The Role of DBE in Financing Inclusive Investment in Climate Resilient Green Economy

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Introduction

- Ethiopia has the highest economic growth under the Growth and transformation Plan.
- Ethiopia has committed to transitioning a climate resilient green middle income economy by 2025.
- This requires a cumulative investment of USD150 billion dollars.
- Need to mobilize resources from a range of sources (including the private sector)
Con’td

Response

- Established a national climate change fund, known as the **CRGE Facility**
- Identify **financial intermediaries, financial instruments and financial planning systems** within the national climate finance landscape

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Understanding the Role of the DBE in Financing Inclusive Investment in CRGE
### The Development Bank of Ethiopia

<table>
<thead>
<tr>
<th>Source</th>
<th>Intermediary</th>
<th>Instrument</th>
<th>Financial Planning System</th>
<th>Use &amp; Users</th>
</tr>
</thead>
<tbody>
<tr>
<td>National&lt;br&gt;- Public finance from GoE&lt;br&gt;- Debt finance (bonds)</td>
<td>As a financial intermediary, DBE mobilises, manages and channels finance in two ways:&lt;br&gt;- <strong>Trust Agent:</strong> It administers funds; receives service commissions; does not share the risk.&lt;br&gt;- <strong>Credit line:</strong> It manages its own credit line; shares the risk; has an income from the interest charged.</td>
<td>A range of financial instruments tailored to suit the investment type.&lt;br&gt;- Guarantee&lt;br&gt;- Concessional and market rate loans&lt;br&gt;- Co-finance&lt;br&gt;- Debt finance (bond sale)</td>
<td><strong>Policy:</strong> Credit Policy&lt;br&gt;<strong>Institutional arrangement:</strong> DBE is supervised by Public Financial Enterprises Supervising Agency. Board of Management administers the Bank;</td>
<td><strong>Use</strong>&lt;br&gt;- Manufacturing and Extractive Industry&lt;br&gt;- Agro-processing&lt;br&gt;- Commercial agriculture&lt;br&gt;- Special programmes, including energy, rural electrification, export, credit &amp; guarantee&lt;br&gt;- <strong>Users:</strong>&lt;br&gt;- Private Ltd companies&lt;br&gt;- Sole proprietorship&lt;br&gt;- Share companies&lt;br&gt;- MFI</td>
</tr>
<tr>
<td>International&lt;br&gt;- Financial institutions (WB, CDB, EIB)&lt;br&gt;- Carbon finance (DBE is working with WB to tap into this source)</td>
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2012: Authorised capital 3 billion br. Paid-up capital 1.8 billion br.

DBE can channel finance to Public agencies, MFI & Private sector.
Role of DBE

It can contribute in financing inclusive investment in CRGE because:

1. Ability mobilise scaled up, long term and flexible finance by;
   - accessing national and international sources of public, private and carbon finance
   - pooling/blending different sources of finance
   - deploying a range of financial instruments
2. Mandate

- to invest in sectors and products that are akin to CRGE investments
- to lend to risky households and enterprises
CASE STUDY FINDINGS
Case Study


- Objective
  - to promote private sector led development of RE and EE products in rural off-grid markets

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<tbody>
<tr>
<td>Public multilateral sources (World Bank IDA Financing)</td>
<td>Financial intermediary: DBE &amp; MFIs</td>
<td>Concessional loan</td>
<td>Use: Promotion of renewable energy and energy efficiency products</td>
</tr>
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<td></td>
<td>Technical intermediary: AETPDD</td>
<td></td>
<td>Users: Project developers (PSE, SME etc) and rural households</td>
</tr>
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</table>

1. Credit line to support working capital of project developers (private sector enterprises; SME etc)
   - DBE provides 70% of working capital loan @ an interest rate of 8.5% & a repayment period of maximum 5 years. Investors are required to provide 30% equity contribution

2. Credit line to provide on-lending support to MFIs to lend to small households
   - Interest rate 6%; Repayment 10 years max; DBE will bear the full risk of the loans to MFIs
Incentive Structures Shaping Investment in CRGE

Financial Incentives
- re-enforce financial incentive structures related to:
  - access to concessional and long term finance
- address disincentives related to:
  - low amount of loan; access to investment loan

Regulatory/Policy Incentives
- Re-enforce:
  - QA standards;
  - preferential access to foreign currency
  - tax free imports
- Address disincentive:
  - VAT;
  - creation of a single regulatory authority

Capacity based Incentives
- Promotion and service provision

Technology Incentives
- Type of technology
Conclusion

1. Address the need for finance
   - Access to finance
   - Access to long term finance

2. Use appropriate financial intermediaries and financial instruments

3. Use incentives to adopt the financial design choice

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Thank You!!