



Second Party Opinion

Agence France Locale – Green, Social
and Sustainability Bonds Framework



Content Table

General Opinion	3
Issuer ESG Assessment	3
Alignment with the ICMA Principles	3
Impact of the Financed Assets	4
Scope	5
Issuer Profile	5
Issuer ESG Assessment	6
1. Strategic Consistency	6
2. ESG Risk Management	6
Alignment with the ICMA Principles	8
Overall Alignment	8
1. Use of Proceeds	8
2. Project Evaluation & Selection	10
3. Management of Proceeds	11
4. Reporting	12
Impact of Financed Assets	13
Overall Level of Impact	13
1. Low-carbon public transportation	14
2. Pollution prevention and control	15
3. Renewable energy	16
4. Sustainable water and wastewater management	17
5. Education and Culture	18
6. Employment	19
7. Access to essential health services	20
8. Social inclusion	23
9. Affordable housing	24
10. Affordable and sustainable infrastructure	25
Appendix 1: Sustainable Development Goals	26
Appendix 2: Local authorities budget lines corresponding to the categories	28
Methodology	30
Contact	33

General Opinion

EthiFinance considers that the framework of Agence France Locale (AFL) follows market best practices and is aligned with the Green Bond Principles (2025), the Social Bond Principles (2025), and the Sustainability Bond Guidelines (2021) published by ICMA. The eligible expenditure categories that AFL plans to finance for local authorities are consistent with its strategy. In addition, the regulatory constraints weighing on local authorities and the processes put in place by AFL enable it to ensure a level of ESG risk management assessed as substantial. Finally, these expenditure categories are likely to generate a substantial environmental and social impact on local authorities and final beneficiaries. However, it should be noted that the precise assessment of this impact is sometimes made difficult due to the limited information that AFL can obtain from local authorities. Moreover, some categories of social expenditure could benefit from more precise targeting of the populations concerned in order to optimize their impact.

Issuer ESG Assessment

Strategic Consistency



ESG Risk Management



Alignment with the ICMA Principles

Overall Score



Use of Proceeds



Process for Evaluation & Selection



Management of Proceeds



Reporting



Impact of the Financed Assets



CATEGORY	OBJECTIVE	IMPACT
1. Low-carbon public transportation		HIGH
2. Pollution prevention and control	Energy and ecological transition	HIGH
3. Renewable energy		HIGH
4. Sustainable water and wastewater management		Sustainable infrastructure, development of cities and territorial cohesion
5. Education and culture		HIGH
6. Employment	Access to essential and basic social services	HIGH
7. Access to essential health services		SUBSTANTIAL
8. Social inclusion		HIGH
9. Affordable housing	Sustainable infrastructure, development of cities and territorial cohesion	HIGH
10. Affordable and sustainable infrastructure		SUBSTANTIAL

Scope

EthiFinance has been commissioned to provide an independent Second Party Opinion on the Green Loan Framework of Agence France Locale (hereafter referred to as “the Company”, “the Issuer” or “AFL”). Our assessment consists of three parts: an evaluation of the ESG performance of the Issuer (Issuer ESG Assessment), a verification of the compliance of the framework with the ICMA Principles (Alignment with the ICMA Principles), namely ICMA’s Sustainability Bond Guidelines 2021 (SBG), and an assessment of the expected impact of the projects (Impact of the Projects).

This framework allows AFL to issue sustainable debt or loan to finance eligible projects within the ten social or green categories.

Our analysis is based on the most recent version of the AFL Framework, received on 6 June 2025. It reflects our assessment of the information contained in this document, as well as public and confidential data provided by the Issuer.

The analysis is grounded in our latest methodology, published in April 2025. It represents a point-in-time opinion derived from the information made available to us at the time of the review, including the Issuer’s framework, corporate documents and relevant policies.

Issuer Profile

Agence France Locale is the bank of French local authorities. Its main activity is to grant loans exclusively to its shareholder member local authorities to finance their investment expenditures. In 2024, AFL crossed the threshold of 1,000 members, reaching 1,045 local authority members. Licensed as a banking institution since 2014, it is subject to a strict regulatory framework and operates from its headquarters in Lyon.

In 2024, Agence France Locale granted nearly €2 billion in loans to its member authorities. As of December 31, 2024, its total outstanding loans amounted to €9.1 billion. AFL has a unique financing model, based exclusively on the issuance of debt securities in the capital markets. Since 2015, it has raised the equivalent of €12.6 billion on the primary bond market. Furthermore, since 2020, it has implemented a sustainable bond issuance program, through which €1.3 billion has been raised.

AFL’s financing model differs significantly from that of other issuers in the sustainable markets. Indeed, AFL primarily refinances local authority budget lines rather than specific projects. Each year, French local authorities prepare an investment budget whose classification makes it possible to identify the investment expenditures carried out during the fiscal year in areas such as social services, the energy transition, and sustainable infrastructure. As a result, AFL generally has an overall view, which may sometimes lack detail on the projects that will actually be financed. EthiFinance considers that the regulatory framework governing the activities of local authorities, together with the mechanisms implemented by AFL, makes it possible to manage the risks inherent to this operating model. AFL also retains the option of directly financing specific investments.

Issuer ESG Assessment

1. Strategic Consistency

CONSISTENT
PARTIALLY CONSISTENT
NOT CONSISTENT

EthiFinance considers that the green and social categories defined in this framework are consistent with Agence France Locale's strategy and its sustainable development objectives.

AFL was created to provide local authorities with financing solutions tailored to their needs, regardless of their size or location. Its model is based on proximity to local authorities, financial innovation, and responsible governance that aims to fully integrate ESG issues. The bank seeks to distinguish itself through transparency, stability, and its commitment to strengthening the capacity for action of local stakeholders.

Through its sustainable bond issuances, AFL has already financed investments in key areas such as basic social services, the energy and ecological transition, and sustainable infrastructure. It supports local authorities in implementing the French climate agenda and its objectives for 2030 and 2050. Moreover, due to its unique positioning, AFL plays a key role in regional development and fulfills an essential social mission.

2. ESG Risk Management

HIGH
SUBSTANTIAL
MODERATE
LIMITED

Sector ESG risks:

AFL's main activity, focused on granting loans to local authorities, exposes it to ESG risks specific to the banking sector, particularly in relation to projects carried out by local authorities and the potential negative externalities for territories, local populations, or the environment.

From an environmental perspective, the main risks concern the ecological impact of the financed projects as well as the portfolio's exposure to climate risks, whether physical or transition related. By financing certain projects, banks may indirectly contribute to climate change, biodiversity loss, and ecosystem pollution.

Similarly, social risks arise through financing activities and the composition of banks' portfolios. It is essential that they establish rigorous due diligence processes to ensure that their investments respect human rights and fundamental social standards. At an internal level, social risks also concern the health, safety, and well-being of employees – both physical and psychosocial – as well as the prevention of discrimination and the promotion of equal opportunities.

In terms of governance, exposure to risks is mainly linked to regulatory compliance, particularly with regard to anti-money laundering, corruption, terrorist financing, and conflicts of interest. Effective governance also requires rigorous management of financial risks, strengthened internal controls, and a prudent provisioning policy. Furthermore, the growing digitalisation of services exposes AFL to increasingly complex cyber risks, requiring a robust cybersecurity strategy as well as strict compliance with current regulations on data protection and IT security.

Corporate level:

To address these risks, AFL has implemented several policies as well as governance bodies covering the majority of ESG issues. A dedicated governance structure has been established to ensure these risks are considered across all activities. Risk management is overseen by the Head of Commitments and Risks, Climate and Sustainable Finance, who ensures the integration of ESG considerations into financial risk management.

On the environmental side, in 2023 AFL adopted a CSR roadmap aligned with the recommendations of the TCFD (Task Force on Climate-related Financial Disclosures) framework. This initiative aims to integrate regulatory ESG requirements as well as the growing expectations of stakeholders regarding climate change. It foresees significant developments in

strategy, governance, and risk management, particularly with regard to environmental and climate-related risks linked to financing activities. Local authorities, AFL's sole clients, are subject to a set of obligations on environmental aspects. They must, for example, set environmental objectives in their calls for tenders and may select bidders on the basis of environmental criteria.¹

With regard to social risks, EthiFinance has not identified any specific corporate policy in this area. These risks could arise during the implementation of the projects financed by local authority. However, the French Public Procurement Code,² the subcontracting law,³ French labour law as a whole, as well as compliance with obligations arising from international conventions and standards ratified by France,⁴ impose a number of requirements that mitigate these risks.

As for governance risks, AFL has adopted an ethical framework that includes a charter defining rules of good conduct. Since January 2025, an Anti-Corruption Code of Conduct has strengthened this framework to prevent risks of corruption and conflicts of interest. In terms of regulatory compliance, AFL has established an anti-money laundering and counter-terrorist financing system. This system includes dedicated governance, specific policies, KYC (Know Your Customer) procedures, as well as a permanent control mechanism supplemented by periodic audits. To prevent market abuse, AFL has introduced strict procedures covering the identification, monitoring, and publication of inside information. Regarding data protection, AFL ensures that all its personal data processing complies with the requirements of the General Data Protection Regulation (GDPR).

Operational level:

ESG risk governance within AFL relies on several complementary mechanisms. A continuous training program, including six ESG modules offered in 2024, helps maintain a high level of staff awareness. AFL has also introduced a qualitative assessment of the governance of local authorities, considering elements such as budget orientation reports, debt status, and any interventions by the Regional Audit Chamber. In addition, a continuous monitoring process for ESG risks, led by the Credit team, relies on a monitoring system to identify potential controversies related to its exposures. Finally, the Agency has formalized a commitment to systematically exclude expenditures related to any local authority involved in a major dispute.

At the operational level, AFL uses a climate vulnerability index for physical risks, which is submitted to the credit committee. It also incorporates local authority documents related to the assessment and mitigation of climate risks. This approach, within the framework of sustainable debt issuance, is complemented by sectoral exclusion criteria for nuclear, fossil fuels, and tobacco, aligned with the Paris Aligned Benchmarks (PAB).

The assessment of governance risks is partly based on a qualitative analysis, drawing on the robustness of the French legal and budgetary framework governing local public management. AFL also integrates socio-economic factors into its lending policy by relying on a rating system based on criteria such as unemployment rate and per capita income. An external whistleblowing platform, compliant with current regulations, completes this system.

It is important to note that AFL's specific positioning, working exclusively with French local authorities subject to a strict regulatory framework, limits its exposure to certain risks. Nevertheless, EthiFinance believes that the consideration of environmental risks linked to financing activities could be strengthened, in particular for the financing of expenditures related to the ecological and energy transition, sustainable transport, water and waste management, renovation of public buildings, and urban planning. Formalizing these issues within a dedicated risk management policy would allow for more rigorous and transparent oversight. Moreover, EthiFinance has no information on how social risks are integrated into the credit granting process, which limits the assessment of the robustness of the current system.

¹ [Code de la commande publique - Légifrance](#), article L2111-1

² [Code de la commande publique - Légifrance](#) in particular L2112-2, L2141-1, L2141-4, L2152-4 allowing the inclusion of social criteria in the conditions for the performance of services, excluding from public contracts economic operators convicted in particular of fraud, corruption, trafficking, and human exploitation, and allowing the rejection of an irregular offer considered abnormally low if it does not comply with environmental, social, and labor obligations.

³ [Loi n° 75-1334 du 31 décembre 1975 relative à la sous-traitance - Légifrance](#)

⁴ Among these are: the eight fundamental conventions of the International Labour Organization (ILO), the United Nations Guiding Principles on Business and Human Rights, and the French law on the duty of vigilance of parent companies and ordering companies.

Alignment with the ICMA Principles

Overall Alignment



1. Use of Proceeds

Agence France Locale (AFL) has defined ten categories of eligible budget expenditures that finance projects aligned with ICMA principles for green and social bonds. The funds raised will finance expenditures of local authorities in metropolitan France and the French overseas departments and regions (DROM). The framework is evolving, and AFL reserves the right to include new activities that comply with the technical criteria of the EU Taxonomy. Comprehensive exclusion criteria are applied.	BEST PRACTICES
	ALIGNED
	PARTIALLY ALIGNED
	NOT ALIGNED

Categories of Financed Assets

Clarity of Description	<p>Agence France Locale has clearly defined ten categories of expenditures financing eligible projects in its framework. These expenditure categories are aligned with ICMA’s Green and Social Bond Principles. The funds raised through green, social, or sustainable bond issuances will be used to finance the expenditures of local authorities as presented in their budgets. All financed projects will be located in metropolitan France and/or in the French overseas departments and regions (DROM).</p> <p>This Framework is characterized by its capacity to evolve, as AFL may integrate new eligible activities into this document provided that their compliance with the substantial contribution criteria of the EU Taxonomy is demonstrated.</p>
Objectives	<p>AFL has clearly defined the environmental and social objectives applicable to all categories of eligible expenditures. Expenditures classified under green categories are aligned with climate change mitigation objectives as well as with the principles of pollution prevention and control, in accordance with ICMA’s Green Bond Principles. Social expenditures address the objectives of improving access to housing and essential services, job creation, and infrastructure development, as defined by ICMA’s Social Bond Principles.</p>
Target Population	<p>The issuer has identified the target populations associated with the various eligible budget lines. Some of these lines are intended for the general population, while others specifically target vulnerable groups. The expected level of impact for each target group is detailed in the “Impact of Financed Assets” section.</p>
Social and/or Environmental Benefits	<p>Agence France Locale has identified the environmental and social benefits for all eligible categories, and they are relevant in view of the projects that will ultimately be financed. The expected level of impact for each expenditure category is detailed in the “Impact of Financed Assets” section.</p>
Exclusion Criteria	<p>The AFL has established several exclusion criteria. Under the sustainable bonds issued through this framework, the following are excluded from refinancing:</p>

- Expenditures that have been (or could be) refinanced through green, social, and/or sustainable bonds of local authorities.
- Expenditures receiving funding from the European Union.
- In its activities, AFL does not directly finance private economic activities. However, certain budget lines of local authorities may indirectly support economic activities, such as those related to “cross-cutting economic interventions” (in French: *Interventions économiques transversales*) or “economic animation and development structure” (in French: *Structure d’animation et de développement économique*). To ensure compliance with the Paris-Aligned Benchmark (PAB) criteria and to avoid any financing of activities included on its exclusion list, AFL applies a prudent discount rate to the relevant budget lines⁵. This discount rate is calculated to reflect:
 - The estimated share of such activities in the local economy.
 - A significant safety margin.
- Regarding waste management, AFL applies a similar approach. To ensure that financing does not support expenditures related to waste storage or non-selective collection, the institution applies a specific discount rate to the relevant budget lines. This discount is calculated on the basis of two main criteria:
 - The ratio between stored waste and the total volume of household and similar waste treated in France.
 - The ratio of household waste (mixed) to the total volume of household and similar waste collected by the public waste management service in France.

Refinancing

The issuance framework provides for both the financing and refinancing of eligible budget lines. Although AFL has not specified the maximum length of the look-back period, in line with best market practice for the “portfolio approach” it was indicated to EthiFinance that the allocation of funds will preferably target the most recent eligible assets, namely those from years n-1 and n-2 relative to the issuance. The AFL also commits to publishing, in its reports, the breakdown of refinanced expenditures by year. So far, AFL has carried out only refinancing through its sustainable bond issuances.

The Agence France Locale will contribute to Sustainable Development Goals 1, 3, 4, 6, 7, 8, 9, 10, 11, and 12. More details can be found in Annex 1 of this document.

⁵ In accordance with Article 12 on exclusions for Paris Agreement-aligned benchmarks - [FCA Handbook](#)

2. Project Evaluation & Selection

EthiFinance considers that the process for evaluating and selecting the eligible spending categories defined by AFL follows market best practices. AFL has established a rigorous evaluation and selection process for eligible spending categories, overseen by the Sustainability Bond Committee (CSB), which is composed of members of management and ESG experts. AFL ensures continuous monitoring of ESG risks throughout the duration of the loans, with the possibility of replacing projects that become non-eligible. All CSB decisions are recorded in minutes to guarantee process transparency.

BEST PRACTICES

ALIGNED

PARTIALLY ALIGNED

NOT ALIGNED

Processes & Governance

Committee Composition & Responsibilities

The Agence France Locale (AFL) has established an evaluation and selection process that is both rigorous and transparent, in line with the principles set by the ICMA. This mechanism is overseen by the Sustainability Bond Committee (CSB), which has two main missions:

- Analyzing the budgets of local authorities to identify and validate the share of eligible expenditures.
- Directly selecting eligible infrastructure investments carried out by local authorities.

The committee brings together the Chairman of the Board of Agence France Locale, the Chief Financial Officer, a representative from the Long-Term Financing Department, the Head of Credit, and the Director responsible for the Sustainability Bond framework. In addition, the committee relies on experts with relevant sustainability expertise, including AFL's Head of CSR, the Head of Climate Risk Modelling, and the officer responsible for social risk issues. The active participation of executive members clearly demonstrates AFL's commitment to sustainability objectives.

Selection Process & Traceability

AFL has implemented a methodology to analyse the budgets of local authorities benefiting from its financing. This process makes it possible to assess the share of eligible expenditures in local authority budgets in line with the spending categories defined in the framework document. The Sustainability Bond Committee (CSB) meets annually and validates the allocation of funds. In the specific case of financing based on a projected budget—which represents only a minority of situations—AFL will compare the eligible expenditures planned in the local authority budgets with the actual expenditures recorded in their administrative accounts. Throughout the life of the loans, AFL is committed to ensuring continuous and rigorous monitoring of ESG risks. This active oversight makes it possible, where necessary, to replace projects that lose their eligibility. Finally, the traceability of all decisions made by the CSB will be ensured through meeting minutes.

Identification & Mitigation of ESG Risks

The process for identifying and mitigating ESG risks applicable to the financed local authorities is based on the systematic integration of ESG criteria into lending decisions. The process also includes a continuous monitoring mechanism to detect any potential disputes related to ESG issues.

3. Management of Proceeds

EthiFinance considers that the mechanisms put in place are aligned with market best practices. AFL adopts a portfolio approach for its sustainable bonds, maintaining a volume of eligible loans at least equal to the amounts issued. The funds are allocated within 24 months in line with market best practices.

BEST PRACTICES

ALIGNED

PARTIALLY ALIGNED

NOT ALIGNED

Processes

Traceability of Proceeds	AFL follows a portfolio approach for allocating the proceeds of its sustainable bonds. It maintains on its balance sheet a volume of eligible loans at least equal to the amount of outstanding green bonds. The same principle applies to social and sustainable bonds, with a volume of eligible loans matching the amount of bonds issued.
Segregation of Funds	The CSB allocates eligible budget lines to bond issuances each year.
External verification	An external auditor will annually verify that an amount equivalent to the net proceeds of the sustainable bonds has been allocated to eligible budget lines.

Allocation of Proceeds

Allocation Period	The issuer undertakes to allocate the net proceeds of the sustainable bonds within a maximum period of 24 months, in line with market best practices
Disengagement	The issuer will reallocate the proceeds of any refinanced expenditures that would later cease to meet the eligibility criteria but does not commit to a specific timetable for doing so.
Unallocated Proceeds	In accordance with AFL's treasury management principles, unallocated funds will be invested at a minimum of 70% in high-quality liquid assets (HQLA). These investments will target exclusively supranational or national institutions located in the European Economic Area, North America, or in previously approved countries, all with a minimum credit rating of A-.

4. Reporting

EthiFinance considers that the AFL framework document is aligned with the ICMA principles. The AFL will publish an annual report on its website until maturity, including the allocation of funds, the number of beneficiaries, and the contribution to the SDGs. An independent auditor will verify the allocation of funds each year.

BEST PRACTICES

ALIGNED

PARTIALLY ALIGNED

NOT ALIGNED

Report Details

Frequency	The reporting will be carried out annually.
Reporting Period	The issuer undertakes to publish annual reporting until the maturity of the green, social, and/or sustainability bonds.
Disclosure	The report will be made available to the public and investors on the issuer's website.
Allocation	The allocation report will detail the total amount of funds distributed, including their breakdown by area of intervention, eligible category, geographical region, and year of origination. It will also specify the share dedicated to refinancing or new loans, as well as the amount of unallocated funds and their temporary placement.
Impact	The AFL will publish the number of beneficiaries of the local authority projects refinanced as well as the contribution to the Sustainable Development Goals. The Issuer mentions the possibility that additional information may be disclosed in the form of case studies, detailing the contribution of the AFL loan to a given local authority through environmental and social impact indicators.
Material Changes	The issuer undertakes to publish any developments of the Sustainable Bonds Framework on its website.
ESG Risks & Controversies	AFL has established a continuous monitoring mechanism for ESG controversies concerning the financed local authorities, covering the entire financing period. Given the indirect nature of project financing through local authorities, AFL does not intervene directly in individual projects. However, in the event of a proven controversy, AFL undertakes, depending on the severity of the situation, to reallocate the funds allocated to the concerned local authorities.
Disclosure Methodology	AFL has not defined impact indicators other than the number of beneficiaries by type of expenditure, the geographical area concerned, and the contribution of the financing to the SDGs.
External Verification	An independent auditor will be mandated to carry out an annual verification, covering both the allocation of the net proceeds of the sustainable bonds and the number of beneficiary local authorities.

Impact of Financed Assets

Overall Level of Impact



CATEGORIES	LEVEL OF IMPACT	INDICATIVE SHARE OF PROCEEDS ⁶ (ROUNDED UP)	TYPE OF PROJECT
1. Low-carbon public transportation	HIGH	6%	Green
2. Pollution prevention and control	HIGH	10%	
3. Renewable energy	HIGH	< 0.01%	
4. Sustainable water and wastewater management	SUBSTANTIAL	5%	Social
5. Education and culture	HIGH	47%	
6. Employment	HIGH	3%	
7. Access to essential health services	SUBSTANTIAL	0.3%	
8. Social inclusion	HIGH	5%	
9. Affordable housing	HIGH	9%	
10. Affordable and sustainable infrastructure	SUBSTANTIAL	15%	

⁶ This allocation of funds is consistent with that presented in the latest allocation report. Although it may evolve in the future, it is expected to remain within the same orders of magnitude.

1. Low-carbon public transportation

EthiFinance considers that the refinancing of expenditures related to this category will have a high impact by supporting more sustainable infrastructure and modes of transport, enabling local authorities to contribute to national and European decarbonisation targets. The potential negative externalities of the projects are partially mitigated by regulation.

HIGH

SUBSTANTIAL

MODERATE

LIMITED

Materiality

EthiFinance considers that the projects financed through this expenditure category have a high materiality, as they promote the evolution of transport modes and align with European and national decarbonisation strategies for the sector.

The transport sector is responsible for 25% of GHG emissions in the EU and 30% in France. As part of the European Green Deal, the EU aims to reduce GHG emissions by 55% by 2030. Each country must publish a National Energy and Climate Plan (NECP) detailing the actions to achieve these objectives. The French NECP partly relies on the Clean Mobility Development Strategy (SDMP)⁷, which promotes spatial planning and urban development to encourage sustainable mobility and modal shift toward less carbon-intensive modes such as rail, public transport, river transport, or cycling.

Local authorities, responsible for organizing mobility within their territories, must encourage the evolution of practices toward these more sustainable modes.

Ambition

EthiFinance considers that the projects financed through this expenditure category demonstrate a substantial level of ambition. This category aims to finance local public and low-carbon transport infrastructure projects, including soft mobility, rail, and multimodal solutions for disadvantaged areas.

AFL's selection criteria, although generic, combined with the specific exclusion list for this expenditure category, ensure a minimum positive climate impact. However, some information is missing to fully assess potential negative impacts on other environmental aspects, such as the end-of-life stage of infrastructures. It should be noted that in France, the implementation of infrastructure and transport projects is governed by several regulatory frameworks that help mitigate associated environmental risks. Local authorities, in particular, have access to natural risk prevention plans developed by the State.⁸ In addition, environmental impact studies, including climate and biodiversity analyses, are mandatory for certain types of projects, such as rail infrastructure or large-scale development operations.⁹ Finally, the golden rule of public finance, which limits local authorities' borrowing to investment expenditures only, also guarantees a certain degree of additionality of the refinanced expenditures.

Regarding the financing of expenditures related to rail transport, the criteria for selecting eligible expenditures do not fully exclude the risks associated with hydrogen trains, which may generate CO2 emissions depending on the method of hydrogen production.

⁷ Plan National Intégré Energie-Climat (March 2020)

⁸ Chapter II : Plans for the prevention of foreseeable natural risks (Articles L562-1 à L562-8-1) - Légifrance

⁹ Section 1 : Impact studies of construction, infrastructure, and development projects (Articles L122-1 à L122-3-4) - Légifrance

2. Pollution prevention and control

EthiFinance considers that the refinancing of local authorities' expenditures on waste management will have a high impact. Financing this area of action is a major issue given that the recycling rate in France is still below the European target. However, the ambition of the projects regarding the adoption of best available techniques or the consideration of all environmental risks remains difficult to assess based on the information currently available.

HIGH

SUBSTANTIAL

MODERATE

LIMITED

Materiality

EthiFinance assesses the materiality of AFL's financing for expenditures related to waste collection, prevention, and treatment within this category as high. This category covers four main types of expenditures: prevention, collection, treatment, and recycling. These areas of action encompass the entire waste management hierarchy, from reduction to recovery.

In 2022, each French citizen generated an average of 580 kg of waste, and less than 45% was recycled, far below the 55% target set for 2025 and the 65% targeted for 2035^{10 11}. Selective collection is progressing, with a national average of 72.5 kg/inhabitant collected in 2024, but further efforts are needed to improve sorting quality and reduce the share of rejects¹². In terms of treatment, around 27% of household waste is still sent to landfill sites (ISDND type), while about 34% is used for energy recovery, mainly through incineration with energy recovery. The rest is either recycled or recovered organically¹³.

The AGEC Law (Anti-Waste for a Circular Economy) requires the generalization of source separation, a 50% reduction in landfilled waste by 2035, and the extension of sorting requirements to all plastic packaging¹⁴. In addition, the European Directive 2018/851 sets the target of 55% municipal waste recycling rate by 2025. The Energy Transition Law (2015-992) requires all incineration plants to achieve R1 status, ensuring high energy recovery, under penalty of closure by 2025. The creation of new capacity is prohibited, and existing facilities must continuously improve their efficiency. French local authorities (primarily inter-municipalities and Regions) hold mandatory and proven competencies to lead these actions, supported by operational tools (objective-based contracts, eco-facilitators, communication plans) and dedicated financial mechanisms.

Ambition

EthiFinance assesses the overall ambition of AFL's refinancing in support of waste prevention, collection, and treatment expenditures as substantial. Overall, French regulation on waste collection (extension of sorting requirements, biowaste collection, performance monitoring) is broadly aligned with the requirements of the EU Taxonomy.

Regulation on waste treatment (separate collection of construction waste, recovery of biogas and digestate, etc.) is also aligned with Taxonomy requirements, and recently refinanced projects by AFL, such as in Lille, Réunion, or Bordeaux, illustrate high-performing facilities. However, the available information does not allow confirmation that all refinanced projects fully meet performance thresholds (such as 50% conversion into secondary materials) or the widespread

¹⁰ Waste production and recycling in France – Excerpt from the 2024 Environmental Report (French)– 10/02/2025 – Ministères de l'Aménagement du Territoire et de la Transition Ecologique - <https://www.statistiques.developpement-durable.gouv.fr/la-production-et-le-recyclage-des-dechets-en-france-extrait-du-bilan-environnemental-2024>

¹¹ Article from 08/06/2023 (French) - Banque des Territoires - <https://www.banquedesterritoires.fr/recyclage-des-dechets-la-commission-europeenne-doute-que-la-france-atteigne-tous-les-objectifs>

¹² Selective Collection, Improving Performance – CITEO Papers 2024/2025 (French) - https://bo.citeo.com/sites/default/files/2024-11/CITEO_Cahier_Collecte%20s%C3%A9lective_nov%202024.pdf

¹³ ADEME – Key Figures on Waste, 2024 edition (French) (p. 16-17)

¹⁴ Financing the Public Waste Management Service – Issues and Proposals (French) - 12/01/2024 – Intercommunalités de France - <https://www.intercommunalites.fr/domaines-daction/environnement-et-amenagement/dechets-economie-circulaire/financer-le-service-public-de-gestion-des-dechets-nos-propositions/>

application of best available techniques in sorting centers (systematic monitoring of methane leaks, generalization of biowaste sorting, etc.) required under the Taxonomy. Furthermore, the management of risks related to local nuisances (odors, noise) or to the adaptability of facilities to changing waste streams (such as biowaste) and evolving regulatory requirements cannot be reliably assessed based on currently available information.

In addition, AFL’s exclusion and discount mechanisms, based on national household waste statistics, do not fully prevent the financing of projects contributing to mixed waste collection or non-sustainable landfilling.

3. Renewable energy

EthiFinance considers that the refinancing of local authority expenditures under this category has a high environmental impact. Financing renewable energies, such as solar and wind power, is indeed an essential lever for contributing to climate change mitigation. Although Agence France Locale does not have precise visibility on the technologies used in the financed projects, EthiFinance believes that the associated socio-environmental risks will be adequately managed through the application of current French regulations.

HIGH

SUBSTANTIAL

MODERATE

LIMITED

Materiality

EthiFinance considers the financing of expenditures under this category to have high materiality. The financing concerns the development of solar photovoltaic and wind power installations, which directly contribute to achieving the climate objectives set at both national and European levels. As such, these projects are fully in line with Agence France Locale’s commitments to sustainable finance and the energy transition.

The development and financing of renewable energies are an essential lever for achieving carbon neutrality by 2050. The European Renewable Energy Directive sets a target of at least 42.5% renewable energy in final energy consumption by 2030.¹⁵ In France, this ambition is supported by the Energy-Climate Law, which aims to accelerate the deployment of renewable energies while gradually reducing dependence on nuclear power.¹⁶ In this context, local authorities play a structuring role, as they hold key competences in the planning, operation, and installation of renewable energy production infrastructures.¹⁷

Ambition

EthiFinance considers the ambition of this expenditure category to be high. EthiFinance estimates that eligible initiatives should generate a positive environmental impact, notably by reducing local authorities’ dependence on fossil fuels. They therefore contribute directly to climate change mitigation.

All financed projects will be implemented within French local authorities and will focus exclusively renewable energies, such as solar photovoltaic and wind power. At this stage, EthiFinance does not have detailed visibility on the technologies that will be deployed, whether types of photovoltaic systems, onshore or offshore wind turbines, or the approach for managing the associated socio-environmental risks. Nonetheless, these projects present risks that must be anticipated and mitigated to ensure long-term sustainability. Upstream, the solar and wind sectors rely on globalised supply chains, largely concentrated in China, raising significant issues around traceability, working conditions, and access to rare and critical materials. During the operational phase, risks are linked to land artificialisation, noise and visual pollution, disruption of local biodiversity (notably for birdlife and natural habitats), as well as potential conflicts of land use with local populations or existing economic activities, such as agriculture or fishing in the case of offshore

¹⁵ https://energy.ec.europa.eu/topics/renewable-energy/renewable-energy-directive-targets-and-rules/renewable-energy-directive_en?prefLang=fr&etrans=fr

¹⁶ <https://www.ecologie.gouv.fr/politiques-publiques/loi-energie-climat>

¹⁷ <https://www.collectivites-locales.gouv.fr/competences/repartition-des-competences-en-matiere-denergie>

wind farms. In addition, managing the end-of-life stage of equipment is an increasing challenge, particularly regarding the recycling and recovery of components — whether photovoltaic panels or wind turbine blades — within a circular economy perspective.¹⁸ In this context, EthiFinance relies on the French regulatory framework, assuming that potential negative externalities (landscape impact, biodiversity, social acceptability, etc.) will be addressed through national procedures in force, such as environmental impact assessments, public consultations, and administrative authorisations issued by local authorities.

4. Sustainable water and wastewater management

EthiFinance considers that AFL's financed expenditures in sustainable water and wastewater management have a substantial impact. Financing in this area is particularly critical given the increasing local water stress in France. However, EthiFinance notes that the ambition of the projects regarding the adoption of best available techniques or the comprehensive consideration of environmental risks remains difficult to assess based on the information currently available.	HIGH
	SUBSTANTIAL
	MODERATE
	LIMITED

Materiality

EthiFinance considers the materiality of AFL's financing for sustainable water and wastewater management to be high, in a context where over 2,000 French municipalities faced water supply tensions in 2024 and network losses still average 20%¹⁹. Persistent challenges also remain in wastewater management, including the modernization of aging infrastructure, reduction of pollutant discharges, and compliance with increasingly stringent environmental requirements, as highlighted in recent reports on France's water situation²⁰. These actions, framed by demanding regulations (Water Framework Directive, Water Plan²¹, AGEC law, etc.), aim to improve the ecological status of resources and reduce leaks. Local authorities, with solid experience and numerous tools (public utilities, delegated service contracts, semi-public companies²², etc.), are supported by Water Agencies in implementing these policies.

Ambition

EthiFinance assesses the overall ambition of AFL's financing for expenditures on drinking water, sanitation, stormwater management, and flood prevention as moderate.

Local projects in this area are generally based on regulatory studies and territorial analyses, with specifications at least compliant with national regulations. However, the framework approach of AFL (indirect financing of projects) limits visibility on the management of environmental risks inherent to these projects and their precise alignment with technical criteria, such as those of the EU Taxonomy.

For drinking water supply, French regulations is broadly aligned with the EU Taxonomy (e.g., transparency on water quality for users, individual consumption metering). Nevertheless, available information does not allow for precise

¹⁸ <https://www.iea.org/reports/energy-technology-perspectives-2023/clean-energy-supply-chains-vulnerabilities>

¹⁹ Annual Performance Project – Annex to the Draft Finance Bill for 2025 – Program 113: Landscapes, Water, and Biodiversity – (French) <https://www.budget.gouv.fr/documentation/file-download/27833>

²⁰ <https://www.lesagencesdeleau.fr/>

²¹ Water Plan, 2 Years Later – Press Kit – March 2025 (French) – https://www.ecologie.gouv.fr/sites/default/files/documents/280325PLAN%20EAU_2ans_DP_diffusion.pdf

²² Local mixed economy, a recurring model in the management of water and sanitation services – March 7, 2025 (French) – Les Entreprises Publiques Locales – <https://www.lesepl.fr/2025/03/leconomie-mixte-un-modele-recurrent-dans-la-gestion-des-services-de-leau-et-de-lassainissement/>

assessment of pollution risk management. Moreover, investments in centralized water networks create a technological lock-in, limiting the integration of alternative solutions (greywater reuse, rainwater harvesting) in response to resource scarcity.

For sanitation, despite French regulations imposing strict standards – sometimes more demanding than the EU Taxonomy – environmental risks persist, particularly regarding discharge limits, monitoring of emerging pollutants, nutrients, or microplastics. Vigilance is especially required given the lack of clearly defined thresholds for projects eligible for sustainable financing. Furthermore, available information does not confirm that projects fully comply with Taxonomy recommendations, notably regarding the use of low-energy-impact technologies, sludge valorization, or energy consumption management. The reduction of greenhouse gas emissions from treatment, particularly methane, also remains difficult to assess.

In flood prevention, French regulations are aligned with the EU Taxonomy regarding climate risk management. France has advanced projection tools; however, only major infrastructure projects typically undergo climate vulnerability analyses and routinely use 20–30-year scenarios. Consequently, available information does not allow confirming whether financed projects favor hard infrastructure (dikes, dams) over more adaptable nature-based solutions (wetland restoration, floodplain expansion) in response to increasing extreme events. The management of pollution risks, network saturation, and soil sealing also remains difficult to assess.

5. Education and Culture

EthiFinance believes that this expenditure category can have a high impact by broadening access to culture and education for the widest possible audience. The categories eligible for financing are diverse, as are the social benefits. Although the beneficiary groups vary depending on the projects and are not systematically the most vulnerable, we have assessed, based on the information available, that most of the projects should concern them.

HIGH

SUBSTANTIAL

MODERATE

LIMITED

Materiality

The areas of action financed in this category fall within public service missions relating to access to education and culture, which gives them strong relevance in the French context. The category covers the refinancing of local authority investment expenditures related to education (notably expenditures for school construction and school transport), vocational training, extracurricular services, and culture.

A significant proportion of public-school buildings are aging, with urgent needs as identified in many reports²³. This concerns safety, the quality of the learning environment, accessibility, and adaptation to current challenges, particularly energy-related ones. Moreover, nearly 20.6% of children in France are at risk of poverty and social exclusion²⁴, which makes access to quality education all the more crucial; strengthening educational infrastructure is therefore part of the objectives of the “*Enseignement et Numérique 2030*” plan.

As for culture, local authorities provide most of the funding, particularly in rural areas and priority neighborhoods, which are currently weakened by reduced state aid and rising costs. This situation threatens both cultural employment and equal access to cultural offerings, highlighting the importance of supporting local authorities to ensure accessible culture across the country.

In 2024, AFL allocated 47% of its proceeds to this category (the category with the largest share of proceeds), demonstrating its strong commitment to supporting local authorities on these issues.

²³https://www.collectiviteslocales.gouv.fr/files/Accueil/Etudes%20et%20statistiques/OFGL/2023/OFGL_cap_sur_21_investissements_scolaires_coll_activites_30-10-2023.pdf

²⁴ <https://www.insee.fr/fr/statistiques/7941395?sommaire=7941491>

Ambition

The ambition of this category is assessed as substantial. AFL will primarily finance expenditures related to education; however, a broad definition of the target population as well as the diversity of eligible projects temper the assessment of the level of ambition. The AAAQ criteria are broadly respected. This category covers a wide range of activities that we have grouped into three categories: the construction and maintenance of educational and sports facilities, training, and culture-related financing. The social benefits vary depending on the projects selected.

For expenditures related to the construction and maintenance of educational and sports facilities, which represent the majority of local authority expenditures in this category (65%), the target populations are mainly schoolchildren and students, without distinction of income or geographic location. The refinancing in this category aims to broaden access to education and improve the condition of infrastructures. The funds will be used for refinancing public institutions or private institutions under contract, ensuring service accessibility to all regardless of origin, belief, or opinion. In cases where financing is allocated to private institutions, there is a risk that wealthier populations will benefit more than the most vulnerable groups. These financings are regulated; for example, municipal investment subsidies to private primary schools are prohibited, and there is a limit of 10% of annual expenditures for general secondary education²⁵. Regarding the “Quality” criterion, the tertiary decree, which came into force in 2019 in France, applies to schools over 1,000 m² and requires a 60% reduction in final energy consumption by 2050 compared to a reference year between 2010 and 2019.

AFL may also finance expenditures related to professional training, which may lead to certifications and target the unemployed, students, people in career transition, or workers, in some cases focusing on the most vulnerable populations. Various schemes exist depending on the professional situation of the beneficiaries. These training schemes are overseen by public authorities, which guarantee the quality of the programs. The criterion of financial accessibility is met through the public nature of the service provided.

Finally, in this category AFL also finances expenditures related to access to culture for the general population (13% of the category’s expenditures). With respect to accessibility and availability criteria, access to culture remains highly unequal across the territory: only 40% of rural residents declare themselves satisfied, compared to 70% of Parisians, mainly due to geographic and economic barriers²⁶. The absence of territorial targeting in the projects therefore limits their reach. Ethifinance notes that museums, libraries, and other cultural institutions in France apply differentiated pricing policies depending on visitors’ professional status (students, job seekers, minimum social benefit recipients, elderly people, etc.), ensuring financial accessibility for these groups. We did not identify any negative points related to the quality and acceptability criteria.

6. Employment

Ethifinance considers that the expenditures under this category have a high social impact. The eligible budget lines contribute to job creation within local authorities, particularly in the most disadvantaged areas.	HIGH
	SUBSTANTIAL
	MODERATE
	LIMITED

Materiality

Ethifinance assesses the materiality of this category as high, due to its strategic alignment with AFL’s objectives and territorial priorities in terms of economic development. The types of projects financed include interventions in support of economic development, professional integration assistance, as well as support for social and solidarity economy

²⁵ Funding of State-Contracted Private Education: What the Law Allows Local Authorities (French) - [Financement de l'enseignement privé sous contrat : ce que la loi permet aux collectivités](#)

²⁶ <https://acteurspublics.fr/articles/sondage-exclusif-pour-lacces-a-la-culture-le-fosse-entre-urbains-et-ruraux-se-creuse/>

(SSE) enterprises and the tourism sector. These projects contribute to local job creation, a strategic issue in France, particularly in territories facing economic or social vulnerabilities.

In 2024, the unemployment rate in France stood at 7.4%, above the OECD average.²⁷ Significant disparities in access to employment persist across regions, with some local authorities experiencing unemployment rates well above the national level. In this context, local authorities play a decisive role by actively supporting schemes that promote job creation and local economic development in order to reduce these inequalities.

The materiality of this category is also reinforced by the track record of financing employment-related projects, representing a total investment of €27 million in 2024, or 5.5% of allocated proceeds.

Ambition

EthiFinance considers the ambition of this category to be high. The financing allows local authorities to refinance projects that support the development of economic activity, with the aim of promoting and preserving employment at the local level. The projects are targeted exclusively at the most disadvantaged territories, characterised by one or more of the following criteria²⁸:

- An unemployment rate higher than the national average
- A long-term unemployment rate higher than the national average
- A poverty rate higher than the national average
- A significant share of the population residing in “Priority Urban Policy Districts” (QPV)
- Municipalities located in “Rural Revitalization Zones” (ZRR)

Within the budget line “economic interventions,” any project financed by local authorities must demonstrate a proven local public interest. Although the framework does not define explicit socio-economic criteria to prioritise certain types of businesses, such as SMEs or struggling sectors, local authorities’ economic action remains strictly regulated by the General Code of Local Authorities. This code, for example, authorises targeted interventions in rural areas, priority urban policy districts (QPV), assistance to struggling businesses, or even equity stakes in commercial companies providing municipal services or activities of general interest.²⁹

AFL has implemented a “haircut” system to reduce the risk of financing interventions that could indirectly benefit companies in the nuclear energy, gambling, or other excluded sectors applicable to the Paris Aligned Benchmarks. Moreover, other eligible budget lines, such as those dedicated to economic integration, support for the social and solidarity economy (SSE), or the development of the tourism sector, strengthen local authorities’ capacity to expand local employment opportunities. They also help improve the attractiveness of territories (availability), reduce social and geographical inequalities by targeting vulnerable populations (accessibility), and ensure social acceptance of financed projects by aligning them with the public interest (acceptability). For example, economic integration support is primarily aimed at people furthest from employment, notably the very long-term unemployed, recipients of minimum social benefits (RSA, ASS, AAH), as well as other vulnerable groups such as people over 50, single parents, or workers with disabilities.

7. Access to essential health services

HIGH

²⁷ OECD (2024). <https://www.oecd.org/fr/data/indicators/unemployment-rate.html>

²⁸ To be considered a priority, local authorities must meet a minimum number of defined criteria. Regions, departments, and public establishments for inter-municipal cooperation (EPCI), with the exception of community municipalities, must meet at least three criteria. Community municipalities must meet at least two, municipalities are considered to be priority as soon as they meet one criterion.

²⁹ Economic aid provided by the municipal block (French): <https://www.loire-atlantique.gouv.fr/contenu/telechargement/59545/435012/file/Fiche%20r%C3%A9flexe%20aides%20%C3%A9conomiques%20du%20bloc%20communal.pdf>

EthiFinance considers expenditures in this category to have a substantial impact. AFL aims to strengthen the provision of healthcare and improve access to health services for the entire population, particularly disadvantaged groups. The financing contributes positively to improving access to healthcare across the territory, by supporting initiatives aligned with the public interest and consistent with the AAAQ principles, even in the absence of explicit geographic targeting.

SUBSTANTIAL

MODERATE

LIMITED

Materiality

EthiFinance considers that expenditures financed in this category to have substantial materiality. They aim to strengthen healthcare provision and improve access to health services, particularly for disadvantaged populations, which should generate a lasting positive social impact. However, the materiality of individual projects may vary depending on the existing healthcare infrastructure within each local community.

The French healthcare system is based on the principle of universal coverage, ensuring that the entire population has access to care regardless of income. France allocates a significant share of its public spending to health and has one of the lowest out-of-pocket costs for patients within the European Union.³⁰ Nevertheless, inequalities in access persist, particularly in rural or remote areas—often referred to as “medical deserts”, an among lower-income groups. In 2024, 5.9% of the most disadvantaged individuals reported having foregone healthcare for financial reasons, compared to only 1.4% among the wealthiest.³¹ Although health policy mainly falls under the responsibility of the State, local authorities have important levers of action, particularly in relation to prevention programs, municipal health centres, support for local medical practices, maternal and child protection, and the development of both public and private healthcare provision, among others.³² However, the framework document includes certain activities whose relevance may be questioned in light of current social priorities — such as thermal or thalassotherapy centres — particularly in a context marked by shortages of healthcare professionals in underserved areas. Given the budgetary lines established by local authorities, EthiFinance considers that this type of project should fall outside the scope of AFL-eligible financing.

Ambition

The ambition of expenditures financed in this category is considered substantial. They enable local authorities to refinance initiatives aimed at strengthening their capacity to provide health services accessible to the entire population, particularly to people facing barriers to care. EthiFinance considers that, in the French context governed by the principle of universal coverage, these initiatives broadly meet the AAAQ criteria, though certain limitations remain.

Most financed expenditures fall under public service missions, which are generally well-targeted toward vulnerable populations. However, the inclusion of certain private services or facilities raises concerns about whether these mechanisms effectively prioritise those most in need. The absence of explicit geographic targeting also limits the possibility of channelling financing towards the least served territories or those far from healthcare facilities, as eligible projects aim to improve access to care across the entire French territory. Local authorities, as community-level actors, play a key role in prevention and health promotion (screening, addiction prevention, school health, maternal and child follow-up), by tailoring actions to the specific needs of populations, which strengthens acceptability. The diversity of financed projects also makes it difficult to assess the quality of services. In the absence of common frameworks or nationally shared indicators, it is challenging to ensure consistent monitoring of service quality. That said, the fact that all financing is in France guarantees a certain level of quality and financial accessibility. Several national mechanisms ensure access to care for vulnerable individuals—whether state aid beneficiaries, unemployed persons, or undocumented migrants. These mechanisms include, among others, universal health protection (PUMa), the complementary solidarity health scheme (CSS), and health care access points (PASS).

³⁰ OCDE (2023). France Country Health Profile. https://www.oecd.org/content/dam/oecd/en/publications/reports/2023/12/france-country-health-profile-2023_4ec07458/07c48f9f-en.pdf

³¹ OCDE (2023). France Country Health Profile. https://www.oecd.org/content/dam/oecd/en/publications/reports/2023/12/france-country-health-profile-2023_4ec07458/07c48f9f-en.pdf

³² Action Sociale et santé <https://www.collectivites-locales.gouv.fr/competences/action-sociale-et-sante>

8.Social inclusion

EthiFinance considers that the financing associated with this category will have a high impact in combating poverty and inequalities across France. Through this category, the AFL mainly targets the most vulnerable populations via various schemes financed by local authorities.

HIGH

SUBSTANTIAL

MODERATE

LIMITED

Materiality

The materiality of this category is considered high in the French context. The category covers the financing and refinancing of expenditures related to the payment of public allowances: “RSA” (active solidarity income), “APA” (personalized autonomy allowance), as well as support for social actions targeting vulnerable groups (housing for minors and single mothers, children’s and adolescents’ social care homes, orphanages, support for associations working in favour of people in economic difficulty, etc.). This category falls within the framework of the “*La stratégie nationale de lutte contre la pauvreté*”, defined by the French government in 2018, which includes 35 measures grouped around five main themes (early childhood and education, health, training and employment support, housing, social rights) aimed at reducing poverty and inequalities in France.

These social aid mechanisms represent a significant burden for local authorities, which must have sufficient resources to meet local needs.

Ambition

We assess the level of ambition of the budget lines in this category as high. They have strong potential for lasting positive impact, addressing mainly, though not exclusively, the most vulnerable populations. The projects ultimately financed by local authorities broadly meet the AAAQ criteria.

A variety of expenditures are eligible for financing in the areas of family and childhood, elderly care, disability, and social inclusion, with the aim of supporting vulnerable groups and reducing inequalities. In 2023, the two subcategories that received the most funding from local authorities were child welfare and expenditures related to nurseries and daycare centres. Most of these schemes are subject to specific age and/or income criteria, effectively targeting the most vulnerable populations.

Local authorities, as community-level actors, are able to adapt projects to the particular needs of their residents, thus improving their acceptability. Since most of these schemes are public, they ensure the financial accessibility of services. EthiFinance notes that local authorities may, within a strictly defined framework, grant subsidies to private actors, particularly for the financing of nurseries, meaning that these projects would not exclusively benefit the most vulnerable populations. A monitoring mechanism to ensure the proper use of public funds is therefore essential. Recent controversies surrounding the quality of care in nurseries, both public and private, have highlighted shortcomings in oversight. A report by the General Inspectorate of Social Affairs (Igas),³³ published in 2023, reported a “progressive deterioration in the quality of care in favour of financial considerations”. To address this type of risk, the AFL has established a mechanism for continuous monitoring of ESG controversies concerning the financed local authorities, which may lead to the withdrawal of financing in the event of proven misconduct.

³³ https://www.franceinfo.fr/societe/education/enquete-franceinfo-creches-comment-l-essor-de-groupes-privés-a-bouscule-le-secteur-de-la-petite-enfance_5827661.html

9. Affordable housing

EthiFinance considers that the expenditures eligible under this category will have a high impact by increasing the housing supply, thereby addressing the shortage of rental and social housing in France.	HIGH
	SUBSTANTIAL
	MODERATE
	LIMITED

Materiality

EthiFinance considers this category to have a high level of materiality. The financing granted by the AFL addresses a crucial need in the current context of a housing shortage, particularly for social housing.

According to a study by the Ministries of Territorial Planning and Ecological Transition, the need for new housing is estimated to 208,000 units per year for the 2020–2030 period.³⁴ Other sources, such as the Union Sociale pour l’Habitat (USH), estimate that this need is twice as high.³⁵ With regard to social housing, the demand has been growing year after year. In 2024, 2.7 million households were waiting for social housing. Moreover, the number of approved social housing units has been decreasing annually, from more than 124,000 in 2016 to just over 82,000 in 2023.³⁶ France is therefore facing shortage of social housing that is worsening.

By financing the budget lines of local authorities dedicated to increasing the housing supply, facilitating business real estate investment, constructing and renovating housing, and planning reception areas for traveling communities, the AFL directly contributes to the implementation of housing policies of both the State and local authorities.

Ambition

EthiFinance considers that the refinancing granted for the budget lines associated with this category of expenditure demonstrate a substantial level of ambition. Although these financings do not exclusively target disadvantaged populations, a significant portion is expected to benefit them.

The financed budget lines cover housing, rental sector support, reception areas for traveling communities, and social housing. They include social projects such as investment aid for very low-rent housing (PLAI), the rehabilitation of public housing units (PALULOS), and the renovation of substandard housing. Local authorities may also guarantee loans for social housing developers, transfer land, or grant property tax exemptions.

Rental sector aid targeting areas with imbalances between rental housing supply and demand enables local authorities to act on increasing the availability of social housing and/or private housing. In this category, about 80% of local authority expenditures concern the rental sector, but the share specifically allocated to social housing remains difficult to assess.

The risks of supported projects are managed through several mechanisms: local urban planning schemes (PLU) incorporate environmental considerations,³⁷ and the RE2020 standard applies to new constructions, ensuring control over their energy and carbon impact throughout their life cycle.

³⁴ [Ministères Aménagement du territoire, transition écologique, \(2025\) Projected housing needs 2030, 2040 and 2050](#), Collection Etudes (French)

³⁵ [Study: What social housing needs by 2040? \(French\) | L'Union sociale pour l'habitat](#)

³⁶ [Demand and Allocations of Social Housing at the End of 2024 \(French\) - USH Statistiques n°1 | L'Union sociale pour l'habitat](#)

³⁷ [Urban Planning Code](#), for example article L104-1 à L104-8

10. Affordable and sustainable infrastructure

EthiFinance considers that this category of financing can have a substantial impact, particularly by supporting investments from the most economically vulnerable local authorities. However, the diversity of eligible projects and the absence of precise environmental criteria limit its level of ambition.

HIGH

SUBSTANTIAL

MODERATE

LIMITED

Materiality

EthiFinance considers this category of expenditures to have substantial materiality. Supporting investments by disadvantaged local authorities in infrastructure is relevant, but this category does not include only priority expenditures in the French context. These authorities often face challenges in equipment and access to essential services, with an increased need for sustainable infrastructure (soft mobility, renovation of public buildings, efficient lighting, etc.). According to a report by I4CE,³⁸ local authorities must invest an average of €11 billion more per year by 2030 (compared to 2022) to address climate challenges, mainly in the decarbonization of their buildings, equipment, and transport. Although the AFL addresses some of these issues in its framework, many other types of projects are eligible for financing.

By financing these expenditures at an affordable cost, the bank helps improve residents' living conditions, strengthen social cohesion, and stimulate local activity. According to the OECD, each euro invested in green infrastructure generates 4 euros in local economic benefits.³⁹ Moreover, these investments increase territorial resilience to climate risks, often resulting in more pronounced benefits for the most disadvantaged populations.⁴⁰ In 2024, this category accounted for 15% of financing (the second-largest category in terms of allocated funds), highlighting the AFL's commitment to this issue.

Ambition

EthiFinance considers that this category, which relates to the refinancing of local authorities' investment expenditures in infrastructure, has a moderate level of ambition, mainly due to a lack of clarity regarding eligible projects and the absence of environmental criteria attached to the financing. We have little information on the projects that will be financed by local authorities to assess them against the AAAQ criteria.

The AFL intends to exclusively support disadvantaged local authorities, relying on economic criteria defined by INSEE, thus targeting the most vulnerable local authorities.⁴¹ For example, by applying unemployment rate criteria, nearly 30% of French departments would be eligible.⁴² We note that the term "sustainable" has not been explicitly defined, but the AFL has set clear exclusion criteria, such as for activities related to security. Overall, nearly 60% of local authorities' budget lines are by default considered non-sustainable. On the other hand, the lack of available information on certain subcategories limits our ability to assess the potential negative externalities associated with this financing.

The types of eligible expenditures are diversified: they include, for instance, the management and maintenance of public lighting, land-use planning operations (such as land acquisition), or investments related to urban policy, particularly in priority neighbourhoods, which represent a minority share of local authority expenditures according to historical data provided by the AFL. Some expenditure items, such as public lighting, provide significant benefits, notably in terms of security, even if their social impacts may be less visible. We have not identified environmental criteria attached to the various projects. Local authorities, as community-level actors composed of elected representatives, have the capacity to adapt projects to the specific needs of their residents, thereby improving their acceptability.

³⁸ <https://www.i4ce.org/publication/panorama-financements-climat-collectivites-locales/>

³⁹ https://www.oecd.org/content/dam/oecd/fr/publications/reports/2024/04/infrastructure-for-a-climate-resilient-future_c6c0dc64/464404b3-fr.pdf

⁴⁰ https://notreaffaireatous.org/wp-content/uploads/2020/12/InegalitesClimatiques_NAAT2020.pdf

⁴¹ See section Impact – Employment: detailed list of the economic criteria adopted by AFL

⁴² Data INSEE 2024

Appendix 1: Sustainable Development Goals

The financed green and/or social projects are expected to contribute to the achievement of the following UN Sustainable Development Goals (SDGs):

CATEGORIES		ODD
1. Low-carbon public transportation	 	<p>Through this category, the AFL aims to refinance public transport infrastructure and low-carbon transport solutions, such as soft mobility and rail transport, as well as the development, construction, and maintenance of low-carbon and multimodal public transport infrastructure in disadvantaged local authorities.</p>
2. Pollution prevention and control	 	<p>In this category, the AFL aims to finance waste collection, prevention, and treatment, which includes awareness-raising actions, the selective collection of sorted waste, as well as its recovery and treatment, excluding storage.</p>
3. Renewable energy		<p>The AFL aims to finance expenditures supporting the development of renewable energies, particularly photovoltaic and wind energy.</p>
4. Sustainable water and wastewater management		<p>The AFL intends to finance water management actions, including the supply of drinking water, sanitation, stormwater management, and flood control, covering networks, pumping stations, water treatment, river developments, reservoirs, dikes, dams, and catchment areas.</p>
5. Education and culture		<p>The AFL aims to finance expenditures related to education (from preschool to higher education), vocational training, school transport, as well as cultural, sports, leisure, and socio-educational activities, for the benefit of the entire population of the target local authorities.</p>
6. Employment		<p>The AFL intends to finance, in disadvantaged local authorities, expenditures supporting economic development, professional</p>

integration, social and solidarity economy enterprises, and the tourism sector, in order to promote and preserve employment for the benefit of their entire population.



7. Access to essential health services



The AFL aims to finance expenditures that strengthen access to healthcare for all, including maternal and child health services, health prevention and education, food safety, as well as the management of various healthcare facilities, with a particular focus on populations facing difficulties in accessing care.

8. Social inclusion



The AFL intends to finance expenditures related to social and medico-social actions, including family, childhood, the elderly, people with disabilities, and those in difficulty, as well as specific aid such as the APA and RSA, targeting vulnerable populations such as youth, seniors, low-income families, and people with disabilities or social exclusion.

9. Affordable housing



The AFL aims to finance expenditures related to social housing, access to housing, and areas for traveling communities, as well as to support the rental sector in areas with supply-demand imbalances, targeting social housing organizations (HLM) and assisted tenants.

10. Affordable and sustainable infrastructure



The AFL intends to finance, in disadvantaged local authorities, sustainable and high-quality public infrastructure, including the construction, rehabilitation, and maintenance of public buildings and public lighting, in order to improve living conditions in disadvantaged urban and rural areas for the benefit of their entire population.

Appendix 2: Local authorities budget lines corresponding to the categories

CATEGORIES	BUDGET LINES
1. Low-carbon public transportation	<ul style="list-style-type: none"> Rail transport Rail freight Stations and other railway infrastructure Multimodal connections Soft mobility
2. Pollution prevention and control	<ul style="list-style-type: none"> Waste collection and treatment Prevention and awareness-raising actions Waste collection Sorting, recovery, and treatment of waste
3. Renewable energy	<ul style="list-style-type: none"> Photovoltaic energy Wind energy
4. Sustainable water and wastewater management	<ul style="list-style-type: none"> Water management actions Water policy Drinking water Sanitation Stormwater Flood control
5. Education and culture	<ul style="list-style-type: none"> Education, professional training, and apprenticeships Culture, social life, youth, sports, and leisure School transport
6. Employment	<ul style="list-style-type: none"> Cross-cutting economic interventions Economic animation and development structure

	<p>Tourism development</p> <p>Territorial outreach and attractiveness</p> <p>Economic integration and social and solidarity economy</p>
7. Access to essential health services	<p>Health</p> <p>Common services</p> <p>Maternal and child health services and family planning</p> <p>Health prevention and education</p> <p>Food safety</p> <p>Clinics and other healthcare facilities</p> <p>Other actions</p>
8. Social inclusion	<p>Expenditures corresponding to the subcategories “Social action”</p> <p>APA</p> <p>RSA</p>
9. Affordable housing	<p>Housing</p> <p>Rental sector support</p> <p>Reception areas for traveling communities</p> <p>Social housing</p>
10. Affordable and sustainable infrastructure	<p>Public lighting</p> <p>Electrification</p> <p>Development operations</p> <p>Other urban development actions</p> <p>Urban policy</p> <p>Agglomerations and medium-sized towns</p> <p>Rural areas and other development areas</p>

Methodology

This Second Party Opinion (SPO) was prepared according to the recognised and methodically established procedures developed by Ethifinance. We adhere to strict quality standards for all research activities and customer processes. The SPO is an independent external analysis of debt instruments (e.g. Green Bond/Loan, Social Bond/Loan, Sustainability Bond/Loan or Sustainability-linked Bond/Loan) aimed at financing sustainable development projects.

In order to produce a Second Party Opinion, Ethifinance examines the following three modules:

- Issuer ESG Assessment
- Alignment with the ICMA/LMA Principles
- Impact of the Projects

For a detailed explanation of the methodology, please visit our [website](#).

Issuer ESG Assessment

The ESG Assessment consists of the following components:

Strategic Consistency: This is assessed by comparing an issuer's overall business and sustainability goals with the projects financed through sustainable bonds or loans, ensuring alignment with the broader corporate strategy rather than isolated CSR initiatives and verifying consistent reporting metrics.

Assessment Scale: *consistent, partially consistent, not consistent.*

ESG Risk Management: A customised and detailed assessment of ESG risk management in line with current sustainability requirements. In the SPO, the results of the assessment of the policies and processes as well as the quality of the risk management system are presented.

Assessment Scale: *high, substantial, moderate, limited.*

Alignment with the ICMA Principles

Following a detailed examination of the framework of the Issuer, Ethifinance confirms whether an issuance complies with relevant market standards. For bonds, this includes ICMA's Green Bond Principles (GBP), Social Bond Principles (SBP), Sustainability Bond Guidelines (SBG) and Sustainability-Linked Bond Principles (SLBP). For loans, the relevant principles include the Green Loan Principles (GLP), Social Loan Principles (SLP) and, and Sustainability-Linked Loan Principles (SLLP). These are collectively referred to as "the Principles".

For a positive assessment, the Issuer must transparently provide information on and fully implement the core components: (1) use of proceeds, (2) process for project evaluation and selection, (3) management of proceeds and (4) reporting.

Alignment is evaluated for each core component and at the aggregate level for the whole framework.

Assessment Scale: *best practice, aligned, partially aligned, not aligned.*

Impact of the Projects

To assess the impact level of each project identified by the Issuer, Ethifinance provides an opinion on two components:

Materiality: Assessment based on the extent to which the projects are relevant to their respective sector, geographical context and the overall sustainability strategy of the Issuer.

Ambition: Assessment based on the alignment with sector standards or taxonomy criteria to determine durability. For social projects, the target population and AAAQ dimensions (Availability, Accessibility, Acceptability, Quality) from the EU Social Taxonomy are considered.

Assessment Scale: *high, substantial, moderate, limited.*

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Contact



📍 Ethifinance SAS
153 boulevard Haussmann
75008, Paris
✉ spo@ethifinance.com
🌐 www.ethifinance.com

Jill Kuo
Regional Head – Solicited Products Production
jill.kuo@ethifinance.com

Erwan Jaïn
ESG Senior Analyst
erwan.jain@ethifinance.com

Chrystelle Duclovel
ESG Senior Analyst
chrystelle.duclovel@ethifinance.com

Vincent Hochart
ESG Senior Analyst
vincent.hochart@ethifinance.com

Valeria Patino
ESG Senior Analyst
valeria.patino@ethifinance.com