

— Brazil–Southern Cone

Regional Strategy
2020-2024

#WorldInCommon



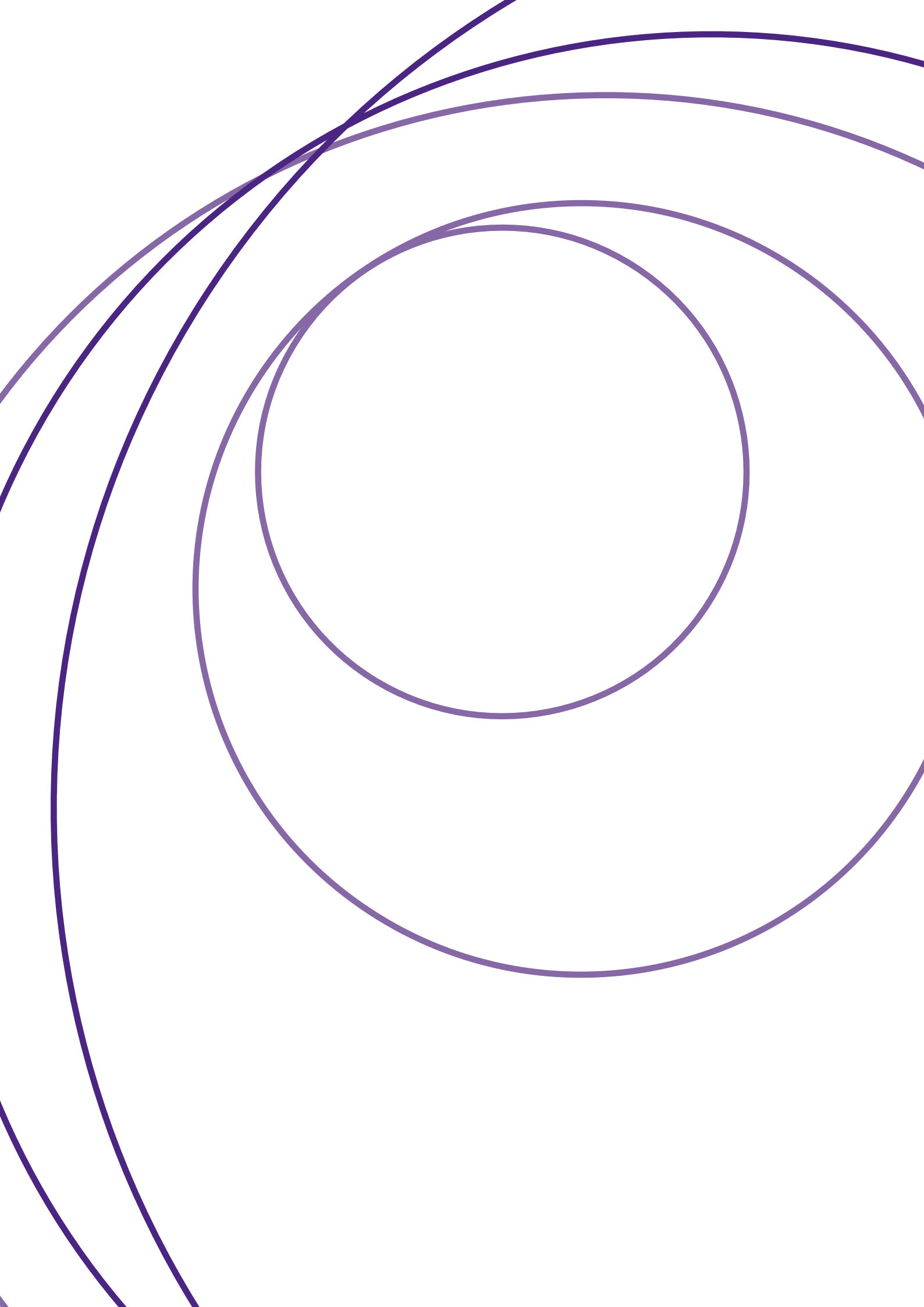


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INTRODUCTION

This document presents the strategy of the Regional Office for Brazil–Southern Cone (Argentina, Brazil, Paraguay), established in September 2017 and located in Brasilia. The Strategy covers the period 2020–2024, and was developed through an internal consultation within AFD Group. It was also reviewed by France's representations in Argentina, Brazil and Paraguay.

This strategy implements, for the Brazil–Southern Cone (BSC) region, the AFD Group 2018–2022 Strategy,¹ the Regional Intervention Framework for Latin America (RIF LAM),² the different Sectoral Intervention Frameworks, and PROPARGO's internal strategic documents for each of its intervention countries. It is also in line with the Country Intervention Framework for Brazil (CIF).

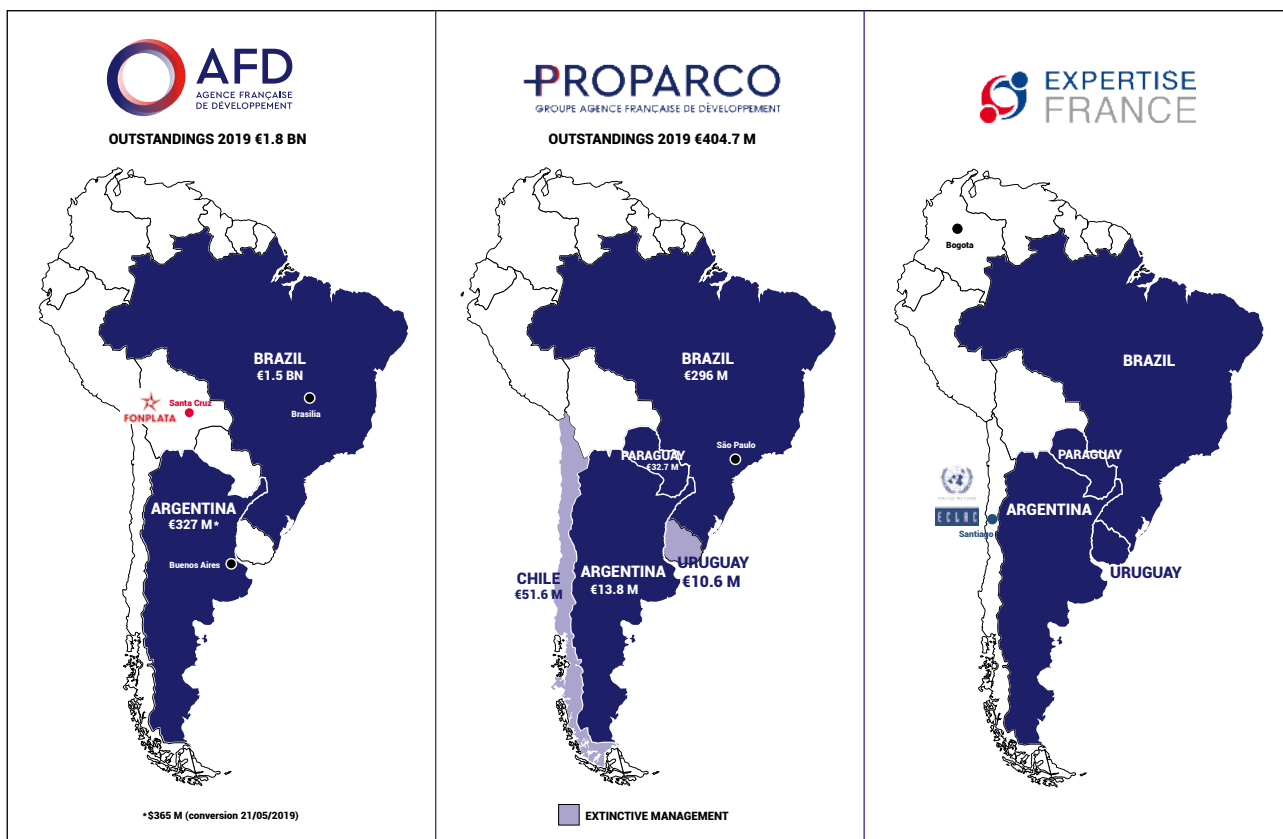
AFD Group, as a whole, operates in the three countries – Brazil, Argentina, Paraguay – in line with the modalities deriving from the mandates entrusted to it. (Figure 1):

- AFD is mandated to operate in the countries eligible for official development assistance (ODA – as defined by the list of the OECD's Development Assistance Committee) and for which it has received authorisation from the Inter-ministerial Committee for international Cooperation and Development (CICID): Argentina and Brazil

- PROPARGO, the Group's private-sector financing arm, is mandated to operate in all countries eligible for ODA in the region (reminder: Chile and Uruguay are no longer eligible).

- Given the imminent integration of Expertise France into AFD Group, the activities of Expertise France in the sub-region are taken into account in this document.

Figure 1: Presence of AFD Group entities and Expertise France in the BSC region



Source: AFD Group.

¹ In 2018, AFD Group (AFD and PROPARGO) carried out a thorough overhaul of its strategic documents by adopting its new AFD Group Strategy for the period 2018–2022, which translates the Group's implementation of the guidelines set out in the French policy for international cooperation and development. The AFD Group Strategy frames the Sustainable Development Goals (SDGs) as six major transitions and five commitments, while also integrating a geographical dimension so as to define and implement a development trajectory specific to each territory, country and region.

² The "Latin America" strategy corresponds to the geographical area spanning from Mexico to Argentina, integrates Cuba for geopolitical reasons and excludes countries in the Caribbean region. This is the framework that incorporates the three regional strategies: Central America, Andes and Brazil Southern Cone.



1.

**PRESENTATION
OF THE BSC REGION:
COMMON CHALLENGES
DESPITE DISPARITIES**

Key indicators

	Argentina	Brazil	Chile*	Paraguay	Uruguay*
Number of inhabitants (2018)	44.5 M	209.5 M	18.7 M	7 M	3.5 M
GDP growth (2018–2019) Nominal GDP in % LAC (2019)	-2.3% 8.75%	1.2% 35.81%	2.5% 5.49%	1.7% 0.74%	0.9% 1.09%
GDP per capita (2019, current USD)	USD 10 006	USD 8 717	USD 14 896	USD 5 415	USD 16 690
HDI (2019)	0.830	0.761	0.847	0.724	0.808
Gini Index (2018)	0.414	0.539	0.444	0.462	0.397
French trade balance (2018)	+ €234 M	+ €1,085 M	+ €628 M	+ €34 M	+ €66 M
Multilateral participation	G20; Mercosur; Fonplata	G20; Mercosur; Fonplata	Pacific Alliance	Mercosur; Fonplata	Mercosur; Fonplata
AFD commitments (2017–2018) % AML (2009–2018)	€311 M 4%	€1.9 Bn 19%	–	–	–
PROPARCO signatures (2008–2018) % BSC (2008–2018)	€38.6 M 4.7%	€602.7 M 74%	€69.1 M 7.9%	€63.6 M 7.8%	€42.3 M 5.2%

* Note: Chile and Uruguay have exited the Development Assistance Committee's list of countries eligible for ODA. These two countries are under extinctive management by PROPARCO, which is now limiting its activities to following its ongoing equity investments and is not signing any further agreements.

Source: World Bank, World Bank indicators, <https://data.worldbank.org/>

Taken together, Brazil and Argentina have 260 million inhabitants and a GDP of USD 2,300 billion, thus making up half of Latin America's total population and GDP. As democratic federal states, they have had a pioneering role in building up a welfare state and encouraging the emergence and growth of the middle classes. For many years, the appropriation and exploitation of land seemingly had no bounds. Global integration of these two economies has been limited (if compared to other major emerging economies). Today, the foremost asset of both countries is their primary sector (agro-trading).

The establishment of the regional organisation, Mercosul/ Mercosur, of which the three countries concerned are members, is part of Latin America's move towards regional and sub-regional integration. The organisation is one of the most advanced of its kind (common external tariffs, agreements with other regional blocs, common institutions), despite the recurrent political tensions between its members.

The shared characteristics and similar challenges in the BSC countries fully justify AFD's regional approach. To implement this, the Agency needs to reconcile the overall objective of combating global warming with the sustainable management of natural resources and the fight against inequalities. Given the size of these countries, the most relevant scale for action is that of the territories, along with their development banks and their enterprises.

1.1. A DECENTRALISED SYSTEM OF GOVERNMENT

Brazil and Argentina are both federal republics, comprising 26 States and 23 Provinces respectively, and a federal capital. The federal governments of both countries are facing the issue of equity within a political space characterised by large socio-economic disparities. In addition, budget constraints are forcing them towards what is sometimes called “cooperative federalism”, mainly in the area of

taxation, and which translates into decreased resources for decentralised entities.

As for Paraguay, this is a “decentralised unitary state” in which the central authority devolves some powers to the local authorities.

1.2. MIDDLE-INCOME COUNTRIES

Between 2003 and 2014, Brazil experienced a decade of economic and social progress buoyed by an exceptional commodity cycle and favourable international interest rates. Over this period, 29 million people were lifted out of poverty and inequalities were substantially reduced (incomes rose by an average 7.1% for 40% of the poorest populations³). Brazil then went through a period of severe recession between 2015 and 2016 which worsened the country’s economic and social situation. Thereafter, the outlook for growth turned positive with an expected GDP growth of around 2% for 2020.⁴ However, the effects of Covid-19 have led to an unprecedented slowdown forecast at 9.1% in 2020, a fiscal deficit totalling 16% of GDP and an increase in public debt equivalent to 102.3% of GDP, according to the IMF. Despite fiscal measures designed to cushion the social impact of the crisis, economic and social inequalities are set to increase. The thrust of the rebound in 2021 will not be strong enough to wipe out the losses of 2020, as the IMF projects growth of 3.6%.

The economic and social situation is more complicated in Argentina. The country has been in recession since 2018 with an accelerating rate of inflation (47.4% in 2018 and 53.8% in 2019). This has led to increasing poverty due to job losses and, more generally, a drop in purchasing power. The unemployment rate rose from 7.2% in Q4 2017 to 8.9% in Q4 2019 and the underemployment rate increased from 10.2 to 13.1% over the same period. Furthermore, the poverty rate increased from 7.74% of the population in 2017 to 9.56% in 2018 according to the World Bank.⁵ The Economic Commission for Latin America and the Caribbean (ECLAC), which uses its own methodology,⁶ projects an increase in poverty from 26.7% in 2019 to 37.5% in 2020 due to the impact of a 10.5% recession.

In Paraguay, a degree of diversification of the productive base has enabled the country to withstand the fall in commodity prices and puts the national economy in a relatively favourable situation compared to the Southern Cone region, with volatile but positive prospects for growth.

1.3. THE RISE OF THE MIDDLE CLASSES

In Brazil, the growth of the middle class has been accelerating since the mid-2000s and now accounts for around 55% of the population, positioning the country within the average for Latin American countries.⁷ Yet, this middle

class is characterised by a substantial heterogeneity and a polarisation between a relatively small affluent segment (17%) and a substantial fraction that runs the risk of sinking back into poverty.

³ World Bank (2019), Overview of Brazil, <https://www.worldbank.org/en/country/brazil/overview>

⁴ OECD (2019), Brazil Economic Outlook.

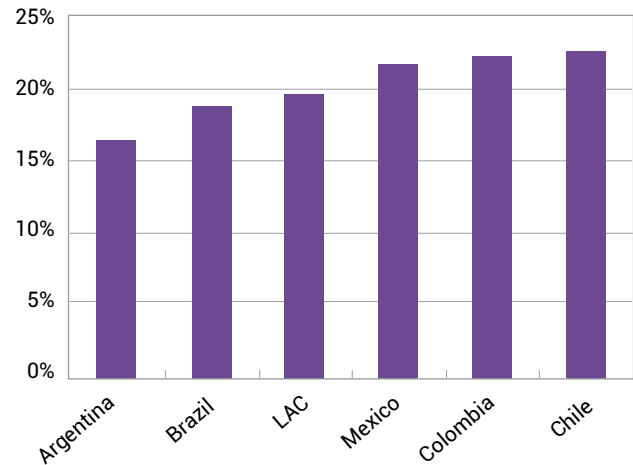
⁵ The poverty line for UMICs is USD 5.50 a day, in PPP.

⁶ https://repositorio.cepal.org/bitstream/handle/11362/44314/1/S1800852_es.pdf

⁷ CLÉMENT, M., Y.-A. FAURE, J.-P. BERROU, F. COMBARNOUS, D. DARBON and E. ROUGIER (2018), “Anatomie de la classe moyenne brésilienne: identification, caractérisation et implications pour les politiques publiques”, AFD Research Paper, No. 2018-67, June.

In Argentina, although the middle class is one of the most robust in Latin America, it has been losing ground over the past three years, thus swelling the ranks of the working classes. AFD Group is currently carrying out a study on Argentina, akin to that conducted on Brazil, so as to better understand the country's characteristics and the implications for public policy. The results of this study are due to be published early 2021. In both Argentina and Brazil, there is a risk that the Covid-19 crisis will further amplify the erosion of the middle classes and cause a "return to poverty" of their most vulnerable segments.

Investment as % of GDP – Regional comparisons (average 2002–2016)



1.4. PROBLEMS OF COMPETITIVENESS AND ECONOMIC PRODUCTIVITY

The chronic infrastructure deficit, the high cost of capital and labour and the complexity of the tax system characterise the "custo"⁸ in both Brazil and Argentina. Unlike the countries on the Pacific side of South America, which have greater trade openness, the trade and industrial policies in Argentina and Brazil are marked by a high degree of protectionism and even state intervention, which today is hampering their economic future.

Brazil suffers mainly from an uncompetitive business environment, a fragmented market, weak domestic competition and a very low level of infrastructure investment

(around 2% of GDP). Competitiveness in Argentina, within the average of Latin American countries and at the bottom of the G20 countries, has also deteriorated in recent years, plagued by macroeconomic instability despite the government's many efforts to enhance the country's attractiveness. Tradewise, Paraguay is the most open of the five Mercosur economies. The country's economy mainly depends on the agro-industrial sector and, to a lesser extent, on electricity sales to Argentina and Brazil.

1.5. REPRIMARISATION

As from the 2000s, the rise in commodity prices and an increase in export volumes, mainly driven by Chinese demand, have led to a reprimarisation of South American economies. This is borne out, for instance, by the share of primary products and semi-manufactured goods in Argentine, Brazilian and Paraguayan exports, respectively 67%, 62% and 89% in 2017.⁹

Brazil, the world's third largest exporter of agricultural products (after the USA and the EU), was sorely hit by the fall in prices during the period 2015–2016. Argentina, although initially more resistant to the deteriorating external environment, is facing a tricky macroeconomic situation due to its public finances crisis. Paraguay relies heavily on its agricultural production as 63% of its exports are from the agri-food sector and primary sector exports contribute an average 20% to its GDP.

⁸ The term "custo" refers to the high operational costs inherent to doing business in an emerging country.

⁹ WTO, World Trade Profiles 2019.

1.6. THE CRISIS OF THE WELFARE STATE

The approach grounded on domestic demand that prevailed under the Brazilian Workers' Party (2002–2016) and during the Kirchner years in Argentina (2003–2015) enabled substantial social progress to be made for more than a decade. This model is now under serious threat: Brazil's debt ratio reached 90% of GDP in 2019 and will be close to 100% in 2024.¹⁰ In Argentina, public debt stood at 80.7% of GDP in the second quarter 2019, but overshot 90% by the end of the year following a sharp devaluation of the peso in the month of August.¹¹

To balance the primary budget in 2019, and under the standby agreement with the IMF (a USD 57 Bn loan granted in June 2018, of which 4 Bn has already been disbursed), Argentina's President Mauricio Macri implemented a fiscal adjustment programme and tax increases. Although social expenditure has thus far been ring-fenced, the high level of debt and a still elevated fiscal deficit nonetheless herald a brake on public spending in the coming years, especially in the context of the negotiations that the Fernandez government is planning with the IMF.

In Brazil, the cap on public spending first of all crushed public investment. Subsequently, it also impacted social expenditure. The pension reforms, intended to save some 230 billion euros over the coming decade (i.e. 12% of GDP for 2018), has by no means corrected the inequalities of a regressive tax system (income tax represents 5% of household income and the contribution of the wealthiest 10% is still very small). The Covid-19 crisis has again put the spotlight on the question of assisting the most vulnerable and retriggered the debate on tax reform.

Both countries have reacted very differently to the Covid-19 pandemic. Argentina responded by implementing measures to restrict movement and by "depoliticising" the subject. Brazil has been – and still is – torn between the positions of the President (denying the reality of the pandemic, criticising lockdown measures, promoting chloroquine, etc.) and those of many local officials who favour confinement measures. The number of positive cases and deaths reflects the effects of these policies. The two countries are facing the economic and social effects of the pandemic. On this count, the Brazilian response, which is backed by economic and financial fundamentals that are more favourable than those in Argentina, has been stronger and more effective, notably in limiting the social effects of the recession.

1.7. ACCELERATING CLIMATE CHANGE AND BIODIVERSITY LOSS

Brazil and Argentina are particularly vulnerable to the effects of climate change and the accelerating mass extinction of wildlife. They are facing common challenges such as depleting water resources, management of extreme climate events and coastal erosion. Argentina is among those countries that have lost the highest forest cover over the past 25 years.

Climate projections for 2050 in this region foresee:

- reduced rainfall in two-thirds of North Brazil, the far north of Paraguay and western Argentina, but higher rainfall elsewhere,
- increased violent rainfall across Brazil, Paraguay and northern Argentina,
- longer periods of drought for half of Brazil and northern Argentina, and temperature rises of +2°C,
- a rise in sea levels in line with the world average: ranging from 35cm to 100cm by 2100.

¹⁰ FMI World Economic Outlook Database (April 2019).

¹¹ Ministry of Finance.

These changes will disrupt essential economic activities, heighten climate risks, especially flooding, and render biodiversity more fragile.

President Bolsonaro has walked back his campaign announcement of withdrawing Brazil from the Paris Agreement, under which the country had set itself ambitious objectives (a 37% emissions reduction by 2025). He has nonetheless maintained his intention of further exploiting

the Amazon Forest, and deforestation rates in the Amazon and the Brazilian Cerrado are again on the rise. Brazil has a special responsibility for biodiversity conservation, as the country's different biotopes are home to some 20% of the planet's species of fauna and flora. The international and domestic political situation occasioned by the fires in Amazonia has prompted Brazil's federal authorities to mobilise greater resources to help preserve the Amazon forest – a dynamic whose results have yet to be evaluated.

1.8. A HIGH URBANISATION RATE STILL ON THE RISE

Argentina and Brazil both have an urbanisation rate bordering 90% of the population, with strong demographic and land pressures in the cities of São Paulo, Rio de Janeiro and Buenos Aires, which have 19.5, 15 and 12.8 million inhabitants respectively.

Although partially offset by the dynamism of inland cities such as Brasilia, Cordoba and Mendoza, this spatial imbalance raises a series of challenges such as the congestion of traffic and transport modes, pollution, insecurity and social, economic and spatial inequalities.

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Argentina and Brazil both have an urbanisation rate bordering 90% of the population, a spatial imbalance which poses a whole series of challenges.

2.

DEFINITION OF AFD GROUP'S PRIORITY ACTIONS IN THE BSC REGION

In line with the Sustainable Development Goals (SDGs) of the 2030 Agenda, the AFD Group 2018–2022 Strategy and the priorities identified in the Regional Intervention Framework for Latin America, the overarching goal of the BSC Regional Office is to promote the ecological transition and social justice within the countries' development trajectories. This goal helps to further the Group's ambition to achieve 100% compliance with the Paris Climate Agreement and 100% social link compliance. As a result, the Group will ensure that each of its interventions is compatible with a low-carbon and resilient development trajectory, and will also seek to reinforce impacts that reinforce the fight against climate change. It will also endeavour to strengthen social cohesion, notably by combatting inequalities, between territories and people, with a special focus on gender inequality.

With respect to the six transitions promoted by AFD Group and given the development challenges in the sub-region, the activities of the BSC Regional Office will pursue two priority lines of action:

- The territorial and ecological transition
- The energy transition.

In parallel, the BSC Regional Office will provide targeted financing for activities able to respond to the challenges of the economic and financial transition, and the political and civic transition.

Mainstreaming social justice issues into funded projects

Many of the Regional Office's activities, either ongoing or planned, will seek to strengthen social cohesion ("100% social link"), which will function as a cross-cutting action for all of the Office's activities.

In addition, Expertise France's activity will contribute to this objective via programmes co-funded with the EU, including:

- The SOCIEUX+ programme, in which Expertise France provides technical assistance in the area of social protection systems and employment policy.
- The "Gender Equality Policies" of the EUROsocial+ programme, implemented by Expertise France, aim to strengthen public gender equality policies in 18 Latin American countries (including Argentina, Brazil and Paraguay).

2.1. ACHIEVE A SUCCESSFUL TERRITORIAL AND ECOLOGICAL TRANSITION

Making a success of the territorial and ecological transition is at the heart of AFD Group's strategy in the region. AFD's portfolio in Brazil now makes a substantive contribution to AFD Group's climate strategy (70% with climate co-benefits). The operational focus areas for its activities are listed below.

2.1.1. Promote urban mobility

In line with the AFD Group Strategy, AFD and PROPARCO will continue to collaborate closely on urban mobility projects that leverage both private and public funds and thus constitute opportunities for joint interventions. This operational focus dovetails with SDG 11 – Make cities and communities inclusive, safe, resilient and sustainable.

In this context, and when relevant, the elaboration of "AFD Group" financing offers will be envisaged, as well as support for French interests. AFD will work to mobilise the Green Climate Fund, particularly on the regional project to develop electric mobility.

2.1.2. Improve access to drinking water and sanitation services

Populations have little access to sanitation services: 39% in Brazil and 26% in Argentina.¹² The integrated management and conservation of water resources, as well as access to safe drinking water and sanitation, will continue to be a priority for AFD in the BSC region, in line with achieving SDG 6 (Ensure availability and sustainable management of water and sanitation for all). This activity targets sectors that hold promising opportunities for the offers of French companies.

¹² JPM UNICEF – WHO 2017, <https://washdata.org/sites/default/files/documents/reports/2019-05/JMP-2017-report-final.pdf>

This sector occupies a prominent place in the Argentina portfolio with a programme now underway to improve water and sanitation in the north of the country, and several provinces have expressed demands for this sector (mainly Santa Fe, Córdoba, Mendoza). The adoption of a new legal framework for sanitation in Brazil could open the way for new operations, including potential opportunities for "AFD Group" offers.

The Group will set priority on the least economically developed regions, particularly in Brazil's Nordeste region.

2.1.3. Sustainably manage land and ecosystems

A large share of the activities will be dedicated to land use, notably in Brazil, where agriculture and agro-industry remain key sectors of the economy (around 25% of GDP and 40% of exports). In this context, it is crucial to develop a more sustainable agriculture. Various public and private initiatives exist but they often lack technical, financial and/or political support. AFD has begun to operate in Brazilian Amazonia (TerrAmaz project). Its action aims not only to meet the "classical" development needs that are essential for the regional ecosystem (e.g. sanitation) but also to encourage methods promoting sustainable production and the conservation of forest ecosystems. This action is based on and contributes to the strategic priorities defined by France, particularly with respect to the Alliance for Rainforests. This action supplements other financing initiatives supported by France, such as the Natural Capital Lab of

the Inter-American Development Bank (IDB) and the French Facility for Global Environment (FFEM), which is developing several initiatives in the sub-region.

AFD will also develop actions for the sustainable management of ecosystems in Brazil's Nordeste and the pampas (Brazil and Argentina).

Under the EUROCLIMA+ programme for Latin America, Expertise France is coordinating the reinforcement of regional cooperation, dialogue and learning involving innovative approaches to climate change mitigation and adaptation, mainly in view of preserving biodiversity and increasing the resilience of local communities.

The pursuit of these activities contributes to achieving SDG 12 (Ensure sustainable consumption and production patterns) and SDG 15 (Protect, restore and promote the sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss).

2.1.4. Support access to decent housing

The social consequences of Covid-19 could well deepen inequalities and tip part of the middle classes back into poverty. AFD can support projects to improve access to housing, provided these bring climate co-benefits (possibility for financing in Córdoba Province in Argentina, and several expressions of interest from the Brazilian public bank, Caixa).

2.2. ACHIEVE A SUCCESSFUL ENERGY TRANSITION

The development of non-conventional renewable energies and the strengthening of energy efficiency will continue to be high priorities for AFD Group in Argentina and Brazil. These activities are in line with SDG 7 (Ensure access to affordable, reliable, sustainable and modern energy for all) and SDG 13 (Take urgent action to combat climate change and its impacts).

When the Paris Agreement was signed, Argentina set itself the ambitious objective of reaching 20% of non-conventional renewable energies in its power generation mix by 2025 (targeted installed capacity around 10 GW), compared to 2% at the end of 2016. Although the economic

crisis affecting the country has led the current government to focus its discourse on rebooting the productive base and employment, a sustainable recovery is being sought and AFD Group will continue to deploy the full range of its instruments in Argentina:

→ AFD is granting green credit lines to public banks to finance renewable energy projects.

→ PROPARCO is financing the promoters of RenovAr¹³ projects and could (1) do the same for MATER¹⁴ projects and (2) invest in green bonds issued by private banks to promote this type of project.

¹³ The RenovAr programme aims to provide Argentina with 10 GW of renewable energy capacity by the end of 2025.

¹⁴ MATER (*Mercado a Término de las Energías Renovables*) is the renewable energy term market.

As 68% of Brazil's installed power generation capacity is based on hydropower, the country is facing significant challenges to diversify a generation mix that is overexposed to the risk of drought, promote new sources of renewable energies and support technological innovation.

→ Based on its partnership with the BNDES (Brazilian development bank), AFD will support Brazil's public policies designed to promote renewable energy development and energy efficiency (non-sovereign credit lines for banks and direct loans to public enterprises in the sector).

→ PROPARCO will continue its support to private-sector initiatives through equity financing, and/or financing that is complementary to that proposed by local public development banks, as well as through interventions to facilitate the mobilisation of capital markets.

→ Energy-efficiency projects supported by cities will also be targeted.

2.3. ACTION TARGETING THE ECONOMIC AND FINANCIAL AND POLITICAL AND CIVIC TRANSITIONS

2.3.1 The economic and financial transition

Partnership with public banks is a key component for implementing AFD's strategy in this region. This approach will be pursued and deepened not only with federal banks (BNDES, Caixa, Banco do Brasil in Brazil, BICE in Argentina) but also with banks of federated states or provinces (BRDE, BDMG) and banking associations (ABDE). The financing and technical cooperation put in place will support the SDG/Climate strategies of these partners. In addition, the Group will continue its support to private-sector initiatives in these fields through PROPARCO's operations with local banks targeting themes such as agriculture and agro-industry, and climate.

With regard to ECLAC, discussions are underway for the signature of a Memorandum of Understanding in the second semester of 2020, enabling a framework for cooperation in the areas of (i) low-carbon macroeconomic modelling (GEMMES project), (ii) financing for the energy transition and (iii) a fair transition and the boosting of employment.

Lastly, the many collaborations with the banking sector are also favourable to more effectively integrating gender considerations into the practices of the various actors and supporting women's participation in the labour force. In Argentina, AFD is working, and will continue to work, with the BICE on a scheme for women's entrepreneurship.

2.3.2 The political and civic transition

In Argentina and Brazil, AFD will continue to support ongoing structural reforms to ensure the longevity and quality of public services based on well-managed public spending and investment and on the search for synergies with the private sector.

AFD is thus supporting Argentine provinces in improving their financial governance performance, and in modernising their administration and cadastral systems. It will also support Santa Fe Province in preparing a first gender-sensitive budget for fiscal year 2021, which is an unprecedented step for an Argentine province (outside of CABA). From a broader perspective, integrating gender considerations into public policy exercises is a promising avenue for AFD interventions in Argentina, in light of the political support given to this theme at both national and local levels. Finally, PROPARCO is providing one-off support to private businesses on the topic of governance.

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3.

**ACT AT REGIONAL
AND CROSS-BORDER
LEVELS**

3.1. FONPLATA, ECLAC AND IDFC: KEY PARTNERSHIPS FOR SUB-REGIONAL ACTIVITIES

In both Argentina and Brazil, AFD Group has partnered with the multilateral donors operating in the BSC region (World Bank, EIB, IDB, CAF) and their subsidiaries dedicated to the private sector. Moreover, the Group is active within a series of sub-regional institutions in order to conduct multi-country actions.

FONPLATA is intervening as a financial actor to promote the development of strategic projects in the River Plate Basin, which covers three of AFD's intervention countries in South America (Argentina, Bolivia and Brazil). In April 2018, AFD granted a USD 20 M credit line to FONPLATA that not only enables it to strengthen its position on regional issues such as climate change, but also enables AFD to bolster its action and visibility in an area where its presence is still relatively new. The collaboration with FONPLATA could also enable AFD to pursue operations in Argentina via the refinancing of FONPLATA projects in Argentina.

Cooperation between France and the Economic Commission for Latin America and the Caribbean (ECLAC) aims to (i) provide technical support for the implementation of sustainable development initiatives under ECLAC's work programme and (ii) facilitate the exchange of expertise and the execution of common actions to promote implementation of the Paris Agreement and the nationally determined contributions of the countries in the region. AFD can support these activities in its areas of expertise.

Lastly, the BSC region is well represented in the IDFC network: the BNDES (Brazil), Banco Estado (Chile) and the CAF are among the 24 national, regional and bilateral development banks that are IDFC members. The new membership of BICE in October 2019, with whom a first collaboration has just been signed, will strengthen this representation. IDFC has proved to be the ideal platform for promoting the 2030 Agenda in the sub-region, particularly with respect to the ecological transition and urban development, as well as the development of non-sovereign financing.

3.2. SUPPORT ROBUST COLLABORATION BETWEEN THE REGIONAL OFFICES, COMMENSURATE WITH THE SCALE OF AMAZONIA

The arrangements for managing land and forests in the Amazonian biome suffer from a lack of coordination between the different states involved (Colombia, Venezuela, Guyana, Suriname, France – French Guiana – and Brazil). In line with the French National Strategy to Combat Imported Deforestation from the French Ministry for the Ecological and Solidarity Transition, AFD is working on a territorial approach based on a regional operator or a stakeholder consortium in order to support the drive to develop local government in Amazonia, particularly at the municipal level. The main goal of these territorial projects is to combat deforestation by strengthening the sustainability of production and livestock-farming systems and promoting agro-ecology and agro-forestry, while also supporting control policies and mechanisms.

Drawing on the Platforms in Partnership for Research and Training Worldwide developed by CIRAD together with its national and regional partners within the framework of the Amazonia platform "Forests, Agriculture and Territories" (Brazil, Colombia and French Guiana), the Regional Offices concerned (RO Andes, RO BSC and RO Atlantic) will work to bring together the different stakeholders and ensure smooth coordination.

Outside of Amazonia, one of the areas on which collaboration with the other Regional Offices is planned will be the ALIDE network, which groups together the banks of Latin America and includes numerous Brazilian and Argentine banks.

3.3. DEVELOP CROSS-BORDER ACTIONS

Cross-border cooperation is a particularity of Franco-Brazilian relations, as France – with French Guiana – is the only European country to share over 700 km of border with Brazil. This cooperation involves the fields of health, education and sustainable development. It responds to both parties' concerns relating to cross-border risks (illegal immigration, security, illegal gold-panning, health risks) and encourages economic, social and cultural development between the two territories. Each year, the Joint Cross-border Commission convenes local and national authorities of both countries in order to steer this cooperation. A flagship project is the cross-border Oyapock Bridge, which was opened to motor traffic in 2017.

AFD operates out of its Cayenne agency, providing support for infrastructure projects (telecommunications, electric interconnection). In this framework, the Agency contributes to exchanges regarding preparations for the Arco Norte project, which aims to establish an electric interconnection between the countries of the Guyana Plateau: Brazil (with its northern states, Amapa and Roraima), Guyana, Suriname and French Guiana.

Possible avenues for cross-border cooperation between Argentina and Brazil will also be explored.

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4.

**FINANCIAL
PERSPECTIVES**

Argentina: depending on how the economic situation evolves, AFD will work to gradually return to the level of annual commitments set in 2017: €100 M in sovereign financing, as well as non-sovereign financing tailored to the demands of local public actors, including local authorities with the capacity to borrow without a federal guarantee (i.e., some provinces and public banks). Being able to intervene in the absence of a sovereign guarantee is one of AFD's differentiating advantages in Argentina, as no other multilateral organisation operating there does so. As for PROPARCO's operations, based on projects now under appraisal, around €250 M of new signatures could be foreseen for the period 2019–2020, if changes in the country's macroeconomic and political situation so permits.

Brazil: in compliance with the guidelines detailed in the Brazil Strategy for 2018–2022, the level of commitment should reach €1.5 Bn for AFD and €500 M for PROPARCO, which in five years is equivalent to the commitments over the first 10 years of intervention, in the period 2007–2017.

Paraguay: the perspectives for interventions by PROPARCO in Paraguay represent around €70 M over the period 2019–2020.

“

AFD activities in Paraguay

PROPARCO and Expertise France operate in Paraguay. The question of AFD's possible intervention is subject to government review.



5.

IMPLEMENTATION PLAN FOR THE STRATEGY

In the BSC Regional Office, a joint reflection involving AFD's Latin America geographical department (AML) and agency staff from Brasília, São Paulo and Buenos Aires has been initiated, notably through bi-yearly seminars (December 2017, June and December 2018, June and December 2019).

These have helped to identify six areas of work to strengthen the Group's impacts through knowledge-pooling and implementing coordinated actions within AFD Group and the sub-region.

5.1. DEVELOP RENEWABLE ENERGIES IN ARGENTINA

It is difficult to harness the financing required for this type of project for several reasons. In a situation exacerbated by the current crisis, not only does Argentina's financial sector have insufficient liquidity for the maturities required by this type of project, but also international lenders have a low level of activity in the country. Taking into account the objectives of the Argentine government to prioritise projects that exploit the potential of local companies and to support highly labour-intensive sectors, AFD Group will work to support the emergence of renewable energies via:

- direct financing for public and private project sponsors
- dedicated credit lines made available to public and private local banks
- direct financing for the sponsors of MATER projects (a priori, private-sector).

In addition, some projects could benefit from a combination of direct and intermediated financing made available by one and/or the other of AFD Group's windows.

PROPARCO teams, who have been following the renewable energy development process since its launch in 2015, have enabled the AFD teams to quickly understand the context. This ongoing information-sharing will continue so as to ensure that the Group's action in this sector is coordinated and effective. In the longer term, in addition to the projects now under appraisal, PROPARCO – who will soon have reached its exposure limit on the RenovAr programme – will work to diversify risks by focusing on other sectors such as agriculture, financial institutions and telecommunications.

5.2. SUSTAINABLE AGRICULTURE AND NATURAL RESOURCES MANAGEMENT IN BRAZIL

AFD Group, including Expertise France (EUROCLIMA+ programme), seeks to contribute to developing more environment-friendly and lower-carbon agriculture and, more broadly, land use in Brazil (agroforestry, sustainable forest management), through coordinated action that targets:

- strengthening of the public policy dialogue with the Federal Government, public development banks and local authorities (federated states and municipalities) on this theme,
- loan operations for local authorities, matched with technical assistance components,

- dedicated credit lines made available to local banks (public or private), possibly combined with technical assistance,

- financing for private-sector actors,

- technical cooperation.

As agribusiness is heavily subsidised in Brazil, both by the government and by local and international donors, AFD Group will work to identify and position itself on niche sectors such as cooperatives and the organic sector.

Viewed as a reservoir of arable land and natural resources, the Amazonian Basin is under multiple pressures that are leading to deforestation and biodiversity loss. AFD has approved the TerraAmaz programme (jointly with AVSF,

Cirad and ONF International), which will help to support sustainable territorial planning, pilot schemes for territorial certification, sustainable agricultural value chains and the development of innovative financing mechanisms.

5.3. DEVELOP BRAZIL'S NORTH AND NORTH-EAST REGIONS

Brazil's North and North-East regions show a considerable lag in terms of economic and social development compared to the South and South-East regions. There are many reasons for this and the gap is constantly widening, mainly due to the fact that economic power is concentrated in the south of the country. AFD Group will thus mobilise its resources to support projects that contribute to developing these regions. The focus will be on the infrastructure sector, be it directly (energy) or indirectly productive, by contributing to the development of economic activity and social progress (transport, water and sanitation, street lighting), particularly in urban areas.

This coordinated action will involve:

- strengthening of the public policy dialogue with the Federal Government and local authorities (federated states and municipalities) in these regions,

- loan operations for local authorities, matched with technical assistance components, within the framework of development projects,

- dedicated credit lines made available to local public development banks, possibly combined with technical assistance, to support development projects in these regions,

- financing (or financing guarantees) for private actors implementing infrastructure projects in these regions, particularly under PPPs.

Moreover, specific jointly conducted work will be carried out with these different stakeholders to assess the risks induced by PPPs benefiting from local authority support, to try to structure adapted "Group" financing solutions (or guarantees).

5.4. REFLECT ON FINANCING FOR BRAZILIAN AND ARGENTINE LOCAL AUTHORITIES

The federal structure of Brazil and Argentina confers an important role on local authorities in implementing public policy and development projects. The territories' considerable autonomy is thus a key element for orienting AFD's strategy in the sub-region. The Federal States provide guarantees for external loans contracted by their local authorities (and monitor them closely). Some local authorities in Argentina have already launched bond issues without a guarantee.

Financing for local authorities could be developed in Brazil. This would require that AFD ensure monitoring and engage in regular dialogue with the different stakeholders, including with local authority groupings (consortia of federated states or municipalities) and the other international donors.

On this count, the Agency has implemented several initiatives, notably by engaging in discussions with the new Brazilian authorities (*Secretaria do Tesouro Nacional*) on financing for local entities at a seminar in March 2019. It has also begun discussions with the CAF on the possibility

of conducting a comparative Brazil/Argentina study on local authority financing. In Argentina, discussions with the CAF are also ongoing in order to explore what possibilities the municipal sector could offer in terms of financing. In addition, the Agency is developing and maintaining a direct and regular dialogue with local officials.

AFD Group regularly discusses the above points with French businesses through the usual channels (chambers of commerce, French foreign trade advisors, in liaison with state departments). France is one of the leading foreign investors in the region, primarily in the sectors of renewables and sustainable cities. The subject of sanitation also offers promising opportunities for future investments.

5.5. SUB-REGIONAL PLATFORM FOR NETWORKING AND EXCHANGE BETWEEN PARTNERS

In March 2018, the Regional Office held a workshop on climate attended by BRDE and BICE during which the BRDE shared the lessons learnt from its collaboration on this theme with the BICE, with whom AFD had just partnered. It was also an opportunity for BICE to share its own experience in green bond issues with the BRDE, who wishes to advance in this direction.

Given the success of this first initiative of experience-sharing, this type of regional networking will continue to be promoted, particularly as it is totally in line with the Mainstreaming Climate Initiative rationale and the IDFC.

5.6. PROSPECTION, COMMUNICATION AND ACCOUNTABILITY

In liaison with the Group headquarters, the Regional Office will continue to jointly develop and update prospecting and communication tools with AFD Group (country and region fact sheets, cross-cutting and sector presentations, shared prospecting kits, websites, etc.), relying on fluid communication between the teams and on Group tools (mainly, La Ruche). This information-sharing and the joint communication actions will also be further expanded to "Team France" in the region covered by the Regional Office: Business France (upstream sharing of information on AFD, PROPARGO and Expertise France projects), Embassies, Economic Services, French Tech in São Paulo and Buenos Aires, as well as French businesses.

Moreover, the Regional Office will work to mobilise Expertise France more systematically, as was the case when implementing FEXTE on PPP governance in Brazil, which was approved late 2017 and which has given rise to several joint AFD–Expertise France missions in Brazil since February 2018.

All of AFD's interventions in Brazil and Argentina (urban mobility, land use and ecosystem management, etc.) are sectors in which traditional French actors can apply their expertise: urban planning agencies, transport authorities, nature parks, chambers of agriculture, etc. Their upstream work (planning, governance, capacity-building) and the French models and tools that they promote are able to "pave the way" for French economic actors.

Lastly, in line with the increasing focus on accountability within AFD Group, the Regional Office is seeking, whenever possible and relevant, to consolidate and communicate on the impacts that the Group has achieved in the region.

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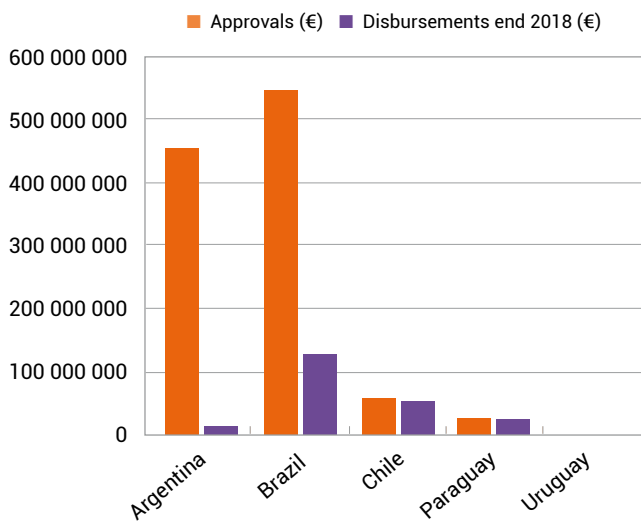
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APPENDIX

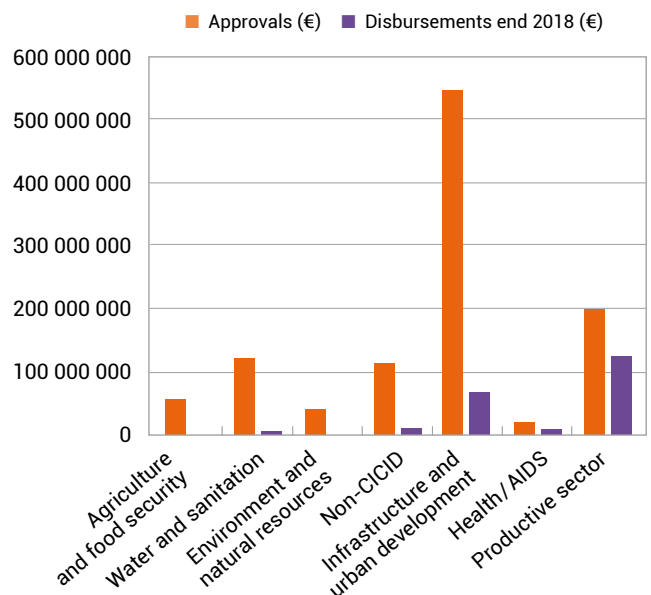
OVERVIEW OF THE GROUP'S ACTIVITIES IN THE BSC REGION, 2015–2018

Total approved 2015-2018:	€1,091 M
Total approved with climate co-benefits:	€773 M
Total approved with gender co-benefits:	€115 M
Total state cost mobilised:	€0 M

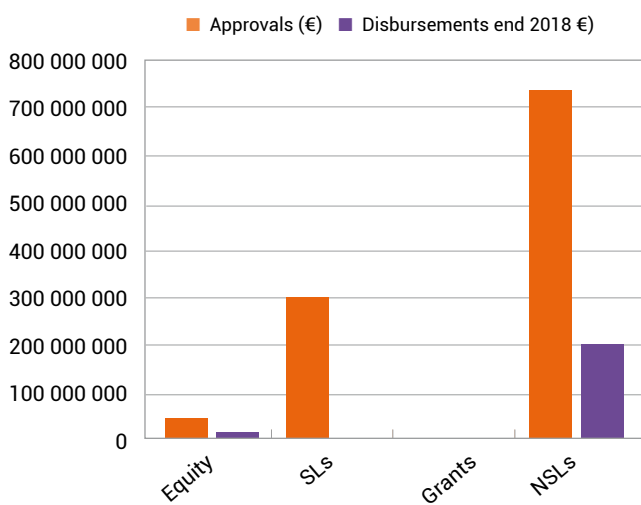
Group approvals and disbursements by country, 2015–2018 (€)



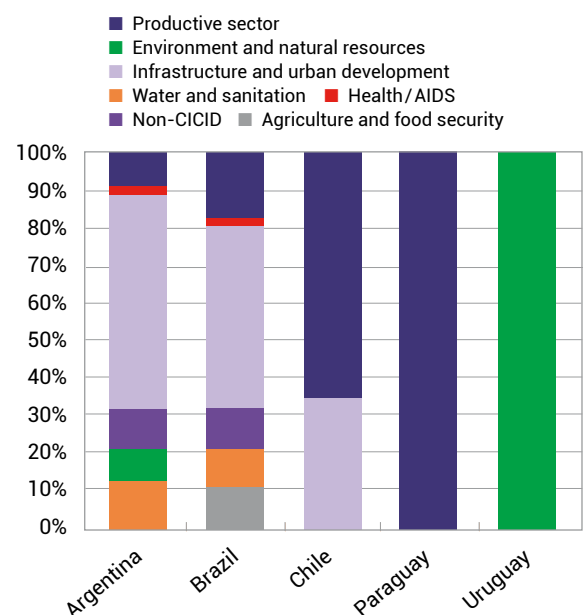
Group approvals and disbursements by sector, 2015–2018 (€)

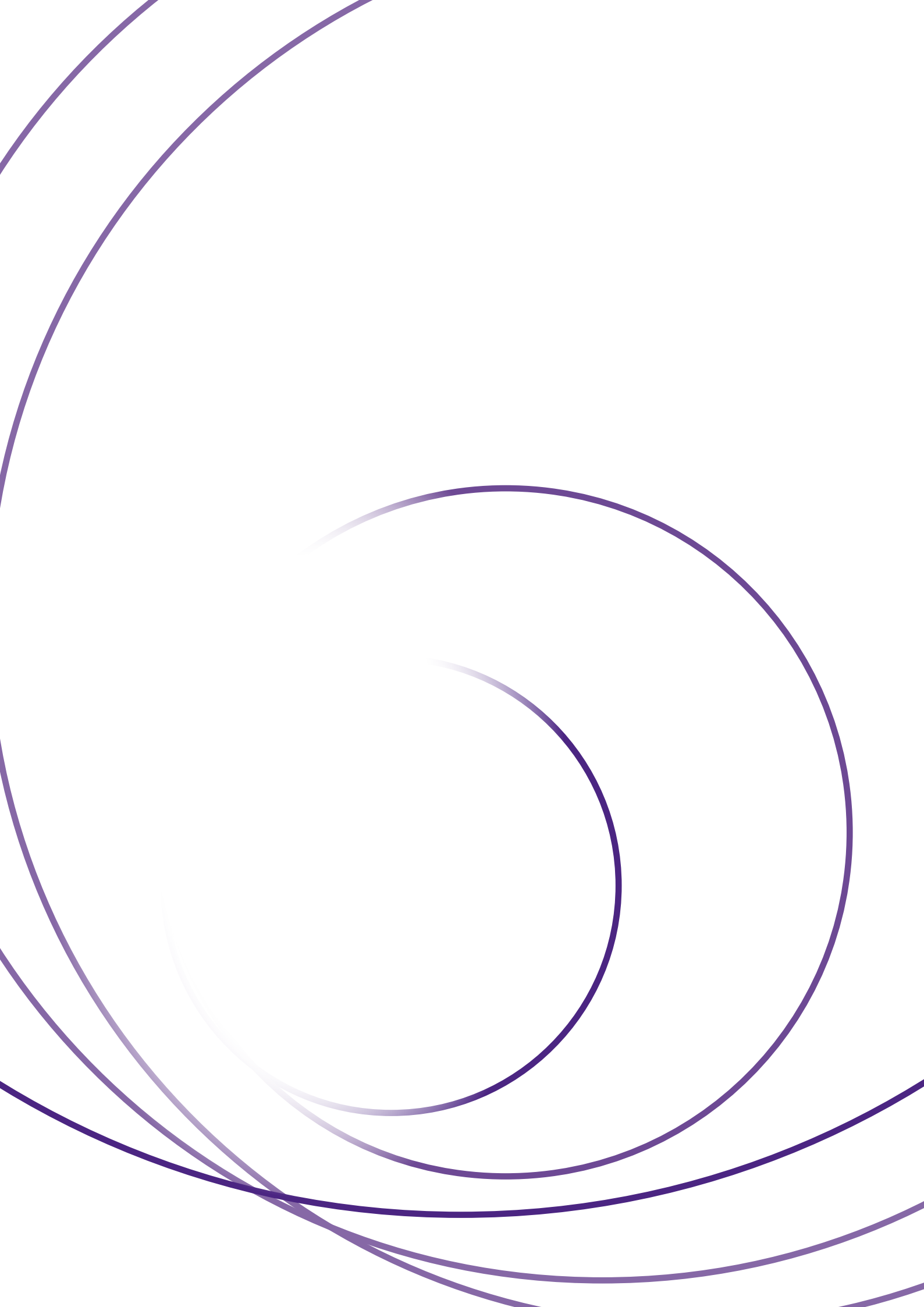


Group approvals and disbursements by instrument, 2015–2018 (€)



Sector breakdown of approvals in each country





ACRONYMS AND ABBREVIATIONS

ABDE: Association of Development Banks in Brazil

AFD: Agence française de développement (French development agency)

ALIDE: Latin American Association of Development Finance Institutions

AML: Latin America (AFD department)

AVSF: Agronomes et Vétérinaires Sans-Frontières (Agronomists and veterinarians without borders)

BDMG: Banco de Desenvolvimento de Minas Gerais (Minas Gerais Development Bank)

BICE: Banco de Inversión y Comercio Exterior (Bank for investment and foreign trade)

Bn: billion

BNB: Bank of the Nordeste of Brazil

BNDES: National Bank for Economic and Social Development

BRDE: Southern Brazil Regional Development Bank

BSC: Brazil–Southern Cone

CABA: *Ciudad Autónoma de Buenos Aires* (autonomous city of Buenos Aires)

DAC: Development Assistance Committee of the OECD

CAF: Corporación Andina de Fomento (Development Bank of Latin America)

CAIXA (or CEF): Caixa econômica federal (Brazilian state-owned bank, equivalent to the CDC in France)

CCEF: Advisor on external trade for France

ECLAC: Economic Commission for Latin America and the Caribbean (UN)

CICID: Interministerial Committee for international Cooperation and Development

RIF: Regional intervention framework (AFD)

CIRAD: Centre de coopération internationale en recherche agronomique pour le développement (French agricultural research and international cooperation organization)

CSR: Corporate social responsibility

EE: Energy efficiency

EIB: European Investment Bank

EU: European Union

FDI: Foreign direct investment

FEXTE: *Fonds d'expertise technique et d'échanges d'expériences* (Fund for Technical Expertise and Experience Transfers)

FFEM: French Facility for Global Environment

FINEP: Financiadora de Inovação e Pesquisa (Funding Agency for Innovation and Research)

FONPLATA: Fondo financiero para el desarrollo de la Cuenca del Plata (Financial Fund for the Development of the River Plate Basin)

GDP: Gross national product

GEMMES: General Monetary and Multisectorial Macrodynamics for the Ecological Shift

GIZ: Gesellschaft für Internationale Zusammenarbeit (German international cooperation agency)

IDB: Inter-American Development Bank

IDFC: International Development Finance Club

IMF: International Monetary Fund

LAC: Latin America and the Caribbean

M: million

MATER: Renewable energy term market (*Mercado a Término de las Energías Renovables*)

MoU: Memorandum of Understanding

NDB: New Development Bank

NDC: Nationally determined contribution

NSL: Non-sovereign loan

ODA: Official development assistance

OECD: Organisation for Economic Co-operation and Development

ONF-International: National Forest Office - International

PPP: Purchasing power parity

PPP: Public-private partnership

RE: Renewable energies

RO: Regional Office (AFD)

SDG: Sustainable Development Goal

SL: Sovereign loan

TA: Technical assistance

WTO: World Trade Organization

What is AFD?

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

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

<http://www.afd.fr>

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