CSO Comments on FP065 World Bank Brazil (BM19, March 2018)

Financial Instruments for Brazil Energy Efficient Cities

- The financial structure proposed for the street lighting component of the project (50 to 70 per cent of the overall total) raises several concerns. First, Public Private Partnerships should always be evaluated thoroughly in comparison to their value relative to on-balance sheet finance (such as bond issues, or commercial lending to support public works). That is scarcely the case here. The project rapidly dispenses with on-balance sheet options on the grounds Brazilian law puts limits on local authority spending, and because Brazil already has spiralling public debt. Yet it is our understanding that financing from multilateral sources or federal financial institutions that is undertaken with the aim of improving financial management, revenues and taxes is exempted from the debt limits imposed by Brazil's Fiscal Responsibility law. That is clearly the case with this project.

- This failure to adequately account for alternative funding structures is unsurprising given that the World Bank is a leading proponent of Public Private Partnerships. Yet numerous cases from Portugal to the UK (where the PPP approach was pioneered) have shown that it is no panacea. Insofar as public debt is a problem, for example, it should be noted that PPPs do not actually reduce debt but simply move it off the balance sheet. This potentially stores up larger problems in future – not least, because the healthy profits often extracted by the private sector participants in PPPs means that local government and citizens can end up paying far more than if the state had directly financed the work in the first place. In this context, he proposed Technical Assistance component seems too low to ensure the target municipalities are in a position to engage in project preparation and to be actively involved in developing PPP terms that are favorable to them and don't leave them settled with long-term costs.

- PPPs also typically suffer from a lack of transparency in terms of the actual financial arrangements, reducing transparency and offering potential channels for corruption. As a matter of policy, the GCF should require a much more thorough justification of the benefits and risks of a PPP approach in comparison to on-balance sheet options.

- In addition to at minimum 50% of the total investment finance devoted to the energy efficiency of public street lighting, the programme also foresees energy efficiency investments in what is euphemistically called "urban industries under component 2. However, as the project eligibility are not yet defined, this could include investment in energy-intensive industries such as mining, fossil fuel refining or aluminium smelters – indeed, the potential project portfolio considered as part of the financial analysis (p.55) underlying the programme would appear to assume financing for some of these sectors. The support for such activities goes against the GCFs mission and would pose – as the Secretariat in its assessment pointed out – a significant reputational risk. The elaboration of an exclusion list limiting the scope of industries and companies targeted to those in line with the GCF's mission should be a condition for approval and codified in the Funded

Activity Agreement.

- It is also worth noting that the proposed "currency swap" (p.8) to diffuse the risk that foreign exchange rate variations would pose to the project considerably reduced the concessionality of the lending that the GCF offers. The impact of currency hedging on concessionality highlights a broader policy issue for the GCF to (re)consider in future.

- Lastly, there is an adequate gender analysis with an accompanying action plan, that correctly describes some core contexts such as:
    - Violence against women is a worrying matter in Brazil. The analysis delivers significant data referred to this issue. Street lighting prevents homicides and rapes, which are suffered mainly by women.
    - Labor women force in sector, the share of female workers in the electricity sector in Brazil was 16.7% in 2016. In the Energy Renewable sector, the global participation of women is 35 %, considered a key driver to women participation in the energy sector.

But the GAP lacks basic information provision and details such as:

- budget assigned
- percentage of women engaged in every activity
- number of employees trained;
- number of the activities (workshops, trainings, etc.)
- the way that the training will be delivered.
- activities related to how women will be supported through the process increasing their participation in the sector.
- activities related to how men will be engaged in this plan (to outcome 3 and 4)
- who will be responsible of monitoring de later definitions in the project as it moves on as to guarantee the outcome.
- reports and documents describing, not only plain disaggregated data, but accurate analysis of difference of impact for men and women of the activities.