

## **Results and lessons learned from AFD's operations in the fight against climate change from 2005 to 2010**

### **I. Principle of accounting for “climate” projects**

Since 2007 AFD has been progressively developing robust criteria and tools to classify “climate” projects:

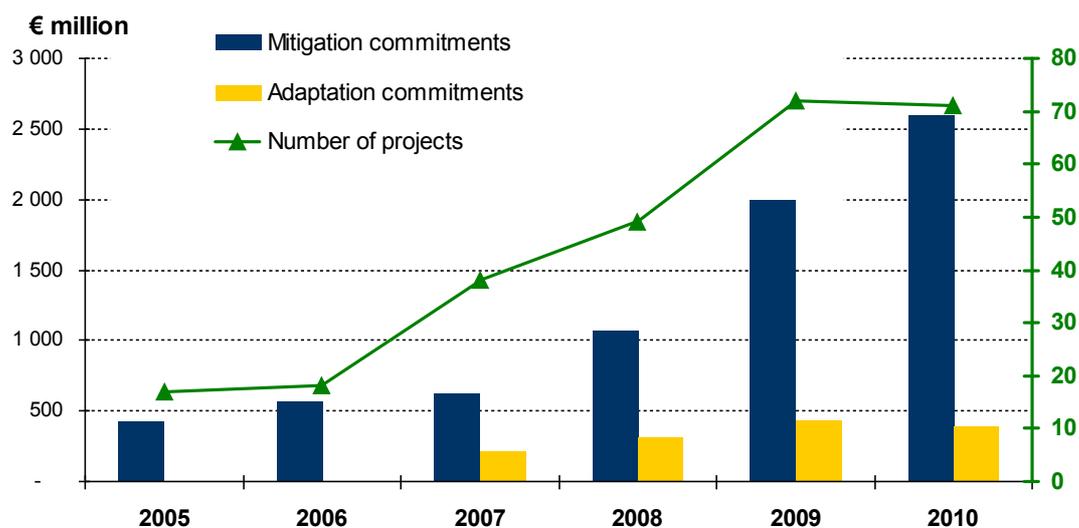
1. A development project contributes to greenhouse gas emissions reduction **when the emission reductions it generates are greater than the emissions it produces during its lifetime** (see appendix for further details on this definition). This simple and conservative definition, compared to options by list of eligible sectors, combined with setting up a tool to measure ex ante the projects' impact based on the ADEME's Bilan Carbone® (carbon footprint tool), allows AFD to be transparent about its actions in reducing greenhouse gas emissions and especially to have a robust justification of its “climate” classification vis-à-vis its partners and civil society.

2. Regarding the contribution of development projects to the adaptation of countries to climate change impacts, AFD has adopted the OECD's definition: **“An adaptation project is a development project that reduces goods, people or ecosystems vulnerability to climate risks”**. An operational matrix of criteria to classify “adaptation” projects was also developed to enable focused accounting restricted to the share of funding having a real impact objective on the countries' adaptation according to the type and the level of vulnerability concerned (water stress, precipitation, sea level rise...). This methodology is currently being reinforced with the participation of French research institutes. This is a key issue both to build a discourse and legitimacy so as to get access to international funds for climate (adaptation component of the Green Climate Fund) and to create a means of interpretation to enable operational staff to better identify adaptation actions and funding opportunities.

### **II. General review of operations during the 2005-2010 period**

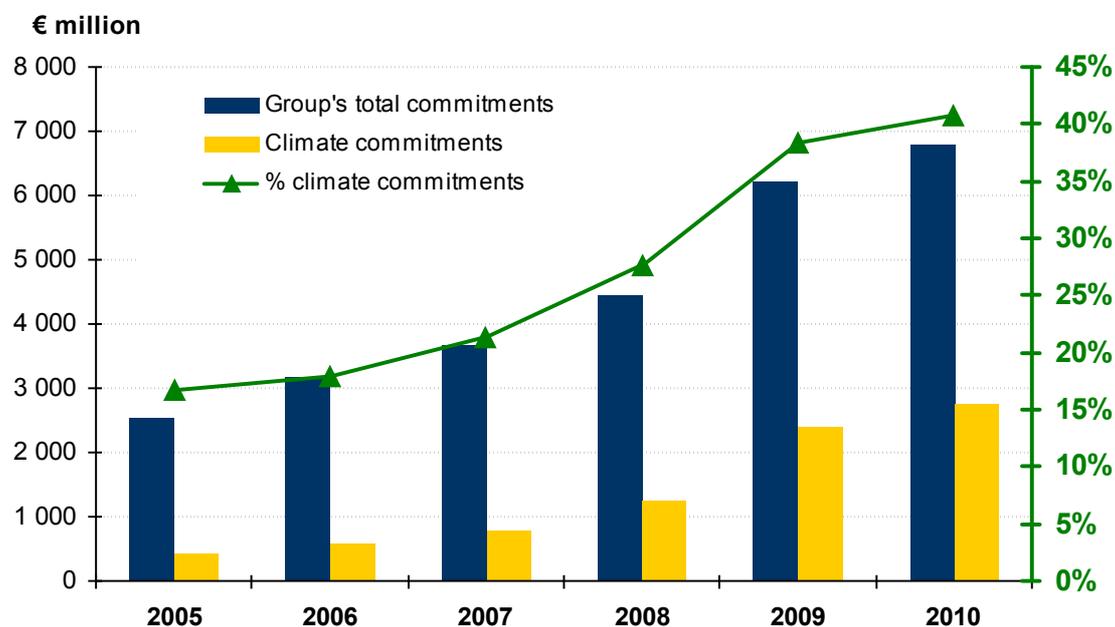
#### **a. Global results**

3. The figures for the AFD Group's annual commitments show the considerably growing significance of taking into account the “climate” issue in the AFD Group's operations over the last five years (an annual average increase of 48%), both in the mitigation field (GHG emissions limitation) with a peak reached in 2010 at 2.6 billion euros, and in the adaptation field with 390 million euros of commitments in 2010.



*Evolution of the AFD Group's « climate » commitments from 2005 to 2010*

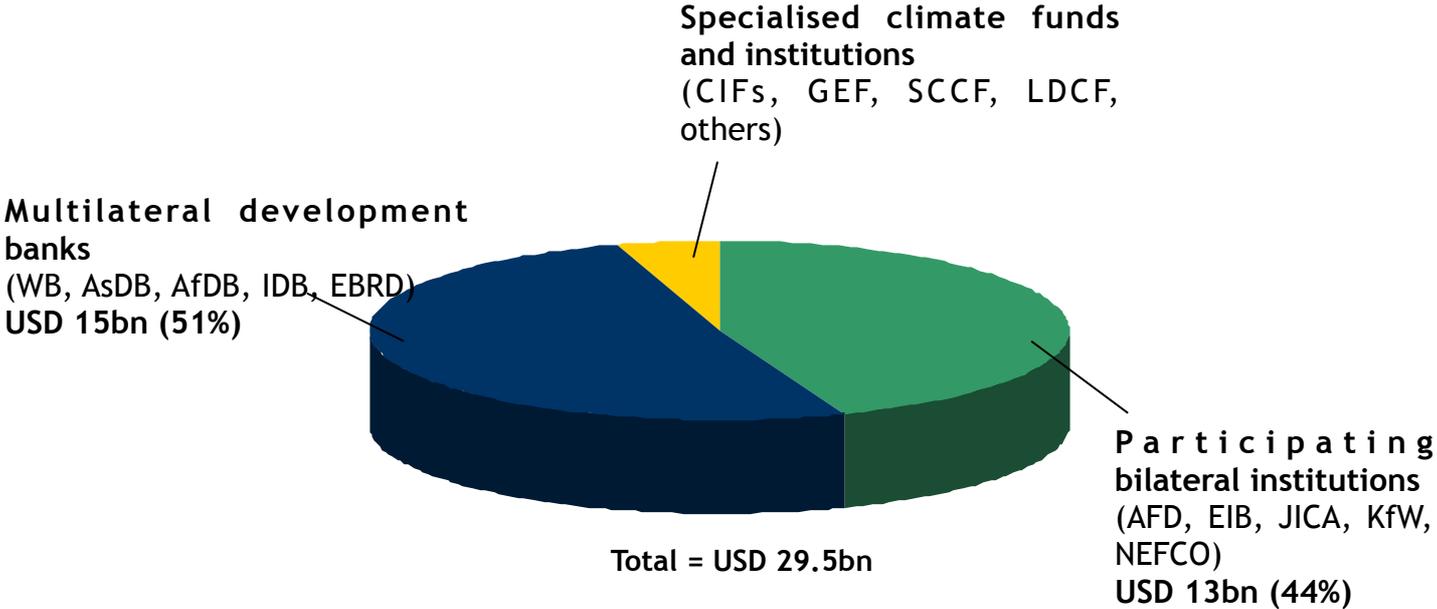
4. Cumulated during the 2005-2010 period, 8.1 billion euros were committed to finance development projects and programs contributing to the fight against climate change and to the adaptation to its impacts. This increase in commitments was higher than the one of the Group's global portfolio as the climate commitments share rose from 17% of the portfolio in 2005 to 40% in 2009 and 2010. Even if some caution should be taken, this evolution seems to show that the AFD Group has reached an average level of approximately 40% of “climate” projects in its annual commitments portfolio.



*Evolution of the « climate » commitments share among the total commitments of the AFD Group*

5. Among the 265 “climate” projects committed between 2005 and 2010, 209 were signed (and 8 canceled) and 2.2 billion euros were disbursed as of 1<sup>st</sup> March 2011 over the 8.1 billion committed.

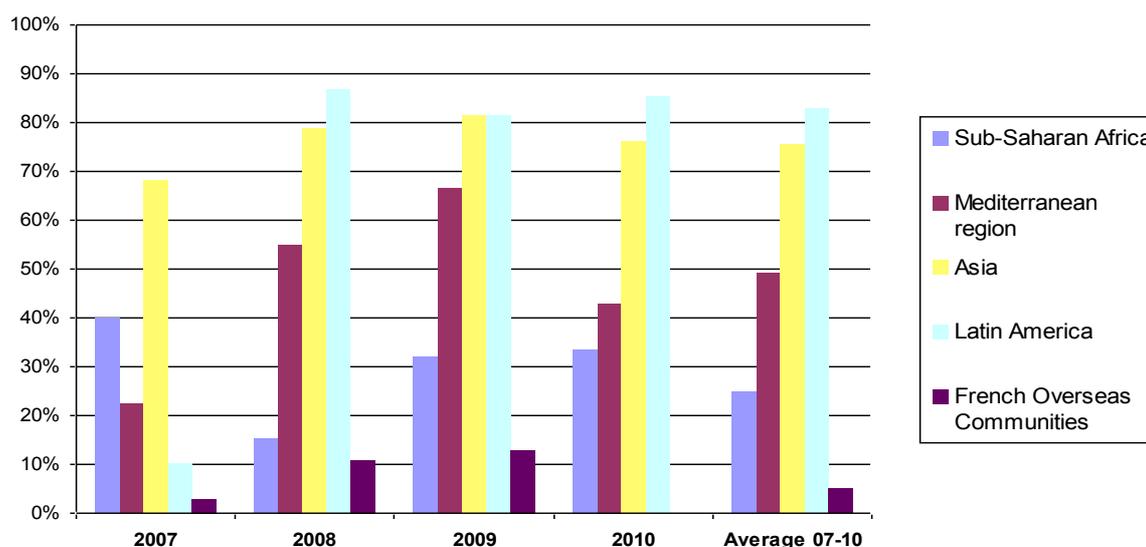
6. AFD’s level of commitments on climate makes it one of the major global donors on this issue with nearly 12% of international public funding identified in 2009. Indeed, the second study produced by the Stockholm Environmental Institute (SEI) and the United Nations Environment Programme (UNEP)<sup>1</sup> shows that the total amounts of 2009 commitments of the major international financial institutions and specialized funds reached 29 billion US\$, of which the equivalent of 3.4 billion US\$ for AFD. Furthermore, it should be noted that AFD is one of the few global donors that developed robust and conservative tools to perform “climate” classification of its development projects, and, as a consequence, its relative share is probably under-estimated compared to other international stakeholders.



*Distribution of the main international public funding sources for climate*

7. The “climate” projects share within annual total commitments by geography varies from 70 to 80% in Asia and Latin America, in line with AFD’s mandate in these regions. The share of annual “climate” commitments in the Mediterranean region is also significant and approaches 50% on average during the 2005-2010 period. The share of “climate” commitments in Sub-Saharan Africa is also important, as around 25% of the annual commitments are dedicated to “climate” projects in this region. Finally, the annual “climate” commitments share in French Overseas Communities amounts to approximately 5%.

<sup>1</sup> Link to the 2010 report: [www.unep.org/pdf/dtie/BilateralFinanceInstitutionsCC.pdf](http://www.unep.org/pdf/dtie/BilateralFinanceInstitutionsCC.pdf)



*Geographical distribution of climate commitments during the 2005-2010 period*

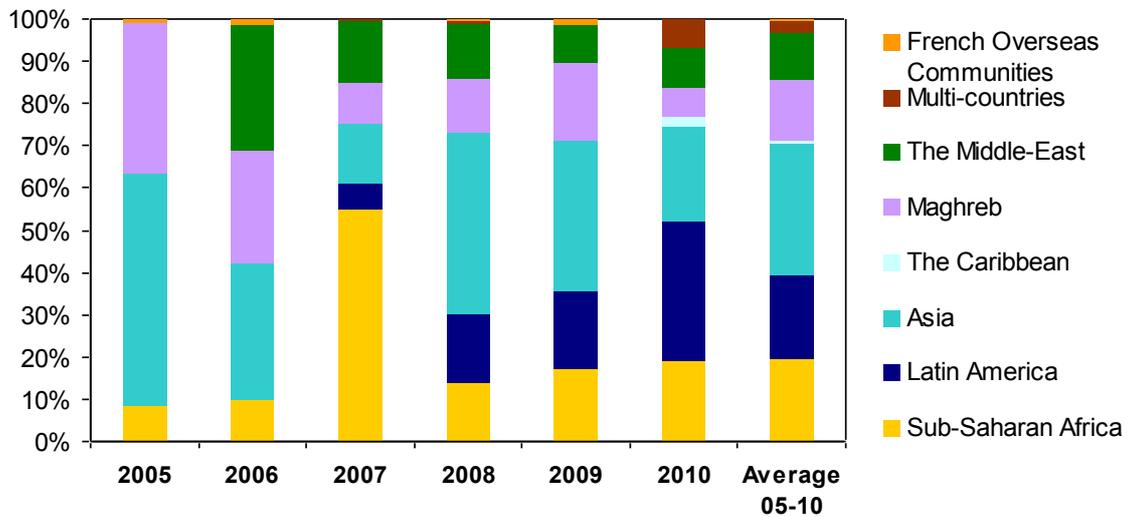
## **b. Results for mitigation**

8. The commitments for mitigation are strongly increasing, mainly due to the demand of Southern countries to integrate this dimension into development projects, answering to a full range of realities and preoccupations of AFD's partners: energy costs and dependence on fossil fuels in a context of speculative hazards, growing awareness of economic and social risks linked to climate change impacts or willingness to become a model on the international stage regarding climate issues.

9. AFD has funded mitigation projects all over the geographical area of its activities. The following points are the main lessons from the general review over the 2005-2010 period:

- A limited annual variability, which suggests long-term trends as to the weight of each respective geographies;
- A significant share in emerging countries. Asia region weights on average 30% of the Group's "climate mitigation" commitments over the period. Latin America region represents 20% of "mitigation" commitments, thus strongly increasing. This importance is due to AFD's specific mandate in these countries, but also to a significant demand from AFD's partners for actions on climate and energy, both major economic issues for these countries;
- The share of mitigation amounts in the Mediterranean region is also significant, around 25% on average of the Group's "mitigation" commitments during 2005-2010 period ;
- A strong capacity of the Group to intervene in Sub-Saharan Africa with approximately 20% of the commitments over 2005-2010. This shows the investment potential for the development of low-carbon economies in the poorest countries as AFD's capacity to meet these needs;
- A virtual lack of accounting "climate mitigation" projects in the French Overseas Communities, despite a major climate issue for these heavily dependent on fossil fuels

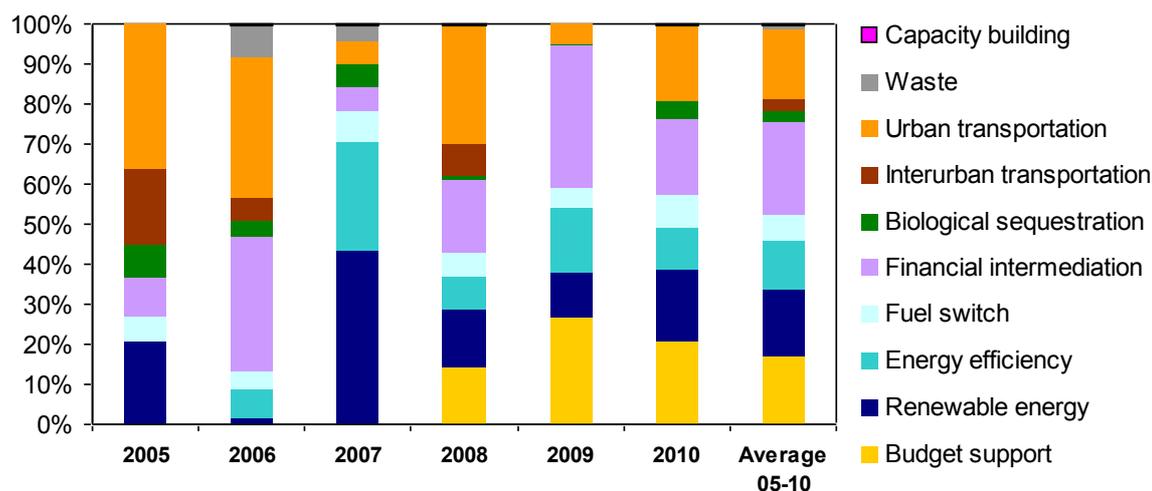
territories. This shows however that promoting AFD’s financial and real estate subsidiaries’ activities on “climate” is not yet being performed.



*Geographical distribution of mitigation projects (by amounts) during the 2005-2010 period*

10. The inter-annual variability of mitigation commitments per sector is, on the other hand, very strong, thus limiting the trends that can be drawn from the results over the period studied:

- One major theme is funded : clean energy, in the form of renewable energy, energy efficiency and fuel switch, represents 57% of the commitments during that period;
- Interventions to promote clean energy present a wide range of modalities, through direct projects (35%) as through financial intermediation towards local financial institutions (22%);
- Low-carbon urban transportation represent a significant share (15%) of the commitments during the period;
- The commitments in the fields of agriculture and forestry (biological sequestration of carbon) remain a minority in amounts in spite of the very high potential of these sectors in the global effort to reduce emissions (~30% of mitigation global potential).



*Sectoral distribution of mitigation projects (by amounts) during the 2005-2010 period*

11. AFD has gradually developed specific innovations of action and expertise such as:

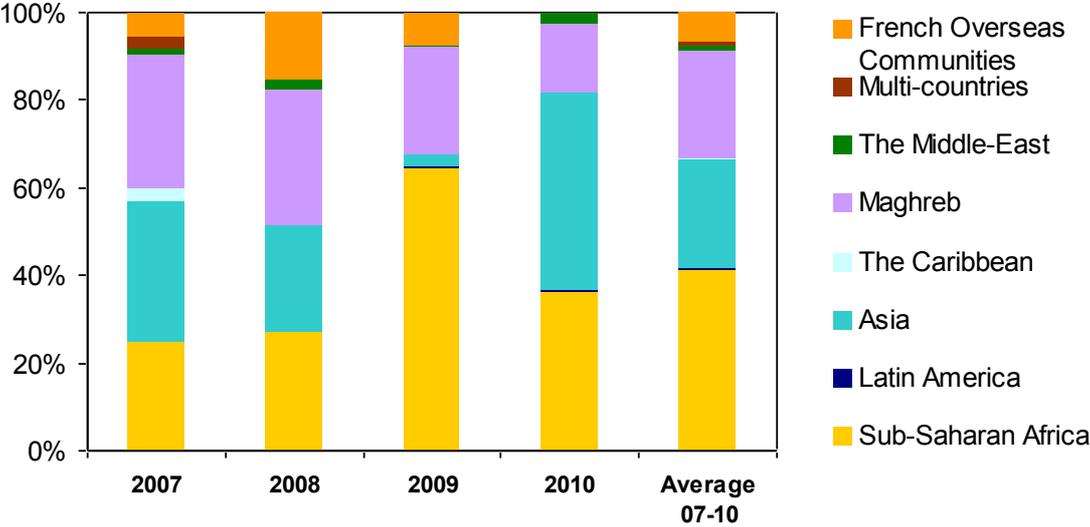
- Funding to support the implementation of climate plans (*Climate Change Policy Loan, CCPL*): this dimension, which covers support to States and local communities both i) in integrating “climate” in their public and sectoral policies and ii) in defining and implementing their national and sectoral “climate” action plans, constitutes a major operational challenge on the climate change issue. Furthermore, these supports to public policies represent for AFD a significant potential of activities (€1.2 billion committed during 2005-2010 and up to 20% of the Group’s climate funding);
- Green credit lines dedicated to energy efficiency and renewable energy, the last one representing €1.6 billion of commitments between 2005 and 2010 (19% of climate commitments);
- Support for sustainable forestry: forests currently represent a small part of the Group’s commitments in amounts (€206 million committed during 2005-2010, thus 2.5% of climate funding) but a significant potential of impact: in terms of net reduction in emissions (estimates reduction of 1,1 million tCO<sub>2</sub>/year) and of complementary economic resources for States and populations (payment for the sequestration service).

### **c. Results for adaptation**

12. Regarding adaptation, the growing importance of adaptation funding is more modest, as it reached 390 million euros in 2010 (it almost doubled compared to 2007) but only represents a seventh of mitigation commitments in spite of funding needs and the particular attention paid by Southern countries on this issue in the international negotiations, thus expressing very high needs.

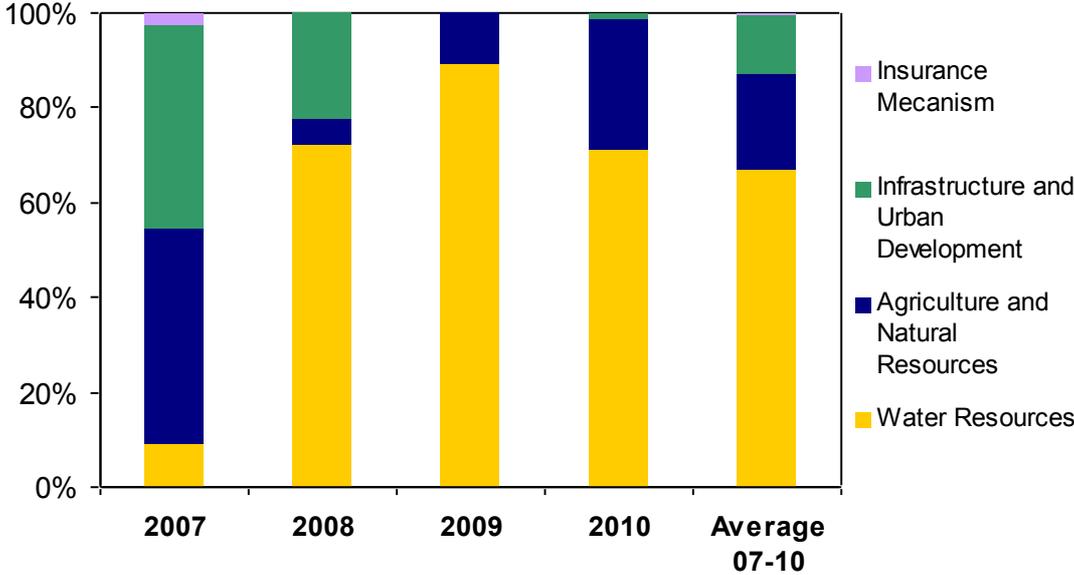
13. The geographical distribution shows a predominance of Africa and the Mediterranean region, areas that are among the most vulnerable to climate change impacts, which is consistent with the most urgent needs of adaptation. However, a closer analysis of the

situation indicates that countries that have concentrated the majority of adaptation commitments are the least poor ones of these areas. Commitments towards adaptation in island States (French Overseas Communities and Alliance of Small Island States (AOSIS)), which are particularly vulnerable to sea level rise and extreme events, are virtually absent from adaptation projects.



*Geographical distribution of adaptation projects (by amounts) during the 2007-2010 period*

14. Regarding adaptation, projects in the water sector constitute an overwhelming majority (almost 70% of the commitments during 2007-2010 and 46% of commitments in water sector. This result is largely due to the fact that projects aiming at reducing losses through networks rehabilitation programs contribute to adaptation. Agriculture and infrastructure sectors, both potentially highly impacted by climate change, still constitute a minority with respectively 20% and 10% of adaptation commitments, representing an average of 20% of the commitments in agriculture and less than 5% of the commitments in infrastructure sector.



*Sectoral distribution of adaptation projects (by amounts) during the 2007-2010 period*

**III. Impacts of the projects on climate change**

21. Measuring and analyzing the impacts on climate change of the projects it funds is a core activity for AFD. Concerning “mitigation”, estimating the carbon footprint of a project enables to quantify its contribution to the increase or reduction of greenhouse gas emissions and to identify potential emissions limitation opportunities to be considered during project appraisal. Furthermore, the projects’ carbon footprint is useful for accountability.

22. The carbon footprint is estimated only for direct projects, excluding financial intermediation (specific methodology under preparation) and excluding budget support and technical assistance (irrelevant or too complex to estimate). The measurement is consequently, in fine, under-estimated compared to the real potential of the projects funded by AFD, both considering emissions and avoided emissions.

23. The greenhouse gas emissions reduction indicator for the “climate” projects was introduced in 2004 at AFD. Since then, the number of the Group’s projects concerned by this indicator has constantly increased:

<b>Year</b>	<b>CO2 emissions reduction (tCO2/yr)</b>
<b>2004</b>	450,000
<b>2005</b>	1,300,000
<b>2006</b>	1,750,000
<b>2007</b>	2,700,000
<b>2008</b>	3,300,000
<b>2009</b>	4,800,000
<b>2010</b>	5,000,000

24. Cumulated, the projects funded by AFD will be able to contribute (when fully operational) to a greenhouse gas emissions reduction almost up to 20 million metric tons CO<sub>2</sub> per year, which is equivalent to approximately 6.5 million French vehicles.

25. Regarding adaptation, there is no simple indicator for measuring impacts of adaptation projects as these impacts depend on the type of the project and the vulnerability that is “treated” (for instance, m<sup>3</sup> of water saved for water networks rehabilitation projects, number of people benefiting from a drainage system that protects them from floods, number of hectares cultivated in agroecology...). No international methodology for monitoring impacts is available today and extensive work on indicators remains to be done.