

Building Readiness of the Private Sector in Bangladesh for Green Climate Fund (GCF) Accreditation

Acclimatise, IIED and ICCCAD



Background

Bangladesh is extremely vulnerable to the impacts of climate change and will require significant climate action and investment in adaptation and mitigation to manage these impacts. A 2011 study from the World Bank estimated that the scale of total finance required for adaptation in Bangladesh at USD \$5.7 billion by 2050¹. While this is a considerable amount of money, it is likely to be a significant under-estimate of the cost of building resilience to a changing climate in such a vulnerable country. It is clear that climate change will have a widespread impact on the country's economy with the agriculture, fisheries, infrastructure, industry, urban areas, health and sanitation sectors particularly at risk. Mitigation investment needs are less certain, but costs of key mitigation actions have been estimated at around USD \$27 billion between 2011 and 2030².

The Paris Agreement recognizes that deep reductions in global emissions will be required in order to achieve the ultimate objective of limiting global temperatures to 1.5 degree Celsius above pre-industrial levels and emphasizes the need to urgently address climate change. Achieving such an ambitious goal will require policies that drive innovation, investment and entrepreneurship. The private sector remains virtually an untapped source of climate finance in Bangladesh. However, private investments in industry and productive projects play a vital role in maintaining sustained growth in the country.

The need to catalyse private sector engagement at the global scale is reflected by the focus of the Green Climate Fund (GCF) on maximising private sector engagement through a dedicated Private Sector Facility (PSF). The PSF aims to - directly or indirectly - finance private sector climate projects in developing countries.

Project Supported by:



Key facts about the GCF

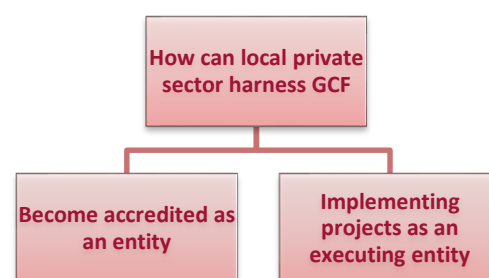
- Largest public-funded global mechanism for delivering climate finance to developing countries.
- USD \$10.2 billion fund from over 40 contributors
- USD \$ 5.1 billion dollars equivalent currently available to fund CCD projects.
- Incorporates a Private Sector Facility (PSF) to boost private sector investment in adaptation and mitigation activities.
- PSF will promote the participation of the private sector in developing countries.
- PSF focusses on engagement of local actors, including SMEs and financial intermediaries.

¹ World Bank (2011). *The Cost of Adapting To Extreme Weather Events in a Changing Climate*. Washington: World Bank.

² MoEF (2015) Bangladesh's Intended Nationally Determined Contributions (INDC)

What opportunities for the private sector?

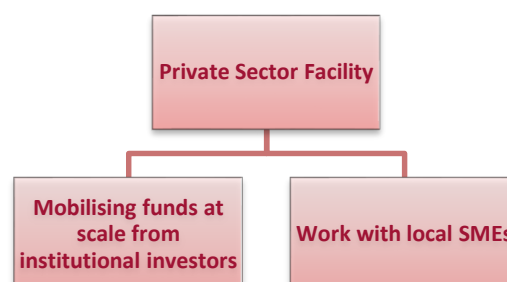
The PSF presents an opportunity to Bangladeshi private sector institutions to directly access funds by applying for accreditation as National Implementing Entities (NIEs) or as Executing Entities (EEs) who can use funds via an accredited entity. Currently, six public sector entities have been shortlisted as potential NIEs in Bangladesh. So far, only 15% of the GCF's implementing entities globally are private sector organisations³, yet none are local financial institutions and intermediaries. As the GCF aims to directly finance projects from the private sector, there is a significant need and opportunity to provide capacity building and awareness to Bangladeshi financial institutions with the view to position them as strong candidates for accreditation⁴.



The GCF created the PSF to catalyze and maximise private sector engagement in climate finance throughout developing countries. The private sector accounted for 74.55% of total investment in the national economy between 2013 and 2014⁵, hence it presents a huge opportunity for investment, but engagement has so far been limited. The PSF offers funding opportunities that share the risk faced by both large scale institutional investors and Small and Medium Enterprises (SMEs) in Bangladesh. The Fund launched a SMEs pilot programme, designed to channel concessional resources to improve SMEs access to finance through accredited entities. Support to SMEs in adaptation projects include:

- Investments in supply chain management that incorporate climate adaptation risk management (e.g. supply source diversification, crop changes in agriculture)
- Promoting guarantees to enable bank and supply-chain (i.e. accounts receivable/payable) debt rescheduling in the face of business disruptions resulting from temporal climate change impacts

The PSF window also offers a range of products particularly suited to for banks, sovereign funds and insurance companies which include green or blue bonds- medium/long term instruments; commercial paper- short term debt instruments (particularly important for climate prone businesses and firms), and syndication and club deals – low transaction cost, thus can be used to raise needed fund for smaller scale projects medium/long term instruments.



Project Objectives and Outcomes

The main aim of this project is to develop the business case for encouraging private financial or banking institutions in Bangladesh to become National Implementing Entities (NIEs) of the Green Climate Fund (GCF), and supporting them to develop their institutional readiness by building skills and capacities that will enable them to finance and implement CCD projects. Bangladesh already has a track record of leadership and innovation in climate change management, and the accreditation of a private sector, direct-access NIE has the potential to provide a learning opportunity to other vulnerable countries about engaging the private sector in climate finance management, institutionalisation, resourcing and allocation. This project, therefore, will be significant in terms of learning and sharing of best practice internationally. More broadly, it will to unlock other markets and will contribute actively to the long-term goals of Bangladesh for a sustainable economy⁶.

³ These include Deutsche Bank Aktiengesellschaft, Acumen and Africa Finance Corporation.

⁴ http://www.gcfund.org/fileadmin/00_customer/documents/Accreditation/GCF_List_of_Accredited_Entities_20150722.pdf

⁵ Ministry of Finance (2014) *Bangladesh Economic Review*, Chapter 14: Private Sector Development

⁶ Bangladesh Climate Change Strategy and Action Plan (2008); Country Investment Plan (2011-2015)

Project timeline: February 2016 – December 2016



Project approach

Our project approach is guided by four principles:

- *Responding to the needs and objectives of Bangladesh:* Supporting private banks and financial institutions in Bangladesh to access the GCF with a view to develop and manage CCD projects.
- *Building on existing available data, information and practice:* Maximizing synergies with existing and/or on-going regional and national initiatives and making use of existing available information.
- *Building capacity:* Concerns often exist that international consultants fail to transfer knowledge, learning and expertise to in-country users, and to adequately recognize the value of existing in-country knowledge and skills. This project aims to build capacity and transfer, to work with local experts (our project team has a strong element of local expertise) and to listen before jumping to solutions.
- *Being practical and pragmatic:* An approach will be applied which is context-specific to work within existing structures and processes; solutions will be developed that are practical and deliverable.

Approach

Stakeholder enlistment and ownership is a critical aspect of the project, while being cognisant of the political sensitivities around NIE accreditation and private sector engagement in accessing and developing climate finance. Ensuring substantive engagement with key project stakeholders and achieving the 'consensus-building' objective of this project will be achieved through a series of workshops and one-to-one meetings.

Contacts

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About the project partners



Acclimatise Group Ltd. is a world leader in best practice climate change adaptation and risk management, with experience in over 50 countries. Acclimatise advises public and private sector clients on how to make policies, projects, investment portfolios and assets resilient to climate change risks today and over time. Since 2004, Acclimatise has successfully managed a series of projects supported by a variety of development partners, including CDKN. This has produced a number of adaptation strategies, processes, tools and climate risk assessments which integrate development challenges and recognize vulnerability considerations in developing countries. Understanding the emerging landscape of climate finance is an essential feature of Acclimatise's work with development partners and public and private sector clients. Acclimatise is also a key partner in GIZ's Practitioners' Dialogue on Climate Investments (PDCI), which aims to facilitate a better understanding of policy instruments and transformative processes that shape enabling framework conditions for private climate investments.



IIED is a policy and action research organisation that works to promote sustainable development to improve livelihoods and protect the environments on which these livelihoods are built. It specialises in linking local priorities to global challenges. IIED is based in London and works in Africa, Asia, Latin America, the Middle East and the Pacific, with some of the world's most vulnerable people. IIED works with them to strengthen their voice in the decision-making arenas that affect them — from village councils to international conventions. IIED has extensive experience in climate finance, with knowledge and expertise to bridge the gap between international climate funds and national level architecture. They have a track record of working with various stakeholders in Bangladesh, including the NDA for GCF in Bangladesh i.e. Economic Relations Division (ERD) of Ministry of Finance, Bangladesh Bank, Infrastructure Development Company Limited (IDCOL) and General Economic Division of Planning Commission and are undertaking various ongoing programmes with the Government of Bangladesh on climate finance and capacity building.



ICCCAD is based at the Independent University in Dhaka, Bangladesh, and aims to be a world-class institution that is closely related to local experience, knowledge and research in one of the countries that is most affected by climate change. Its mission is to gain and distribute knowledge on climate change and, specifically, adaptation and in doing so help people to adapt to climate change with a focus on the global South. By focusing on such work in Bangladesh, ICCCAD allows international participants to gain direct knowledge of the issues in a real-world context. ICCCAD conducts research, builds capacity and networks of professionals working in climate change, with a focus on the global South. ICCCAD has extensive links with public and private stakeholders in Bangladesh and will play a facilitative role in engagement and consultation.



CDKN is a seven-year initiative funded by the UK Department for International Development (DFID) and the Dutch Ministry of Foreign Affairs (DGIS). It started in 2010, to assist developing countries respond to the challenges posed by climate change. It does this by providing research and technical assistance, and channelling the best available knowledge on climate change and development to support policy processes at the country level. CDKN works in partnership with decision-makers in the public, private and non-governmental sectors nationally, regionally and globally.

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