

CORPORATE SOCIAL RESPONSIBILITY 2016

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Rémy Rioux,
Chief Executive Officer of AFD and Chairman of PROPARCO

1.

FOREWORD

2016 was the year of AFD's 75th anniversary and marked a new stage in the life of the Group. The Interministerial Committee for International Cooperation and Development (CICID) meeting of November 30th marked the Government's renewed confidence and confirmed the growth targets set for the Group. The signing of the strategic alliance with Caisse des Dépôts et Consignations was a highlight for the Group. 2016 was also a record year for the recapitalized AFD Group and commitment approvals reached EUR 9.4bn, a first step towards the objective of EUR 13bn a year by 2020.

The aim of this dynamic and ambitious path is to contribute to achieving the Sustainable Development Goals, by supporting major

transitions in developing countries and the French overseas territories: energy and ecological transition, territorial transition, demographic transition, digital transition, political and citizen-based transition. AFD Group has set out to make major changes to allow it to meet these new ambitions, while underscoring its commitments to Africa, the climate and gender.

In this context, the Corporate Social Responsibility policy, which is now firmly rooted in AFD Group, is a core component of its identity. This process was constantly developed in 2016.

An example of the most significant progress: in 2016, AFD finalized the preparation of its Environmental and Social Complaints Mechanism, which it was consequently able to launch in early 2017. This mechanism, which allows people affected from an environmental or social perspective by an AFD-funded project to submit a complaint, responds to strong demand from civil society and allows AFD to comply with the best practices of international donors.

To increase their openness and accountability towards their partners and the public, AFD and PROPARCO have also strengthened their approach to transparency and the publication of information on their respective websites. In January 2016, AFD launched its Opendata website and has gradually extended the scope of the publication of its data to all its countries and territories of operation. In addition, the State has entrusted AFD with

the mandate of representing France at the International Aid Transparency Initiative (IATI), of which it became a member in 2016 in the context of its contribution to the French Action Plan for the Open Government Partnership (OGP).

AFD Group has also continued to strengthen its approach to integrate sustainable development into the operations it finances. In 2016, AFD continued its reflection on how to strengthen its various risk management mechanisms and scale up sustainable development impacts. The evaluations of the "Sustainable Development Analysis and Opinion" mechanism confirmed the interest of this mechanism, with a view to developing it in the coming years. The evaluation of the Environmental and Social Management Plans and Resettlement Action Plans will allow AFD's environmental and social risk management policy to be developed.

PROPARCO, for its part, has adopted a new strategy, which places strong emphasis on development impacts and support for clients to improve their environmental, social and governance performance.

At the same time, AFD Group is continuing its action for the climate and the fight against gender inequalities.

In 2016, over half of the Group's projects had gender as the main or secondary objective. Today, I want to take this commitment further: it is for this reason that during AFD's 75th anniversary, I launched a think tank on how to integrate gender into the main thrusts of the Group's next strategy.

We have scaled up our commitment to the fight against climate change. In 2016, the Group earmarked over EUR 3.5bn of financing for the climate, including EUR 2.8bn for the reduction of greenhouse gas emissions and EUR 600m for adaptation. In December, PROPARCO joined AFD as one of the institutions accredited for the implementation of financing from the Green Climate Fund.

2016 was also marked by major headway with in-house responsibility.

In terms of social progress, this year saw the creation and appointment of "social dialogue" correspondents in agencies in countries which were not covered by staff representative bodies, bringing the representation rate for local staff to 92%. The increase in the headcount has been combined with the creation of a recruitment unit and a restructuring of the system to welcome, train and integrate new employees and, finally, the training system has been strengthened.

In the field of in-house environmental responsibility – an issue of coherence which the Group's employees are increasingly concerned about – a responsible waste management system was set up at headquarters in early 2016 and awareness-raising actions were continued.

Finally, the evaluation of the Group's Corporate Social Responsibility policy, which was conducted in 2016, showed we had taken the right measures. It confirmed the relevance of its approach and that it is positively viewed by stakeholders. This process has laid the groundwork for the ongoing preparation of a new policy, which will support AFD Group's strategic plan for 2020 and its development in terms of the volumes and quality of operations, the integration of new skills, and the increase in the headcount.

Indeed, in this context of transformation, constant vigilance will be required over the management of environmental and social risks, to ensure that the sharp increase in financial commitments is not detrimental to the quality of our operations, or to their impact in terms of sustainable development. Particular attention will also need to be paid to supporting changes in the institution, in the context of the rapid integration of new employees.

These are the main challenges ahead of AFD Group on the eve of its transformation. To gear up for this, the Group will strengthen and update its strategic corpus: the adoption of a new policy for transparency and stakeholder dialogue, the launch of PROPARCO's Environmental and Social Complaints Mechanism, the strengthening of PROPARCO's support for clients and the updating of AFD's environmental and social risk management policy will be important milestones in the coming months in this

respect. Other key measures will be adopted during the year, such as the implementation of an anti-corruption and influence peddling program, which will comprise a professional whistleblowing mechanism, in accordance with the Sapin II Act. Finally, the Group will continue to strengthen its in-house environmental and social procedures. Efforts to reduce direct emissions will be continued. Particular attention will be paid to improving the quality of working conditions, to ensure that each employee can continue to work in a fulfilling and meaningful professional environment.

At this historical turning point in the life of the Group, the Corporate Social Responsibility approach is more essential than ever: it ensures the continued quality of our projects and the consistency of our action with the missions we uphold, and should give AFD Group the means to live up to, and continue to live up to, its commitment and its values.



2016 marked the start of a new stage for growth and transformation for AFD Group. The Corporate Social Responsibility approach is essential for it to live up to its commitments and values.

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G4-4

G4-5

G4-6

G4-7

G4-8

G4-9

G4-13

2.

ABOUT US

Agence Française de Développement (AFD) is a public development finance institution that has been implementing France's development assistance policy for over 75 years. It is a public industrial and commercial institution (EPIC), with the status of specialized financial institution. Its action fits in with the Orientation and Programming Law on Development and International Solidarity Policy (LOPDSI) of July 7th 2014. These orientations are set out in the 3-year Contracts of Objectives and Means between the Government and AFD.

PROPARCO, AFD's private sector financing arm, has been working for development in countries in the South for nearly 40 years. In addition to financing, PROPARCO's role is also to promote the emergence of responsible economic and financial actors in developing and emerging countries, and help its clients improve their environmental, social and governance performance.

AFD Group finances and supports development projects and programs (public and private) in a hundred or so developing countries and in the French overseas territories. To carry out its mandate, it has over 2,000 officers¹ based in Paris and Marseille and in a network of 85 agencies.

2.1 OUR MANDATE

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To face the challenges of a world where there has been a sharp increase in inequalities, despite the decline in extreme poverty, and where there are greater interdependencies, AFD Group's role is to promote more resilient and low-carbon growth and development models that are better able to meet the economic and social aspirations of the people on this planet. Its action to support sustainable development, combat climate change, reduce inequalities and vulnerabilities, and provide a response to crises aims to contribute to building a safer, fairer and more sustainable world, "a common world", as AFD's new motto says.

Consequently, AFD Group's ambition is to **transform** economic development into social progress for all, by improving living conditions in the poorest regions and countries, **mainstream** the environment into growth models, and **develop** territories harmoniously.

To achieve this, AFD Group's action is fully in line with the Sustainable Development Goals (SDGs) and aims to successfully complete five major transitions:

→ **Energy and ecological transition;**

→ **Territorial transition;**

→ **Demographic transition;**

→ **Digital transition;**

→ **Political and citizen-based transition.**

This approach to development promoted by AFD Group is combined with the need to work in partnership with all development actors, and take into account the diversity and specificity of the needs and expectations of countries and actors.

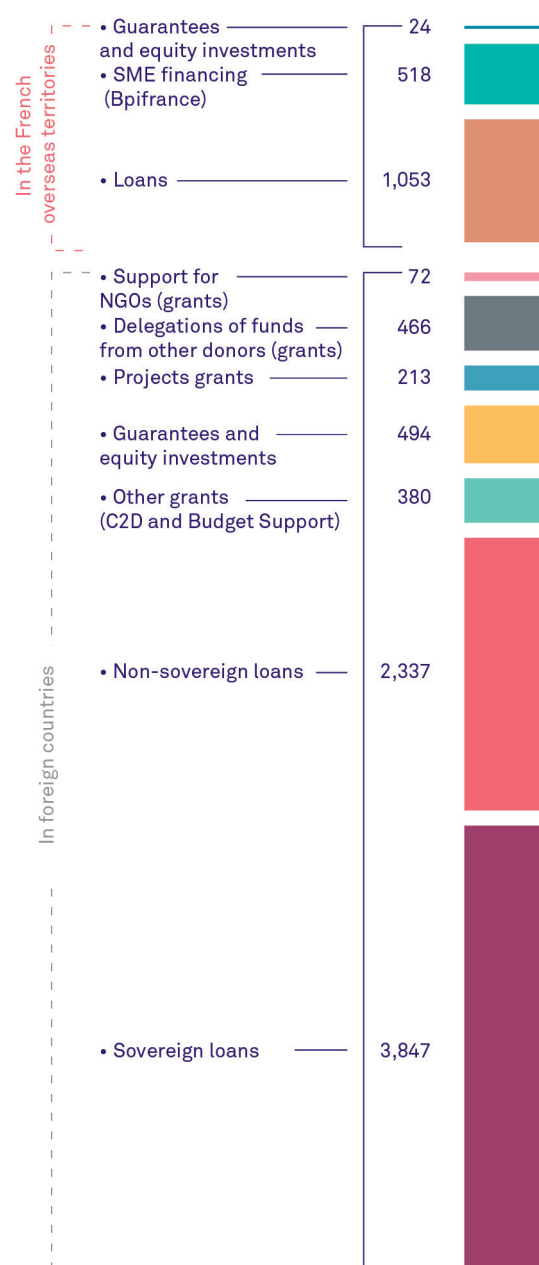
In this context, AFD participates in the definition of public policies to define development trajectories, and contributes to international debates, sharing know-how and expertise, and to the dialogue with the relevant actors.

Knowledge production is consequently a fully-fledged activity at AFD. It aims to put forward development solutions to allow informed choices and guide practices towards sustainable development, thereby contributing to differentiating its range of activities from other donors.

AFD's studies and research production activities are based on three key areas that contribute to the CSR approach: Governance and Commons, Transitions towards

Carbon-free Societies, and Strengthening Social Ties. This research is essential in order to (i) give a better understanding of the institutional, economic, social and environmental dynamics and contexts in the countries of operation; (ii) feed into AFD's strategic research; (iii) contribute to the international debate and France's position on sustainable development issues; (iv) and, finally, coordinate the public policy dialogue between researchers, decision-makers, civil society and national and international partners.

Financial tools mobilized in 2016 (EUR M)



Over EUR 9bn of financing committed (AFD Group)

¹ Including officers working for the Instituts d'Emission (France's note-issuing banks for the overseas territories) in Paris and in the French overseas territories.

PROPARCO, AFD's subsidiary, contributes to the Group's mission by promoting private investments in developing countries, given that the private sector is an effective driver for achieving the Sustainable Development Goals.

In line with its strategy, PROPARCO's aim is to assist private actors in achieving low-carbon, environmentally friendly growth that benefits everyone, by creating jobs and providing access to essential goods and services (health, education, housing), and disseminating environmental and social good practices.

AFD also handles the management of the French Facility for Global Environment (FFEM), which cofinances projects that reconcile environment and development.

Focus Mandate extended to governance

Governance was integrated into AFD's mandate on January 1st 2016. The transfer covers the following thematic areas: public finance management, public sector reform, decentralization

and territorial governance, justice and human rights, land governance, the fight against corruption, steering the economy, market regulation.

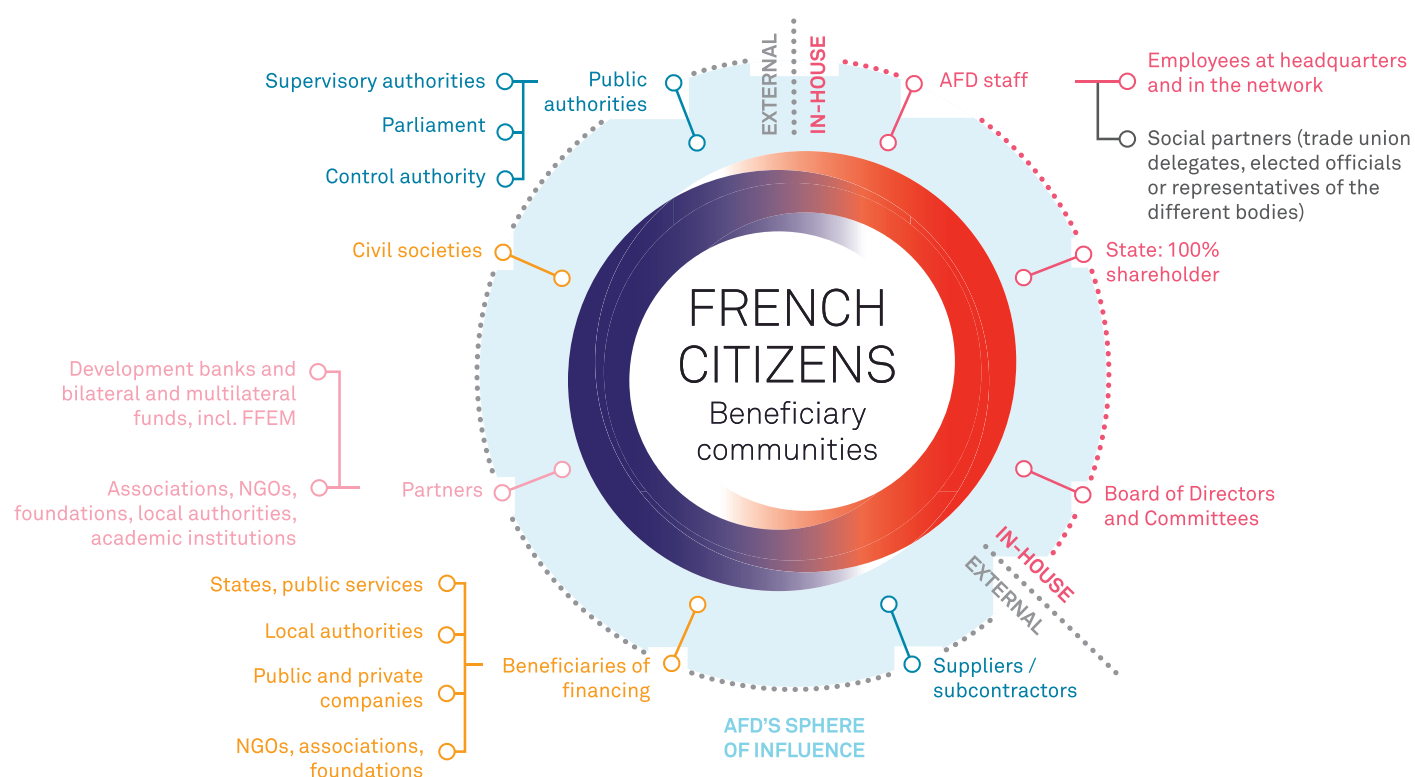
This integration is consistent with the holistic approach of the Sustainable Development Goals. The transfer of this competence led to AFD taking over nine projects from the Priority Solidarity Fund (PSF) in 2016, transferred by the French Ministry for Europe and Foreign Affairs (MEAE) (Cameroon, Comoros, DRC, Guinea, Mali, Mauritania, Senegal and Tunisia), and the integration of several international technical experts (ITEs).

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2.2 OUR STAKEHOLDERS

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Mapping of AFD Group Stakeholders

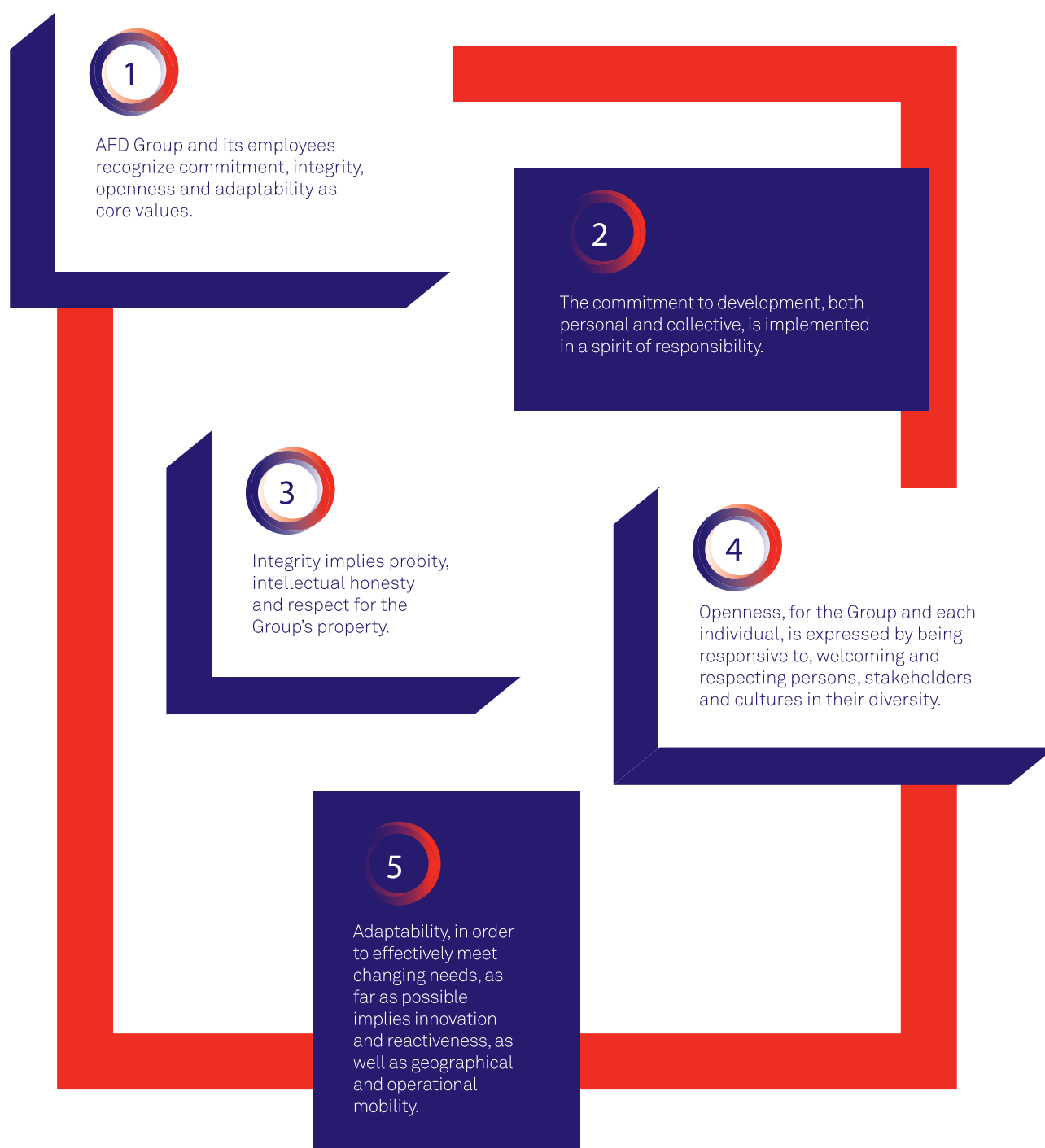


2.3 OUR VALUES

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G4-57

Due to its public mandate, which it mainly carries out at international level, the origin of the resources used to finance projects and its commitment to development, AFD Group and all its staff members are required to constantly be up to the task in their daily actions. AFD Group has a Professional Ethics Charter for this purpose, which defines the references for the values and conduct that guide its action and that of its employees.



2.4 AN INTERNATIONAL PRESENCE

Countries and areas of intervention of AFD

AFD operated in 108 countries and territories in 2016.¹ PROPARCO operates in over 70 developing and emerging countries.

AFD Group has a network of 85 agencies and representation offices around the world.²



Agency or representation office



Asia and Pacific



Africa



Near and Middle East



Latin America and the Caribbean



French overseas territories



ASIA AND PACIFIC



AFGHANISTAN
Kaboul



BANGLADESH
Dacca



BURMA
Rangoun



CAMBODIA
Phnom Penh



CHINA
Beijing



INDIA
New Delhi



INDONESIA
Jakarta



LAOS
Vientiane



PAKISTAN
Islamabad



PHILIPPINES
Manila



SRI LANKA
Colombo



THAILAND
Bangkok



UZBEKISTAN
Tashkent



VIETNAM
Hanoi
Ho Chi Minh City

AFRICA



ALGERIA
Alger



BENIN
Cotonou



BURKINA FASO
Ouagadougou



BURUNDI
Bujumbura



CAMEROON
Yaoundé
Douala (PROPARCO)



CENTRAL AFRICAN
REPUBLIC
Bangui



CHAD
N'Djaména



COMOROS
Moroni



CONGO
(DEMOCRATIC REP. OF)
Kinshasa



CONGO
Brazzaville



CÔTE D'IVOIRE
Abidjan



DJIBOUTI
Djibouti



EGYPT
Cairo



ETHIOPIA
Addis Abeba



GABON
Libreville



GHANA
Accra



GUINEA
Conakry



KENYA
Nairobi



MADAGASCAR
Antananarivo



MALI
Bamako



MAURITANIA
Nouakchott



MAURITIUS
Port Louis



MOROCCO
Rabat
Casablanca (PROPARCO)



MOZAMBIQUE
Maputo



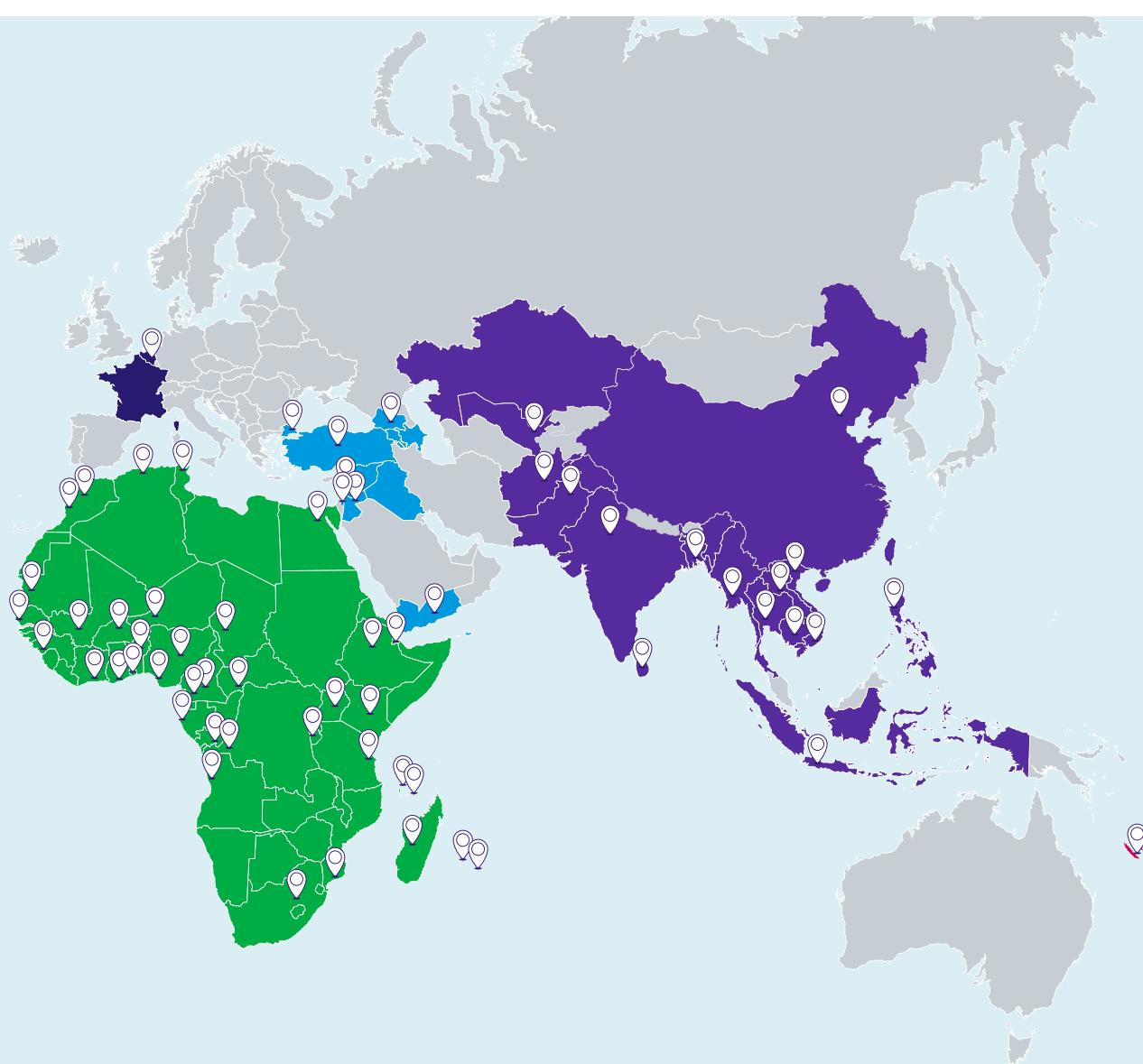
NIGER
Niamey



NIGERIA
Abuja
Lagos (PROPARCO)



SENEGAL
Dakar



📍 **SOUTH AFRICA**
Johannesbourg

📍 **TANZANIA**
Dar es Salaam

📍 **TOGO**
Lomé

📍 **TUNISIA**
Tunis

📍 **UGANDA**
Kampala

NEAR AND MIDDLE EAST

📍 **GEORGIA**
Tbilisi

📍 **JORDAN**
Amman

📍 **LEBANON**
Beirut

📍 **PALESTINIAN TERRITORIES**
East Jerusalem

📍 **TURKEY**
Istanbul
Ankara

📍 **YEMEN**
Sanaa
(temporary closure)

LATIN AMERICA AND THE CARIBBEAN

📍 **BOLIVIA**
La Paz

📍 **BRAZIL**
Brasília
São Paulo (PROPARCO)

📍 **COLOMBIA**
Bogotá

📍 **CUBA**
Havana

📍 **DOMINICAN REPUBLIC**
Santo Domingo

📍 **ECUADOR**
Quito

📍 **HAITI**
Port-au-Prince

📍 **MEXICO**
Mexico City

📍 **PERU**
Lima

📍 **SURINAME**
Paramaribo

IN THE FRENCH OVERSEAS TERRITORIES

📍 **FRENCH GUIANA**
Cayenne

📍 **FRENCH POLYNESIA**
Papeete

📍 **GUADELOUPE**
Pointe-à-Pitre

📍 **MARTINIQUE**
Fort-de-France

📍 **MAYOTTE**
Mamoudzou

📍 **NEW CALEDONIA**
Nouméa

📍 **RÉUNION**
Saint-Denis

📍 **SAINT-PIERRE-ET-MIQUELON**
Saint-Pierre (IEDOM)

📍 **WALLIS-&-FUTUNA**
Mata-Utu

WITH EUROPEAN INSTITUTIONS

📍 **BELGIUM**
Brussels

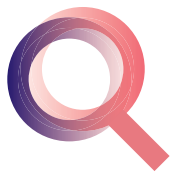
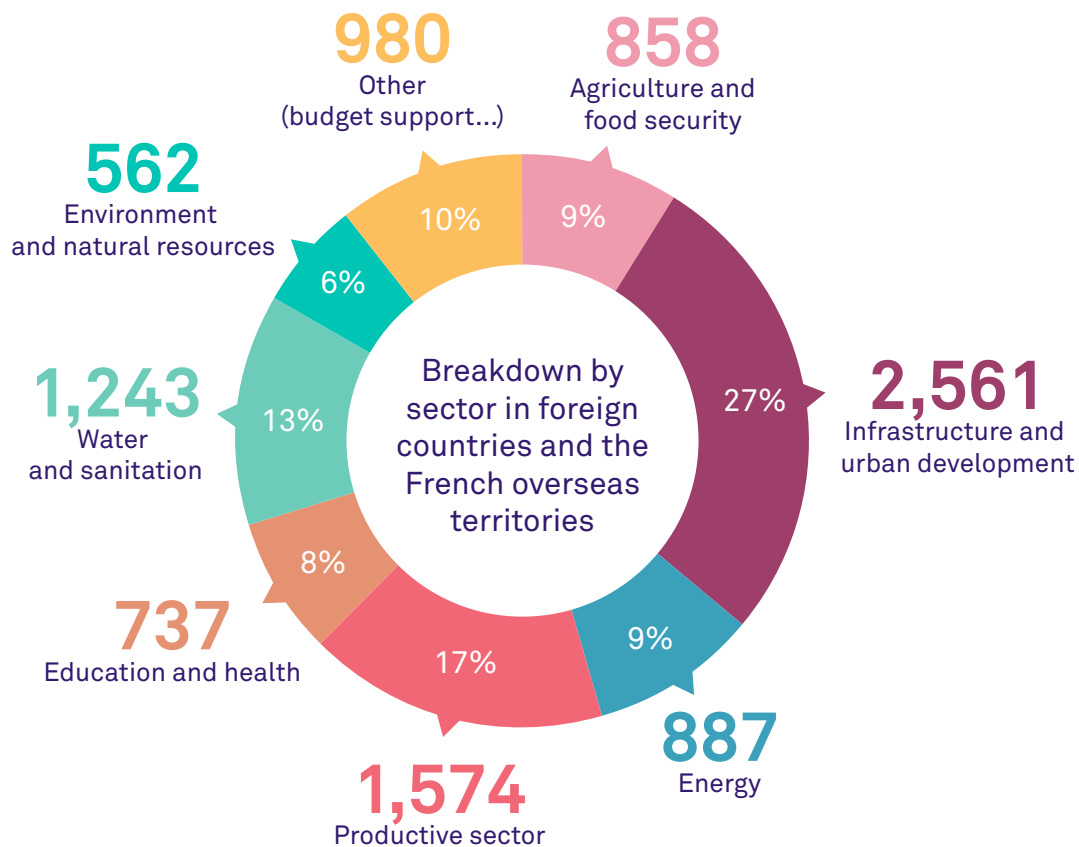
¹ This indicator was controlled by KPMG during its Management Report audit.

² The contact details of all the agencies and offices and information about their activities in the field are available on the websites: www.afd.fr and www.proparco.fr.

Activities in countries where there is no AFD representation are followed by the agency of a neighbouring country or directly from headquarters.

2.5 OUR ACTIVITY

2.5.1 Sectors financed in 2016 Scope: Group



Focus AFD's action for rural territories and food security

Scope: AFD

In 2016, AFD committed EUR 603m for family smallholdings, agricultural sectors, sustainable development in rural areas and food security in Sub-Saharan Africa,³ i.e. 21.6% of its total financing in this region.

Finally, 24 projects financed in 2016 have a nutritional objective, for a total commitment amount of EUR 275m. EUR 12m of grants (209 Program, excluding NGO grants) were allocated to the health, social protection and nutrition sector.

2.5.2 Financing by geographical area (EUR M)

Scope: Group

AFD Group financing approvals (EUR M)	Overseas France	Non-geographical and one-off projects	Latin America and Caribbean	Asia and Pacific	Mediterranean and Middle East	Sub-Saharan Africa
2013	1,506	81	1,193	1,209	838	3,002
2014	1,548	72	1,226	1,229	1,059	2,945
2015	1,570	38	998	1,397	1,190	3,123
2016	1,594	417	1,375	1,367	1,446	3,203

The report on the data concerning AFD's activities is available at:
<https://www.afd.fr/media/download/4083>

AFD Group disbursements (EUR M)	Overseas France ⁴	Non-geographical and one-off projects	Latin America and Caribbean	Asia and Pacific	Mediterranean and Middle East	Sub-Saharan Africa
2013	608	10	809	430	840	1,484
2014	692	42	927	615	824	2,023
2015	1,002	62	1,313	633	639	1,879
2016	930	77	986	710	1,140	1,853

Focus

The Priority Poor Countries for French aid

Scope: Group

In 2016, AFD Group's financing approvals in Priority Poor Countries⁵ reached EUR 1bn⁶ (+32%), i.e. 13% of the Group's activity in foreign countries. Grant activity (grants, GBS, C2D, excluding delegated funds) stood at EUR 265m, i.e. 24% of AFD financing for Priority Poor Countries in 2016.

In these countries, 9% of AFD's financing approvals in 2016 (i.e. EUR 86m) benefited social sectors (education and health).

AFD focused the bulk of its grant resources on supporting health, social protection and nutrition.

³ These actions include the improvement of access (tracks and rural energy), basic social services (water, health, education) and financial services (rural microfinance, agricultural credit) and support for companies (microenterprises, SMEs, industries) which process agricultural products, as well as the protection of the natural capital.

⁴ Excluding BPI France's activity.

⁵ The CICID (Interministerial Committee for International Cooperation and Development) meeting of July 31st 2013 revised the list of Priority Poor Countries (PPCs) established by the CICID in June 2009. The list of PPCs includes the 16 following countries: Benin, Burkina Faso, Burundi, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Djibouti, Ghana, Guinea Conakry, Madagascar, Mali, Mauritania, Niger, Senegal and Togo.

The list of countries updated by the CICID meeting of November 30th 2016 will be effective as of January 1st 2017.

⁶ Including EUR 941m for AFD.

3.

AN ORGANIZATION COMMITTED TO SUSTAINABLE DEVELOPMENT

AFD Group is committed to adopting best practices in its activities. The main principles are: the implementation of the principles of aid effectiveness, the dialogue and work in partnership with development actors, the monitoring and evaluation of the results of its development action, the application of controls to prevent corruption, fraud, money laundering and terrorist financing, and the integration of Corporate Social Responsibility into both the projects it finances and its in-house operations.

3.1 2016 HIGHLIGHTS



CORPORATE SOCIAL RESPONSIBILITY APPROACH

AFD Group's Corporate Social Responsibility policy for 2014-2016 has reached the end of its implementation period and was subject to an independent evaluation in the second half of 2016.



ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT

The creation of a "Monitoring Committee" in 2016 to conduct an overall monitoring of the higher-risk projects has strengthened the implementation monitoring of compliance with E&S commitments.



RESPONSIBLE MANAGEMENT OF INCREASED HEADCOUNT

In 2016, the Group made 255 recruitments on permanent contracts and has a recruitment target of 800 people by 2020. A recruitment unit has been set up. The system to welcome, train and integrate new staff members has been adapted: the integration process has been completely overhauled and an innovative "onboarding" system, designed as a progressive pathway, has been implemented.



TRANSPARENCY

In 2017, AFD has joined the International Aid Transparency Initiative (IATI) on behalf of France. AFD has extended the scope of the project data published, which currently covers 73% of sovereign financing above EUR 100K under implementation in all its countries of operation.[†]



ENVIRONMENTAL AND SOCIAL COMPLAINTS MECHANISM

The Environmental and Social Complaints Mechanism launched in early 2017 allows any person or group of persons affected by an AFD-funded project to submit a complaint, which will be subsequently handled by a panel of independent experts.



TRAINING FOR SKILLS DEVELOPMENT

In 2016, 4.36% of the gross payroll was devoted to training, with substantial resources earmarked for learning or building skills on the fundamentals of development, as well as in the fields of banking and financing. 81% of officers received training during the year.



CLIMATE

AFD has been accredited to manage financing delegated by the Green Climate Fund (GCF) since July 2015. In September 2016, AFD obtained its first GCF financing for EUR 15m, which aims to support a program for flood risk prevention in urban areas in Senegal supported by AFD.



QUALITY OF WORKING LIFE

A cross-functional committee for well-being at work has been set up, including the Human Resources Department, Senior Management and staff representative bodies, and an agreement has been made on teleworking.

[†] This indicator was controlled by KPMG during the Management Report audit.

3.2 NORMS AND STANDARDS

By becoming a member of the Global Compact in January 2004, AFD Group selected the main declarations, conventions and standards for equitable and responsible development as the **reference framework** for its action:

- The United Nations Universal Declaration of Human Rights;
- The International Labour Organization's Fundamental Conventions;
- The World Bank Group standards and IFC performance standards for PROPARCO;
- The three "Rio" Conventions (fight against climate change, fight against desertification and biodiversity);
- The OECD Guidelines for Multinational Enterprises;
- The OECD and United Nations Conventions against corruption and the international anti-money laundering rules;
- The international ISO 26000 standard;
- The French law on the "New Economic Regulations" (NRE) and the Grenelle Environment Acts;
- The Environment Charter included in the French Constitution;
- The Paris, Accra and Busan declarations of the Global Partnership for Effective Development Co-operation;
- The 2030 Agenda for Sustainable Development of the United Nations and its 17 Sustainable Development Goals;
- The Paris Climate Agreement.



Focus The SDGs: new impetus for AFD Group

The 2030 Agenda for Sustainable Development has an unprecedented ambition for humanity. AFD Group is already contributing to the achievement of the Sustainable Development Goals (SDGs) in developing countries, and in French territories through its action in overseas France. The comprehensiveness of the 17 SDGs and the related targets cover the entire scope of the Group's action and strengthen sectoral approaches, including for new sectors such as governance. In addition, their integrated and indivisible nature strengthens cross-sectoral approaches, as the SDGs

must all be pursued in combination with one another and cannot *a priori* be subject to any kind of classification in terms of priorities.

Indeed, while AFD Group is working for each of the 17 SDGs at a sectoral level, the strength of its approach lies in the possibility of pursuing these objectives "jointly", through multisectoral operations, and of taking action on cross-cutting issues (climate, gender, sustainable cities...).

Consequently, AFD has adopted an original and dynamic interpretation of the SDGs, *via* its strategy for operations based on five main transitions: the energy and ecological transition, which is essential for the climate, the territorial transition, which concerns both cities and rural areas, the demographic transition, the digital transition and, finally, the political and citizen-based transition to respond to crises and build strong, transparent and inclusive

institutions. This internalization of the SDGs will be implemented in both the Group's strategies and its operations, accountability and communication. 2016 was also marked by new impetus for AFD. At the Interministerial Committee for International Cooperation and Development (CICID) meeting of November 30th 2016, the Government confirmed the growth objectives for the Group's activity set by the French President, and extended its mandate to new strategic and sectoral horizons.

This renewed confidence opens up a new stage for AFD, which adopted a new logo and motto to mark its 75th anniversary, reflecting the fundamentals of the Group's new strategic plan. Its new motto, "A Common World", expresses both the goal shared by the entire international community of sustainable development through the adoption of the SDGs, and the pressing need to take action to achieve the five transitions.

3.3 THE ETHICS MECHANISM

AFD Group's ethics mechanism was created in 2004 and is based on three pillars: a Charter, a Committee and an Advisor.

AFD Group's Professional Ethics Charter⁷ sets out the conduct required in the exercise of its mandate to support populations in foreign countries and the French overseas territories. This text is publicly available and is applicable on a daily basis to everyone working for the Group. AFD Group's suppliers and partners are also asked to read the Charter.

The Charter sets out the references which drive the action of the Group and its employees: a mandate, core values (commitment, openness, adaptability and integrity) and an ambition, which are implemented in accordance with laws and regulations. It outlines the main commitments in terms of compliance, Corporate Social Responsibility, the fight against money laundering, corruption and fraud, and cautions against risky conduct.

The Charter is similar to a "social contract" in which the employer sets ambitious objectives in terms of social relations, the environment, health and safety in the workplace. Employees, for their part, undertake to serve with high personal standards and according to the rules, respect people and their dignity, preserve their professional independence and confidentiality, and

consult without delay their line management, the Human Resources Department, Compliance Department and/or Ethics Advisor in the event of a problem, suspicion or doubt. Finally, managers undertake to actively mobilize their teams, listen to and encourage their team members, delegate and promote initiatives and talents. They apply the Group's strategy, its procedures and the Ethics Charter, with a special concern for exemplary conduct.

The Professional Ethics Committee was revamped in May 2017 on more representative and operational bases and comprises members appointed by Senior Management (a representative for PROPARCO and one for each of AFD's six executive departments), an elected representative from the Central Works Committee, the Ethics Advisor, and an external personality. It is chaired by Senior Management and gives opinions and advice on the proper application of the Ethics Charter and the Group's ethics processes (training, awareness-raising...). It examines the difficulties of applying or interpreting the Charter and publishes the relevant standards and recommendations. It proposes amendments or additions to the existing provisions of the Charter and, finally, it examines the difficulties or problems related to its application on a non-nominative basis.

The Ethics Advisor reports to Senior Management and ensures the Charter and the related documents are applied correctly, at headquarters and in the network, with support from the Professional Ethics Committee. He/she conducts training and awareness-raising actions and provides an individual listening and advice service to the Group's structures and officers at their request, respecting anonymity, in order to reply to questions over the "ethical" way of managing a given situation. Finally, the Ethics Advisor supervises AFD's Environmental and Social Complaints Mechanism, which was launched in May 2017.

⁷ <https://www.afd.fr/media/download/3864>

3.4 GOVERNANCE OF SUSTAINABLE DEVELOPMENT

Sustainable development issues benefit from cross-functional support in AFD Group and are largely taken on board by its staff. In addition, the Group is committed to translating these issues into its governance and mainstreaming them into its strategies and operations.

In this respect, the main orientations for sustainable development and Corporate Social Responsibility are defined by Senior Management, which also gives the impetus and decides on the resources. The Board of Directors, for its part, deliberates on these orientations and their integration into strategies and operations. The Executive Committee ensures they are implemented in each executive department. A progress report on the implementation of the action plan is submitted to the Board of Directors every year, as well

as to the Works Committee. Teams are responsible for cross-functional support for the implementation of operations, on subjects concerning the climate, gender, environmental and social risks, operations in crisis and conflict countries, economic influence, procurement, capacity building for partners, and sustainable development opinions. These teams, which are responsible for providing support to operational teams and counterparts on managing the environmental and social risk of operations, comprise sixteen people at AFD (against ten people in 2015) and twelve people at PROPARCO (against five in 2015). There is also a team at AFD responsible for the "Sustainable Development Opinion", comprising 5 people.

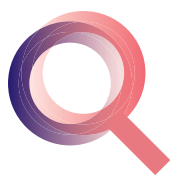
16

people at AFD and

12

people at PROPARCO

support the environmental and social risk management of operations. At AFD, an independent team gives a systematic sustainable development opinion.



Focus Mediation of working relations: a new dimension of AFD Group's in-house CSR

In January 2017, AFD Group adopted a mediation mechanism which can make people suffer and cause failings in structures. The mechanism tries to overcome these difficulties through recourse to a mediator, an unusual third-party as he/she has no decision-making power or advisory capacity on the solutions and no responsibility in the organization.

Catherine Garreta has been trained in mediation and has been appointed Group mediator in this context. Her role is to help prevent and manage both interpersonal and collective relational tensions and conflicts encountered in the workplace. She is independent of Senior Management and her work involves

applying the founding principles of mediation: responsibility and freedom of persons, confidentiality of exchanges, impartiality, neutrality and confidentiality. She can, in certain cases, call on external mediators. Anyone working at AFD, both at headquarters and in the network, can directly submit a complaint to her on a confidential basis. In this first year, particular emphasis is being placed on informing officers. The mediator can also be involved prior to tensions, to facilitate in-house dialogue and mutual understanding. This innovative approach has been subject to regular exchanges with social partners. An initial review is scheduled for January 2018.

3.5 CORPORATE SOCIAL RESPONSIBILITY APPROACH

AFD Group's Corporate Social Responsibility approach is formalized by a policy, which has been defined for 2014-2016 and was adopted by the Board of Directors on March 27th 2014. Through this policy, the Group underscores its aim of making sustainable development the objective of its action, *via* six commitments covering both the field of its operations and its in-house policy

3.5.1 Coordination of the approach

A team, which reports to the Strategy Management Division of the Strategy, Partnerships and Communication Department, coordinates the Corporate Social Responsibility approach for the entire AFD Group. It is supported by a network of in-house reference persons representing all Group structures responsible for implementing various actions.

In 2016, the network of CSR reference persons was closely involved in the independent evaluation of the Group's CSR Action Plan *via* a steering committee. Starting in June 2017, this network was mobilized for the definition of the new CSR policy for 2017-2020, *via* working groups extended to representatives of all departments, including agencies/offices.

Communication and awareness-raising actions for staff have been conducted by

the CSR team or by the thematic reference persons: presentation of the results of the evaluation to all staff members, various activities during European Sustainable Development Week...

This aim of sensitizing teams to Corporate Social Responsibility issues has also led to three indicators based on CSR criteria being integrated into the profit-sharing agreement for 2015-2017: the first on the publication of information about financing, the second on responsible printing, and the third on respecting time limits for the payment of invoices.

3.5.2 Evaluations of the approach

AFD Group's Corporate Social Responsibility may be subject to independent in-house evaluations *via* missions conducted by the Internal Audit Department or AFD's *Ex Post* Evaluation Division, and externally.

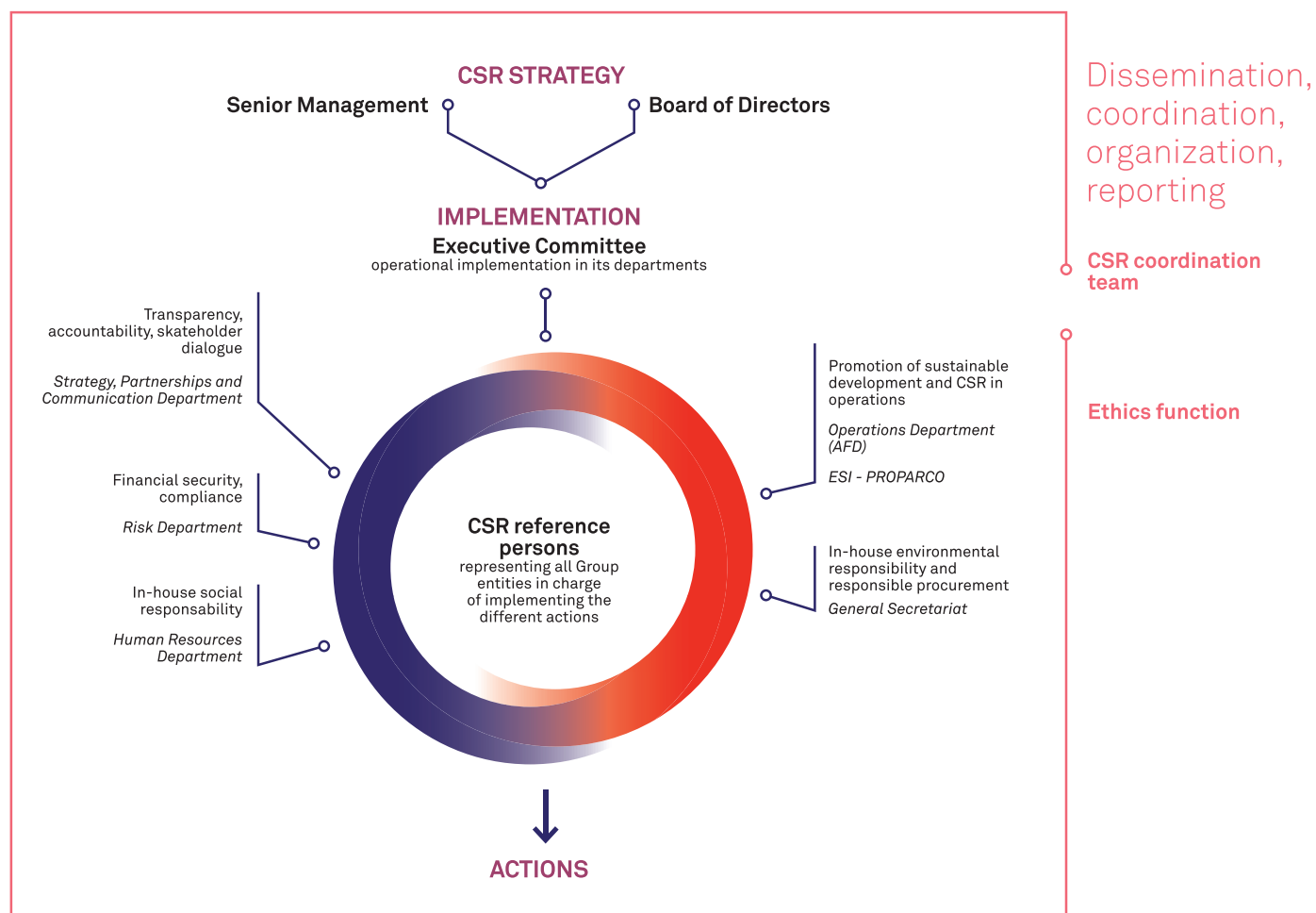
During its audit missions in the network, the Internal Audit Department ensures that both local regulations on social and fiscal management and the Ethics Charter are complied with. For projects, it verifies that the environmental and social aspects have been addressed in accordance with the procedures in force.

An external evaluation of AFD's environmental and social risk management approach was conducted in 2016. The aim

was to analyze the quality and content of the Environmental and Social Management Plans (ESMPs) established by contracting authorities for the higher-risk projects, and the monitoring of their implementation.



Corporate Social Responsibility: A coordination involving the entire organization



Focus Evaluation of AFD Group's CSR policy for 2014-2016

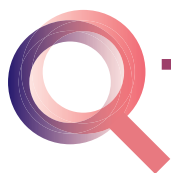
The Group's Corporate Social Responsibility policy was adopted by AFD's Board of Directors in 2014 and was subject to an independent evaluation when its implementation period came to an end. This exercise, which was conducted between

September 2016 and January 2017, was entrusted to the consultancy firm Ethifinance and involved all AFD departments and PROPARCO in its steering committee. It was based on a "participatory" approach and focused on:

- the results of an opinion survey of all staff members (27% response rate);
- some forty interviews with external and in-house stakeholders (including agency directors);
- the results of two panels, respectively gathering environmental

and social experts ("prescribers" of CSR standards) and operational experts ("users" of these standards).

The evaluation reviewed the implementation of the Group's Corporate Social Responsibility commitments and assessed the extent to which they are in line with the sustainable development issues deemed most relevant by its stakeholders. The aim was to provide possible avenues for action for the definition of the next CSR policy (2017-2020).



Focus Day of reflection on AFD Group's strategic CSR issues

On March 27th 2017, the Strategy Management Division organized a day of training/reflection for the network of reference persons on "AFD Group's CSR issues: AFD's response and the strategic role of reference persons". This day was coordinated by the consulting firm EY and included a presentation by Cécile Renouard, professor at ESSEC and member of AFD's Board of Directors. It gathered some twenty participants from AFD and PROPARGO with two objectives:

→ strengthen knowledge, by reference persons, of the main Corporate Social Responsibility issues and their application in the context of AFD;

→ launch common reflection on the future strategic orientations for CSR and the role of the network of reference persons (via collaborative workshops).

⁸ AFD's Global Compact: <https://www.unglobalcompact.org/what-is-gc/participants/293#company-information>
⁹ Index of AFD's GRI content: <http://gri.afd.fr>
¹⁰ <http://opendata.afd.fr/page/accueil/>

3.6 TRANSPARENCY IN CORPORATE SOCIAL RESPONSIBILITY

To report on its Corporate Social Responsibility approach, AFD Group's non-financial communication is in line with national and international reference standards.

In its Registration Document, it complies with the decree relating to the transparency obligations of companies for social and environmental issues, which it is subject to as an issuer of bonds. In 2016, an independent auditor (KPMG) issued a moderate assurance (limited audit), attesting to the fact that "all the significant aspects of the information on Corporate Social Responsibility, taken as a whole, are presented in a sincere manner in accordance with the Frame of Reference".

Furthermore, in addition to the Communication on Progress at the Global Compact⁸ published since 2007, AFD has been publishing an annual Corporate Social Responsibility Report since 2012, within the framework of the Global Reporting Initiative (GRI).⁹

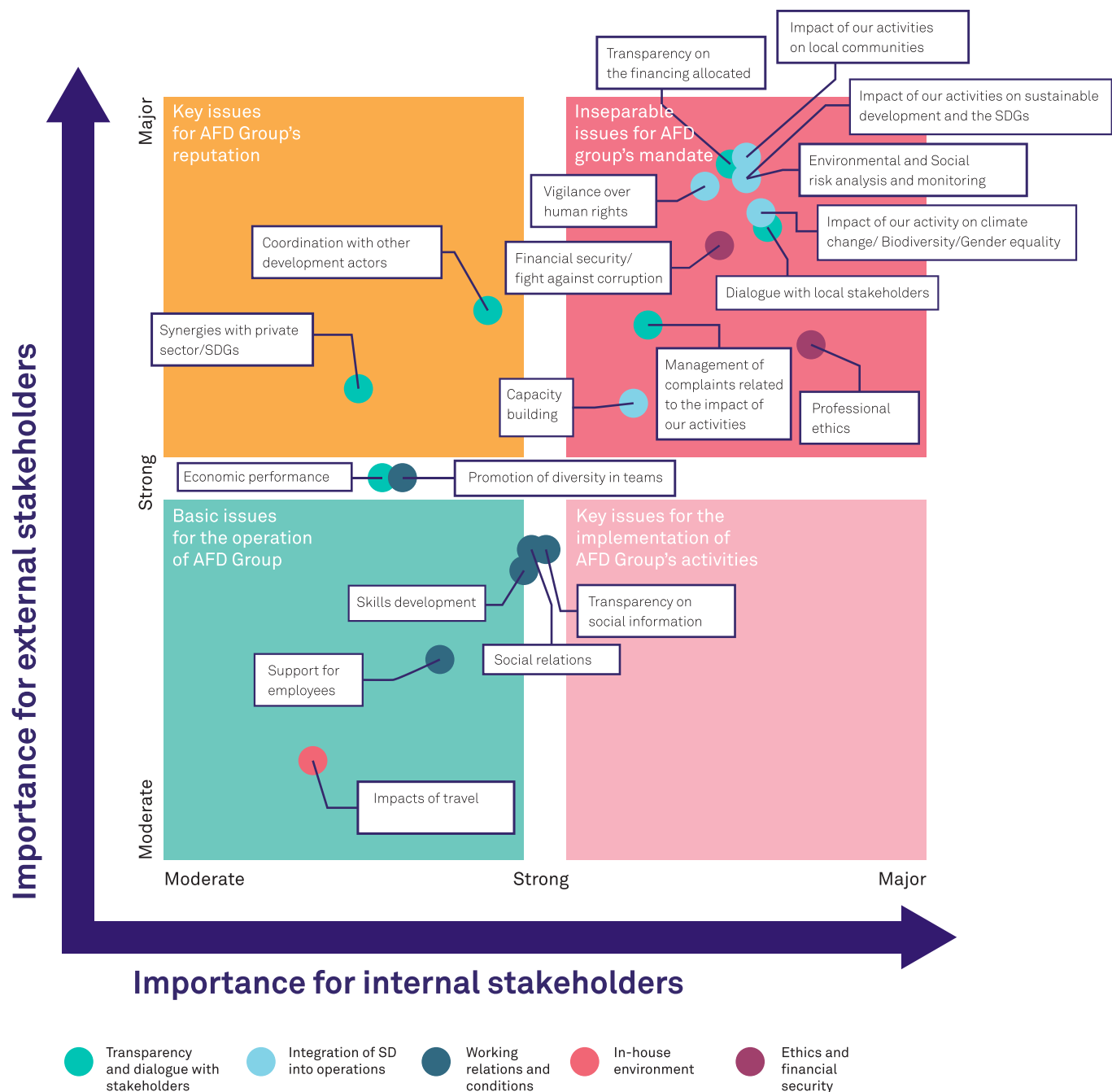
This report for 2016 has been prepared in accordance with the "GRI G4 Guidelines, 'In Accordance', Core Option", and concerns the responsibility issues deemed relevant (or material). This relevance has been determined on the basis of a materiality analysis, i.e. a methodical assessment of the organization's specific activities and objectives, as well as of external stakeholders' expectations. It was conducted in 2015 and is set out in chapter 8 of this report. This analysis was also updated in May 2017 (prioritization of issues using a rating by in-house and external stakeholders, and the addition of four new issues). Non-financial information by project is available on AFD's website, as well as on an Open Data website.¹⁰ The level of environmental and social risk for sovereign loans may be given in the project database

published on AFD's website. In addition, AFD can, upon written request for specific information, disseminate the environmental and social study concerning the funded operation, where appropriate.



*AFD has been
publishing an annual
Corporate Social
Responsibility Report
since 2012, within the
framework of the Global
Reporting Initiative (GRI).*

AFD Group's materiality matrix
(updated in May 2017)



4.

AN ATYPICAL GOVERNANCE MODEL

AFD, a public financial institution, has an atypical structure in the landscape of financial institutions, both in terms of its “open” organization and its non-profit financial model. It focuses on the beneficiaries of its financing and provides solutions tailored to the specific contexts of its operations and concessional financing, taking debt risks into account.

PROPARCO, AFD's private sector financing arm, contributes to financing and supporting projects led by companies and financial institutions in developing and emerging countries – from SMEs to regional banking groups, and including microfinance institutions. It focuses its action on the key sectors for economic development (infrastructure, agribusiness, financial systems...).

4.1 APPROPRIATE MEANS AND FINANCIAL INSTRUMENTS

4.1.1 Solutions tailored to the specific contexts of operations in the field

While the challenges are common, solutions in the field need to be tailored to the specificities and level of development of each territory. It is for this reason that the financial tools used by AFD Group and its sectors of activity vary depending on the region.

Africa is and will remain central to AFD's action, with a new vision, "All Africa", which calls for a change in perspective and now asks for Sub-Saharan Africa and the Mediterranean region, which are increasingly connected, to be considered as a whole. Africa continues to account for the vast majority (85%) of the grants and interest rate subsidies allocated by AFD abroad.

In Sub-Saharan Africa, a priority area for operations where there are the most crucial development challenges, AFD operates in all sectors of activity and uses its full range of financial instruments. In the Mediterranean region, loans are mainly used and upgrading the productive fabric, job creation and territorial development are the priorities.

In fragile, crisis and post-crisis countries, flexible instruments, mainly grants, are mobilized. In 2016, AFD also set up a facility with a minimum of EUR 100m a year to reduce vulnerabilities and prevent crises through upstream action on the weaknesses which fuel them.

In the other developing countries, which are mainly located in Asia and Latin America, promoting regulated globalization that

builds a responsible model for the environmental and social aspects is the guiding principle for AFD Group's activity. The French State makes no financial effort to finance the major emerging countries, except in the context of technical expertise, which will be strengthened, in particular in the field of the fight against climate change.

Finally, in 2016 the French Government authorized AFD to launch prospecting activities in the Western Balkans, with the aim of assessing the relevance and conditions of an activity in these countries for which development and stability are priorities for France.

4.1.2 AFD's project cycle

Beneficiaries of financing States, companies, local authorities, NGOs	Agence Française de Développement contributes to financing projects
1 - Project idea Submitted to AFD for financing	2 - Analysis of proposals Especially of the project's objectives and conformity with AFD's priorities for operations in the country in question
3 - Feasibility study Generally entrusted to external consulting firms	4 - Analysis of feasibility studies and financing requests Analysis of the economic, social and environment effects of projects, their compliance with France's aid policy, the financing plans, corruption, environmental, social, economic risks...
5 - Negotiation on the financing terms	
6 - Financing requests sent to AFD Agreement on project content and financing terms	7 - AFD makes decision on the financing
8 - Signing of loan or grant agreements	
9 - Physical implementation of projects Selection of companies in accordance with local law and in compliance with AFD's procurement principles (competitive bidding in particular)	9 - Disbursements of financing Control of compliance with the clauses set out in the agreement. Vigilance over the risks of money laundering, terrorist financing and corruption. Technical and financial monitoring of the project
10 - Repayment to AFD in the case of loans	
11 - Ex post evaluation of the project Evaluation of the achievements, their viability and their economic, social and environmental impact. In 2016: 45 projects evaluated (29 evaluations)	

Contributing to sustainable operations with a high impact on development involves being responsive to leaders and contracting authorities and attentive to their needs and concerns, in order to define and propose appropriate financial instruments. This requires a dialogue and negotiation, which are structured throughout the various stages of the project cycle.

4.1.3 Measure, prevent and limit debts risks

Due to the very nature of AFD's role as a development agency, and in particular the subsidiary and/or incentive nature of the institution's operations, the acceptable level of credit risk for AFD's operations may sometimes be higher than with traditional banking institutions. Indeed, AFD Group needs to be able to operate: in difficult geographical areas, with risky counterparties, with long-term maturities.

AFD and its subsidiary PROPARCO use a risk analysis to take into account the debt risks of the countries where they operate (macroeconomic risks, country risks, credit risks of counterparties...), which allow them to assess the opportunity of lending. A Risk Committee meets at least twice a year to analyze the macroeconomic risks of the country of operation, as well as the credit risks of counterparties, and make recommendations to Senior Management in this respect.

In terms of loans to States, AFD fits in with a series of international debt reduction initiatives: Paris Club, IMF Heavily Indebted Poor Countries Initiative, Debt Sustainability Framework...

Consequently, AFD uses various international standards to determine its capacities to operate via sovereign loans in LDCs, as well as the Lagarde Doctrine and Debt Sustainability Framework (DSF).¹¹

For credit risk exposure to their non-sovereign clients, AFD and its subsidiary PROPARCO seek to obtain adequate coverage via guarantees (personal or similar and real). These guarantees are subject to a periodic in-house valuation which, depending on the case of the type of guarantee, takes into account the quality of the guarantor and the geographical area of operation.

The debt restructuring for developing countries conducted by France is one of the solutions provided to address the payment difficulties experienced by indebted countries. This restructuring is part of the framework of the Paris Club for which France, represented by the General Directorate of the Treasury, is the Chair and provides the General Secretariat. The Paris Club, in association with international financial institutions, including AFD, comes up with coordinated and permanent solutions to the payment difficulties of indebted countries via debt relief. This debt relief may be obtained through rescheduling or, in the case of concessional treatment, a reduction of debt service obligations for a defined period (flow treatments) or at a fixed date (stock treatments).

For countries which come under the Heavily Indebted Poor Countries (HIPC) Initiative, the French Government has set up a progressive and specific mechanism to write off the balance of public liabilities that it continued to hold over these States after the intervention of the Paris Club. This mechanism, for which AFD is the operator, provides for the beneficiary country to sign a Debt

Reduction-Development Contract (C2D) with France, under which the repayments it makes for the loans in question are paid back to it to finance poverty reduction programs. It is consequently a mechanism which transforms loans into grants.

¹¹ The DSF is a coordination tool between donors which makes it possible to stop lending to a country whose debt exceeds the sustainability thresholds. In this context, AFD only lends in cases where there is a low risk and continues to lend for a year in cases where a country goes from a low risk to a moderate risk. AFD does not lend when there is a high risk.

GRI G4-DMA

G4-EC1

4.2 AFD: "NON-PROFIT" FINANCIAL MODEL

Bond issues:

EUR
4.892bn^v

^v This indicator was controlled by KPMG during the Management Report audit.

AFD's "non-profit" financial model aims to cover its operational banking and non-banking charges and the charges from the cost of risk of its activity.

The interest rate of the credit products is consequently made up of the cost of the financial resource, plus a margin covering the overhead costs, as well as the estimated cost of risk and, where appropriate, less an interest subsidy, the level of which varies depending on the nature of the borrower and the State of which it is a national.

In all cases, the borrower benefits from soft conditions (for both the rate and maturity) to which AFD has access on

financial markets thanks to the quality of its signature.

Since 2004, and pursuant to the amended Article 79 of the Amending Finance Law n° 2001-1276 of December 28th 2001, the State may receive a dividend.

AFD finances itself on financial markets, in the form of public bond issues. In 2016, the volume of bond issues stood at EUR 4,892m. The good rating of its issues in turn allows it to allocate soft loans to its beneficiaries.

AFD is also mandated by the State to finance, through grants, projects or programs that benefit the poorest

countries. The cost of appraising and managing this financing is covered by budgetary resources.

The contribution made by the Ministry for Europe and Foreign Affairs allows AFD to finance projects in the form of grants and support NGO initiatives. The financing from the Ministry of the Economy and Finance is used for certain operations (budget support, etc.), as well as to subsidize loans, *i.e.* bear the cost of part of the interest rate on loans and, therefore, reduce its cost for the beneficiaries. AFD consequently turns EUR 1 of public money into EUR 11.5 of loans. Finally, certain projects in the French overseas territories are supported by funds allocated by the Ministry of Overseas France.

Thanks to its capacity to raise funds on financial markets on the best terms and devise innovative cofinancing, AFD allows its beneficiaries to benefit from better financing conditions.

Its equity capital is invested in order to generate stable products which finance the non-banking activities conducted by AFD as a public institution, with the agreement of the State: knowledge production, financing of studies, support and advice to French public authorities.

Following AFD's request to the banking supervisory authorities to change its status as a credit institution under French law to the status of financing company, on June 30th 2017, the European Central Bank delivered a favorable opinion. From this date, AFD's status under French law

is consequently that of a financing company. This change in status does not affect AFD's EPIC public enterprise status under French law.

4.2.1. PROPARCO's financial model

PPROPARCO, AFD's subsidiary, contributes to financing the private sector in developing countries, by offering loans, equity investments and guarantees in foreign currency and in local currency. It finances profitable companies whose activities contribute to creating jobs and decent incomes, providing essential goods and services, and combating climate change in developing countries.

PROPARCO is one of the main European development finance institutions, with which it conducts a number of joint operations.

PROPARCO fulfills its mandates on the basis of a multifaceted governance. Alongside its majority shareholder AFD, it gathers French, African and Latin American public and private financial institutions, service companies, industry leaders active in its countries of operation, as well as investors, ethical funds and foundations.

At December 31st 2016, PROPARCO's share capital stood at EUR 693m. AFD is the majority shareholder with 65%.

The balance sheets, main ratios and indicators and income statements of AFD and PROPARCO are set out in AFD Group's Registration Document.

State resources:

EUR
961m

Grants¹² – Foreign countries:

EUR
323m^v

Project grants:

EUR
213m^v

¹² Comprising: project grants, FEXTE, NGO financing and global budget support.

^v This indicator was controlled by KPMG during the Management Report audit.

^v This indicator was controlled by KPMG during the Management Report audit.

4.3 AFD GROUP'S GOVERNANCE

GRI G4-16

G4-34

AFD Group's governance is based on a group of structures which guarantee the transparency of its operation and its sound management. This governance is regulated by a body of legislative texts (banking law, decrees defining AFD's statutes, conclusions of the Interministerial Committee for International Cooperation and Development – CICID, in-house regulations and procedures).

4.3.1 AFD's Board of Directors

Operation of the Board of Directors

Pursuant to Article R. 513-35 of the Monetary and Financial Code, AFD's Board of Directors deliberates on the institution's strategic orientations and approves: the Contract of Objectives and Means and the agreements on operations managed on behalf of the State; AFD's financial support on its own behalf, on behalf of the

State or other third parties and management mandates; the annual amount of borrowing to be contracted by AFD; an estimate of operating income and costs; the general conditions of financing; the annual accounts and management report; the acquisitions and sale of real estate; the creations or closures of agencies or representations; AFD's interest transactions and arbitration clauses; the appointment of auditors. The Board of Directors is informed of the quality evaluations, analyses and assessments concerning AFD and its operations.

The Board of Directors may delegate part of its powers, to the extent that it determines, to three specialized committees (for operations in the French overseas territories, for operations abroad, for support to the initiatives of non-governmental organizations).

The operation of the Board of Directors is formalized in rules of procedure, pursuant to Article R. 513-36 II of the Monetary and Financial Code. The Board of Directors and its specialized committees met 34 times in 2016.

Composition of the Board of Directors and appointment system

Pursuant to Article R. 513-34 of the Monetary and Financial Code, in addition to its Chairperson, the Board of Directors comprises: six members representing the State, four members appointed due to their knowledge of economic and financial issues, one member appointed due to their knowledge of ecology and sustainable development, four parliamentarians (two MPs and two senators), two elected members representing AFD's staff. The Chairperson of the Board of Directors is appointed by a decree based on a report

by the Minister of the Economy, Minister of Development, Minister of Overseas France and Minister of Immigration. Members of the Board of Directors have a three-year mandate.

The Board of Directors has 18 members. In 2016, it comprised 6 women, which includes the Chairperson of the Board. Details concerning the names, functions and other mandates and functions of the members of the management and Board of Directors are given in AFD Group's 2016 Registration Document and on AFD's website: afd.fr

Remuneration of the members of the Board of Directors

The mandate of the members of the Board of Directors is not remunerated. However, the Chairperson of the Board of Directors receives a function allowance, the amount of which is fixed by joint decision of the Ministers of the Economy, Foreign Affairs and Overseas France.



The Board of Directors and its specialized committees met 34 times in 2016. The Board of Directors comprises 18 members. It comprised 6 women in 2016, including the Chairperson of the Board.



The permanent control mechanism ensures that due diligence is conducted related to the monitoring of all types of risks and that mechanisms guaranteeing the conformity, security and validity of the operations conducted function properly.

The periodic control function is conducted by the Internal Audit Department and concerns the conformity of operations, the level of risk actually incurred, compliance with procedures, and the effectiveness of the permanent control put in place by AFD.

Conflicts of interest

Independence in the exercise of the functions as a Board member is required by the "Charter for AFD Board and Committee Members". It contains provisions to address any potential conflicts of interest. Furthermore, the Chairperson of the Board of Directors and Chief Executive Officer of AFD, respectively, declare their interests and assets to the Commission on the Financial Transparency of Public Life. In 2016, no conflicts of interest were identified between the duties, with respect to AFD, of the members of the Board of Directors and their private interests and/or other duties.

4.3.2 AFD's Senior Management

The management and administration of AFD are entrusted to a Chief Executive Officer appointed for three years by decree. The Chief Executive Officer represents and commits AFD and exercises the powers delegated to him by the Board of Directors. He relies on a Management Committee for this purpose, which comprises directors from AFD Group's different departments and divisions. This committee comprised 42 people in 2016, including 13 women. The remunerations of the Chief Executive Officer, Deputy Chief Executive Officer and Associate Chief Executive Officer are given in AFD Group's 2016 Registration Document. It should be noted that there are no fringe benefits or specific pension scheme, stock options, or variable remuneration for AFD's corporate officers.

4.3.3 The Group's control bodies

AFD Group has several committees to manage the Group's risks.

The **Audit Committee**, which is appointed by the Board of Directors, is composed of three to five members qualified in terms of financial analysis and risk assessment, at least one of which is selected from the Board of Directors. The Audit Committee gives an opinion to the Board of Directors, whenever required and at least once a year, on the financial statements and the effectiveness of internal audit and risk management. The Group's Audit Committee is responsible for verifying the clarity of the information pro-

vided and assessing the relevance of the accounting methods, assessing the quality of internal audit, and giving opinions on the reports prepared pursuant to the Decree of November 3rd 2014 on the internal audit of companies in the banking sector. A **Government commissioner**, appointed by the Minister of the Economy, ensures that AFD respects its public mandate. In this context, he can veto the decisions of the Board of Directors and its different specialized committees.

AFD's accounts are audited by two **auditors** appointed by the Board of Directors.

Internal audit is the entire mechanism which allows Senior Management to ensure that the operations conducted, the organization, and the procedures put in place comply with legal and regulatory provisions, professional and ethical practices and the internal rules and orientations defined by the institution's executive body. The internal audit aims to: exercise sufficient control over the risks incurred to ensure they are effectively managed; guarantee the reality, completeness and accuracy of financial and management information; verify the integrity and availability of information and communication systems. AFD Group organizes the management of its risks on the basis of the principle that the departments tasked with risk assessments must be independent from the operational departments.

The Group's **permanent control** mechanism firstly ensures the consistency, effectiveness and completeness of and compliance with the mechanisms put in place to guarantee, at operational level, the conformity, security and validity of the operations conducted by the Group and, secondly, carries out due diligence related to the monitoring of all types of risk: credit, market, overall interest rate, liquidity, settlement/delivery risks, operational risks, as well as strategic and reputation risks (which includes environmental and social risks). The process to measure and monitor risks is based on the exercise of updating risk mapping and on a mechanism to collect actual or potential incidents. This mechanism allows remedial and preventive actions to be defined and their implementation to be monitored,

with the aim of avoiding any recurrence of incidents. The most significant information is communicated to the various levels of the organization based on an escalation process.

The **periodic control** function addresses the conformity of operations, the level of risk actually incurred, compliance with procedures, and the effectiveness and appropriateness of the permanent control mechanisms put in place by AFD. It is handled by the Internal Audit Department, which is positioned at the level of Senior Management.

4.3.4 PROPARCO's governance

PROPARCO is a financing company subject to the provisions of the Monetary and Financial Code. Its governance bodies (in particular the Board of Directors and committees of the Board of Directors) guarantee the transparency of its operation and its sound management. They rely on the expertise of their members from the public and private sectors.

PROPARCO's Board of Directors meets four times a year. Its role is primarily to determine PROPARCO's strategic orientations and ensure they are implemented. It defines the orientations and monitoring policy in terms of taking, managing, supervising and reducing the risks which PROPARCO is or may be exposed to. It approves the annual accounts and ensures they are sincere.

PROPARCO's Board of Directors is chaired by the Chief Executive Officer of AFD Group and is composed of 16 Directors and 6 Non-Voting Directors. Through the expertise of its members, who come from international development finance institutions, the banking sector, the industrial sector and ethical funds, it consequently plays a crucial role in PROPARCO's performance and development.

In 2016, PROPARCO's governance was subject to an external evaluation, which led to a set of recommendations, which are currently being implemented.

4.3.5 Interministerial Committee for International Cooperation and Development (CICID) and Strategic Orientation Committee (SOC)

AFD is bound to the State under 3-year Contracts of Objectives and Means and implements the orientations defined by the Interministerial Committee for International Cooperation and Development (CICID).¹³ The CICID is chaired by the Prime Minister and is composed of the ministers directly concerned by development assistance (Foreign Affairs, Development, Finance, Education, Research and Higher Education, Interior, Defence, Environment, Budget, Foreign Trade, Overseas France). CICID's decisions have no legal or regulatory value. They are orientations given by the Prime Minister to the relevant administrations, which subsequently implement them.

The implementation of CICID's decisions and changes in the development assistance policy are supervised by the CICID Co-Secretariat. The meetings of this Co-Secretariat are chaired alternately by the Minister for Europe and Foreign Affairs and Minister of the Economy and Finance. AFD attends these meetings at the invitation of the Chair.



Find out more about PROPARCO's governance:

http://www.proparco.fr/Accueil_PROPARCO/PROPARCO/Proparco_gouvernance/conseil-d-administration-et-ses-comites

¹³ The 1998 decree for the creation of the CICID is available at: <http://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000000753609&categorieLien=cid>

5.

REPORT, INFORM, DIALOGUE

The objective of conducting sustainable operations with strong impacts for development requires submitting the results of action to the judgment and recognition of stakeholders, including the State, staff members, the beneficiaries of financing, NGOs, but also peer organizations, local communities and residents, national and international public authorities, as well as the financial and banking world. In this context, one of the pillars of AFD Group's Corporate Social Responsibility commitments is to "Report, inform, dialogue".

5.1 ACCESSIBLE, CLEAR AND TRANSPARENT INFORMATION

AFD Group is committed to enhancing transparency over its activities, in order to build a relationship of trust and a high-quality dialogue with its stakeholders. It has a proactive approach to publishing information. This approach fits in with international reference standards, within the limits of professional secrecy and business secrecy, according to the framework set by the Monetary and Financial Code and French legislation relating to the protection of personal data.

Information about projects financed by AFD¹⁴ and its subsidiary PROPARCO is published:

→ on the Group's institutional websites. Two interactive maps provided summaries of 924 projects at the end of 2016 (705 for AFD¹⁵ and 219 for PROPARCO¹⁶). Over 1,400 projects are also published in a more detailed database;

→ for AFD, on its Open Data portal¹⁷ and the website of the International Aid Transparency Initiative (IATI).¹⁸ At the end of 2016, 43.7% of AFD's activity and 73% of its sovereign activity^{19/v} had been published on these websites. In 2016, AFD's publication efforts improved its rating established by the NGO Publish What You Fund (PWYF), ranking it 32nd out of all donors, in the "fair" category;

→ for AFD, on the open platform of French public data.²⁰

These efforts to improve the availability of information on projects are part of more comprehensive reflection on the Group's strategy for transparency and accountability. This reflection will lead to AFD making a proposal for an overhauled transparency policy in response to the new issues in this field, which will be adopted in 2017.

Finally, in 2017, the scope for transparency will be extended to non-sovereign financing, PROPARCO and FFEM financing, as well as to decentralized ex post evaluations.

¹⁴ These websites at the minimum present information for each project on the identity of the client, the detailed description, the sector of activity, the project location, the provisional start-up date, the technical completion date, the progress report updated every six months, the type of financing, the credit amount, the total amount of disbursements and the communication brief and/or the presentation sheet of the operation.

¹⁵ <http://carte.afd.fr>

¹⁶ <http://carte.afd.fr/Proparco/fr/>

¹⁷ <http://opendata.afd.fr/page/accueil/>

¹⁸ <http://iatiregistry.org/publisher/afd>

^{19/v} Sovereign financing above EUR 100,000 under implementation financed in all countries of operation. N.B.: This indicator was controlled by KPMG during the Management Report audit.

²⁰ www.data.gouv.fr

73%

of AFD's total sovereign activity was published in IATI format in 2016.



Focus AFD and the International Aid Transparency Initiative (IATI)

In 2016, France continued its efforts to enhance the transparency of its international action. It is for this reason that it decided to join the International Aid Transparency Initiative, by asking AFD, its main operator for Official Development Assistance, to represent it in the context of this initiative. This membership should allow AFD to better comply with the IATI standard and subsequently improve the quality of the data it publishes, in response to the expectations of its international partners and civil society.

GRI G4-24

G4-25

G4-26

G4-27

5.2 ENHANCED DIALOGUE WITH STAKEHOLDERS

AFD Group is aware of the need to provide differentiated and concerted responses and has made dialogue with its "stakeholders" one of its main objectives.



5.2.1 Dialogue on our operations

Dialogue on projects

There is a need to dialogue with authorities, communities and local associations on projects submitted for financing, especially when they have environmental and social risks, in order to take their opinions and concerns into account and thereby ensure that living conditions are improved for populations and that projects are sustainable. During the appraisal and implementation of the projects it supports, AFD ensures – through clauses and assistance – that the contracting authority consults the various stakeholders. For projects with significant environmental and social impacts, AFD applies the World Bank's Environmental and Social Framework, whose revision in 2016 introduces measures concerning the responsibility of involving stakeholders at all stages of a project.²¹

Dialogue on strategies

The strategy papers prepared by AFD, which determine its areas of operation, in sectors, geographical areas or for cross-cutting issues, are subject to consultation with administrations and stakeholders prior to being submitted to the Board of Directors. Once these strategy papers have been validated, they are available on AFD's website.

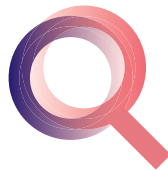
In 2016, an in-house project was conducted to assess the usual CSO consultation methods employed by AFD's various departments. This process led to the creation of a function responsible for coordinating stakeholder dialogue in the CSR team. Its role will be to contribute to developing the dialogue process, particularly prior to the Group's strategy definition processes.



AFD applies the World Bank's Environmental and Social Framework, which has introduced measures aiming to involve stakeholders at all stages of a project.

In 2016, this dialogue concerned the new strategic frameworks on digital technologies, vulnerabilities and the roadmap on governance, as well as the evaluation of strategic frameworks which had reached completion, such as the frameworks on education and vocational training, and food security in Sub-Saharan Africa. Preliminary discussions were also held on updating the climate strategy.

Since 2015, AFD and PROPARCO's annual reports have been systematically presented to civil society.



Focus AFD's first digital consultation

In 2016, AFD proposed a digital consultation to its stakeholders, in the context of the preparation of its crosscutting strategy on digital technologies.

The consultation website received 3,884 visits by 2,374 unique visitors: 30% of visitors were not located in France and 8% resided in 3 African countries (Senegal, Cameroon, Côte d'Ivoire).

The participants also represented the diversity of AFD's stakeholders: NGOs, public institutions, researchers, private companies, but also ordinary citizens. Six workshops were also organized to

communicate on this consultation: four were held in AFD agencies (Abidjan, Bamako, Dakar and Douala), and two in Paris (including one at Numa, an innovative business combination which has developed the first coworking space in France).

A feedback meeting was organized at AFD on October 7th 2016.

A total of 540 contributions were submitted on the AFD website and 1,220 votes were cast on the various proposals. This new form of consultation, which reaches a broader public, and particularly CSOs located in AFD's countries of operation, is likely to be developed in the future.

²¹ Environmental and Social Standards (ESS) 10, "Stakeholder Engagement and Information Disclosure".

5.2.2 Dialogue with development actors

AFD Group attaches great importance to dialogue with all actors involved in development: actors responsible for France's public policy for development assistance, parliamentarians, companies, researchers, regional and local authorities, other development finance institutions, international organizations... This dialogue gives a better understanding of what everyone does, opens up new prospects, feeds into reflection, and strengthens actions. The Group has developed partnerships with over 150 organizations (international donors, United Nations, regional and local authorities, NGOs, companies, foundations and think tanks).

The Group endeavors to maintain a close dialogue with civil society organizations at all levels: institutional, sectoral and operational.

In 2016, an assessment was conducted of the past 4 years of the partnership



EUR 444.5m of direct grants to CSOs for 2012-2016, including EUR 289m financing their initiatives ("FISONG" window).

with CSOs. It included both the financing aspects (some EUR 444.5m between 2012 and 2016, including EUR 289m financing their initiatives) and the dialogue with French CSOs. A public feedback meeting was organized on this document, which is available on AFD's website.

NGOs were invited to workshops on transparency and the development of the Environmental and Social Complaints Mechanism. Furthermore, AFD Group pursued its process for openness and dialogue with advocacy NGOs, based on their campaigns and questioning over various subjects.²²

	Objective of the dialogue	Forms of dialogue
International and European organizations	Report on the commitment to international initiatives (SDGs, Global Compact...)	Financing of international initiatives Global Compact: participation in the Steering Committee and Annual Report...
Development banks and international financial institutions	Have common tools Integrate best practices	Sectoral cooperation, cofinancing, joint exchange programs...
Private sector	Influence private sector practices Integrate private sector good practices and solutions	Symposiums and events PROPARCO's "Private sector and Development" magazine Investors' Club...
Academic world and think tanks	Disseminate reflection Integrate good practices	Publication of studies, working groups, forums...
CSOs	Ensure that projects are effective and sustainable Consult civil society on AFD's strategic choices Communicate on the use of Official Development Assistance	Partnerships and/or consultation during the preparation, implementation and evaluation of projects Dialogue on strategic intervention frameworks Working groups, joint seminars and communication on specific themes

²² Questioning over subjects concerning food security, the climate, transparency, Official Development Assistance budgetary allocations, led to meetings with NGOs including: Oxfam, Action Against Hunger, One, Publish What You Fund, CCFD-TS, Coalition Education, Climate Action Network.

5.2.3 Regulatory and institutional dialogue

AFD is held accountable to a wide range of stakeholders defined by legislation. This accountability is applied at the Board of Directors, whose members include line ministries, parliamentarians, NGO representatives and staff representatives, but also with social bodies and *via* institutional and regulatory reporting documents (parliamentary reports, Group Registration Document, social report, economic and social database, etc.).

	Objective of the dialogue	Forms of dialogue
Board of Directors and specialized committees (Audit, for example)	Approve AFD's commitments and their financial arrangements	Regular meetings and committees Definition of framework documents Delegations to specialized committees
Supervisory authorities	Define the strategic orientations Be accountable for the efficient use of public funds Make financing sustainable	Joint preparation of framework documents Contract of Objectives and Means Management control/Audit
Regulatory and control authorities	Be accountable for the sound financial management of the institution Financial Market Authority (Art. 225 Grenelle II)	Publication of a Registration Document Possible hearings
Parliamentarians	Inform parliamentarians of AFD's activities and analyses	Hearings before parliamentarians: questions/answers Parliamentary reports

5.3 RESPONDING TO GRIEVANCES BY STAKEHOLDERS

GRI G4-DMA

G4-EN34

G4-HR8

G4-HR12

In 2016, AFD finalized the preparation of its Environmental and Social Complaints Mechanism. This mechanism allows any person or group of persons affected from an environmental or social perspective by an AFD-funded project to submit a complaint. For example, complaints may concern issues related to pollution, the destruction of natural resources, land grabbing, forced displacement, working conditions, or human rights.

Consultation with civil society organizations was conducted in 2016.

The mechanism functions under the supervision of AFD's Ethics Advisor, who reports to the Chief Executive Officer and ensures its independence from the operational departments. The mechanism Secretariat, which is housed in the SPC/SPR Department, has been operational since early 2017. It manages its operation, handles its in-house and external communication, follows the complaints,

and is responsible for coordination with both the project teams and the panel of independent experts, who are important actors in the mechanism. This panel handles complaints by assessing their eligibility. It subsequently, where appropriate, either conducts dispute resolution with all the stakeholders, or an audit to determine whether the project subject to the complaint complies with AFD's environmental and social procedures, or implements both methods. The panel has been recruited following a call for tenders and comprises three international experts for an initial period of one year: Jean-Roger Mercier, Ed O'Keefe, Maartje van Putten.

AFD's website page dedicated to the mechanism has been online since the first half of 2017: <http://reclamation.afd.fr>

The rules of procedure for the mechanism, its presentation brochure, and a complaints form can be downloaded from the page in two language versions. This list of

the complaints received, their status, the summaries of the handling reports and the mechanism's annual report will gradually be published on this page.

Preliminary discussions have been held with the members of the international network IAMnet (Independent Accountability Mechanisms Network), with a view to forthcoming AFD membership.

In late 2017, PROPARCO will join the joint DEG/FMO mechanism. Close cooperation with the AFD mechanism is planned.

5.4 COMMUNICATING ON OFFICIAL DEVELOPMENT ASSISTANCE ISSUES

AFD Group actively communicates on development and international cooperation issues in order to allow French citizens to express their expectations, their vision and their questions in terms of the subject. To this end, it organizes a number of events to encourage dialogue and the sharing of ideas. Development education is now an integral part of AFD's mandate.

In line with this new mission entrusted to AFD by the Government in November 2016, the communication strategy aims to inform the French public about the Sustainable Development Goals (SDGs).

The SDG system using the character Elyx, created with the artist Yacine Ait Kaci (stand, postcards, posters), was used for several events in 2016, for example, at the Solidarity Fair, Solidays and the Education Fair.

In the context of the partnership with Institut de l'Engagement,²³ AFD officers have led a series of workshops on the SDGs for young people between the ages of 16 and 28.

Another focus is the "Born Somewhere" project: an immersive exhibition which invites visitors to step into the shoes of inhabitants from various countries and territories – Cambodia, Niger, Cameroon, Morocco, Colombia, Nigeria and French Polynesia – and discover sustainable development issues through them. This experience targeted a broad public – both young and adult and largely unaware of development issues. At the same time, it focused on schoolchildren and was part of a more extensive mechanism aiming to sensitize,

train and mobilize the citizens of tomorrow in terms of addressing sustainable development and international solidarity challenges.

In February-March, in Lyon (1.55 million inhabitants), 9,500 people visited the exhibition, including 3,500 young people and their supervisors; in September-October, in Roubaix (1.13 million inhabitants), 5,200 people visited the exhibition, including 3,250 young people and their supervisors. The results of the impact studies conducted with visitors were extremely positive. The exhibition was given an average score of 8.4/10; 90% of respondents said they would like to come back and 96% of them found the exhibition instructive. The results of the study concerning school groups follow this trend.

Other projects are underway in 2017, with the aim of strengthening actions on the SDGs in AFD's external communication strategy.

Finally, an "AFD and the SDGs" page has been put online on AFD's website. For several years now, AFD has also been coordinating a blog for reflection and debate "Ideas for Development", which is open to all development actors (AFD experts, researchers, NGOs, private sector, institutions, local

authorities...). In 2016, this website had a total of some 10,000 unique visitors a month. Some 90 posts and interviews were published between January and December 2016. An "MDGs and SDGs" section was created on this blog in 2016.

At the same time, AFD organizes a cycle of conferences with the same name ("The ID4D Conferences").²⁴ In 2016, 10 ID4D conferences were organized, including 6 in Paris, 1 in Brussels, 1 in Lyon, 1 in Guinea and 1 in Vietnam.

10,000

unique visitors a month on the ID4D website.



From the film "Tomorrow" to "Born Somewhere", since 2016, the SDGs have been central to AFD's communication strategy, with special events for the French public and experts in the sector.

Find out more about the list of events which AFD contributes to:

<https://www.afd.fr/actualites/agenda>



Focus PROPARCO Private Sector & Development (PS&D): facilitating private sector experience- sharing for development

Private sector operators are key players in the development of low-income countries and have direct hands-on experience of the issues facing the economies of these countries. To promote this experience, since 2009, PROPARCO has been leading the Private Sector & Development (PS&D) initiative, which comprises a thematic magazine and (since 2015) a blog with

contributions from these operators, who highlight the solutions implemented to overcome the specific constraints of these countries. By disseminating the operational experiences of private sector players, the PS&D initiative aims to catalyze the development of a sustainable and structural private sector in low-income countries. In 2016, 3 PS&D magazines were published, with a total of 28 articles on three topics: social business, air transport in Africa, insurance in Africa. 12 articles and 9 videos of testimonies by entrepreneurs were also published on the blog.

The contributions of the blog and magazine are disseminated as extensively as possible in French and English among economic and institutional actors from French civil society and in our countries of operation, by e-mail to a mailing list, by post to subscribers, as well as on PROPARCO's social networks.

To follow on from these contributions, specialized conferences for exchanges with civil society are organized once or twice a year, in partnership with AFD.

For example, a conference on CSR: "CSR: An opportunity for African businesses?" was organized on February 9th 2016, as well as an ID4D conference on social business: "Social business: How to scale up?", which was held on March 22nd 2016. Each of these events gathered over 120 people.

In April 2016, PROPARCO also organized a conference on Corporate Governance, with its development bank partners. This conference gathered some 130 people and allowed a varied public to discuss corporate governance practices in France and Africa and to address the issue of the presence of women on the boards of directors of companies.

Finally, PROPARCO has organized regular sessions for exchanges with non-governmental organizations on specific themes related to project financing.

²³ Institut de l'Engagement is an association which identifies and assists young people who have shown remarkable qualities during a general interest mission, but who do not have the qualifications, financial means or professional network to conduct a project which matches their potential.

²⁴ <http://ideas4development.org/>

6.

ENSURING AND PROMOTING SUSTAINABLE DEVELOPMENT IN OPERATIONS

Sustainable development is the common reference for all AFD Group's operational activities. The beneficiaries of the Group's financing are in turn vehicles for sustainable development and act as catalysts for good practices in developing countries. The role of development finance institutions is to support and promote this movement.

This commitment to sustainable development leads to greater account being taken of the impacts of the funded actions, as well as the economic, social and environmental issues facing the Group's partners. AFD is firmly committed to continuously achieving progress and implements this commitment to sustainable development through a twofold objective: prevent risks and promote the positive impacts that projects have on sustainable development.

Aim of more effectively controlling project-related risks

AFD Group needs to be careful to ensure the proper use of the financing (loans, guarantees, grants and equity investments) it allocates and in terms of the reputation and good governance of the companies it grants its financing to. This requires implementing a process to control the risks of the misappropriation of aid, corruption, fraud, money laundering and terrorist financing.

Controlling the environmental and social risks of funded projects is another point requiring vigilance. To this end, AFD and its subsidiary PROPARGO implement procedures to control risks and improve the quality of projects, as well as the environmental and social performance of the beneficiaries of financing.

Aim of making a positive contribution to sustainable development

Economic development, the fight against poverty and inequalities, biodiversity

conservation, the management of natural environments and resources, the fight against climate change, and the preservation of the atmosphere are all sustainable development issues integrated into the Group's strategic intervention frameworks and into the implementation of projects.

AFD and its subsidiary PROPARGO measure the expected impacts and the outcomes of funded projects, for the purposes of learning and improving operational strategies and future projects.

6.1 MANAGING THE ENVIRONMENTAL AND SOCIAL IMPACTS OF PROJECTS

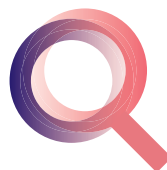
GRI G4-14

G4-DMA

A number of development operations may involve risks *vis-à-vis* the environment and the populations concerned.

The approach taken by AFD Group is based on the World Bank Safeguard Policies and International Finance Corporation (IFC) Performance Standards and involves (i) assessing the environmental and social risks and impacts of each project submitted to the decision-making bodies and the remedial measures already planned to be implemented by the beneficiaries of the financing; (ii) proposing additional measures to be implemented by the beneficiaries, which aim to limit these risks or offset the effects; (iii) monitoring the implementation of these measures during the implementation phase of the operation; (iv) managing unforeseen events; and (v) improving project quality and the environmental and social performance of the beneficiaries of its financing.

Focus **Working for progress by permanently establishing the environmental and social risk management approach**



In 2016, AFD conducted a qualitative evaluation of the content and monitoring of the implementation of Environmental and Social Management Plans (ESMPs) and Resettlement Action Plans (RAPs). It concerned a significant sample of these projects. This analysis is an extension of an initial quantitative analysis conducted in 2014 of the ESMPs of a hundred or so operations with high E&S risks in AFD's portfolio.

This qualitative evaluation came up with a number of potential areas for improvement, including:

- strengthening the operational nature of the ESMPs and RAPs;
- a greater anticipation and more effective coordination with the project

appraisal cycle, in order to leave the time required to prepare high-quality ESMPs and RAPs;

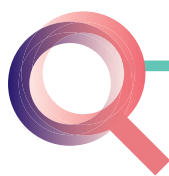
→ improving and systematizing the integration of the content of the ESMPs and RAPs into the bidding documents for the design, construction and/or operation of projects;

→ strengthening the operational nature of the monitoring methods for the implementation of the ESMPs and RAPs (indicators, quality of E&S monitoring reports...), in particular concerning the impacts on the populations affected by the projects;

→ to meet these objectives, pursuing and strengthening training actions on E&S risk management for officers responsible for appraising and supervising projects;

→ mobilizing and involving contracting authorities more in the preparation of ESMPs and RAPs in order to increase their ownership of the issues related to the E&S risks of projects and their capacities to control them.

The lessons learned from these evaluations have fed into reflection on ways of improving the "Environmental and Social Risk Management Policy for Operations Financed by AFD in Foreign Countries". Consequently, it will be possible to submit a new formulation of this policy to AFD's governance bodies in 2017.



Focus Measuring the ESG impacts and support at PROPARCO

PROPARCO has environmental and social performance tools and indicators to strengthen the environmental and social monitoring of projects (since 2014). Monitoring is systematically conducted by independent consultants and/or PROPARCO's teams for the higher-risk projects.

In terms of governance, PROPARCO also conducts a corporate governance assessment of the companies in which it takes an equity stake and monitors, where required, the implementation of improvement measures negotiated with its client.

An evaluation of the E&S monitoring indicators established in this context will be finalized in August 2017. It will assess the results for the projects and portfolio, improvements in client performance, and the support provided by PROPARCO.

Furthermore, in 2016, PROPARCO adopted a new strategy with the objective for 2020 of doubling the volume of commitments (to EUR 2bn of commitments a year in 2020) and tripling the impacts on development. Five indicators have been defined

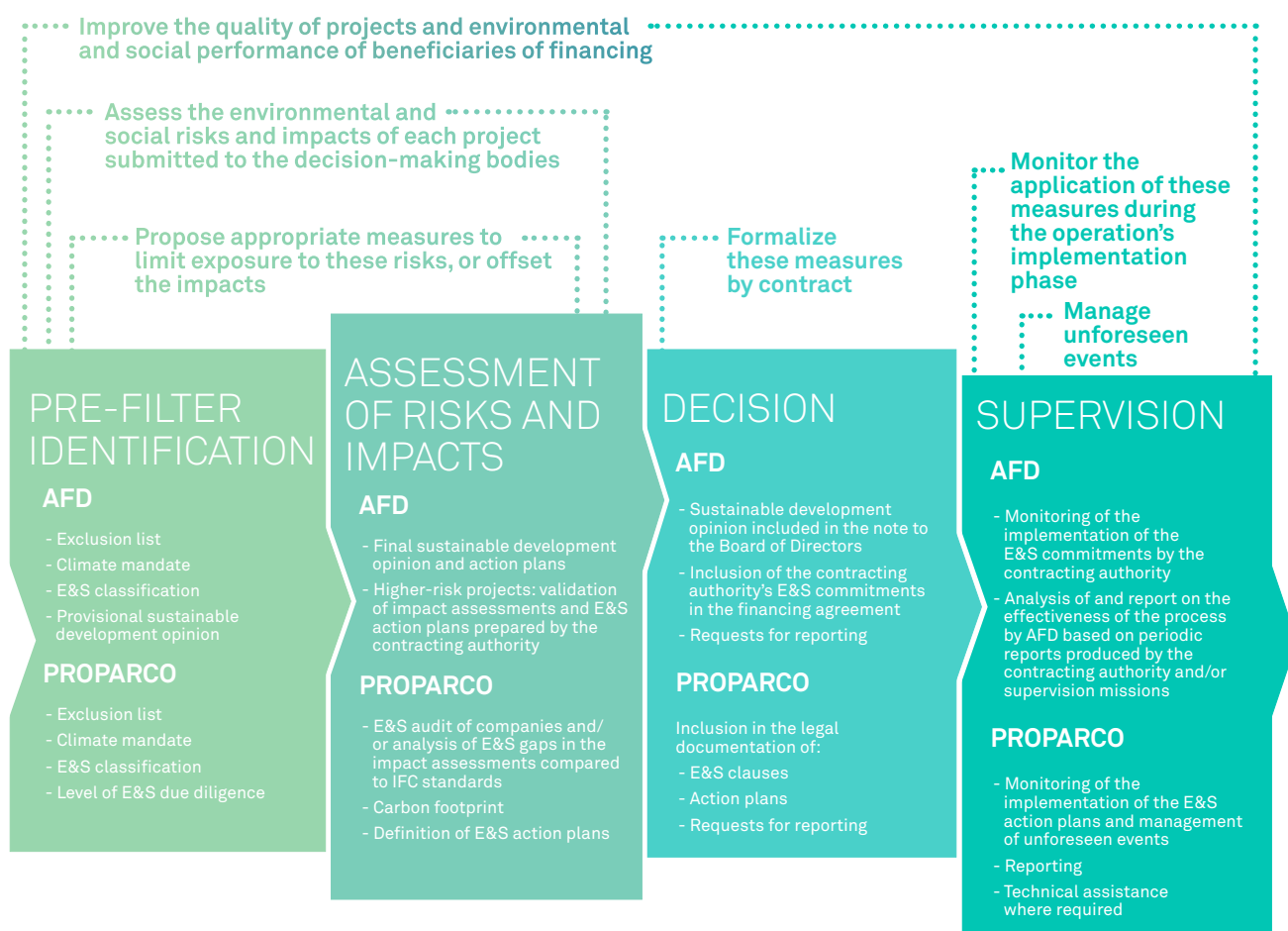
to monitor these commitments: job retention or creation, the reduction of CO₂ emissions, access for populations to essential goods and services, and support for companies on environmental, social and governance issues. Consequently, the new strategy focuses on PROPARCO's role in assisting its clients on these issues through advice or technical assistance.

In addition, Africa remains a core priority for PROPARCO – “the most African” development finance institution.

GRI G4-FS11

6.1.1 Environmental and social risk management during the project cycle

E&S RISK MANAGEMENT THROUGHOUT THE PROJECT LIFE CYCLE



Identification

AFD Group does not finance certain projects due to criteria of an ethical, regulatory, environmental and social nature. These criteria are set out in an exclusion list, which is validated by the Boards of Directors of AFD and PROPARGO and published on their websites.²⁵ In addition, in line with its Strategic Intervention Frameworks, the Group ensures that none of the projects it finances, whoever the initiator, contribute to forest degradation or deforestation and does not finance the purchase, promotion or multiplication of genetically modified seeds. In accordance with the law on development and international solidarity, AFD Group refuses to finance coal-fired power plants.

The assessment of environmental and social risks is crucial prior to any decision to allocate financing. There is a typology of risks for each sector, to which AFD Group responds in an appropriate manner via its environmental and social risk management process. A set of tools for *ex ante* assessment and environmental and social monitoring has been put in place for this purpose.

The monitoring of the environmental and social risk distribution concerns all AFD and PROPARGO "project" operations, whether they are financed directly or via financial intermediaries (banking institutions in particular). For 2016, all AFD and PROPARGO projects were subject to an environmental and social analysis and assessment, with tools adapted to the level of risk.

Given its specific features and environmental and social impact, which is negligible or impossible to assess, AFD's "non-project" financing is currently not subject to an environmental and social assessment. This is, in particular, the case for Global Budget Support (GBS), loan refinancing for Heavily Indebted Poor Countries, the Study and Capacity Building Fund (FERC) and the Governance Capacity Building Fund (FRCG). This is also the case for financing by the French Facility for Global Environment (FFEM) for projects initiated by NGOs and by MEAE, which have specific appraisal procedures.²⁶

²⁵ <https://www.afd.fr/media/download/4070>

²⁶ In 2016, 99.9% of commitment approvals were subject to an environmental and social assessment. For the breakdown of commitment approvals by financial instrument, see p.158 of the Registration Document (link in the Appendix).

2016 classification of projects by their level of environmental and social risk

Environmental and social risks of AFD's portfolio in 2016
(% of the number of project commitments)

Risk	Number	%
A	26	9%
B+	57	20%
B	67	23%
C	101	35%
IF ²⁷ -A	12	4%
IF-B	13	4%
IF-C	14	5%
TOTAL	290	100%

Environmental and social risks of AFD's portfolio in 2016
(% of the amount allocated)

Risk	Amounts (EUR M)	%
A	601	9%
B+	2,248	32%
B	1,967	28%
C	1,146	16%
IF-A	676	10%
IF-B	259	4%
IF-C	56	1%
TOTAL	6,951	100%

Environmental and social risks of PROPARGO's portfolio in 2016 (% of the number of project commitments)

Risk	Number	%
A	5	8%
B+	13	20%
B	2	3%
C	0	0%
IFA	12	18%
IFB	22	34%
IFC	11	17%
TOTAL	65	100%

Environmental and social risks of PROPARGO's portfolio in 2016 (% of the amount committed)

Risk	Amounts (EUR M)	%
A	98	10%
B+	304	31%
B	34	3%
C	0	0%
IFA	245	25%
IFB	233	24%
IFC	63	6%
TOTAL	977	100%

²⁷ FIs: Financial intermediaries.

Appraisal

For the higher-risk projects, the contracting authority conducts specific studies, with support from specialized consultants, such as an impact assessment and environmental and social audit, which describe the environmental and social risks and impacts, and propose the mitigation measures to be implemented. They are generally set out in an Environmental and Social Management Plan (ESMP).

For companies and financial institutions, AFD Group can request additional studies or audits in order to assess the compliance of their environmental and social management systems with international standards.

Decision

Following these procedures, the Group's specialized teams define specific environmental and social clauses and environmental and social commitment plans and management plans, which are included in the financing contractual documentation. Their implementation is monitored regularly, with support from independent consultants for the higher-risk projects.

Furthermore, attention is paid to ensure that the beneficiary takes the environmen-

tal and social dimension into account in the bid invitations, in order to give priority to responsible companies in the award of works contracts, especially for those with high impacts, and ensure that the recommended mitigation measures will actually be implemented. AFD has developed model bidding documents for this purpose, with enhanced environmental and social clauses, which are proposed to contracting authorities for the implementation of high-risk works. This procedure is now generally applied, as the model bidding documents for works contracts now systematically contain enhanced environmental and social clauses.

Supervision

AFD Group's specialized teams monitor the implementation of the environmental and social commitments by the beneficiaries of financing, through the monitoring reports they prepare, supervision missions, or with support from specialized consultants.

For projects with the highest environmental and social risk cofinanced with multilateral donors, it is necessary to provide for a Complaints Mechanism to be set up to allow the contracting authority to handle complaints. This mechanism gives people who may be

affected by projects the possibility of having a mechanism to collect and provide a response to their complaints and concerns related to the project impacts.

Finally, in 2016, AFD finalized the preparation of its Environmental and Social Complaints Mechanism, which allows any person or group of persons affected from an environmental or social perspective by an AFD-funded project to submit a complaint. This mechanism was launched in early 2017.²⁸

In early 2018, PROPARCO will join the common complaints management mechanism of the Dutch and German development banks (FMO and DEG), which was set up in 2013.

²⁸ This mechanism is described in more detail in Chapter 5.

GRI G4-S02

6.1.2 Due diligence by sector

AFD Group has adopted general policies to ensure that the Sustainable Development Goals are respected and promoted in all its activities. It also has a crosscutting exclusion list which indicates the types of project that it *a priori* refuses to finance due to criteria of an ethical, regulatory, environmental and social nature. Finally, it applies sustainable development policies to its sectors of operation, which are described below:

Mining sector

AFD Group appraises very few operations in the mining sector. For the operations appraised in this sector, AFD and PROPARCO carefully examine the institutional environment and ensure that the companies and governments strengthen the governance of the sector and improve their standards in terms of the management of the impacts that their activities have on the local environment and governance of the sector.

Major dams

AFD applies enhanced due diligence for projects to finance major dams, which includes taking into account issues related to natural resources and biological diversity, health, safety and working conditions, land acquisition, involuntary displacement and population resettlement, dam safety with regard to the impacts of climate change, etc.

Agriculture and food sector

"Zero deforestation" target

AFD Group ensures that none of the projects it finances, whoever the initiator, contribute to forest degradation or deforestation. Conversely, the agricultural projects supported must promote the conservation and restoration of forest areas and ecological corridors. The programs to extend or rehabilitate large plantations of perennial crops and for monospecific forestry apply an exemplary "zero deforestation" policy. This policy requires that there is no loss of primary forests or biodiversity and compensation actions for any loss of secondary forests.

Respect of land rights

The Group uses the "Operational Guide to Ex Ante Analysis of Agricultural Investment Projects that Affect Land" (perennial plantations, agro-industrial crops, hydro-agricultural, pastoral, forest structures, etc.). This grid was developed on the basis of the work of the members of the "Land & Development" technical committee, with the active participation of AFD and PROPARCO. It helps take account of the criteria for the sustainability of the investment, the equitable distribution of added value between farmers and companies, and compliance with land rights.

Sustainable fishing

AFD Group supports fisheries policies which aim to maintain or rebuild stocks, create added value by equipping actors onshore, obtain the environmental certification of fisheries, and strengthen public or professional institutions, which are essential in continuously adjusting the fishing effort and ensuring the measures adopted are respected.

In the context of its SIF for Food Security in Sub-Saharan Africa, AFD Group has undertaken not to finance research on or the purchase, promotion or multiplication of genetically modified seeds.

Energy

Renewable energy and energy efficiency a priority

AFD Group gives priority to financing renewable energy and energy efficiency, with the aim of reducing the energy divide and improving access in rural and suburban areas, but safe energy is also an objective (protection and strengthening of energy systems).

Gas and hydrocarbons: Towards energy security and a minimum environmental footprint

AFD now finances very few projects in the gas sector. The Group plans to launch a specific study on the investments it could support in this sector, specifying its position, the conditions for its operations in the different geographical areas, and the priority focuses for development, which will need to be part of a proactive transition combining energy security and a minimum environmental footprint. It will, in particular, be necessary to distinguish operations between countries which have natural gas resources and those which rely on imports. AFD finances initiatives, alongside the World Bank and other donors, to limit gas flaring and find economic opportunities for recovered gas, on isolated production sites.

AFD appraises very few operations in the infrastructure sector related to the extraction of hydrocarbons.

Biofuel development

The Group makes sure that biofuel development is strictly planned and supervised to ensure that it benefits local populations, complies with land rights, and does not compete with local agricultural food production. It also ensures that this production is environmentally friendly, is consistent with the "zero deforestation" target, and that the carbon footprint is positive.

AFD Group refuses to finance projects for coal-fired power plants if they are designed without CO₂ capture or storage.

6.1.3 Due diligence on human rights

AFD Group operates in countries where human rights are not always fully respected, despite the fact that these countries officially adhere to the relevant fundamental conventions.

The mandatory due diligence in the field of operations specifically looks at child labor, forced or compulsory labor, the impact of population displacements, the respect of the rights of indigenous populations, and the ban on operations in certain sectors.

Consequently, the issue of the application of international standards for human rights is constantly raised and integrated into the implementation of all types of project. AFD Group uses the IFC Performance Standards and World Bank Safeguard Policies for this purpose.

It is obligatory for the financing agreements signed with partners and beneficiaries to mention compliance with the ILO Fundamental Conventions, in order to make them legally binding.

6.1.4 Training

Various training modules are offered to Group employees to help them integrate human rights into project financing, gain an understanding of the contexts of operations and, more generally, strengthen in-house capacities.

→ In 2016, 1,188²⁹ hours of training were given at headquarters to officers on issues related to human rights. Two 3-day face-to-face training sessions on E&S risk management were held at headquarters in 2016 and had a total of 36 participants – project managers from headquarters and executives from local agencies.

→ In 2016, PROPARCO once again organized a training cycle for its investment officers, which is led by the "Environment, Social, Impact" team:

- Training on corporate governance was given to investment officers from the Private Equity Division;
- Training on monitoring the E&S commitments of financial intermediation projects was given to officers from the Banking and Financial Markets Division.

²⁹ This indicator was controlled by KPMG during the Management Report audit.

²⁹ The training taken into account is training on "gender and development", "child labor", "conflict-sensitive programming", "psycho-social programs, vehicles for development" and "environmental and social risk management".

GRI G4-DMA

G4-SO2

GRI G4-HR2

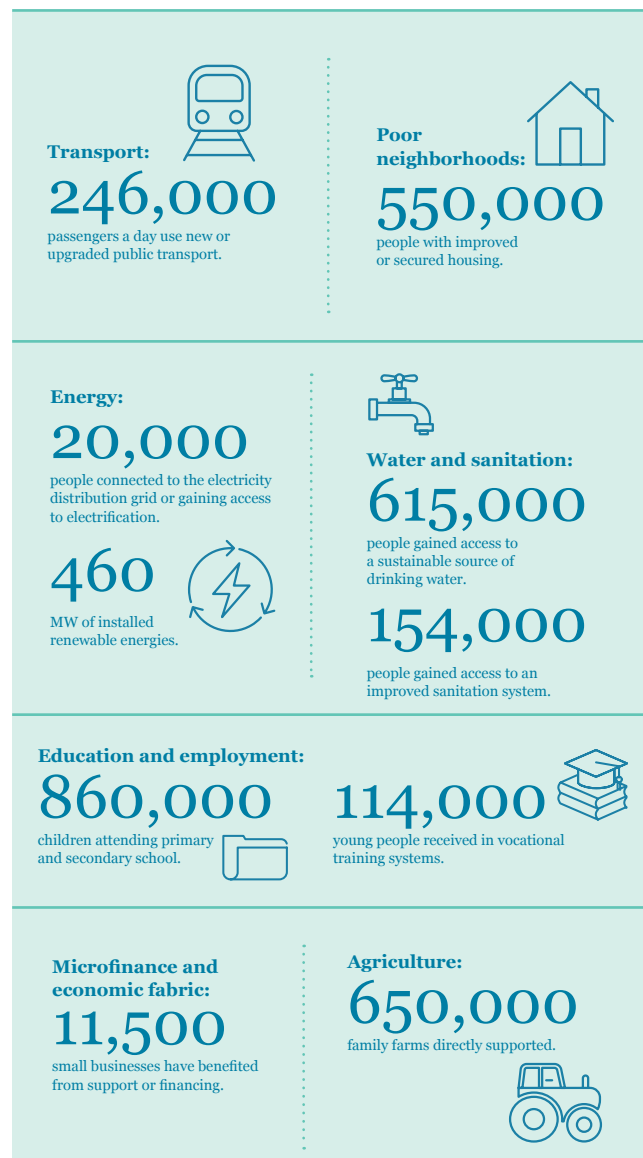
1,188

hours of training were given at headquarters to officers on issues related to human rights in 2016.

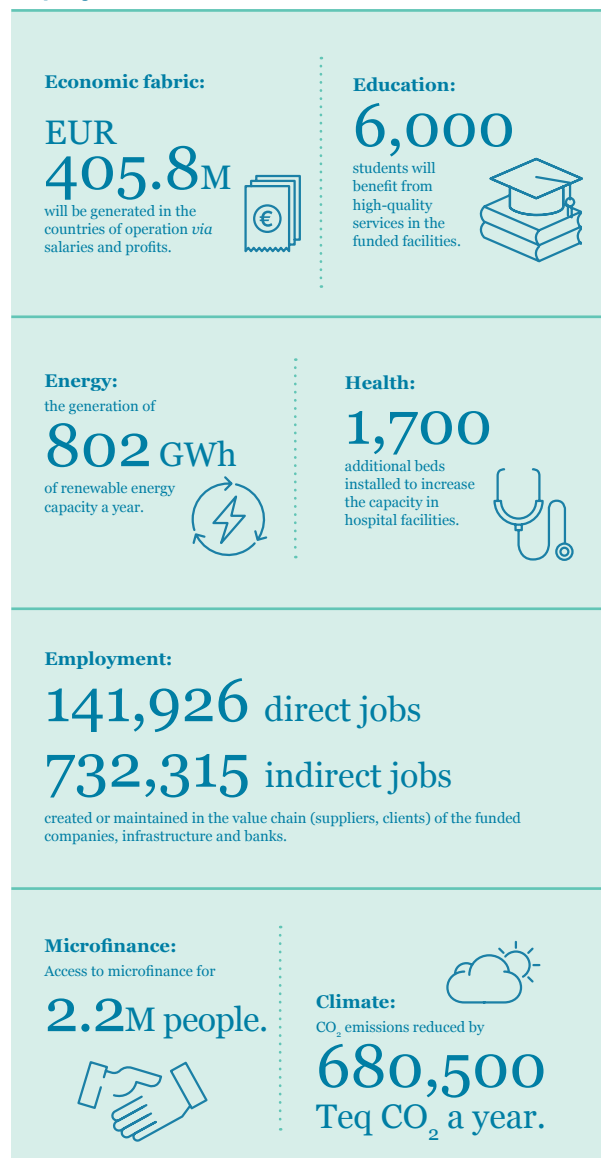
6.2 CONTRIBUTING TO THE SUSTAINABLE DEVELOPMENT GOALS

6.2.1 Our results in the field

AFD – Ex post results of 2016



PROPARCO – Overall expected results of projects committed in 2016



6.2.2 Sustainable Development Analysis and Opinion mechanism

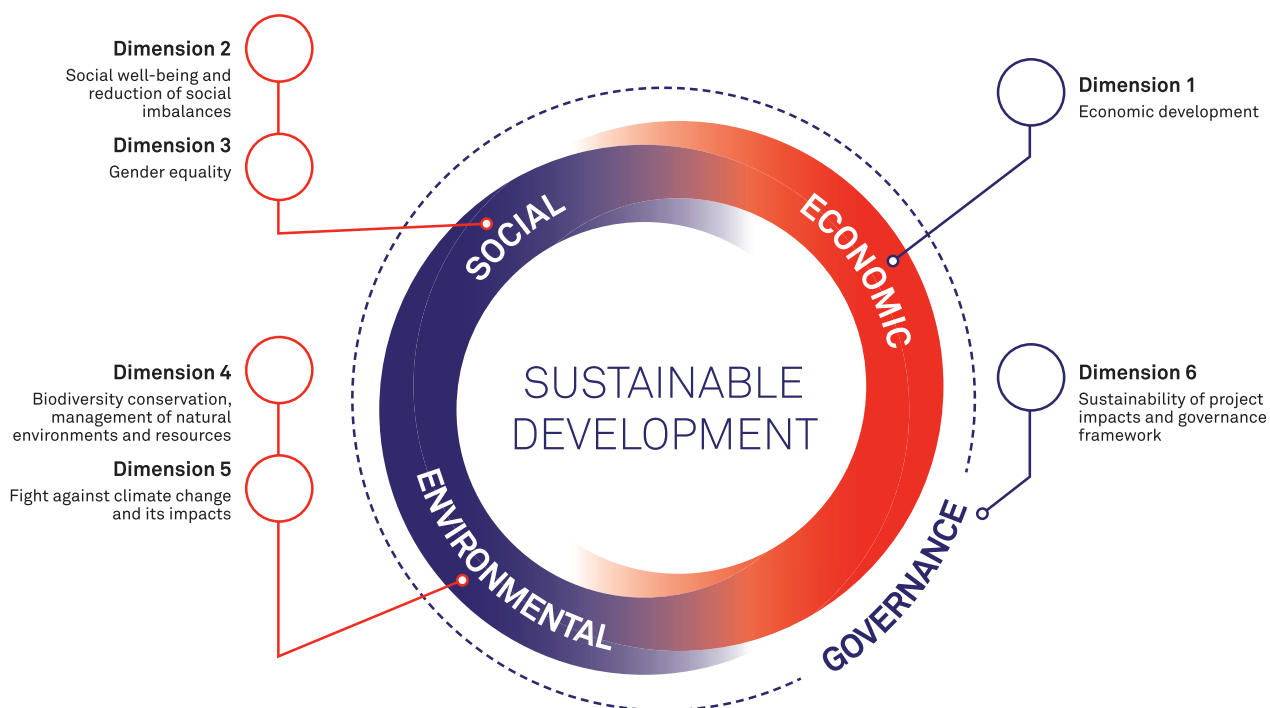
In 2014, AFD set up a “Sustainable Development Analysis and Opinion” mechanism. It aims to ensure that AFD-funded operations contribute to the different dimensions of sustainable development, via a questioning throughout the project appraisal process. This mechanism involves a “sustainable development analysis” conducted by the project team during the appraisal, which assesses the expected outcomes – either positive or negative – for each of the dimensions of sustainable development, and an independent “opinion” set out in the notes to the decision-making bodies. The sustainable development issues are addressed during dedicated committee

meetings, from the identification to the submission to the decision-making bodies, but also through an ongoing in-house dialogue or through discussions between the project teams and the counterpart on the sustainable development issues. The “Sustainable Development Analysis and Opinion” mechanism also involves actions for training in sustainable development, the analysis of sectoral and geographical strategies from the perspective of sustainable development, and the analysis of projects (“capitalization”) from this perspective. The aim is to develop methodological tools and coordinate the dialogue with project managers on these issues.

The mechanism now covers practically all AFD-funded projects.³⁰

In 2016, 70% of AFD operations concerned by this mechanism were subject to a sustainable development opinion. It was not possible to handle more projects due to human resources difficulties. However, the team responsible for issuing opinions was strengthened in late 2016. The “Sustainable Development Analysis and Opinion” mechanism has now also been well integrated into the project cycle, and the vast majority of projects have seen an improvement in terms of taking sustainability issues into account between the start and completion of the appraisal.

³⁰ On its own behalf and excluding low amounts (and excluding a few specific sensitive cases which need to be analyzed from the perspective of sustainable development).



The external review conducted by World Resources Institute, as well as a critical analysis report by a consultant on independent opinions, have made it possible to capitalize on the mechanism's three years of existence (including a one-year pilot phase) and chart the way forward. For 2017, several developments have been considered with the aim of building: i) a more robust methodology, in line with the SDGs and reducing the differences between the *ex ante* appraisal and *ex post* evaluation, ii) greater continuity between projects and strategies, iii) a mechanism focusing efforts on capitalization, incentives, and the construction of a common commitment to sustainability with counterparts.

6.2.3 Building the capacities of counterparts and partners

Special attention is given to the capacity of beneficiaries to successfully implement their projects, by managing debt risks or *via* capacity building tools.

The aim of the capacity building activities is to allow the contracting authority to more effectively manage the works contracts and handle the specific actions it is responsible for. Indeed, its lack of experience may be detrimental to their achievement.

AFD Group's two main support methods are to share its know-how (sectoral expertise and institutional arrangements for the project) and finance external expertise activities (training, exchanges of experience, technical assistance).

AFD's Center for Financial, Economic and Banking Studies (CEFE) contributed to building the capacities of AFD's partners,

thanks to 69 training actions implemented in 2016, with an increased use of distance learning, which reaches a wider audience. This training focused on topics such as public-private partnerships, project management, sustainable cities and territories, and inclusive finance. In 2016, CEFE contributed to building the capacities of over 14,800 executives (including 13,800 *via* an MOOC - Massive Open Online Course). They were mainly from Sub-Saharan Africa, North Africa and Southeast Asia. The beneficiaries of this training come from ministries, public institutions, local authorities, financial institutions, companies and NGOs, and include 72 young professionals enrolled on a long-term diploma course, the Master's Degree course in Public and Private Works and Project Management (MOPP).

AFD also supports capacity building with dedicated tools, such as the Study and Capacity Building Fund (FERC), the Governance Capacity Building Fund (FRCG), and the Technical Expertise Fund (FEXTE). All AFD's sectors of activity are concerned, whether it be for residential technical assistance and short-term expertise, or periodic expertise.

In 2016, the education sector was the sector of operation with the most financing for capacity building (24.9% of the total), followed by "water and sanitation" (19.8% of the total), "infrastructure and urban development" (19.4%) and "agriculture and food security" (17.5%).

In 2016, EUR 280m of financing (grants, loans or delegated funds) was allocated to finance capacity building for partners, i.e. 2.9% of the EUR 9.4bn of Group financing approvals.

Sub-Saharan Africa accounted for 55.5% of financing for capacity building, with EUR 156m, followed by multi-continent financing, with EUR 42m (14.9% of this financing), Asia with EUR 41.5m (14.75%), then the Mediterranean and Middle East, with EUR 24m (8.6%) and, finally, Latin America and the Caribbean, with EUR 17.6m (6.25%).

PROPARCO manages the technical assistance activity of FISEA (Investment and Support Fund for Businesses in Africa), which supports capacity building for companies located in Sub-Saharan Africa. FISEA invests in them either directly or indirectly *via* investment funds. The aim of the EUR 6.5m technical assistance facility is to contribute to these objectives, by helping improve the performance of companies through support for their capacity building: leadership and organization, marketing, human resources, financial management, technical functions. The FISEA fund is actively involved in the implementation of the Social Business strategy.

Capacity building and Corporate Social Responsibility

AFD and PROPARCO contribute to the dissemination of Corporate Social Responsibility standards and help the organizations it finances take ownership of these practices and implement them. Consequently, certain projects receive specific support and technical or financial assistance in this field.

For example, for several years, PROPARCO has been developing capacity building tools as a complement to its financial tools,

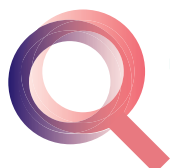
GRI G4-DMA

EUR 280m

were allocated to finance capacity building for partners, *i.e.* almost 3% of Group financing approvals.

36

companies or institutions improved their environmental and social performance in 2016 thanks to PROPARCO's financial support.



Focus

Partnership between AFD and a Martinique group: sustainably strengthening CSR capacities in the building sector

In 2016, a group in Martinique, one of the leaders in the building sector, launched an operation for its external growth, which aims to strengthen its position in the West Indies and French Guiana. AFD participated in the partial financing of the operation with three objectives: (i) help maintain or create jobs in the French overseas territories, (ii) support the development of a company in Martinique through the implementation of its strategy for geographical diversification and vertical integration and (iii) assist it in the preparation of its Corporate Social Responsibility policy.

For the last component, AFD's support resulted in an initial environmental and social support mission by its experts with the group. The aim was to build a mapping of stakeholders and identify the environmental and social issues on the basis of the ISO 26 000 standard. The group has continued its efforts in terms of CSR by conducting an in-depth diagnostic and adopted a CSR policy one year after the launch of the preparatory work for the in-depth diagnostic. The group's CSR commitments are based on an action plan and will aim to (i) enhance working relations and conditions, (ii) improve the economic and environmental impact of the activity, and (iii) support local development.

with a range of technical assistance services which aim to assist client companies in their governance and in-house management, or improve their environmental and social practices. In 2016, 11 new projects benefited from technical assistance, with a commitment amount of EUR 0.634m, and 36 companies, financial institutions or funds have improved their environmental and social performance with PROPARCO's support. The issues of social responsibility and sustainable development are also largely integrated into CEFEB's training programs, *via*

the Master's Degree course in "Public and Private Works and Project Management" (MOPP),³¹ technical seminars, the Lead Campus program, a high-level training program for young African leaders from the private sector, or MOOCs developed with support from AFD/CEFEB. An MOOC on the energy and ecological transition, which aims to sensitize AFD's partners in emerging countries to issues related to a more sustainable mode of development, will be launched in 2017. In addition, the development of an MOOC on the SDGs has been initiated in partnership with

the Virtual University of Environment and Sustainable Development (UVED).

Partnerships are also mobilized with associations or NGOs, with the aim of building capacities and raising awareness in terms of CSR.

³¹ Including an increasing number of participants who choose dissertation subjects related to this theme.

GRI G4-DMA

6.2.4 Impacts on biodiversity

G4-EN12

AFD has adopted a Crosscutting Intervention Framework (CIF) on Biodiversity for 2013-2016 in order to guide actions. The objective is to protect, restore, manage and develop ecosystems, mainstream biodiversity into development policies, and strengthen partnerships for biodiversity between France and developing countries.

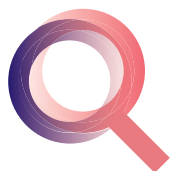
G4-EN13

For the four years of the implementation of the CIF (2013 to 2016), the average annual volume of commitments stands at EUR 235.7m, for an average objective of EUR 160m. In 2016, biodiversity commitments stood at EUR 337m, with EUR 29.9m excluding funds delegated by other donors. The amount earmarked for biodiversity in 2016 is higher than in previous years. This is due to both a few "earmarked" operations and the increasing share of "crosscutting" projects which contribute to biodiversity conservation.

17 million hectares benefited from conservation, restoration or sustainable management programs for biodiversity in 2016.³²

Finally, 15 Group officers followed 40 hours of biodiversity training in 2016.

³² Cf. Crosscutting Intervention Framework for "Biodiversity" 2013-2016 (link in the Appendix).



Focus

Partnership with the association RSE&PED to promote Corporate Social Responsibility in Africa

In 2016, AFD renewed its partnership with RSE&PED, a non-profit association under France's 1901 law, which promotes a responsible, sustainable and fair economy through awareness-raising, training, exchanges, information, and the networking of all actors in developing countries, particularly in French-speaking Africa. This partnership fits in with AFD Group's commitment to contribute to building the capacities of contracting authorities and actors in the South on these issues.

RSE&PED bases its actions on digital technologies and a firmly established base in Africa, thanks to its partners in about a dozen countries.

The association conducts its information mission via the website <http://www.rse-et-ped.info/en/about-us/>, which it set up in 2006. Over 11,800 articles have been published since its creation, and a free newsletter is sent to a community of 3,500 people every two weeks.

The association implements a webinar program for the training, awareness-raising and exchanges component. In 2016, 26 webinars were organized on a wide range of themes related to CSR, mobilizing over 800 participants and actors from recognized institutions (IFC, AFD, OECD, Global Compact, etc.).

6.2.5 Impacts on climate change

The fight against climate change and its impacts is now a key marker of the identity of AFD Group, which was one of the first international donors to mainstream this crosscutting issue into its practices and operations.

This approach was launched over ten years ago and is based on the principle that the fight against climate change and economic and social development are intrinsically linked. Climate change complicates poverty reduction efforts, by causing more and more frequent and serious damage in economically precarious areas, and can thereby hold back progress in countries in terms of development.

Climate change issues are mainstreamed into AFD's strategy through objectives formalized in the "Climate" strategy for 2012-2016:

→ achieve and maintain an objective for 50% of AFD's annual allocations³³ and 30% of PROPARCO's annual allocations in developing countries to have "climate co-benefits";

→ systematically assess the carbon footprint of projects: all directly financed projects (excluding budget support, financial intermediation and capacity building) must be subject to an *ex ante* analysis of their level of greenhouse gas emissions;

→ select projects with regard to their impact on the climate, taking into account the level of development of the countries in question. The impact of projects in terms of greenhouse gas emissions is taken into account via the application of a selectivity grid, which may lead to certain projects not being eligible for AFD financing, depending on the level of development of countries and their climate policies. This grid identifies 3 categories: mitigation project (<10kTeq CO₂ a year) or "neutral" project (<10kTeq CO₂ a year), emissive project (>10kTeq CO₂ a year), or highly emissive project (>1mTeq CO₂ a year).

In 2016, AFD Group committed over EUR 3.5bn³⁴ for the fight against climate change, corresponding to a participation in financing 83³⁵ development projects with "climate" co-benefits. Financing for mitigation (reduction of greenhouse gas emissions) accounted for EUR 2,797m – a sharp increase – and EUR 606m were earmarked for adaptation projects.

Among the projects with a significant carbon footprint calculable *ex ante*, it has been established that in 2016, 39 mitigation projects cofinanced by AFD Group will contribute to reducing or avoiding greenhouse gas emissions by 3.6mTeq CO₂ a year throughout their lifespan.

Direct financing for renewable energy projects accounted for EUR 858m. These projects contributed to increasing the hydro-power generation capacity in Pakistan and Côte d'Ivoire and to the development of solar energy in Bolivia, Benin and Central America.

AFD was also one of the first institutions to be accredited as a financial intermediary for the implementation of financing from the Green Climate Fund (GCF), in July 2015. It obtained its first financing, EUR 15m, from the GCF in September 2016, for a project totaling EUR 70m, which is also financed by AFD and aims to support a flood risk prevention program in urban areas in Senegal.

PROPARCO, for its part, officially received this accreditation during the 15th meeting of the Green Fund's Board of Directors on December 15th 2016.

GRI G4-DMA

G4-FS8

EUR 3.5bn

committed for the fight against climate change in 2016.

EUR 3.6m

Teq CO₂ avoided every year thanks to projects financed in 2016.

In 2014, AFD Group made its first Climate Bond issue, for EUR 1bn with a 10-year maturity.³⁴ The approach has been built on the Green Bond Principles in order to contribute to the creation of common standards. It is based on four main principles: the justification of the use of the funds, monitoring of flows, an external opinion and, finally, robust reporting, which in particular reflects:

→ the allocation of funds for eligible projects, based on a sectoral and geographical distribution, in line with banking sector practices and verified by auditors. These auditors will also verify that the outstanding amount for the earmarked projects corresponds at the minimum to the amount of funds obtained via the bond issue;

→ project examples;

→ the climate benefits, by indicating the value of the total carbon footprint of backed projects, estimated *ex ante*.

At December 31st 2016, 31 projects, representing a total outstanding amount of EUR 1.455bn for a total net commitment of EUR 2.1bn, were backed to this first

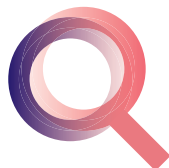
³³ The commitment for the Asia and Latin America regions stands at 70%. For the Mediterranean and Sub-Saharan Africa regions, it stands at 50% and 30%, respectively.

³⁴ This indicator was controlled by KPMG during the Management Report audit.

³⁵ This indicator was controlled by KPMG during the Management Report audit.

³⁶ See Appendix 1, "Climate Bond reporting".

climate bond issue. The potential for avoiding or reducing greenhouse gas emissions in T_{eq} CO₂ during the lifespan of the mitigation projects is estimated at 5,280,000 T_{eq} CO₂ a year.



Focus

French facility for the implementation of Nationally Determined Contributions (NDCs)

AFD has set up a EUR 30m Facility to support the implementation of the Nationally Determined Contributions (NDCs), a key issue for the Paris Climate Agreement. This facility will support 15 countries over the next four years (mainly countries in Africa, least-developed countries, and small island developing States) for:

i) the strengthening of their "climate" governance to ensure a successful implementation of their NDCs, by leading capacity building activities for all actors and in all territories;

ii) the translation of their NDCs into sectoral public policies backed to concrete action plans, concerning key climate change sectors;

iii) the design of transformational "climate" programs and projects, with a priority focus on adaptation, backed by a robust analysis of issues related to climate change vulnerability and the various potential adaptation solutions, and integrating the management of uncertainty.

In addition to this Facility, AFD will assist countries in mobilizing financing and partnerships to scale up the action taken.

6.2.6 Impacts on gender equality

AFD Group's action for gender is based on France's priorities, via the SDGs (SDG 5 and the crosscutting gender objective for the 17 SDGs), and the orientations of the last CICID meeting.

AFD Group, whose approach fits in with France's "Gender and Development" strategy, has been reporting on its action for gender equality since 2014.

Concerning AFD's Gender³⁵ strategy, projects³⁶ are examined with regard to their contribution to the objective of reducing gender inequalities. Consequently, AFD has made a commitment for at least 50% of projects financed in foreign countries to have promoting gender equality as the primary or secondary objectives, according to the definition of the OECD-DAC marker.

AFD aims to address four main gender issues through this operational commitment: (i) ensure access to basic services for girls and women; (ii) combat violence against women; (iii) ensure access to training, employment and financing opportunities for adolescent girls and women; (iv) ensure that younger and older women participate in project decision-making and governance.

In 2016, 51.1% of AFD projects³⁷ met the challenges of equality and have a gender objective: 43% of these projects were rated 1 (gender is a secondary objective) and 8.1% rated 2 (main objective), according to the DAC marker, i.e. a total of 113 projects with, in addition, the projects financed via the NGO window.

The projects from the NGO window aim to reduce gender inequalities by taking action on various aspects, which are often combined: care for victims of violence and exploitation, economic and social empowerment for women, equal access to services, sexual and reproductive health, citizen and political participation, access to rights, deconstruction of the social roles assigned to men and women...

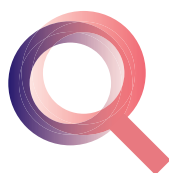
In 2016, several general interest projects (financing allocated in 2015) had gender as the main objective, including the project "For gender mainstreaming in French international solidarity organizations", led by Coordination Sud in partnership with F3E.

³⁵ Crosscutting Intervention Framework for Gender, approved by the Board of Directors meeting of March 2014, and available on its website: <https://www.afd.fr/media/download/487>

³⁶ This indicator applies to the following scope: loans and grants (209 Program project support, Trade Capacity Building Program, microfinance, Solidarity-Health-Sahel Initiative), C2Ds, financing for NGO initiatives. GBS, FERC, FRCG, non-earmarked credit lines and delegated funds are not included.

³⁷ Corresponding to 41.4% of AFD's financial commitments in 2016.

³⁸ Education, training, employment; health and social protection; private sector, entrepreneurship and financial inclusion; water and sanitation; transport and mobility; urban development; rural development, agriculture, biodiversity; energy; environmental and social due diligence.



Focus Istanbul agency continues its gender actions

In 2016, the Istanbul agency continued its gender actions by financing a project which aims to promote women's employment and occupational health and safety. It involves increasing a credit line to the financial institution TSKB, a Turkish development bank

which is highly proactive in terms of environmental and social standards (EUR 100m, of which at least 30% will be earmarked for women's employment). The eligibility for financing of a company financed via this credit line will be assessed using a self-assessment tool on the situation of gender inequalities, on the basis of qualitative and quantitative data. If the company's score card has a mark lower than the defined threshold, TSKB will refuse the financing or, otherwise, a gender action plan will be proposed thanks to the "Beyond compliance" function. The tool has fed into AFD's strategy, as other credit lines under appraisal use the same gender methods.

A number of relays have been set up for expertise, tools and training, with the aim of establishing an institutional gender culture:

→ the networking of 77 gender reference persons at headquarters and in the agencies;

→ the implementation of a set of 9 sectoral toolkits, with the sectoral divisions, with the aim of facilitating gender mainstreaming into sectors of operation, as well as into AFD's E&S due diligence.³⁸ In 2017, work was launched on also supporting the mainstreaming of these issues into the crosscutting themes of climate, governance, and crises-conflicts-vulnerability;

→ the development of 57 gender country profiles;

→ support from intellectual production activities;

→ the implementation of gender awareness-raising and training actions. Since 2014, 462 people have been sensitized, including 113 managers, and 246 officers have received 1-3 days of training, including 25 managers (in 2016, this training concerned 197 people, including 23 managers). A 2nd phase of sectoral training started at the end of May 2017 and will concern all project managers from sectoral divisions.

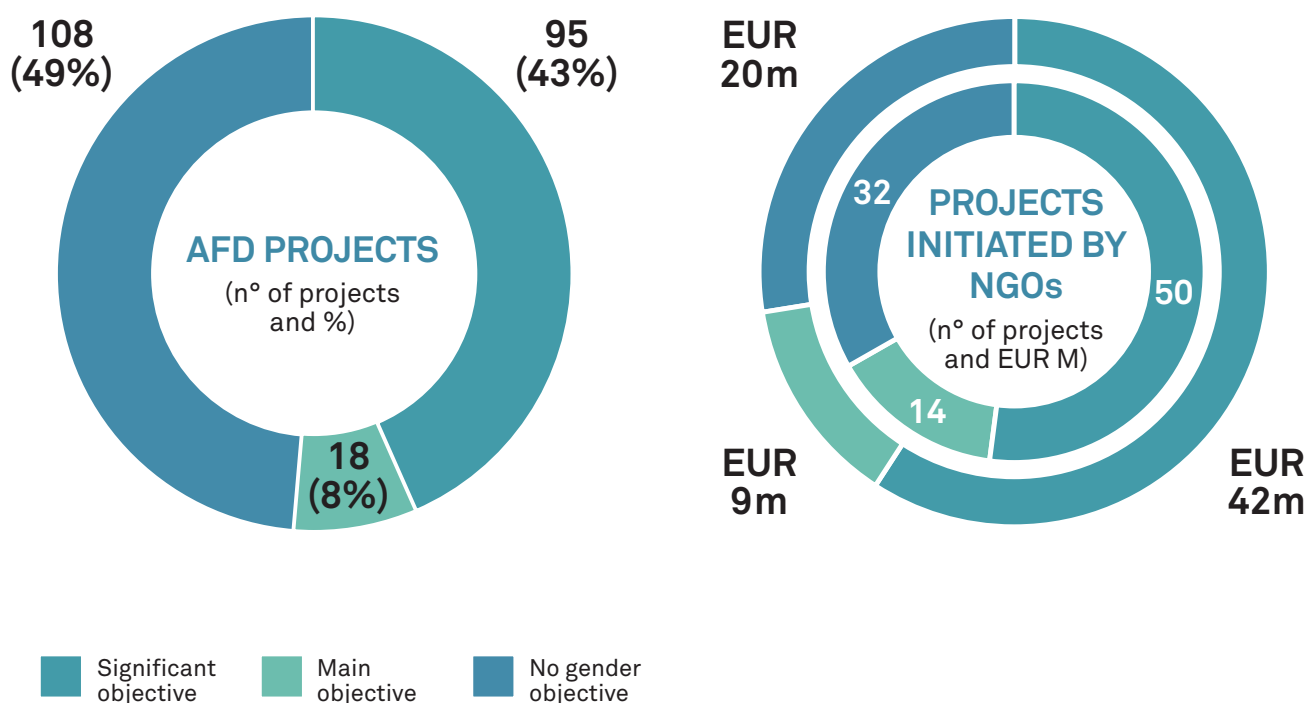
In the interest of transparency and effectiveness, all the gender tools developed by AFD are available at: <https://www.afd.fr/page-thematique-axe/egalite-des-sexes>

In 2018, France will adopt a new gender strategy, which for AFD will lead to the need to strengthen its commitment to mainstreaming gender issues into all its development instruments.

GRI G4-FS7

G4-DMA

NUMBER OF PROJECTS INCLUDING A GENDER DIMENSION IN 2016



GRI G4-FS6

6.2.7 Social Business

Social business is an important issue for AFD Group, as it acts as a catalyst for private initiatives and innovation for development. The objective is to support projects conducted by companies or private actors who want to give excluded populations access to essential services, such as health, education and financial services. It also involves promoting financially sustainable projects, which can be reproduced and are less expensive for public resources.

There are 3 criteria to define a social business:

- have a social or environmental objective, the aim of which must be the rationale of the enterprise;
- not be dependent on grants, and have an autonomous and sustainable economic model;
- have management practices that are consistent with the social objective, particularly in terms of governance, socially responsible practices and profitability targets.

Operations with companies from the inclusive economy are part of PROPARCO's strategic objectives, and also provide an opportunity for AFD Group to support more sustainable and shared economic growth and improve living conditions for the poorest.

6.3 CONTROLLING RISKS OF THE MISAPPROPRIATION OF AID, CORRUPTION, FRAUD, MONEY LAUNDERING AND TERRORIST FINANCING

GRI G4-58

G4-DMA

G4-SO4

Framework defined to more effectively prevent and monitor these risks

Corruption, fraud, as well as any form of misappropriation of public and private aid can lastingly jeopardize the Group's mandate to take action to support the most vulnerable populations. This is also the case for any financing that would, without the knowledge of AFD and PROPARCO, lead to being involved in a money laundering or terrorist financing mechanism. In order to avoid any involvement in either of these offences without its knowledge, AFD Group has adopted a general policy.³⁹ It is implemented through operational procedures, which set out the controls that need to be conducted by AFD Group officers at the various stages of the project life.

During project appraisal, due diligence is conducted on the counterparty and, where relevant, on its shareholding structure up to the beneficial owner. Specific due diligence is also conducted on politically exposed persons. During the project implementation phase, AFD Group also pays close attention to operations that may reveal fraudulent or money laundering practices warranting a specific analysis.

The foreign public procurement contracts financed by AFD Group are, for their part, subject to a specific control. This control ensures that the various stages of the procurement process take place under the requisite conditions of integrity, transparency, equity and efficiency.

AFD Group's financing agreements also include a number of clauses which impose undertakings on the counterparty in terms of the fight against corruption, cartels, money laundering and terrorist financing. These clauses make it possible to suspend disbursements, cancel the fraction of financing allocated to a contract for which irregular or non-compliant practices have come to light, and request the prepayment of all or part of the loan or grant which has been disbursed.

Finally, AFD Group is committed to participating in French policies to fight against tax havens and has adopted a rigorous and specific policy concerning the operations it conducts and projects it finances in Non-Cooperative Jurisdictions (NCJ).⁴⁰

This policy is based on two areas: (i) the first requires specific and enhanced due diligence when the legal arrangements for the project involve an NCJ; (ii) the second aims to specify the scope of the authorized operations and projects which AFD Group may finance in these territories.

Information reporting mechanisms

There is an in-house mechanism to report operational incidents. It allows AFD Group officers, via a reporting mechanism through their line management, to report any suspicion of irregular practices concerning projects. Group officers are also able to directly refer to the Director of the Permanent Control Department and her Deputy in charge of the Compliance Function.

AFD Group has also initiated work aimed at developing a professional whistleblowing mechanism, in accordance with the requirements of the Law of December 9th 2016 on transparency, the fight against corruption, and the modernization of economic life.

Training for Group officers

In accordance with applicable French regulations, AFD Group ensures that all its staff, including in its network of agencies, is regularly trained in and informed of the risks and applicable procedures in terms of the fight against money laundering, terrorist financing, and fraud and corruption.

This training is given via both e-learning and face-to-face sessions.

Two e-learning AML/CFT/Corruption training modules are available to Group officers. These modules were updated in 2016.

Modules are distributed depending on the officers, taking into account the risks identified in the activities conducted. Module 1 is intended for all officers, while Module 2 is specifically intended for officers concerned by AML/CFT/Corruption issues.

2,081 AFD Group officers were registered for this training in 2016. At December 31st 2016, 75% of the 2,081 officers registered for Module 1 had completed their training, and 70% of the 1,567 registered for Module 2 had completed their training.

In 2016, 416 AFD Group officers were also trained in the AML/CFT mechanism via face-to-face training sessions.

In 2016, AFD Group continued to implement its action plan, which aims to scale up awareness-raising and training for its officers in terms of preventing and fighting against fraud and corruption in and outside Group-funded projects.

In this respect, new recruits are trained by the Permanent Control and Compliance Department, in the context of dedicated training on the "prevention, detection and management of risks of corruption and fraud during and outside the project cycle". In 2016, 162 officers followed this training.

Furthermore, AFD Group staff received training in the risks of internal and external fraud which the Group could fall victim to ("fraud to the CEO", fraud on bank account identification – RIB, forgery, use of forgery, scams, theft, phishing, etc.). 16 officers attended this session.

Finally, in 2016, specific training on AML/CFT/Corruption was organized for agency staff for the first time. 12 African agencies attended this session and 18 officers were trained. A new on-site training session in agencies is also scheduled in 2017.

³⁹ AFD's anti-corruption policy is available on its website: <https://www.afd.fr/securite-financiere>

⁴⁰ Non-Cooperative Jurisdiction as defined by the General Tax Code, the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes, and Financial Action Task Force (FATF). AFD Group's policy on Non-Cooperative Jurisdictions is available on its website: <https://www.afd.fr/media/download/4064>

7.

PROMOTING A RESPONSIBLE ORGANIZATION IN ITS IN-HOUSE OPERATION

In a context of change and major strategic developments, which are combined with a rapid increase in the headcount, building and consolidating human capital is one of the key areas of AFD Group's human resources management strategy and is reflected in Corporate Social Responsibility commitments.

Consequently, the objective of this Corporate Social Responsibility as an employer is to provide the most favorable working conditions possible in order to attract and retain talented people, offer rich and motivating career paths, promote diversity in the Group, strengthen in-house cohesion and, finally, encourage a continuous and high-quality social and managerial dialogue.

In terms of AFD Group's environmental footprint, despite the fact that it is mainly indirect, the Group is extremely attentive to its direct environmental impacts. The in-house environmental responsibility approach thereby ensures consistency with the missions upheld by the Group, and constitutes a reputational issue which both employees and external stakeholders are increasingly sensitive to.

7.1 SUPPORTING CAREER PATHS FOR ALL AND A MEANINGFUL WORK ENVIRONMENT

7.1.1 Employment conditions Scope: Group

AFD Group today employs 2,349^v officers worldwide. Over the past ten years, the headcount around the world has increased by 44%. This development is characterized by a rejuvenation of staff, a higher average level of qualification, increased feminization – particularly for management functions –, as well as the development of the use of local skills in countries where AFD is established, by recruiting highly-qualified local executives in the agencies.

There was a marked increase in the number of recruitments in 2016, with 225 new employees (against 136 new employees in the previous year).⁴¹

Locally recruited executive officers account for 23.8% of the headcount in the network. In 2016, the total number of recruitments stood at 255 new employees (189 officers in the general framework and 66 local employees).^v

^v This indicator was controlled by KPMG during the Management Report audit.

⁴¹ In 2016, the Group employed a total of 164 more officers compared to 2015.

^v This indicator was controlled by KPMG during the Management Report audit.

⁴² Staff from temporary employment agencies.

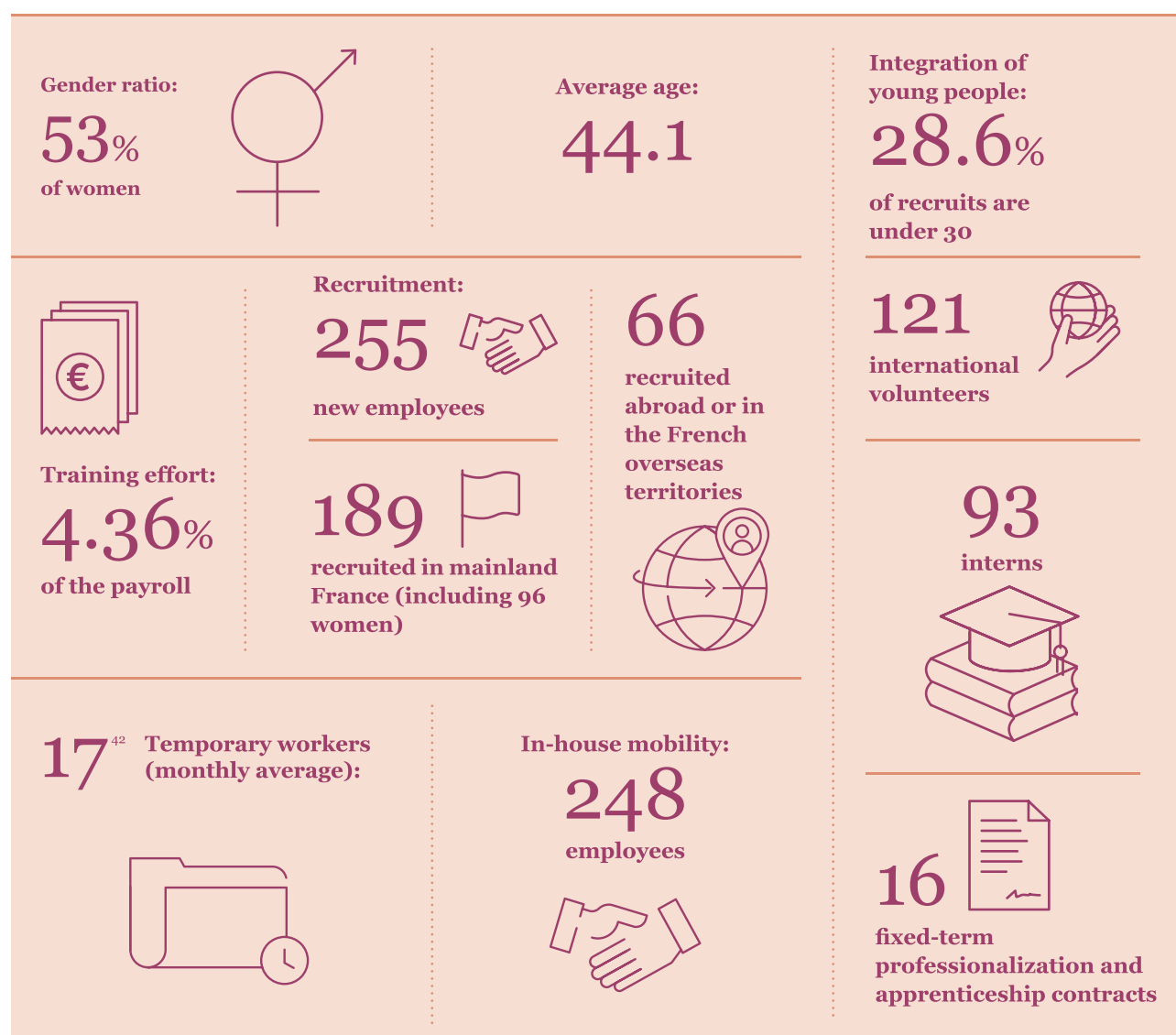
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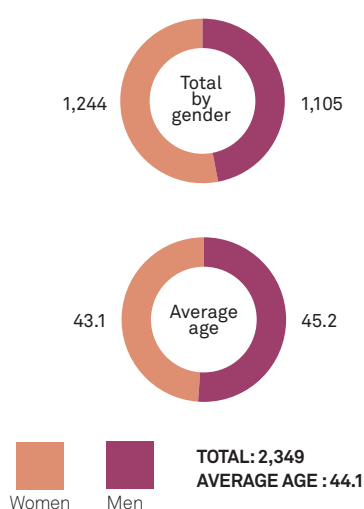
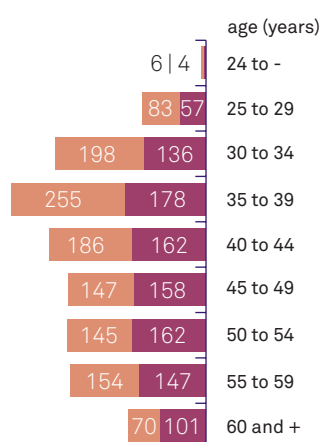
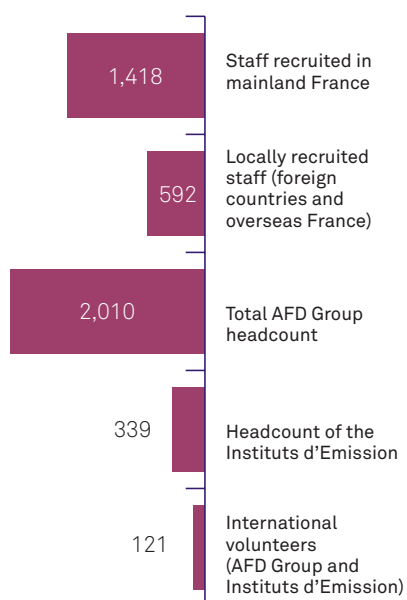
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G4-LA3



AFD Group headcount in 2016



Geographical breakdown of the Group “network” headcount (excl. France, the Instituts, TA, MAD, DET)

	Number of officers	%
French overseas territories	134	15%
Latin America and Pacific	78	9%
Asia	146	17%
Mediterranean and Middle East	106	12%
Sub-Saharan Africa and Indian Ocean	411	47%
TOTAL	823	100%

Recruitments and departures for officers on permanent contracts in 2016

Scope: Group

Recruitments	Officers from the general framework	Locally recruited officers	Total
Total	189	66	255
Incl. Instituts	1	7	8

In 2016, the total number of departures stood at 104^v worldwide (58^v officers from the general framework and 46 local employees).

Reasons for departure	Officers from the general framework ^v	Locally recruited officers ^v	Total departures ^v	Turnover rate ^v
Retirement	30	14	44	1.9%
Contractual termination	3	1	4	0.2%
Resignation	18	17	35	1.5%
End of secondment	4	0	4	0.2%
End of fixed-term contract	0	9	9	0.4%
Departure after trial period	2	1	3	0.1%
Dismissal	1	3	4	0.2%
Death	0	1	1	0
TOTAL	58	46	104	4.4%
incl. Instituts	2	4	6	

^v This indicator was controlled by KPMG during the Management Report audit.

^v This indicator was controlled by KPMG during the Management Report audit.

^v These indicators were controlled by KPMG during the Management Report audit.

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^v These indicators were controlled by KPMG during the Management Report audit.

Parental leave⁴³ Scope: France

All employees are eligible for parental leave.

	2012	2013	2014	2015	2016
Number of employees who left on childcare leave during the year	11	11	15	17	17
Incl.% women	100%	100%	100%	100%	88%
Incl.% returned or retained	100%	100%	100%	100%	76%

Social benefits depending on type of contract

AFD ensures that the salary level of its officers is competitive and motivating, both at headquarters and in the different agencies around the world. The wage policy applied is regularly analyzed for each market on the basis of common principles, but also by adapting this analysis to the different country contexts. Locally recruited officers have social benefits comparable to those of officers in the general framework.

Furthermore, all officers benefit from a redistribution of the fruits of AFD's economic performance (incentive scheme for officers in the general framework and the French overseas territories and a performance bonus for officers recruited locally in foreign countries).

The total compensation of AFD officers also includes a social protection component (healthcare expenses, pension schemes, disability insurance and retirement), which applies to all staff members, including the local staff recruited in agencies. AFD's pension scheme is subscribed in the form of Group insurance for which the contribution is entirely covered by the employer. It covers not only active staff members and their dependents, but also retired staff and their dependents.

Consequently, in 2016, all officers recruited in France and locally abroad were covered by social protection schemes. They are additional to existing schemes, where applicable.

The annual minimum gross wage provided for in AFD's staff regulations⁴⁴ is 25% higher than the French legal minimum.
(Scope: France)

Coverage of pension schemes

AFD officers who come under French legislation benefit from a three-tier pension scheme composed of the compulsory basic scheme, supplementary pension schemes (AGIRC and ARRCO schemes) and an additional pension scheme, set

up by AFD for all its officers. Unlike the first two schemes, this system is based on the principle of a capital funded pension and allows officers to build up retirement savings in addition to the compulsory schemes. Full entitlement applies to the savings, even in the event of a departure from AFD prior to the officer's retirement.⁴⁵

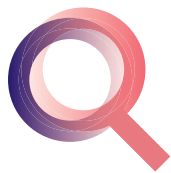
Quality of working conditions and staff safety

Following on from the actions undertaken since 2004 on psycho-social risks and the perception that employees have of their working conditions, an in-house perception survey was conducted in 2015 of all employees (general framework and local staff). This survey aimed to more clearly identify the expectations and perceptions of teams concerning management and organizational methods. The aim is to ensure that there is well-being in the workplace. The results of this survey will feed into all the reflection on the quality of life at work, with a view to a negotiation which will be initiated in 2017. Without waiting for this negotiation, several projects have been launched: an external psychological support mechanism has been devised and will be proposed to employees in 2017. Similarly, an open conference system will also be proposed to all staff (stress, burnout, motivation, mindfulness).

⁴³ Any officer with a minimum seniority of one year can benefit from full-time or part-time childcare leave.

⁴⁴ http://legifrance.gouv.fr/jopdf/common/jo_pdf.jsp?numJO=0&dateJO=20010325&pageDebut=04686&pageFin=&pageCourante=04686

⁴⁵ See also Registration Document 2016, paragraph 5.2 (link in the Appendix).



Focus

From occasional work from home to teleworking: flexibility in individual organization for collective efficiency

The occasional work from home introduced over 10 years ago under an enterprise agreement will change as of January 1st 2017, with a new regular teleworking system offered on an experimental basis. Consequently, 2016 was the last year for the application of the conditions for occasional work from home. Just as with the future teleworking, this system gave employees who are autonomous in organizing their working time the possibility of doing some of their work at home from time to time, subject to the agreement of their line management. This method of organizing working time is based on a voluntary principle and allows activities or periodic missions that do not require being in AFD's premises

to be conducted at home, for example, to draft reports, notes, or studies.

504 officers benefited from this arrangement in 2016, representing 5,438 days of work. As a comparison, there were 2,575 days of occasional work at home in 2015, meaning there has been an increase of 111.2% in two years. This flexibility given in carrying out their activity is an aspect of the quality of life at work expected by AFD's employees.

GRI G4-DMA

7.1.2 Development of skills and employability Scope: Group

G4-LA9

AFD Group has adopted a set of human resources management tools to recruit and integrate talented employees both in France and in its countries of operation, offer motivating career paths, and give everyone, via the training policy, the means to develop their skills and strengthen their employability.

For the Group's external recruitments, the skills primarily sought remain closely linked to the activities of technical and financial engineering, intellectual production (economics, politics), sectoral expertise (health, education), and the renewal of support and management functions (risk analysis, internal audit, project management, management control, back office...). This recruitment policy is combined with an integration system, which offers a comprehensive training and support program (sponsorship). In addition to a simple familiarization with the working environment, it provides a clear understanding of AFD's current and future strategic focuses, missions, challenges and procedures.

The Group offers diversified career paths – via its functional and geographical professional mobility policy – which permanently develop the skills AFD needs, both in its functional activities and in the field, and meet the professional aspirations of officers.

This is realized on the basis of a provisional management of jobs and skills (GPEC) approach. In 2015, the GPEC approach was extended to all local employees, with the aim of having an overall vision of the professional activities and skills, whatever the employee's status.

In addition to the deployment of these GPEC tools, the annual appraisal tools have been overhauled in order to take better account of skills in the appraisal of employees.

The career interviews, which support employees in their reflection on their career paths, have continued, with some 320 interviews conducted by the Human Resources Department in 2016.⁴⁶

The training policy offers a set of actions aiming at maintaining and sustainably developing the skills and the expertise of employees which AFD Group needs, in a context whereby development issues involve a number of disciplines and require mobilizing wide-ranging and in-depth skills: sectoral skills (energy, transport, water and sanitation, biodiversity, agriculture and food security, urban development, education, health...), financial skills, economics, project management, managerial skills...

In this context, training plays a crucial role in further developing the skills of employees, acquiring new skills, or strengthening their expertise.

A special effort went into the integration of new recruits this year. The integration process has been completely overhauled to support this strong increase in the headcount and an innovative "Onboarding" system has been set up.

2016 was also a year of significant growth in the training activity, which reached an exceptional level, both in the number of training hours given and in the number of officers concerned. To meet this objective, 41,526 hours of training were given in 2016. 81% of officers benefited from at least one training session, with 54% being women.

83% of executives followed a training course.

81%

officers benefited from at least one training session in 2016.

⁴⁶ The Law of March 5th 2014 introduces an obligation to conduct a professional interview every 2 years, for all types of contract, fixed-term or permanent.

The “accountable”⁴⁷ training effort corresponds to 4.36% of the payroll. This should be compared with the French legal obligation, which was 1.6%.

This training effort also concerns local officers working in agencies: in 2016, 188 local officers benefited from training for a total of 7,068 hours of training.

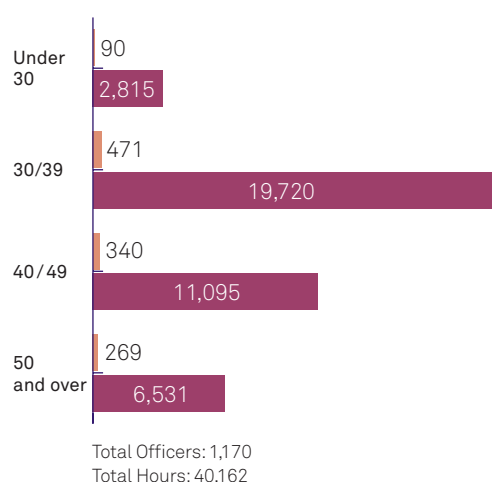
To implement this training, AFD Group in particular relies on in-house skills and resources, which allow it to offer a diversified provision tailored to its needs. Consequently, all the structures contribute to the development and dissemination of skills in-house. 48% of the training hours given correspond to training actions organized

in-house. The number of training hours given by in-house trainers demonstrates the considerable investment made by a number of employees and managers to pass on their knowledge and expertise: 4,583 hours were given in 2016, against 3,586 hours in 2015.

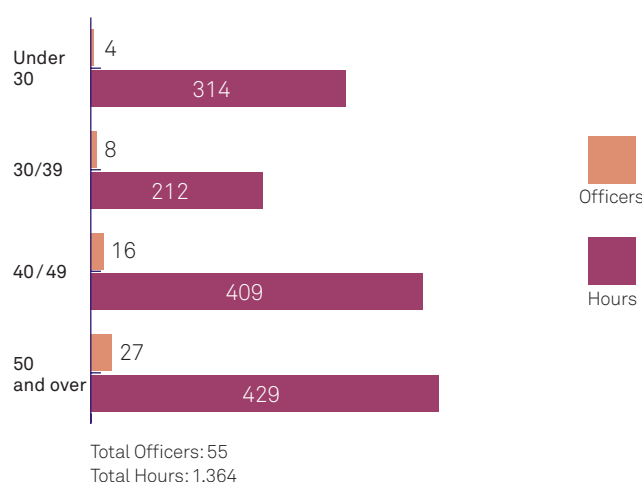
⁴⁷ The figure only concerns the accountable costs, in accordance with French legislation on training.

Breakdown of training hours by age bracket in 2016

Scope: AFD headquarters and network



Scope: Instituts headquarters and network



Breakdown of hours by theme in 2016

Scope: AFD and Instituts

	Hours
Banking/finance	4,689
Office automation	997
Development Fundamentals and Crosscutting Themes	12,980
Personal development, Communication and Human Resources	5,259
Specialized sectoral and technical expertise	6,552
Management/accounting	1,357
IT	2,968
Legal	1,025
Languages	2,949
Management	2,751
TOTAL	41,526

The training effort corresponds to

4.36%

of the payroll.

Breakdown of hours and officers over 50 trained by thematic area and gender in 2016
Scope: AFD and Instituts

	Men		Women		Total Hours	Total Officers
	Hours	Officers	Hours	Officers		
Banking/finance	309	29	148	16	457	45
Office automation	56	4	97	13	153	17
Personal development, Communication and Human Resources	502	77	417	57	919	134
Specialized sectoral and technical expertise	777	49	611	36	1,388	85
Development Fundamentals and Crosscutting Themes	643	49	523	30	1,166	79
Management/accounting	218	12	190	6	408	18
IT	445	66	178	42	622	108
Legal	94	22	44	12	137	34
Languages	236	34	208	20	444	54
Management	270	21	98	8	368	29
TOTAL	3,548	363	2,513	240	6,060	603

Officers are only counted once for each thematic area, but several times if they have followed training on different thematic areas.

G4-DMA

7.1.3 Social dialogue

Social dialogue, meaning what characterizes relations in the institution, as a result of regulatory social dialogue, dialogue between the manager and the members of his/her team and participatory approaches, is a pillar of AFD Group's policy. Indeed, in addition to providing a response in terms of social legislation, it is an essential vehicle for in-house equity, Group cohesion, commitment and skills development for employees.

7.1.4 Dialogue with staff and their representatives

The social dialogue in AFD Group is conducted on the basis of four key principles:

→ a constructive dialogue: the Management and staff representatives work together to support the Group's developments. Their joint action is characterized by the objective of seeking the collective interest;

→ the respect of everyone's prerogatives: the roles of the Management and representatives are complementary, without them being confused;

→ the professionalism of negotiations: AFD ensures that staff representatives are given the means to fully exercise their mandate (transparency of the information provided, training or external support in the event of complex negotiations...);

→ anticipation: through social dialogue, AFD seeks to find solutions to medium-term social issues, particularly in relation to societal changes.

Consequently, major changes planned at AFD are subject to negotiation procedures with trade union organizations and information and/or consultation procedures with staff representative bodies. A change in the organization leading to significant consequences on employment, training and working conditions, or on the general

operation of the institution, can only be made after a minimum period of one month dedicated to informing and/or consulting Staff Representative Bodies (IRP).

Number of meetings with staff representatives in 2016 *Scope: Instituts headquarters and network*

Works Committee	21
Staff representatives	12
CCE	7
Group Committee	1

Organization of staff representative bodies

Staff representation is organized as follows:

- a Works Committee at headquarters and four local Works Committees for the overseas departments (DOM) (which have over 50 employees) give a collective voice to employees for any questions relating to economic and financial developments in the institution, the organization and conditions of work, vocational training, and social protection. They also manage the social and cultural activities organized in the institution;
- a Central Works Committee meeting is organized twice a year with the representatives of the five Works Committees and addresses the economic and financial projects concerning all employees covered by French legislation;
- a Group Committee meeting is organized once a year with all the staff representatives of AFD and its subsidiaries;

- the committees for Health, Safety and Working Conditions at headquarters and in the DOM agencies work on staff protection and safety and on improving working conditions;

- staff representatives (headquarters and agencies) collect and present to the employer any individual and collective complaints made by employees about the application of the law, the statutes and joint appeals boards.

Elections for the Works Committee/staff representatives were held in March 2017.

A policy for the representation of local staff in foreign countries came into effect in 2016. Indeed, in order to make up for the lack of formal staff representation in a number of agencies, in particular due to a lack of local legislation in this field, the appointment of a "social dialogue contact person" has been introduced for all agencies in this situation with over 6 people. This initiative has increased the representation rate of local staff to 92%, against 56% previously.

Furthermore, compliance with social regulations and the organization of a dialogue in the agency are subject to a periodic control during inspections of the agency.

Collective Agreements

The employment contracts of AFD officers under French law are governed by specific staff statutes for each establishment (1 statute for the headquarters and 4 statutes for the DOM). The staff recruited in agencies abroad have an employment contract governed by a staff statute and a possible association with a collective agreement in the country in question (collective agreements of banks and financial institutions).⁴⁸

⁴⁸ Coverage: 100% of staff.

Review of Collective Agreements

Signing dates and purpose of the agreements signed in 2016

16/02/2016	Amendment to the Incentive Agreement
09/03/2016	Amendment to the Company Savings Plan (PEE) – (contribution rate)
14/04/2016	Amendment to the PEE regulation (addition of a mutual fund)
19/05/2016	Mandatory Annual Negotiation (MAN) 2016 – minutes expressing disagreement
17/06/2016	Agreement on the extension of the time period for consultation with CCE
20/07/2016	Agreement on the establishment of teleworking
07/12/2016	Agreement on the scheme for mortgage loans
07/12/2016	Agreement on the establishment of teleworking (cancels and replaces the agreement of July 20 th 2016)

The social negotiations with the Group's staff representative bodies in 2016 mainly focused on the salary review (MAN), mortgage loans and working time management (agreement on regular teleworking). This agreement on teleworking aims to make it easier to reconcile professional and private life and fits in with the negotiation on the quality of life at work (*Scope France*).

Disability Agreement: Review and outlook

The employment of persons with disabilities is an important issue for the Corporate Social Responsibility of AFD Group, which has been implementing a policy for several years for their integration, formalized by an agreement since 2007. In 2015, a new disability agreement was signed for 2016-2018, underscoring the objective of continuously developing more direct and indirect employment for persons with disabilities. In addition to these commit



New Disability Agreement for 2016-2018: Main commitments:

- Increase in the direct employment rate from 2.4% to 3%
- Recruitment of eight people with disabilities with a permanent contract and/or fixed-term contract of over six months
- Reception of at least four people on contracts for sandwich courses, apprenticeship or professionalization
- Reception of eight people with disabilities from the "protected" and "adapted" sector (ESAT and EA)

ments, awareness-raising and communication actions are regularly organized by AFD's Disability mission. In 2016, 165 employees, including 54 managers, were sensitized to the issue of disabilities in companies. 408 employees also attended various awareness-raising workshops.

Assessment of the first year of implementation of the Disability Agreement for 2016-2018

For the record, in 2015, AFD had 33 employees who benefit from the obligation to employ (BOE). In 2016, the number stood at 37 (2 new recruitments on permanent contracts, 3 new disability declarations and 1 retirement).

The results of the awareness-raising actions conducted during the year are as follows:

→ 165 employees sensitized to disability, including 54 managers;

→ 408 employees attended awareness-raising workshops.

Agreement on professional gender equality

Following on from the agreement signed in 2014 to promote professional gender equality, a revision amendment was signed in June 2015 and contains a set of quantified objectives, which aim to promote the professional development of women throughout their career and ensure that there is a balanced representation of women and men at all levels of the institution.

Ambitious objectives were set for 31 December 2016:

→ rate of executive women: 50% (achieved at the end of 2016: 49.2%);

→ rate of women managers (excluding heads of "unit"): 35% (achieved at the end of 2016: 31.4%);

→ rate of women in the network: 33% (achieved at the end of 2016: 29.5%);

→ rate of advancement and promotion of men and women proportional to the composition rate for each level of employment.

Gender equality is a core objective of AFD Group's actions, including in terms of in-house social responsibility. It involves the issues of both effectiveness and equity. The "AFNOR Diversity" certification launched this year will allow further headway to be made on professional gender equality.

Organization of the managerial dialogue in the Group

Dialogue in the Group is organized on the basis of the dissemination of information: information notes, in-house magazine "Echo des Continents", news disseminated very regularly on the Intranet Gaia... It is also organized in the context of meetings

between the Chief Executive Officer and officers, which allow AFD's activity, strategy and current important issues to be reviewed.

The field visits made by the Chief Executive Officer and directors provide opportunities for exchanges and dialogue with local staff.

Number of information and communication supports produced in 2016

Instruction and information notes	83
Echo des Continents	3
Gaia news	517

Participatory approaches

The commitment of employees is a guarantee of their success and professional and personal fulfilment. This commitment is also supported by collective approaches, which aim to promote initiatives and facilitate the development and implementation of new ideas.

7.2 REDUCING THE ENVIRONMENTAL FOOTPRINT OF IN-HOUSE OPERATION

The "in-house environmental responsibility" action plan is based on four areas:

→ EVALUATE: Conduct annual *Bilans Carbone®* (carbon footprint assessments) of AFD Group's in-house operation, completed with periodic environmental diagnostics and a regular monitoring of various impact indicators: energy and paper consumption, waste production...;

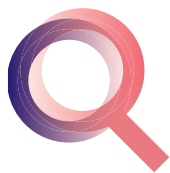
→ TAKE ACTION: Strengthen AFD's priority action plan to reduce its ecological footprint, with a focus on the following themes: responsible procurement, energy efficiency and renewable energies, travel, waste management;

→ OFFSET: Voluntarily offset the greenhouse gas emissions generated by AFD's activity by financing environmental projects in developing countries (purchase of carbon credits);

→ RAISE AWARENESS: Communicate to officers in order to sensitize them to sustainable development, both as professionals and citizens.

In order to address the environmental issues related to AFD's operation, actions to sensitize and promote initiatives are showcased *via* a dedicated Intranet website, in-house news releases and press articles, exhibitions, conferences,

and the creation of events during major international events ("Sustainable Development Week", "European Week for Waste Reduction", etc.).



Focus In-house environmental actions

A system to manage waste paper, bottles and plastic cups was set up in early 2016. This has led to the installation of paper collection points, which are located near photocopiers and available at the Barthes, Mistral and PROPARCO sites. Individual collectors have been distributed to each employee to support this approach. A service provider manages the entire collection and recycling service in France.

Voluntary collection points for plastic cups and plastic bottles are also available near the water fountains and drinks machines.

AFD Group is engaged in an approach for the responsible management of its publications. There has been a marked reduction in the distribution of paper publications since 2015. The external

printers selected also benefit from an environmental certification (FSC or PEFC).

For the first time, a "100% organic" meal was proposed to AFD officers in February 2016, at the initiative of its mass catering partner. On this occasion, all the dishes on the menu were made with products from organic farming and were, where possible, "local". AFD also decided to gradually increase organic due diligence in its contract, from 26% to 30% in 2018. Its commitment is also expressed in the social due diligence, with the marker set at 12% of employees in professional retraining.

Finally, operations to raise awareness of in-house environmental responsibility are conducted in the Group every year: European Week for Waste Reduction in November, Sustainable Development Week in early June... One-off workshops are put on during these events, for example, on how to repair PCs, on bicycle maintenance and repairs, to distribute mugs, raise awareness of eco-responsible conduct, visits to carbon offset projects...

The network, for its part, is also actively mobilized. For example, the following actions are worth mentioning:

- Antananarivo: use of LED in offices, acquisition of eco-friendly furniture;
- Bangkok: purchase of paper with 40% of eco-fibers, extension in the duration of use of equipment;
- Brasilia: use of recycled paper (with white paper only being used for official correspondence), donation of IT equipment to a local support association working for inclusion;
- N'Djamena: installation of photovoltaic panels on the roof of the agency, purchase of certified supplies and paper, promotion of professional carpooling...

7.2.1 Issue of professional travel

Professional travel by officers and consultant missions is AFD Group's main item for greenhouse gas emissions and accounted for 51.6%⁴⁹ of total emissions at headquarters in 2016. This travel is inherent to the field missions, which are essential for the appraisal and monitoring of projects. Reducing this item of emissions poses a challenge for AFD, given the international nature of its action.

AFD Group has set out to effectively contain the emissions related to travel by implementing solutions to reduce them, such as videoconferencing and teleworking.

7.2.2 Carbon offset

At the same time as reducing carbon emissions, the voluntary process towards carbon neutrality is part of AFD's environmental approach.



Two carbon offset projects were financed in 2016, allowing all the Group's emissions to be offset.

In 2016, the acquisition of carbon credits fully offset AFD Group's greenhouse gas emissions for 2015, i.e. 27,525Teq CO₂.^v Two projects were consequently financed: a biomass project in Brazil (in Pará State, at the mouth of the River Amazon), as well as a drinking water purification project in Kenya, which had already been supported in 2015.

In 2017, the next credit acquisitions will offset the Group's 2016 carbon footprint, i.e. 33,361Teq CO₂.

⁴⁹ Cf. headquarters carbon footprint.

^v This indicator was controlled by KPMG during the Management Report audit.

GRI G4-DMA

G4-EN30

8 ■

METHODOLOGICAL NOTE

8.1 DETERMINATION OF THE CONTENT OF REPORTING

AFD Group's Corporate Social Responsibility Report firstly aims to meet the requirement of accountability towards internal and external stakeholders, in particular by enhancing the clarity and accessibility of information.

This process, identifies and prioritizes the main Corporate Social Responsibility issues of the organization. The interest and added value of this type of exercise lie in the capacity to provide a consensual view of the priority issues, in order to select the most relevant qualitative information and indicators for the Corporate Social Responsibility Report.

The issues are predefined by the Global Reporting Initiative (GRI-G4 "Aspects") and its sectoral NGO and Financial Sector supplements. They are structured according to the following categories: Economic (7 issues), Environment (12), Labor Practices (8), Human Rights (10), Society (7) and Product Responsibility (14), i.e. a total of 58 categories.

The materiality analysis of AFD Group was conducted in 2015, by combining internal sources of information (employees, managers...) and external sources (press reviews, external studies and reports, surveys, interviews...). It is consistent with the CSR commitments and Action Plan.

The methodology adopted to identify material issues was as follows:

→ the analysis was firstly based on issues predefined by the GRI following the approach proposed by this reference system, which led to the identification of 58 CSR issues falling within the scope of AFD's activity;

→ secondly, an initial pre-positioning of the material issues deemed the most significant for AFD was conducted on the basis of a documentary analysis:

- a set of documents (120) representative of AFD Group's strategy and the expectations of external stakeholders identified over the past five years was analyzed by the independent consulting firm Deloitte, which openly provided its analysis methodology and shared the results with AFD. It involves in-house strategy papers, action and activity

plans, surveys, reports on internal and external meetings and interviews, communication supports, press articles, NGO reports and reports from non-financial rating agencies;

- 29 documents were subject to a quantitative analysis of the frequency of occurrence and the importance given to Corporate Social Responsibility issues. The other documents were subject to a qualitative analysis of the content addressed;

→ a benchmark of material issues identified by comparable institutions allowed the practices of peers and the practices of the sector to be taken into account;

→ qualitative interviews were conducted with members of Senior Management to gather their perception of the main Corporate Social Responsibility issues for AFD in general, and in their scope of responsibility in particular;

→ adjustments were made throughout the process, with GRI terminology being adapted to AFD's activity.

Following these stages, a list of 16 material issues was defined and validated by a Senior Management decision.⁵⁰

These issues are as follows:

- economic performance;
- transparency on the financing allocated;
- dialogue with local stakeholders;
- management of the grievances related to the impact of our activities;
- coordination with the other development actors;
- impact of our activities on development;
- impact of our activities on climate change/biodiversity/gender equality;
- analysis of environmental and social risks and monitoring during project implementation;
- human rights;
- capacity building;
- financial security, fight against fraud and corruption and AML/FT;
- ethics;
- development of skills and employability (staff at headquarters and local staff);
- transparency over social information;
- social relations (including social dialogue and the manager/employee dialogue processes);
- impacts of travel on climate change.

⁵⁰ This materiality matrix was updated in May 2017. The new matrix is given in Chapter 3. The 2016 report continues to refer to the materiality matrix established in 2015.

GRI G4-18

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AFD Group sets its report within the technical frameworks of the Global Reporting Initiative (GRI G4), ISO 26000 and Global Compact.

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G4-18

G4-20

G4-21

G4-22

G4-23

G4-28

G4-29

G4-30

8.2 SCOPE AND PERIOD OF REPORTING

The scope of the reporting comprises the parent company AFD and its majority-owned subsidiary PROPARGO. These structures account for 99% of the total balance sheet and consolidated net banking income.⁵¹ In the event where an indicator does not cover the entire scope of the reporting, the scope presented is specified and the reason for which the publication is partial is explained.

The reporting is conducted once a year. AFD Group's first Corporate Social Responsibility Report was published in 2012 and concerned 2011. The 2016

report covers the period from January 1st to December 31st 2016. In cases where the data have not yet been calculated for 2016, the qualitative data for 2015 are given. This report also includes some highlights (qualitative data) from the first quarter of 2017.

No significant change has been identified compared to the previous period concerning the scopes, period and methodology of the reporting.

GRI G4-32

8.3 METHODOLOGY TO CONDUCT THE REPORTING

The qualitative and quantitative data in this report have been collected and consolidated in accordance with the Group's current administrative management procedures. The data provided have been established based on exchanges with the reference persons in their departments and various documents (reports, evaluations, etc.). Monitoring dashboards are used to trace and consolidate the data supplied.

In 2017, an examination of the information on Corporate Social Responsibility in the 2016 Management Report has been conducted by one of our auditors designated as an independent third-party body, the consulting

firm KPMGS.A., in accordance with the rules of Article 225 of the Grenelle Environment Act. The indicators verified in this context are marked with a "V" in the text. The independent third-party body has expressed a conclusion of moderate assurance, based on the fact that all the significant aspects of the Corporate Social Responsibility information, taken as a whole, are presented in a sincere manner in accordance with the Reference Framework.⁵² The report by the independent third-party body is available on AFD's website.

GRI G4-32

8.4 REPORTING SUPPORTS

For more clarity, the content of the 2016 Corporate Social Responsibility report is based on three supports:

- this document, "AFD Group 2016 Corporate Social Responsibility Report", an exhaustive technical document in line with the GRI framework;
- a document, "Corporate Social Responsibility – 2016 Commitments and Results", a summary communication support;

→ the section "AFD's Corporate Social Responsibility" on AFD's website, which presents, in addition to the two reports mentioned above, the specific policy documents (action plan, exclusion list, financial security, environmental and social risk management, etc.).

The Corporate Social Responsibility Report may be read as a complement to the 2016 Annual Reports of AFD and PROPARGO, which are mainly intended for the general

public, and the Registration Document, which is intended for financial market actors. All the non-financial data relating to social matters required by French law are given in the latter (Law on "New Economic Regulations", amended in 2010, and "Grenelle 2" Act).

⁵¹ For further information, see paragraph 1.3.1 of the Registration Document 2016 (link in the Appendix).

⁵² Reasoned opinion on the fairness of the CSR information.

8.5 VERIFICATION OF THE REPORTING

8.5.1 Internal audit

The Corporate Social Responsibility process is subject to validations at various levels of the organization to ensure the data is reliable:

→ at the level of “direct contributors” (project managers, directors of geographical areas, etc.): control of the consistency and completeness of the data entered in the tools or transferred to the reference person;

→ at the level of the “reference persons”: the reference person controls the data, which he/she consolidates *via* consistency controls and random controls prior to transferring them to the CSR team;

→ at the level of the “CSR team”: the data received for consolidation are subject to consistency controls and a joint analysis with the reference persons to identify needs and possible areas of improvement in terms of management.

8.5.2 External audit

The external auditors are appointed by AFD's Chief Executive Officer for one year. They are accredited by Cofrac (French Accreditation Committee) as independent third parties. For 2016, AFD decided to entrust this external verification mission to the audit firm KPMG.

The data sources, as well as the data measurement, calculation and consolidation documents, must be verifiable by the external auditors. The corresponding documents and supporting documents (invoices, meter readings, calculation files, time sheets for training, etc.) must be kept and made available for a minimum of 3 years. The archived data must also be accessible to the auditors. The contributors are consequently made aware of the importance of this traceability.

The calculation, measurement and analysis methods used comply with the appropriate national or international standards, when they exist. If they do not exist, documentation concerning the methods used must be retained and kept available.

The audit of the Corporate Social Responsibility Report concerns the presence of information with regard to the criteria required by the GRI content index. In a first stage, AFD has decided to answer the GRI-G4 “core” option.

According to the assessment methodology recommended in the GRI G4 Implementation Manual, the self-assessment of the Corporate Social Responsibility reporting of the Group for 2016 leads to the “core” option.

GRI G4-32

G4-33

8.6

Index GRI G4 content

The index of the content of the GRI G4 is available on AFD's website:

<http://gri.afd.fr>

GRI G4-32

8.7

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GRI G4-31

8.8 REPORTING ON THE ENVIRONMENTAL AND SOCIAL RISKS OF PROJECTS

The classification of the environmental and social risk is systematically validated for all projects during Identification Committee meetings, on the basis of a classification tool mentioned in the Operational Procedures Manual. The units in charge of environmental and social risk management keep an environmental and social risk classification table up to date

for the projects identified. This table is compared to the tables for the commitment approvals allocated during the year by the decision-making bodies of AFD Group, which come from AFD Group's information system (SIOP), in order to produce the statistics given in the Corporate Social Responsibility Report.

8.9 REPORTING ON THE IMPACTS OF FINANCING IN THE FIELD

AFD has adopted a number of tools and methods to strengthen the measurement of the results of its operations. They include aggregatable indicators, which are specifically oriented with a twofold purpose of institutional communication and to contribute to the analysis of AFD's strategic positioning. PROPARCO has adopted a tool developed by its German counterpart, DEG.⁵³ This tool, which is common to a number of European development finance institutions, called GPR (*Geschäftspolitisches Projekt-rating*)⁵⁴, has been adjusted to the needs and realities of PROPARCO.

The effective development results indicators for AFD Group operations were validated during the CICID meeting and confirmed in the LOPDSI Law. They were implemented back in 2013 and the publication of the data for 2013 in the 2014 Annual Report constituted a first structural stage in terms of accountability. AFD now has historical data dating back to 2012, and will continue its approach to analyze and communicate on these results.

PROPARCO has been measuring the expected outcomes of its operations since 2008. Since 2015, it has been measuring the significant contribution that its operations make to the SDGs.⁵⁵ The annual

analysis of these outcomes, and of *ex post* evaluations, is presented to the Board of Directors every year. Furthermore, a study on the topic of employment in infrastructure, as well as an *ex post* study on investment funds, were finalized in 2016. An *ex post* study on credit lines was also launched in the same year.

⁵³ <http://www.deginvest.de/>

⁵⁴ Geschäftspolitisches Projekt-rating (Corporate-Policy Project Rating): adaptation of the mechanism developed by Germany's DEG.

⁵⁵ Its monitoring indicators are based on SDGs 3, 4, 5, 7, 8, 9, 10, 12, 13



Since 2015, PROPARCO has been measuring the significant contribution that its operations make to the SDGs.



Focus Results indicators: the main principles

The results indicators were introduced with the aim of quantifying and consolidating, in a summarized form, the outcomes of AFD's operations in foreign countries (since January 1st 2004), and in the French overseas territories (since January 1st 2005).

These indicators, which are monitored every year, have been subject to an overall assessment of eight years of use. The diagnostic was completed in March 2013, and the indicators were subject to a revision, which takes into account the lessons learned from this study.

These indicators are called "aggregatable indicators" and are quantified indicators which include indicators on achievements and outcomes. They are consequently positioned between monitoring the means and the impacts themselves, for example:

- means: financial commitments;
- achievements: number of schools built, number of health facilities built...;
- outcomes: number of children entering school, number of beneficiaries of health facilities...;
- impacts: improvement in the literacy rate, reduction in the mortality rate...

The aggregatable indicators are not, strictly speaking, impact indicators. They measure the achievements and outcomes made possible by the initial means mobilized by external financing. Consequently, the achievements and outcomes are the most tangible instrument that can be monitored during the cycle of operations.

To take this further, the impact assessments estimate the effect which can be directly attributed to an operation, by comparing situations before and after the operation between the beneficiary group and a comparable control group.

The impact indicators do not allow the impacts of the action of Official Development Assistance to be rapidly identified. These impact indicators ("child mortality", "literacy rate"...) generally have a high level of inertia and are statistical measurements of highly complex phenomena on which Official Development Assistance (ODA) generally only has a partial impact. They also very often depend on the complex major macroeconomic and socio-demographic trends. In addition, the time factor plays an important role in them.

To measure the outcomes of cofinanced projects, AFD applies a "contribution" rationale. This rationale consists in considering that AFD's contribution participates in achieving the overall outcome of the funded project or program. This means that in the case of a cofinanced project, AFD contributes to all the project outcomes and does not only attribute certain outcomes to itself, which would only be attributable to the components it finances, or part of the overall outcomes in proportion to its financing.

In 2006, a decision was made over the question of quantifying the aggregatable indicators in proportion to the share of AFD's financing: the quantification is carried out for the entire project/program, and the compilation of the aggregatable indicators includes AFD's "effort ratio", i.e. AFD's share in the total financing. This choice stems from the combination of two arguments:

1. the approach taken is that of the contribution to and not the attribution of development outcomes, in line with the Paris Declaration on Aid Effectiveness;
2. the monitoring of implementation and final evaluation concern the entire investment financed.

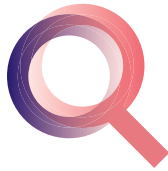
AFD has a guide which aims to provide a methodology on how to use and estimate aggregatable indicators for its operations in foreign countries. It gives an overview of all the questions the user will have to address when dealing with these indicators. It is also a support for reading and understanding the development outcomes estimated by AFD thanks to the aggregatable indicators.

→ User Guide for Aggregatable Indicators in Foreign Countries (2007);⁵⁶

→ User Guide for Aggregatable Indicators in the French Overseas Territories (2007).⁵⁷

⁵⁶ <https://www.afd.fr/media/download/4075>

⁵⁷ <https://www.afd.fr/media/download/4074>



Focus PROPARCO's tool to measure results and impacts

In addition to rating the risks of the counterparty, the profitability of the operation, the alignment with PROPARCO's strategic orientations and its advisory role, the *Geschäftspolitisches Projectrating®* (GPR) tool assesses the impacts that the various types of funded projects have on development, *i.e.*, in particular, the impacts of operations on public revenues, employment, training, the transfer of know-how,

governance, environmental and social performance, the social impacts (social protection, salaries, non-discrimination, gender) and environmental impacts (green projects, ecological footprint, certification efforts...), as well as the local accessibility of products and services.

8.10 REPORTING ON IN-HOUSE SOCIAL RESPONSIBILITY

AFD's social reporting has been developed using the Human Resources Information System, comprising a commercial software package (Pleiades), which is used to manage all the headquarters and expatriated staff (administrative management, career management...), and is the source of all the Group's social data concerning this staff.

The reporting on HR data for locally recruited officers in some 72 agencies around the world is mainly based on data collected monthly in the agencies, by headquarters, in the context of HR Group management (career and recruitment management, administrative management and compensation, budget management control). It also allows this population, who are also covered by AFD's social protection mechanisms and the pension scheme subscribed in the form of a group insurance and entirely covered by the employer, to be updated in the Pleiades.

The scope of the "social" indicators is as follows:

- "Group": AFD, PROPARCO and Instituts d'Emission headquarters (100% of Group headcount);
- "France": all employees under French law at the AFD, PROPARCO and Instituts d'Emission headquarters and agencies, excluding local staff in the agencies.

8.11 REPORTING ON IN-HOUSE ENVIRONMENTAL RESPONSIBILITY

The data collected covers the period from January 1st of year N to December 31st of year N. Reporting on this data is conducted annually and covers the scopes 1, 2 and 3 of the GHG Protocol.

Two types of scope of study are taken into account to conduct the environmental assessment:

→ an “organizational scope” reflecting the structural and legal organization of the institution (inventory of the sites and entities concerned);

→ an “operational scope”, which defines the types of sources to be taken into account on a given site. To represent AFD’s operations and activities, the decision was made to apply the operational control approach. Consequently, the entities to be included are all the entities where AFD has the power to modify the operational policies.

A *Bilan Carbone®* (carbon footprint assessment) is an estimate, not an exact calculation of greenhouse gas emissions. The carbon equivalent of the gases identified is an approximation. The level of uncertainty varies depending on whether or not the data (for example, waste, freight) is hypothetical. The result of the *Bilan Carbone®* of the headquarters is known with an uncertainty of around 7%.

To be eligible for the “*Bilan Carbone®*” certification, the assessment of AFD’s GHG emissions takes into account all the sources of emissions (direct or indirect).

The environmental reporting of the network of agencies abroad is mainly based on a questionnaire, which is available on an online platform. The agency’s *Bilan Carbone®* reference person, who has previously been identified and authorized to feed into the questionnaire, is responsible for collecting data. Following the collection phase, the data are aggregated to develop a Network *Bilan Carbone®*. It is sometimes difficult to obtain certain data due to the economic or structural context of agencies (complicated geopolitical framework, difficulties to access information, joint property ownership...). There was a 78% response rate to the 2016 *Bilan Carbone®*.

The indicators relating to the number of officers have been calculated on an average full-time equivalent (FTE) basis, excluding service providers.

Scope of “environment” indicators:

→ “Group”: AFD, PROPARGO, and Instituts d’Emission headquarters (100% of Group headcount);

→ “AFD”: AFD headquarters and agencies (85.57% of Group headcount);

→ “Headquarters”: AFD and PROPARGO headquarters (52.75% of Group headcount);

→ “AFD headquarters”: only AFD’s headquarters, including CEFEB and excluding PROPARGO (45.68% of Group headcount);

→ “AFD Paris headquarters”: AFD headquarters, excluding CEFEB: Barthes and Mistral buildings (44.78% of Group headcount);

→ “France”: all employees under French law, headquarters and agencies, AFD, PROPARGO and Instituts d’Emission, excluding local agency staff.

8.11.1 Information system

The data provided are established on the basis of exchanges with the resource persons from the departments and local agencies concerned, and using various documents – contracts, project sheets, reports, invoice statements and management systems. Monitoring dashboards for environmental indicators, which are validated during committee meetings, are also reporting tools to trace the data transferred and ensure it is reliable.

The data collection process requires the contributors to collect and consolidate, where necessary, the activity data according to the defined scope. They ensure that these data are consistent.

Various tools support the preparation of the assessment of the GHG emissions of the headquarters (collection file, consolidation tool and the *Bilan Carbone®* spreadsheet of the *Bilan Carbone* Association (ABC)). A management and support tool is made available to contributors in the network: an online platform allows the data from the contributors of each agency to be collected and consolidated.

8.11.2 Comments by type of data

Professional travel

Scope of data: “Headquarters”

Professional travel includes travel by train and plane.

It is mainly managed by the service provider Amex, which provides an annual extraction from its system, including the number of kilometers travelled by officers from the headquarters of AFD (Mistral and Barthes) and PROPARGO and by type of transport (plane and train), and the class in which the employee travelled. The Amex reporting can include data on travel by consultants (excluding officer staff). This travel is estimated at less than 5% of the data provided by Amex. This methodology has been refined compared to 2013.

Additional reporting is conducted in order to report on travel by CEFEB officers and missions entrusted to consultants.

AFD Group’s 2016 carbon footprint is given in the Appendix.

APPENDIX 1: CLIMATE BOND REPORTING

Backing project funds, climate benefits, and ESG governance December 31st 2016

1 - Presentation of the transaction

AFD made its first 10-year climate bond issue for EUR 1bn on Wednesday September 10th 2014. The process was built using the "Green Bond Principles" in order to contribute to the creation of common standards. It is based on four main principles: the justification of the use of funds, monitoring of flows, an external opinion and, finally, robust reporting.

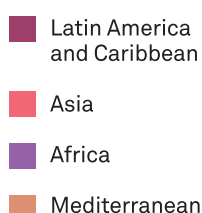
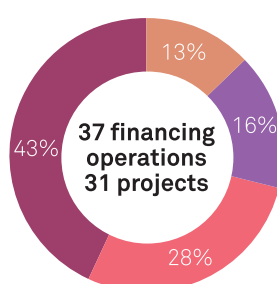
- Use of funds: the projects backed by the bond are mitigation or sequestration projects, either existing or future projects, which have an ex ante carbon footprint calculation showing an annual reduction of at least 10kTeq CO₂. Only projects for which the first payment took place in 2011 or later have been selected.
- Monitoring of flows: the system chosen by AFD consists of backing a portfolio of eligible assets whose volume is at all times higher than that of the bond. AFD will back new eligible projects until the bond's maturity date, in such a way that their outstanding amount is at all times higher than the amount of the bond.
- External opinion: AFD has mandated Vigéo, which participated in determining the project selection methodology. At the end of its assignment, the rating agency delivered an opinion on our methods, which is available on AFD's institutional website.
- Robust reporting: AFD has made a commitment to report annually on the situation of the portfolio. This information gives rise to certification by one of our Statutory Auditors.

2 - Financial characteristics of the transaction

Amount: EUR 1,000,000,000
Transaction date: 10/09/2014
Payment date: 17/09/2014
Maturity date: 17/09/2024
Price relative to French Government: OAT + 14 bps
Price relative to swaps: 6-month EURIBOR + 25 bps
Equivalent 6-month EURIBOR for calculating CRM: 6-month EURIBOR + 27.4 bps (after commission)
Redemption: Bullet

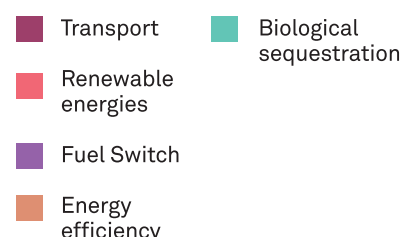
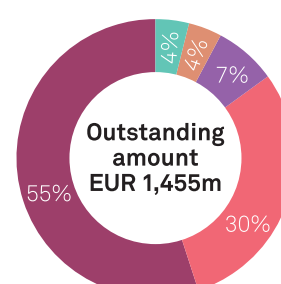
3 - Available documentation

All documents relating to this issue are available at the following address:
<https://www.afd.fr/page-thematiqueaxe/climat>



4 - Climate Bond Reporting at 31.12.2016

4.1 - Breakdown of funds backing eligible projects by sector and geographical area



Examples of projects backed to the Green Bond issue

Quarzazate solar power plant in Morocco

Morocco suffers from significant energy dependence which, combined with the upward trend for oil prices, puts a heavy strain on the country's budget. Morocco is also one of the sunniest countries in the world and its desert areas are highly suitable for concentrated solar power plants. Consequently, in 2009, the Government launched the Moroccan Solar Plan, with the objective of generating 2,000MW of solar electricity by 2020. The aim is to supply the local market and export to Europe. The construction of the concentrated solar power in Quarzazate, in which AFD participated in 2011 via a EUR 100m loan for the 1st phase, fits in with this context. In the long-term, the power plant is expected to have a capacity of 500MW, meaning it will reduce annual CO₂ emissions by some 900,000 tons, while reducing the negative impact that imported fossil fuels have on the State budget.

Cairo Metro in Egypt

With 16.2 million inhabitants, Cairo is the largest city in Africa. As with all megacities in the South, it is faced with a serious problem of urban travel. The municipality has set out to address the situation by developing a public transport policy. AFD is supporting the extension of the metro by financing the construction of a third line (two loans allocated in 2009 and 2012, for a total of EUR 344m). By 2022, Line 3 of the metro will carry some 2 million passengers a day. Once it has opened, annual greenhouse gas emissions will be reduced by some 130,000 tons of CO₂, while traffic-related disturbances will be reduced.

The sectors

Renewable energies: solar, photovoltaic, wind farm or biomass projects.

Transport: urban or inter-urban public rail transport projects.

Energy efficiency: projects to upgrade power transmission and distribution grids and rehabilitate water supply systems.

Fuel switch: projects to upgrade power transmission and distribution grids with a change in fuel.

Biological sequestration: projects to combat deforestation, for plantations, agroecology.

What is a “climate” project?

AFD defines a “climate” project as a development project with positive co-benefits for the climate, i.e. it contributes to climate change mitigation (reduction of greenhouse gas emissions) or to adaptation to the impacts of climate change. In the present case, only mitigation projects that demonstrate greenhouse gas emission reductions are taken into consideration.

In EUR M	Outstanding amount at 31/12/2016 by sector						
Country	Energy efficiency	Renewable energies	Fuel switch	Waste management	Biological sequestration	Transport	Overall total
Bangladesh						-	-
Brazil		66.54				250.00	316.54
Chile		20.11					20.11
China	55.81	17.25	57.83		41.64		172.53
Dominican Republic						210.92	210.92
Egypt						49.90	49.90
Ghana		39.93	50.59		14.00		104.52
India						222.24	222.24
Indonesia	3.39						3.39
Kenya		96.51					96.51
Morocco		77.50				23.00	100.50
Nicaragua		35.49					35.49
Pakistan		7.66					7.66
Panama		30.85					30.85
Peru		2.56					2.56
South Africa		16.26					16.26
Turkey						36.47	36.47
Uruguay		28.70					28.70
Total général	59.19	439.35	108.43	-	55.64	792.54	1,455.15

4.2 – Climate benefits via the ex ante measurement of the carbon footprint of projects at sectoral level

To finance investments, the emissions generated and emissions reduced by the project are systematically quantified using a robust and transparent methodology and tool, in line with international good practices, to estimate the carbon footprint of projects.

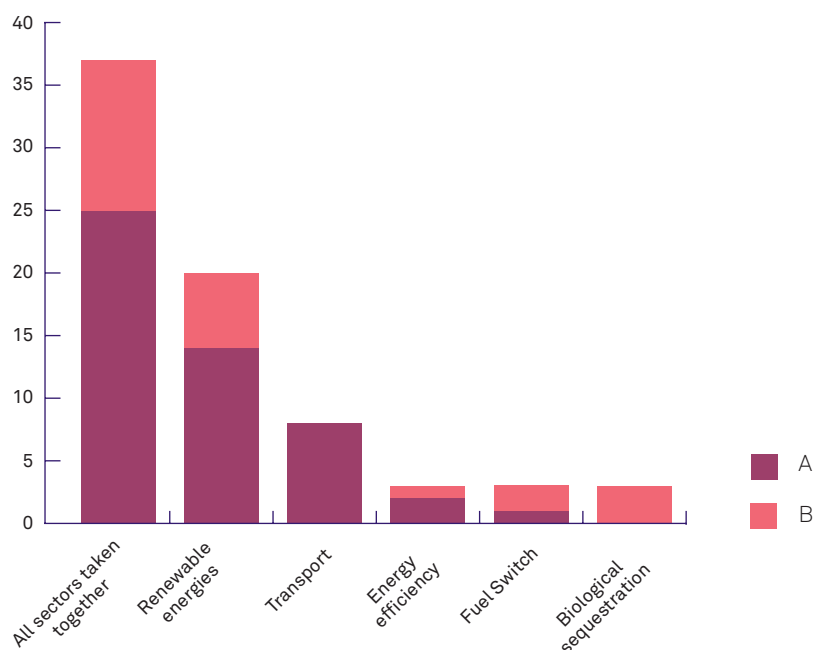
The methodology adopted by AFD via this tool is based on the following principles:

- the calculation of the carbon footprint aims to estimate the net emissions generated or reduced by a project, by calculating the differential in emissions between those generated by the project and those of a baseline situation;
- the baseline situation selected is the “without a project” situation and not an alternative to the project (except for renewable energy projects);
- the main emission items taken into account in the calculation include both the direct and indirect emissions of projects;
- the calculation concerns GHG emissions throughout the lifecycle of projects.

4.3 – Assessment of the environmental and social risks related to funded projects

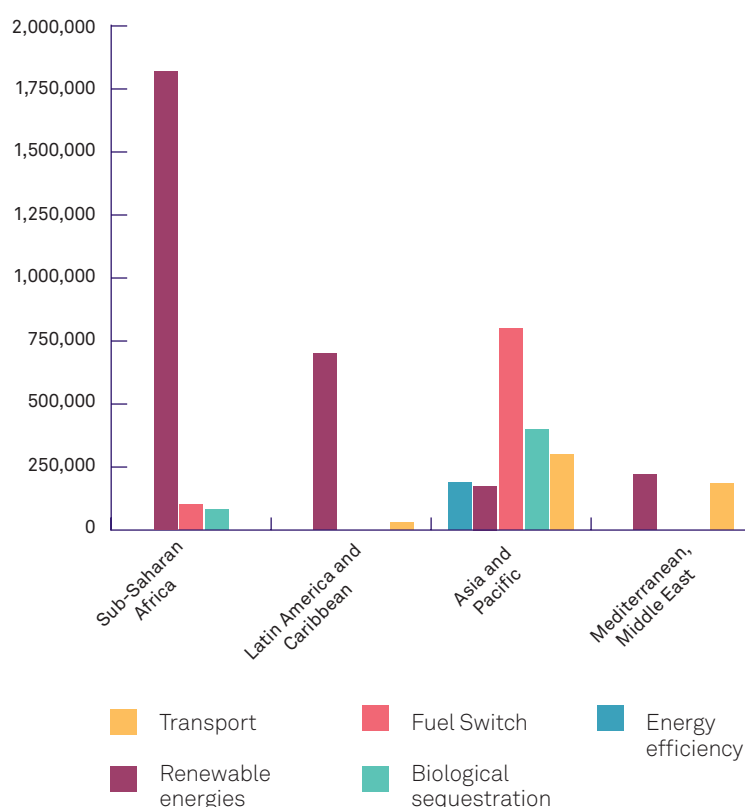
AFD Group aims to promote sustainable and equitable development in the operations it finances in developing countries and the French overseas territories. Consequently, its financing is conditional on the contracting authorities implementing an ongoing environmental and social assessment process to assess the environmental and social impacts of operations. The evaluation involves characterizing the risks that a project may have for the environment and populations, with the aim of finding ways to prevent, reduce or offset the project's negative environmental and social externalities. During the project identification phase, AFD Group conducts a preliminary environmental and social analysis of the project. This first stage leads to the definition of the main environmental and social issues brought about by the implementation of the project and an initial identification of the potential risks is conducted. On the basis of this information, the project is classified in one of three categories: A (high environmental or social risks), B (moderate risks) or C (low risks). The breakdown of the number of projects by sector and E&S classification is as follows:

Breakdown of number of projects by sector and E&S classification



4.4 – Annual reductions in CO₂

In terms of the climate benefit related to backed projects, the overall total below (5,280,000Teq CO₂ a year) corresponds to the total value of the assessments of tons of equivalent CO₂ reduced or avoided by these projects per year, which results from carbon footprint calculations conducted ex ante for each project (average annualized value for the lifecycle of each project).



Amount in kTeq CO₂

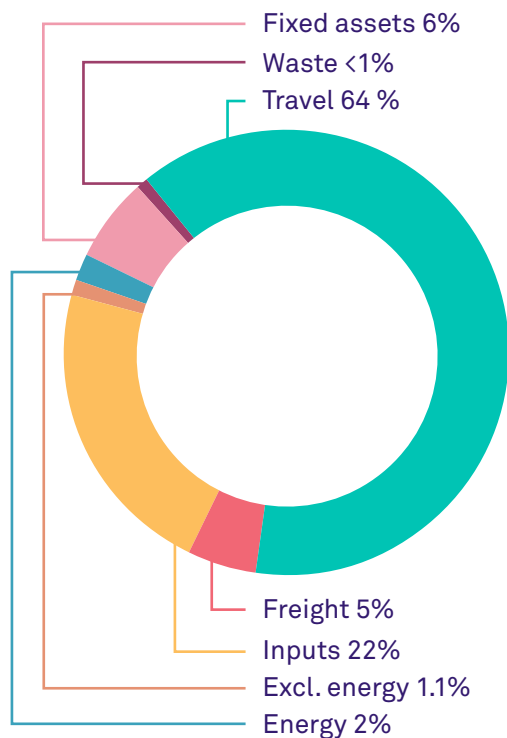
Continent	Energy efficiency	Renewable energies	Fuel switch	Biological sequestration	Transport	Overall total
Sub-Saharan Africa		1,785	160	142		2,807
Latin America and Caribbean		733			42	775
Asia and Pacific	206	172	850	412	32	1,962
Mediterranean and Middle East		270			186	456
Overall total	206	2,960	1,010	554	550	5,280

APPENDIX 2: AFD GROUP'S 2016 CARBON FOOTPRINT

G4-EN17

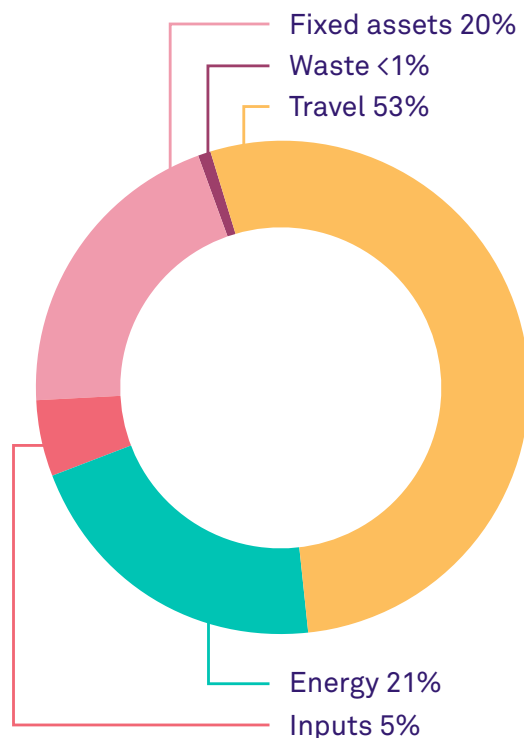
Headquarters:

21,962Teq CO₂



Network:

11,400Teq CO₂



43 agencies replied to the questionnaire, i.e. 41% of the total. The carbon footprint N-1 was recorded for 13 agencies, which corresponds to an assessment of 8,100Teq CO₂.

APPENDIX 3: LIST OF MAIN INTERNET LINKS

- **CSR Action Plan** 2014-2016:

<https://www.afd.fr/media/download/505>

- **Ethics Charter:**

<https://www.afd.fr/media/download/3864>

- **Transparency** policy:

<https://www.afd.fr/media/download/4076>

- **Environmental and social risk management**

approach to operations financed by AFD Group:

<https://www.afd.fr/un-developpement-responsable>

- General policy on **combating corruption**, fraud, anti-competitive practices and AML/FT:
<https://www.afd.fr/media/download/4077>

- Sectoral Intervention Framework

"Energy" 2012-2016:

<https://www.afd.fr/media/download/4078>

- Crosscutting Intervention Framework

"Gender" 2014-2017:

<https://www.afd.fr/media/download/487>

- Sectoral Intervention Framework **"Food security in Sub-Saharan Africa"** 2013-2016:

<https://www.afd.fr/media/download/4079>

- Crosscutting Intervention Framework

"Biodiversity" 2013-2016:

<https://www.afd.fr/media/download/4071>

- Crosscutting Intervention Framework

"Climate-Development" 2012-2016:

<https://www.afd.fr/media/download/4080>

- **Carbon Footprint** Headquarters and Network 2013-2015:

<https://www.afd.fr/media/download/4082>

- AFD's Code of **Conduct for Buyers**:

<https://www.afd.fr/media/download/4081>

- **Annual Report**, 2016:

<https://www.afd.fr/rapport-activite-afd-2016>

- **Registration Document**, 2016:

<https://www.afd.fr/espace-investisseurs#66>

- **Activity Data Report**, 2012-2016:

<https://www.afd.fr/media/download/4083>

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