

Evaluation Summary

Provide financial and technical support to BDMG for the development of its activity with the Minas Gerais State (EMG) municipalities, in the areas of sustainable development, with a particular focus on investments with a co-benefit on the issue of combating climate change.

Country: **Brazil**

Sector: **Climate**

Evaluator: **Technopolis Group**

Date of the evaluation: **May 2020 – February 2021**

Key data on AFD's support

Project numbers: CBR1051 01 J

Amount: Initial EUR 50,5 M / Final EUR 31,4 M

Disbursement rate: 62%

Signature of financing agreement: December 2013

Completion date: 2017

Total duration: 3,5 years

Context

The project capitalised from a previous partnership between EMG and the Region of Nord Pas de Calais, and from a subsequent budgetary support (of 300M EUR) from AFD to EMG.

The later resulted in the PEMC Plan (*Plano de Energia e Mudanças Climáticas de Minas Gerais*). One of the plans diagnostics was that the municipalities in EMG lacked finance and capacity to implement climate change mitigation or adaptation initiatives.

Consequently, AFD engaged discussions with BDMG aiming at filling these gaps. In December 2013, AFD signed a Credit Facility Agreement (CFA) with BDMG to finance municipal projects aimed at combating climate change.

Indeed, as the EMG financial extension, BDMG is actively involved in financing and generating sustainable regional growth opportunities. BDMG adopted the strategy of becoming a Green Bank and followed the path of diversifying its credit lines and its partnerships in order to obtain new sources of funds aimed at the sustainable transformation of the State.

Actors and operating method

AFD (Donor), BDMG (Owner/Borrower), I-Care (Technical Assistance), Final beneficiaries: Municipalities of the State of Minas Gerais.

A Credit Line (CL) of EUR 50M to finance municipal climate change projects was signed with BDMG: operations with co-benefits in the prevention of climate risks, reduction of greenhouse gas emissions in the energy, waste management and transport sectors, and better management of resources.

A technical assistance of EUR 500k, financed from the FEXTE cooperation, complemented this project and took place around 3 main lines of action:

- capitalisation from the previous technical cooperation programme initiated with EMG;



- capacity building of BDMG in terms of identification, assessment and monitoring of climate change adaptation and mitigation projects; and
- actions to support municipalities on the development of projects with positive climate impacts.

The TA helped identify municipal projects eligible for funding from the credit line. Each disbursement was subject to a prior "Avis de non-objection" from AFD.

Objectives

The objective was to provide financial and technical support to BDMG for the development of its activity with the EMG municipalities, thereby promoting their access to the financial resources and technical assistance that they need to build their infrastructure in the areas of sustainable development and the reduction of social and territorial inequalities, with a particular focus on investments with a co-benefit on the issue of combating climate change .

Additionally, the project had an implicit objective to continue and strengthen the partnership of AFD with EMG and to bring BDMG's practices closer to international best practices in relation to climate change.

Expected outputs

- Increased access to basic services in EMG municipalities
- BDMG's capacity to promote sustainable development is strengthened
- Increased investments in Climate Change mitigation and adaptation in EMG municipalities

Performance assessment

Relevance & Coherence

The BDMG Credit Line and Technical Assistance responded to a market and internal capacity gap. They took into account the needs of EMG raised in the PEMC. At the time, Climate Change was not yet a priority for BDMG nor for the municipalities, and there was a shortage of investment both in Climate Change and in universalisation of services in EMG. BDMG needed external funds, and small municipalities had little access to finance. The CL was one of the first fundings made available for this purpose and the financial terms offered to the final beneficiaries were in line with their expectations. The final loans were profitable to BDMG. Moreover, the CL was aligned to AFD's strategy and appeared as an appropriate intervention in the context.

Effectiveness

The BDMG CL and TA objectives were partially met. Indeed, even if the percentage contractually allocated to Climate Change was reached, 71.5% of the disbursed funds were used to finance two large pre-selected climate related projects in Belo Horizonte, and the remaining were used to finance water treatment and sanitation project in smaller municipalities, and the training to BDMG and municipalities had little effect. BDMG and AFD encountered several challenges in project implementation, namely: economic crisis; Mariana Disaster; Municipal elections; lack of quality of projects; difficulties to meet criteria. Almost no targets were established for BDMG's project, however, implicit objectives to strengthen the partnership were reached. The intervention was pivotal to BDMG being able to finance the projects that were larger than 15M BRL

Efficiency

BDMG CL implementation was quite efficient. In terms of operational procedures, AFD acted with efficiency. On the side of BDMG, the funds that were withdrawn were well handed. Monitoring arrangements were followed and supported a smooth implementation. The TA addressed a BDMG's capacity gap in identifying climate change projects but struggled to improve municipalities' capacity. The CL was in line with other international donors' interventions, however eligibility criteria were difficult to meet. They were considered rigid and one of the reasons why only a few climate change projects were submitted, considering the innovative character of the theme. Moreover, the format of BDMG's monitoring reports could have been more comprehensive regarding the information about the municipalities that applied to AFD funds through BDMG-AFD Public Notice.

Impact

The CL had an overall positive long-term effect on BDMG, it had a positive impact on the bank's financial sustainability and market position. The project had a small impact on BDMG's portfolio, but it did not cause crowding-out effect. AFD support strengthened BDMG's capacity to assess the environmental impact of its projects; more broadly, the project raised the bank's awareness to the importance of the climate agenda and kickstarted a change in the bank's culture. Small municipalities perceived a subsequent increased access to finance. Last but not least, the project had positive unanticipated effects, such as: improvement on BDMG's access to international funding or BDMG development of a new way to support municipalities on project development.

Sustainability

CL effects on BDMG anchor in time. BDMG continued to enhance its approach towards sustainability after the project, implementing several initiatives in the field of sustainability, such as: Internal sustainability Committee; alignment of BDMG's loans with SDGs; expansion of a risk division to analyse socio-environmental aspects of projects. In addition, the TA contributed in to better aligning and strengthening with regional actors (e.g., environmental agency, EMG government). The project contributed to deepen the dialogue between AFD and BDMG and with other subnational development banks.

Added value of AFD's contribution

The CL supported BDMG to develop its green portfolio, contributed to increase the access of the bank to other donors, and fostered the dialogue with other local institutions (FEAM and EMG).

Conclusions and lessons learnt

In 2013, AFD signed a CFA of 50M EUR with BDMG, aiming to support municipalities in the mitigation and adaptation to the effects of CC. The credit line only partly reach the municipalities since, from the 50M EUR of BDMG's credit line, only 31M EUR were disbursed. 71.5% of the disbursed funds were used to finance two pre-selected climate related projects in Belo Horizonte, the state capital. The remaining were used to finance water treatment and sanitation project in smaller municipalities. In August 2016, 19M EUR were cancelled, since the bank reached its limit of allowed exposure to the public sector.

For BDMG itself the CL is seen as a watershed, as:

- It significantly contributed to raise awareness within BDMG on the importance of incorporating Climate Change and sustainability as a whole in its policies. This accelerated a change in the bank culture that continues today, with the bank creating new products and strategies to better contribute to the sustainable development of the region.
- AFD requested from BDMG or supported (through the TA) the development of instruments that proved to be fruitful for the bank in the following years, such as the socioeconomic environmental and social policy, the environmental and social socio-economic risk management system and the GHG inventory.
- BDMG gained expertise and track record in accessing funds from international donors, and, following AFD project, the bank secured four other credit lines with international partners.

AFD support contributed to put the bank ahead of its peers in terms of capacity to promote sustainable development and in the access to international funds.