Climate & Development Knowledge Network (CDKN)

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

## Learning Paper

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## 1. Summary

This report aims to inform on the lessons learnt and key challenges faced in the implementation of a project funded by the Climate Knowledge and Development Network (CDKN) to build the readiness of the Bangladeshi private sector to access the GCF. It is aimed at development partners supporting governments and institutions from developing countries in accessing the Green Climate Fund (GCF), the GCF secretariat and its National Designated Authorities (NDAs) or Focal Points (FPs).

The specific objectives of the project were:

(1) To generate awareness about climate relevant actions amongst Bangladeshi private sector;
(2) To map relevant private stakeholders that can potentially engage with the GCF and assess their capacities as potential direct access Implementing Entities (IEs) or Executing Entities (EEs) for the GCF; and,
(3) To build capacities of entities where gaps are identified, focusing on project preparation.

**Whilst the business case for action on climate is already clear for many businesses, there is a need to bridge the language gap.** Getting businesses on board first requires making the case for action on climate. This implies speaking their language; in terms of profit and loss, revenue and market share, risk and opportunity. Words like "adaptation", and "mitigation" do not mean a great deal to businesses. However, in order to fill in a funding application, they have to learn the language of the Fund.

**Many private organisations confirmed they are not willing to invest internal time and resources to develop the project proposal, but instead envisage contracting an external consultant to develop the project.** As such, the entities do not necessarily need to become experts in designing GCF projects. Instead, the capacity building support should be focused on generating/refining project ideas with entities being at different stages of project development. It was also important to provide strategic and practical guidance on how to approach potential existing IEs with whom they have an established relationship, engage with Economic Relations Division (ERD) of the Ministry of Finance and start approaching to pitch their project ideas.

**Working with the private sector requires a different approach, because of commercial confidentiality issues and tensions between commercial versus development interests.** Some of the entities we have engaged with are also direct competitors to each other. This required a completely different engagement approach by our project team in conducting the institutional assessment and delivering capacity building support on project preparation, by ensuring confidentiality of the results of the institutional assessment and providing a safe and private platform to private companies to present and discuss their project ideas and concepts.

**While the project has built increased awareness amongst the NDA about the role that domestic private sector can play in accessing the GCF, reservations still remain.** Although significant efforts have been invested in engaging with ERD throughout the project, their reservations regarding the objectives of the project have been a constant challenge. While designing the project, the team worked on securing ERD's buy-in by establishing realistic expectations from them project onset, in

particular by extending Phase 2 to identify potential EEs that could develop project proposals, beyond potential IEs that could seek accreditation. However, their expectations should have been integrated earlier by CDKN while designing the project, integrating their aims for the programme into the project goals and activities.

**Developing evidence on the strengths and benefits of engaging with the Bangladeshi private sector was clearly not sufficient; time could have been dedicated during the project for engagement with ERD, which might have include capacity building itself**. While the institutional assessment has however showed that the readiness of many of the commercial banks is greater than expected in terms of the fiduciary standards, and environmental and social policies (as part of the GCF accreditation requirements to become IEs), even with the evidence provided, it has been challenging to convince ERD this is the case, because of misconceptions regarding the motives of commercial banks for investing in climate change. This is a clear illustration of the tensions between climate and commercial objectives.

**Under its mandate as the GCF's NDA for Bangladesh, it is recommended that ERD continues providing capacity building and awareness raising activities to support the private sector in developing transformational climate change projects**, in close collaboration with the Ministry of Environment and Forestry (MoEF) and other relevant ministries.

**In addition, ERD should work in close collaboration with business associations to raise awareness about the business case for climate investment and encourage exchange of information on the business opportunities around climate change, as well as ways to access international climate finance,** including the GCF. A more collaborative relationship between ERD and the private sector would allow the private sector voice to be heard, especially when developing the Country Programme for the GCF. This would ensure domestic capital, as well as important bridges to international financing sources do not remain locked.

**The GCF processes are clearly not adequate for private sector:**

- The application processes for micro-scale projects should be simplified as the complexity and the length of the project development process acts as a barrier to private sector engagement.
- Greater clarity is required about how the Private Sector Facility (PSF)- as the primary way in which the GCF is meant to increase private sector engagement- will be made fully operational, in particular how the institutional investment component will operate in the future.
- GCF should also provide greater guidance on its complex project requirements and terminology. The GCF project toolkit prepared under the project, could be improved and expanded for this purpose.
- GCF's PSF should finally be more proactive in sensitising the NDA/ FPs about the role that domestic private sector can play in accessing the GCF and in turn contribute to their national priorities on climate change.

## 2. Introduction

Climate change puts at risk decades of development gains in Bangladesh. 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 2100[i]. Internationally, Bangladesh has a track record of leadership and innovation in climate change management. The Government of Bangladesh has already invested significantly in initiatives to adapt to climate change and secure the lives and livelihoods of people, allocating nearly $400 million of domestic finance to the government-led Bangladesh Climate Change Trust Fund (BCCTF)[1]. It has also invested in renewable energy to improve energy access, energy security and promote low carbon development. However, given the high costs[1] of mitigating and adapting to climate change and public budgetary constraints, engagement of the private sector is required to scale up existing investments in climate compatible development.

A consortium led by Acclimatise in association with the International Centre for Climate Change and Development (ICCCAD) and the International Institute of Environment and Development (IIED) was commissioned by CDKN to explore the business case for the private sector to engage and invest in climate related activities, recognizing the yet untapped potential for the private sector to engage in climate compatible development in Bangladesh and potential funding opportunities provided by the GCF and its dedicated PSF.

The specific objectives of the project were:

- To generate awareness about climate relevant actions amongst Bangladeshi private sector;
- To map relevant private stakeholders that can potentially engage with the GCF and assess their capacities as potential direct access implementing entities or executing entities for the GCF; and,
- To build capacities of entities where gaps are identified, focusing on project preparation.

This report provides an overview of the learnings of the project and its key findings.

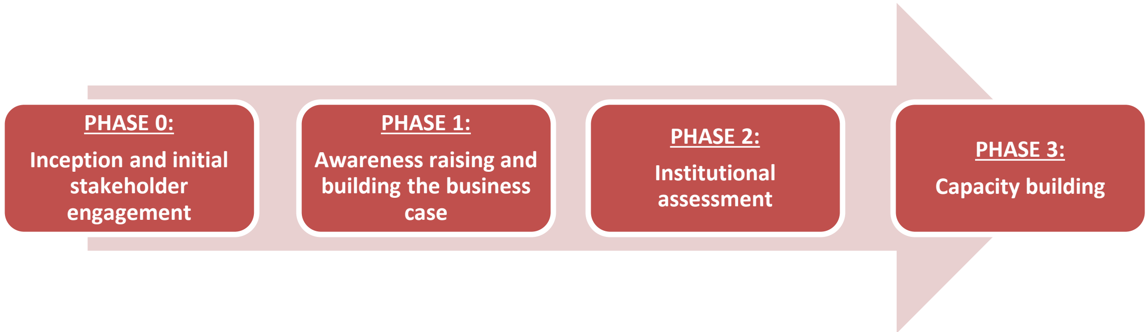


**Figure 1: Overview of the 4 phases**

[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.*

## 3. Key highlights of Phase 1: The role of the Bangladeshi private sector for climate action

"Private sector engagement" has become a buzzword in development and climate practitioners' and policymakers' vocabulary. For public decision makers facing constrained public budgets and rising costs of managing climate change, engaging the private sector – its ingenuity, skill and financial resources – is an important strategy. But what's in it for the private sector? Climate change poses both risks and opportunities to the private sector: business assets, operations and supply chains are at risk from climate change, threatening revenue and cost streams. It also presents opportunities, to develop and market new goods and services, increase efficiencies, protect supply chains and gain reputational benefits. Those that move first will be able to develop a competitive advantage by responding to areas that are already important to their business.

Based on the key findings of Phase 1, this section first presents a brief overview of the Bangladeshi private sector, followed by the rationale for private sector engagement in climate action. It then identifies the business case for private sector investment in climate change and barriers to climate-related investment by the private sector, followed by ways to overcome them.

### 3.1. Who is the private sector?

In order to engage "the private sector", it is important to think about who exactly we mean by this broad term, which encompasses a range of actors from private households, smallholding farmers, Small Medium and Enterprises (SMEs), corporate conglomerates and global multinational companies. SMEs[ii] alone are the backbone of the national economy, accounting for more than 99% of private sector[iii] industrial establishments and 70%–80% of the non-agricultural workforce.[iv]

Each has different objectives, capacities, risk perceptions and incentives, resulting in a different case for action. In developing the business case in Bangladesh, a targeted, sectoral approach was adopted to narrow the focus and produce a relevant and motivating case for action. Our study focussed on four sectors: agriculture, energy, insurance and financial services. Within each of these sectors it was clear that there were first-movers already undertaking climate-related initiatives, which meant information and examples of best practice were readily available. This provided critical evidence for the business case – it showed that some Bangladeshi businesses are already harnessing the opportunities presented by climate change.

### 3.2. Why do we need to engage with the private sector in climate action?

In the country's Intended Nationally Determined Contribution (INDC), it is stated that Bangladesh is adopting a two-fold strategy against climate change. The country's primary goal is to increase resilience to the impacts of climate change – which are already affecting the livelihoods of its population. At the same time, Bangladesh is working to achieve lower carbon sustainable development. The focus of the INDC is on the energy sector to mitigate emissions in the power, transport, and industry sectors – each representing opportunities for future private sector investment.

However, being a minor contributor to global emissions (0.35% of total emissions) the greatest investment opportunities are to be found in adaptation and resilience solutions.

The costs of mitigating and adapting to climate change[v] are high – in the INDC it is estimated that the total implementation needs are approximately of $69b between 2015 and 2030, $42b for adaptation activities and $27b for mitigation. Given the public budgetary constraints and the high costs, the engagement of the private sector is required to scale up existing investments in climate change development initiatives and to meet the INDC targets. The private sector produces most of the goods and services consumed by the society, and provides most of the capital investment. As such, private companies have the commercial savvy, innovative skill set and technical capabilities to devise the transformational solutions required by climate change.

### 3.3. But what's in it for the private sector?

Climate change poses both risks and opportunities to businesses. Businesses are the backbone of the Bangladeshi economy and have already observed a number of climate change impacts on their business activities. As such, many companies now see commercial sense in taking action to manage and mitigate their risks as well as harness potential business opportunities linked to climate change. Private companies are aware that to be successful, they must adapt to constantly changing market conditions and they are gaining awareness of the opportunities brought about by climate change, such as new products and services, new and expanded markets, cost savings, building more resilient supply chains and creating reputational benefits[vi].

**Agriculture** is a critical sector for the Bangladeshi economy, accounting for 16% of GDP and employing 47% of the country's labour force[vii]. Agriculture is inherently vulnerable to the impacts of climate variability and change, due to the natural connections and dependencies that exist between climatic conditions, plant development and animal health. Businesses in the agriculture sector know all too well that erratic rainfall trends, flooding, sea level rise and salinization, and increasing temperatures directly affect agricultural production and yields, along with food security and livelihoods. Climate change is expected to lead to significant agricultural losses, corresponding to approximately 3.1% of GDP estimated annually between 2005 and 2050. These losses will amount to USD 36 billion in lost economic value.[viii] A variety of actors make up the agriculture sector in Bangladesh, from smallholding farmers to large conglomerates; early mover identification includes agribusiness conglomerates and insurance providers.

**Agribusiness** conglomerates are investing in Research & Development (R&D) to develop new solutions and technologies that address issues faced by farmers, such changes in the nutrient balance, moisture levels and salinity of soils, and in some areas, changing precipitation patterns leading to the need for early harvest. For instance, Advanced Chemical Industries (ACI) Agribusiness & ACI Agrolink Limited have identified and pursued significant opportunities for the development of new seed varieties and fertilisers that are resilient to changes in climate, as well as agricultural machinery that can reduce total harvesting time when early harvests are required. Lal Teer Seed Ltd is working on the development of resilient (saline resistant) varieties of vegetable seeds and production technologies for high salinity affected coastal areas of Bangladesh for adaptation aimed at livelihood improvement, food and nutrition security of local communities.

**Insurance companies**, such as Green Delta Insurance, are developing agriculture weather index based insurance products. Green Delta Insurance has entered into an agreement with PRAN, in collaboration with the International Finance Corporation (IFC) (one of Green Delta's investors), to develop and launch this pioneering product in Bangladesh that aims to insure cassava farmers for damages due to low temperatures and excessive rainfall. Farmers are contributing in terms of labour and land and are aware of the insurance coverage. PRAN is cultivating 5,000 acres of cassava and has plans to scale up to 12,000. They are monitoring the results and based on this will decide whether or not to increase the premium. IFC provided technical expertise by designing the actuarial product.

The **energy** sector is a critical sector for Bangladesh particularly from a climate change and developmental perspective. The energy sector is both a contributor to GHG emissions as well as being vulnerable to climate change impacts. In addition, increasing access the electricity network is a key developmental priority[ix]. Approximately 70% of the country significantly rely on fossil fuel based energy with a majority of the electricity coming from gas-powered thermal stations and diesel generators used substantially to meet the increase in demand during summer months[x]. Although the overall GHG emissions of the country remain relatively low in comparison to its neighbouring countries, the share of energy sector in GHG emissions is substantial (i.e. nearly 30% to total GHG emissions). Bangladesh's INDC recognises the power sector as one of the focus sectors to meet the target of 5% reduction in GHG by 2030[xi]. Investments in renewable energy and energy efficiency measures can help to achieve this target. So far, the country has significantly invested in renewable energy projects in rural areas through projects such as Solar Home Systems (SHS), solar micro grids and solar irrigation pumps[xii]. Targets are also set for grid based technologies such as utility scale solar and wind. Despite great prospects, utility scale projects have been less successful in harnessing renewable sources of energy due to barriers such as access to land, low feed in tariffs and policy uncertainty regarding grid extension. Prominent private sector actors in the renewable energy and energy efficiency sector include the commercial financial (banking) sector such as Brac Bank and City Bank; social enterprises or Micro Financial Institutions (MFIs) such Grameen Shakti; renewable energy manufacturers and suppliers; and the nascent utility investment community in renewable energy generation. Climate change presents substantial opportunities to harness the renewable energy potential of the country both in the off grid and grid based markets.

Along with changing market and regulatory demands, **commercial banks** providing low cost loans to SMEs identified the development of new products and services and new or expanded markets as the primary opportunities presented by climate change. As Bangladeshi businesses in other sectors start identifying and investing in climate related activities, they will require finance, in turn creating new demand and opportunity for banks and financial institutions. Banks have primarily identified tangible opportunities linked to energy, for example in financing energy efficiency and renewable energy activities. MTBL and BRAC Bank have expanded into new markets such as energy efficiency, brick kiln industry, bio gas and solar irrigation pumps. For Green Delta Capital, which has observed increased investor demand for new climate related products and services: "t*he demand is increasing, three of* *our clients are already pitching to us that if you give low cost funding then we will change our conventional factories into green buildings, with LEED certifications."* Demand can also come from the supply side of the market. Where low-cost funds are available for climate related purposes, such as drip irrigation or energy efficiency, then clients have an incentive to take up these investments. BRAC Bank has noted that demand exists, citing for example their Planet Solutions Loans, targeted at textile manufacturers or technology service providers who may be eligible for finance in water and energy efficiency improvements. However, affordable finance remains an issue.

Grameen Shakti and Rahim Afrooz are both investing in a wide range of renewable energy technologies including solar home systems, with more recently expanding markets in solar irrigation pumps. The business model is new but they are scaling up.

### 3.4. What is stopping the private sector from doing more?

As part of this project, we conducted 16 in-depth interviews involving both private and public sector stakeholders to identify the barriers to private sector engagement in climate investments. 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 companies perceived market size as a barrier, underlining the private sector's understanding of the commercial rationale for engaging in climate investment.

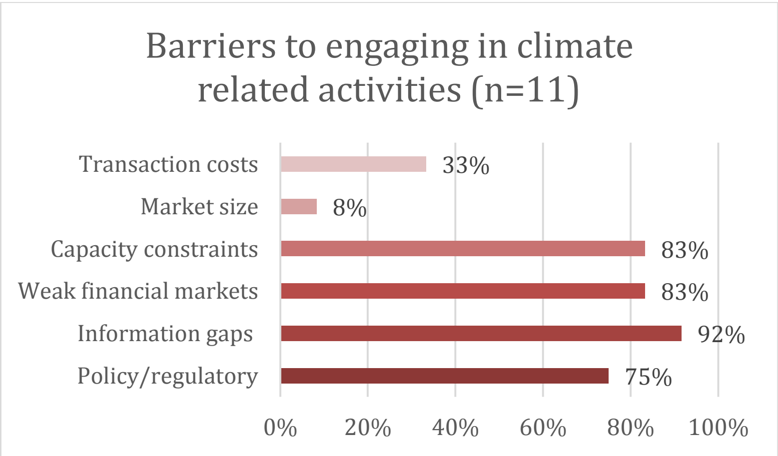


**Figure 2: Barriers to private sector engagement (Source: Steeves J., Fayolle V., Odianose S. et al. *Business case for the Bangladeshi private sector to invest in climate change and access international climate finance,* June 2016)**

### 3.5. How can the Government of Bangladesh help overcome these barriers?

The Government of Bangladesh can take a variety of actions to support engagement of the private sector in climate compatible development. 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 where private sector has a key role to play in implementing policy frameworks. This

includes the energy, infrastructure and agriculture sectors. These sectors present an opportunity to encourage climate-related investments with quicker and more meaningful impacts;

- 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 climate compatible development;
- 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 climate compatible development;
- Raise awareness by promoting the business case for private sector engagement in climate compatible development; focus on the market opportunities of both mitigation and adaptation and showcase examples of success stories. 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;
- Raise awareness amongst credit rating agencies such as the Credit Rating Agency of Bangladesh (CRAB) to incentivise banks and financial service providers to integrate climate risk considerations into their lending strategies and portfolios; and,
- Encourage business associations and standards bodies that represent the private sector, to create a platform for dialogue among Bangladeshi private sector to raise awareness about the business case for climate investment, going beyond the first movers identified in this project. The purpose of this platform would be to encourage exchange of information on the business opportunities of climate change, as well as ways to access international climate finance.

While a comprehensive set of measures by the Government of Bangladesh will be required to enhance the enabling environment, new sources of finance are now available to support investment in these new markets, products and services. The difficulty of accessing concessional sources of finance is one of the major barriers hindering companies from harnessing new market opportunities. Climate relevant investments in low income markets are often considered to be high risk and generating a low financial return. As such, risk averse commercial investors are less willing to spend time, build relationships and market demand required to generate a decent return, requiring more 'patient' or 'concessional' forms of capital instead.[xiii] The GCF, which has a specific focus on the private sector, can provide solutions to help overcome some of the existing barriers to climate investment.

## 4. Key highlights of Phase 2: The opportunities provided by the GCF to Bangladeshi private sector

As the world's largest climate fund with US$10.3 billion in pledged resources, the GCF can play an important role in providing access to low cost finance to the Bangladeshi private sector and in turn, help them unlock climate-related business opportunities.

Access to low cost and long term finance is one of the main barriers for private sector investment as outlined above. GCF funding in the form of grants can be used for early stages of market development and capacity enhancement while concessional loans can be used to scale up existing climate-related investments. It can also be used to subsidise interest rates with long term repayment periods for on-lending by commercial banks. In addition, the GCF can help address the market failures that presently inhibit many climate change business opportunities in Bangladesh, by for instance, supporting policy reform to provide clear policy signals for purchasing power agreements in the energy sector, grid extension planning for mini grid investors or making crop insurance mandatory in the case of the agricultural insurance sector.

### 4.1. The Private Sector Facility of the GCF

The GCF established a dedicated PSF, which aims to - directly or indirectly - finance private sector climate projects in developing countries. The PSF seeks to maximise private sector engagement in climate relevant actions through two alternative mechanisms, which address the supply side and the demand side of private sector financing – institutional investing, and small and medium sized enterprise financing. First, by mobilising funds at scale from institutional investors such as commercial banks, investment funds, insurance companies, pension funds and sovereign wealth funds. Second, by using public finance to work with local private entities particularly micro, small and medium-sized enterprises (MSMEs) through its MSME pilot programme.

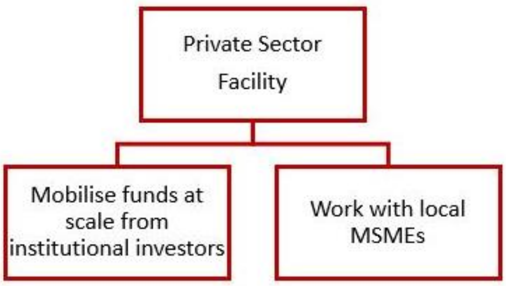


**Figure 3: The two core areas of the GCF's PSF**

### 4.2. How can the private sector access the GCF?

Private sector organisations can access GCF funding as an IE or as an EE by submitting a spontaneous proposal or responding to a Request for Proposal (RfP).

**Implementing Entities (IEs)** act as country's fund programme managers and are accountable directly to the GCF's Board for the overall management of projects, as well as for the financial, monitoring and reporting aspects of project activities. In addition, IEs can be intermediaries which administer grants and loans while blending funds with their own and others.

To become an IE, a private company is required to seek accreditation, by demonstrating its compliance with the Fund's fiduciary, environmental and social, and gender policies. This finance enables private sector entities to manage climate change projects or programmes, provide grants to third parties and/or lend financial resources to third parties, potentially even blended with financial resources of other investors and donors.

**Executing entities (EEs)** perform implementation responsibilities of the projects funded by the GCF. EEs are not able to access the GCF's finance directly, but can develop fundable projects, submit and implement them under the overall supervision and oversight of an existing IE. Although EEs are still required to perform in-line with the requirements of the GCF, they are not required to surpass the stringent accreditation standards. An EE can access these funds either by submitting spontaneous proposals or by responding to a RfP via an existing IE.

A private company looking for more immediate benefits may be more interested in becoming an EE by submitting a project proposal (working under the supervision of an existing IE), whilst others may seek to develop the necessary capacities to access the GCF directly by becoming accredited as an IE.

As of December 2016, the GCF has accredited 48 entities who can directly access the GCF's resources. Of these, 25 are international organisations, through which the Bangladeshi private sector can readily work through as an existing IE.

### 4.3. Private sector entities in Bangladesh that can engage with the GCF

As part of the second phase of the project, private sector entities that can potentially engage with the GCF were identified with a view to assess their capacities as potential direct access IEs or as potential EEs. To do so, we have considered under the institutional investor category, private sector entities who are primary sources of capital, including: commercial banks, investment funds, insurance companies, pension funds, and sovereign wealth funds, based primarily on their performance in Green Banking, international fiduciary standards, and interaction with other climate funds. Under the MSME financing category, we have considered core actors who have engaged with SMEs, as well as those SMEs themselves who have engaged in climate compatible development. Additionally, we also considered private commercial banks and other financial institutions funding these SMEs. We also added the third category of large corporate organisations that are delivering climate related goods and services, such as in the energy, waste management and agribusiness sectors.

Out of 54 mapped out in total, 28 private sector entities were considered and classified under these three categories, as presented in Figure 4 below. All public sector entities, associations and one private sector organisation identified during the first phase were removed, given the project focus on the private sector and following consultation with ERD.

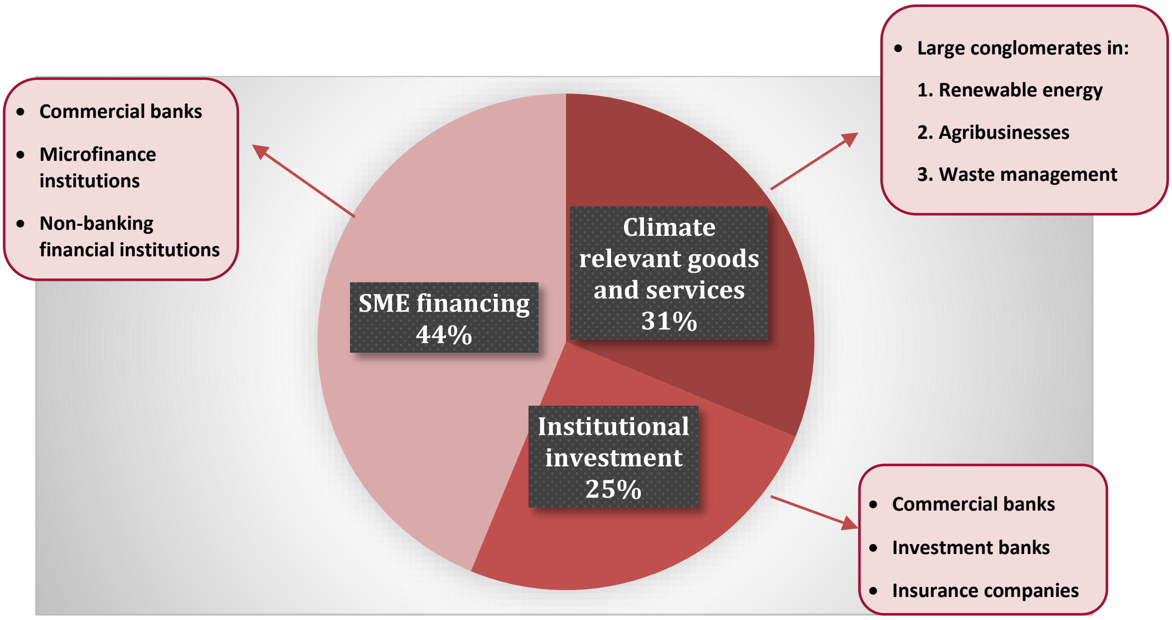


**Figure 2: Role of the 28 mapped Bangladeshi private sector entities**

### 4.4. Overview of the institutional capacities

Out of these 28 entities, only 9 were selected for self-assessment (see table below), with 6 entities assessed for their institutional capacities to become accredited as direct access IEs; 3 entities assessed their capacity to solely design and implement climate change projects that are in-line with the investment focus of the GCF, as EEs; and, 2 entities assessed for their capacity to both become accredited (as a direct access IE) and design and execute climate change projects (as an EE).

**Table 5: Shortlisted entities and their potential role for engagement with the GCF**

| Organisation | Intended engagement with the GCF |
|---|---|
| **ACI** | IE and EE |
| **BRAC Bank** | IE and institutional investing |
| **City Bank** | IE |
| **GDCL** | IE, and institutional investing |
| **Grameen Shakti** | EE |
| **IDLC Investment** | IE, and institutional investing |
| **Lal Teer** | EE |
| **Rahimafrooz** | IE and EE |
| **Solaric** | EE |

While the detailed results of the institutional assessment are confidential, a high-level summary of the key highlights is provided below.

**Out of the six entities considered for accreditation as a potential direct IE, three from the financial sector displayed particular strengths in:**

- **Experience with international finance for climate change**: Entities have accessed the Global Climate Partnership Fund (GCPF) and Pilot Programme for Climate Resilience (PPCR), respectively. All three financial institutions have also accessed international finance for on-lending specifically to SMEs.

- **Good alignment with basic fiduciary functions:** various national and sectoral regulations require these entities to align with the majority of the GCFs basic fiduciary standards, such as by the regional Stock Exchanges, Bangladesh Bank and the Bangladesh Securities and Exchange Commission (BESC). Some entities have also sought additional international standards, such as certification with the International Standards Organisation (ISO). All four entities displayed strong transparency and accountability capacities, with their relevant policies, procedures and guidelines outlined within their publicly available annual reports. A few entities are also performing in-line with industry best practice, aligning with the Global Alliance for Banking Values (GABV) and the Global Reporting Initiative (GRI).
- **Strong mandatory environmental and social (E&S) regulations**: As a result of national regulations from Bangladesh Bank, commercial banks and other financial institutions are required to implement Environmental and Social Management Systems (ESMS), including the assessment of E&S risk during credit appraisal. These requirements set a high industry benchmark pushing the financial services sector towards the standards of the IFCs Performance Standards (PSs). Some of these entities have proactively sought international capacity support to develop their ESMS. Non-financial institutions are not governed by such strong national regulations, but in the instance of an entity, its experience with the PPCR has required them to incorporate the IFC PSs into this project, they are also signatory to the UN Global Compact and have certification to ISO14001 for environmental management.

Two entities displayed gaps in the required GCF accreditation standards. Both required improved track records in accessing and utilising international financing for climate change projects and/or investments. Both entities also do not presently possess the necessary national licenses to undertake their planned activities of on-lending and blending.

**The five private sector entities from the agriculture and renewable energy sectors assessed for their ability to design, implement and evaluate climate change projects in-line with GCF requirements (acting as potential EEs), displayed particular strengths:**

- **Highly aligned with the GCFs investment and results areas**: in addition to working with SMEs, all entities past project track records and proposed projects displayed strong alignment with the GCFs eight results areas, primarily in reduced emissions from low carbon generation, and increased resilience to health, well-being, and food and water security. Under discussion, entities were also able to identify how their climate change projects provided clear paradigm shift potential and sustainable development co-benefits, including gender benefits.
- **Entities display project management capacity**: Entities displayed strong organisational management capacities, with certification to ISO14001 and ISO9001 for Quality Management Systems, providing a strong base to develop bankable and financially sustainable projects with the GCF. In addition, entities have experience in financial appraisal conducting market research, and project monitoring and evaluation (M&E) – whether this be for international or

domestic donors. Some also have strong international financing experience from a range of Development Finance Institution (DFIs).

In a nutshell, the institutional assessment has shown that in meeting some of the GCF fiduciary requirements (e.g. the redress mechanism and investigation functions), ensuring reports are made available to the public is not common practice amongst the private sector.

Some of the entities we have engaged with are also direct competitors of each other. This required a completely different engagement approach by our project team in conducting the institutional assessment. In particular, the results of the institutional assessment of the 9 shortlisted entities were kept confidential and not disseminated beyond the individual entities, except with ERD who received the full results (for all entities); and the capacity building support on project preparation was structured in a manner that provided a safe and private platform to private companies to present and discuss their project ideas and concepts, by putting more emphasis on bilateral meetings over workshops.

## 5. Reflections on the project

This section presents a set of 4 key learnings identified through the project.

### 5.1. Whilst the business case for action on climate is already clear for many businesses, there is a need to bridge the language gap

Getting businesses on board first requires making the case for action on climate. This implies speaking their language; in terms of profit and loss, revenue and market share, risk and opportunity.

Once businesses' interest in the GCF as a potential funding opportunity for their climate-related activities has been secured, there is a need for them to learn the language of the Fund. Words like "adaptation", and "mitigation" which have originated from a very public sector background within the United Nations Framework Convention on Climate Change (UNFCCC), do not mean a great deal to many businesses. Businesses engaging in climate related activities usually do not label them as such, instead using terminology such as saline and stress tolerant variety development. In fact, interviews in Bangladesh validated the idea that climate is just one driver among many for engaging in "climate compatible" activities. Companies highlighted that climate change presents a window of opportunity to take action on issues and areas that are already important to their business, such as improving delivery time in the face of extreme weather or reducing costs through resource efficiency. For example, the main driver behind the renewables business in Bangladesh was to enhance energy access at a time when more than 40% of the population was living in off-grid areas (Grameen Shakti interview, 2016). However, in order to fill in a funding application, they have to demonstrate the climate impact potential of their project. This requires learning the language of the Fund. While the main impact of the project has been increased awareness amongst the Bangladeshi businesses about (1) what the GCF is; (2) what the opportunities the Fund provide to them and (3) how they can access it, capacity of the private sector in developing climate change specific projects and programmes is still lacking. This is also the difficulty to overcome in terms of time and effort – the age-old problem of securing buy-in, why should they invest their time and what are the returns?

### 5.2. The project has built increased awareness amongst the NDA about the role that domestic private sector can play in accessing the GCF; however, reservations still remain

Whilst the project aims to build directly the readiness of the private sector, an indirect impact of the project was to raise the awareness of ERD - GCF's NDA in Bangladesh- about the potential opportunities that domestic private sector can provide in accessing the GCF. Although significant efforts have been invested in engaging with ERD throughout the project, their reservations regarding the objectives of the project have been a constant challenge. While designing the project, the team worked on securing ERD's buy-in by establishing realistic expectations from them project onset, in particular by extending Phase 2 to identify potential EEs that could develop project proposals, beyond potential IEs that could seek accreditation. During the workshops in June and August, the private sector expressed discouragement at these complexities and will likely not be motivated to invest time and money in such a time and resource intensive process with an uncertain outcome. Following this, the project team has agreed that accreditation to the GCF is a too narrow focus for Phase 2 due to the complexities in the GCF accreditation process, as evidenced by the challenges faced by public sector entities seeking accreditation[2]. As such, phase 2 was extended to identify potential EEs. Whilst there will be a stronger focus of the screening process on EEs versus IEs, we will not rule out the identification of potential IEs. However, extensive engagement and advocacy needs to be built into future planning, with similar project designs to ensure NDAs' initial expectations are fully integrated into project goals, and activities are designed for improved decision making.

The institutional assessment has however showed that the readiness of many of the commercial banks is greater than expected in terms of the fiduciary standards, and environmental and social policies, but even with the evidence provided, it has been challenging to convince ERD this is the case. Developing evidence on the strengths and benefits of engaging with the Bangladeshi private sector was clearly not sufficient; time could have been dedicated in the project for engagement with ERD, which may include capacity building itself.

### 5.3. Working with the private sector requires a different approach

One of the key characteristics and challenges of working with private stakeholders is: (1) commercial confidentiality issues and (2) the tensions between commercial versus development interests.

Some of the entities we have engaged with are also direct competitors of each other. This required a completely different engagement approach by our project team in conducting the institutional assessment and delivering capacity building support on project preparation.

Many organisations confirmed they are not willing to invest internal time and resources to develop the project proposal, but instead envisage contracting an external consultant to develop the project. As such, the entities do not necessarily need to become experts in designing GCF projects. Instead, the capacity building support should be focused on generating/refining project ideas with entities being at different stages of project development (with many organisations having no specific project ideas). It was also important to provide strategic and practical guidance on how to approach potential existing implementing entities (IEs) with whom they have an established relationship, engage with ERD and start approaching to pitch their project ideas.

### 5.4. The GCF processes are not adequate for private sector

GCF application processes are also highly complex and time-consuming. There are two main challenges in this context: 1) the process of becoming an IE has to date been long and complex, which may discourage private entities in seeking accreditation, and 2) the PSF, the primary way in which the GCF is meant to increase private sector engagement, is not yet fully operational and it is not clear in

[2] It should be noted that ERD launched in 2015 an inclusive consultation process and short-listed 14 national institutions which they considered potential IEs, meeting basic and specialized standards set by the GCF. Local Government Engineering Department (LGED) and Palli Karma-Sahayak Foundation (PKSF) are understood as the entities at the most advanced stage of the accreditation process.

particular how the institutional investment component will operate in the future. This represents a major impediment to the businesses we have engaged with in Bangladesh and who have expressed the desire to access the Fund in the short term.

However, there are other, more immediate opportunities for the private sector to engage with the GCF. This includes accessing funds through existing IEs, of which there are a number operating in Bangladesh. While the goal of accrediting a private sector IE(s) is still relevant, this will take time, as evidenced by the experience of the Bangladesh Bank, Infrastructure Development Company Limited (IDCOL), Local Government Engineering Department (LGED) and Palli Karma-Sahayak Foundation (PKSF). Accessing funds through existing IEs operating in Bangladesh shows the greatest promise of offering immediate returns to the Bangladeshi private sector. There are still significant complexities of funding applications and upfront costs associated with proposal preparation as barriers to accessing funding.

It should be noted that the GCF is exploring a new simplified process for micro-scale and small-scale funding proposals that are assessed to fall under the low/no risk Category C/Intermediation 3. It is envisaged that this simplified process will include a revised full funding proposal template for micro- and small-scale activities, and will involve simplifying the level of details required in terms of feasibility studies and other supporting documentation for these proposals. It is however still under discussion.

Finally, GCF documentation requirements are demanding and often confusing. Even the terminology used by the GCF can be confusing; for example, "paradigm shifts", "project closure" and "term sheets" have ambiguous or multiple meanings. There are also many different valid ways of representing "Theories of Change", yet little guidance from the GCF is available on the desired interpretation.

# 6. Wider reflections

Beyond this project, there are important take-away messages for ERD in its role as the GCF's NDA and the GCF's PSF in its engagement with other NDAs/FPs.

## 6.1. ERD should continue building the capacity of the domestic private sector

Private sector entities seeking accreditation (to act as a direct access IE) and those developing projects (to act as an EE) require approval from the NDA through nomination and no-objection, respectively.

Beyond this project, ERD (under its mandate as the GCF's NDA) should continue to engage with and build the capacity of the domestic private sector, in close collaboration with MoEF and other relevant ministries. This could include awareness-raising and capacity building with the private sector on climate change and GCF requirements; for example, through training courses, workshops, toolkits, online resources, media campaigns etc. One of the main capacity gaps identified is the ability of the private sector to develop transformational climate change projects versus "business-as-usual" renewable energy and energy efficiency programmes. It is recommended in particular that they work in close collaboration with business associations and standards bodies that represent the private sector, such as Chambers of Commerce and Industry and other sectoral business associations, to raise awareness about the business case for climate investment and encourage exchange of information on the business opportunities of climate change, as well as ways to access international climate finance, including the GCF. Promoting learning from public sector direct access IE candidates at the most advanced stages of the accreditation process should be promoted.

## 6.2. ERD should promote greater engagement of the domestic private sector in developing the GCF Country Programme

A more collaborative relationship is required to ensure the private sector voice is heard, especially when developing the Country Programme for the GCF (activity currently being implemented by UNDP) – this will ensure domestic capital, as well as important bridges to international financing sources do not remain locked.

## 6.3. GCF should provide more clarity about how the PSF will be fully operationalised

Greater clarity is required about how the PSF- as the primary way in which the GCF is meant to increase private sector engagement- will be made fully operational, in particular how the institutional investment component will operate in the future.

## 6.4. GCF's PSF should be more proactive in sensitising the NDA/ FPs about the role that domestic private sector can play

Potentially building on the learnings of this project, the GCF's PSF should be more proactive in sensitising the NDA/ FPs about the role that domestic private sector can play in accessing the GCF and in turn contribute to their national priorities on climate change. Simpler application processes for micro-scale projects is recommended as the complex and lengthy project development process acts as a barrier to private sector engagement.

### 6.5. GCF should provide greater guidance on project requirements and terminology

Finally, the GCF should develop clear guidance on project requirements and terminology; for example, "paradigm shifts", "project closure" and "term sheets" or ways of representing "Theories of Change". The GCF project toolkit prepared under the project, could be improved and expanded for this purpose.

# 7. Annexes

## 7.1. Annex 1. Full stakeholder mapping resulting from Phase 1

| Organisation | Sector |
|---|---|
| **Associations** | |
| Association of Agricultural Cooperatives | Association for agriculture |
| Bangladesh Agro-Processors Association (BAPA) | Association for development of SMEs involved in agro-processing |
| Bangladesh Brick Manufacturing Owners Association (BBMOA) | Industrial association |
| Bangladesh Garment Manufacturers and Exporters Association (BGME) | Association for textiles |
| Bangladesh Institute of Bank Management (BIBM) | Training Institute on Banking and Finance |
| Bangladesh Solar Energy Society | Association |
| Business Initiative Leading Development (BUILD) | Public Private Dialogue Platform |
| Dhaka Chamber of Commerce and Industry (DCCI) | Non-profit, service-oriented, business promotion organization |
| Federation of Bangladeshi Chamber of Commerce and Industry (FBCCI) | Association representing the interest the private sector |
| Insurance Association of Bangladesh | Association of insurance |
| Metropolitan Chamber of Commerce and Industry (MCCI) | Association for the promotion of business in Bangladesh |
| **National and international public sector organisations** | |
| Bangladesh Institute of Development Studies (BIDS) | Public research institute |
| Bangladesh Krishi Bank (BKB) | Banking institution - Specialised Agricultural Bank |
| Bangladesh Securities and Exchange Commission (BSEC) | Capital Market |
| Central Bank of Bangladesh (BB) | Banking institution |
| DfID Bangladesh | Development partner/donor |
| GIZ | Development partner/donor |
| Infrastructure Development Company Limited (IDCOL) | Non-banking Financial Institution (NBFI), Energy infrastructure/ renewable energy |
| Insurance Development Regulation Authority (IDRA) | Insurance institution |
| International Finance Corporation (IFC) | Development partner/donor |
| Ministry of Environment and Forests (MoEF) | Government, environment |
| Ministry of Finance/ Economic Relations Division (ERD) | Government, finance |
| Palli Karma-Sahayak Foundation (PKSF) | Microfinance institution |
| Small and Medium Enterprise Foundation (SMEF) | Institution for SME development |
| UNDP | Development partner/donor |

| **Private sector organisations** | |
|---|---|
| Advanced Chemical Industries (ACI) Limited | Pharmaceuticals/Consumer Brands/ Agribusiness company |
| Bank Asia | Commercial Bank |
| BRAC Bank | Commercial Bank |
| BRAC NGO | Social enterprise |
| Centre for Policy Dialogue (CPD) | Private research institute |
| City Bank | Commercial Bank |
| Dutch Bangla Bank | Commercial Bank |
| Eastern Bank | Commercial Bank |
| Golden Harvest Foods | Conglomerate |
| Grameen Bank | Microfinance Banking institution |
| Grameen Shakti | Renewable energy company |
| Green Delta Capital | Investment Bank |
| Green Delta Insurance | Insurance institution |
| IDLC investments limited | Non-Banking Financial Institution (NBFI) |
| Industrial Promotion and Development Company (IPDC) | Financial Institution |
| Islami Bank – Bangladesh Limited (IBBL) | Company engaged in commercial banking |
| Lal Teer | Vegetable seed company |
| Mercantile Bank Limited (MBL) | Commercial Bank |
| MIDAS Financing Limited (MFL) | NBFI |
| Midland Bank (MDB) | Commercial Bank |
| Mutual Trust Bank (MTB) | Commercial Bank |
| Pragati Insurance Limited | Insurance institution |
| PRAN Foods Limited | Food processing company |
| Prime Bank | Commercial Bank |
| Rahimafrooz | SME - Renewable energy, Storage Power, Automotive, Electronics, Retail company |
| Solaric | Renewable energy company |
| South East Bank (SEB) | Commercial Bank |
| Standard Chartered Bank | Commercial Bank |
| Waste Concern | Waste management |

## 8. References

[i] 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

[ii] 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."

[iii] The International Monetary Fund (IMF) Country Report (2012)

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[vi] Ibid.

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[xi] MOEF. (2015). Intended Nationally Determined Contributions (INDC). Developed by Ministry of Environment and Forests (MOEF), Government of the People's Republic of Bangladesh. Retrieved from:http://www4.unfccc.int/submissions/INDC/Published%20Documents/Bangladesh/1/INDC_2015_of_Bangladesh.pdf

[xii] SREDA, 2015. Investment Plan for Bangladesh. Scaling up Renewable Energy Programme for Climate Change, October 2015. Developed by Power Division. Ministry of Power, Energy and Mineral Resources, Govt of the People's Republic of Bangladesh. Retrieved from: http://www-cif.climateinvestmentfunds.org/sites/default/files/meeting-documents/bangladesh_srep_ip_final.pdf

[xiii] Grameen Shakti (2016). [Interview responses from representative of Grameen Shakti].