments and overseas communities and New Caledonia.

The contribution of AFD is to provide development finance and technical assistance – which is to occur explicitly with respect for the environment.

The Inter-ministerial Committee for International Cooperation and Development (*Comité interministériel de la coopération internationale et du développement – CICID*) defines the key elements of AFD’s remit. Evolving over time the CICID identified five priority areas in 2009: health, education and professional development, agriculture and food security, sustainable development and economic growth. In 2010, AFD’s role in promoting a “green and inclusive growth” was confirmed, with a specific request to coordinate climate change action with the relevant ministries.

The strategic orientations of AFD are established by a Strategic Planning Committee, chaired by the French Minister for Cooperation. The Strategic Planning Committee coordinates and prepares the 3-year Contract of Objectives and Resources (*Contrat d’Objectifs et de Moyens*) between AFD and the

State, which guides and oversees the execution of the AFD's missions. This contract is based on the decisions adopted by the Interministerial Committee for International Cooperation and Development.

For the 2011-2013 period, the AFD was given the following general principles for intervention ¹⁹:

- Foster shared and sustainable growth
- Support the fight against poverty and inequalities
- Preserve global public goods (fight against climate change, stop biodiversity loss, limit the spread of infectious diseases, improve financial stability, etc.)
- Promote stability and the rule of law as factors of development
- A number of operational objectives with clear monitoring indicators were also established:
- Focus AFD's efforts on least developed economies to fight against poverty and stimulate economic growth;
- Prioritize Sub-Saharan Africa in the mobilization of AFD's resources and of resources made available by the State;
- Contribute to achieving the Millennium development Goals (MDBs)
- Support growth, sustainable development and social cohesion in the Mediterranean countries
- Become a key partner for emerging countries in their efforts to preserve global public goods and fight against climate change
- Promote stability in fragile states and crisis areas, through a reinforcement of the capacity of societies, economic actors and states.

Global strategy:

The operational objectives laid out by the Strategic Planning Committee are used as the basis for AFD's *Plan d'orientations stratégiques*, a document spanning five years that sets out the principal objectives for the institution. The current 2012-2016 *Plan d'orientation* includes the twelve principal objectives²⁰:

- Establish sustainable development as the common reference for all operational activities of AFD;
- In Sub-Saharan Africa, a focus on infrastructure support, food security, and targeted actions on education and health;
- In the Mediterranean area, focus action on jobs and the reduction of social and regional inequalities;
- Reconcile development and the fight against global warming, particularly in emerging countries;
- Support French overseas territories economic development through housing, the private sector, local authorities and regional integration;
- Strengthen the range of financial tools;
- Strengthen international partnerships and cooperation with the French civil society;
- Strengthen the mobilization of expertise and study the creation of a specific fund;
- Increase knowledge production and sharing;
- Consolidate AFD's financial model;
- Strengthen AFD's human capital
- Develop high standards of accountability and social and environmental responsibility

In July 2013, the CICID²¹ reiterated the importance of sustainable development in its set of decisions. Focus was made on the establishment of a new framework that combines the fight against poverty and sustainable development in its three components: economic, social and environmental. Fighting

¹⁹ Sénat (2011) : Rapport d'information n° 497 (2010-2011)

²⁰ AFD (2012) : Plan d'orientation stratégique (2012-2014) – POS3

²¹ CICID (2013) : Relevé de décisions du Comité interministeriel de la coopération internationale et du développement du 31 juillet 2013

against climate change is advanced as one of the key drivers of sustainable development, together with the support to equitable economic development and the promotion of peace, stability and human rights. The CICID also confirmed that the fight against climate change remains a transversal priority of the French government's development policy and targets AFD's Climate Action Plan as a key component of this effort. Furthermore, France's diplomatic and economic influence is proposed as one of the transversal objectives of International cooperation and development. The decisions made by the CICID were mainstreamed into the Contract of Objectives and Resources for 2014-2016, which states the importance of mainstreaming sustainable development into AFD's operations.

1.2 An increasing importance of environmental and climate impact

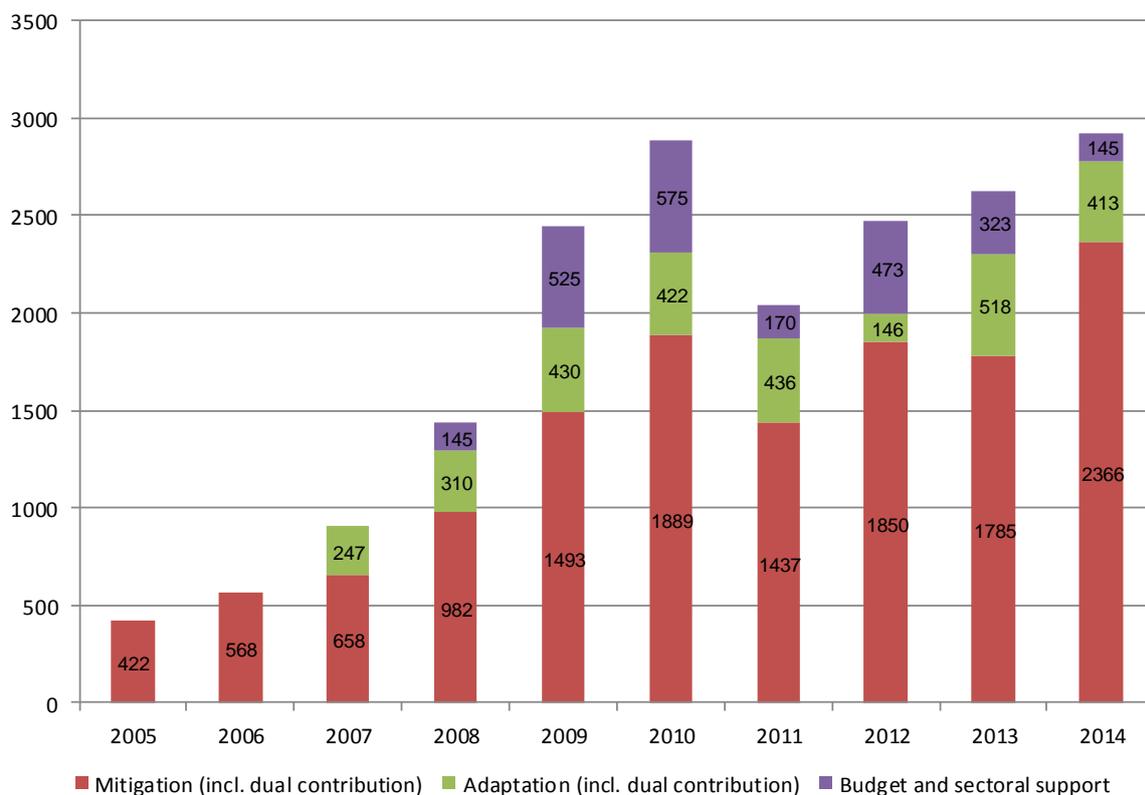
AFD began systematic evaluation of the environmental impact of its activities just under a decade ago, with the establishment of specific environmental and social safeguard procedures. A number of tools have been developed to quantify and to evaluate the impact of its commitments at the project and portfolio level and progressively mainstream climate considerations into its investment decision. These tools support the implementation of AFD's Climate Action Plan and its integration into the upstream and downstream decision-making process, by providing information to define clear and achievable objectives, based on local, sectoral and technological order of magnitude estimates.

AFD's portfolio of projects has evolved significantly over the past decade to include a larger proportion of climate-related projects. Since 2005, a total of 18 billion euros worth of AFD's commitments have supported 'climate co-benefits' and thus been accounted for in AFD's international climate finance contribution. Between 2008 and 2014, the amount of financing that was committed to climate projects has increased by 69%. The financing of projects with GHG mitigation co-benefits continues to be the principal means of intervention and has increased by 82% in the same period. However, the financing of climate budget and sectoral support projects has also increased significantly by 123% and by 67% for adaptation projects.

In 2014, with 53% (2.54bn €) of its activity dedicated to climate, AFD has been able to reach its global climate objective of 50% set in its Climate Action Plan. Regionally, AFD achieved all its regional climate objectives for the first time in 2014. In Asia climate projects represented 71% of regional commitments (compared to a 70% objective). In Sub-Saharan Africa they accounted for 30% of commitments (matching their 30% regional objective). In the Mediterranean climate allocations represented 53% (compared to their 50% objective). The largest increase this last year was in Latin America, where the climate commitment objective is set at 70% and the climate allocations went from 48% to 85% this last year.

The following sections present AFD's investment process and financial instruments and how climate change tools and standards to identify and prioritize investments with climate co-benefits have been increasingly mainstreamed across activities.

Figure 3 : AFD Group’s “climate” commitments since 2005



Source: AFD Group’s climate activity in 2014

2 General Investment Process & Financial Instruments²²

This section briefly presents an overview of AFD’s investment process and the range of financial instruments that are used to achieve its global objectives. The process described below is followed principally in the evaluation of individual direct project financing and financial intermediation, which currently represents 87%²³ of AFD’s activities. Section 2.2.2 will briefly discuss the application of this decision-making process to other types of activities where projects are not directly financed – such as the case of program loans.

2.1 AFD’s Investment and Financing Decision-Making Process

As presented in Figure 4, AFD’s investment decision-making process can be divided into upstream and downstream phases. The implementation of AFD’s global strategy is carried out by its operational teams from both the technical and the regional divisions, with specific support for strategic, financial, legal and risk related issues provided by transversal teams. The operational teams are responsible for preparing all the operational documents that are submitted to the Board of Director for approval.

²² Throughout this case study acronyms related to AFD’s activities are presented in French, this in order to facilitate the identification of documents and processes in AFD’s documentation.

²³ This figure corresponds to the share of project and financial intermediation in AFD’s global activity in 2013 in foreign countries corresponding to all recurrent activity excluding NGO financing. Source : AFD (2014) – Document de référence 2013

These documents cover not only project assessments for financing requests but also the transposition of the global strategy into regional and sectoral strategic frameworks (see below). These frameworks serve as overarching guidelines for directing the financing according to the type of country (less developed, middle income and emerging), and sector that is considered. Within the two phases the provision of expertise on technical and transversal subjects used in the investment decision making is relatively centralized. Although there is a representative office in most of its countries of operation, AFD's technical expertise is based at its headquarters in Paris.

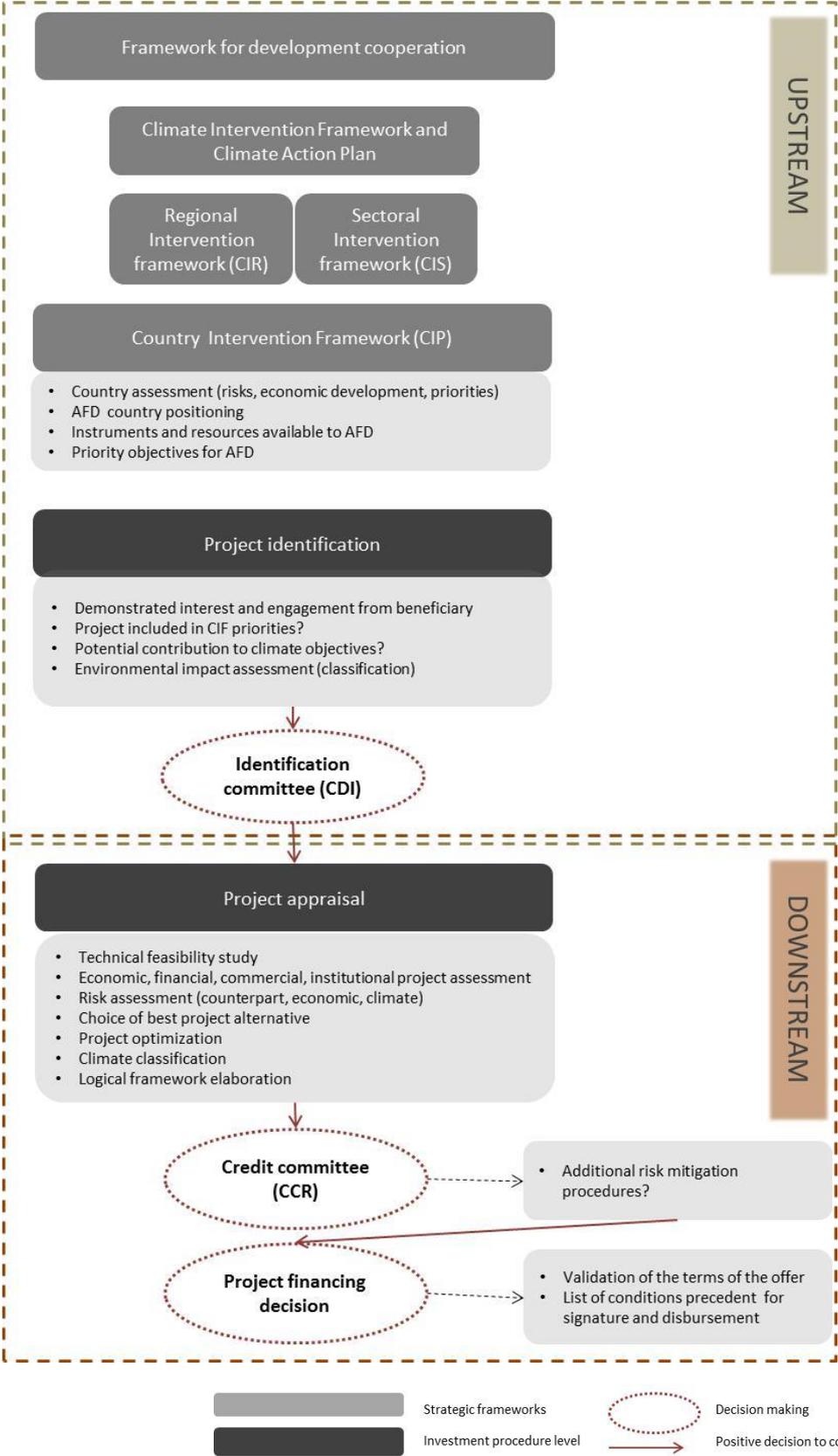
2.1.1 Upstream decision-making

At upstream level, AFD's operational teams work together with the strategic and research departments to decide on how to best allocate the available resources to achieve regional and global objectives. These decisions are set out in strategic intervention frameworks linking AFD's global strategy with its operations. These reference documents serve as medium-term guidelines for operations. They reconcile AFD's long-term objectives, as defined by the French Government, with field realities and short-term or annual priorities.²⁴

Strategic intervention frameworks typically run for 3 to 5 years (medium-term) and are used internally to monitor AFD's advancement in completing its global mandate. They are revised, on the basis of changes in AFD's global strategy (see Box 1) or of context evolutions and are validated by AFD's Board of Directors before being communicated to the counterparts and to the general public. Upstream level decision-making is thus critical for operations in new countries and sectors of intervention to be aligned with mandates and for resources to be allocated to priority activities.

²⁴ Throughout the AFD case-study, we define the following indicative time-horizons: "short-term" considerations cover a period of up to 1 year; "medium-term" considerations cover periods of 2-5 years; "long-term" considerations cover periods of more than 5 years.

Figure 4 : Simplified AFD investment process



Source: Authors based on AFD Documentation

Box 2: AFD's Intervention Frameworks

- Transversal intervention frameworks (CIT): are elaborated by AFD's transversal teams and typically cover global development issues for which AFD has taken engagements at the international level. They propose solutions for these engagements to be mainstreamed into AFD's portfolio. CITs address all the geographies of intervention and may be broken-down into sub-strategies if substantial differences exist between the challenges identified at regional level. A CIT has been laid out for: climate change and development (see Section 3.B.1), biodiversity, sustainable and resilient cities, gender and inequality, support to civil society organizations, crisis and conflict management and international migrations, among others.
- Sector intervention frameworks (CIS): are elaborated and implemented by AFD's sector-specific technical teams and cover the issues related to a specific sector of AFD's operations. A comprehensive analysis is undertaken to establish the type of activities and technologies AFD is willing to support, based on its global strategy and the transversal intervention frameworks. The overarching objectives and expected results are broken down at regional level where local specificities and country or region-specific mandates are covered by adapted instruments and differentiated resource allocations. CISs have been elaborated for: energy, water and sanitation, education, health, rural development and food security, etc.
- Regional intervention frameworks (CIR): are elaborated and implemented by regional departments and deal with the specificities in terms of mandate and local challenges of each region of intervention. The priority sectors of intervention are defined and associated with indicative allocation targets. The instruments and resources available to achieve these objectives are listed, together with monitoring indicators. Transversal objectives are also indicated with their main focus points (by sector or by region). CIRs have been established for Middle East and North Africa, Sub-Saharan Africa, Asia, Latin America and the Caribbean, etc.

Three types of strategic intervention frameworks structure AFD's operations at sectoral, regional and transversal level (see Box 2). Similar in structure, the frameworks outline the principal issues related to the sector/region/topic and relate these issues to the contexts within which AFD is operating. Each framework presents a sector/region/topic strategy that includes overarching operational objectives and priority activities with indicative allocation targets. Each operational objective is linked to medium-term goals and to a set of financial and non-financial instruments that will be used to achieve them. The overlapping structure of the three types of documents aims to guarantee that AFD's entire portfolio is covered and that the overall coherence of strategies is monitored.

The final link between AFD's global strategy and its field operations is made by individual Country Intervention Frameworks (CIPs). Elaborated on the basis of the overarching transversal, regional and sectoral strategic intervention frameworks by a team led by local AFD representatives, CIPs consider the needs expressed at local level, essentially by public counterparts, and take into account AFD's positioning in the local development aid context. As such, a number of specific contextual elements are taken into consideration in the design of the country strategy, including recipient-country national political priorities. CIPs are therefore critical in guaranteeing the continuity and coherence of AFD's local activities. AFD's CIPs are developed according to result-based-management methodologies with the objective of optimizing both financial and human resources at local level and of operationalizing the overarching strategic intervention frameworks. As such, CIPs integrate medium-term transversal, sectoral and regional priorities into short-term (typically one year) operational objectives. The tools and indicators laid out in the overarching strategies are transposed to fit field activities.

The elaboration of the three types of strategic intervention frameworks constitutes a key part of the upstream decision making process. They, bridge the gap between the overarching mandate and long-term objectives and short-term operational opportunities and barriers, whilst recognizing regional and sectoral specificities. The set of informational tools, standards and indicators applied during upstream decision-making is critical to ensure that the activities are prioritized according to AFD's long and medium-term global objectives. The architecture of AFD's SIFs therefore offers a valuable framework for mainstreaming long-term LCCR considerations into its operations. They are translated into tools and standards to ensure that the activities that contribute to strategic objectives are considered for investment.

The strategic documents are translated into a number of performance objectives and tools used within the upstream screening process of AFD actions. The strategic reference documents produced apply strictly to AFD's activities, and are not always directly transposable to the projects financed by Proparco. Nevertheless, for AFD's subsidiary, the strategic frameworks elaborated by the Group serve as guidelines for its own activities.

The final stage of upstream decision-making relates to project origination, which is initiated by discussions between local counterparts and AFD's teams in representative offices. If local counterparts express a specific need, AFD's field office conducts an initial evaluation of its coherence with the country strategy, before presenting it to the headquarter teams during an identification committee (CDI). At this stage, a team of sectoral and regional experts manages the project. During downstream level, this project team will be responsible for applying the necessary diligences to identify environmental and social risks and propose measures to mitigate those risks and optimize the project.

2.1.2 Downstream decision-making

The downstream decision-making process is designed so that projects proposed for financing undergo thorough standardized analysis and control procedures before the Board of Directors approves funding. Specific resources are allocated during the project appraisal phase to finance detailed technical and economic feasibility studies and help identify the best project alternative, based on local constraints. AFD's teams in the field support the origination design and implementation of the projects they finance by organizing the dialogue between all the parties involved (counterpart, beneficiary, co-financers, AFD headquarters, etc.). Careful consideration is given to the matching of the project with both AFD's local strategy and the beneficiary's national and local needs. The implementation of the project follows local regulations and, when needed, the standards applied may be upgraded to comply with AFD's standards or best international standards (such as ESG²⁵ standards) and explicitly condition the allocation of financing. Thus, the choice of suppliers is made according to local laws and AFD's procurement principles – i.e. international competitive bidding standards.

As a result of the appraisal phase, and through concerted discussions between AFD and the beneficiary, an appraisal note (FPP) that includes a comprehensive project logical framework is prepared for submission to the Credit committee. This note presents the project's logical framework that includes its objectives, means, expected results and indicators as well as its contribution to AFD's country strategy and, by extension, to its global objectives. This report aims at optimizing the design of projects through the identification of strategic elements that may influence their success. The expected inputs, outputs, outcomes and impacts of each project are thus considered by AFD's project teams

²⁵ Environmental, social and governance.

following discussions with its beneficiary. The tools that were elaborated during the upstream phase frame project appraisal so that project design and structuring are coherent with AFD's global standards. The climate tools described in AFD's Climate Action Plan are used to justify the project's contribution to the overarching Climate Action Plan through project classification and impact estimations.

Furthermore, specific environmental and social risk assessment procedures are applied to identify risks and propose risk mitigation measures. The level of standardization of these procedures varies according to the type of risk (country, sectoral, counterpart, legal, social and environmental, economic, financial and climate) and are applied across AFD's portfolio. Their results are systematically presented to the Credit Committee (CCR) along with opinions from the finance department as well as opinions from experts independent of the project team²⁶ before funding is allocated.

Based on the appraisal work carried out by the project team, the contributions of different experts through these opinions aim to map the remaining risks of the project for consideration by the CCR committee. The CCR is the entity in charge of validating the project's appraisal note (FPP) before it is presented to the AFD Board. At this stage, risks are identified as well as potential risk-mitigation measures in the form of either specific conditions to be met before signature or disbursement or special commitments such as financial covenants (for non-sovereign or indirect sovereign projects).

2.2 Instruments to finance the fight against climate change

While an evaluation of the financial tools and instruments used by the AFD is not the subject of this report, it is relevant to understand the channels through which transversal climate objectives are mainstreamed. One transversal aspect to keep in mind is that AFD – with the exception of Proparco – generally provides funding to the public sector, typically channeled directly to or with a guarantee provided by the recipient national government. Historically, this type of financing, known as sovereign loans, constitutes the major part of AFD's activities (2.3 billion € in 2014 representing almost 50% of AFD's committed financing for foreign countries). Non-sovereign loans - for State-owned companies, local governments, public institutions, public and private banks that are not covered by state guarantee – gained terrain in the recent years and represented almost 40% of AFD's committed funding in 2014²⁷. AFD has also developed a number of financing tools to allow for direct and indirect financing of other recipients, such as private actors.

For the purpose of this report, AFD's activities have been separated into direct financing and indirect financing of projects. Indirect financing includes budget support, financial intermediation capacity building and technical assistance. These activities are treated separately given that compared to direct project financing, their impact on climate change (and notably in terms of greenhouse gas emissions) is more difficult to estimate. Indeed, with indirect finance, the total extent of the activities ultimately financed may - and in some cases only - be known only after the funds have been disbursed. In the case of technical assistance activities the impacts may often be indirect and visible only in the long run making it difficult to estimate their direct impact in terms of GHG. Thus, different approaches and tools are necessary to mainstream climate change.

²⁶ These opinions include compliance opinions coming from the Compliance and Permanent Control department (CPC), the sustainable development opinion and the second opinion.

²⁷ Data collected from [AFD'scope 2015](http://www.afd.fr/webdav/site/afd/shared/PORTAILS/AFD/scope-2015/map.html) - AFD website (<http://www.afd.fr/webdav/site/afd/shared/PORTAILS/AFD/scope-2015/map.html>)

2.2.1 Direct project and Small and Medium Enterprise (SME) financing

Direct project financing to the public sector

Direct provision of loans to public counterparties constitutes the bulk of AFD's investments in developing countries. AFD supports the development and implementation of projects carried out by the public sector through the allocation of "sovereign loans" to central governments or to public entities benefiting from a guarantee from the recipient government. "Non-sovereign loans" are allocated to State-owned companies, local authorities, public establishments or NGOs that do not benefit from a State guarantee. Loans can be both at market terms or subsidized in certain contexts. Furthermore, given its high credit rating and capacity to borrow at preferential rates (Standard & Poor's AA+ rating and Moody's and Fitch AAA) and its non-profit business profile AFD can allocate loans to beneficiaries with more favorable terms than recipients could access on their own, thus reducing capital costs without providing direct subsidies.

Direct financial support is provided through grants and concessional loans for the least developed countries and to countries that are part of the priority aid solidarity zone²⁸ which are those countries that France takes special steps to support. In the case of grants priority is given to countries part of the priority aid solidarity zone. Subsidies are used principally to finance health and education projects and infrastructure projects - including transport and the provision of services for urban and rural development.

Direct project financing to the public sector enables AFD to have a direct impact on local GHG emission reductions. Its strong involvement in the design and implementation of projects allows for optimization measures, thereby limiting the impact of development activities that could have been highly emissive without AFD's financial contribution.

Direct financing to the private sector

Proparco, AFD Group's private sector support subsidiary, is playing an increasing role in AFD Group's financing activities. Proparco, in general, provides long-term financing (for periods ranging from 5 to 20 years), for counterparts often considered to be niche players, which are often neglected by domestic commercial banks for lack of sector knowledge leading to perceived unattractive risk/return profiles. Proparco's activities support corporate sectors, through loans, project finance, equity and private equity investments and risk sharing. However the bulk is made up of loans to commercial and financial institutions, which represented 94% of its commitments in 2013.

Proparco responds to sectoral demand and is thus less implicated in project origination and design. Projects that are submitted to financing requests are generally very advanced and there is little room for Proparco to influence project design. This places a high level of importance on the upstream decision-making leading to project identification.

2.2.2 Indirect support

AFD has developed non-project specific financing instruments that also support development objectives and are making up an increasingly large share of its total activities. First, AFD uses budgetary support mechanisms to help "transforming countries" meet the challenges of their social

²⁸ Countries included in this list are: Uganda, Mozambique, Tanzania, Mauritania, Bolivia, Nicaragua, Ghana, Madagascar, Honduras, Rwanda, Cameroon, Malawi, Sierra Leone, Sao Tome, Guinea, DRC, Ivory Coast, Burundi, Congo, Sudan, Liberia, Myanmar and Somalia

and economic development and since 2008 has concerned the support of a number of countries climate policy. Second, AFD has launched credit lines, targeting the involvement of local and regional domestic banks in the financing development objectives.

Political Dialogue and Policy support

Climate Change Development Policy Operations (DPO) typically fund long-term structural policy reforms and strategies and are generally built on the basis of three components:

- A multi-year contribution to the national or subnational budgets in the form of loans and/or grants
- The monitoring of a country driven policy-matrix with regards to the implementation of climate change policy or action plan
- A Technical assistance component aiming to assist countries in the development of an appropriate institutional framework for the implementation of the climate policy or action plan and to support the elaboration of specific technical or economic studies.

By providing large amounts of immediately disburseable funding, DPOs provide the financial resources needed to implement long-term transversal institutional or sector programs at the national level, regional or local level.

Two main objectives are specifically identified by AFD:

- Improvement of the relationship between foreign development aid and national budget and policy processes
- Improvement of the quality of public policies, public sector institutions, public spending (efficiency of assignments and operations), and the provision of public services²⁹

Development policy operations can be used across all AFD's countries of intervention to support the implementation of its Country Intervention Framework (CIP). Since they are designed to address crosscutting issues at national level, DPOs are well tailored to support the mainstreaming of climate issues into national level policies and organizations.

Development policy loans can generate political dialogue at all levels of interaction between the donor and its counterparty. Depending on the point at which resources are made available to the national government, policy loans can trigger different effects on the mainstreaming of climate considerations. At the national level, DPOs are not necessarily earmarked and aim to support and foster dialogue between the government's different bodies and the economy's different sectors. At this level, a climate program loan can be allocated to generate dialogue and facilitate the inclusion of climate considerations across all sectors of the economy. At sector level, climate budgetary loans or program loans aim to support concrete measures to promote the development of a given sector - whilst simultaneously limiting its impact on climate-change and improving its resiliency. Box 3 presents how these programs have been used to date to support climate change policy development.

Although they are not earmarked, the resources allocated in climate program loan packages are conditional on the expressed readiness and willingness of the beneficiary to create and/or develop a climate-change action plan. To guarantee the efficient use of these financial resources, the disbursement of DPOs is generally conditioned by the compliance of the borrower with conditions stipulated in advance in the credit agreement. These conditions are typically outlined in a framework or matrix, which stipulates the expected outcomes in terms of institutional changes. Technical

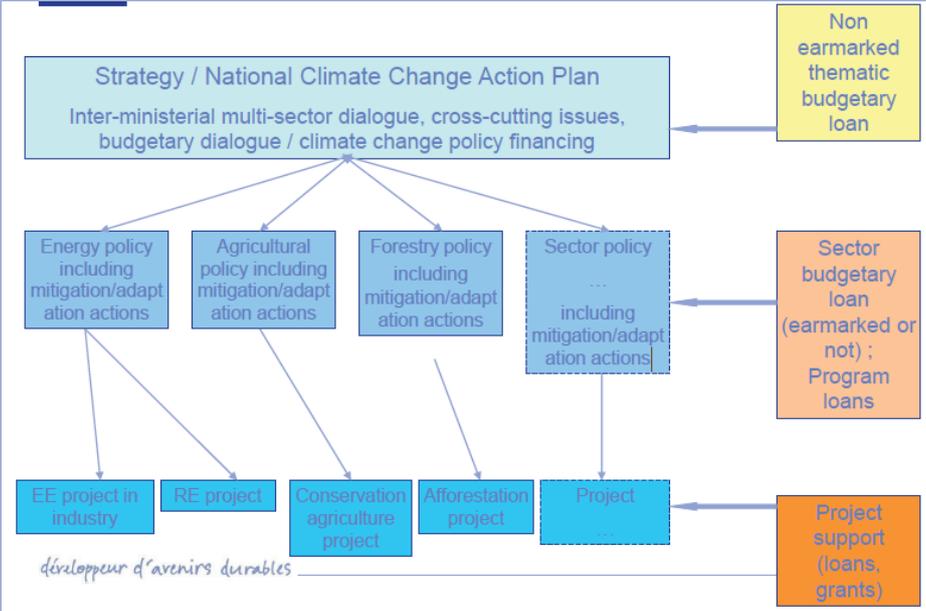
²⁹ AFD (2014): Evaluation conjointe des opérations d'appui budgétaire au Maroc - RAPPORT FINAL

assistance is provided to guide the implementation of these changes, build internal capacity and thus maximize national ownership.

Box 3: AFD’s budgetary support on climate change

Since 2008, AFD has allocated 2.4 billion USD to finance "Climate Plans," national low-carbon development policies or policies to reduce vulnerability to climate change impacts. AFD uses climate policy loans as a means to support transversal integration in recipient government policy, thus complementing its project level interventions. Figure 5 presents the complementarity between the different levels of climate DPOs and direct project support.

Figure 5: Transversal climate instruments



Source: AFD – Presentation Climate finance and the role of development finance institutions at the JICA side event at COP20 (December 2014)

Together with co-financing partners, AFD is currently engaged in ten climate-change program loans in Indonesia, Mexico, Mauritius and Vietnam (see Table 3).

Table 3: AFD’s climate-change development program operations undergoing as of 31/12/2014

Country	Topic	Co-financiers	Signed commitments
Indonesia	Climate Change	JICA, WB, ADB	3 operations : USD 800 M TA : € 1,64 M AFD
Mexico	Climate Change	WB, IDB	2 operations : € 485 M TA : € 0,65 M AFD + USD 0,275 M UNEP + € 2 M EC (LAIF)
Mauritius	« Maurice Ile Durable »	EC	1 operation : € 125 M TA : € 2,2 M (AFD + French GEF/FFEM)
Vietnam	Climate Change	JICA, CIDA, WB + Korean Exim, AusAid	4 operations : € 80 M TA : € 0,6 M AFD

Source: AFD – Presentation Climate finance and the role of development finance institutions at the JICA side event at COP20 (December 2014)

AFD has recently expanded its DPOs to subnational government and public companies. In the first case, AFD provided budgetary financing to support the development and or reinforcement of subnational climate strategies. Examples of these initiatives include the State of Minas Gerais in Brazil and the city of Johannesburg in South Africa where AFD supports since May 2015 the integration of climate issues in their urban planning policies. In the second case, AFD has been seeking to expand its scope of influence by targeting large public companies which have demonstrated significant engagement on integrating climate-change considerations into their strategy. In 2012, a 338 million dollars budgetary loan was allocated to *Empresas Públicas de Medellín (EPM)*, to finance its 2009-2013 energy investment plan.

In addition to fostering coherence at local and national level, political dialogue works to ensure the consistency of interventions at sector and project scale. Finally, in addition to direct and indirect financial support, AFD facilitates country-led coordination and advises its counterparties on related international subjects, such as climate change negotiations. Through its expertise, AFD aims to influence cross-sector and inter-ministerial debates and push climate change considerations further up in the political, budgetary, and institutional agenda.

Financial intermediation

Financial intermediation - specifically through the allocation of credit lines to the country's banking sector – allows DFIs to facilitate the access of Small and Medium sized Enterprises to lower-cost capital and technical expertise. Through these incentives, DFIs support private sector actors to implement their strategic objectives.

Credit lines provide access to finance for sectors and borrowers that would otherwise be excluded from funding. They allow DFIs to overcome the transaction costs related to financing smaller-scale projects. Furthermore, the provision of capacity support can reduce unattractive risk/return ratios stemming from a perceived lack of capacity. Credit lines can encourage corporate banks to finance pilot projects, thus demonstrating the quality of the risk/profitability ratio of innovative sustainable projects. Thus, credit lines can be used to support access to infrastructure, help to create employment, strengthen financial intermediaries, and develop a market in lending to subsectors³⁰. The associated technical assistance helps build the internal capacity of in-country financial institutions such as commercial banks to conduct project appraisal and credit and risk assessment whilst simultaneously guaranteeing the technical and financial viability of projects.

Since 2006, AFD has committed over 2 billion euros to supporting recipient-country public financial institutions in “greening” their investment portfolio³¹. ‘Green’ credit lines have gained significant importance in AFD’s activities as they allow the institution to support the greening of activities of beneficiaries it is unable to reach through direct financing. AFD targets two types of institutions: financial institutions specializing in a specific sector (infrastructure, energy, etc.) and commercial banks with a more general focus, which are often located in less developed geographies and have less capacity and resources. In this second category of banks, AFD concentrates its efforts on supporting the implementation of corporate sustainable development policies backed by technical capacity. In the short run, green credit lines have direct sectoral benefits as they support the investments made by local financial institutions that have a positive impact on climate change. In the long term, the considerable advantage of credit lines is the leverage effect they have on the financial

³⁰ ADB (2008): Support for Financial Intermediation in Developing Member Countries – Evaluation study

³¹ SUNREF, AFD's Green Finance Label, presentation leaflet:

http://www.afd.fr/webdav/site/afd/shared/PUBLICATIONS/THEMATIQUES/AFD_SUNREF_VA.pdf

and corporate sector. This aims to provoke a widespread and long-lasting change in decision frameworks towards a better consideration of climate and environmental criteria.

This shift is intended to go beyond the financing provided by AFD and must apply to the entire portfolio and by spreading to the beneficiary's clients. AFD thus seeks to highlight the positive impact of such procedures on the management of technical and reputation risks. In order to set these mutual commitments in stone, AFD includes binding selection, implementation and evaluation procedures into its loan agreements. Successful implementation by the beneficiary of these climate and environmental standards is a precondition to the allocation of a second credit line. In the same way as for climate budgetary support, for funding allocation the initial level of climate commitment of the beneficiary doesn't count as much as its willingness and readiness to improve its standards. Thus, although it is very hard to estimate with precision, the impact of green credit lines could be considerable as they directly and indirectly disseminate best-practices across a wide range of actors and sectors. Furthermore, by nature, "green" credit lines are allocated with the ultimate objective of reducing GHG emissions, thus excluding the financing of highly emissive projects. However, this does not prevent the credit line beneficiaries from financing "brownier" projects with other financial resources.

Experience has demonstrated that while the initial costs for obtaining a credit line are relatively high, a beneficiary will generally chose to apply for additional financing. The implementation of a first credit line is resource-consuming as it requires the upgrade and standardization of internal procedures. "Green" financing is also considered as a premium offer that banks can present to its clients. The Mauritius Commercial Bank, took this opportunity to promote the high returns of "green loans", to attract financing for renewable energy and energy efficiency projects. One of the next steps identified by AFD to increase the leverage effect is the development of "market" credit lines that would benefit simultaneously all the banks that are willing to engage into "green" financing. This would allow for banks to progressively integrate green credit line requirements and benefit from the resulting competitive advantage. This type of offer could trigger compliance competition and have a large-scale effect on commercial banks and indirectly on private project promoters.

3 AFD's climate mainstreaming in decision-making at the project financing level

This section uses the framework presented in paper 2 of this series³² to map and analyze the different upstream and downstream informational tools applied by AFD to integrate climate in their decision-making processes.

The tools, metrics and indicators used by AFD in this process are presented in Table 4 and will be discussed in the following sections of this report. Figure 6 presents how these instruments are used at different stages of the investment decision process.

³² Cochran et al. (2015)

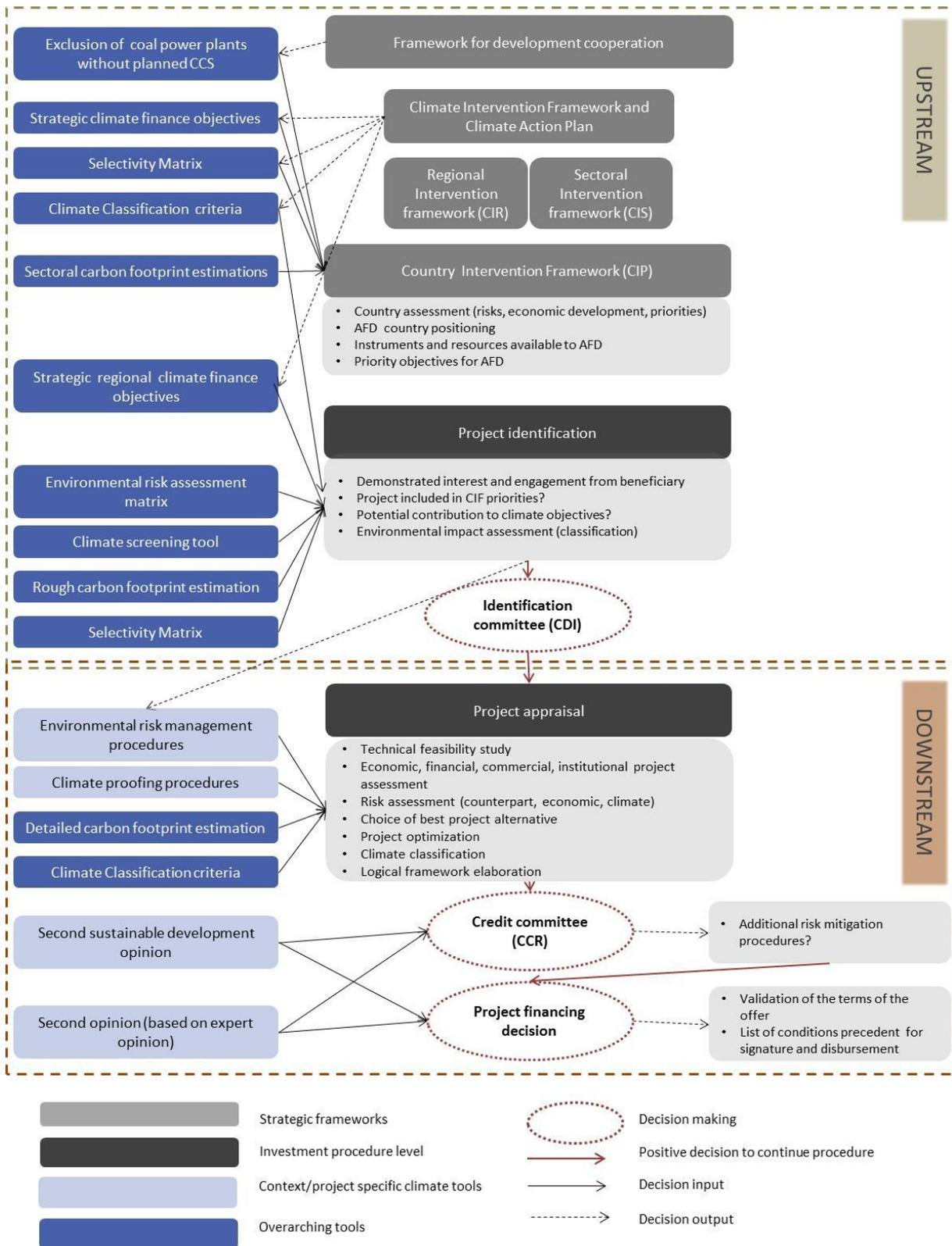
Table 4: Framework for Integrating LCCR Standards and Tools by Stage in Decision-Making Process (in gray) and its current application inside AFD (in blue)

Tool typology	Positive-List / Qualitative Impact	Volumetric Impact	Exposure
Assessment Tools	<ul style="list-style-type: none"> - Qualitative definitions of “climate” projects - Criteria for screening and exclusion for sectors and technologies 	<ul style="list-style-type: none"> - Quantitative methodologies (GHG emissions, energy use, etc.) - Emission performance thresholds and standards 	<ul style="list-style-type: none"> - Country-level vulnerability assessment tools and guidelines - Project level physical impact screening methods - Methods of calculating exposure to climate policy and regulatory changes
Stages	Upstream Policy and Screening		
Elaboration of strategic policy frameworks and tracking	<p>Integration of climate-related criteria and priorities into sectoral plans through the inclusion of metric-based objectives and definitions</p> <ul style="list-style-type: none"> - Set investment priorities based on climate-compatible sectors, technologies, risk and exposure levels - Set an exclusion to investments on highly emissive projects - Set quantitative objectives of climate related activities (eg. x% of climate investments in the overall or sectoral portfolios) - Set volumetric objectives on reduced emissions achieved through investments - Set a cap on total portfolio GHG emissions (including non-climate investments) 		
Elaboration of strategic policy frameworks and tracking at AFD	<ul style="list-style-type: none"> - <i>AFD defines geographic objectives comprised in a Climate intervention framework. These objectives are mainstreamed in the portfolio through :</i> <ul style="list-style-type: none"> - <i>Sectoral intervention frameworks (which include indicative sectoral objectives)</i> - <i>Regional intervention frameworks</i> - <i>Quantitative objectives of climate related activities have been set: at least 50% of AFD’s total activity needs to comprise climate co-benefits (declines at the regional level : 70% in Asia and Latin America, 50% in the Mediterranean zone and 30% in Africa) and 30% of Proparco’s activities.</i> - <i>Total reduced and avoided emissions are aggregated for AFD’s climate allocations. The GHG emissions of non-climate allocations are not accounted for the time being.</i> 		
Project Eligibility Screening	<p>Screen for eligible project types, technologies, etc.</p>	<p>Screen activities based on rough estimates of:</p> <ul style="list-style-type: none"> - Emissions performance compared to thresholds - Avoided emissions or impacts compared to baseline 	<p>Identify and screen activities based on rough estimates of:</p> <ul style="list-style-type: none"> - Vulnerability to physical risks (country, regional or other aggregated approaches) - Exposure of project types (sector, technologies) to climate policy risks
Project Eligibility Screening at AFD	<p><i>AFD’s project screening process is twofold :</i></p> <ul style="list-style-type: none"> - <i>AFD ensures that projects with negative social and environmental impacts are screened out through an exclusion list. Also in March 2013 AFD’s board of directors has decided to ban any investment in coal installations except for those that include operational carbon capture and storage devices.</i> - <i>AFD introduces thresholds of climate impact to facilitate project screening according to the recipient countries’ level of development. Climate and development objectives are thus reconciled through a selectivity matrix. This selectivity matrix is a detailed grid elaborating on the maximum thresholds of CO₂ emissions for projects to be considered for financing respective to three types of countries (Least developed or crisis countries, Middle-income countries, Emerging countries)</i> 		

Stages	Downstream Assessment		
Options assessment and technical analysis	<ul style="list-style-type: none"> - Selection of project alternatives based on value chains, technologies and processes and eligibility lists established by country, sector, level of development 	<ul style="list-style-type: none"> - Detailed GHG footprint calculations of individual projects to compare options - Assess avoided emissions of individual technical options for projects 	<ul style="list-style-type: none"> - Detailed assessment of direct physical impacts - Detailed assessment of policy-risks and resulting impacts on financial returns and future cash flows.
Options assessment and technical analysis at AFD	<ul style="list-style-type: none"> - <i>Case by case expertise is applied in the optimization of project specific choices in order to reduce climate impact during the lifespan of each project.</i> 	<ul style="list-style-type: none"> - <i>Carbon footprint measurement tool systematized in AFD's operating procedures and integrated in the requirements for technical assessments (pre-feasibility studies, detailed feasibility studies...) to influence technical choices</i> 	<ul style="list-style-type: none"> - <i>Historically performed through the environmental and social risk management process at the local level.</i> - <i>Climate risk screening recently systematized for all projects with an internal web-based tool and in-depth analysis for projects deemed to be at risk (ongoing pilot phase).</i>
Economic and Financial Analysis		<ul style="list-style-type: none"> - Inclusion of emission data in economic analysis to assess welfare impacts - Integration of a social cost of carbon into economic analysis 	<ul style="list-style-type: none"> - Inclusion of quantified physical and climate risks in financial analysis - Integration of a "real" or "shadow" price of carbon in financial analysis
Economic and Financial Analysis at AFD		<ul style="list-style-type: none"> - N/A 	<ul style="list-style-type: none"> - N/A

Source: Authors based on the revision of AFD documentation and interviews with AFD teams

Figure 6 : Standards and tools applied by AFD in the investment process



Source: Authors based on the revision of AFD documentation and interviews with AFD teams

3.1 Upstream level: the integration of climate considerations into the broader investment framework

AFD's formal inclusion of climate change into its strategy stems from the 2010 instruction from the CICID to support "Green and Inclusive Growth" through its actions. As indicated above, the AFD's 2012-2016 five-year *Plan d'orientations stratégique* (POS 3) explicitly lists "climate change" as one of the 12 operational priorities: "4. Reconciling development and the fight against global warming, especially in emerging countries." This plan more broadly makes supporting sustainable development a central piece of the AFD's strategy (see priority 1). This has led to the inclusion of sustainable development in its strategic planning documents. These priorities and objectives have also been used to create upstream tracking, screening and eligibility criteria. Furthermore, AFD plays a role in contributing to the French government's international climate finance commitments. The share of climate finance projects in AFD's portfolio has increased from less than 17%³³ in 2005 to 53% in 2014 (USD 2,865 million)³⁴.

This section presents the upstream integration of climate change into the overarching and operational procedures.

3.1.1 The Climate Strategic Intervention Framework: supporting a transversal implementation of AFD's Climate Action Plan with quantified short-term targets

AFD's climate strategy is formalized in the 2012-2016 Climate Strategic Intervention Framework³⁵. This framework was adopted by the Board of AFD in November 2011 and is operationalized by its Climate Action Plan³⁶. Within the document, three main priorities have been identified as drivers for AFD's financing operations: i) fostering a "fundamental shift toward a more energy-efficient and lower-carbon economic development model;" ii) "valuing the climatic and environmental services provided by countries' natural resources"; and iii) increasing the resilience to climate-change of people, goods and ecosystems. While the term low-carbon climate resilient transition may not be explicitly used, these three priorities indicate AFD's long-term commitment to aligning development models with long-term objectives.

In designing its Climate Action Plan, AFD has recognized its responsibility in supporting developing countries in their achievement of sustainable growth objectives. The underlying challenge of reconciling its development and climate ambitions puts significant importance on appropriate resource allocation, to avoid financing counterproductive activities. Through this plan, AFD has placed climate change as a prism through which its portfolio of commitments must be considered, to establish a link between development and climate concerns. Thus, AFD takes a transversal approach, integrating the Climate Action Plan into sectoral and regional objectives.

³³ Buchner et al (2012) : Public Climate Finance: A Survey of Systems to Monitor and Evaluate Climate Finance Effectiveness

³⁴ These ratios are calculated on the basis of annual allocations in developing countries, excluding global budget support (GBS), debt reduction mechanisms (French C2D Debt Reduction-Development Contracts), guarantees, FEXTE and PROPARGO sub-participation (which are included in PROPARGO's commitments)

³⁵ AFD (2011) : 2012-2016 Climate and Development Intervention Framework

³⁶ AFD (2012) : Climate Action Plan (2012-2016)

Three pillars are defined to scale up AFD's action both for the implementation of France's climate change commitments towards developing countries and for the implementation of resources of international and European mandates for climate.

- A firm commitment to the fight against climate change through the establishment of ambitious objectives
- A systematic measurement of the carbon footprint of funded projects, using a robust and transparent methodology
- A policy of selecting projects according to their climate impacts, taking into account the level of development of the countries in question.

AFD has defined a set of annual climate commitment objectives. The overall annual goal is to allocate a total of 50% of AFD's financing commitments in developing countries (excluding global budget support, debt reduction mechanisms, guarantees and FEXTE) and 30% of Proparco's signatures to projects, programs and actions classified as contributing to the fight against climate change. As explored below, these targets are disaggregated at a regional level into AFD's operations,³⁷ which enables AFD to address regional challenges.

3.1.1.1 Definitions and the classification of 'climate' commitments and consolidation of financial flows

AFD identifies the investments that contribute to its Climate Action Plan and tracks annual commitments towards associated objectives. For AFD, a defining piece of classifying 'climate activities' is the concept of "climate co-benefits". Any financial commitment can contribute to AFD Group's objectives if it generates "climate co-benefits" through mitigation (emission reductions), adaptation (improved resiliency), or climate oriented capacity building and local policy strengthening.

- **Mitigation projects:** A project contributes to mitigation when it reduces GHG emissions during its lifespan compared with a baseline without project. A project is recognized as a "climate/mitigation" project when: (1) either the estimation of its carbon footprint shows that it reduces or avoids (for renewable energy projects) GHG emissions; (2) or, if the carbon footprint cannot be estimated when the commitment is approved, this financing is devoted to actions which contribute to mitigation (studies, capacity building and intermediated bank credit lines for renewable energy and energy efficiency projects). This methodology is compatible with IDFC & MDBs Common principles for climate mitigation finance tracking³⁸.
- **Adaptation projects:** A project qualifies as an adaptation project if it helps reduce the vulnerability of goods, people or ecosystems to the consequences of climate change. For this, an analysis must be carried out to demonstrate that the project potentially contributes to reducing the vulnerability to climate change identified in the project area. A comparative analysis is conducted for this including (i) a study of the vulnerabilities to climate change in the project's geographical area with (ii) an analysis of the activities planned by the project in light of a positive list of actions that can contribute to reducing vulnerability or to strengthening the resilience of communities, goods or ecosystems to climate change.

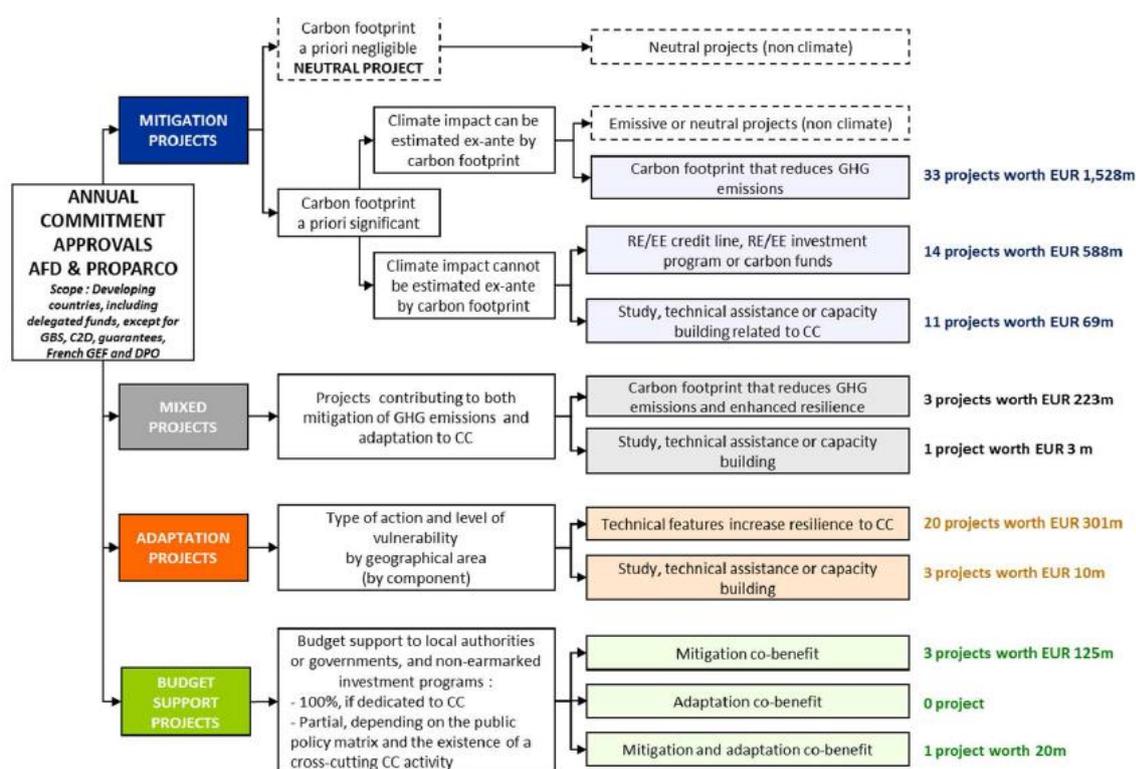
³⁷ Contrary to AFD, Proparco has not disaggregated its global commitment objectives into regional targets. Due to Proparco's different business model, whereby the opportunities and the market drive its investment opportunities, such a geographical breakdown of operational objectives wasn't considered as optimal.

³⁸ <http://www.worldbank.org/content/dam/Worldbank/document/Climate/common-principles-for-climate-mitigation-finance-tracking.pdf>

- Budget support for the implementation of climate policies:** There are three possibilities for the recognition of budget support and sector-specific aid: (1) budget support specifically for the climate (climate loans or support for national climate plans) is 100% recognized; (2) for the other budget support or for the support for local authorities, the methodology used aims to reflect the content of the political and sector-specific dialogue with the counterpart (joint monitoring of indicators) and the impacts on the fight against climate change from the integrated approach that this promotes. This method is based on a proportional accounting of the climate monitoring indicators compared to all the indicators in the monitoring matrix for the public policies implemented. It is backed up by a positive list of actions which, by their nature, are considered to have a climate co-benefit; (3) in the absence of standardized indicators shared with the counterpart to monitor its public policies, there is the possibility to take into account up to 40% of the financing provided if there is a cross-cutting “climate” activity that allows the dynamics underlying the action of the local authority or government to be apprehended.

Figure 7 shows how AFD’s climate operations in 2014 can be broken-down according to their estimated climate co-benefits.

Figure 7 : Mapping of AFD climate projects in 2014



Source: AFD Group’s climate activity in 2014

On the basis of these definitions, AFD estimates on an annual and pluri-annual basis the financing dedicated to the fight against climate change. Aside from projects with adaptation co-benefits, the amount accounted for is based, on the total value of project and does not assess the marginal or additional cost of the climate component of the project.

Moreover, according to the latest figures released by AFD, 47% of AFD's financing is not defined as contributing to the fight against climate change.³⁹ The impact in terms of greenhouse gas emissions of these commitments either: 1. has not been measured because it is considered negligible (ie. education and health-related project) or because it is technically too challenging to be measured (for instance in the case of financial intermediation⁴⁰); or has been measured and activities have been labeled as neutral or as emissive.

3.1.1.2 Integration in strategic intervention frameworks

AFD's global climate commitment objectives are disaggregated at the regional level in line with broader regional mandates. AFD's regional strategies, as with other strategic intervention frameworks described in Box 2, are elaborated by in-house technical teams through a dialogue with stakeholders before their final validation by the Board of Directors. One of the main upstream challenges for AFD is to match the Group's regional intervention frameworks with the investment needs expressed by the local counterparts in a manner coherent with the Group's Climate Action Plan.⁴¹

The disaggregation of climate objectives at the regional level is linked to levels of development. In countries in Asia and Latin America regions, an ambitious target was set whereby 70% of AFD's financing should be dedicated to activities with a climate co-benefit. This target was set in line with the green and inclusive growth specific mandate that AFD has in these geographies and with the countries' needs. In the Mediterranean region this overarching objective was set at 50% to take into account important broad development-focused transition goals in this region in terms of energy, urban development and resilience together with economic and employment challenges. Finally, this objective was set at 30% in Sub Saharan Africa. This target takes into account the continent's potential for the deployment of green and renewable energy infrastructure to satisfy growing energy demand and the increasing need to integrate adaptation to climate change into countries' development pathways. The principal challenge of helping the African continent to tackle poverty and inclusive economic growth is also addressed.

The achievement of the regional objective is mutualized among countries in the region within which the AFD is active. In regional intervention frameworks, operational objectives are set for the region including indicative financing allocation levels taking climate as well as other overarching priorities into consideration. Supporting climate change can be framed as a direct operational objective (such as in the case of the Asia Intervention Framework) in addition to its role as a transversal objective. The regional framework in turn identifies the activities and principal regions by operational objective where priority should be given.⁴² This process occurs in collaboration with regional project teams and local public and private counterparties to ensure alignment with local priorities and needs.

The strategy laid out in the regional intervention frameworks is then used as a basis for country intervention. Opportunities to support the regional level priorities and operational objectives are then sought out at the country level. Contribution to AFD's overarching regional climate target is thus taken into consideration in the country intervention frameworks through a selective prioritization of sectors

³⁹ According to AFD, this ratio is calculated on the basis of annual allocations in developing countries, excluding global budget support, debt reduction mechanisms, guarantees, FEXTE and PROPARCO sub-participation.

⁴⁰ Technical difficulties are faced in the case of credit lines, the climate impact cannot be estimated fully ex-ante as the exact pipeline of projects that will ultimately be financed is not known in advance. However, an estimation of the impact of each project is carried out systematically before credit lines are disbursed. Thus, credit lines dedicated to the refinancing of local banks leading to GHG reductions may qualify as mitigation projects.

⁴¹ AFD (2012) : Climate Action Plan (2012-2016)

⁴² AFD (2012) : Plan d'action 2013-2016 Asie : Contribuer aux équilibres régionaux et à la préservation de l'environnement (AFD's Asia Intervention Framework)

and activities. This prioritization is dynamic and is adjusted as country intervention frameworks are updated. Close attention is given to the achievement of the regionally transposed climate targets by regional management instances and through Climate committees chaired by AFD's top management which take place three times a year. At these meetings the progress towards these regional objectives is verified. Interviews with operational teams indicated that since these overarching objectives were established a "significant advantage" is now attributed to "climate" projects in the decision-making process. The importance given to the achievement of these objectives by regional operational has been reinforced given the increased national and international scrutiny of France's activities in this area during the run-up to COP 21.

Finally, given Proparco's business model whereby investment opportunities are demand driven, a geographical breakdown of operational objectives and a disaggregation of the 30% climate objective was not considered optimal. A more "positive list-based" approach is thus used to drive the allocation of financing toward sectors and technologies with a clear focus on renewable energy at all scales and through both direct contribution and support to the local banking sector.

3.1.2 Relative position of climate compared to other strategic priorities

The integration of climate change occurs within the broader context of both internal and external short-medium- and long-term objectives⁴³. Reconciling climate change and climate-change goals with development objectives poses a number of challenges. At the strategic level, it requires the balancing priorities that given current in-country practices may be difficult to reconcile. For instance, promoting national industrial policies and expanding access to energy could have adverse effects in terms of climate change objectives depending on strategic choices of technologies and economic model.

The AFD reconciles these divergences at the country level through the strategic intervention frameworks, where on average five priority objectives are listed for resource allocation. However, project- or program-specific opportunities and constraints can lead to divergence from a strict following of these objectives. Furthermore, non-country specific considerations may also affect the prioritization of actions. France's international relations with its national counterparts indirectly influence AFD's country strategy. To ensure a coherent political and economic message, AFD's country intervention frameworks must therefore be adapted the various partnerships and Memorandums of Understanding between France and the given National Government. In such circumstances, climate change objectives remain mainstreamed into strategic intervention frameworks, but may be adapted to the choice of priority activities that resulted from prior national-level negotiations.

The climate objectives set by AFD Group have encouraged departments to embrace the Climate Action Plan as a whole. The quantified commitment objectives have resulted in an increase of "climate" projects as a percentage of regional portfolios. In 2014 2.54bn euros of "climate" finance was committed to actions in developing countries. This has allowed AFD to reach a level of 53% (against 47% in 2013)⁴⁴ of "climate" allocations and, for the first time, has exceeded its annual target of 50% set out in its Climate Action Plan.

In poorer geographies, climate objectives remain a major concern to be balanced with regional growth needs. The fight against poverty is prioritized and thus a significant portion of resources is allocated to fostering growth and creating new infrastructures to support the productive sector and developing access to energy. Nevertheless, opportunities emerge through the financing of adaptation given the

⁴³ See Paper 1 of this series for a more detailed discussion of the different priorities that DFIs face (Eschali er et al (2015))

⁴⁴ Same as footnote 27.

vulnerability of these geographies and the financing of renewable energy projects as a strategy to hedge these countries' exposure to the volatility of energy prices. These synergies can be reinforced to further reconcile climate and development objectives, and require that national strategies strive to pursue growth in a way coherent with long-term climate objectives.

3.1.3 Project Identification and initial screening

Based on the strategic intervention frameworks that lay out applicable objectives and assessment criteria, an initial project screening occurs. This process is used to ensure that the projects and programs proposed for support contribute to AFD's objectives. This process is structured principally by a selectivity matrix.

3.1.3.1 Selectivity matrix

AFD's selectivity matrix combines volumetric and positive list criteria for the initial screening of sectors, activities and projects. This tool sets both maximum emission thresholds for projects financed at a regional level, but also takes into consideration other short- and medium-term objectives. This matrix is also backed by an exclusion list set to exclude projects with negative social and environmental impacts. Moreover, AFD ensures that projects with extremely negative climate impacts are screened out de facto. In particular, AFD Group decided in 2013 to formally exclude the financing of coal power plants that would not have an effective Carbon Capture and Storage (CCS) system in place.

Table 5: AFD's selectivity matrix

Type of project	Threshold	Least developed or crisis countries	Middle-income countries	Emerging countries
Mitigation projects	< -10KtCO ₂ e/year	AFD Group Funding possible.	AFD Group Funding possible.	AFD Group Funding possible.
Projects with non-significant Climate impact	between -10KtCO ₂ e/year and 10 KtCO ₂ e/year	AFD Group Funding possible.	AFD Group Funding possible.	AFD Group Funding possible.
Emissive projects	between 10KtCO ₂ e/year and 1MtCO ₂ e/year	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 projects	>1MtCO ₂ e/year	Funding possible. If the funding is concessional, the country must have an acceptable climate policy.	No funding unless the country has an acceptable climate policy.	No AFD Group funding.

AFD is one of the only international financial institutions to publically share a detailed grid which sets the maximum thresholds of CO₂ emissions for eligible projects. As seen in Table 5, these thresholds vary according for each region as well as for the existence of a national climate policy deemed acceptable in the recipient country. Through the selectivity matrix AFD attempts to balance development and climate-related objectives, recognizing that emission volumes and levels of development may in some cases be subject to trade-offs.

The selectivity matrix provides both screening criteria for project types as well as guidelines on the acceptable levels of concessionality of financing. Thus, the financial conditions of loans and concessional nature of the AFD's financial offer can be dependent on the emissions of a project and on its local context. Interviews held with operational teams indicated this tool has been widely assimilated and is used systematically during strategy elaboration and project screening and appraisal. However, it has not yet been formally translated into the Group's internal operating manual of procedures.⁴⁵

At the strategic level, the selectivity matrix is used to establish region-specific sectors of intervention. This contributes to defining country strategies to prioritize support for less emissive activities in emerging and middle-income economies. The low degree of granularity of the information contained in the selectivity matrix implies that there is little room for debate on eligibility. The financing of emissive projects is formally excluded in some regions, regardless of their potential positive development impact. The current emission thresholds were defined by AFD's Climate Action Plan set for 2012-2016, whether these thresholds will be revised in the future remains an open question.

At the project level, the selectivity matrix serves as a reference tool whereby the climate impact of a project can be benchmarked against AFD Group's standards for eligibility. In practice, this tool is used both during early screening as well as downstream during project assessment. During the initial screening, the matrix links the climate impact of a project with AFD Group's regional strategy, based on: i) anticipated emissions, ii) the level of concessionality and iii) the existence of an acceptable national climate policy. However, although the thresholds established in the grid are applied rigorously, they block the financing of only a few projects every year as most emissive activities are excluded by the regional and sectoral intervention frameworks. In least developed economies, the thresholds set by the selectivity matrix do not formally limit the financing of highly-emissive projects. However the level of concessionality is conditioned by the existence of a local climate policy, thus integrating the estimated willingness of a counterparty to improve the climate impact of its activities. It is also explicitly indicated that AFD's concessional loans should not act as a subsidy to fossil fuels.

Given the dependence of classification on the quality of a country's commitment to climate action, the AFD has identified two main considerations to assess whether the counterpart's Climate Action Plan is acceptable. Furthermore, given a lack of international agreement on this subject, AFD has thus implemented its own definitions and procedures.

Firstly, AFD assess whether national policies including climate change issues are being developed, focusing on technical relevancy, coherence and a transversal approach involving several sectors (transport, energy, agriculture...). Five criteria are evaluated to assess the technical relevance of the program: i) a recent diagnosis of current situation in terms of GHG emissions (volumes, sectors, etc),

⁴⁵ Internal procedure manuals available for operational teams

ii) an estimation of future GHG emissions under a business as usual scenario, iii) the establishment of a national GHG emission reductions objective, iv) the elaboration of sectoral strategies contributing to the realization of the national emission reduction objective, and v) the monitoring and evaluation procedures to follow up on the progress of the implementation of the strategy.

Secondly, if this initial screening is deemed satisfactory, AFD aims to verify that the project properly fits on the recipient's national emission reduction targets. This test is meant to be performed on a case by case basis relying on criteria that can be built based on experience.

Once the eligibility of the country's climate change policy is verified, a deeper analysis of each policy needs to be performed by the project team. The following points need to be part of this analysis: the pertinence and robustness of the climate policy (robustness of the institutional process and the associated monitoring tools, comprehensiveness and validity of the diagnostic, pertinence of the proposed evolutions scenarios and the level of engagement of the country in terms of emission reductions); the analysis of the efficiency, durability and coherence of the sectorial policy where the project is inserted; and the analysis of the advantages and downsides for AFD to invest in this project. If required, AFD's transversal climate department can assist project teams in carrying this analysis in order to inform the decision making instances. Being so resource and information intensive, Proparco is exempted from systematically carrying out this analysis and including it in the investment decision making. However, in some cases analysis previously carried out by AFD in the associated country and sector can feed Proparco's processes.

The application of AFD's selectivity matrix requires operational teams to roughly estimate GHG emissions and, if necessary, analyze and assess the climate policy. If a project passes selectivity screening, a more-detailed carbon footprint method is then conducted as described in following sections of this case study. In least-developed countries, for example, emissive projects with strong economic benefits can nevertheless pass initial screening in line with the principles of the selectivity matrix. However, the finale investment decision is weighted carefully and the selectivity matrix results are complemented by social, economic and technological indicators that allow for a comparison of the project with other alternatives and can lead to modifications in the project design.

3.2 Downstream Assessment

Once a project has passed the initial screening phase, it enters into the detailed appraisal process. The assessment of climate-related issues is done by the project team in collaboration with the AFD's transversal climate department.

Currently, the climate-component of the downstream assessment serves principally to assess and validate the climate co-benefits of projects that can be classified as contributing to AFD's objectives in this area. Based on more detailed carbon footprint estimations and climate co-benefit definitions, this process drives the tracking of AFD's contribution to its climate objectives.

Secondly, the process is also used to identify how emissive projects can be optimized to reduce their climate impacts or improve their capacity to increase resiliency. This type of optimization does not occur systematically for all projects given time and resource constraints, as well as the state of project development when AFD is typically contacted for financing.

The following sections will present the quantitative and qualitative information tools used to appraise and assess projects. This section presents how this information is integrated into final decision making from a wider perspective, whereby climate objectives are to be compared with other priorities (fight against poverty, economic development...) and constraints (resource, political...)

3.2.1 Project technical analysis

Every project that successfully went through the initial upstream screening procedures goes through a detailed downstream assessment. Technical, economic and financial feasibility are considered at this stage and, when it is possible, the design, the technological choices and structure of the project are adjusted.

Within the technical evaluation process, climate change is one of the major areas explored for improvement. The project team is encouraged to adjust the characteristics of the project – these can include the scope, the technical or institutional components, the main and secondary objectives or the financial amount committed –to fit with the AFD’s regional strategy and climate objectives. In some cases, additional funding can be required, often in the form of grants to include these issues into the terms of reference for feasibility studies and add a “climate” component to the design of the project. This inclusion of climate criteria can thus increase overall resource needs for project evaluation.

Tools applied in the technical analysis process include the Carbon footprint measurement tool that has been integrated for several years in AFD’s procedures and the climate risk screening tool whose application has been recently systematized.

3.2.1.1 Project level Carbon footprint measurement tool

A key piece for the AFD of the technical assessment of projects is the estimation of projects’ GHG emissions. As early as 2007, AFD developed its own tool to quantify the estimated emissions or emission reductions of projects under appraisal.⁴⁶ The AFD’s Carbon Footprint Tool covers the GHG emissions, reduced by projects throughout their lifecycle – including Scope 1, 2 and part of Scope 3 emissions. The AFD’s carbon footprint methodology is calibrated to produce conservative estimates; 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 1, Scope 2 and part of Scope 3)⁴⁷. It is divided by project type and calculates the carbon footprint based on the latest data available on GHG emissions by sector.⁴⁸

The results of the quantification are contextualized by comparing them to a reference or baseline scenario. The AFD compares emissions generated by a project to a scenario without the project where no alternative action or technology is deployed (no project scenario), except for Renewable Energy projects where the baseline is derived from the electricity /energy production mix.⁴⁹ Carbon footprint measurements serve as input data for project eligibility - when compared to the selectivity matrix - and to determine whether a project can contribute to AFD’s climate objectives.

⁴⁶ Several IFIs have built on AFD’s expertise to develop their own volumetric tool and methodology. In 2010, the tool was simplified in order to be harmonised with the Carbon Emissions Estimator Tool (CEET) developed by IFC since 2009. The CEET calculates projected emissions after the intervention and takes into account both direct and indirect emissions. The tool was initially launched on IFC’s real sector investments in 2012 and was later extended to advisory and financial intermediary activities in 2013.

⁴⁷ This thus includes both the construction phase (materials used for construction, energy consumed during construction) and the operating phase (burning fossil fuels, emissions generated by the project grid electricity consumed, materials used by the activity, fertilizers used, emissions from waste fermentation, maintaining traffic and end of life).

⁴⁸ AFD (2011): The AFD Carbon Footprint Tool for projects - User’s Guide and Methodology

⁴⁹ This varies from other project-based assessments (like the CDM) where the project scenario is compared with the next most viable or likely solution.

Application of the carbon footprint in the project assessment process

The carbon footprint measurement is systematized in AFD's operating procedures and is included in the project's appraisal note. This includes the carbon footprint estimation, data on the main sources of emissions and a list of potential actions to further limit emissions. Interviewees indicated that given data and time constraints, operational teams today focus principally on calculating the carbon footprint.

Based on the 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 project team is in charge of undertaking the carbon footprint estimation and can receive support from the transversal climate department, who systematically validates the calculations. The quantification is estimated with the help of a database which compiles detailed information on emission factors, sector by sector and country by country. As the appraisal process advances, the data collected becomes more precise and the carbon footprint estimations are refined.

The resulting project-level information is not generally used to question the investment decision per se as the financing of highly emissive projects will have been excluded at upstream level in Regional or Country Intervention Frameworks. The results of the carbon footprint tool are nevertheless also widely used in the screening process with the information available at that time. Under some conditions, they can influence both the technical and the financial aspects of a project. The volumetric tool is thus used to guide the project team throughout the appraisal process to identify optimization opportunities and evaluate alternative technological options. The final carbon footprint estimation serves for validation purposes and contributes to the Group's accountability efforts to communicate on the anticipated impacts of its climate-related yearly commitments.

Debates surrounding the AFD Carbon Footprint Tool

In practice, the footprint methodology has run into number of heated debates and controversies concerning the methodology used. From a methodological point of view, the "no project" reference scenario is often challenged and assumed to imply "no growth". The "no project" baseline is used for all types of projects, except renewable energy projects where the reference scenario is derived from the energy and electricity mixes. AFD justifies this approach based notably on the following considerations:

- the no project baseline scenario entails the valuation of emissions actually generated or reduced by the implementation of a project
- the subjectivity in the choice of an alternative baseline scenario implies that the data collected in a "no project" scenario will, by definition, be more accurate.
- the choice of the reference scenario raises the issue of consistency between the climate impact analysis and the other types of estimations that are used in the decision making process. It is important to note that the AFD generally compares the economic and social benefits of a project with the expected development trajectory in the absence of project. Thus, it is therefore difficult to weigh the different levels of impact against one another.

Currently, these different perspectives can be reconciled at the strategic level in the intervention frameworks and operationally in the appraisal notes. Thus, while some projects may have an important role to play in the energy transition, the GHG quantification methods used do not allow them to classify as "climate finance." This is nevertheless taken into consideration for project financing when the results of the carbon footprint calculations are put into perspective with other project characteristics. For example, the interest of gas projects as such were for instance highlighted in the Energy Strategic Intervention Framework, which may justify a less detailed review of a Climate policy in view of their financing in line with the selectivity matrix .

Finally, in practice the carbon footprint of projects is not conducted for more than half of AFD Group's activities. These projects are not measured because their impact in terms of emissions is considered negligible (ie. Education and health related projects), they pursue other priority development objectives or, finally, they are technically impossible to be measured ex ante in a reliable way (for instance in the case of financial intermediation).

3.2.1.2 Climate vulnerability screening and climate proofing

In recent years, AFD has been under increasing pressure from its supervisory authorities and the general public to systematically take into account the effects of climate change at the project level. Starting with a study launched in October 2012 to strengthen AFD's both "climate screening" and "climate proofing"⁵⁰ methodologies, followed by a testing phase, the process has achieved the transversal integration of climate risk screening in 2015, thus inscribed in its latest version of AFD's manual of operations. The primary objective of the work conducted by AFD was to better address the physical risk of climate change on individual projects.

Climate vulnerability is considered on the same level as other types of risk, during the appraisal phase of a project as part of the technical and economic analysis and performed through the systematic assessment of the vulnerability of each project by an internal web-based tool (see Box 4). If a strong exposure to climate risk is identified, threatening expected outcomes and the long term continuity of the project, a deeper analysis of the associated risk will have to be undertaken within the environmental assessment studies and or the feasibility studies. If deemed necessary adaptation measures will have to be proposed for the project's implementation phase⁵¹. As part of the feasibility studies that are conducted, project teams attempt to estimate the impact and the likelihood of different climate scenarios. However, uncertainties in these estimations remain high because of the numerous obstacles that limit the collection and the processing of reliable data at the local level.

Regionally aggregated information is generally difficult to obtain with precision and may, in some cases, require additional work. As a consequence, AFD's first objective is to develop a methodology for collecting information that is as robust and flexible as possible, considering the resources at its disposal.

The work undertaken by AFD on climate screening is in line with the progress made by the donor community. The importance of collaboration through a sharing of resources has been recognized. The evaluation of climate vulnerability requires specific skills and significant additional resources to facilitate the collection and processing of information. The work of the Intergovernmental Panel on Climate Change (IPCC) to update information, refine geographic coverage and elaborate different scenarios, may prove particularly useful. Referring only to a selective list of trusted information sources would help limit additional costs and time.

During the pilot testing phase the human and financial resources needed to integrate "climate proofing" components in AFD's procedures were assessed. Several projects were selected among those that had been rated "A", i.e. considered as having the highest exposure to climate change risk. Preliminary results show two main challenges: i) securing the necessary financial funds to undertake

⁵⁰ Currently, EBRD, ADB, KfW and AfDB are recognized as the most advanced DFIs in dealing with the climate resilience of their portfolio. Since 2014, the World Bank (IDA), the ADB, the AfDB, the AFD and the KfW have implemented systematic "climate screening" procedures in their project management, detailed analysis of risk with sector specific tools is mostly being tested by the AFD, EIB and EBRD but systematized in the case of the KfW.

⁵¹ While the project screening is currently systematized, the following climate risk treatment stages that concern the in-depth analysis of climate risks in impact assessment documents and the proposal of adaptation measures are undergoing a pilot phase.

the additional “climate proofing” studies and measures, and ii) raising the local counterparties’ awareness and convincing them of the importance of such procedures. Indeed, significant efforts are needed to demonstrate why additional resources must be devoted to “climate proofing” measures and these resources should also be included in the financing package, as an integral part of the project.

Box 4: AFD’s climate vulnerability screening web-based tool

A specific tool is currently applied by AFD to systematize climate screening during the project’s appraisal phase. This prospective climate-smart tool aims to allow the classification of climate vulnerability based on: i) an institutional component, ii) a climate component, iii) a technical component and iv) a contextually aggravating component. The climate component takes into account the estimated amplitude and importance of temperature and rainfall changes. The technical elements include structural and operational factors to measure sensibility to climate change. The institutional component considers the level of development of the country of implementation of the project. Finally, the fourth component allows the consideration of aggravating conditions such as geographical localizations frequently exposed to natural hazards (coastal, mountain or flood-prone areas, etc). Alert thresholds are proposed beyond which specific climate screening procedures are added to the already existing environmental and social impact and/or feasibility studies.

The final outcome of the “climate screening” procedure is a vulnerability ranking whereby each project is classified in three categories (A, B or C), which will be presented for consideration of the Project Identification Committee (CDI). This classification would supplement the existing environmental and social ranking and be considered simultaneously. Thus, it is likely that the addition of a distinct vulnerability mark would not have a significant impact on the overall ranking of projects. Both classifications would lead to the triggering of specific procedures for riskier projects. These procedures are implemented by the Environmental and Social Responsibility in Operations (AES), division whose responsibilities already include the assessment and management of the impact of the project on the environment and the transversal Climate Department who pilots the technical implementation of this new tool. The advantage of merging both procedures is twofold. First, the AES division is very experienced in the management of the systematic environmental impact evaluation procedures. Moreover, the methodology identified to deal with climate vulnerability is inspired by the environmental and social risk management procedures. The process seeks not only to facilitate decision-making, but rather to encourage downstream optimization through a selection of the best alternatives in terms of climate risk exposure.

3.2.2 Integrating climate considerations into financial and socio-economic analyses

The main technical specificities of a project are considered during the appraisal phase on the basis of the feasibility studies. Climate-related information provided by the tools described in previous sections constitutes critical input for choices on technical options. Project technical analysis leads to the short-listing of the best options available. This information can then be used in the financial and economic welfare assessment conducted by the AFD, external consultants and counterparties.

In many instances, a full financial analysis of projects is the responsibility of host parties and in-country counterparties; AFD’s principal focus is on ensuring the financial equilibrium of projects rather than profitability. Thus AFD does not conduct a systematic in-house assessment of future project cash flows and associated risks. However, a project’s risk/profitability profile is an important criterion for

Proparco, as its funding is specifically dedicated to the private sector. According to interviewees, neither AFD nor Proparco currently internalize the cost of carbon, nor do they apply a financial penalty cost on carbon-intensive projects.

Nevertheless, for both AFD and Proparco, demonstrating a positive impact on socio-economic welfare is a prerequisite for project financing. A project will not be considered for funding if it does not have a positive impact on the local socio-economic context. Climate change may be included in the socioeconomic assessment, - notably through the quantification of a social cost of carbon. However, AFD socioeconomic assessment procedures are generally not systematized. They are typically produced by the consultants in charge of the technical and economic feasibility studies and based on guidelines provided by AFD. In specific sectors, AFD builds its requirements on existing standards produced by other institutions. Thus, climate considerations may be integrated with various levels of detail in the appraisal notes.

For instance, in the transport sector, AFD recognizes the standards applied by the French Ministry of Transport, whereby a social cost of carbon is directly included in the economic assessment of the project. This measurement is set against the investment cost and compared once the social and economic welfare benefits are assessed. These might include elements such as energy savings, pollution reductions, decrease in the number of accidents and time-savings. Finally, possible changes in regulation or economic context due to climate change are generally not taken into account. Furthermore, because changes in energy prices are considered to have a marginal impact on the socio-economic balance of a transportation project, they usually are not directly accounted for.

3.2.3 Inclusion of climate change in risk safeguards and internal control procedures

3.2.3.1 Environmental and social risk safeguards

Historically, the environmental and social risk management process constitutes one of AFD's pillars for managing the impacts of the projects it finances. Focused only on local impacts, it is conducted throughout the project lifecycle and aims at improving the environmental and social quality of its operations. During appraisal phase, the projects are assessed according to the potential risks posed by the project in terms of ecology, pollution, nuisances and natural, technological and health risks. A specific tool was designed to help classify and document the risk associated with each project. These risks are systematically addressed through a risk assessment and management methodology which is integrated in the Group's formal procedures. The final objective is to minimize impact and maximize resilience at the local level.

The environmental and social risk assessment tool applied by AFD is based on the evaluation of four main elements: i) project location (distance to a sensitive area), ii) project type (sector, financial instrument, greenfield or existing, etc.), iii) project size (technical threshold for every project type), and iv) quality of local safeguard regulations. Three categories of risk (A, B or C) are then applied to all projects except for financial intermediation, which is automatically associated to a distinct risk category (IF).

Projects classified as "risky" because of the potential impacts on the local environment (A or B) are not necessarily excluded from financing, the counterparties are expected to take a contractual commitment to mitigate the risk. This commitment generally includes additional environmental and social impact studies as well as the establishment of a list of potential solutions to reduce the identified impacts. By accepting to undergo the appraisal phase in view of future financing, the counterparts implicitly acknowledge that a certain number of additional procedures will be implemented to assess and improve the quality of the project. At a later stage, and if deemed necessary, the financing may

also be subject to a list of conditions that mention the actions to be implemented to reduce associated risks. These conditions apply at different stages of the project cycle, from the design of the project to its implementation. They are often later formalized in the financing agreements to be subject to AFD's "no objection" as a prerequisite to disbursements. Specific environmental clauses may also be added in any contract for goods and services financed by AFD. The objective is not only to improve the overall level of environmental requirements, but also to promote a level playing field for international competitive bidding and to give a competitive advantage to "sustainable" companies. The implementation of these standards is supported by AFD, who may provide technical assistance if the local resources are insufficient.

Although climate issues are part of the environmental and social risk management process, they are not meant to be the principal focus. The main objective is rather to mitigate the short-term environmental impacts of the project at a local scale. Climate issues are increasingly being analyzed separately during project appraisal as described above. Furthermore, to this date the requirements imposed by AFD for the elaboration of tender documents generally exclude climate considerations. Specific tools still need to be further developed on this end.

In practice, the implementation of such safeguard procedures can slow-down the implementation of a project as it engages the counterparts to deliver impact evaluation studies and management plans that meet international standards. Furthermore, in some rare cases, instead of having the desired demonstration effect, AFD's environmental safeguard procedures can have the adverse effect of encouraging the counterparties to look for funding from financial institutions applying less stringent requirements. Efforts are underway to harmonize the basic principles for environmental risk management standards between donors. Overall, the World Bank Group is generally acknowledged for having the best and possibly strictest procedures. These also serve as standards for improvement for the local counterparties who realize that their implementation would open access to international financing. AFD Group recognizes these "best practices" and boasts about bringing to them additional flexibility, thanks to its specific internal organization and expertise.

3.2.3.2 Internal control procedures: Second opinion and second sustainable development opinion

The Second Opinion is a dedicated team of the Risk Management Department that is responsible for formulating an independent opinion on projects that are being appraised. The "second opinion" is sought for every project that is undergoing appraisal prior to being put before the Board of Directors. It gives a consultative opinion on the counterparty and transaction risk as a whole. The notion of risk is thus considered in broad terms and may include financial, institutional, technical, vulnerability and sometimes environmental and social risk aspects. The Second Opinion's mandate and objective is to ensure that the interventions are designed with specific, clear and quantified objectives and associated with realistic monitoring tools and procedures. Consecutive to the consultation, a set of due diligences actions must be undertaken by the project team to mitigate the identified risks and strengthen the associated risk control procedures.

In 2014, to strengthen its internal control procedures and integrate specific "sustainable development" validation procedures, AFD established the "Second sustainable development opinion", an internal group that reviews of the level of sustainability of each project and delivers an expert opinion prior to investment decision. The "Second sustainable development opinion" is produced by a team which is separate from the Second Opinion team, yet also independent from operations. This new risk control procedure was rapidly integrated and implemented in the AFD's operations. Six sustainable development criteria are reviewed with equal attention as part of the consultation: i) economic development, ii) the fight against poverty, iii) the fight against inequalities, iv) biodiversity conservation and the management of environments and natural resources, v) the fight against climate change (Box 4) and the preservation of the atmosphere and vi) governance.

The review of these components results in a classification of the project’s contribution to sustainable development on a scale ranging from -2 to +3. A negative classification would refer to risks for which mitigation measures are considered insufficient. Each activity is attributed an individual score per sustainable development criteria and there is neither weighting nor compensation to achieve an overall ranking. In practice, a 6-branch diagram is produced by the project team to highlight the ranking of each sustainable development criteria. It is then reviewed by the “Second sustainable development opinion” who communicates a general result, which can be any of the following: i) favorable opinion, ii) favorable opinion with recommendations, iii) reserved opinion, iv) non applicable. The team in charge of notifying the project’s sustainable development classification would typically review the documentation and methodology used for scoring the project’s contribution to each criterion.

Box 5: Review of the climate criteria in the “Sustainable development Opinion”

The process established to guide the review of climate criteria by the assigned experts is linked to the 3 pillars defined by the 2012-2016 Action Plan: the project’s contribution to mitigation (measured in terms of GHG emissions), the shares of funding allocated to increasing local, regional or sectoral resiliency through the project’s implementation and the shares of funding dedicated to support the integration of climate considerations in public policies through budgetary support programs.

Mitigation angle <i>(in terms of GHG emissions)</i>	Adaptation angle <i>(funding share)</i>	Public policy support <i>(Climate funding share)</i>
<ul style="list-style-type: none"> - Climate neutral project (10 ktCO₂/year to -10 ktCO₂/year) and project with slight positive mitigation impact (reductions of -10 to -100 ktCO₂/year → grade 1 - Strong positive mitigation impact (reduction of -100 to - 500 ktCO₂/year) → grade 2 - Major positive mitigation impact (reductions of < - 500 ktCO₂/year) → grade 3 - Emissive project (emissions >10ktCO₂) → grade -1 - Highly emissive projects (emissions >1MtCO₂) → grade -2 	<ul style="list-style-type: none"> - Funding devoted to increase resiliency is less than 50% → grade 1 - More than 50% → grade 2 - Completely devoted to this objective → grade 3 - Despite risk control measures the project may increase vulnerability → grade -1 - The project significantly increases vulnerability and does not plan risk control measures → grade -2 	<ul style="list-style-type: none"> - Budgetary support Funding regarded as climate : 50% → grade 1 - More than 50% → grade 2 - Devoted to climate policy at the national or subnational level → grade 3 - The budgetary support funding increases emissions or vulnerability → grade -1 - The budgetary support funding increases emissions or vulnerability significantly → grade -2

In the case where projects present both mitigation and adaptation co-benefits or adverse effects it is recommended to undertake evaluation under both dimensions and to present both results separately.

This “Second sustainable development opinion” is essentially informative and aimed at fostering dialogue on issues and risks that may not have been identified during the earlier stages of appraisal. Together with the broader Second Opinion, the Second sustainable development opinion is in theory one of the only two bodies that can request for a project to return to the credit committee before the final decision financing decision is taken by the board. The review is structured to provide recommendations or to add some additional assessments or conditions to improve the quality of the project with regards to its sustainable development impacts.

The systematization of the Second sustainable development procedure requires project teams to consider transversal sustainability issues whatever the type of project they are appraising. The procedure thus mainstreams climate into the projects that didn’t fall within the scope of the climate specific tools developed in the previous sections. Being a fairly recent tool that has taken time to be

implemented, this new procedure has provoked some debate inside the organization and the learning process towards its complete implementation is still on the way. However, the tool has the merit of furthering the inclusion of climate and sustainable development considerations in project design and implementation.

4 Application of the Framework of Climate Mainstreaming in Decision-making to AFD for indirect support instruments

4.1 The case of financial intermediation practices

As mentioned in section 2.2.2, “Green” credit lines have gained significant importance in AFD’s activities, allowing this institution to reach beneficiaries it would not normally reach through standard financial instruments, such as public and private Small and Medium Enterprises (SMEs), or even individuals.

The process for selecting potential borrowers is based on the same principles as direct project financing, but the standards and tools applied to decision making, because of the object of the financing, are applied differently. Allocated with the objective of reducing GHG emissions, “green” credit lines need to exclude the financing of highly emissive projects. Eligible local counterparts are selected according to their potential for contributing to GHG emission reductions and based on their existing sustainable development policy. When a beneficiary is selected for further appraisal, AFD’s project teams reflect on potential solutions to design or reinforce the beneficiary’s climate strategy. In collaboration with the local counterpart, a framework is designed which includes, among other considerations, a reflection on the most emissive sectors of potential investments, an exclusion list for highly emissive activities, and environmental risk classifications.

Based on the initial screening process, AFD’s standard decision making tools are applied to the credit line project in order to assign it with the appropriate level of diligences and mitigate the identified risks. In terms of their environmental impact risk, financial intermediation projects are systematically classified “IF”, due to the specific nature of their object and structure. Nevertheless, following the same approach as direct project funding, three sub-categories of environmental impact risk are applied to financial intermediation projects. The purpose of this classification is to identify credit lines for which the pipe of projects to be financed is known with the least certainty and to cover the risk with binding diligences. Risk classification has no direct impact on the decision to allocate resources to a credit line but guarantees a better structuring of the project and a more rigorous application of climate considerations both during and after project implementation.

During the appraisal phase, a detailed positive list of priority activities is established in agreement with the credit line borrower. Because the portfolio of investments that will ultimately be financed is not known beforehand, the Carbon Footprint tool is not applicable in its stricter form as it would require the use of too many unverified assumptions and thus lead to strong inaccuracy. A rough estimation of the impact of the credit line is however made on the basis of the pipeline of projects that are considered ex-ante for financing. This estimation is based on a set of simplified hypothesis such as the size of the projects in the prospective portfolio, the type and amount of energy produced and the local energy mix. As the project moves forward and is implemented, a detailed carbon footprint estimation is undertaken for the projects apply to credit line financing. This ex-post use of the carbon footprint tool – compared to AFD’s resource allocation - has the double advantage of guaranteeing that no project will benefit from funding from the credit line if it has adverse effects on climate-change and of disseminating impact estimation expertise directly to corporate financiers. In some cases, technical

expertise may be provided for the capacity building of the beneficiary's internal team of investment decision-makers. In practice, during the implementation of financial intermediation projects, AFD's procedures require that the project team formally approves every project that is financed through the credit line. Generally, projects are analyzed individually, thus giving AFD influence on the composition of the global portfolio of projects financed by the credit line. As such, AFD maintains significant control on the direct impact of the credit lines it finances on climate change. However, this does not prevent the credit line beneficiaries from financing "brown" project with other financial resources.

When assessing financial intermediation projects, AFD considers climate risk at the same level as the financial risk, the reputation risk, or the governance risk. Each set of risks is considered by experts who are also responsible for validating the associated diligences that were submitted. Climate vulnerability is not critical in the investment decision, but can have an impact on the duration of the appraisal phase. At the sub-project level, "climate-risk screening" is a strong argument for AFD to convince commercial banks to engage in green credit lines. For instance, AFD may initiate dialogue with its potential borrowers on issues such as evolution of energy prices and their impact on a prospective portfolio. Technical assistance can be made available for testing the profitability/risk ratio of a portfolio of projects according to different scenarios. The standards supported by AFD to measure climate risk at the sub-project level are not standardized due to their high level of dependence on contextual factors (type of project financed and local economic context). Bank intermediation is by nature very selective in terms of risk. Indeed, only projects that are considered profitable and resilient under various levels of risk constraints can support a loan. This specificity brings additional value to the technical assistance provided by AFD to better internalize these factors, and diversify the risks of the portfolio's held by local financial institutions.

Upon completion of a financial intermediation project - or in other words when the credit line has been fully disbursed - AFD can in some instances carry-out an ex-post evaluation of GHG emission reductions to compare the objectives that were set for the project with the reality of implementation. This estimate is not yet systematic, but is strongly encouraged by some of AFD's financiers such as the European Union. To serve this purpose, grants are allocated to AFD for an independent impact assessment of some of the credit lines that were financed, especially in less developed geographies such as Africa. AFD is currently working on the systematization of this ex-post evaluation, and intends to pay particular attention to developing means of supporting its counterparts in taking on these ex-post evaluations, notably through technical expertise dissemination. To date, the impact of each project is assessed on a case by case basis, with a significant contribution from AFD's technical experts. Despite significant efforts to systematize this process – through the implementation of a reporting platform for instance –, and to disseminate the carbon footprinting tool - mainly through training on a simplified version-, however the diversity of contexts led to results that were deemed inaccurate and made any form of impact aggregation irrelevant. The next step for AFD is to develop common and standardized climate practices with its fellow donors. The two priority objectives that have been identified are the reduction of the implementation costs and the establishment of a basis for comparison between credit lines and entities.

4.2 Application at the program level: the case of development policy operations

Development policy operations (DPO) are increasingly seen as an efficient instrument to address the transversal nature of fostering low-carbon development.⁵² Given the relatively low level of human

⁵² IDDRI (2013) : Working Paper, Climate Change Development Policy Operations and the Green Climate Fund

resources necessary for the DFI compared to the large amounts that are disbursed, distribution is made easier and Climate Change Policy Operations (DPOs) including budgetary support loans that are often co-financed allow donors to cooperate and harmonize their LCCR standards. This approach may also involve the merging of different types of instruments that complement each other. Questions remain, however, on the most effective way to influence and monitor budget allocations in a bid to limit the risk of allocating funding to counter-productive activities – or improperly labeling programs as climate finance. In general, program loans are based on a principle of mutual trust established between the donor and its counterparty. The provision of funding by donors gives them a right to partial oversight of its use to support national policy; however it does not give the right to audit a government's accounts. Thus, in many instances, countries where the transparency of national policies is not satisfactory are excluded from the use of these tools.

As seen in section 2.2.2, AFD uses a number of DPOs to foster close collaboration, political dialogue and policy development with national governments. AFD is increasingly using these 'program loans' to foster the development of climate change action plans and to contribute to the evolution of related public policies. In practice through its DPOs AFD seeks to support the transformation' of the local economic environment by associating its budget funding with technical assistance to provide international expertise in the design and implementation of efficient climate change strategies. Although they are not earmarked, the resources allocated in Climate Policy Operations (CPO) are conditional upon the expressed readiness and willingness of the beneficiary to elaborate a climate-change action plan.

Support through budgetary loans also poses challenges, however, given that the funding provided is typically 'untargeted' beyond general sector-based or other focus areas. Thus, it can be difficult priori to disbursement – and even after - to clearly estimate the share of expenditure on climate change-related activities compared to the total volume made available by AFD through a given program loan. Furthermore, ex-post quantified assessment is equally complex; it is hypothetically possible to base the evaluation of the effectiveness of climate budget loans on a BaU reference scenario for GHG emissions. However, there are a number of obstacles to this approach, such as the difficulty in many recipient countries to establish a national reference scenario with sufficient precision⁵³.

AFD is in the process of developing decision-making tools to limit the risk that funding allocated through program loans is counterproductive to LCCR objectives. In general, budgetary loans are subject to the same procedures as projects described previously. However, several of the existing climate standards and tools described are easily applicable only for project-related financing in particular for tools such as the carbon footprint assessment. As such, AFD is developing specific criteria for budgetary and program loans for use in screening and program assessment. Concerning screening, for a CPO (budgetary loans and program loans) to classify as a climate action specific conditions, that we already described in section 3.1.1.1, need to be met according to AFD's climate activity reporting document.

Ex-post assessment equally poses challenges. For example, the evaluation of the Indonesian Climate-Change Program Loan (ICCPL) suggested that a significant amount of emissive activities continued during the implementation of the policy support, particularly through the construction of coal-fired power plants and deforestation of large areas⁵⁴. It is extremely challenging to speculate on a counterfactual scenario identifying what would have happened if the ICCPL hadn't been provided. Nevertheless, the regular steering committees that were held showed that significant advancements

⁵³ Corbier-Barthaux et al (2012)

⁵⁴ Raffinot et al (2014)

had been made in terms of creating an enabling economic and institutional environment to promote climate-change actions at the national and local level.

Many of the Climate Change DPOs that have been funded by AFD so far were supported by international co-financers. In such cases, AFD and its co-financing partners must agree on common objectives and approaches, despite their often-diverging economic and political interests. Defining what can be considered as an acceptable Climate Action Plan is one of the underlying challenges of co-financing, as it can lead to imbalances in country/donor relationships. Trade-offs are generally resolved with the funder providing the highest level of share of funding setting the standards used. This does not always lead to the use of the most stringent requirements and strategies.

In general, compared to its partner donors, AFD has shown a strong degree of flexibility regarding the eligibility criteria for budget support. In many instances, donors require the establishment of key public financial management reforms and the translation of the national Climate Action Plan into medium-term budget allocations. Furthermore, the volume and conditions of the climate program loans can vary substantially from one recipient country to another. Surprisingly, the conditions are often independent from the level of engagement of the country or its readiness to implement a Climate Action Plan.

5 Coordination with other development actors to enhance impact

Achieving a LCCR transition cannot be achieved by a single financial institution acting individually. Broader policy and economic regulations, incentives and policies are needed to integrate the negative externalities of a fossil-fuel based economy – particularly given the inter-generational and global nature of the challenge. Fostering LCCR development is intrinsically linked to shifting a country or a region's economy towards to a low-carbon growth model.

Thus, fostering the decarbonization of sectors through the deployment of new technical and financial solutions as well as deep behavioral changes must occur within a broader national and international vision for LCCR economic and social development. This, in turn, requires that the majority – if not all – of development finance institutions coordinate and cooperate on this issue.

AFD's direct influence on the economies of countries of operation is variable and often dependent on external factors. AFD combines capital investments, political dialogue and economic development with technical to foster capacity building in decisive sectors for climate change. This contributes to the creation of an enabling economic and institutional environment to promote climate-change actions at the national and local level. However, the AFD recognizes that a single DFI on its own will only have a limited impact. As such, it has taken steps to introduce and integrate climate-related issues into its partnerships with both private sector and other international finance actors.

5.1 Harmonization among DFIs of evaluation criteria and reporting

Several initiatives have been launched in recent years to coordinate and evaluate the donors' climate activity. Along with 21 national, international and regional development finance institution members of the International Development Finance Club (IDFC)⁵⁵, the AFD is partnering in defining, tracking, and

⁵⁵ In 2013 IDFC members committed close to USD 87 billion to mitigation and adaptation projects, programs, and activities in different geographies. This figure is part of IDFC's yearly mapping exercise that this club has undertaken since 2011. See more at : <https://www.idfc.org/Press-And-Publications/publications.aspx>

reporting mobilized climate finance. This process contributes to ongoing efforts to harmonize climate-related development goals fixed at the international level and include also enhanced collaboration with a number Multilateral Development Banks (MDB). Initial results of these collaborations include the definition and adoption of Common Principles for Mitigation and Adaptation tracking⁵⁶. Furthermore, the combined expertise and high level of integration at the local level by IDFC members, allows the leveraging, intermediating and channeling of resources in direction of identified climate priorities.

As a European development finance institution, Proparco takes part in the EDFI, an association of 15 bilateral institutions that jointly aim at promoting economically, environmentally and socially sustainable development through financing and investing in profitable private sector enterprises. This group has created the ICCF (Interact Climate Change Facility), a private company dedicated to “financing renewable energy and energy efficiency projects in the private sector in developing countries and emerging markets”.⁵⁷ ICCF’s operations are managed under the Master Investment Agreement, whereby full authority for investment decisions is delegated to the Investment Committee, composed of representatives from the institutions that have committed funds to the initiative. Under this framework, like for AFD the Carbon Footprint Tool has been approved for systematic use as part of the appraisal of projects seeking for ICCF funding.

5.2 Pooling of resources and leveraging new sources of finance

Pilot partnerships have been undertaken by AFD with its fellow donors to combine resources and increase leverage and overall impact. These partnerships take sometimes the form of funds delegations. As of October 2014, the overall amount of financing managed by AFD on behalf of other international funds was greater than EUR 700 million. For several years now, a number of international donors have delegated funds to AFD for on-granting, on-lending or blending of financial instruments to beneficiaries. The delegation of funds and blending delegated to AFD from the European Union in the case of the Asian Investment Fund (AIF), the Latin American Investment Fund (LAIF), the Infrastructure Trust Fund operating in Africa, and the Neighbourhood Investment Facility (NIF) operating in the Mediterranean region are some examples of this type of partnership. Another example is the funds delegation agreement that AFD signed with the UK Department of International Development (DFID) for a total of £ 17 million, through this agreement AFD currently manages two funding operations in Indonesia on behalf of DFID. These resources are used to fund feasibility studies, technical assistance operations and to create new financing mechanisms complementary to AFD’s own financial tools and to tackle specific barriers to the development of climate friendly programs in the country.

The pooling of resources can also be achieved through the creation of specific funds dedicated to provide comprehensive solutions to overcome specific barriers of low-carbon investments. A financing facility was for instance set up by Proparco and the EU for €50 million, €45 million of which are intended to provide guarantees to riskier projects.

Finally, DFIs – including the AFD – are increasingly examining means of leveraging additional capital from international markets. AFD has launched a climate bond program with an initial issuance of €1 billion rated AA/AA+ (S&P and Fitch). The leveraged funding will specifically target projects which “have a significant and quantifiable impact in terms of greenhouse gas emissions” in the renewable energy, energy efficiency, urban transport, forestry and agriculture sectors. Projects will be selected

⁵⁶ See more at :

https://www.idfc.org/Downloads/Press/02_general/Press_Release_IDFC_MDB_Climate_Adaptation_Tracking.pdf

⁵⁷ For further information please refer to: <http://www.edfi.be/about/iccf.html>

according to AFD standards in terms of climate change mitigation and will thus have to demonstrate an ex-ante estimation of their carbon footprint of <-10 kteq CO₂ / year, and be aligned with local public policies. Such large-scale initiatives as the issuance of Green Bonds can help achieve investor diversification, and therefore have major impacts of scale in the long-run. As such, they are critical channels of innovation for LCCR objectives and strategies to be mainstreamed into operations.

6 Taking stock and next steps to ensure that 'climate-smart' and 'transition-smart' decision making

While recent progress by DFIs to mainstream climate change into development activities is an important first step, the 2°C objective will necessitate further ambition to incite a 'transition' to a low-carbon climate-resilient economic model⁵⁸. At the global level, the New Climate Economy Report estimates that approximately USD 92 trillion financing is necessary from 2015 to 2030 to meet infrastructure and development needs without jeopardizing global emission reduction objectives. Although this amount represents a net incremental cost of only USD 4.1 trillion over the period compared to BAU investment needs (NCE 2014). Nevertheless, there is a need to significantly shift investments as solving the climate finance equation involves not only increasing flows to low-carbon projects, but equally capping – and reducing – investments in carbon-intensive activities and activities that increase the vulnerability of populations, ecosystems and infrastructures to climate change.

DFIs have made strides in mobilizing both public and private finance to address mitigation and adaptation issues. In their assessment of climate finance flows, the Climate Policy Initiative has constantly demonstrated that DFIs are important actors in facilitating global public climate finance flows (CPI 2014): in 2013, DFIs committed USD 126 billion, or 38% of total climate finance flows. The amount of financing and resources dedicated to climate change has been growing – as well as the accountability requirements in terms of the direct impact of their activities.

Consistency with the long-term climate change objective, however, may require further changes in how DFIs integrate these issues into their activities. A shift appears necessary from a system of tools and indicators that focus principally on climate finance tracking to tools that assist in aligning activities across financial institutions with the low-carbon, climate resilient transition. A key challenge resides in assisting recipient countries to develop pathways to transition to a LCCR development model to achieve development objectives in a means coherent with long-term climate goals. These LCCR-coherent development pathways could be used by DFIs to prioritize and align their activities with a country's transition pathway to a LCCR future.

This case study has identified a number of entry points for AFD to address opportunities and challenges to mainstreaming these issues. The tools and standards already implemented by AFD certainly constitute a solid base for mainstreaming climate considerations into its activities. The potential to strengthen the development and prioritization of the financing of projects that contribute to the 'low-carbon transformation' of a given country's economy remains to be exploited. The following section presents recommendations to be taken into consideration by the AFD as their strategy and operational guidelines evolve – but do not necessarily represent changes foreseen by the AFD at this time.

⁵⁸ See Paper 1 of this series : Eschalier et al (2015)

6.1 From climate finance to transition finance: Rethinking how to assess DFI's contribution towards a 'LCCR transition'

This case study has used the analytical framework elaborated in paper 2⁵⁹ of this series to identify the current upstream and downstream integration of climate and transition objectives. This analysis shows that AFD has taken steps to integrate climate considerations at the upstream level to achieve the overarching objectives laid out in the 2012-2016 Climate Action Plan. At downstream level, climate tools have been implemented to ensure that individual commitments satisfy requirements in terms of AFD's maximum levels of acceptable environmental and climate impact. As seen in detail in this report, this reconciliation has been concretized in the AFD's strategic frameworks for sectors, regions and countries of intervention and is taking place through the setting of over-arching financing targets for projects with climate co-benefits, the use of GHG quantification tools to evaluate of climate co-benefits of projects and through the implementation of volumetric thresholds and qualitative criteria to determine eligibility for financing.

In our view, there is potential to evolve tools currently applied by AFD in order to assist countries in the development and thus prioritize financing of projects that contribute to 'low-carbon transformation' of a given country's economy. In this manner, countries could shape their energy and production structures around technologies and practices coherent with long-term climate objectives. For DFIs such as AFD, supporting this process requires an assessment of their investments and activities in terms of their contribution to countries' development pathways aligned with a LCCR future.

In practical terms, this implies moving from 'static' assessment tools - that identify whether or not emissions are reduced or resiliency is increased by a single project or action – to a 'dynamic' process within which the 'transition potential' or 'transition impact' is assessed in line with national LCCR strategies. Thus, the coherence of each intervention with a country's strategy to achieve the LCCR transition would be part of the 'baseline' against which investment decisions could be assessed. Through this process, each investment would thus be considered through a comprehensive 'LCCR transition prism' and the resources would be allocated accordingly, thus prioritizing 'transition coherent investments' to maximize long-term impacts.

Mainstreaming would thus facilitate looking at how to achieve development objectives in a LCCR-coherent fashion rather than looking to finance individual "climate" investments. This could have substantial impact on the tools, methods and decision points into which this information is integrated into decision making. DFIs could further compliment project finance through capacity and policy support to foster the emergence of a domestic policy and regulatory framework that would support and prioritize the development and financing of these projects by local economic actors.

A key challenge resides in assisting recipient countries to develop strategies laying out preferred pathways to transition to a LCCR development model. Across the DFI community, a near-term priority should thus be the provision of assistance to recipient governments in the development of "country-specific LCCR-compatible development pathways" to achieve both long-term development and climate objectives. This process should avoid the repetition of past experiences where the development community was overly prescriptive and external benchmarks were applied to developing countries. The development of such pathways should be done by national governments given the importance of contextualization and the need to implement economic and regulatory changes to foster such an economy-wide transition.

⁵⁹ Cochran et al (2015)

These pathways or guiding strategies, tailored to the development needs, strengths and opportunities of each country to achieve a low-carbon climate resilient development model, should represent a shared vision between recipient governments, domestic private investors, and civil society. These pathways should be revised to evolve over time as countries move ahead. The publication of Intended Nationally Determined Contributions (INDCs) within the framework of the UNFCCC appears to be a potentially useful development in this area as the financial plans are developed to implement the included actions.

DFIs, in turn, could support and use these national LCCR strategies to prioritize support for development projects that also support a country's transition to a LCCR future.

- Given their technical capacity, budgetary support tools and other means at their disposition, DFIs have a potentially important role to play in the supporting the development of LCCR scenarios and pathways. The development and implementation of these pathways could require substantial initial qualitative and quantitative data investments and may be as well politically sensitive.
- DFIs could scale up their work with national governments to support the development of domestic policies and regulatory frameworks that would support the development and financing of these projects by local economic actors.
- LCCR frameworks could be the basis for the elaboration of LCCR-driven operational targets that could ultimately increase DFI's potential to have a catalyzing effect on shifting a country's economy towards a LCCR model
- Furthermore, DFIs could strengthen collaboration across the entire donor community to coordinate and ensure the coherence of their interventions with nationally-determined LCCR pathways.

Finally, DFIs will need to adapt existing and develop new operational tools to identify and assess projects in light of national strategies. These metrics will need to be aligned with the definitions and the prioritization actions with short-, medium- and long-term national pathways to achieving climate and development objectives. They could permit actions prioritized by countries to place their economy on a low-carbon pathway to also be prioritized by DFIs, as well as to facilitate capacity building and transfer of expertise to both the domestic public and private sector actors.

6.2 Evolutions in AFD's upstream assessment and screening

In AFD's upstream consideration of climate change, the definitions used to classify projects as climate-related using an estimate of their short-term or direct climate co-benefits (GHG emission reduction, improve resiliency) is a strong step forward. The prioritization of projects with climate co-benefits at the upstream level has fostered internal dialogue between AFD's transversal and operational teams, placing the fight against climate change as a priority objective for AFD. By extension, the inclusion of thresholds and requirements in the regional strategic intervention frameworks through the selectivity matrix aims to ensure that resources are allocated according to a balancing of development and climate considerations in the region.

However, this approach does not seem to currently allow an assessment of the 'sufficiency' of the investments and actions in terms of achieving the recipient country's long-term LCCR objectives. Further information on the impact of the project or investment on the structure of the economy, in addition to direct project GHG emissions, could be of use to assess its 'transition potential.' This could include means of assessing how actions support the introduction of new practices and technologies and/or prioritize support to nationally-determined LCCR investment areas.

Interviews with operational teams indicated that while climate change is of increasing importance in the decision-making process, achieving AFD's broader global and regional financial objectives often

remains at the heart of short-term operational focus. This suggests that to be effective in practice, additional climate and LCCR criteria must foster the prioritization of projects supporting a country's LCCR transition without overly limiting AFD's scope of intervention. This appears to require the definition of investment priorities and the development of tools that 1) are calibrated to country-level LCCR priorities, 2) allow AFD to identify and prioritize support for projects and policy support programs inherently aligned with long-term climate and development objectives, and 3) assist in identifying non-climate specific development projects and programs whose alignment with the LCCR transition could be improved through AFD's participation.

6.2.1 Integrating LCCR in strategic intervention frameworks: from region to country-level programing

AFD has committed to ensuring that at least 50% of financing is used to support activities with climate co-benefits. This overarching objective has been disaggregated among regions as discussed above through strategic region and country intervention frameworks. The integration of LCCR criteria into strategic intervention frameworks appears crucial to mainstreaming LCCR across AFD's activities and aligning ambition with long-term goals. Because these frameworks are designed according to regional and sectoral specificities, they foster a broader reflection on the medium and long-term growth trajectory across the entire region.

However, limiting the disaggregation of climate commitments and establishing investment priorities to the regional level may be insufficient to identify and support LCCR development pathways specific to individual countries. As they are currently established, the level of detail may not sufficiently translate the important contextual differences between and within countries. Thus, increasing the 'resolution' of strategic intervention frameworks to include LCCR transition at the country level could help foster and align strategic intervention frameworks with individual national long-term LCCR objectives and strategies. The current regional disaggregation of climate commitments may limit the identification and prioritization of support for country specific LCCR development pathways. Thus, to foster LCCR development, the AFD could set objectives at country level and include them in Country Intervention Frameworks. These would take into account a country's individual level of development, and basic infrastructure and public policy needs as well as a potential LCCR development trajectory. This integration should focus on the different options and alternatives to reorient financing towards priority sectors, planning tools, policy support and individual projects that foster the achievement of development objectives using approaches, technologies, designs and methods coherent with the country's LCCR trajectory.

6.2.2 Developing country-specific project screening criteria aligned with a LCCR Transition

During upstream screening, AFD could foster the emergence of transformative change in key sectors by combining country-specific strategies and lists of priority investment sectors, value chains, and projects corresponding to a given country's chosen LCCR transition pathway. This should support both the deployment of low-carbon infrastructure investments, but also technologies and planning and policy measures to reduce the vulnerability and increase the resiliency of infrastructures, ecosystems and populations. AFD and all other DFIs active in the country could use these common LCCR-coherent lists internally for project identification as well as to engage discussions with counterparties to signal the priorities for support and foster project development in these sectors and value chains.

AFD's selectivity matrix currently combines qualitative and quantitative information to facilitate project screening according to the recipient countries' level of development.

Firstly, this tool could be improved and expanded through the development of non-binding country-specific priority lists to facilitate that identification and clearly communicate to partners AFD's aim to invest in: 1) sectors, value chains, technologies as well as projects clearly in line with the recipient country's LCCR transition; 2) areas of support and project types where AFD's expertise, capacity building and or additional finance could reduce GHG impact and improve alignment with transition. These lists would not be designed to limit AFD to only investing in certain types of projects, but rather to clearly identify for operational teams and in-country counterparts the shared priorities of both the national and international development community. These lists and criteria could evolve over time to become more rigorous, adapt to changing conditions, or focus on promoting or introducing new practices or technologies.

For projects that are not specifically related to climate change, an additional transversal criterion could be established to foster the use of best available alternatives to achieve development goals. In some instances, targeted exclusion lists could be developed to indicate what activities are seen as preventing or slowing down the implementation of a LCCR national strategy. This could take the form of country or sector-specific exclusion lists developed in cooperation with national counterparties and in line with national low-carbon development strategies. These criteria could take different forms depending on the institutions' decision-making process – however it is important that a minimum level of coherence exists between the screening criteria used by different development finance institutions.

Secondly, the selectivity tool could also include country-specific volumetric thresholds that could be applied to all development projects based on the emission intensity of projects and resulting service provision. Thus, the steps AFD has already taken to integrate volumetric thresholds of GHG emissions into eligibility screening into its selectivity matrix could be taken further through the development of emission performance standards or other metrics that evolve overtime to incentivize increased ambition. These thresholds would become increasingly stringent to incite the optimization of GHG efficiency and resiliency of all development projects in line with national LCCR strategies. Ideally, these thresholds would not be designed to simply disqualify projects, but rather to identify where the involvement of AFD (whether through capacity building or financial support) could lead to the use of more efficient or transformative technologies and approaches to achieve the same development objectives. Particularly in the case of non-climate-specific projects, these thresholds can help ensure that projects that are essential to a country's development are also in line with long-term climate objectives.

This can be partially seen in practice today. For instance, the financing of natural gas projects has not been formally excluded from AFD's financings as the contribution of natural gas projects needs to be reviewed on a country-by-country basis. This reflects the recognition that gas-fired power plants may be an important part in certain cases, and in the short- to medium-term, to accompany the transition to a LCCR economy. This may be linked to the integration of intermittent renewable energies into the energy mix, or to meet the needs of rapid demographic growth through the installation of combined cycle natural gas-fired power plants.⁶⁰ Scaling-up the use of qualitative and quantitative measures and the use of emissions performance criteria to assess both emissions as well as the potential to contribute to a country's LCCR transition appears a means of linking both short- and long-term objectives.

⁶⁰ AFD (2012): Cadre d'intervention sectoriel énergie 2012-2016

Finally, in some circumstances the conditions of AFD's financing are linked to whether a transversal national climate policy has been established in the recipient country. The current evaluation of what constitutes an 'acceptable' climate policy in the selectivity matrix would need to evolve in order to assess whether it integrates a LCCR pathway.

6.3 Evolutions in AFD's downstream assessment procedures

DFIs appear to have the greatest potential at the upstream level to orient their interventions towards the support of country-specific LCCR development priorities. Nevertheless, at the downstream level, assessment could be refocused whenever possible on optimizing projects in terms of their contribution to both development and climate. Thus, when possible, regional and country teams should work with project promoters to compare different project alternatives and their respective 'transition impact' in line with a country's LCCR development strategy - or an appropriate proxy. Different technical or design alternatives could be considered to bring about the best available options.

Firstly, AFD could expand the downstream process to systematically assess the LCCR project alternatives. This second use may be an important opportunity to optimize and improve projects in line with development objectives and a country's LCCR pathways. Secondly, AFD's existing assessment methods provide a robust basis that could be expanded. Overcoming two challenges appears necessary to improve the potential impact of this integration: 1) expanding the definition of climate co-benefits an assessment of the 'transition impact' of investments and 2) within the application of tools, balancing the precision of information needed for decision-making and the resources required.

This section briefly looks at the systematic expansion of the assessment of project alternatives. It then looks at how AFD's existing tools could be adapted. For instance, the existing carbon footprint tool could be adapted to include criteria to assess how project alternatives produce both climate co-benefits and contribute to the recipient country's LCCR transition. Exposure and resiliency assessment could be adapted to take into consideration a variety of medium- to long-term risks. Finally, the second sustainable development opinion, could be adapted to combine the available information to provide a final assessment on the project's coherence with the recipient country's LCCR development strategy and how financing conditions could be linked with the level of alignment of different project alternatives.

6.3.1 Expanding downstream assessment process the systematic to project alternatives

Currently, the climate-component of the AFD's downstream assessment serves principally to assess and validate the climate co-benefits of projects that can be classified as contributing to AFD's objectives in this area. However, the processes could be used to identify how optimize – even emissive projects with important development co-benefits - to reduce climate impacts. The identification, assessment and comparison of different project alternatives can allow the selection of a final project configuration that achieves the desired development objective in a manner that best supports a country's long-term climate objectives and LCCR goals.

From an operational perspective, the authors recognize that DFIs may not always have the influence or resources to directly influence the choice of final project alternatives. Today the AFD does not produce this type of analysis systematically for all projects. However, AFD could expand this practice to foster the transmission of knowledge and capacity to bring new approaches, methods, designs and technologies. This appears to be an important element to foster the linking of development and climate-related objectives both at upstream and downstream levels. Often, identification of project alternatives and a detailed assessment of the GHG emissions – when it does occur - may not occur

early enough in the process to influence the final project alternative chosen. This may require AFD to be involved at earlier stages of project and program development when both capacity and technical knowledge can be taken into consideration concerning available options to achieve a given set of development goals.

6.3.2 Beyond GHG emissions – development of criteria to measure contribution to a country’s LCCR transition

AFD’s Carbon Footprint tool is a key component of its current Climate Action Plan. As described above, this tool is used principally as a means of assessing the GHG mitigation co-benefits of projects financed and, in turn, classifying projects as contributing to climate objectives. The use of this tool occurs both during initial upstream screening in line with the thresholds found in the selectivity matrix as well as during the downstream assessment of projects.

AFD currently defines projects with GHG mitigation co-benefits as those where estimated reductions in GHG emissions are greater than emissions over the project’s lifetime (use of a no-project baseline). This conservative approach has been seen as a rigorous and laudable effort to ensure that those actions defined as have mitigation co-benefits have a physical impact on emissions. However, when considered alone, the carbon footprint tool as it is used at the project level may not allow a sufficient assessment of the contribution of a project to a country’s LCCR transition. For example, projects aimed at improving the carbon intensity of how a development objective is achieved - for instance by promoting a less carbon-intensive technology part of a country’s LCCR pathway – may not be classified as ‘climate.’ As such, operational teams may not have an incentive to search out and prioritize projects that contribute to a country’s LCCR transition, but that cannot be classified as contributing climate co-benefits (and thus to the climate commitment) using the current definition.

If a comparison of alternatives to achieve the development-related goals for a given project is expanded, this will require an equal expansion of qualitative considerations. While further research is needed at both theoretical and operational levels on this topic, a number of ways forward can be seen. These include the development of downstream assessment criteria for sectors, value chains, technologies, processes and projects that would be updated as a country’s LCCR pathways evolve. Using the pre-established priority lists discussed in the upstream section and focusing on areas prioritized by domestic authorities, AFD could identify project-specific choices (technologies, processes, etc.) most coherent with long-term transition objectives. The comparison of project alternatives will require a qualitative consideration of possible alternatives - based on country-specific LCCR development priorities used in the upstream process – and a-minima estimative quantitative data for each alternative that is regarded as ‘transition coherent’. Thus, additional qualitative data and guidance may also be required at the downstream level to assess and prioritize options particularly for project types key to achieving development objectives (energy, transport, waste management, agriculture and forestry, etc.).

Irrespective of expanding systematic evaluation of project alternatives, it is also important to note that there are a number of limitations on the use of the GHG Footprint tool. Firstly, AFD operational teams indicated that the carbon footprint tool is resource-intensive: to be conducted in detail, it requires a substantial set of data that is not always available at the early stage of the appraisal phase. Secondly, due to the costly nature of this data, the GHG assessment of different technical options for projects could prove unfeasible if the current level of detail is required. Discussions with operational teams revealed that the task of elaborating each project’s carbon footprint estimation is challenging due to operational constraints (time consuming, data demanding, etc.) and that in practice they rely often on the expertise of the transversal climate team based in Paris. As such, it may not occur sufficiently upstream in the assessment process to have an influence on the technical profile of the

final project alternative chosen. This indicates that discussions could be useful to find the balance between resource needs and timing within the assessment stage and the granularity of GHG emission data necessary to compare project alternatives.

6.3.3 Pursuing the development of climate proofing tools coherent with the LCCR Transition

Integrating climate exposure management tools is an essential part of mainstreaming adaptation to climate change and associated risk reduction into decision-making. By addressing the long-term climate risks that are faced by the projects it finances, AFD can ensure the continuity and durability of its actions. As described above, AFD has recently systematized a climate vulnerability assessment tool. The next steps include improving in-depth physical risk assessment in the decision-making process of AFD, and DFIs more generally. Through the identification of actions that will improve local resiliency, these procedures could continuously support the optimization of projects at the technological, institutional and economic level as long as they are applied at the earlier stages of project appraisal. Although the information that is taken into account currently has a relatively low-level project-scale granularity, the methodology and procedures that are applied offer a solid basis for project optimization in a LCCR perspective.

Furthermore, the elaboration of climate screening and proofing tools that go beyond physical climate risk and introduce policy-related 'carbon risk' could be desirable. The current economic and financial assessment practices could be expanded to systematically integrate the risks posed to the financial integrity by policies that a country may need to apply for a transition to a low-carbon, resilient, development model.

AFD's current environmental risk assessment tools could be associated with LCCR criteria to extend the time horizon. As such, the impact of a project on its local environment would be considered not only for the immediate future, but in a longer perspective of local economic development. The optimization process would thus imply a more thorough risk assessment where various scenarios would be envisaged together with their likelihood. Based on existing environmental risk assessment and risk management tools, the integration of long-term LCCR considerations could contribute to a better alignment of AFD's investments with its local objectives.

Climate risks could also be accounted for by the Risk department and a risk premium could be incorporated in the financial offer, depending on the level of vulnerability associated with each project. To date, this type of method isn't applied by any donor, notably because highly technical expertise is not available yet on the treatment of these complex issues. In order to achieve such changes, it will be important to demonstrate that the economic cost of climate proofing is lower than the cost associated with no- or insufficient adaptation measures. The objective is to identify efficient and replicable climate screening and climate proofing measures in order to benefit from significant and well-needed economies of scale.

6.3.4 Using internal control procedures such as the sustainable development opinion for LCCR transition

Finally, the AFD has put into place a number of internal control procedures that could be adapted to focus on giving an independent estimation of whether projects contribute to a recipient country's long-term LCCR development pathway. Currently, the focus of the process is on assessing whether a project or program provides climate co-benefits and thus should be prioritized as contributing or having an adverse effect towards the achievement of AFD's climate objectives. Quantified volumetric

information on climate-related impacts and funds allocated to financing climate co-benefits could be combined with information with qualitative data – such as the coherence with the different country-specific priority lists for a country's LCCR transition mentioned above. At present, interviews with operational teams indicate that given that these procedures have only been implemented recently, the specificities of recipient countries are not systematically taken into account. This procedure and the grading scales could be adapted to assess the investments from a LCCR transition perspective.

6.4 A final keystone: actor coordination and the development of national LCCR-coherent development strategies

Given the specificities of both beneficiary and donor countries in terms of national priorities, level of development and available resources, it is essential that the international action is well coordinated for climate to be recognised as a cross-cutting issue. Success is dependent on both the recipient and the donor governments rallying around development priorities which frame long-term development objectives through the prism of the climate change challenge. Facilitating concerted and coordinated action between DFIs at the local level would allow for low-carbon development projects to be scaled-up and to have a bigger impact. This would require increasing the harmonization between the requirements and methodologies used by all DFIs – as well as with national low-carbon strategies. This implies that DFIs are willing to agree on the standards they apply for investment eligibility, according to local specificities and to provide international expertise, access to financial resources and by taking a share of the risk to help local actors embrace innovative low-carbon technologies.

As repeatedly discussed above, successfully aligning development and climate will require “common LCCR-compatible development pathways” shared by recipient governments, DFIs, private investors, and public and private companies. As such, an important area for future collaboration between DFIs and national governments could focus on assisting recipient countries in the development of the needed strategic plans, strategies and roadmaps to achieve both long-term development and climate objectives.

The non-project budget funding provided by AFD – often in partnership with other DFIs - to countries for the development of their own climate strategies is one of the key levers that could be directed to support countries in setting their own LCCR transition pathways – whether taking the form of a transversal climate national and development strategy or, *a minima*, through a country's Intended National Determined Contributions (INDCs). As mentioned previously, a number of Development policy Operations including climate budgetary support programs have been funded over the last years. Given that they are still relatively recent, it is difficult to draw conclusions on the impact of these large funding operations and to establish whether or not the programs were optimal in their form and substance to support the long-term LCCR economic transition of the beneficiaries. Nevertheless, assisting countries to develop both sectoral- and transversal development plans within which the long-term mitigation and adaptation objectives are enshrined may offer more long-term benefits than financing individual projects. Furthermore, when both budget and project support are provided in a coherent fashion with other DFIs, it is likely that the potential benefits would be more than the sum of the individual actions.

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