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>
<thead>
<tr>
<th>Project / Program</th>
<th>Target &amp; Achievement</th>
<th>Financial Intermediary</th>
<th>Financial Instruments</th>
<th>Approved/Disbursed Amount</th>
</tr>
</thead>
<tbody>
<tr>
<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>
</tr>
<tr>
<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>
</tr>
</tbody>
</table>
Leveraging Public-Private Finance: SHS Program

- **Funders**
  - Donors
  - Bilateral
  - Multilaterals

- **GoB**
  - Regulator (Central Bank)

- **IDCOL**
  - Policy Support (SREDA)

- **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 → 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

SHS Market in Bangladesh
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 consumers.
- 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.
Thank You

Infrastructure Development Company Limited (IDCOL)
UTC Building (16th Floor), 8 Panthapath, Dhaka 1215
Phone: +880-2-9103883, +880-1711828373
E-mail: nhaque@idcol.org
www.idcol.org