




Financial Systems

ACTIVITY REPORT

2022



Financial systems play a central role in development trajectories. When financial activities are disrupted by underlying weaknesses, crises can result, with devastating effects. Conversely, when the financial system takes action to finance the Sustainable Development Goals (SDGs), it can have a decisive effect on development. This is why financial actors must take action to support sustainable low-carbon investments in both the North and the South in accordance with the goals of the 2030 Agenda and Paris Agreement.

The year 2022 was marked by a highly volatile international environment. Inflation, interest rate hikes, rising commodity and food prices and security issues all reaffirmed **the central role played by financial systems in financing the economies of countries**, and of Central Banks and Public Development Banks in particular.

To address these issues, AFD Group provides financing to improve the regulation of financial activities, assist financial players in their transitions (including green and digital transitions), and facilitate access to appropriate financial services.

AFD Group's Financial Systems strategy

In 2018, AFD Group adopted a dedicated strategy to contribute to building inclusive, sustainable and responsible financial systems.



AFD Group supports local financial systems through three objectives:

1

Access



Promote widespread access to financial services tailored to the needs of people and companies:

- Serve people excluded from financial systems
- Support financing for micro, small and medium-sized enterprises

2

Transition



Help build a new sustainable finance model playing a key role in economic, social and environmental transitions:

- Combine tailored financial support and technical assistance to change financing practices
- Structure a specific approach for the community of Public Development Banks

3

Consolidation



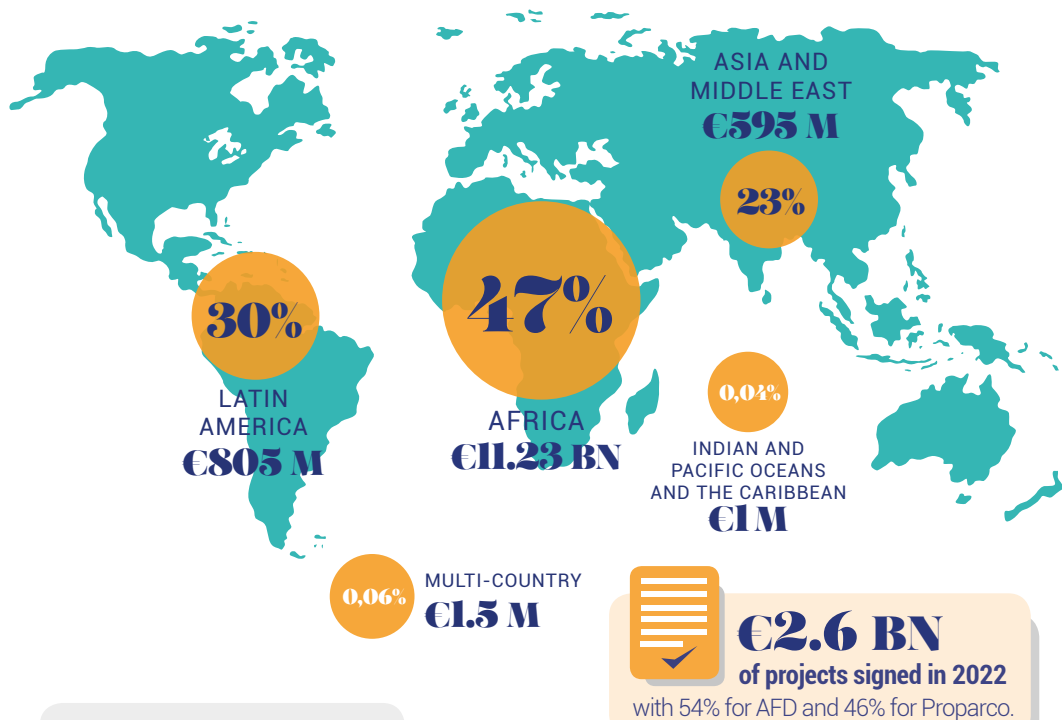
Consolidate financial systems to ensure their stability:

- Establish a structured operational approach to strengthen the regulation of financial systems
- Help develop new financing vehicles and new tools

Our activity to support financial systems in 2022

Regional breakdown

of projects signed by AFD and Proparco in foreign countries in 2022



Expected results

The financing signed by Proparco in 2022 will achieve the following results:



765,000

direct and indirect jobs will be created or supported



909,00

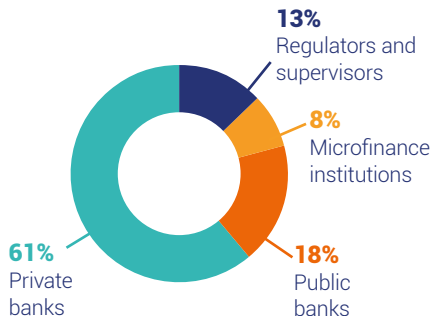
people will have access to an essential good or service



17%

of the financing will contribute to the achievement of the objectives of the 2X Challenge

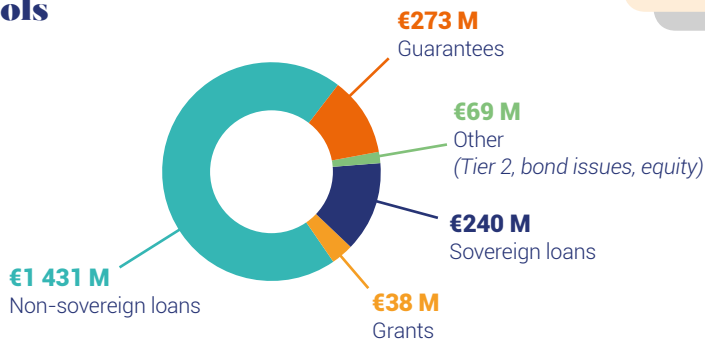
Our beneficiaries



**€2.1
BN**

**committed
by AFD Group**
in the sector
in 2022

Our tools



- Grants from the French State: €32 M
- Delegated funds: €6 M

Expected results

The financing committed by AFD in 2022 will achieve the following results:



€0.7 BN

will benefit local financial systems in our countries of operation, including €24 M for the microfinance sector



74

financial institutions will receive AFD financing



425,500

teq CO₂ will be avoided per year



61,850

direct jobs will be supported



€1 BN

of investments will be made

Our contribution to the Sustainable Development Goals (SDGs)

The 2022 Finance in Common Summit (FiCS) and COP27 reaffirmed the extent to which financial systems, Public Development Banks and financial regulators are able to mobilize and act as a driving force for the implementation of the Sustainable Development Goals and the Paris Agreement.

AFD Group structures its operations around:



Helping banks

more effectively target the SDGs through their investments



Strengthening the regulation and supervision of financial activities

to help increase the resilience of financial systems, improve financial inclusion, and support low-carbon and resilient trajectories in our countries of operation.

Contribution of new projects financed in 2022 to the SDGs:



49% of Group commitments have a climate co-benefit (i.e. 71% for AFD's commitments and 39% Proparco)



34% of Group commitments have a positive impact on gender equality (i.e. 70% of AFD's commitments)



99% of Group commitments have a positive impact on economic growth



71% of Group commitments have a positive impact on financial mobilization



98% of AFD's commitments have a positive impact on the governance of financial institutions



39% of AFD's commitments have a positive impact on the reduction of inequalities

Examples of new projects financed

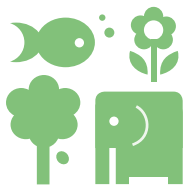


India

Annapurna Finance:

Developing financial inclusion for women

Proparco has contributed \$15 million to a fundraising for Annapurna Finance, one of India's main microfinance institutions. Annapurna operates nationwide and supports 2.3 million clients, 99% of whom are women. Over the next five years, **the project will help maintain around 190,000 indirect jobs and 1,185 direct jobs.** It will contribute to the creation of more than 600 jobs and to increasing access to financial services for more than 200,000 entrepreneurs.



Bangladesh

BEST Program: Supporting the green transition through the deployment of a guarantee fund

To support the green transition and curb pollution in the country, the Government is setting up an environmental sustainability transformation project co-financed by the World Bank (lead donor) and AFD. The €40 million provided by AFD will finance **the creation of a guarantee fund by the Central Bank to support green investments.**



Djibouti

PAREFID: Supporting the reform of the banking and financial sector to develop the productive sector

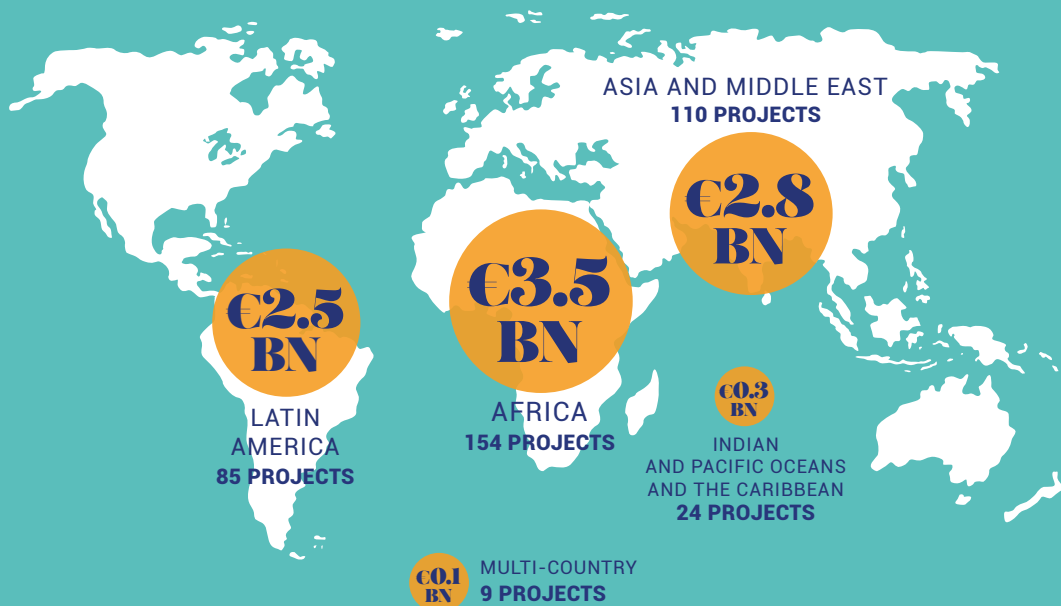
AFD is assisting the Government and Central Bank with their efforts to reform the banking and financial sector through an €8 million grant. This project will improve financial inclusion, develop a more inclusive, resilient and diversified economy, and transform the governance practices of financial systems.

Expected impacts: modernization of the legal and regulatory framework and alignment with international good practices, strengthening of the architecture of the financial system and a reduction of systemic risk factors.

Projects being implemented

Financial Systems activity also involves the management of a portfolio of projects being implemented, which accounts for almost 20% of AFD Group's total outstanding commitments. The teams work on the implementation of projects and the supervision of contracts for capacity building for actors and their ecosystems. The objective is to contribute to dialogue and help improve the governance of the sector.

Breakdown by region



382
projects being
implemented
(excl. study funds)
as at 31 December 2022



Financing
portfolio:
€9.2 BN
(€2 BN disbursed in 2022)

Results achieved

In 2022, the AFD projects under implementation have enabled:



Around **200** financial institutions to receive AFD financing



€14 billion of investments.



Supporting SME financing with the ECOWAS Bank for Investment and Development (EBID)

In a context of post-Covid recovery, AFD is assisting the EBID with SME financing and is thereby contributing to the sustainable economic development of the subregion.

Impacts: The credit line has helped maintain around 2,700 jobs through the support to 3 financial institutions in the subregion. This support from AFD has also improved the electricity grid in Côte d'Ivoire, providing connections for nearly 1.1 million people and improving the quality of the electricity service for nearly 5 million people.

Non-sovereign loan: €50 M

Grant: €0.4 M



Strengthening the agricultural bank FIRA and financing value chains in socio-economically marginalized areas

In Mexico, through its support to the second-tier agricultural bank FIRA, AFD has financed agricultural value chains, as well as smallholder farmers in socio-economically marginalized areas. Through its targeted financing and a technical cooperation program, the project is helping the agriculture sector increase its resilience to climate change and reduce economic and gender inequalities.

Impacts: The project has already financed more than 480 projects benefiting around 11,300 borrowers, for a total amount of \$30 million.

Loan: \$100 M

Grant: €1 M

Knowledge production



A new tool that contributes to geographical intelligence

In 2022, AFD developed and tested a **sectoral analysis tool for the financial sector**. This tool provides the project teams with a better understanding of the major issues in a given geographical area and assists the prospection and identification of projects. The tool also serves a strategic approach and supports the process for the consideration and long-term positioning of AFD's offices all over the world. A pilot analysis was

conducted of Costa Rica in 2022. This first pilot operation, jointly developed with the local office, analyzes the strengths and weaknesses of Costa Rica's financial system, identifies the main ongoing reforms, and proposes several possible lines of action for AFD in the medium term.

This pilot phase will be expanded with three or four new sectoral analyses in countries with varied profiles.

Capitalizing on our instruments that support the transformation of actors



To address the new challenges involved in transforming financial systems and to support changes in the demands of its counterparts, AFD has launched a capitalization process on the instruments that support the transformation of actors (line dedicated to a project portfolio and matrix line conditioning disbursements on the achievement of indicators). This work

has clarified the approaches according to needs, defined the implementation conditions and identified good practices. The transformational operations planned in 2023 will contribute to this capitalization, which will **increase our capacity to assist banks on their path towards the Sustainable Development Goals (SDGs)**.

Partnerships for greater impact on the ground

SPTF + Cerise



With SPTF and Cerise, AFD is promoting the development of responsible public policies to protect and give a voice to clients of financial services. **AFD is playing a pioneering role in the field of responsible finance by getting all the actors in the sector, including regulators, to apply common standards for social responsibility and the effective protection of vulnerable clients and develop ways to support client empowerment.** The assistance to regulators in the implementation of universal standards and the establishment of market infrastructure to promote transparency are activities that structure the entire financial inclusion sector.

ADFI



AFD co-founded the ADFI fund with the African Development Bank (AfDB), the Bill & Melinda Gates Foundation and the Government of Luxembourg. The purpose of this trust fund administered by the AfDB is to support digital financial inclusion in Africa through the large-scale financing of projects for digital financial services led by central banks, regulators, companies and financial institutions (with grants or loans).

In view of the potential of digital technology for the financial inclusion of women, along with the risk of further exclusion due to the unequal access to digital resources between men and women, it is crucial to ensure that equality issues are the focal point in the selection of the fund's projects.

The objective is for 60% of projects to have the promotion of gender equality as one of the main objectives. The goal is for the promotion of gender equality to be one of the main aims of 60% of projects.

2X Challenge



Since 2018, Proparco has been participating in the 2X Challenge, which today stands as a reference among Development Finance Institutions. The objective of the 2X Challenge community is to help reduce gender inequality. **In 2022, it continued its efforts to promote the widespread adoption of harmonized standards for mainstreaming gender issues.** Since 1 January 2023, the 2X Challenge has been a member of 2X Global, a network of actors mobilized for gender equality.

Towards a world in common

AFD Group contributes to the implementation of France's policies for sustainable development and international solidarity. The Group includes Agence Française de Développement (AFD), which finances the public sector, NGOs, research and training; its subsidiary Proparco, which is dedicated to the private sector; and Expertise France, a technical cooperation agency. The Group finances, supports and accelerates the transitions needed for a fairer, more resilient world.

With our partners, we are building shared solutions with and for the people in more than 150 countries, as well as in 11 French Overseas Departments and Territories. As part of the commitment of France and the French people to achieving the Sustainable Development Goals (SDGs), our teams are at work on 4,200 projects in the field. Our objective is to reconcile economic development with the preservation of common goods, from peace, the climate and biodiversity to health, education and gender equality.



www.afd.fr/en - Twitter: @AFD_en - Facebook: AFDOfficiel

5, rue Roland-Barthes - 75598 Paris cedex 12 - France

Tel: +33 1 53 44 31 31