



Energy, development and climate change

COP 12/COP/MOP 2 – Side event Nairobi 16th November 2006



AFD Group

- **The *Agence Française de Développement* is a public financial institution whose mission serves the general interest: financing development.**
- **Active in five continents,**
- **It finances and guides economic, environmental and social projects undertaken by local authorities, public companies, territorial bodies and the associative and private sector.**
- **Main sectors : Urban development, infrastructure, rural development, industry, financial systems, the environment, education and health are its areas of expertise and know-how.**



AFD presentation

- **Wide array of financial instruments from subsidies to loans at market conditions, suitable to each economic situation of the client country,**
- **Continually refining its financial tools ,**
- **Main operator in the French Official Development Assistance mechanism. Under the aegis of various ministries, it combines general interest and financial efficiency and management.**
- **Proparco, private sector arm of (is active in the same geographical areas than AFD).**



Main figures

AFD Group: liabilities 2001-2005 (millions €)	2001	2004	2005
	Executed	Executed	executed
Foreign countries total	757	1 117	1 351
Overseas total	549	384	432
Proparco	219	211	370

AFD and climate change

■ A growing important issue

- Climate Change Framework Strategy approved in July 2004
- 3 years Climate change operational strategy approved in October 2005

■ Diversified operating methods:

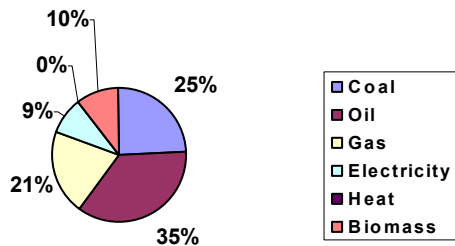
- Through existing and traditional portfolio,
- Co-financing French GEF projects
- Partnership to promote the Clean Development Mechanism

■ Strategy based on :

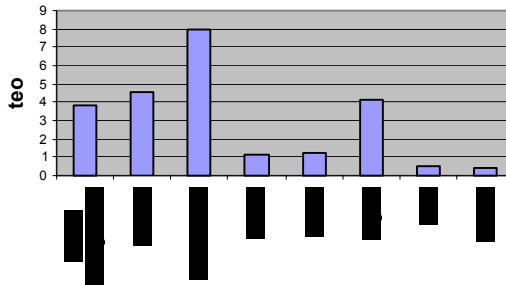
- Promotion of less GHG intensive development pathways,
- Assisting most vulnerable countries (adaptation, avoiding the exclusion from the emerging carbon market),
- Supporting the project owners with large and diversified financial and technical assistance tools and instruments

Energy and DC development

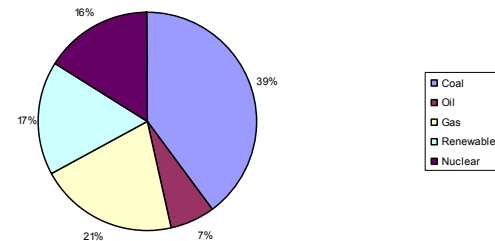
World : Primary energy by source (2004)



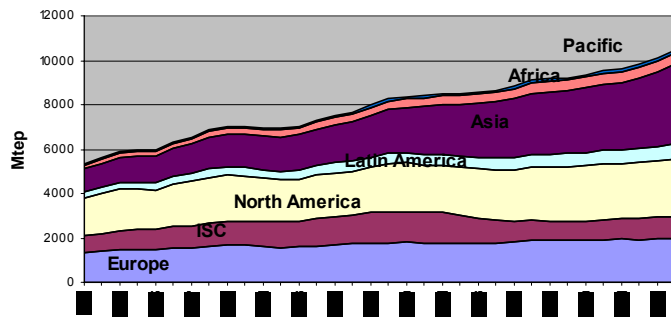
Primary Energy per capita (2004)



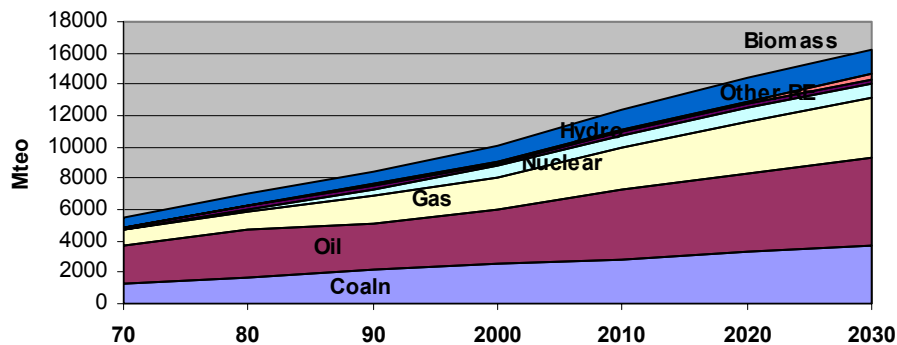
World electricity production (2004)



World energy by region (2004)



Energy evolution - IEA - BAU scenario



Challenges for developing countries

- **Acces of modern energy (electricity power) to larger portion of population,**
- **Diversification of energy sources:**
 - Gas, Renewable energies, nuclear for electricity production but coal remain strategic and crucial source for the next 20-30 years
- **Mobilizing local resources**
 - China, India and South Africa have coal reserves but limited other convential energy resources
- **Technical, economic and instituational issues,**
- **Local, regional and global environment issues:**
 - Local : particles, heavy metals, water resources, etc...
 - Regional : acid rain,
 - Global : CO₂ emissions





AFD strategy

- **Access to energy,**
- **Increase of energy efficiency and promotion of non or less GHG emitting energy,**
- **To support the implementation of policies, measures, programmes and investment projects aiming at:**
 - Reducing the negative impacts of fossil fuels based energy (like coal) on environment,
 - Facilitating cleaner energy technology transfer
- **Promoting CDM and looking at synergies between inovative financial tools like CDM and the existing large set of AFD instruments**

Financial mechanisms for DC

■ Within COP/MOP

- Global environment facility (GEF IV : 900 MUSD)
- Convention mechanisms : SCC Fund and LDC Fund (less than 100 MUSD)
- Protocol mechanisms : Adaptation Fund and CDM (not operational yet)

■ Outside COP/MOP

- Bonn declaration : 450 MUSD starting 2005
- G8 initiative led by WB with support other MDBs, (Clean Investment Framework)
- Bilateral initiatives (e.g. AFD for 2005 : M€ 200)
- Private sector, mainly through European trading scheme

■ Financial instruments :

- ODA based grants and loans (bilateral and multilateral)
- Foreign direct investment (through and outside CDM projects)
- Non ODA public funding (mainly through bilateral carbon fund),
- Private funding through private carbon fund

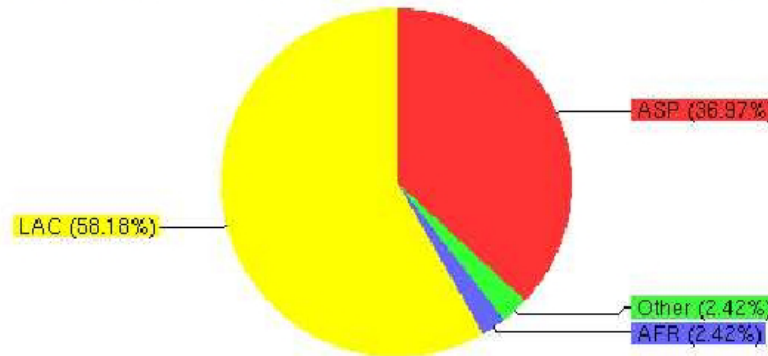


CDM tool for sustainable development ?

- **Is it possible to reach two targets with one stone only?**
 - To meet the KP obligations, AND
 - To contribute to the sustainable development of DCs
- **Actual situation**
 - Inequitable distribution (the emerging countries served first,
 - In sectors with very limited development impact (chemical gases)

Registration

Registered projects by region. Total 165



Region	Number of projects
Africa	4
Asia and the Pacific	61
Other	4
Latin America and the Caribbean	96

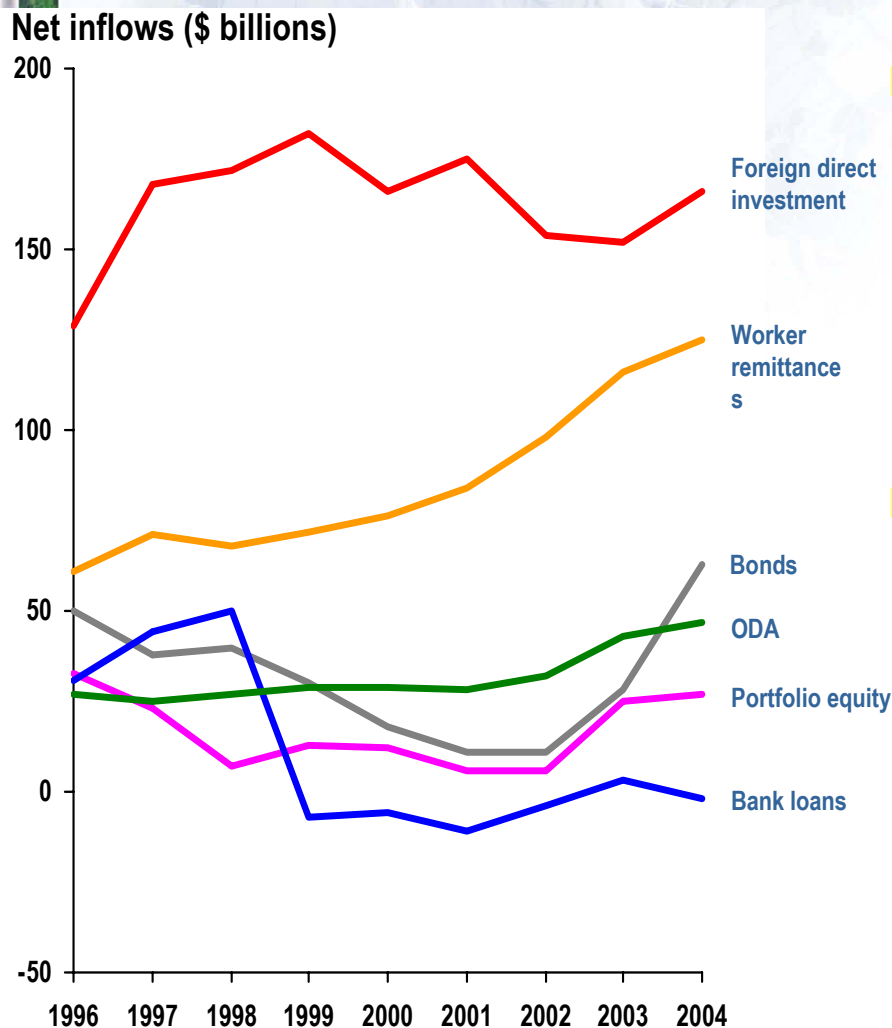
<http://cdm.unfccc.int> (c) 24.04.2006 12:03



CDM: Tool for sustainable development ?

Net capital flows to developing countries, 1996-2004

Source: World Bank Global Development Finance 2005



Global marginal impact of CDM

- Less than USD 2 G/year,

But:

- FDI concentrated in few countries (Africa : \$ 16 G),
- ODA key financial support for medium and least development countries,
- Key development sectors: infrastructures : FDI lower than ODA,

Conclusions:

- CDM could play important role in medium and least developed countries,
- Approach should include FDI, ODA and CDM,
- Key development sectors should be addressed in priority

Roles for development aid agency

■ Reduction of transactions costs

- Technical and institutional support
- Financial support for studies, elaboration of adapted methodologies, etc...
- Advisory services for taking better advantages of complex market

■ Use of traditional financial tools

- Loans, grants, guarantees, bank intermediation, etc adapted to each situation,
- To optimize financial arrangements between CDM and ODA,
- Ability to take country and sectoral risks,
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