

AFD AND ENVIRONMENTAL FINANCE

Partnering with banks
to finance “green” growth





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CATALIZING GREEN BUSINESS OPPORTUNITIES

The environment plays a key role in the economy: raw materials, water resources, climate regulation, biodiversity, tourist attractions, etc. Today, these services are under threat. A number of analyses have underlined the heavy costs that would result – on both climate and biodiversity – if we do not address these threats. Hence, the use of renewable energy should expand. Energy and environmental resources should be used more efficiently. Enhancing the environmental footprint of production and consumption is also a priority. Building upon these concerns has uncovered growth opportunities for business and banks. In Europe, for instance, the “green” sectors already account for over 2% of GDP and continue to outperform the rest of the economy.

The “energy transition” combining an increase in the use of renewable energy and a rationalization of energy usage is now underway on a global scale. Investments in energy efficiency generate both profits and value. McKinsey consulting estimates this investment potential to exceed US\$170bn a year, for an average profitability of 17%. Two-thirds of these opportunities arise in emerging and developing countries.

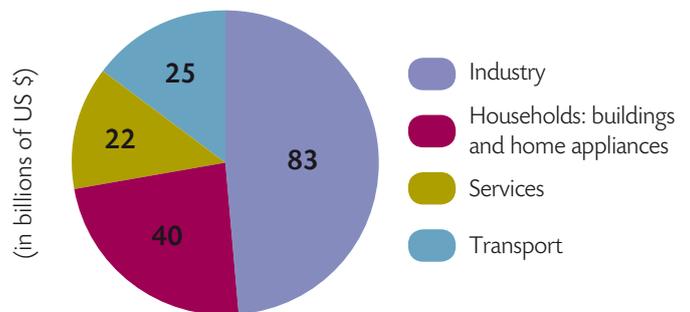
AFD’S STRATEGY: HELPING REMOVE THE OBSTACLES TO “GREEN INVESTMENT”

Green growth stimulates several markets, particularly in the area of sustainable energy, natural resources management and pollution abatement. Financing this growth on a global scale is a major challenge AFD aims to address. AFD partners with banks in developing and emerging markets, building on their capacity to drive and catalyze “green” investment decisions.

Despite the dynamism and profitability of these sectors, investors still face obstacles: businesses and households are not aware of potential benefits, they overestimate risks, they lack access to appropriate funding, etc.

AFD’s green credit lines offer appropriate funding and dedicated technical support. They aim at building capacity and overcoming the financial and technical obstacles to scaled-up investment. In short, they provide banks with special partnership conditions allowing them to seize the opportunities of environmental finance.

The global potential for profitable investments in energy efficiency (US\$170bn p.a.)



Source: McKinsey.

ENVIRONMENTAL FINANCE: AN OPPORTUNITY FOR BANKS

Green credit lines and ARIZ – the risk sharing facility developed by AFD – aim to initiate and strengthen this process which offers banks a threefold benefit:

■ Access to new markets

Green growth creates new funding needs in all banking activities: corporate, SME and retail. Hence, financial institutions find new opportunities to provide innovative solutions, combining financing and advisory services.

■ Management of environmental risks

Dependence on fossil fuels creates a structural risk in certain sectors. In addition, businesses’ impact on the environment through greenhouse gas emissions and local environmental degradation may carry both a financial and reputational risk. Banks need to know how to assess and manage these risks.

■ Improved stakeholder perception

Formulating environmental commitments facilitates access to international refinancing. It also allows banks to be recognized as “responsible partners”, whose efforts mirror green public policies. This sends a positive message to customers, NGOs and employees.



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AFD'S GREEN CREDIT LINES: AN INTEGRATED APPROACH

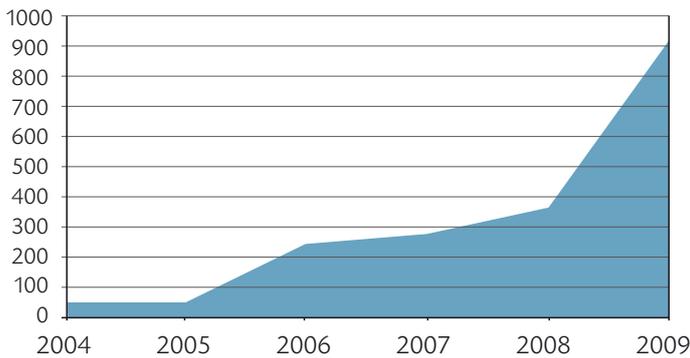
AFD's green credit lines (GCLs):

- Provide banks and their clients with financing structured and priced to match the needs of the target markets,
- Help expand banks' knowledge of new markets and strengthens their capacity to tap into green opportunities,
- Through bank intermediation, provide financial assistance and tools to businesses eager to "go green",
- Mitigate credit risk – via the ARIZ guarantee, a risk sharing facility that covers both individual projects and loan portfolios

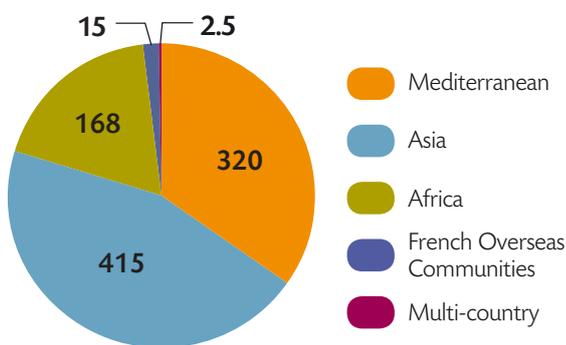
AFD's portfolio of green credit lines has now reached approximately 1 billion €. Some thirty partnerships have been built with banks in a dozen emerging and developing countries.

AFD has developed tools to support its GCLs, such as the AFD Carbon Footprint ®, which estimates the carbon footprint of different types of projects. AFD also helps partner banks set up or strengthen internal environmental and social risk management mechanisms.

AFD's portfolio of green credit lines
(in millions of €)



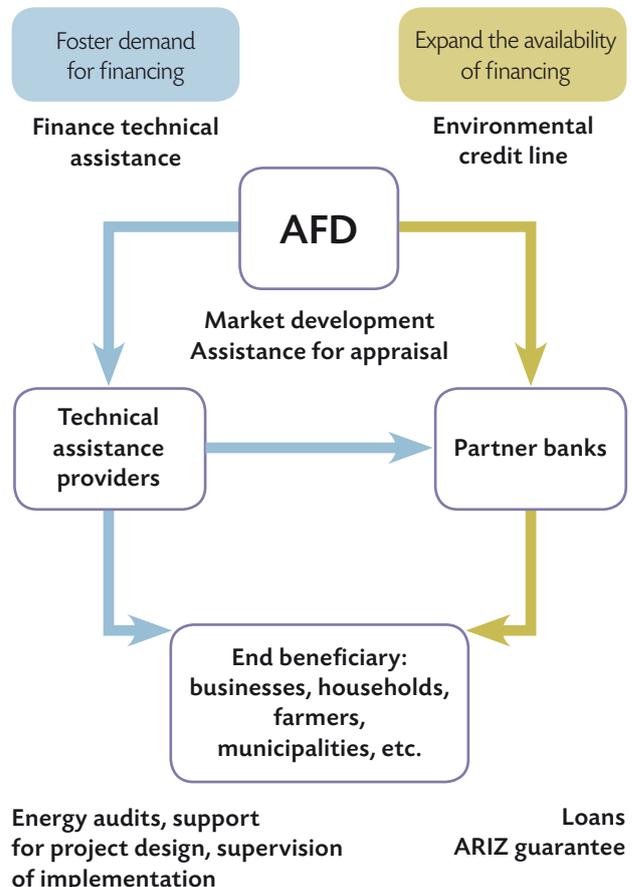
Geographical breakdown (year-end 2009)



HOW DOES A GREEN CREDIT LINE WORK?

AFD and banks work together in partnership to identify investment potential, select sectors with the highest potential and define an action plan that aims to reduce the obstacles to investment in the country. Loans granted to customers provide them with incentives (maturity, rate) to invest. Customers also benefit from the support of dedicated teams.

PROMOTING ENVIRONMENTAL FINANCE: THE AFD MODEL



Examples of sectors and investment areas eligible for green credit lines:

	Industry	Services	Retail customers	Agriculture
Sustainable energy: energy efficiency and renewable energy	<ul style="list-style-type: none"> Energy efficiency in industrial processes Development of renewable energy (independent energy producers, biomass development by agro-industry...) 	<ul style="list-style-type: none"> Energy efficiency in buildings Small-scale renewable energy Renewal of taxi fleets 	<ul style="list-style-type: none"> High energy performance housing Solar water heaters, photovoltaic solar energy, small scale methanization Energy efficient home appliances: air-conditioning, refrigerators, washing machines... 	<ul style="list-style-type: none"> Methanization of agricultural waste Access to clean energy: photovoltaic solar energy systems for irrigation
Environmental performance	<ul style="list-style-type: none"> Abatement of polluting emissions and compliance with environmental norms 	<ul style="list-style-type: none"> Development of environmental certification in services (e.g. tourism) Recycling and sanitation for local authorities 	<ul style="list-style-type: none"> High environmental quality housing 	<ul style="list-style-type: none"> Conversion to integrated / biological farming Sustainable forestry

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Business case:

EGYPT

Abating industrial pollution in the Greater Cairo and Alexandria regions (National Bank of Egypt)

Environmental degradation carries a sizeable cost for Egypt (over 4% of its GDP each year) and hampers its economic development. Public policies and the action of the Egyptian Environmental Affairs Agency have increased awareness, by the industry, of the need to adapt practices. Active involvement of the banking sector is essential to finance the necessary investments.

By allocating €142m GCL to the National Bank of Egypt in 2006, AFD and other donors are helping and incentivising the Egyptian industry to reduce pollution. If pollution abatement targets are reached, beneficiary companies only repay 80% of the loan. AFD and its partners cover the remaining 20% through the subsidy component of the GCL.

As of now, significant impacts have already been achieved. Approved projects reduce annual sulphur dioxide emissions by 22,700 tons and particulate matter (i.e. dust) emissions by 104,000 tons. By way of comparison, these volumes correspond respectively to 15% and 31% of France's industrial emissions, excluding energy. Moreover, the projects financed will reduce annual CO₂ emissions by 650,000 tons, i.e. the emissions of about 250,000 cars. Thus, working conditions for employees and living conditions of the local population have been significantly improved.

www.epap2.org





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Business case:

CHINA

Supporting energy efficiency and renewable energy development (China Merchants Bank, Huaxia Bank and Shanghai Pudong Development Bank)

China's strong economic development has caused extensive environmental degradation. At the local level, there is a heavy economic, human and environmental cost: reducing GNP, creating health hazards, causing drought and desertification that affect an estimated quarter of the country, etc. On a global scale, China has recently become the biggest greenhouse gas emitter.

The Chinese government has reacted to this evolution through its 11th Five-Year Plan (2006-2010) which aims to reduce the country's energy intensity by 20%. In 2008, AFD, to support this effort, allocated €60m to three local banks to finance sustainable energy investments. These loans came with technical assistance (TA) to help build capacity. This TA was co-financed by partner banks and the French Global Environment Facility (FFEM).

At the end of 2009, this program had supported some fifteen projects, for a total investment of roughly €250m in a wide range of sectors: heat recovery, energy yield enhancement in thermal power plants, energy efficiency improvement in housing and renewable energy production. The projects that have been financed are reducing CO₂ emissions by roughly 1.9 million tons each year and SO₂ emissions by 21,600 tons. Moreover, a major awareness-raising and training program for banking executives has been implemented to expand this approach. The success of this first program led to its renewal with a second credit line for €120m, set up in 2010.

Business case:

MAURITIUS

Credit line to support the "Mauritius – Sustainable Island" initiative (Banque des Mascareignes, Mauritius Commercial Bank, State Bank of Mauritius, Standard Bank Mauritius)

Mauritius must face the challenge of sustainability, both environmental (environmental exposure to demographic pressure and the development of tourism) and energy-related (increasing energy dependence). In order to preserve the island's natural assets – the cornerstone of its economic development – and mobilize its potential for renewable energy and energy saving, the government has initiated a number of projects and reforms. This initiative "Mauritius – Ile Durable" is raising high public expectations. Its implementation necessitates increased private investments in the areas of sustainable energy and environmental performance.

In 2009, the partnership sealed between AFD and four Mauritian banks to finance "green" projects materialized with the implementation of a €40m green credit line. Under this GCL, partner banks have been able to develop their environmental lending initiatives. They include customized loans, advisory services for clients and a grant.

Along with this green credit line, the French Global Environment Facility (FFEM) allocated €1m to help the government refine certain environmental policies. In addition, the program aims to increase demand for financing under "Mauritius – Ile Durable".



AFD stands for the *Agence Française de Développement*. AFD is a public development-finance institution that has worked to fight poverty and support economic growth in developing countries and the French Overseas Communities for more than 60 years. AFD executes the French government's development aid policies.

With offices in more than 50 countries, AFD finances and supports projects that improve people's living conditions, promote economic growth and protect the planet. AFD-funded projects provide schooling for children, support farmers and small businesses, supply drinking water, preserve tropical forests and fight climate change, among other things.

AFD committed nearly €6.2 billion to financing aid activities in developing countries and the French Overseas Communities in 2009. The funds should permit the vaccination of 1,8 million children, give 7.3 million people access to drinking water and create or save jobs for 900,000 workers engaged in private enterprise; funding for energy efficiency projects will save nearly 5 million tons of carbon dioxide emissions per year.

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PROPARCO, AFD's subsidiary dedicated to private investment, promotes private investment in emerging and developing countries in order to boost growth, promote sustainable development and reach the Millennium Development Goals. Its financing is tailored to the specific needs of investors in the productive sector, financial systems, infrastructure and private equity investment.



www.ffem.fr

FFEM is a bilateral public facility set up by the French Government in 1994 following the Rio Summit. It aims at promoting global environmental protection via sustainable development projects in developing or transition countries. The French Global Environment Facility supports physical projects in recipient countries. Its operations are learning-based and support experimental, innovative or exemplary approaches.



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