



— Economic and Financial Transition

Strategy 2021-2025

#WorldInCommon



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AFD GROUP

AFD Group, operating in over one hundred countries and in all French Overseas Departments and Territories, carries out its development mission in line with the AFD Group Strategy adopted in 2018 and with its five commitments:

- become the first “100 % Paris Agreement” development agency
- ensure that its funding supports “100% social link”
- promote “3D development”¹ for fragile and crisis situations
- prioritise non-sovereign solutions and enable private-sector grassroots initiatives
- adopt a partnership reflex

The Group’s action aims to support and accelerate the six major transitions currently underway across the world: demographic and social, energy-related, territorial and ecological, digital and technological, economic and financial, political and civic.

The present strategy lays out the main strategic focuses for the economic and financial transition and the way in which the activities undertaken will seek to respond to the above commitments.

¹ The 3D approach is jointly developed by the French Ministry of the Armed Forces, the Ministry of Europe and Foreign Affairs (MEAE) and the French Development Agency (AFD) and designates: D for Defense (defeating the terrorist threat alongside the region's armed forces), D for Diplomacy (mobilising all actors for peace in the service of a crisis exit strategy), and finally D for Development (enabling populations to become self-sufficient in a sustainable way).

EXECUTIVE SUMMARY

The economic and financial transition is at the heart of the contemporary debates on development models. These discussions are taking shape in an international context marked by high tensions that raise questions about the emergence of new economic and financial models: How can economic development be ensured while also safeguarding the planet? How can people's standards of living be improved while also reducing inequalities? How can productive investment be supported and macroeconomic equilibria be maintained? How can we put in place effective management of endangered common goods in an unstable international context? Our models of production, consumption and financing must be questioned in light of these challenges.

The financial and economic transition designates a process through which an economy is transformed in order to build sustainable long-term economic, social and environmental balances. Embarking on a systemic process of transformation requires that all actors (governments, businesses, local authorities, international organisations, civil society, etc.) commit to this transition.

To respond more effectively to these challenges and the requests from its partners, AFD Group has adopted an Economic and Financial Transition Strategy that places its action within the framework of the AFD Group 2018-2022 Strategy.

It is based on three commitments that will serve as markers for all the operations that the Group will carry out in respect of the Economic and Financial Transition:

- **"Commitment to Inclusion"**: as a fundamental goal of the 2030 Development Agenda, this involves promoting economic and financial systems that further a balanced distribution of resources and ensure the economic insertion of excluded populations, particularly women. Special attention will be paid to contexts of crisis and fragility.
- **"Commitment to resource efficiency"**: by adopting a selective approach in compliance with the 100 % Paris Agreement commitment, this means supporting financial systems that ensure a sustainable and efficient use of resources. AFD Group will also support economic and financial actors that initiate processes to structurally transform their models so as to integrate sustainable pathways.
- **"Commitment to Resilience"**: in a context marked by recurrent crises, this involves strengthening the actors' capacities to anticipate, manage risks and adapt in order to tackle eventual economic, financial and environmental crises.

AFD, Proparco and Expertise France will be mobilised to implement this strategy, which will be adapted to local context, in line with the Group's geographic priorities.

FOREWORD

Today, the integration and implementation of the 17 Sustainable Development Goals (SDGs) serve as a yardstick for French development policy and therefore for AFD Group's strategic action to tackle the global challenges we are facing.

AFD Group has made these SDGs part of a dynamic rationale driving the different transitions: demographic and social, energy-related, territorial and ecological, digital and technological, economic and financial, political and civic. It is through the combined action of these six transitions that the Group seeks to go beyond apparent tensions and reconcile these SDGs in order to achieve them concurrently.

The concept of the Economic and Financial Transition Strategy emerged in 2018 during the reflection on the AFD Group Strategy 2018-2022. AFD has a long history of taking action and financing projects that contribute to the economic development challenges in its countries of intervention. However, it had not yet systematically questioned the economic and financial models that the Group's projects were helping to fund.

The reflection on this transition emerged in a context where the tensions between economic growth and the conservation of common goods (biodiversity, environment) are high, where economic growth no longer always means shared prosperity, and where the sustainable use of resources has not yet become the new paradigm. A context also marked by crises with multiple causes and characteristics: health-related and economic crises, such as the 2020 Covid-19 pandemic; social crises, as seen in the protests that have emerged in many developing countries in 2019 and 2020, and financial crises, as in 2008.

It is within this framework that we propose a reflection on the economic development models that can contribute to achieving the Sustainable Development Goals.

AFD works in over one hundred countries, each moving forward on their own specific economic development path. The objective is not therefore to define a one-size-fits-all economic model. What is particular about this Economic and Financial Transition Strategy is that it seeks above all to support a transformation of the models, systems and actors rather than to define a point of arrival.

This document is structured as follows: Part 1 recalls the key contextual elements that call for a transformation of economic development models. Part 2 defines the economic and financial transition and presents its main characteristics. Part 3 defines the three commitments that AFD Group is proposing to make in order to support economic and financial changes in the countries covered by its mandate.² These commitments will also be applicable to all contexts within our geographic areas of intervention, although the specifics of the strategy for each major geographic area are set out in the Appendices. This document also proposes the ways in which the Economic and Financial Transition Strategy is operationalised: this is the theme of Part 4. The six activities presented in this part each help to implement the Strategy's three commitments.

Lastly, it should be noted that the present Strategy will be implemented jointly by the different AFD Group entities: AFD, Proparco and Expertise France once its integration into AFD Group has become effective.

² AFD Group operates in 115 emerging and developing countries (www.afd.fr).

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1.

**WHY AN ECONOMIC
AND FINANCIAL
TRANSITION STRATEGY?**

1.1. A WORLD OUT OF BALANCE

In an international context of mounting pressures on ecosystems, globalised trade, deepening inequalities and multiple forms of instability, AFD Group needs to conduct its action in a world marked by profound tensions.

1.1.1 Ensure economic development and preserve the planet

Current production and consumption models are exerting excessive pressure on natural resources. Climate change and biodiversity degradation are the most visible consequences of this phenomenon. The increasing pollution in large urban centres, the depletion of agricultural soil and desertification are further signs of this tension, which first and foremost affects the most vulnerable populations. This tension is likely to appear at both local and more global scales. The growth of economic activity can further exacerbate this pressure on ecosystems and global environmental balances. **In AFD Group's intervention countries, the first challenge is to dovetail necessary economic growth with conservation of the environment.**

1.1.2 Improve people's standard of living and reduce inequalities

Today, many development models are being profoundly challenged when they degrade ecosystems or exacerbate inequalities. On top of income inequality, inequality of access to essential services and resources as well as social inequalities (gender, minorities, etc.)³ and territorial inequalities present new challenges for public authorities. Many social protest movements are emerging in AFD Group's intervention countries, including in areas with high economic growth. In these circumstances, it is crucial to include a social pact as an integral goal of development models.

In AFD Group's intervention countries, the second challenge is to design economic development paths that link up with improvements in living standards and the reduction of inequalities.

1.1.3 Support productive investment and safeguard macroeconomic balances

Given the high levels of commercial interdependence and capital mobility, as well as a weakened security and political context, countries whose productive fabric is insufficiently diversified are particularly vulnerable to economic and financial shocks. Large macroeconomic imbalances regularly arise in such fragile circumstances.

Conserving an investment capacity to modernise productive systems is a crucial condition for ensuring the sustainability of business activity across many sectors (power generation, manufacturing industry, telecommunications, etc.). **In AFD Group's intervention countries, the third challenge is to support both public and private productive investment without jeopardising key macroeconomic balances.**

1.1.4 Implement an effective management of endangered common goods in an unstable international context

As the factors of transnational vulnerability (pandemics, armed conflict, biodiversity degradation, etc.) and their rapid propagation are multiplying, it is crucial to have effective common mechanisms to manage crises and their consequences. These multilateral mechanisms must make it possible not only to tackle the triggers of such crises (security conflicts, trade wars, pandemics, etc.), but also to mitigate the negative economic and financial consequences, particularly in the most fragile countries (coordinated intervention of central banks, development of adapted recovery plans, support for actors working for financial inclusion, etc.). Paradoxically, in a context with a growing number of global crises, multilateral management modes seem to be increasingly fragile. Moreover, to be fully effective, these multilateral mechanisms must be able to rely on adapted crisis-response mechanisms at the scale of each country. **In AFD Group's intervention countries, the fourth challenge will thus be to respond to the growing number of transnational crises in a context of weakened multilateral governance of common goods.**

³ In 2018, 62% of women were in the labour force in sub-Saharan Africa compared to 72% of men (World Bank data. International Labour Organization modelling). In addition, the literacy rate of women aged over 15 was 59% against 66% for men.

1.2. ECONOMIC AND FINANCIAL MODELS IN QUESTION

The 2008 financial crisis has raised important questions about the quality of international financial regulation. Central banks and governments put in place a massive and coordinate response to avoid a major economic recession. The consequences were still visibly impacting unemployment, economic growth and public debt levels in developed countries when in 2020 a new crisis – this time a health crisis – hit most of the world's economies. Once again, public authorities and central banks have intervened, when able to do so, to reduce the impact of the shock and protect their most fragile populations.

In all economies, these systemic crises have irreversible consequences on economic and financial actors. They result in disruptions of production across many sectors, create financial difficulties for businesses and weaken the balance sheets of financial institutions. In addition to these immediate effects, such crises challenge the sustainability of the production, consumption and investment systems that characterise contemporary development models. Structural changes are required if the production capacities and local financial systems are to be less unstable and less vulnerable to shocks.

The 2015 International Conference on Financing for Development held in Addis Ababa and the adoption of the new 2030 Sustainable Development Agenda built around the

17 Sustainable Development Goals (SDGs) mark a key milestone in the international development agenda. How can contemporary growth models further the achievement of the common goals of equal access to health and education services, reduce gender inequalities or combat climate change?

The 2015 Paris Agreement likewise challenges the propensity of today's productive and financial systems to limit global warming to 1.5°C above pre-industrial levels. This is no small challenge: in the post-industrial economies still based on high-carbon models offering little resilience, it means inventing new economic development models that will help to limit greenhouse gas (GHG) emissions.

Given the impact of productive systems on the environment, notably biodiversity degradation, more environment-friendly, economic development pathways need to be defined.⁴

Ultimately, a transition of economic and financial models needs to be launched to tackle these different challenges in a coherent and organised manner. This will affect not only productive structures and the distribution of added value, but also the economic and financial actors themselves, their organisation, their governance and their models.

⁴ See in particular the work of the Intergovernmental Panel on Climate Change in 2019 (https://report.ipcc.ch/sr15/pdf/sr15_spm_final.pdf), of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem (Global Assessment Report), and World Economic Forum (Nature Risk Rising)

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2.

**WHAT IS THE FINANCIAL
AND ECONOMIC TRANSITION
STRATEGY?**

2.1. A PROCESS TO TRANSFORM ECONOMIC AND FINANCIAL DYNAMICS

Calling on the economic and financial actors to commit to actively combating climate change, the Bank of England Governor Mark Carney launched a now famous appeal to “break the tragedy of the horizon”⁵.

In his speech, Mark Carney alerted investors to the fact that the problems posed by climate change today are out of all proportion to those that may arise in the future. However, these future catastrophic impacts will occur beyond the usual horizon of most economic and financial actors. The current actors therefore have little interest in taking this climate risk into account. Mark Carney concluded his speech by mentioning that by the time climate change becomes a key issue for financial stability, it may already be too late.

Whether this involves reconciling the interests of economic and financial actors with what is crucially needed to fight against climate change, linking the objectives of value creation and environmental sobriety, or identifying new levers that can dovetail economic and financial performance with the maintenance of social balances, “breaking the tragedy of the horizon” means that new development models need to be identified.

This approach can only make headway if choices for economic policy and production strategies, as well as the economic and financial actors’ investment decisions, are systematically questioned. In fact, the starting point for the economic and financial transition involves challenging the practices of these actors and identifying those that contribute to the emergence of sustainable social, economic and environmental balances. On the basis of this initial diagnostic, the economic and financial transition is defined as a coherent and iterative process that transforms the economic and financial dynamics at work.

This inherently complex transformation process can move forward as a result of public policy choices, both national and international, defined through democratic and coordi-

nated processes. However, it may also be driven by major crises and with no coordinated framework. The radical changes that this transformation process brings about may then cause other crisis flashpoints (climate-induced migration, food riots, the breakdown of law and order, etc.). Some externally induced and chaotic transition scenarios cannot be ruled out given the unstable context prevailing in many of AFD Group’s intervention countries.

The Economic and Financial Transition, as defined in this Strategy, thus describes a process that brings about economic transformation and builds economic, social and environmental balances that are sustainable in the long run, essentially by acting on public policy.

This definition of the Economic and Financial Transition aims to characterise the transformation of the economy rather than prescribe a specific growth model. For this reason, it differs sharply from the notion of economic transition portrayed in the economic literature at the turn of the 1990s. At that time, in a specific geopolitical context, it denoted the convergence of the ex-Soviet Union economies towards a market economy.⁶

Neither does the proposed definition of the economic and financial transition rely on the yardstick of convergence indicators based on gross domestic product (GDP) or on per capita income indicators, but is part of a broader reflection that includes considerations related to well-being.⁷ Although bettering the population’s standard of living, particularly that of the poorest households, is a major issue in AFD Group’s intervention countries, the Economic and Financial Transition Strategy seeks to define an economic trajectory specific to each national context, the central objective still being to build sustainable long-term balances. The sustainability of these balances crucially depends on the social and environmental consensuses that each society will build in view of achieving sustainable economic development.

⁵ Breaking the Tragedy of the Horizon – climate change and financial stability, a speech given by Mark Carney, Governor of the Bank of England, Chairman of the Financial Stability Board, at Lloyd’s of London, 29 September 2015.

⁶ <http://www.cepii.fr/%5C/francgraph/doctravail/pdf/2001/dt01-08.pdf>

⁷ See notably <http://hdr.undp.org/en/data> (HDI) built by the United Nations Development Programme, and the work of the Stiglitz Commission or the OECD’s <http://www.oecdbetterlifeindex.org>.

2.2. A MULTI-STAKEHOLDER PROCESS

The Economic and Financial Transition Strategy involves a dynamic process aimed at transforming public policies, regulatory frameworks and economic and financial actors' practices.

It thus describes a process in which public authorities play a key role in defining not only the trajectories but also new regulatory frameworks and new types of incentives to build social, economic and environmental balances sustainable over the long term. The administrative and political structures responsible for defining these frameworks (finance ministries, planning ministries, regulatory authorities, central banks, bodies supervising and controlling economic and financial activities, local authorities) will be key actors in the Economic and Financial Transition Strategy.

The economic and financial actors (companies of all sizes, credit institutions, financing and investment companies,

etc.) are also at the heart of this transition. Changing their practices in the areas of production, resource consumption, investment and financing stands as the main driver of the Economic and Financial Transition Strategy.

Lastly, civil society representatives (trade federations, associations, trade unions and NGOs) will also play a prominent role in defining coherent economic and financial policies adapted to the actors' needs. They should also provide input for the definition of the social, economic and environmental balances that the Economic and Financial Transition Strategy aims to help kick-start. This means that they will contribute, in particular, to defining the arrangements for regulating economic and financial activities and identifying incentive mechanisms, or on the contrary protective mechanisms, in order to mitigate the negative consequences of activities on the environment and on populations likely to be impacted.

2.3. A PROCESS ROOTED IN A SOCIETAL CONTEXT

Domestic economic, social and political contexts largely determine the parameters of the Economic and Financial Transition Strategy. The key factors shaping this transition process include the organisation of productive structures, the architecture of the financial systems and the political and administrative organisation. These all determine the actionable transformation levers (as well as the formal and informal barriers), the sectors likely to help further the transition and the main actors involved (state and private enterprises, development finance institutions, commercial banks, regulatory agencies, central banks, etc.).

The Economic and Financial Transition Strategy is also grounded in a context of finite natural resources. The transition cannot make headway if the actors fail to question the sustainability of production modes and consumption patterns in light of the limited availability of some resources and the need to protect resources at risk. The Economic and

Financial Transition Strategy needs to promote productive systems, consumption patterns and investment strategies that protect the environment and optimally enhance ecosystem services.

Lastly, the Economic and Financial Transition Strategy sometimes intervenes in contexts marked by multifaceted vulnerabilities. These vulnerabilities create unpredictability and instability for economic and financial actors, who nonetheless have to build sustainable business models in such situations.

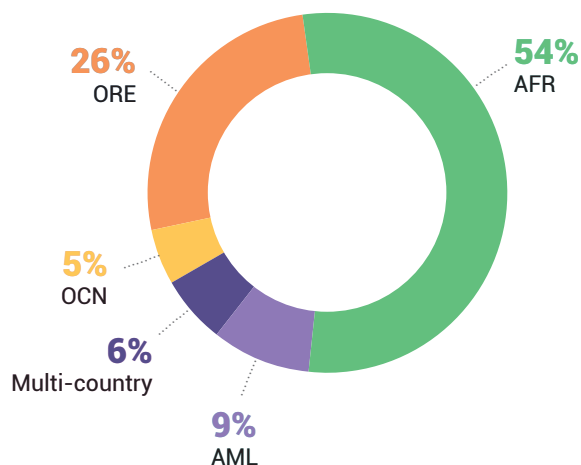
Be it economic and financial instability, social tensions, conflict situations or ecological crises, productive systems and financial actors' investment strategies have to adapt to the different types of instability. The Economic and Financial Transition Strategy will thus identify the levers conducive to promoting the resilience of economic and financial actors.

2.4. THE FINANCIAL AND ECONOMIC TRANSITION STRATEGY IN AFD GROUP'S ACTIVITY

Operations pertaining to the Economic and Financial Strategy account for a substantial share of AFD Group's activities. In 2019, the operations committed to this transition totalled **3.5 billion euros**, representing 25% of the Group's business plan, with 47% of this amount being committed by Proparco. Moreover, 58% of the volume of these operations involved climate co-benefits, equivalent to around 50% of the Group's climate commitments. The contribution of this transition to the Group's climate objectives is an important marker of the activity. In addition, 25% of the projects also contribute to the Group's objectives of promoting gender equality.

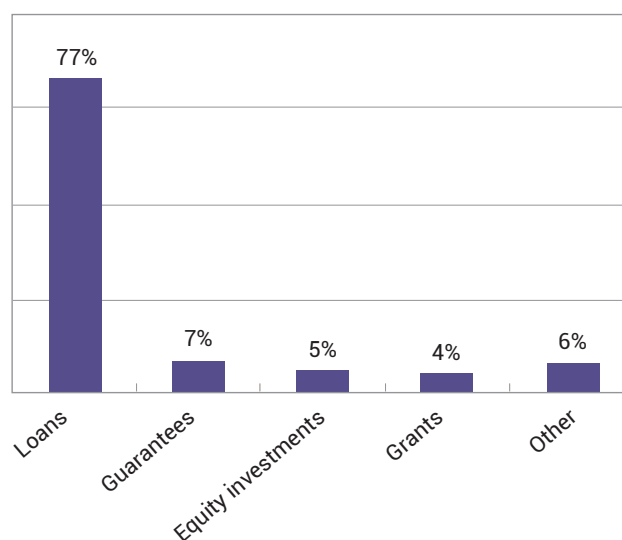
Consistent with AFD Group's strategy, **priority is set on Africa** with over half of the volume of approvals being committed to the African continent in 2019 (Figure 1).

Figure 1. Distribution of financial approvals by geographical region, in percentage, 2019⁸



In terms of financial instruments, loans remain the main lever for action to support the Economic and Financial Transition Strategy in AFD Group's intervention countries (nearly 77% of financing). In sub-Saharan Africa, grant instruments and guarantees are often mobilised to complement loans (Figure 2).

Figure 2. Distribution of financial instruments, in percentage, 2019



2.4.1 A strong positioning on financial inclusion and support to development banks

Since the 1950s, AFD Group has been intervening to support the development of local financial systems. In particular, AFD has positioned itself in favour of bolstering the financial inclusion of vulnerable populations and supporting the financing activity of development banks. The Group has developed a direct financing activity to benefit local financial institutions. This has made it possible to propose financial services tailored to the needs of local actors, and build long-term partnerships with them. To back this positioning, AFD Group is mobilising a broad range of loan, guarantee and grant products. AFD Group is now working with more than 150 public and private financial institutions.

⁸ The abbreviations of the geographical regions are defined in the section Acronyms and Abbreviations.

2.4.2 Expertise in supporting and financing public-sector enterprises

State-owned enterprises are key drivers for implementing development policies to provide essential goods and services, enhancing the value of national assets and developing infrastructure. As such, they are historic partners of AFD Group, which has successfully built up real expertise to support them. Improvements in the performances of state-owned enterprises cover multidimensional challenges: financing their investments, ensuring internal change to enhance efficiency, and establishing healthier relationships between state authorities and state-owned enterprises. AFD has diverse ways of financing state-owned enterprises (retroceded sovereign financing, direct loans with or without a state-guarantee), which can be mobilised to suit their specific situations. This financing is combined with actions dedicated to strengthening internal governance (strategic planning, pricing policies, financial management, etc.), as well as support to public authorities in managing their holdings in these enterprises.

2.4.3 A continuum of actions and tools for micro, small and medium-sized enterprises

AFD Group has rolled out a continuum of actions and tools to support the consolidation of the local productive fabric. Support to small and medium-sized enterprises (SMEs) is a major line of intervention for Proparco, AFD's dedicated private-sector arm. Over 12,000 SMEs received financing between 2014 and 2016. AFD also supports public financial actors (development banks, guarantee funds, etc.) whose activity is wholly or partly focussed on financing micro, small and medium-sized enterprises (MSMEs). AFD Group also works on consolidating entrepreneur ecosystems, for example, through support to structures that provide assistance to entrepreneurs, funding tailored to start-ups, and assistance to public policies that support the development of entrepreneurship.

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3.

THE FINANCIAL AND ECONOMIC TRANSITION STRATEGY

3.1. THE COMMITMENTS OF THE ECONOMIC AND FINANCIAL TRANSITION STRATEGY

Three strategic commitments characterise the involvement of AFD Group in supporting the economic and financial transitions of the countries where we intervene.

The first one is the commitment to promote an **inclusive** economic and financial transition: the transformation dynamics that AFD Group will support must enable broader access to economic and financial opportunities in order to drive an improvement in the living standards for as many people as possible and promote a balanced distribution of all types of resources.

The second is to promote a resource-efficient economic and financial transition: this commitment aims to support the transformation of economic and financial systems to foster the emergence and strengthening of responsible and sustainable practices in the areas of production, consumption and investment.

The third commitment of AFD Group is to promote **resilient** economic and financial systems: this commitment aims to bolster the capacities of economic and financial actors to identify and implement all the responses required to tackle economic, financial and ecological crises and reduce their adverse effects.

3.2. INCLUSION COMMITMENT

In many developing countries, particularly in sub-Saharan Africa, productive systems are still insufficiently structured. Obstacles to accessing productive resources impede the economic actors' capacities to put in place value chains that perform well, are secure and bring high added-value.

These fragilities appear in many ways: high production costs; marketing and distribution channels that preclude optimal conditions for transporting output, and companies' frequent difficulties to integrate regional or global production chains. These factors are partly responsible for distorting the distribution of resources, be they human, natural (land, farmland, water access), technological (digital access) or financial, in many productive sectors (economic rent effects, rationing effects, price distortion, etc.). For instance, available financial savings are channelled towards the most financially sound counterparties and many MSMEs find themselves excluded from financial services.⁹ We can also cite the structure of local commercial systems (storage, markets, institutions, etc.) which does not always allow for the optimal valorisation of local agricultural production.

These distortions also lead to chronic underinvestment in human capital, which in turn hobbles the emergence of high-added-value production chains. In this context, the productive sector proves unable to provide quality, formalised and adequately paid employment.

Agreenfi, AFD Group's agricultural and rural finance label

The *Agreenfi* label encourages partner financial institutions to take action to develop resilient agriculture, improve the living standards of rural communities and promote sustainable structuring of rural areas. Practically, *Agreenfi* intervenes with diverse local financial institutions (banks, microfinance institutions), offering them financial services (financial resources, risk-sharing tool) as well as tailored institutional and technical assistance, enabling them to change their practices and respond to the needs of rural actors. The latter – mainly family farms, producers' organisations, cooperatives and SMEs – thus have access to financial services and technical assistance. They thus help to promote a better distribution of resources in rural areas and stimulate the rural economy.

⁹ In sub-Saharan Africa, only 22% of companies financed their working capital needs through the banking system in 2019.

To support an inclusive economic and financial transition, **AFD Group will support transformative economic and financial dynamics that contribute to a balanced distribution of human, natural, technological and financial resources in the different productive sectors (Strategic Focus 1.1).**

Additionally, AFD Group will put special focus on populations excluded from economic activity. Women, young adults and rural communities benefit relatively less from income derived from productive activities. Increasing the proportion of the working-age population in productive activities is a factor that reduces not only social and economic but also gender inequalities. **In this context, AFD will support the transformation of economic and financial systems that ensure excluded populations an effective access to economic and financial opportunities (Strategic Focus 1.2).** Among these opportunities, access to adapted financial services (current account, savings, payment systems, insurance, etc.)¹⁰ can act as a powerful vehicle for financial inclusion, provided that these services comply with the fundamental principles of financial responsibility (transparency, customer protection, etc.). We should also mention services in the areas of distribution and commerce (markets, warehouses), training (management, financial training, etc.) and entrepreneurship assistance (incubation and acceleration). When relevant and conducive to inclu-

sion, AFD Group will draw on the opportunities offered by digital technology (digital financial services, smart management tools, online training, new data security processes, etc.).

AFIDBA, a support programme for inclusive businesses

Launched in 2019, for a three-year stretch, the programme “AFD for Inclusive and Digital Business in Africa” (AFIDBA) offers innovative technical and financial support for small firms that combine a social mission with an economic model. One of the major brakes to the development of companies remains access to financing. The programme's objectives are to (i) support start-ups in their scalability phase by giving them access to financial tools and specialised training and (ii) maximise their positive impacts in favour of excluded populations, notably by capitalising on the advantages of digital technology, which drives growth and agility. The programme has been rolled out in Burkina Faso, Ghana, Morocco and Senegal through a consortium of actors including four local incubators with Bond’Innov as coordinator. As a result, in 2019 the AFIDBA programme helped 22 inclusive firms to scale up, financed 12 of them and organised some sixty events designed to strengthen the inclusive entrepreneurial ecosystem in four intervention countries.

3.3. RESOURCE EFFICIENCY COMMITMENT

Continuing to produce added value in an environment with limited or scarce resources remains a pivotal challenge for economic and financial actors. Productive systems sometimes exert unsustainable pressure on available resources and impair the normal regeneration of natural capital. In many developing countries, the energy intensity of productive systems is incompatible with projected increases in consumption, for example. The available financial resources to finance the most sober investments are frequently insufficient to ensure that the productive sector obtains financing in line with its needs.

Now that the very notion of growth and the related metrics no longer command a broad consensus,¹¹ AFD Group will resolutely work to promote the rational and sustainable use of productive resources. AFD Group will support those dynamics that drive the economic and financial transition and ensure the long-term management of available natural, human, technological and financial resources in line with the Paris Climate Agreement. **In particular, AFD will back the promotion of strategies, governance structures and productive practices where the central objective is to optimise their social and environmental benefits (Strategic Focus 2.1).**

¹⁰ In 2017 in sub-Saharan Africa, according to the FINDEX database, 43% of adults aged over 15 had an account with either a financial institution or a mobile operator. This rate was only 37% for women compared to 48% for men (World Bank data). Overall, the accounts of one-fifth of account holders are inactive.

¹¹ One example is the work of the Stiglitz Commission launched in 2008, which aimed to propose new wealth indicators. The final report submitted by the Commission notably recommended adding to a revised GDP measure a metric for wellbeing and for the sustainability of the growth trajectory.

Supporting a Sahelian state-owned water utility on its way to a sustainable economic and social path

AFD has a long-standing relationship with the Burkina Faso's National Office for Water and Sanitation (ONEA) responsible for supplying drinking water to residents in urban and semi-urban centres. In a context where water resources are scarce and difficult to exploit, AFD has, since 2006, been partly financing the operator's investments designed to strengthen and extend the drinking water production system to strengthen and extend the drinking water production system through several non-sovereign and sovereign loans. To complement this, AFD is currently supporting the National Office of Water and Sanitation (ONEA) in conducting a pricing study, drawing up a financial model for investment planning, setting the operator's equilibrium price and defining a new fee structure that includes social tariffs. The goal is to reach a medium-term financial equilibrium that is linked to the social and environmental balances targeted in the long run. AFD's support thus aims to establish efficient management of a limited resource in order to optimise the services provided by ONEA.

Many economic and financial actors will nonetheless need to undergo profound changes if they are to adopt a more resource-efficient development path. In fact, front-line actors still largely depend on fossil energy, while some productive activities continue to cause extensive damage to natural environments. In addition, climate change and ecosystem degradation are likely to create new types of risks against which economic and financial actors need to buffer themselves (physical climate-related hazards, degradation of farmland, water stress, etc.). To further this necessary transition, **AFD Group will support economic and financial actors that initiate transformative changes to their model in order to engage on a path towards economic, social and environmental sustainability (Strategic Focus 2.2).**

A stronger partnership with Afreximbank in the area of climate finance

To promote intra- and extra-regional African trade and climate finance across the entire African continent, AFD has provided several credit lines and a technical assistance scheme to Afreximbank (African import-export bank). During an initial phase, this partnership's main objective was to develop and create added value for African trade globally and within Africa. The AFD–Afreximbank partnership has gradually turned to implementing a climate strategy and supporting Afreximbank's financing of climate projects.

3.4. RESILIENCE COMMITMENT

Many contexts in which AFD Group intervenes are marked by multifaceted instability. Vulnerable socio-economic situations are not only conducive to endogenous dynamics that create fragilities (conflict around access to resources, territorial confrontations, armed conflict, etc.), but are also exposed to the spread of exogenous crises. Whether these instability-inducing dynamics are economic, social or environmental, their consequences – which are sometimes combined – are very acutely felt in such exposed contexts. As a result, economic and financial activities may experience a high degree of variability and often struggle to withstand major shocks. The lack of government mechanisms to support these activities, weak social safety nets and insufficient levels of public and private savings plunge part of the population into precarity. The recurrence of such destabilising phenomena means that productive structures and financial actors imperatively need in-depth support so that they can develop intrinsic factors of resilience. Like the services that can provide financial inclusion (microfinance,

micro-insurance, etc.), this resilience must notably be able to ensure the continuity of activity in degraded situations. Additionally, public authorities and economic actors must be able to acquire effective tools to manage economic and financial shocks in order to mitigate the adverse effects on affected populations.

AFD Group will thus have the objective of strengthening mechanisms making it possible to anticipate economic, social and environmental crises and reduce their consequences on economic activity (Strategic Focus 3.1). These mechanisms are crucial not only to preventing, as far as possible, a sudden and unexpected halt of economic activity, but also to mitigating the consequences of these crises, particularly on income, consumption and employment. These mechanisms can be developed largely through an informed use of digital tools (big data, fab labs, Internet access for SMEs, etc.).

Promote micro-insurance mechanisms to strengthen local actors in case of crisis

AFD, together with the International Labour Organization's Impact Insurance Facility, has built a pilot project to develop micro-insurance products adapted to vulnerable populations. This support comprises a EUR 3 million grant from AFD to the ILO awarded in November 2014 with a view to making this type of product more accessible and reinforcing the local operators' capacities to propose micro-insurance schemes more widely in sub-Saharan Africa

In the longer term, recurrent crises produce structural distortions in economic and financial activity: corporate under-investment, under-employment, biases in the allocation of available savings, etc. To tackle this, **AFD Group will work to increase the capacities of economic and financial actors to integrate the instability of their environment into a long-term trajectory (Strategic Focus 3.2).** This capacity to plan ahead will help to bolster the performance of economic and financial actors over the long term and avoid the phenomena of economic and social exclusion that crises inevitably cause. Building this capacity to plan ahead may require far-reaching changes in the ways of managing, making decisions and producing (digitalisation, decentralisation, etc.).

Building a more resilient financial system in Indonesia

In partnership with the World Bank, AFD is supporting the Indonesian government on a reform programme for the financial sector. More specifically, one of the key focus areas of the reform is to help in building a more resilient financial system. AFD is supporting the development of Indonesia's financial regulation through a EUR 100 million policy-based loan coupled with an action to build up the regulator's capacities. The objective is to (i) enhance the protection of savers by consolidating the resolution framework for ailing and non-viable banks (strengthening the deposit guarantee mechanism), (ii) implement financial practices that are more resilient to climate change (systematic integration of environmental and climate risk assessment in the financial actors' investment decisions) and (iii) create mechanisms to support activity in the event of natural disasters (compensation funds).

A decorative background featuring a thick orange spiral that starts from the center and expands outwards, creating a sense of movement and depth. The spiral is composed of several concentric loops, with the outermost loops being more prominent.

4.

ACTIVITIES

Six main categories of activities will ensure implementation of the Economic and Financial Transition Strategy.

These activities are the priority operational levers that AFD Group intends to activate in operations pertaining to this transition. Each of them will help to implement the three commitments that form the backbone of AFD Group's Financial and Economic Transition (see the previous section). Each activity is backed by a description of the approaches, tools and financial instruments that can be used to structure the financing operations.

Activity No.1: Develop productive systems rooted in local economies

AFD Group will support the structuring of integrated productive value chains that promote the use of local resources (natural, human and financial), and whose social and environmental externalities are positive, or reduced as far as possible. AFD Group will also support the development of productive systems with a medium-to-high added value, particularly in low-income countries, in order to bolster more inclusive, resource-efficient and resilient systems. The aim is to create conditions allowing for decently remunerated work, to develop quality employment, to support the emergence of value chains with very high-growth potential, and to support the entrepreneurial fabric. For example, AFD Group will work to support the development of the waste, digital, clean energy or sustainable agriculture sectors. This support will mainly be in the form of direct financing for companies within these sectors (producers, processors, distributors) and can be accompanied by capacity-building actions to consolidate the expected impacts.

AFD Group will also support the transformation of traditional sectors (e.g., agriculture, artisans, small businesses) with a view to reducing income instability, increasing productivity, securing supply chains and thus enhancing the resilience capacities of these sectors. The Group can also support the financial consolidation of these sectors by supporting the economic actors who produce, process and market the products from these traditional sectors. In some cases, the financial support proposed by AFD Group can be combined with non-financial assistance (capacity building) to bolster the inclusive, resource-efficient and resilient dimensions of a project.

AFD can mobilise French expertise to structure and strengthen local actors' capacities and will pay special attention to the French actors that have projects in the Group's intervention countries.

To complement the instruments for direct financing of companies, AFD Group will operate through guarantees, equity investments and economic policy support programmes. These different instruments can be coupled with capacity-building tools (technical assistance, training, etc.).

Activity No.2: Promote an adapted, sustainable and responsible offer of financial services

AFD Group will support the approaches of financial actors who aim to increase the available financial services in markets where it is insufficient or insufficiently diversified and in a logic of subsidiarity. This offering will have to be sustainable and responsible, thus promoting broader access to economic and financial opportunities to foster a balanced distribution of resources and give excluded populations access to economic and financial opportunities. Adapted financial services must help companies to develop at all stages of their inception and growth: financing for individual entrepreneurs and seeding (venture capital, development capital), as well as for the later stages of a company's growth (diversification of production, equipment modernisation, international growth, etc.), which will increase their capacity to build sustainable, long-term trajectories.

AFD Group will also encourage the development of diversified financial products in markets where these are under-developed. This includes products based on the opportunities opened up by digital financial services, for the benefit of enterprises and households that are traditionally excluded from financial services. Services developed specifically for low-income households (housing microfinance, health micro-insurance, etc.) and MSMEs (lower requirements to obtain a loan, guarantee products, etc.) will make it possible to finance productive activities and broaden financial inclusion.

To achieve this, AFD Group can support the development of new market segments for financial institutions through thematic credit lines: refinancing microfinance institutions, downscaling products for commercial banks, digitalising the offering, housing financing, student loans, etc., in a regulated and secure context.

Activity No.3: Steer the commercial ecosystem onto an environmentally and socially sustainable trajectory

AFD Group will adopt a selective approach when asked to support initiatives aimed at developing trade in goods and services from its intervention countries. Particular attention will be paid to projects designed to expand local and regional trade notably with a view to increasing the resilience of the countries concerned. AFD Group will support approaches that seek to secure supply chains or sales channels that show a very limited or positive environmental and social impact (local consumer products, commercial structures that comply with recognised social and environmental policies, etc.). This support can take the form of assistance with certification or labelling schemes (ISO standards, quality labels, etc.), strengthening the economic

and financial models of the structures concerned, or developing responsible trade finance products in collaboration with the local and international banking sector. AFD Group can also support the development of structures that provide assistance for trade (export-promoting organisations, chambers of commerce, etc.).

AFD Group will contribute to developing commercial infrastructure that have a balanced economic, social and environmental impact. This infrastructure should help to stimulate economic activity, particularly in remote areas, generate more sustainable jobs and produce a limited impact on the environment. AFD Group can, for example, finance the construction or rehabilitation of infrastructure (ports, rail transport, storage areas, etc.) through direct loans or sovereign loans.

Lastly, the AFD Group, through its ongoing public policy dialogue with its partners, can support the introduction of standards and good environmental practices into public trade-related policies in accordance with the positions taken by France in this area.

Activity No.4: Disseminate best practices adapted to local contexts and promote recognised standards

AFD Group will support economic and financial actors that wish to further develop their mode of governance or strategic positioning, or adapt their investment programme in order to adopt international best practices. These best practices will mainly involve regulating economic and financial activities, controlling environmental and social risks, factoring in the effects of climate change and the degradation of natural environments, ensuring responsible investment and financing practices, promoting social performance objectives, transparency and accountability, as well as tackling gender inequality.

For example, AFD Group will support companies that wish to enhance their governance, production methods and economic model in order to engage on an economic, social and environmental trajectory that is sustainable in the long term.

AFD Group will also support financial institutions, particularly development banks, that wish to further develop their portfolio in order to contribute to reducing greenhouse gas emissions (green investments, introduction of climate-related selectivity criteria, etc.) and to reaching the Sustainable Development Goals. AFD has structured an approach dedicated to the community of public development banks and has established financial and strategic partnerships with a number of these institutions in Africa, Asia and Latin America. AFD will step up its actions to support these

actors in their move towards more inclusive, sustainable and resilient models. AFD will contribute to leading discussions on these themes with the development banks in the International Development Finance Club (IDFC) and in partnership with the various development bank networks (ALIDE, ADFIAP, AIAFD, etc.).

AFD Group will also ensure the promotion of best practices in the area of responsible finance (compliance with the principles of transparency, customer protection, prevention of over-indebtedness, etc.) and corporate social performance. In particular, AFD will support initiatives to promote the social and inclusive economy, as it does already through various programmes (e.g. Equity, AFIDBA, etc.).

To encourage the adoption of recognised standards, AFD Group will base its operations on contractual requirements that will frame all its business relations (ML-FT clauses, control of environmental and social risks, compliance with prudential standards, covenants, etc.). In addition, AFD Group can support the adoption of best practices thanks to the capacity-building tools that it can link to its financing instruments. To this end, AFD Group can call on partners who operate in these different domains (Banque de France, ACPR, BPI, OECD, IFA, SPTF, CERISE, specialised think tanks, etc.).¹²

All of the Group's tools can be mobilised, particularly its technical assistance support tools. Loan financing can take the form of earmarked loans or more partnership-based approaches that link financing to a challenging results-based matrix whose implementation will be closely monitored to ensure its effectiveness.

Activity No.5: Develop risk-management tools to tackle economic and financial instability

AFD Group will make special efforts to support economic and financial actors that wish to roll out risk-management tools enabling them to factor in instability when building their long-term business trajectory. AFD will also support economic and financial actors wishing to develop mechanisms allowing them to anticipate crises and mitigate the consequences.

In the case of its direct loans to companies or financial actors, AFD Group can support the development of less vulnerable productive infrastructure or the acquisition of more resilient equipment and materials (construction materials, energy-efficient equipment, etc.). It can also promote the adoption of production and distribution strategies better-adapted to an unstable environment (agricultural practices, industrial strategies, digital services, etc.).

¹² The abbreviations in the key are defined in the section Acronyms and Abbreviations.

To enable economic and financial actors to deal with uncertainties, AFD Group will also work to develop guarantee products (notably public payment guarantees) and inclusive insurance products for the actors exposed to risks. These products can be developed in partnership with local and international actors, particularly French actors. Depending on the context, AFD Group will also support the setting-up of countercyclical or crisis-resolution instruments (adapted prudential standards, business continuity plans, effective exceptional support policies, etc.).

All of the Group's tools can be mobilised to finance these different forms of support. Prior diagnosis will be required to characterise the potential risk borne by economic and financial actors, measure the potential impact in the event that the risk materialise, and calibrate the tools required to ensure the necessary protection. This activity can lead to the creation of new financial products designed to absorb economic and financial shocks when they occur, provided that these tools are in line with AFD Group's risk appetite framework.

Activity No.6: Support public authorities in steering and regulating economic and financial activities

AFD group commits to support public authorities who wish to further develop their regulatory framework of economic and financial activity in alignment with an inclusive, resource-efficient, and resilient trajectory. The adoption of new standards could involve financial regulation (banking law, supervision, promotion of sustainable and inclusive finance, etc.), promotion of entrepreneurship (with special

focus on women's entrepreneurship), management of the state's strategic holdings (particularly state-owned enterprises and banks via reforms conducive to the actors' operational and financial consolidation and to setting them onto a sustainable trajectory), and the implementation of regulatory frameworks for public-private partnerships.

When AFD Group's public policy dialogue with its partners so permits, the Group can assist public authorities through public-policy loans or grants (commitments linked to a results-based matrix). In parallel, the diverse range of AFD Group's tools will enable support to economic and financial actors who have to adapt to the changes in applicable regulations. If need be, direct loans to enterprises or financial institutions can finance the investments required by changes to the regulatory framework. Technical assistance schemes can also help to set up awareness-raising actions and training, or structure a multi-stakeholder dialogue to promote a consensual development of this regulatory framework. Lastly, AFD Group can structure direct loan operations linked to a challenging results-based matrix to support the transformation of economic and financial actors. The implementation of this matrix will be closely monitored.

AFD Group can work with different partners to structure this support. The World Bank Group, the OECD, the EU, the BdF and BPI, as well as many research centres and think tanks, can provide the expertise that complements that of AFD Group. Additionally, various French administrative bodies can take part in the analysis of AFD Group-funded projects, depending on their capacities (independent agencies, regulatory authorities, ministries, chambers of commerce, etc.).

Promote French expertise

Given its position as a bilateral donor, Group AFD can showcase the regulatory mechanisms for economic and financial activity in force in France or the European Union. With respect to green financial regulation (Article 173 of the Energy Transition Law, green taxonomy, etc.), the mechanisms for collecting and managing savings or the development of the social and inclusive economy (Law on the Social and Solidarity Economy, French Impact label), AFD Group will present to its partners the different public policies implemented in France and Europe, as well as the means of delivering them.

The key role of state-owned enterprises in France's economic and social development is a point of recurrent interest for its partner countries with regard to the way in which France organises the steering and supervision of these enterprises.

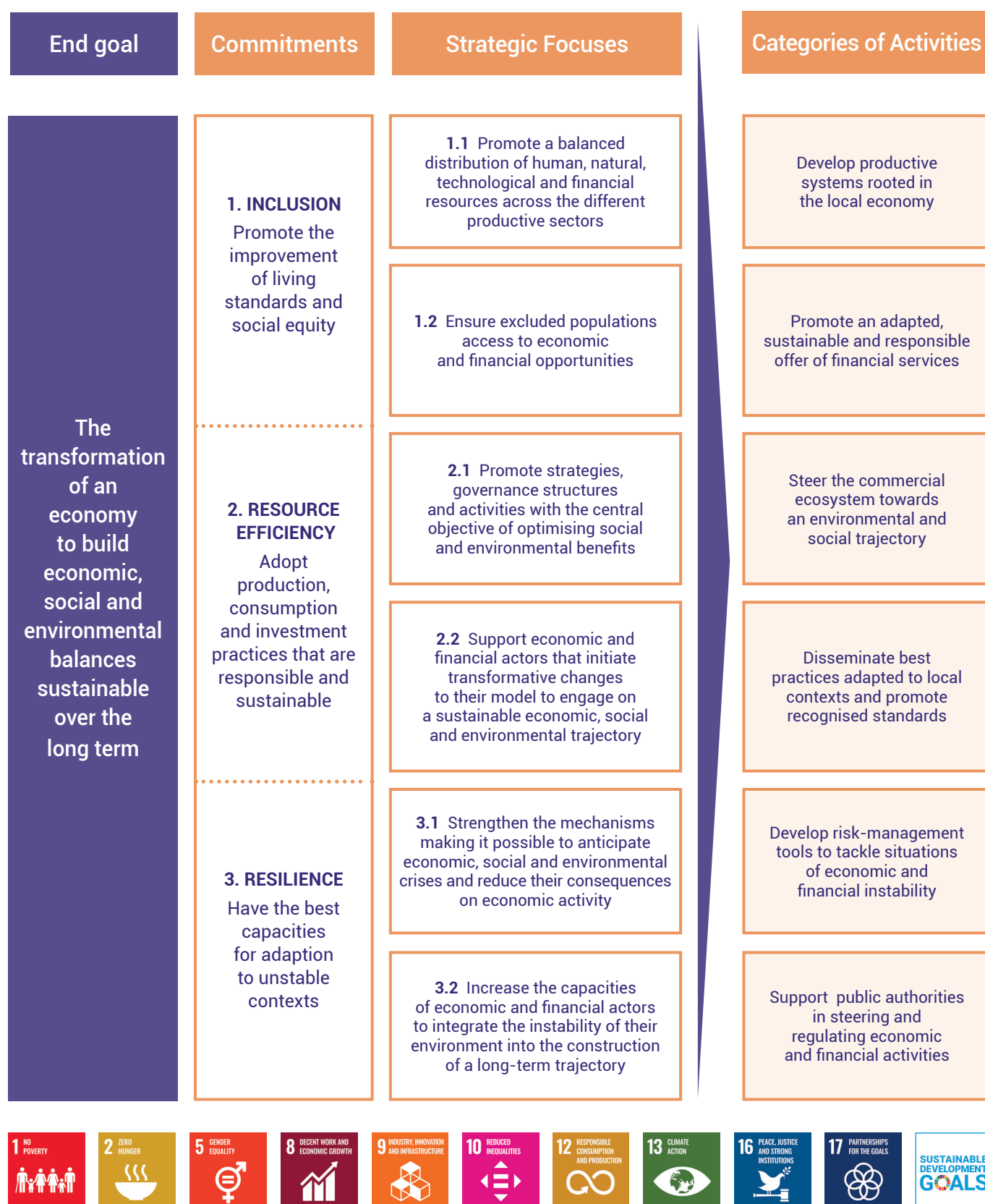
This interest creates an opportunity to develop experience-sharing and promote and mobilise French public expertise at a cross-cutting level (CGEFI, DGFIP, APE, supervisory bodies) and at the level of the state-owned enterprises themselves. AFD's partners also show interest in France's long experience with public-private partnerships (PPPs). On this basis, AFD will support exchanges on the French legal model for PPPs and the ways in which this can be taken up in countries with a tradition of civil law, depending on the specific national contexts. These exchanges will also integrate French enterprises' expertise on concession, which is a model that has proved successful in delivering essential services in key sectors.

A decorative orange spiral graphic that starts from the top left and winds its way across the page, passing behind the text.

5.

APPENDICES

APPENDIX 1. LOGICAL FRAMEWORK



APPENDIX 2. ACCOUNTABILITY FRAMEWORK

An Economic and Financial Transition report will be published annually detailing the strategic changes being driven forward and the operational achievements: results of the activity, key facts and indications as to activities in progress. The report will also include results for the following quantitative indicators:

Indicators relating to the 100 % Paris Agreement commitment

Indicator No.1: Volume percentage of "Financial and Economic Transition" (EFT) projects with climate co-benefits (distinguishing between adaptation/ mitigation)

Indicator No.2: GHG emissions reduction (tCO₂e avoided) linked to EFT projects

Indicators relating to the 100 % Social Link commitment

Indicator No.3: Volume share of annual commitments to "Financial and Economic Transition" projects with a principal or significant gender equality objective (OECD policy markers 1 and 2)

Indicator No.4: Number of direct FTE jobs supported by Economic and Financial Transition – related interventions

Indicators relating to the 3D commitment

Indicator No.5: Number of beneficiaries of Economic and Financial Transition projects operating in fragile areas

Indicator No.6: Amount of Economic and Financial Transition financing granted in fragile areas

Other indicators for the Economic and Financial Transition

Indicator No.7: Number of beneficiaries of a local financial service (particularly among vulnerable populations)

Indicator No.8: Amount of financing granted to economic and financial actors (financial institutions financière, public and private sector enterprises, etc.) whose main objective is to be part of the Economic and Financial Transition

Indicator No.9: Amount of financing for projects under the Social & Inclusive business label

Indicator No.10: Number of economic and financial actors that have benefited from a capacity building action designed to further the Economic and Financial Transition

Indicator No.11: Amount of financing for projects targeting changes to economic and financial regulatory frameworks with a view to the Economic and Financial Transition

Indicator No.12: Number of projects aimed at changing the economic and financial regulatory frameworks with a view to the Economic and Financial Transition

Indicator No.13: Amount of total financing granted to African MSMEs, including guarantees, loans and equity investment (Proparco and AFD – Choose Africa)

ACRONYMS AND ABBREVIATIONS

ACPR: *Autorité de Contrôle Prudentiel et de Résolution* (French prudential supervisory and resolution authority)

ADFIAP: Association of Development Financing Institutions in Asia and the Pacific

AFD: *Agence Française de Développement* (French development agency)

AFIDBA: AFD for Inclusive and Digital Business in Africa

AFR: Africa department, AFD

AIAFD: Association of African Development Finance Institutions

ALIDE: Latin American Association of Development Financing Institutions

AML: Latin America department, AFD

APE: *Agence des participations de l'État* (French government shareholding agency)

BdF: Banque de France

BPI: *Banque Publique d'Investissement* (French public investment bank)

CEEE: *Companhia Estadual de Energia Elétrica* (public electricity utility, Brazil)

CERISE: French non-profit dedicated to responsible and ethical finance

CGEFI: *Contrôle général économique et financier* (French state economic and financial oversight body)

CICID: Interministerial Committee for international cooperation and development

DGFIP: *Direction Générale des Finances publiques* (Public Finances Directorate General)

EFT: Economic and financial transition

FTE: Full-time equivalent

FINDEX: Global Financial Inclusion Database, World Bank

FONAFE: *Fondo Nacional de Financiamiento de la Actividad Empresarial* (National Fund for the Financing of the Public Sector Companies)

GDP: Gross domestic product

GHG: Greenhouse gas

HDI: Human Development Index

IDFC: International Development Finance Club

IFA: *Institut Français des Administrateurs* (French institute of corporate directors)

ILO: International Labour Organization

ISO: International Organization for Standardization

ML-FT: Money laundering and financing of terrorism

MSME: Micro, small and medium-sized enterprises

NGO: Non-governmental organisation

OCN: Three Oceans department, AFD

OECD: Organisation for Economic Cooperation and Development

ONEA: National Office for Water and Sanitation, Burkina-Faso

ORE: Near and Middle East, Asia department, AFD

PPP: Public-private partnership

SDG: Sustainable Development Goal

SME: Small and medium-sized enterprises

SPTF: Social Performance Task Force

What is AFD?

Agence Française de Développement (AFD) Group is a public financial institution that finances, supports and accelerates transitions towards a more just and sustainable world. As a French overseas aid platform for sustainable development and investment, we and our partners create shared solutions, with and for the people of the global South.

Our teams are active in more than 4,000 projects in the field - in the French overseas departments and some 115 countries. They strive to promote health, education and gender equality, and are working to protect our common resources — peace, biodiversity and a stable climate. It's our way of contributing to the commitment France and the French people have made to achieve the Sustainable Development Goals. Towards a world in common.

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