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International Centre for
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at
Independent University, Bangladesh
in partnership with BCAS and IIED

**Building Readiness of the Private
Sector in Bangladesh for GCF
Accreditation**

**Private sector engagement in climate
change action in Bangladesh: creating
an enabling environment**

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DID YOU KNOW?

- The **Green Climate Fund (GCF)** is the largest public-funded global mechanism for delivering climate finance to developing countries.
- **USD \$ 6.9 billion** dollars currently available to fund CCD projects (February 2016).
- The GCF **Private Sector Facility (PSF)** aims to boost private sector investment in adaptation and mitigation activities.
- The PSF will promote the **participation of the private sector** in developing countries, including SMEs

Key takeaway messages

1. Tackling climate change is a key development priority of the Government of Bangladesh, considering the country's extreme vulnerability. Given the high costs of adaptation and mitigation and a challenging fiscal environment, engaging the private sector is critical to scaling up existing investment in Climate Compatible Development (CCD).
2. Private sector assets, operations and supply chains are at risk from a changing climate. Climate change is exacerbating existing risks and creating new ones, hence integrating climate risk management within existing corporate risk management practices makes good business sense, both to protect against potential risks, but also to harness new business opportunities arising from climate change.
3. The private sector is a key driver of economic growth and the Government of Bangladesh aims to increase its involvement in development activities¹. However, the role of the private sector in practice is currently not clearly defined in development planning and climate policy frameworks.
4. The private sector in Bangladesh is already identifying and acting on the market opportunities of climate change; for example in developing and marketing new varieties of climate resilient seeds and selling solar home systems.
5. However, barriers exist that constrain further engagement in CCD, including: information gaps, weak financial markets, capacity constraints and policy/regulatory constraints.
6. The public sector can help overcome these barriers for example by developing and implementing policies supportive of the new markets created by climate change, providing access to data, technical support and low-cost finance as well as fostering public-private partnerships.
7. The Green Climate Fund (GCF) provides an important opportunity to maximise engagement of Bangladeshi private sector by overcoming existing barriers to climate action and investment and unlocking opportunities resulting from a changing climate. This will benefit both the private and public sectors, with the ultimate aim of promoting the transition towards a low carbon climate resilient economy.

Introduction

This policy brief examines the role of the private sector in CCD in Bangladesh. It provides a rationale for the private sector's engagement in CCD, an overview of its current involvement and the barriers that prevent further action. It outlines how the GCF, with USD 6.9 billion available for action on mitigation and adaptation (February 2016), offers opportunities to overcome these barriers. Finally, it provides recommendations for the public sector to create an enabling environment and ensure that public and

private actions on CCD are complementary and effective.

This policy brief is a product of a CDKN project aiming at building readiness of the Bangladeshi private sector for accreditation to the GCF. The first phase of the project focuses on building a business case for the private sector in Bangladesh to engage in CCD and access international climate finance. Alongside desktop research, interviews with 15 key stakeholders from the public and the private sectors have provided insights into the opportunities and barriers to private sector engagement in CCD and the potential for public sector intervention through policy reforms. Further information can be found in a related paper on the [business case for private sector engagement](#).

Why should the private sector engage in climate compatible development?

The rationale for action on climate change is clear: Bangladesh is categorised as one of the world's most vulnerable countries to climate change. The country's geographic location and topography, including dominance of floodplains and low elevation, leaves it highly exposed to extreme events and gradual changes such as sea level rise. Additionally, high population density, poverty levels, fragile infrastructure and a dependence by many on agriculture magnify the risksⁱⁱ. Climate change has therefore a significant impact on the economic growth of the country, with the potential to reverse decades of development gains. It is estimated that if prompt action is not taken at a global scale, the costs of climate change to Bangladesh could amount to an annual loss of 2% of GDP by 2050 and 9.4% of GDP by 2100ⁱⁱⁱ.

Internationally, Bangladesh has a track record of leadership and innovation in climate change management. The Government of Bangladesh has invested significantly in initiatives to adapt to the changing climate and secure the lives and livelihoods of people, having allocated nearly \$400 million of domestic finance to the government-led Bangladesh Climate Change Trust Fund (BCCTF)^{iv}. It has also invested significantly in renewable energy to improve energy access, energy security and promote low carbon development. However, given the high costs¹ of mitigating and adapting to climate change and public budgetary constraints, **engagement of the private sector is required to scale up existing investments in CCD initiatives**. There are several reasons to engage the private sector:

The private sector is an important **source of finance, innovation, technology and risk management expertise** that remains virtually untapped by the public sector in Bangladesh when it comes to climate change.

The private sector is a powerful driver of economic growth; it has been the driving force in transforming Bangladesh from one of the poorest countries in the world into a nation on the verge of achieving middle-income status. The private sector accounted for **74.55% of total investment in the national economy** between 2013 and 2014^v. Given the significant risks that climate change poses to economic growth, it is critical to

¹ The World Bank estimated the scale of total finance required for adaptation in Bangladesh at USD \$5.7 billion by 2050, which is likely to be a gross under-estimate of the cost of building resilience to a changing climate in such a vulnerable country. Mitigation investment needs are less certain, but costs of key mitigation actions have been estimated at around USD \$27 billion between 2011 and 2030 Source: World Bank (2011). *The Cost of Adapting To Extreme Weather Events in a Changing Climate*. Washington: World Bank.

involve private economic actors in managing these risks.

The private sector itself faces significant exposure to climate risk through its assets, operations and supply chains, and thus has **considerable reason to invest in climate risk management**, both to protect itself but also to harness new business opportunities arising from a changing climate^{vi}.

Developing new products and services to tackle climate change can also enhance **the competitiveness of the national economy^{vii} at a global level**.

Who is the private sector in Bangladesh?

It is important to recognise that the private sector in Bangladesh is very diverse, and includes large national corporations, multinational companies, small and medium-sized enterprises (SMEs)^{viii} and private investors, among others. In Bangladesh particularly, SMEs are the backbone of the national economy, they are large in aggregate size, and thus have significant capacity for employment generation, technological innovation and development.

Where do we currently stand?

Current policy and regulatory context

The Government of Bangladesh has adopted a pro-market stance in the pursuit of its short and long-term development objectives, where the private sector is recognised as the primary engine of growth, owning and operating production systems and accounting for most of the investment of the country.^{ix} At the same time, climate change policy and regulations are well advanced and articulated; tackling the wide-spread impacts of climate change is one the main priorities of national development planning (see **Error! Reference source not found.**).

Figure 1: Climate change policy and planning frameworks in Bangladesh



However, the importance assigned to the role of the private sector in the country's development objectives is not well articulated in climate change policy frameworks.

A review of public policy documents in the areas of development planning, climate change, environment, energy, agriculture shows that the role of the private sector is vaguely outlined, if mentioned at all. The most articulated provisions are found in public policy documents in the fields of agriculture, energy and infrastructure, without explicit links to climate change.

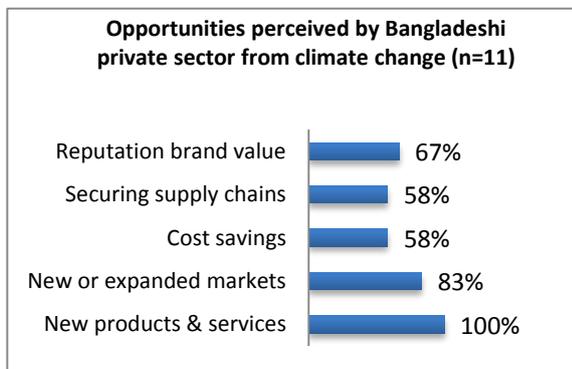
In light of its development policy and planning objectives, the Government of Bangladesh is indeed aware of the potential for private sector engagement and as articulated in its 2014 Economic Review, aims to “deepen the involvement of private sector in the overall development activities”^x. These development activities must be climate compatible in order to manage the multiple climate risks that face Bangladesh's economic and social sectors. As a result, an **integrated approach to both planning and implementation^{xi}**, involving

both public and private actors, will be critical.

Current private sector engagement

The drivers for private sector engagement in adaptation and mitigation are well studied and were validated by interviews with selected companies in Bangladesh. Responses from ten companies, a business association and a special purpose agency showed that the private sector sees opportunities in engaging in CCD (see Figure 2 below for further detail).

Figure 2: Opportunities for private sector engagement (Source: interviews)



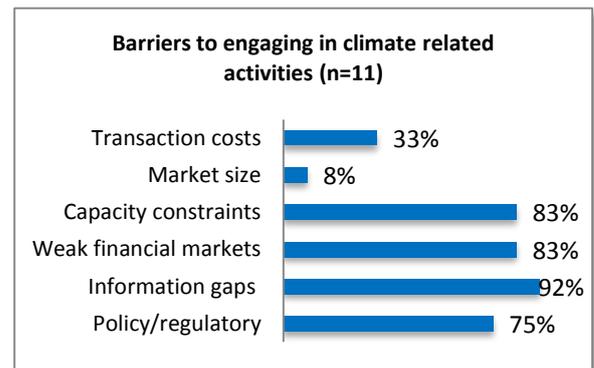
The private sector is already responding to these drivers and taking advantage of these opportunities; for example Advanced Chemical Industries (ACI), Lal Teer and PRAN invest in developing and marketing new varieties of climate resilient seeds and other products. Rahimafrooz Renewable Limited has created a business from selling solar home systems. However, many barriers and constraints limit the potential of these actions and the societal resilience outcome.

Barriers to private sector engagement in CCD

Interviews showed that a number of barriers exist to further capitalising on the opportunities of climate change, as shown in the figure below. The most significant barriers are information gaps, shallow financial markets and lack of access to low cost

finance, capacity constraints and policy/regulatory barriers. Very few perceived market size as a barrier, underlining the private sector's understanding of the commercial rationale for engaging in CCD, in both mitigation and adaptation activities.

Figure 3: Barriers to private sector engagement (Source: interviews)



The public sector can help overcome these barriers and create an enabling environment. Supportive policies, mechanisms for implementation, subsidies, access to data, technical support and collaborative opportunities were mentioned by respondents as areas where public sector support is needed. While a comprehensive set of measures by the government will be required to enhance the enabling environment, the GCF can also provide solutions to help overcome some of the existing barriers to investment in CCD.

Opportunities offered by the GCF to address barriers to climate action

The need to catalyse private sector engagement at the global scale is reflected by the focus of the GCF on maximising private sector engagement through a dedicated PSF, which aims to - directly or indirectly - finance private sector climate projects in developing countries.

Facilitated by the Private Sector Advisory Group (PSAG), the PSF seeks to support private sector to engage in climate relevant actions through two alternative mechanisms (see Figure 4)^{xii}.

First, GCF seeks to mobilise funds at scale from institutional investors such as commercial banks, investment funds, insurance companies, pension funds and sovereign wealth funds. To engage these actors the fund will develop a range of investable products such as green bonds, commercial papers, syndications that institutional investors can benefit from. Second, GCF aims to use public finance to work with local private entities particularly small and medium enterprises (SMEs) through its SME pilot programme. The PSF will issue Request for Proposals (RFPs) to all accredited entities, both multilateral implementing entities (MIEs) and national implementing entities (NIEs)². Support to SMEs, with a focus on adaptation projects, includes investments in supply chain management that incorporate climate adaptation risk management, and promoting guarantees to enable bank and supply-chain debt rescheduling in the face of business disruptions resulting from temporal climate change impacts.

Figure 4: Options for private sector to engage with GCF



² Implementing entities are the national, regional and multilateral institutions accredited by the Fund to receive direct financial transfers from the Fund in order to carry out adaptation projects and programmes.

How can the Bangladeshi private sector benefit?

Access to low-cost finance was one of the primary barriers mentioned by interviewed private sector respondents; the GCF thus offers an opportunity to overcome this barrier. Having access to the GCF funding would allow the Bangladeshi private sector to engage in adaptation and mitigation activities, scale-up projects, boost innovation potential, reduce vulnerabilities and harness untapped opportunities.

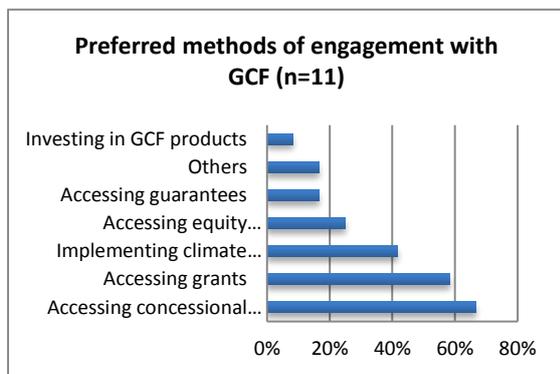
The private sector through the PSF can directly access climate funds by applying for accreditation as NIEs or as Executing Entities (EEs) who can use funds via an accredited entity. Currently, six public sector entities have been shortlisted as potential NIEs in Bangladesh.

Only Bangladeshi public sector entities have sought accreditation to the GCF to date. However, it is important that more private entities seek accreditation, as they have an important role in delivering innovation and harnessing market opportunities that help tackle climate change. It is indeed only by leveraging the significant resources and implementation capacity provided by the private sector, that large-scale investments in CCD will be possible, hence promoting a paradigm shift of the whole economy.

Interest of Bangladeshi private sector in accessing the GCF

Recognising the barriers to engage in climate relevant actions, a range of private sector actors are interested in harnessing the opportunities that GCF may offer, although many lack knowledge of how the GCF processes work. Fifty percent of the respondents interviewed were either partially or not aware about the GCF, whilst nearly 80% of them were interested to access the Fund.

Based on data gathered from interviews, concessional finance and grants were expressed as primary instruments of interest to the private sector for accessing the GCF (corresponding to 54% of the respondents). In addition, private sector actors also seek to harness the market of climate relevant goods and services that might result from projects funded by the GCF (corresponding to 18% of the respondents). Capital market players see particular interest in accessing grants in the early stages of institutional investment, specifically to enhance the nascent capital market in Bangladesh (GreenDeltaCap, 2016). See Figure below for more detail.



Private sector actors were also interested in applying as an intermediary or participating in the submission of proposals to the GCF as an executing entity, but lack understanding about the Fund's accreditation and project submission procedures and requirements.

Recommendations for policymakers

The Government of Bangladesh can take a variety of actions to support engagement of the private sector in CCD. A comprehensive set of measures is required, as follows:

- Develop a well-defined road map for the involvement of the private sector in development planning and climate change policy frameworks, through

consultation with the private sector. Integrate private sector considerations into climate-related policies and plans by including specific roles and responsibilities, concrete actions and timelines for specific actors;

- Focus on specific sectors which have both a better developed role for the private sector in policy frameworks as well as an importance in climate policy framework (eg. Bangladesh's Intended Nationally Determined Contribution or INDC). This includes the energy, infrastructure and agriculture sectors. These sectors present an opportunity to unlock climate finance with quicker and more meaningful impacts;
- Increase public support to raise awareness and build capacity in the private sector for engagement in CCD and access to the GCF; for example support training courses, workshops, toolkits, online resources, media campaigns etc.;
- Integrate climate considerations into public procurement policies; this provides an immediate market opportunity for the private sector, thus stimulating the development of products and services that contribute to CCD;
- Support the development of the capital market and capacity of financial service providers to develop longer term financial products. This will allow private actors to pursue more long term goals, including investment in CCD;
- Raise awareness by promoting the business case for private sector engagement in CCD; focus on the market opportunities of both mitigation and adaptation and showcase examples of success stories ([see Business case paper](#));
- Raise awareness among public and private actors that climate change action, particularly adaptation, the greatest need in Bangladesh, is not only the

responsibility of the public sector; the private sector is equally exposed to climate risks and can provide the innovation, technology and risk management capabilities to devise solutions;

- Promote and initiate public-private partnerships in climate-sensitive sectors. Most first-mover businesses on climate related initiatives had financial and/or technical support from the public sector and/or development partners; and,
- Develop strong partnerships with business associations and standards bodies that represent the private sector, such as the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), Business Initiative Leading Development (BUILD), Small and Medium Enterprise Foundation (SMEF); these are the bodies that businesses listen to. Also, raise awareness among credit rating agencies such as the Credit Rating Agency of Bangladesh (CRAB) about the importance of climate risk, which could incentivise banks and financial service providers integrate climate risk considerations into their lending strategies and portfolios.

Interviewees

| Interviewed Organisations |
|---|
| Rahimafrooz Renewable Energy Ltd. |
| Grameen Shakti |
| Green Delta Insurance |
| Advanced Chemical Industries (ACI), ACI Agribusiness & ACI Agrolink Limited |
| PRAN |
| Lal Teer Seed Ltd |
| BRAC Bank |
| Mutual Trust Bank Limited (MTBL) |
| Green Delta Capital |
| Federation of Bangladesh Chamber of Commerce and Industry (FBCCI) |
| Small and Medium Enterprise Foundation (SMEF) |

| |
|--|
| Economic Relations Division (ERD), Ministry of Finance |
| Infrastructure Development Corporation Limited (IDCOL) |
| Bangladesh Bank |
| Ministry of Environment and Forests (MOEF) |

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

ⁱⁱ IMF Country Report No. 16/28

ⁱⁱⁱ Bangladesh Could See Climate Change Losses Reach Over 9% Of GDP – Report (2014) Available from: <http://www.adb.org/news/bangladesh-could-see-climate-change-losses-reach-over-9-gdp-report>

^{iv} Bangladesh Intended Nationally Determined Contributions (INDC), September, 2015, Ministry of Environment and Forests

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

^{vi} PricewaterhouseCoopers (PWC), 2013, Stimulating private sector engagement and investment in building disaster resilience and climate change adaptation. Recommendations for public finance support.

^{vii} A Strategy to Engage the Private Sector in Climate Change Adaptation in Bangladesh, International Finance Corporation, 2010

^{viii} The Industrial Policy of Bangladesh (2010) defines small and medium enterprises as: “In manufacturing, small industry will be deemed to comprise enterprises with either the value (replacement cost) of fixed assets excluding land and building between Tk. 5 million and Tk. 100 million, or with between 25 and 99 workers,” and “medium industry will be deemed to comprise enterprises with either the value (replacement cost) of fixed assets excluding land and building between Tk. 100 million and Tk. 300 million, or with between 100 and 250 workers.”

^{ix} Current & Future Role of Private Sector in the Overall Economic Development of Bangladesh – Asif Ibrahim Chairman Business Initiative Leading Development (BUILD) & Former President, DCCI (2011 & 2012)

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

^{xi} PricewaterhouseCoopers (PWC), 2013, Stimulating private sector engagement and investment in building disaster resilience and climate change adaptation. Recommendations for public finance support.

^{xii} Smith and Rai (2015) Comments and Analysis:
Private Sector Facility Review Note for the 9th
meeting of the Green Climate Fund (GCF). IIED.