



RÉPUBLIQUE
FRANÇAISE

*Liberté
Égalité
Fraternité*



— **Energy
Transition
Strategy
2019-2022**

Mid-Term Review
Summary

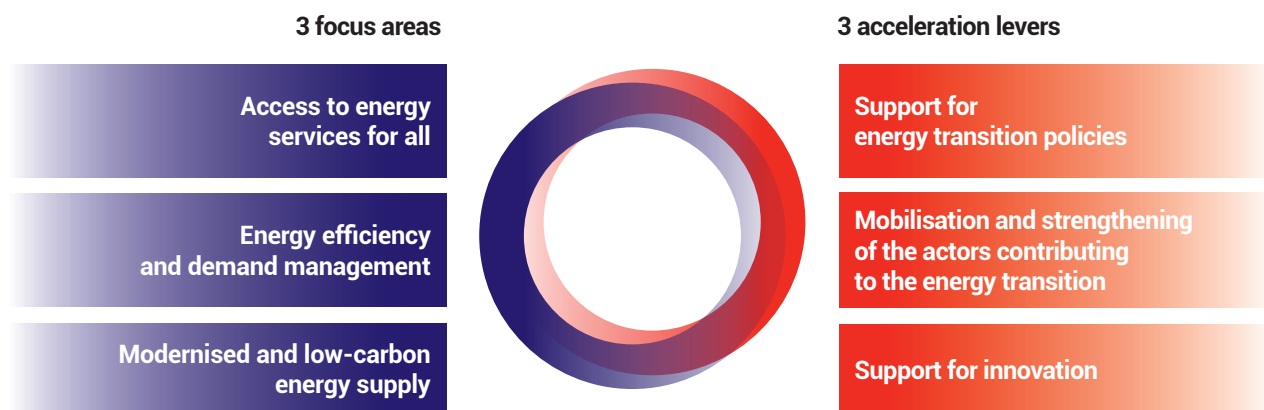
[November 2021]



ACCELERATING THE ENERGY TRANSITION

AFD Group's **Energy Transition Strategy 2019-2022** was drawn up following internal and external consultations and was approved by the Group's Board of Directors in mid-2019. Its objective is to **"accelerate the energy transition in**

developing countries in the direction of efficient, resilient and low-carbon energy services for all". The focus areas and acceleration levers are presented below:



The main innovations of this strategy were:

- **An emphasis on demand:** through access to energy services for all; the key role of demand management and energy efficiency.
- **Strengthening the climate ambition:** by making investment criteria more selective, in particular by extending the exclusion list to almost all fossil fuels; and through more sustained support for energy actors as they transition away from fossil fuels.

The strategy has allowed the Group to position itself as an ambitious player in the energy transition.

A mid-term review of this strategy was conducted, based on broad internal and external consultations, in the first half of 2021. It assessed the first two years of implementation and led the Group to strengthen its ambition to support the transition towards a low-carbon world.

ASSESSMENT OF THE 2019-2020 IMPLEMENTATION OF THE STRATEGY

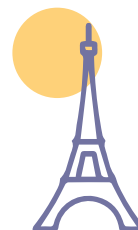
CONTRIBUTING TO AFD GROUP'S CLIMATE AND SOCIAL COMMITMENTS

The operations financed in 2019 and 2020 contributed to the **main lines of the AFD Group 2018-2022 Strategy**, namely the 100% Paris Agreement and 100% Social Link commitments.



PROMOTING THE 100% SOCIAL LINK COMMITMENT

60% of the commitments, i.e. €2.6 billion, have gender issues as a principal or significant objective.



RESPECTING THE 100% PARIS AGREEMENT COMMITMENT

5 million tonnes of avoided CO₂ emissions. **76%** of energy commitments, representing €3.3 billion, have climate co-benefits.

SUPPORTING THE SUSTAINABLE DEVELOPMENT GOALS

The strategy is the cornerstone for achieving many of the Sustainable Development Goals (SDGs), including Goal 7 on ensuring access to affordable, reliable, sustainable and modern energy for all, and Goal 13 on taking urgent action to combat climate change and its impacts.

Thanks to the energy uses supported, the strategy also contributes to improving people's living conditions; for example, lighting at night increases safety and improves study conditions for schoolchildren.

Thus, the strategy takes a cross-cutting approach to supporting the achievement of Goal 1 (end poverty), Goal 5 (gender equality), Goal 8 (economic growth), and Goal 9 (sustainable industrialisation), among others.



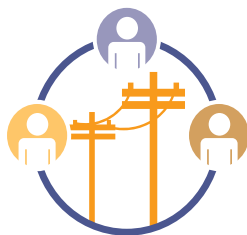
STRENGTHENING ACCESS TO ENERGY SERVICES FOR ALL

7.4 million people will gain access to a sustainable electricity supply.



SUPPORTING ENERGY EFFICIENCY AND DEMAND MANAGEMENT

310 GWh/year reduction in energy consumption.



IMPROVING SERVICE QUALITY

16.6 million people will benefit from improved electricity supplies in our partner countries.



PROVIDING MODERNISED, LOW-CARBON ENERGY

4.8 GW of renewable energy generation capacity will be installed.

STRENGTHENING THE GROUP'S AMBITION TO SUPPORT A LOW-CARBON WORLD

The conclusions of this mid-term review of the Energy Transition Strategy should be considered in the context of significant developments since 2019, in particular:

- A number of countries have pledged to achieve carbon neutrality by 2050.
- The tightening of climate requirements by financial actors (EDFIs, EIB, KfW, among others).
- The widely shared observation that the decarbonisation of the electricity sector needs to be accelerated in the very short term.
- A better understanding of the risks of lock-in and stranded assets associated with coal- and gas-fired plants.

Based on the results of the consultation carried out in 2021 as part of this review, and on the changing international context, **the AFD's Board of Directors has ratified the following decisions:**

Decision 1

MAINTAIN THE FOCUS AREAS AND CROSS-CUTTING LEVERS OF AFD GROUP'S ENERGY TRANSITION STRATEGY 2019-2022

This decision provides for a proactive approach to promoting access to energy services, energy efficiency and renewable energy, as well as a sustained effort to support energy transition policies, partnerships and innovation.

Decision 2

RAMP UP THE CLIMATE AMBITION

This decision provides for an amendment to the Group's Energy Transition Strategy, approved by the Board of Directors in November 2021, regarding infrastructure financing, and for the Group's continued work aimed at **aligning actors with the Paris Agreement**.

Infrastructure financing

The Group will continue strong support for investments in favour of the energy transition and Goal 7 of the SDGs. At the same time, it commits to no longer finance the construction, expansion or renovation of electricity or heat production plants powered by fossil fuels.¹ With this ambitious approach, AFD Group's objective is to concentrate its resources on helping countries make the transition to the energy systems of tomorrow as quickly as possible.

Financing for energy actors

AFD Group will develop a methodology that allows for **a differentiated approach to support energy actors in their transition and in their alignment with the Paris Agreement**.

In addition to project financing for green investments (particularly renewable energy), AFD is embarking on consultations with its peers to support, through technical cooperation projects and new financial tools, energy actors wishing to accelerate their decarbonisation, including by closing their fossil-fuel plants.

Supporting financial institutions

When these financial institutions² are AFD Group partners involved in funding the energy transition, the Group will adapt its methods of intervention according to the following two principles:

- (i) Concerning operations to support financial system actors aimed at funding a portfolio of identified investments, the prevailing exclusion list for direct financing will be applied.
- (ii) Support will be strengthened for partner financial institutions seeking assistance in drawing up financing offers specifically for investments that contribute to the energy transition.

¹ See exceptions detailed below.

² This initiative does not include investment funds.

Decision 3

CONTINUE REFLECTING ON NEW PROJECTS

The mid-term review highlighted a number of projects to be launched or pursued in view of preparations for the next Energy Transition Strategy and the next AFD Group Strategy:

- A detailed methodological note outlining the approach to stakeholders.
- A decision matrix on **bioelectricity** and **hydropower**, enabling biodiversity to be better taken into account.
- A position paper to take better account of the **social aspects of the energy transition**.

- A methodological note on the **criteria for analysing alternatives** to gas for industrial processes and heat production in the construction sector.

- A position paper on AFD Group's interventions with regard to the mining sector (**minerals needed for the energy or digital transition**).

In addition to the above, a more general review will be launched on the necessity for and the conditions favourable to a stronger break than has so far been observed in transition dynamics in order to reconcile the development, environment and democracy agendas. This will probably involve, in line with the drafting of the next AFD Group Strategy, a more extensive study on the development models compatible with these agendas, on resource efficiency or on taking account of technological or non-technological innovations (governance, a commons-based approach, etc.).

AMENDMENT OF THE INFRASTRUCTURE FINANCING STRATEGY

The mid-term review led to an amendment to section 3.3.3 of the **AFD Group's Energy Transition Strategy 2019-2022, which specifies the infrastructures that are eligible or ineligible for financing by the Group, in line with the decarbonisation objectives.**

INFRASTRUCTURE INELIGIBLE FOR AFD GROUP FINANCING

With a view to strengthening its "100% Paris Agreement" commitment, AFD Group **excludes the following from its financing:**

Projects dedicated to fossil fuels

Fossil-fuel exploration, production, processing and transport projects (conventional and non-conventional coal, oil and gas) and their associated infrastructure.³

Electricity

- **The construction, expansion or renovation of plants generating electricity from fossil fuels,**⁴ including natural gas, with the exception of mini-grid projects powered by hybrid plants (combining renewable energy and fossil fuels).

- Associated infrastructure.

Heat

- **Construction, renovation and extension projects for new plants generating heat from fossil fuels** (excluding the industrial and building sectors).

- Construction, extension and renovation projects for cogeneration or trigeneration plants using fossil fuels.

³ An infrastructure is said to be associated with a fossil-fuel plant if both the following conditions are met: i) the infrastructure would not have been built in the absence of the fossil-fuel plant, and ii) the fossil-fuel plant would not be economically viable without the infrastructure.

⁴ AFD Group reserves the right to analyse innovations that have not currently reached maturity on a case-by-case basis but which could be relevant to the decarbonisation of the mix: CCS for gas-fired plants and energy-intensive industries, low-carbon hydrogen/biomethane hybrid systems.

INFRASTRUCTURE ELIGIBLE FOR AFD GROUP FINANCING

While respecting the long-term decarbonisation goal of the Paris Agreement, some investments in fossil fuels in developing countries will remain essential in the shorter term to ensure access to modern, reliable energy services for all. In this context, AFD Group may consider financing:

Domestic gas distribution projects for cooking or heating

These projects must operate on the basis of liquefied petroleum gas (LPG) or be connected to the distribution network. The projects must be consistent with the access priorities for Africa and Asia, namely: they must have social benefits; they must replace other energy sources that have higher emission rates and/or significant impacts on deforestation.

Mini-grid projects supplied by hybrid power plants

These power plants, which are of limited output, combine renewable energy and fossil fuels. They are located in rural areas off the national grid or in small island states and their specific emissions are under 500 kg CO₂/kWh.⁵ They can also be hybrid decentralised power generation projects serving the needs of industrial facilities at isolated locations.⁶

Projects to extend, strengthen or modernise electricity or heating networks

These projects are eligible even when they are powered by electricity mixes or heat sources that include fossil fuels.

Projects in the productive and construction sectors

These include energy-intensive industries and agribusinesses. The Group can offer financing as a way of promoting the best available technologies. Also included are small-scale district heating projects for the construction sector, aimed at achieving the best energy efficiency (in terms of primary energy) for the buildings supplied.

Converting heat generation plants

These plants are eligible when powered by gas, with a view to conversion to a renewable energy source.

Plans to close fossil-fuel power plants

Or conversion to renewable energy or low-carbon options (low-carbon hydrogen, ammonia).

Coal mine closure/recovery projects

Electric mobility projects, as well as transport projects powered by fossil fuels, including gas.

Flare gas recovery projects associated with oil and natural gas production

Provided that there is a limited and managed local environmental impact and that the projects are part of a planned reduction in the country's greenhouse gas emissions.

⁵ This corresponds to a minimum of 1/3 renewable to 2/3 diesel.

⁶ These projects have a very limited impact in terms of emissions but are essential in certain cases to supply electricity through mini-grids in order to meet the challenge of ensuring that people have access to energy.

Towards a world in common

AFD Group implements France's policy in the areas of development and international solidarity. The Group includes Agence Française de Développement (AFD), which finances the public sector and NGOs, as well as research and education in sustainable development; its subsidiary Proparco, which is dedicated to private sector financing; and soon, Expertise France, a technical cooperation agency. The Group finances, supports and accelerates transitions towards a fairer, more resilient world.

With our partners, we are building shared solutions with and for the people of the Global South. Our teams are at work on more than 4,000 projects in the field, in the French Overseas Departments and Territories, in 115 countries and in regions in crisis. We strive to protect global public goods – promoting a stable climate, biodiversity and peace, as well as gender equality, education and healthcare. In this way, we contribute to the commitment of France and the French people to achieve the Sustainable Development Goals (SDGs). Towards a world in common.



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