DELIVERING BENEFITS FOR THE POOR THROUGH PUBLIC PRIVATE PARTNERSHIPS

ASIA-PACIFIC REGIONAL FORUM ON CLIMATE CHANGE FINANCE AND SUSTAINABLE DEVELOPMENT
JAKARTA, 1-3 SEPTEMBER 2015
FINANCING INCLUSIVE INVESTMENT IN LCCRD: SETTING THE CONTEXT

ENABLE INCLUSIVE INVESTMENT IN LCCRD
1. A Policy agenda
2. New opportunities from the political, financial and investment landscape

DELIVER APPROPRIATE FINANCE FOR INCLUSIVE INVESTMENT IN LCCRD
• Accessible capital
• Start up capital
• Scaled up capital
• Long term capital

TRANSFORM THE FINANCIAL LANDSCAPE TO DELIVER FINANCE FOR INCLUSIVE INVESTMENT IN LCCRD
• US$ 359b (2012)
• 94% for mitigation
• 76% domestic; 24% international
• 62% private finance; 3% grants
• 28% project finance
Sources of climate finance

- International and national public finance
- International and national private finance

Financial Intermediaries

- Bilateral & multilateral agencies
- National agencies
- Development Finance Institutions
- Private finance institutions
- Multilateral, bilateral and national climate funds

Uses & Users of climate finance

- Types of action: adaptation, mitigation, resilience, green economy
- Type of access: private sector, public sector, civil society organisations

BANGLADESH: Development finance institutions (IDCOL), MFI, Commercial banks

NEPAL: National CC and energy fund (CREF), Commercial banks, LFI

ETHIOPIA: Development Bank, MFI

Instruments for mobilising, managing and disbursing climate finance

Source: Adapted from Buchner et al, 2012
# Session plan

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<td><strong>Presentation of country case studies:</strong></td>
<td>30 minutes</td>
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<td>Bangladesh</td>
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<td>Clarification questions</td>
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<td><strong>Round table discussion:</strong></td>
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<td>1. Financing needs for inclusive investment in LCCRD</td>
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<td>2. Design choices that deliver finance for inclusive investment in LCCRD</td>
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<td><strong>Plenary:</strong></td>
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<td>Key recommendations for financing inclusive investment in LCCRD</td>
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Delivering Benefits to the Poor through Public Private Partnership (PPP)

Role of Bangladesh Bank and IDCOL in leveraging public-private finance for investment in Climate Resilient Development

Nazmul Haque
Director (Investment) & Head of Advisory, IDCOL

Regional Forum on Climate Change Finance and Sustainable Development

1~3 September, 2015
Jakarta, Indonesia
Understanding the Key Terms........

Public Private Partnership
- a “cooperative venture between the public and private sectors”, to meet public needs through the appropriate allocation of resources, risks and rewards between the public and private sectors

Inclusive Finance
- the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society

Climate Resilient Development
- is about adding consideration of climate impacts and opportunities to development decision-making in order to improve development outcomes
Inclusive financing in CRD - Bangladesh perspective

- In Bangladesh, two institutions are instrumental in channeling inclusive finance to CRD projects:
  
  - **Infrastructure Development Company Limited (IDCOL):** IDCOL, the country’s premier infrastructure financier, is the pioneer in channeling inclusive financing through a number of renewable energy and energy efficient projects/programs. While owned by the government, IDCOL is managed by and work for the private sector and itself a public private partnership.

  - **Bangladesh Bank:** The central bank of the country provides low cost refinancing to eligible banks and financial institutions for investment in green projects.
Role of IDCOL in financing inclusive CRD projects

- IDCOL’s inclusive financing for CRD projects are primarily based on its renewable energy and energy efficient projects/programs:
  - Solar Home Systems (SHS) Program
  - Domestic Biogas Program
  - Improved Cook Stove Program
  - Solar Irrigation Pumps (SIPs)
  - Solar Mini-grids
  - Green Brick Program
  - Other RE Projects e.g. biogas/biomass based electricity projects, solar-powered telecom BTSs etc.

- Till date, IDCOL has disbursed more than USD 750 million to the private sector for CRD projects, ensuring access to clean energy for lighting, cooking, communication and construction for more than 18 million people of Bangladesh.
IDCOL’s inclusive CRD financing at a glance

- IDCOL has deployed a range of intermediaries, financial instruments and planning systems to finance CRD projects.
- Various bilateral/multilateral agencies provide funds to IDCOL through the government which are then channeled to end users.
- Primary financial instruments used by IDCOL are concessionary credit and output-based & pro-poor subsidy.

**Sources of Fund**
GoB, World Bank, IDB, JICA, kfw etc. as well as retained earning

**Financial Intermediary**
MFIs, Private Companies, Suppliers

**Financial Instruments**
Concessional Credit, Output-based & pro-poor subsidy, Technical Assistance

**Financial Planning System**
PO Selection Guidelines, Supplier Selection Guidance, Technical Standard Committee, Quality Control Mechanism
<table>
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<tr>
<th>Project / Program</th>
<th>Target &amp; Achievement</th>
<th>Financial Intermediary</th>
<th>Financial Instruments</th>
<th>Approved/Disbursed Amount</th>
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<td>SHS Program</td>
<td>6m SHS (2018) 3.8m till Jul 2015</td>
<td>NGOs, MFIs, Private companies</td>
<td>Con. credit, Pro-poor subsidy</td>
<td>USD 700+ m</td>
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<td>Biogas Program</td>
<td>100k by 2018 39k by Jul 2015</td>
<td>NGOs, MFIs, Private companies</td>
<td>Concessional credit, Subsidy</td>
<td>USD 11.0 m</td>
</tr>
<tr>
<td>ICS Program</td>
<td>1m by 2018 94k by Jul 2015</td>
<td>NGOs, MFIs, Private companies</td>
<td>Capacity dev. subsidy</td>
<td>USD 0.6 m</td>
</tr>
<tr>
<td>Solar Irrigation Program</td>
<td>1,550 by 2018 445 by Jul 2015</td>
<td>Private companies</td>
<td>Concessional credit, Subsidy</td>
<td>USD 14.5 m</td>
</tr>
<tr>
<td>Solar Mini-grids</td>
<td>50 by 2017 16 by Jul 2017</td>
<td>Private companies</td>
<td>Concessional credit, Subsidy</td>
<td>USD 10.5 m</td>
</tr>
<tr>
<td>Green Brick Program</td>
<td>15 by 2018 2 by Jul 2015</td>
<td>Private companies</td>
<td>Semi-commercial credit</td>
<td>USD 7.5 m</td>
</tr>
<tr>
<td>Others</td>
<td>-</td>
<td>Private companies</td>
<td>Concessional credit, Subsidy</td>
<td>USD 7.0 m</td>
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Leveraging Public-Private Finance: SHS Program

Funders
- Donors
- Bilateral
- Multilaterals

GoB
- Regulator (Central Bank)
- Policy Support (SREDA)

IDC COL

Partner Organizations (POs)
- SMEs/Private Companies
- NGOs
- Micro Financial Institutions

Suppliers

Beneficiaries
Leveraging Public-Private Finance: SHS Program

- IDCOL’s USD 550m+ disbursed credit has leveraged directly additional USD 350m+ from the private sector.
- Indirectly, this has created enabling environment for suppliers, manufacturers as well as commercial banks and FIs to make short/long term investment in the sector.
- IDCOL initiatives have also encouraged the SHS market to grow beyond its own SHS Program.

Output based grant → SHS Market in Bangladesh → Additional investment by households & POs
Concessional credit → Additional investment by suppliers/manufacturers
Training & capacity building → Short/long term credit by banks
Market awareness campaign → Low cost refinancing by the Bangladesh Bank
Quality control & standardization → Development of external markets
Role of Bangladesh Bank in financing CRD projects

- Bangladesh Bank (BB) through various intermediaries and monetary policy instruments play a vital role in financing inclusive CRD projects.

- Since BB does not participate in direct lending, funds are allocated to commercial banks based on following financial instruments:
  - Refinancing,
  - Spontaneous financing and
  - Incentive-based financing

- Some banks and FIs may not enter into a refinancing agreement; instead, they may want to invest in renewable energy through their regular credit offering, as ‘spontaneous finance’.

- Policy instruments for financing inclusive CRD projects include CSR guideline 2005, followed by the bank’s introduction of its refinancing facility in 2008, green banking guidelines in 2011 and regulatory measures to disburse up to 5 percent of Banks/FIs total lending to green finance in 2014.
Central Bank CRD Financing at a glance

Central Bank of Bangladesh → Commercial Banks/FIs → Investors

Interest @ 5% → Interest @ 9%

Sources of Fund
GoB Budget, ADB etc.

Financial Intermediary
Commercial Banks & FIs

Financial Instruments
Concession loans, Market rate loans, composite lending etc.

Financial Planning System
Green Banking policy, CSR requirements, Green Banking Regulatory requirements
The Way Forward for Sustainable Development

- Developing effective financing for CRD projects involves selecting and combining intermediaries and financial instruments in a way that achieves cost-effective targeting of the poor.
- Special-purpose vehicles may be used to generate finance and channel it according to the specific needs of low-income consumer.
- MFIs and NGOs have better reach in low-income communities, but mechanisms are needed to ensure the finance they offer is affordable.
- Grants should be blended with concessional loans to provide scaled-up and long-term finance to end users who have limited access to affordable mainstream finance.
- Providing institutional support to intermediaries and partnering organizations to finance CRD projects.
Central Renewable Energy Fund
Nepal

Delivering Benefits for the Poor through Public Private Partnerships
(Session Three)

PRITHVI GYAWALI
CREF SECRETARIAT
Contents

• Overview
  – ADB’s Financial Intermediation Lending Policy
  – Financial Management Mechanism
  – Funds Flow Mechanism
  – Investment Committee and Secretariat

• Current Status

• Implementation of Financial Management Mechanism (FMM)
  – General
  – Handling Bank
  – Partner Banks
  – Technical Assистances
Overview (1)
ADB’s Financial Intermediation Lending Policy

- Funds provided by Government and Development Partners
- Apex Financial Institution
- Second-tier Financial Institutions
- Project Borrowers (Mix of loan and subsidy)

- Market-based, demand driven, private sector focused institutional lending
- Increased outreach, efficiency and stability of financial systems
- Well-defined eligibility criteria
- Well-defined risk management systems
- Better Policy dialogue
Overview (2)

Financial Management Mechanism
Overview (3)

Funds Flow Mechanism

- Government of Nepal
- Development Partners
- NRREP/AEPC Treasury Single Account
- NRREP/AEPC Special Treasury Foreign Currency Account

CREF Handling Bank

Subsidy Fund Management

Investment Management - Special Accounts -

Prequalified Partner Banks
Commercial banks – development banks – LFIs

End users
Households – communities – manufactures – distributors - installers

Wholesale Lending

Retail Lending
Overview (4)

CREF Investment Committee & Secretariat

Investment Committee (specialized sub-committee under the Program Steering Committee)

1. Chairperson - Joint Secretary, Ministry of Science, Technology and Environment
2. Member - Under Secretary, Ministry of Finance
3. Member - Executive Director, AEPC
4. Member - CEO of “Class A” bank nominated by Nepal Bankers’ Association
5. Member - Representative from the Private Sector

Secretariat

1. Head of CREF Secretariat; Management & Monitoring Specialist
2. Capacity Building Specialist
3. Support Staffs
Current Status (1)

- CREF Investment Committee and Secretariat in place and functional; 19 CREF Investment Committee meetings already held
- CREF’s Financial Management Mechanism, Legal Status, Operational Guidelines approved by Government of Nepal, Ministry of Science, Technology and Environment
- CREF Secretariat office established at handling bank
- One handling bank (GIBL) and seven partner banks (BOK, CEDB, CIVIL, NIBL, SBL, HBL & TDBL) selected through GoN’s Public Procurement Act and Rules
- Handling bank has already processed about 50,000 subsidy application forms amounting to about NPR 1.5 billion; investment management being done by bank’s Treasury Department, and wholesale credit fund disbursed to seven partner banks
- Partner banks already utilizing CREF’s credit funds for investment in the RE sector
- Government of Nepal’s Urban Solar Program being initiated through the seven partner banks
Current Status (2)

• CREF business plan and vendor financing models being developed with assistance from UNCDF.

• Various financial instruments for RET developers, banks, end-users and community being designed and developed in conjunction with Rural Energy Rural Livelihood (RERL), UNDP/GEF.

• Capacity building activity – Credit Financing RETs under process; will be undertaken in 10 districts of Nepal over the next 2 years.

• CREF’s technical review planned for November 2015.

• GoN’s new budget for FY 2015/16 has top priority for RE sector with over 5 billion to be channeled in this sector; the budget speech specifically mentioned AEPC and CREF.

• With the government’s priority in the RE sector, donors and development partners more committed; emphasis on providing funds for credit lending through CREF’s partner banks.

• Subsidy Policy and Subsidy Delivery Mechanism being revised to accommodate both subsidy and credit mix in funding RETs.
Implementation of FMM (1)

General

- Contract signed with handling and partner banks – January 2015
- Operational guidelines and manuals developed and approved from the CREF Investment Committee for handling and partner banks
- Subsidy and credit funds transferred to handling and partner banks
- CREF Investment Accounts opened at the handling and partner banks
- CREF Business Plans (till end of NRREP 2017, and 5 years beyond NRREP; till 2022 along with Vendor Financing Models being developed with support from UNCDF)
- Financial instruments and manuals for partner banks to invest in the RE sector being developed with support from UNDP (RERL/GEF project)
- Urban solar program of GoN being implemented through CREF partner banks
- GoN’s budget for FY 2015/16 has prioritized RE sector with over NPR 5 billion to be disbursed through CREF
- CREF Investment Committee has met 19 times to endorse and approve various decisions regarding the disbursement of funds through CREF; develop conducive environment for private sector commercial banks to invest in the RE sector
Implementation of FMM (2)

Handling Bank

Subsidy Administration

• All funds transferred to investment account carrying interest, and thereafter to respective subsidy and credit accounts when required.

• Separate individual sub accounts opened under the investment account; donor vs government, subsidy vs credit, and technology wise to earmark each and every fund transferred and disbursed to maintain transparency and ease reporting.

• Physical verification of individual Subsidy Application Forms (SAFs) technically approved by AEPC prior to disbursement of funds from CREF.

• Periodical reporting; monthly, quarterly, half-yearly and annually as required by GoN and development partners.

Investment Management

• Treasury department of handling bank handles all investment management of CREF funds.

Wholesale Credit Fund Management

• Credit funds transferred to partner banks based on the business plan submitted by them with the RE projects technically appraised by AEPC.
Implementation of FMM (3)
Partner Banks

CREF Credit Fund Management

• All funds transferred to CREF investment account (call account) carrying interest, and thereafter to current account upon approval of business plan for investing in RE projects.

• Direct lending to end-users, households, pre-qualified companies, developers, etc. Wholesale credit lending to MFIs and LFIIs for smaller RE technologies.

• Credit risk borne by partner banks; financial appraisals of RE projects done by the partner banks irrespective of these being technically appraised by AEPC; projects need to be bankable for partner banks to invest in them.

• Interest spread as mandated by the central bank (NRB); cannot exceed 5%.

• Periodical technology-wise reporting; monthly, quarterly, half-yearly and annually as required by GoN (in case of urban solar program) and development partners.

• Business plan to be prepared by partner banks; AEPC technically appraised projects need to be bankable.

Urban Solar Program

• Partner banks to implement GoN’s urban solar program; upfront subsidy of NPR 15,000 provided on installations of 500 WP and above; 75% and 50% interest subsidy for household and institutional installation respectively; interest rate not to exceed 9%. Investments to be done on EMI basis.
Thank you
The Role of DBE in Financing Inclusive Investment in Climate Resilient Green Economy

Regional Forum on Climate Change Finance and Sustainable Development

1-3 September, 2015
Jakarta, Indonesia

By Lidya Tesfaye
Ethiopia has the fastest growing economy under the Growth and Transformation Plan (GTP).

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).
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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Case Study


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

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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

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Cont’d

2. Mandate

- to invest in sectors and products that are akin to CRGE investments
- to lend to risky households and enterprises

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Source
- National
  - Public finance from GoE
  - Debt finance (bonds)
- International
  - Financial institutions (WB, CDB, EIB)
  - Carbon finance (DBE is working with WB to tap into this source)

2012: Authorised capital 3 billion br. 
Paid-up capital 1.8 billion br.

Intermediary
As a financial intermediary, DBE mobilises, manages and channels finance in two ways:
- **Trust Agent**: It administers funds; receives service commissions; does not share the risk.
- **Credit line**: It manages its own credit line; shares the risk; has an income from the interest charged

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

Instrument
A range of financial instruments tailored to suit the investment type.
- Guarantee
- Concessional and market rate loans
- Co-finance
- Debt finance (bond sale)

Financial Planning System
**Policy**: Credit Policy

**Institutional arrangement**: DBE is supervised by Public Financial Enterprises Supervising Agency. Board of Management administers the Bank;

Use & Users
**Use**
- Manufacturing and Extractive Industry
- Agro-processing
- Commercial agriculture
- Special programmes, including energy, rural electrification, export, credit & guarantee

**Users**
- Private Ltd companies
- Sole proprietorship
- Share companies
- MFI
**Market Development for Renewable Energy and Energy Efficient Products, Ethiopia**

Overall goal is to promote private sector led development of the renewable energy and energy efficiency products. The programme aims to **remove barriers to private investment: access to credit, foreign currency and collateral**
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;

**Policy & Regulatory Incentives**
- Re-enforce:
  - QA standards;
  - preferential access to foreign currency
  - tax free imports
  - Policy direction targets inclusive investment in LCCRD (CRGE, GTP, Energy policy)
- Address disincentive:
  - VAT;
  - creation of a single regulatory authority

**Capacity based Incentives**
- Promotion and service provision

**Technology based incentives**
- Technology choice
- Cost of technology
Conclusion

1. Address specific investment needs including financial and market development needs
2. Use appropriate financial intermediaries and financial instruments
3. Use incentives to adopt the financial design choice

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Thank You!!
EMERGING TRENDS IN CASE STUDY COUNTRIES
## Policy Options: Financing Inclusive Investment in LCCRD

### Source
- **Financial Intermediary**
  - Mix and match financial intermediaries to diversify options to access and channel climate finance for inclusive investment in LCCRD

### Financial Instrument
- **Sequenced Deployment of Financial Instruments**
  - To incentivise scaled-up public and private sector investment in LCCRD

### Financial Planning Systems
- **Integrate LCCRD Investment Plans into Financial Planning Systems**
  - For targeted, scaled-up & long term climate finance

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### Budget Systems
- **BPAS**
  - Budget Planning and Analysis System
- **FNTS**
  - Fiscal Note Tracking System
- **CBS**
  - Capital Budget System

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**Green Climate Fund + Gorkha Development Bank (Nepal) Ltd**

**Grants**

**Guarantee & Loans**

**Equity & Debt**
## Incentives for replication

### POLICY BASED INCENTIVES
Policy direction targets inclusive investment in LCCRD *(CRGE, GTP, Energy policy)*

Policy direction to promote design choices for inclusive investment *(incentives to work with DBE and MFIs + incentives to use financial instruments like guarantees and concessional loans)*

### ECONOMIC INCENTIVES
Return on investment – market potential

Leverage potential

### CAPACITY BASED INCENTIVES
Capacity to mobilise, manage and deliver appropriate finance to the private sector is crucial for investment in LCCRD

Capacity for market development

### TECHNOLOGY BASED INCENTIVES
Technology choice

Cost of technology
GROUP DISCUSSION

1. Financing needs for inclusive investment in LCCRD

2. Design choices that deliver finance for inclusive investment in LCCRD

3. Incentive structures that enable policy makers