



**STRATEGY  
2017-2021**

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# India

#WorldInCommon





**India**

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# 1.

## KEY ELEMENTS FOR AFD'S STRATEGY

# 1.1 SUMMARY OF THE PARTICULARLY CHALLENGING SUSTAINABLE DEVELOPMENT STAKES

## India, set to be world's most populous country

In 2015, India's population was close on 1.31 billion inhabitants, equivalent to 18% of world population, and by 2022 it is set to become the planet's most populous country.<sup>1</sup> Although the country's demographic growth rate is slowing down, its population is still increasing by 1.5 million people on average each month.<sup>2</sup> Eight of the country's states now have a population greater than that of France. Although the fertility rate is about 2.4 children per woman (2012), the demographic transition is not yet completed, as can be seen through the regional disparities across the country. Added to this is the Indian diaspora, one of the largest in the world, estimated at 26 million people. This represents considerable economic and electoral clout, especially in the United States and East Africa.

Today, the urban population accounts for 32.7% of the total population, with a 2.38% growth rate between 2010 and 2015. It should rise from 377 to 590 million inhabitants by 2030.<sup>3</sup> The country now has 53 cities of more than one million people, generating around one-third of India's GDP. Yet, there is no massive rural exodus (except to Delhi), and most urban population growth comes from an increase in urban population and the cities' growing sprawl.<sup>4</sup>

## A dynamic economy driven by the services sector

With the reforms of the 1980s and 1990s, India's growth departed from the moderate pace it had known for many years, and accelerated then stabilised at over 6% on average over the last twenty years (leading to a per capita income of around USD 1,600 in 2015<sup>5</sup>). Driven mainly by the services sector (see Figure 1), this growth has enabled the Indian economy to become a net exporter of services (and food products) despite a persistent trade deficit, and the seventh largest economy in the world, with a GDP of USD 2,043bn at the end of 2015. Although Indian productivity is low, the country is the world's leading producer of milk, and second for the production of wheat, rice, cotton, sugar, fruit and

vegetables. Industrial output has still not taken off (16% of GDP), even though this has long stood as a priority and has recently been taken up again with the "Make in India" slogan. This is happening in a context where half of the workforce is still employed in agriculture – with around one quarter in services and the rest employed in the construction sector and industry.

India's trade in goods accounted for only 2% of world exports in 2015 (19th world ranking), with services exports standing at 3.2% (7th ranking). This trade is increasingly linked with Asia, which accounts for over half, while Europe and North America represent a declining share, and India's trade with Africa is now greater than its trade with France. The country's external financing needs were in the vicinity of USD 200bn a year in 2016, equivalent to 11% of GDP.

Thanks to its dynamic economic growth, India's public finances were consolidated (combined public deficit close to 7% in 2016) and public debt shrank to reach 65% at the end of 2016. The sustainability of India's public debt has thus improved, all the more so as very little of it is held (mostly by residents) in foreign currency and public financing needs are contained (12% of GDP in 2016). Budget planning focuses on investment in infrastructure, particularly transport and energy.

<sup>1</sup> United Nations, Department of Economic and Social Affairs.

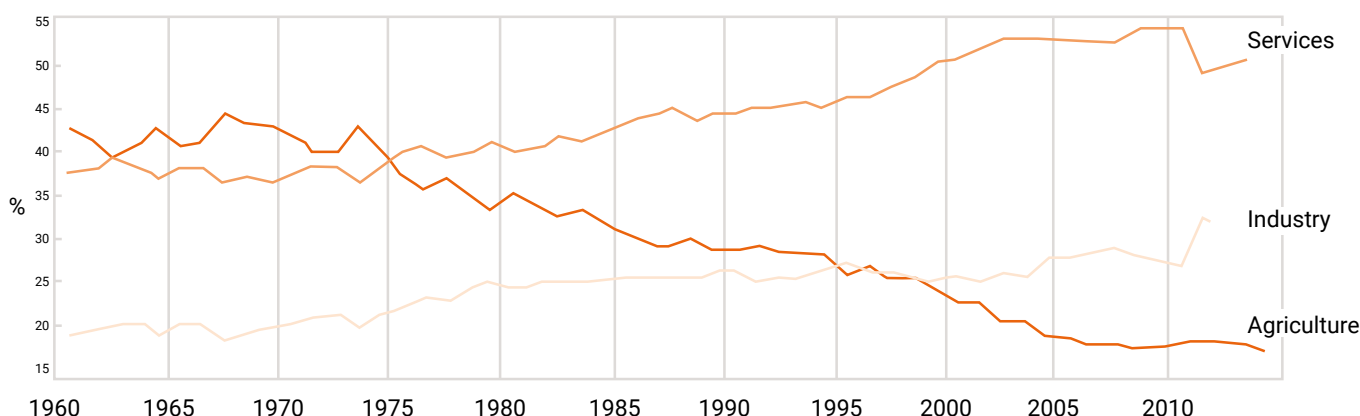
<sup>2</sup> Over the period 2001–2011, i.e. an annual growth rate of 1.64%.

<sup>3</sup> McKinsey Global Institute Report, 2010.

<sup>4</sup> The urbanisation rate in fact seems to be close to 50% (What does India think? ed. F. Godement, ECFR, Brussels, 2015).

<sup>5</sup> Which ranks India 140th in the world according to the IMF. But, in terms of national income at purchasing power parity, India has moved up to 120th ranking.

**Figure 1: Contribution of agriculture, services and manufacturing industry to India's GDP**



Source: World Bank, World Development Indicators.

## Social advances on a sub-continent still riddled with fault lines

In addition to the slowdown of demographic growth, India's human development indicators showed substantial improvement: life expectancy has gained nearly ten years since 1990 (now 67 years), infant and maternal mortality has been halved, as has the population living under the poverty line (about 22%, i.e. 275 million people mainly in rural areas), and access to sanitation has doubled to reach 34%. The middle class (whose income lies between USD 2 and 10<sup>6</sup> a day or less) represents about 600 million people, working primarily in the informal sector. Between 2005 and 2012, 163 million Indians were lifted above the poverty line. The electorate of Prime Minister Modi seems to lie mostly among populations who have either exited poverty or newly acceded to middle-class status. However, the country is still home to one-third of the planet's poor<sup>7</sup> (224 million compared, for example, to 386 million for the whole of sub-Saharan Africa).

Social, economic and health inequalities remain very worrying: 15% of the population is malnourished (2013), rates of maternal mortality are still high (174 deaths for 100,000 births – a level close to that of Cambodia), as are the rates of infant mortality (36.2 deaths for 1,000 live births). Moreover, in the most recent census taken in 2011, there were 914 girls aged from 0 to 6 years for 1,000 boys, a gap that has continued to widen (924 in 2001),<sup>8</sup> although at the same time the ratio for India's total population has balanced out.<sup>9</sup> This gender imbalance is particularly pronounced in the northern and western states but no region is spared;<sup>10</sup> as a result, there are over 60 million missing girls in India.

Coping with the arrival of more than 12 million people annually on the labour market remains a considerable challenge, especially since the jobs created by the services sector do not require the same levels of qualification as those held by new entrants, and expansion of the manufacturing sector is insufficient.<sup>11</sup> The quality of training and education needs further improvement: only 5% of young people aged between 19 and 24 received schooling, seven out of ten children left the education system before secondary school and illiteracy is still widespread, particularly in rural areas. The National Skill Development Corporation, whose purpose is to train 500 million Indian workers by 2022, was set up in this context. India's ranking as 130th on the UNDP's human development index illustrates the extent of the challenges still to be overcome.

From another perspective, the Indian Union is a plural society: all of the Indian states and union territories are heterogeneous, often with their own specific trajectories, administrations, populations, languages<sup>12</sup> and religions. India has the dimension of a continent rather than a country.

Per capita wealth in Goa or Delhi (the richest territories) bordered on USD 5,000,<sup>13</sup> a level similar to that of Albania (among the largest states, Maharashtra's and Tamil Nadu's per capita GDP were on a par with Honduras, for example, at USD 2,500); on the contrary, the per capita GDP of Assam, Manipur, Uttar Pradesh or Bihar<sup>14</sup> was below USD 1,000. Growth is concentrated in the southern and western states, where the textile, steel and hi-tech industries have mainly set up. On the other hand, the northern states, which are the most populous, are lagging behind.

## A stable political situation for an emerging player in the international arena

The 2014 accession to power of Narendra Modi, a former chief minister of Gujarat State, has reinforced the subcontinent's political and economic dynamic. He has continued to put in place structured public policies (transport, cities, energy, rural development) and shown himself to be highly active on the international scene. India is the world's most populous country to hold free elections, for the most part accompanied by peaceful political transitions. The next key date will be the general elections in 2019.

Overall, the past decade was the best that the subcontinent has experienced in terms of economic growth, democratisation, connectivity and intra-regional cooperation, but not for its relations with Pakistan. In fact, India is still in a state of latent war with its neighbour over a disputed region of Kashmir (which has led to four armed clashes since 1945, the last being the Kargil War in 1999). Relations with China – India's main trading partner with whom it has its largest trade deficit (USD 50bn in 2016) – remain difficult, particularly with respect to the disputed border area of Aksai Chin and the State of Arunachal Pradesh. As a member of the G20 and BRICS, India is seeking to further consolidate its international position, for instance, with its bid for a permanent seat on the UN Security Council.

<sup>6</sup> This corresponds to a low band in the definition of the middle classes based on a cross-country comparison with developing countries (the floating (middle) class living on USD 2–4 a day and the lower-middle class on USD 4–10).

<sup>7</sup> Less than 1.90 dollars a day.

<sup>8</sup> The preference for boys persists in both rural and urban areas; girls are still frequently neglected or aborted.

<sup>9</sup> The ratio for the total population balances out as the ratio for over-sevens in India is improving (a higher mortality rate for men) and the number of children under 6 is decreasing.

<sup>10</sup> Except for Kerala and Puducherry.

<sup>11</sup> Although some services subsectors (finance, insurance, real estate) have the same characteristics as the manufacturing sector (high productivity, domestic and international convergence in productivity), they are not labour-intensive, whereas labour is India's chief resource. A. Amirapu and A. Subramanian, 2015, "Manufacturing or Services? An Indian Illustration of a Development Dilemma." *CGD Working Paper 409*, Washington, DC: Center for Global Development.

<sup>12</sup> Several hundred languages belonging to different language families are spoken in India.

<sup>13</sup> Data for 2014.

<sup>14</sup> The poorest state with USD 700 per capita.

# 1.2 ANALYSIS OF THE COUNTRY STRATEGY

## A crucial partner in climate negotiations

Although a low per-capita emitter, India is the world's third-largest emitter,<sup>15</sup> of greenhouse gases behind China and the United States. It accounts for nearly 4% of world CO<sub>2</sub> and this rate will continue to grow at an annual pace of 3.4% until 2035, representing 10% of global emissions. Over half of India's emissions (52%) are produced by electricity generation and heating. Today, transport is responsible for only 10% of the country's CO<sub>2</sub> emissions, but this share is set to rise quickly. India is thus a crucial player in climate negotiations.

For many years, India had adopted a tough stance in the rounds of UN climate negotiations, highlighting the historical responsibility of developed countries and the primacy of its own development and adaptation objectives.<sup>16</sup> However, at COP 21, India rallied to the fight against climate change. A key aspect of its nationally determined contribution (NDC) in the international negotiations, published on 2 October 2015, is the quantitative target of a 33–35% reduction of the GHG emissions intensity of its GDP by 2030, compared to 2005 levels. On 2 October 2016, India ratified the Paris Agreement, which signalled Prime Minister Modi's personal commitment to maintaining the image of a responsible and constructive power ready to tackle major global issues.

## Energy/climate

Following an overall deficit of over 10% in the country's electricity generation in 2008–2009, India was on track to produce an annual surplus in 2017. However, this only takes into account the demand from subscribers connected to the grid, i.e. 75% of the population, and does not prevent frequent power cuts due to the poor quality of the grids and load-shedding by state-owned distribution enterprises. As the country's energy demand is set to double by 2035 driven by economic and demographic growth, energy security is one of the prime objectives of the Indian government, which intends to rely on maximal use of domestic resources and the improved efficiency of the electricity grid.<sup>17</sup> With the drop in natural gas output and a still timid nuclear trajectory, the twelfth Five-Year Plan (2012–2017) was clearly counting on coal, even though imports of fossil energy<sup>18</sup> are leading to a significant worsening of the trade deficit and deepening the country's energy dependency. Yet, for its national contribution to COP 21, the government has committed to increasing the share

of renewable energies to 40% of the Indian energy mix by 2030 (compared to 14% in 2016), thanks to a "saffron revolution" in solar power (100 GW of installed capacity by 2022). The financing needs linked to this objective will amount to nearly USD 650bn from now until 2020.

India's commitment to developing renewable energies was confirmed by the launch of the International Solar Alliance, at a COP 21 side event on 30 November 2015. This is a brainchild of Prime Minister Modi and supported from the outset by the French president. The alliance is driven by the wish to federate the efforts of developing countries to attract investment and technology to the solar sector and develop the uses of this energy. It will promote cooperation between the industrialised countries, which have the technologies and financing, and the developing countries.

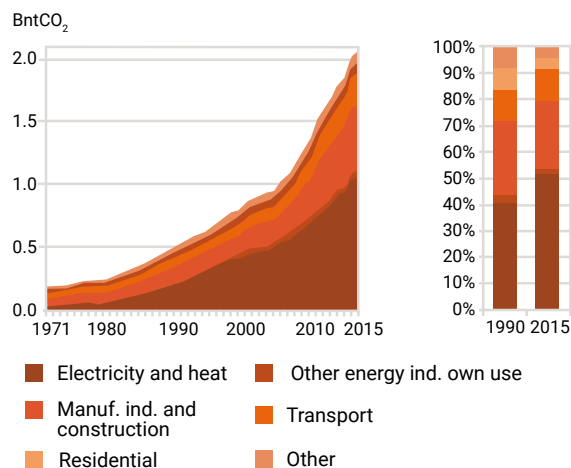
## Urban development

India's urbanisation rate is relatively low (32.7%) compared to its total population. However, in absolute value, the number of city-dwellers is very high (377 million) and this is set to double by 2050 to reach 814 million. Cities are India's growth engines (77% of economic growth will be produced by 49 urban centres by 2025).

Yet, urban infrastructure is not sufficient to meet the demographic growth. The need for investment in basic public services are hefty: only 22% of city trips are made using public transport; only 50% of waste is collected in mid-sized cities, with only 30% of solid waste being treated; 94% of cities have no sewage system and only 64% of residents are connected to the water supply, although this encounters daily service interruptions.<sup>19</sup>

Municipalities are suffering from a lack of financing capacities and constitutional reforms have not secured sustainable strengthening of their financial resources. Urban development thus rests on the states, which now represent the main echelon of decentralisation in India.

## India: CO<sub>2</sub> emissions by sector



Source: International Energy Agency.

<sup>15</sup> India comes 132nd in the country ranking for per capita GHG emissions (World Bank data, 2013), emitting less than in the 2008 ranking (115th). The volume of its GHG emissions increased fivefold between 1960 and 2013.

<sup>16</sup> S. Mathy, "Le positionnement de l'Inde sur le changement climatique", Asia centre, Dec. 2013.

<sup>17</sup> The inefficiency of the electricity sector is systemic: in 2015, India reported total technical and commercial losses of 24.6%, which was a slight improvement on the losses for 2010 (30%).

<sup>18</sup> Although India is not without energy resources (world's third largest coal producer with a fifth of global reserves), these cannot meet the country's needs: they are limited in quantity (particularly, oil resources), not easily extractable (40% of estimated coal resources are exploitable and 40% of this exploitable coal is located in veins over 300m deep and thus inaccessible given the technology currently used in India), and the sector suffers from a chronic lack of investment.

<sup>19</sup> Source: "Panorama of the Urban and Municipal Sector in India", AFD, Focales, October 2014.

In this context, support from the central State is crucial. The government is developing a public policy based on large-scale national programmes: "AMRUT"<sup>20</sup> for urban infrastructures, "Swachh Bharat" for keeping cities clean, "Housing for All" for affordable housing, "Smart Cities" for the quality of urban life with the help of new technologies.

The Smart Cities Mission was launched in June 2015 for a five-year span (2016–2020). It has a central-government dedicated fund of USD 6bn. The same amount is expected to come from the states and municipalities.

### Urban transport

In India, the interest in urban transport is also relatively recent. In 2006, the government implemented a raft of measures to regulate urban development and crafted the National Urban Transport Policy (NUTP, supplemented in 2016 by the Metro Policy). The large cities have thus been able to develop many local metro and bus projects (Bus Rapid Transit – BRT). Currently, metro projects are being extended or designed in no fewer than twenty Indian cities.

Several cities (Hyderabad, Bangalore, Chennai, Kochi) have a Unified Metropolitan Transport Authority (UMTA) to regroup all of the existing institutions and reflect on transport systems in a comprehensive and integrated manner. Moreover, the cities establish Comprehensive Mobility Plans (CMP) defining effective and coordinated planning objectives for mobility.

### Water

The issues of access to water for a population of over 1.3 billion people are considerable. Water is a non-renewable resource to be shared nationally among states that do not always see eye to eye (an issue related to trans-border rivers). As a right enshrined in the Constitution, water poses the problem of equity between millions of consumers whose needs must be met. In addition to the availability of water, its quality is threatened by pollution stemming from the massive production of liquid and solid waste.

Sanitation capacities fall far short of the needs for treatment of both domestic and industrial wastewater. The overuse of surface and ground water poses the problem of water availability in the short term and is already giving rise to serious inter-state conflict (e.g. riots in Bangalore over sharing water from the river Cauvery in September 2016).

In this context, a national water policy was put in place in 1987, then revised in 2002 and 2012. The policy was reinforced by a nationally applicable framework law stipulating the general

principles governing the prerogatives of the central State, states and local governance institutions. The question of urban water is also dealt with by the AMRUT and Smart Cities programmes.

### Environment

Demographic pressure on the environment and natural resources management is particularly urgent in a country that is home to 7–8% of the world's biodiversity on 2.4% of the planet's land mass, occupied by 16% of the planet's population and 18% of its cattle. As a result, the environment is undergoing rapid degradation due to all types of pollution (air, liquid, solid) and a pressure on land that is directly impacting forest areas and biodiversity.

The Ministry of Environment, Forest and Climate Change is responsible for protecting the environment and conserving fauna and flora in compliance with the provisions of the Constitution. Several major political advances have been made in recent years. First, the Green India Mission was launched in 2014, under the National Action Plan against Climate Change. A bill regulating the compensation relating to expropriation from forest land (CAMPA Bill) is being finalised. As for biodiversity, in 2014, India submitted a revised version of its 2008 National Biodiversity Action Plan to the Secretariat of the UN Convention of Biological Diversity.

It is worth noting that 2010 saw the creation of the National Green Tribunal, a body dedicated to handling environmental disputes and resolving them effectively and expeditiously, which is a significant step forward in the enforcement of India's environmental legislation.

<sup>20</sup> Atal Mission for Rejuvenation and Urban Transformation.



# 1.3 PANORAMA OF DEVELOPMENT FINANCING

## Donor assistance to India remains low

India should receive USD 5-9bn of official development assistance (ODA) annually over the next few years<sup>21</sup> – compared to a national budget of over USD 400bn in 2014, i.e. around 2%. This relativizes the clout that donors have in policy negotiations in India, including donors such as the World Bank or the Asian Development Bank (ADB).

Proportionally AFD's ODA to India is now in the region of EUR 300 million annually, equivalent to 3-5% of the total ODA received by India. This amount is small but is no longer negligible, and enables the Agency to begin to play a role regarding the question of development aid in India, as long as this aid is focused on key sectors.

In India, a handful of donors provide the bulk of funding: the large multilaterals (World Bank, ADB, new development banks) and bilaterals (JICA, KfW), which each commit between USD 0.5 and 5 billion annually. Grant donors, notably USAID, contribute smaller but still significant amounts to the social sectors and the poorest states.

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President Hollande's April 2015 address during PM Modi's visit to France

*I salute India, the world's largest democracy through its population – one-sixth of humanity – its economic and cultural vitality and I salute India as one of France's most important allies and as a faithful friend.*

## India is an emerging donor, particularly for neighbouring countries

India's foreign assistance quadrupled between 2003 and 2014, reaching a (budgeted) USD 12bn in 2013-2014. This includes (i) grants, humanitarian aid and technical assistance, (ii) loans and guarantees 100% linked to Exim Bank India, and (iii) contributions to international organisations – chiefly the United Nations agencies.

“

French President declaration during PM's visit to France:

*In the coming years, we are going to devote €2 billion to promoting and developing exemplary cooperation in the areas of sustainable development and energy efficiency. We also want to share technologies when it comes to the climate, and this will enable us to get all countries on board, particularly the major emerging countries like India.*

This assistance is channelled mainly to neighbouring countries: Nepal for health and education; Bhutan, where India is supporting the construction of hydro-electric projects whose electricity output it will then purchase (a sign of the highly pragmatic approach of Indian cooperation); Afghanistan (a geopolitical priority in the India-Pakistan context); and Myanmar.

However, an increasing amount of Indian aid is channelled to Africa:<sup>22</sup> 4% in 2011-2012, 7% in 2012-2013. This aid primarily targets countries with a large Indian diaspora (East Africa), but also benefits other countries. Until recently this has involved limited amounts of some tens of millions of dollars annually, but it is set to increase following the Prime Minister's declarations<sup>23</sup> in October 2015: USD 600 million of technical assistance and USD 10bn of tied aid in the form of loans.

<sup>21</sup> For instance, gross ODA received by India amounted to USD 5.2bn in 2014 (source: OECD accounting).

<sup>22</sup> The 2017 annual meeting of the African Development Bank was held in Ahmedabad.

<sup>23</sup> At the India-Africa Summit in October 2015 in New Delhi.

# 1.4 ELEMENTS FRAMING THE FRENCH STRATEGY

Among all of the large emerging countries, India is one with which France has most deeply engaged at a strategic level<sup>24</sup> and the country that is perceived as having one of the most promising growth prospects and mutual diplomatic, political and economic interests. French-Indian bilateral relations are excellent; even so, France still has many perspectives of reinforcing these relations given the country's huge potential.

On 1 July 2014, during his trip to New Delhi, Laurent Fabius, then minister of foreign affairs and international development had announced that France was going to propose "a credit line of €1 billion from the Agence française de développement over the next three years for sustainable infrastructure and urban development in India".

In April 2015, during Prime Minister Modi's visit to France, President Hollande confirmed the objective of a EUR 1 billion credit line from AFD over the three following years earmarked for sustainable infrastructure and urban development in India,<sup>25</sup> and also announced future commitments of an additional one billion euros.

On the same occasion, President Hollande announced his support for the Smart Cities Mission. In addition to the three so-called "French" cities (Chandigarh, Nagpur and Puducherry), France wishes to broaden its support to a total of around twelve cities, in which an integrated approach to the transport, renewable energies, water, sanitation and waste management sectors could be deployed.

In January 2016, President Hollande visited India for the second time during his five-year mandate. On this occasion, he mentioned two subjects: security and the fight against terrorism,<sup>26</sup> which are core to Franco-Indian cooperation. On his March 2018 state visit to India, President Macron confirmed France's commitment alongside India to strategic questions and development challenges, particularly urban development.

Today, India is a politically stable country that is changing very fast and exhibiting a will to modernise that represents an opportunity for French expertise.

The subject of climate is also key in Franco-Indian exchanges, following on from the negotiations held at the Paris COP 21. During his January 2016 visit to India, President Hollande laid the first stone of the International Solar Alliance (ISA) aimed at developing solar energy and making it accessible to all. This forceful mobilisation by France alongside India shows its commitment to sustainable development, renewable energies and urban development.

The other sectors on which the Franco-Indian partnership focuses are large-scale communication infrastructure, cultural and tourist exchanges, defence sectors (mainly related to aeronautics), nuclear, agriculture and agri-food, with a view to promoting French interests. Finally, France is keen to deepen the strategic dialogue with India on the subject of the Indian Ocean.

<sup>24</sup> The France-India strategic partnership was signed in 1998.

<sup>25</sup> The France-India Joint Statement, April 2015.

<sup>26</sup> Since the attacks in Bombay in 2008, France and India have strengthened their cooperation in this domain.

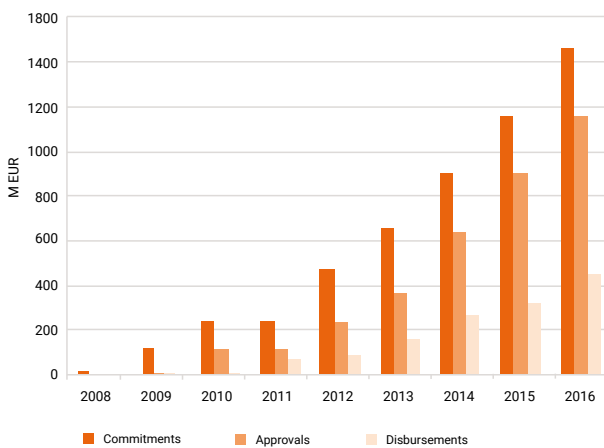
# 2.

## ASSESSMENT OF PAST ACTIVITIES

# 2.1 QUANTITATIVE ASSESSMENT OF PAST ACTIVITIES (2008–2016)

With a total net commitment of almost EUR 1.5bn since the opening of AFD's India agency in 2008 and annual commitments of around EUR 250m since 2013,<sup>27</sup> activities in India represent nearly a quarter of AFD's total annual commitments in Asia.

**2008-2016 Portfolio of AFD's net commitments, approvals and disbursements (cumulative data)**



AFD initially operated through slightly subsidised loans, accompanied by one-off technical assistance actions. The negotiations launched at the end of 2010 with India's minister of finance resulted in the signature of a new memorandum of understanding in May 2012, which enabled AFD to intervene with non-subsidised sovereign loans. Since then, AFD has been operating with non-subsidised loans, mainly sovereign loans (EUR 1bn).

For non-sovereign assistance, AFD has signed four operations totalling EUR 250m. Operations currently being executed or reimbursed have made it possible to forge quality partnerships and create follow-on initiatives (e.g. IREDA).

Moreover, in 2015, AFD was delegated EUR 15.5m in grants from the European Union's Asian Investment Facility (AIF). As a result, EUR 12m of this were allocated to support a EUR 100m non-sovereign loan to the National Housing Bank and EUR 3.5m to promote low-carbon urban development schemes in cities where AFD finances (Kochi, Nagpur) or envisages financing (Ahmedabad) mass public transport infrastructure.

Lastly, AFD mobilised EUR 1.6m from FEXTE<sup>28</sup> in parallel with three sovereign operations (Kochi metro, the Smart Cities Mission and hydropower stations in Himachal Pradesh).

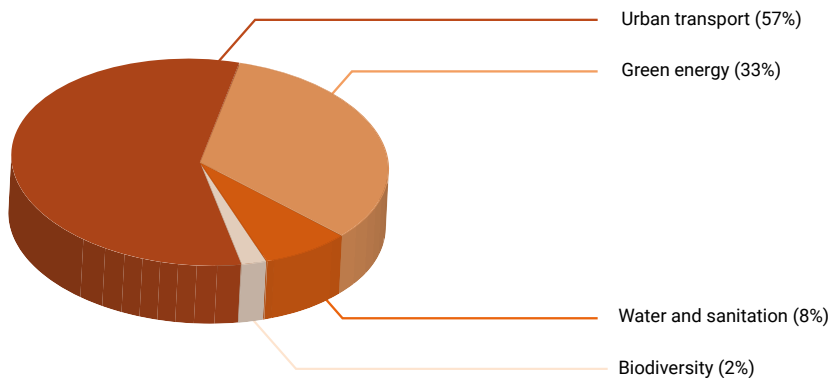
Since the 2014 statement by former minister Fabius (see 1.4), AFD has approved twelve financings, involving all types of products, for a total of EUR 822m.

Since AFD opened its India agency, activities have been focused on four sectors of intervention: urban transport, green energy, water/sanitation and biodiversity.

<sup>27</sup> EUR 180m in 2013, EUR 250m in 2014, EUR 260m in 2015 and EUR 310m in 2016.

<sup>28</sup> *Fonds d'expertise technique et d'échange d'expérience* (Fund for technical expertise and transfer of experience).

**AFD commitments in India (Dec. 2016)**



## 2. 2 QUALITATIVE ASSESSMENT AND VALUE-ADDED

The agreement establishing the AFD agency in India was signed in January 2008. The first project was authorised in 2009, and the first disbursement made in 2011. AFD is thus a recent donor to India, but its significant involvement in metro and Smart Cities projects are enhancing its reputation in these areas.

With respect to India, AFD can boast several advantages built up in recent years through sectoral approaches that are greatly appreciated by our counterparts.

First of all, French expertise and know-how are not only recognised, but also in high demand from our Indian partners. In this context, FEXTE is an outstanding tool perfectly tailored to local demand and conducive to making the best use of this know-how to benefit our counterparts.<sup>29</sup>

In the transport sector, AFD is now recognised as a donor at the forefront of institutional, financial and technological innovation, notably thanks to the Kochi metro. This project is seen as a show-case in India for the technological and institutional innovations linked to French expertise, with support from the city of Lyon. The Agency has reaped the first fruits of this work as other Indian cities have sought out AFD as donor for their metro projects.

In the green energy sector, AFD works with five counterparts: (i) SIDBI, whose activity to enhance energy efficiency for SMEs AFD is helping to develop; (ii) IREDA, which is now spearheading the development of renewable energies in India, and which is supported through a first non-sovereign loan from AFD that has given it credibility in the eyes of the banking world and the other donors; (iii) EESL, the major operator in energy efficiency that has benefited from a first AFD loan for its initial development; (iv) HPPCL, a medium-hydroelectricity operator in the Himalayan region; and (v) NHB, which was granted a non-sovereign AFD loan to promote green housing. Despite the hurdles inherent to the high cost of the financial terms and conditions, the necessary tools have been mobilised for all of these counterparts (e.g., a European Union grant via the AIF window to support financing for NHB) to trigger dynamics now seen as very positive.

AFD thus brings substantive financial innovation to its counterparts, and is constantly developing new tools adapted to their needs: loans in rupees, a multi-tranche facility, loan-grant blending with the EU and, currently being appraised, loans based on a programmatic approach and risk-mitigation tools.

Generally speaking, AFD brings highly appreciated value-added to its operations: contribution of French expertise,<sup>30</sup> development of exchanges and bilateral technical cooperation, and technical, institutional and financial innovations. In a competitive and demanding setting, this value-added ultimately constitutes a key criterion for choosing AFD as donor.

Although AFD and Proparco do not co-finance operations in India,<sup>31</sup> they dialogue on a day-to-day basis, especially concerning the energy sector, in which both intervene.

### **PROPARCO: Aggregate signed amount totalling EUR 392m in November 2016.**

Proparco has been operating officially in India since 2008 alongside AFD, with the same mandate to support green and inclusive growth. Proparco deploys its entire palette of financing tools but focuses on direct participation in the equity of companies or through intermediation through investment funds (in line with the new intervention strategy of June 2016 and the needs of the market).

In India, Proparco holds a very diverse portfolio with operations in clean energies and energy efficiency, financial inclusion, the agri-industry, health, education and social and inclusive entrepreneurship.

In 2013, Proparco reached its country limit for India. This meant that prospection activities were slowed down and only able to restart in September 2014 thanks to an increase in its capital. To maintain a reasonable level of activity evenly distributed over the upcoming years, Proparco is now highly selective with respect to its Indian counterparts and sets priority on prospection in other countries of South Asia.

<sup>29</sup> For example, FEXTE support for the Kochi metro project (EUR 800,000), which has led to a fruitful cooperation with the Lyon-based transport operators CODATU and SYTRAL; and FEXTE support to Smart Cities (EUR 700,000), which is greatly appreciated by the Indian Ministry of Urban Development and the three targeted cities.

<sup>30</sup> Also visible in the intellectual production promoted by publications as, for example, a panorama study of Indian cities, produced in 2014; a research programme on solid-waste management in five international cities, including Delhi, is underway.

<sup>31</sup> Except for sub-participations.



# 3.

## **AFD'S INTERVENTION STRATEGY**

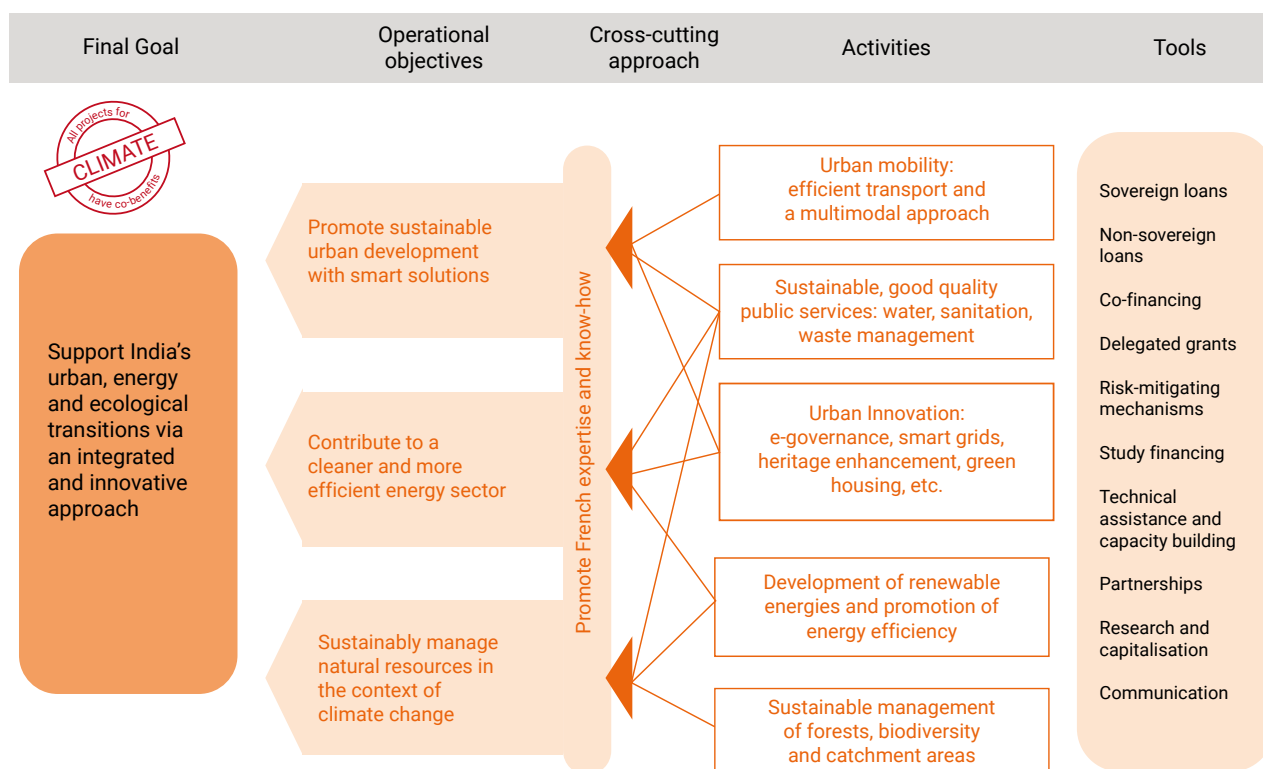
# 3. 1 STRATEGIC ORIENTATIONS

The strategy proposed for AFD over the period 2017–2021 is grounded on the new sustainable development agenda and sustainable development goals (SDGs), as well as the post-COP 21 commitments. In line with AFD’s overall objective as presented to the CICID of November 2016, the strategy emphasises support for the major transitions of the modern world, by targeting the key themes on which AFD has built its experience since 2008: the urban, energy and ecological transitions. Through large aid flows, it directly contributes to the policy objectives announced regarding the target of +EUR 4bn for AFD in 2020, including +2bn for climate change.

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*AFD’s strategy emphasises support to the major transitions of the modern world: urban, energy and ecological transitions.*

## AFD’s Logical Intervention Framework in India, 2017–2021



The Agency supports the large-scale urban development reforms that India has propelled through its national programmes (Smart Cities Mission, Clean India, AMRUT). It backs India's efforts in the fight against climate change as set out in the country's Nationally Determined Contribution and in its ambitious schemes to develop renewable energies and energy efficiency. Finally, it supports India's initiative for adaptation to climate change and the sound management of natural resources.

This strategy is based on an innovative approach able to bring more technical, institutional and financial value-added to funded projects. This will improve the competitiveness of AFD's offering in a context where inter-donor competition is intense. It also means that French expertise and know-how can be optimally promoted to meet the strong demand from India's central and local authorities on this count.

The strategy is also grounded on a more integrated and holistic approach in order to address all of the issues within a sector. For instance, rather than focussing on drinking-water supply as is the case in Jodhpur, AFD's intervention in the water sector in Puducherry spans the entire urban water cycle from the management of sustainable water resources, drinking-water distribution, wastewater collection through to the final stage of treating effluents in line with the best standards. A further example from the transport sector is the second financing phase for the Kochi metro, which supports the emergence of a unified urban transport authority, promotes intermodality, makes the lives of Kochi residents easier by creating pedestrian walkways and cycling lanes, and develops "soft", mainly electric modes of transport. In this context, and with AFD's support, Kochi metro is becoming the backbone that is structuring all of the city's development.

This strategy is coherent with the interventions of the other donors. By occupying a niche position, it not only differentiates AFD from the operations of the multilaterals, but also promotes its expertise and capacity to innovate. At the same time, it allows for co-financing with other European donors such as the EU, EIB, KfW (e.g. Nagpur metro) on large-scale projects that AFD could not finance alone.

However, on the scale of a continent-sized country such as India, AFD's commitment capacity falls far short of being able to cover all sectors or geographical regions. For this reason, AFD proposes to target its financing on the intersection of political, strategic, economic and financial interests of its ecosystem:

- On **urban areas** rather than rural areas, firstly because AFD's financing tools are relatively costly, which thus makes it difficult to intervene in very poor areas; secondly, because cities play a key role in the country's economic development; and finally, because of the breadth of environmental and social challenges of sustainable urban development in India.

- On **medium-sized cities** (from one to five million inhabitants), which hold considerable potential for demographic and economic growth over the next years and give AFD better visibility (than in megacities).

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President Hollande's address at the Franco-Indian Forum in April 2015:

*I announced to India's Prime Minister that France would make available to India through the Agence française de développement, [...] EUR 2bn, [...] so that we can truly support India's sustainable development.*

- On the sectors and subsectors that best leverage **French expertise and know-how**, and where India's demand is the strongest: urban mobility, green energy, Smart Cities, urban public services.

- On **Smart Cities** as a priority – including, of course, the three Indian cities already targeted by France: Nagpur, Chandigarh and Puducherry, and potentially others among the 108 cities listed under this programme – so as to best promote synergies with French hi-tech companies working on urban development, as well as with French cities already involved in India (particularly, Lyon and Bordeaux) and the Caisse des Dépôts et Consignations.

- On projects **combating climate change**, whether through mitigation or adaptation – even though the goal of maximum efficiency in terms of tCO<sub>2</sub>e/euro invested by AFD, traditionally reached by renewable energy or energy efficiency projects, should not be a systematic target in India due to the very heavy involvement of the private sector in these projects, which limits AFD's possible interventions.

- To some extent, on pilot and flagship operations with **high value-added**, such as urban renewal or the development of smart grids, so as to respond to Indian demand and give value-added to AFD's financing; at the same time, maintaining the option to intervene on later project phases, as was the case with Kochi phase II, and gradually on more **programmatically approaches** (such as Smart Cities), in order to find simple financing packages with rapid disbursements.



## 3.2 OBJECTIVES AND ACTIVITIES

### Objective 1: Promote sustainable urban development with smart solutions

#### Transport and urban mobility

The financing of efficient low-carbon urban infrastructure – a key component of sustainable urban development – is a major feature of AFD's action in India. Sustainable public transport is the cornerstone of the current portfolio, notably with the financing of large-scale investments to develop metro networks: the Bangalore metro (EUR 310m financing), Kochi metro (EUR 180m approved), Nagpur metro (EUR 130m).

While maintaining a strong presence in the sector, the objective today is to move towards a more integrated approach to urban development, with the intention of supporting India's efforts to improve urban mobility. Like AFD's support to Kochi using FEXTE financing, technical assistance programmes using AFD's own funds and/or EU delegated grants will help to develop this integrated multimodal approach, which promotes interconnectivity and alternative modes of transport. The technical assistance will also work to reinforce local institutions (transport authorities, municipalities, project companies) to strengthen the institutional framework and coordination of operations. As a result, an EU-financed technical assistance programme, Mobilise Your City, is currently being formalised to support the implementation of low-carbon mobility in Ahmedabad, Kochi and Nagpur.

New investment programmes will be launched under this strategy with both AFD's current strong partners and new counterparts, priority being given to the cities identified by the Embassy of France and the Smart Cities Club as having high potential for French interests. New institutional and financial arrangements will be envisaged, following the example of the Vishakhapatnam metro, for which a public-private partnership (PPP) structure is under study with a request already communicated to AFD.

#### Integrated urban development and Smart Cities

In line with its integrated project approach, AFD plans to position itself on financing the Nag River development in Nagpur, which comprises many aspects linked to developing the river banks, restructuring precarious neighbourhoods, improving the water cycle and managing waste.

Today, AFD is mobilised to support India's implementation of the Smart Cities Mission, in line with a rationale of integrated urban development. AFD was the first international donor to support three of the cities in the running for the Smart City selection: Chandigarh, Nagpur and Puducherry. The Smart City technical assistance provided to these three cities, amounting to EUR 700,000, is backed by a FEXTE-funded consortium and headed by a French consultancy. It first aimed to support the preparation of the Smart City Proposals (SCPs). It has thus helped Chandigarh and Nagpur to qualify as Smart Cities and is assisting Puducherry with the finalisation of its SCP. This expertise also covers a broad range of sectors: waste management, urban planning, structuring of future special purpose vehicles (SPVs).

A programmatic approach was also set up by AFD in 2017 in order to participate in the Smart City Mission launched in 2014. A central-government loan supports Smart City projects in several Indian cities selected through a countrywide competitive process. A strong technical assistance component helps to create a spirit of knowledge-sharing and cooperation between the cities and to bolster their capacities with support from French experts. This programmatic approach is focussed on many urban development sectors offering potential for French know-how: transport and sustainable urban mobility, urban planning, solid waste management, water cycle management (from the water source to wastewater treatment), energy efficiency, restructuring of precarious neighbourhoods, e-governance, new technologies.

### Objective 2: Contribute to a cleaner and more efficient energy sector

In line with the priorities of the Indian government in this area, AFD will remain positioned on projects involving electricity supply (increase in electricity generation capacities through renewable energies) and demand (energy efficiency).

Its financial tools, notably its non-sovereign loans and green credit lines, will be leveraged in a context characterised by the presence of financial institutions and state-owned companies involved in government efforts to promote an energy transition.

AFD is unable to compete with the attractiveness of most other donors' financing in terms of both amounts and costs of financing. As a result, in addition to mobilising additional grant funds via the European Union or other partners (FFEM, *Green Climate Fund...*), AFD will seek to highlight:

- its capacity to innovate, i.e. position itself on technologies that are not widely found on the Indian market or propose new financial products (insurance, guarantees, etc.),
- recognised French expertise accessible to beneficiaries through its projects, chiefly those related to public lighting efficiency, smart electricity distribution, or hydroelectricity including pumped storage power stations.

AFD will capitalise on the relations it has already established with key public actors in this sector, such as SIDBI, EESL and IREDA. It will also seek to diversify project owners by targeting public companies in those states most committed to promoting green energy and/or states that already have relations with AFD through its urban development activity.

### Objective 3: Sustainably manage natural resources in the context of climate change

Natural resources management is a historical intervention sector for AFD in India. This has been in the form of support form of support to the forest department of the State of Assam for the sustainable management of forest resources and biodiversity.. The project has heightened awareness in India of French expertise (CIRAD, ONFI, IFP) in a promising sector, given recent advances in public policy on the fight against climate change. It could be allocated new financing targeting a more integrated approach to the participation of the local communities living near to the region's very rich natural parks.

In addition to this sector and in line with the holistic approach used for all intervention sectors, AFD also wishes to respond to the concerns about managing water resources, in connection with dams and hydroelectricity. It will also use the expertise of the water agencies and the International Network of Basin Organization (INBO) to promote the French model for the integrated management of water resources.

Such interventions by AFD are fully in line with its priorities on adaptation to climate change, in a country that is already greatly impacted by its effects. They will enable the Agency to remain active in a sector that offers considerable opportunities to act on financing levers such as the GCF, especially on adaptation projects.

## 3.3 CROSS-CUTTING APPROACH

### A "100% climate" strategy

All of the projects financed by AFD over the next five years will provide climate co-benefits: whether they target sustainable management of forests (carbon sequestration and adaptation), integrated water management (adaptation), development of urban transport (low-carbon public transport) or energy security (energy efficiency and renewable energies), AFD's projects will have considerable impact on adaptation to the consequences of climate change and the mitigation of India's greenhouse gas emissions. The credit lines that enable AFD to indirectly finance a substantial number of investments for energy savings or renewable energies development will continue to have a particularly strong impact in terms of mitigation.

As a result, these projects will significantly contribute not only to AFD's objective of channelling 50% (and 70% in Asia) of its financing into projects that generate co-benefits relating to the fight against climate change, but also to the international commitments made by France on climate, and on forests in particular.

### Promote French expertise and know-how

In line with AFD's principles of intervention in large emerging countries, AFD's objectives in India for the period 2017–2021 have been chosen in consultation with the Indian authorities in order to promote the emergence of Franco-Indian economic partnerships and make the best use of French expertise. The projects to be funded over the next five years will thus offer opportunities for the innovative and high value-added technological approaches or solutions proposed by the French companies that are massively present in India on the targeted sectors:

- In urban transport, French companies are increasingly present, especially on metro projects.
- In the areas of energy efficiency and renewable energies, many French companies are present and well-positioned.
- In the water and sanitation sector, French value-added is recognised and expected in the domains of engineering, and the operation and maintenance of services and networks.
- In the forestry and biodiversity sector, the many lines of French expertise in research and sustainable management of forests will be harnessed.
- For integrated water resources management, French expertise will be mobilised for the watersheds concerned, not only to launch research programmes with local and French universities to produce guides and manuals on managing dams, but also to develop appropriate management tools.

To supplement its strategic positioning on sectors with promising potential for French interests, AFD will reinforce its operations by:

- Actively monitoring French actors present in India on key sustainable development sectors. In conjunction with the department of the French Embassy and Business France, the Agency will organise regular meetings with the French companies positioned on its intervention sectors in order to understand their strategy for entry and expansion on the Indian market and identify possible synergies (such as the Smart Cities Club launched by France in July 2016).

- Communicating to companies on the key stages of the project cycle, in compliance with the bank secrecy rules and the Indian code for public procurement, the purpose being to establish a climate of maximum transparency on future projects and tendering.

The Agency will also seek to coordinate its action with the French urban local bodies active in India. The political ties that they have created with their partners constitute an advantage for promoting French expertise. This relationship will be broadened to French territorial actors offering high value-added (authorities in charge of organising transport, water agencies, etc.).

In India, it is preferable that French urban local bodies target their cooperation actions on a few concrete, visible and long-term actions that highlight French expertise and are likely to create returns on investment.

The Agency will thus aim to support the activities of these players with its existing tools (FEXTE, FICOL, etc.) by seeking to promote expertise-sharing operations designed to identify large-scale programmes that can eventually be financed via AFD loans.

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*France must show its excellence at the service of India's economy.*

President Hollande after his meeting with the Indian prime minister in February 2013.

So as to help AFD gather knowledge on the activity of local French actors, regular exchanges will be organised on French territory (including through the CUF country group chaired by the departmental council of Ille and Vilaine) and in India (including through official visits of local government delegations).

### **Improve the impact of projects on social inclusion and gender**

The Indian context strongly calls on donors – including those largely positioned on financing large-scale urban infrastructure projects – to pay attention to the impact of their action in terms of social inclusion, reduction of poverty and inequality, especially between men and women. AFD wishes to more effectively take these aspects into account in the appraisal, design and implementation of the projects that it finances. For example, for urban transport, it will be particularly attentive to how the choice of railway routes impacts local populations (expropriation, accessibility, etc.) and the proposed tariffs. It will seek to collect the results of surveys carried out upstream with the people involved, and women in particular. On these subjects, AFD will establish ties with the multilateral donors who have a sound expertise in this area, such as the Asian Development Bank.

### **French territorial actors present in India:**

The India country-group of Cités Unies France (CUF – French united local governments) was set up in 2010 following the first steps of Franco-Indian decentralised cooperation in Delhi.

The most active urban local bodies are the Bordeaux metropolitan area with Hyderabad City, the Centre-Val de Loire Region with the State of Tamil Nadu, the city of Chartres with the city of Mysore, Nice metropolitan area with the State of Goa and Ille et Vilaine Department, which chairs the India country-group, with the Union Territory of Puducherry.

These cooperation actions are mainly centred on urban development (waste management, land-use planning, water management, transport) and on the protection / enhancement of the local heritage (tourism, culture, architecture).

These concerns are consistent with India's Smart City and AMRUT policies, which identify the Indian cities that are a priority for access to strengthening capacities, technical assistance, and governance methods.

However, to be up to the challenges, French decentralised cooperation in India needs to overcome the obstacles that it encounters at both the technical level (mainly, legal and administrative) but also and above all the cultural level, which involves a reticence to openly accept foreign assistance.

## **3.4 PARTNERSHIPS AND KNOWLEDGE PRODUCTION**

AFD will maintain the ties established with Indian think tanks, which make a significant contribution to defining the country's public policies. As a result, AFD will be able to:

- become involved (financially and technically) in producing studies and holding workshops supported by Indian institutions whose production is useful to developing the Agency's financial activities. AFD has thus been a member since 2015 of the Indian Innovation Lab for Green Finance, a platform enabling it to keep up to date with the latest financial innovations on the Indian market to promote sustainable development.

- support (financially and technically) the organisation of events providing AFD with visibility in its sectors of activity, like the long-standing partnership with the think tank, The Energy and Resources Institute (TERI), to support its Sustainable Development Summits.

AFD will endeavour to pursue the efforts it has made thus far in knowledge production:

- AFD will encourage TERI's continued participation in the online version of the Planet for Life series, which has so far been co-published by AFD and the think tank IDDRI.

- To prepare its financial operations more effectively, especially those in new or sensitive sectors, AFD will be able to draw on status reports and recommendations formulated in the studies commissioned by AFD's Research Department, such as the research programme underway on waste management.<sup>32</sup>

- If relevant, the findings and conclusions reached in the feasibility studies may be published, as was done concerning decentralisation in India in 2014. In particular, the knowledge gathered on the definition of the Smart Cities programme and its implementation, notably through the technical assistance project funded via FEXTE, could be shared with external stakeholders with an interest in the subject.

In terms of training, two avenues are emerging for the coming years in connection with the Agency's operations in sustainable urban development: a FEXTE-funded training session will prolong the two sessions organised in Singapore in 2015 and 2016. This will be held in Chandigarh in 2017 on the theme of the Smart Cities. In addition, the urban local bodies' course proposed by CEFEB in English will be made available to participants from the Asia region as from 2017. This course comprises three modules likely to interest AFDs interlocutors in India: (1) instruments for financial strategy, (2) urban planning tools and (3) management of urban public services.

<sup>32</sup> "Nouvelles pratiques de valorisation et enjeux de gestion de la filière déchets dans les villes en développement", AFD. Ongoing programme 2015–2017.

<sup>33</sup> "Panorama of the Urban and Municipal Sector in India", AFD Focales, 2014.



# 4.

## INTERVENTION MEANS AND MODALITIES

In addition to sovereign and non-sovereign loans, which are the classical financing instruments, AFD will conduct operations in India under conditions that can be qualified as Official Development Aid by the OECD/DAC.

At the financial level, AFD's innovation can take shape in the form of products such as the risk-mitigation tools or programmatic approaches.

The Indian government has a strong demand for financing combined with technical assistance and expert input. This is why AFD will seek to coordinate with European instruments, notably by mobilising the Asian Investment Facility.

Technical assistance and capacity-building for project owners are fundamental to ensure the success of funded projects and must be taken into account.

To better prepare projects, particularly in sectors that are new to AFD counterparts, seed funding reimbursable on the loan would mean that projects can be supported right from their identification stage. The impacts in terms of structuring and implementation would be very powerful.

# ACRONYMS AND ABBREVIATIONS

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

**ADB:** Asian Development Bank

**AIF:** Asian Investment Facility

**AMRUT:** Atal Mission for Rejuvenation and Urban Transformation

**ARIZ:** *Assurance pour le Risque dans la Zone* (Risk-sharing tool for private-sector investment in AFD Group's intervention zone)

**bn:** Billion

**BRIC:** Brazil, Russia, India, China

**BRT:** Bus Rapid Transit

**CEFEB:** Centre d'études financières, économiques et bancaires (Centre for financial, economic and banking studies, AFD)

**CICID:** Interministerial committee for international cooperation and development (France)

**CIRAD:** Agricultural Research Centre for International Development (France)

**CMP:** Comprehensive Mobility Plan

**CO<sub>2</sub>:** Carbon dioxide

**COP 21:** 21st Conference of the Parties on Climate Change

**CUF:** Cités Unies France (French united local governments)

**DEA:** Department of Economic Affairs of the Ministry of Finance (India)

**EDF:** Electricité de France (French electricity board)

**EESL:** Energy Efficiency Services Limited

**EUR:** Euro

**FASEP:** *Fonds d'étude et d'aide au secteur privé* (Fund for studies and assistance for the private sector)

**FEXTE:** *Fonds d'expertise technique et d'échanges d'expériences* (Fund for technical expertise and transfer of experience)

**FFEM:** Fonds Français pour l'Environnement Mondial (French Facility for Global Environment)

**FICOL:** *Facilité de financement des collectivités territoriales françaises* (French urban local bodies financing facility)

**GCF:** Green Climate Fund

**GDP:** Gross domestic product

**GHG:** Greenhouse gases

**GW:** Gigawatt

**HPPCL:** Himachal Pradesh Power Corporation Limited

**IDDRI:** Institut du développement durable et des relations internationales (independent policy research institute that proposes tools to put sustainable development at the heart of international relations)

**IFP:** Institut Français de Pondichéry (French Institute of Puducherry)

**INBO:** International Network of Basin Organization

**INDC:** Intended nationally determined contribution

**IREDA:** Indian Renewable Energy Development Agency

**ISA:** International Solar Alliance

**JICA:** Japan International Cooperation Agency

**KfW:** Kreditanstalt für Wiederaufbau (German international cooperation agency)

**m:** Million

**NDC:** Nationally determined contribution

**NHB:** National Housing Bank

**NUTP:** National Urban Transport Policy

**ODA:** Official development assistance

**OECD/DAC:** Organisation for Economic Cooperation and Development/Development Assistance Committee

**ONFI:** National forests consultancy, international section (France)

**PPP:** Public-private partnership

**PROPARCO:** Promotion et Participation pour la Coopération économique (AFD Group's private sector financing arm)

**SCP:** Smart City Proposal

**SDGs:** Sustainable development goals

**SIDBI:** Small Industries Development Bank of India

**SMEs:** Small and medium-sized enterprises

**SPV:** Special purpose vehicle

**SYTRAL:** Syndicat Mixte des transports pour le Rhône et l'agglomération Lyonnaise (public transport authority for the Rhône region and the metropolitan Lyon area)

**tCO<sub>2</sub>e:** Equivalent tonne of CO<sub>2</sub>

**TERI:** The Energy and Resources Institute (India)

**UMTA:** Unified Metropolitan Transport Authority

**UNDP:** United Nations Development Programme

**USAID:** United States Agency for International Development

**USD:** United States dollar

## **What is AFD?**

AFD is an inclusive public financial institution and the main actor in France's development policy. It makes commitments to projects that genuinely improve the everyday lives of people, in developing and emerging countries and in the French overseas territories.

AFD works in many sectors – energy, health, biodiversity, water, digital technologies, training – and supports the transition to a safer, more equitable and more sustainable world: a world in common. Its action is fully in line with the Sustainable Development Goals (SDGs).

Through its network of 85 agencies, AFD operates in 109 countries and is currently supporting over 3,500 development projects. In 2017, it earmarked EUR 10.4bn to finance these projects.

<http://www.afd.fr>

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