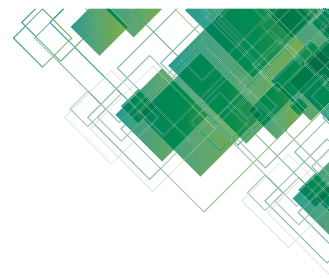


## POLICY BRIEF # 1

# Private Climate Finance in Bangladesh

## Few Policy Recommendations



CLIMATE FINANCE TRANSPARENCY MECHANISM (CFTM)

Development and research organisations working on climate finance frequently consult with the government agencies and development partners and non-government organisations, but fall short in holding consultation with the representatives of private sector. Of the USD 69 billion that would be required to implement the actions identified in 6 thematic areas of the Bangladesh Climate Change Strategy and Action Plan (BCCSAP), a significant portion is expected to be sourced from the private sector. The awareness on climate change adaptation (CCA) and low-carbon development (LCD) by the private sector is essential and must reach widely across Bangladesh.

### Technology Transfer Policy: An immediate necessity for Bangladesh

The opportunities created currently in Bangladesh because of potential climate change mitigation initiatives are estimated to be between USD 20 and 25 billion. But, this opportunity is limited by the technology innovation challenges. Transfer of technology is at the heart of LCD for the least developed countries, especially for the most climate vulnerable countries, such as Bangladesh.

## Key Points

A policy for technology transfer should be formulated to facilitate technology development, use, and diffusion in Bangladesh to address the adverse effects of changed climate.

The financial regime in Bangladesh should use direct financing in climate change initiatives to be focused and effective.

For research-based and data-driven policy decisions, necessary initiatives should be taken to collect and disseminate data on climate finance by private sector.

A body such as BSTI should be assigned to award energy star ratings to different consumer electronics and electric products so that the consumers can take informed decisions on energy consumption before they buy certain products.

The Import Policy should be reviewed to ensure that the imported electronics and electric products meet the energy efficiency standard of Bangladesh.

The non export-oriented enterprises have remained stagnant in becoming climate-smart. Policy incentives should be designed to stimulate these enterprises to be climate-smart and invest in green technology.

Policy for three-wheeler electric vehicles could help improve the technology to make them safer and more user-friendly.

To facilitate the technology transfer, government should formulate a technology transfer policy taking inputs from – among others – relevant experts, financiers, and private sector representatives across the board.

### Direct Financing: Post-refinancing era

Almost all the LCD and CCA initiatives taken by the private sector of Bangladesh are done with financing at commercial rates. It is time for the financial regime to use direct financing for LCD, CCA, green development, or green technology projects. in climate change projects. Direct financing would make actions in such projects focused and effective. Significant size of funds of few recent refinancing schemes remained unutilised in Bangladesh.

### Data: The missing linkage

Private sector of Bangladesh is gradually being involved in different initiatives in address climate change threats and opportunities. However, the engagement is still not adequate. Bangladeshi Private sector deserves to receive special attention and facilitation with regards to climate finance from the financing windows, such as Green Climate Fund (GCF), that can be accessed. Nonetheless, private sector entities are investing their own funds to fight climate change; unfortunately, sometimes their investment in LCD and CCA activities is not recognised in the whole system and, often, the required data are not available. A system should be developed to generate structured data about private climate finance in Bangladesh for more research-based and data-driven policy decisions.

### Energy Efficiency: Energy rating for electric and electronic products

Currently, Bangladesh has no benchmark setting body to provide energy star rating for consumer electronics and electric goods. As a result, companies that produce such products put their own star ratings on the products. Private sector representatives expect that the government would soon assign a body, such as BSTI, to award star ratings to different consumer electronics and electric goods so that they can take informed decisions on energy consumption before they buy certain products. Government should also develop the testing and measuring standards for energy efficient products.

#### How to make energy efficient products popular in Bangladesh?

Result of a recent research conducted by Sustainable and Renewable Energy Development Authority shows that with energy efficiency potential of the home appliances, more than one-third of the current energy consumption can be saved at household level.

One challenge remains, however, regarding energy efficient products: Are Bangladeshi consumers ready to pay for higher energy efficient products at higher price? A possible way to encourage the customers is: The government through its agencies can design refinancing scheme or financing products to arrange green financing at the consumer-level through banks and non-banking financial institutions to encourage the customers to buy energy efficient products at a convenient interest rate with favourable terms and conditions.

The government should review the Import Policy by adding clauses on testing imported electronics and electric products to ensure that they conform to the energy efficiency standard of Bangladesh. Promotion of energy efficient products at the ultimate consumer level and bulk procurement by the government are essential so that such locally-produced items can be sold at a cheaper price to the end customer.

### **Policy and Fiscal Incentives: Packages for incentives to be redesigned**

Incentivised climate finance will ameliorate the private sector to invest in CCA and LCD initiatives. However, incentives for private sector with regards to climate financing needs to be remodeled by the policymakers. Usual incentives may not work for addressing the climate change challenges. Incentives should be designed in a way so that the price of the green products are affordable for the final customer.

Bangladesh Bank's green financing initiative, for example, is a praiseworthy one as it is promoting energy efficiency. There are pragmatic as well as positive policy and tax incentives from the government to encourage greening of factories; however, the momentum has just started and is yet to grow. For instance, in the budget of fiscal year 2017-18, the GoB has kept a provision of reduced corporate tax for those industries that will be setting up green factories.

### **Non Export-Oriented Sectors: Targeted stimulus required**

The export-oriented business enterprises have undertaken remediation initiatives to be greener and energy efficient, largely because of buyer pressure. However, the non

export-oriented enterprises have remained stagnant in becoming climate smart. Policy incentives should be designed to stimulate these enterprises to be climate smart and invest in green technology.

#### **Bangladeshi RMG factories becoming climate friendly**

Ready-made garment (RMG) and textiles industries are making a gradual transition to an environment friendly growth path and, since 2011, a total of 67 RMG factories have received Leadership in Energy and Environmental Design (LEED) certification in Bangladesh.

### **Greener Transportation: Policy to encourage private investment**

Policy for the 3-wheeler electric vehicles could be developed to improve the technology and make it safer and more user friendly. Dialogues should be initiated among relevant parties to formulate specific policy for transports.

Increased reliance of public transportation system rather than energy intensive private transports could reduce greenhouse gas emissions in Bangladesh. Public-private partnership projects could involve private sector in participating public transportation initiatives such as metro rail and others that are underway.

## Way Forward

As two National Implementing Entities have been accredited by GCF in Bangladesh, project development should now be one of the top priorities of the country. Private commercial banks' expertise in developing the CCA and LCD projects in accordance with GCF's guideline is should be developed to global standards.

*The viability and finance gap for private sector in Bangladesh are believed to be playing unfavorable roles in investing in climate change adaptation and low-carbon development initiatives. Minimisation of these gaps through the policy and finance regimes can promote investment efficiency and cost-effectiveness in a conducive investment environment.*

In Bangladesh, one of the major actions should be capturing the technological innovations that are currently happening in the climate conscious world to develop new products and execute projects efficiently.

Public, private, and development sectors of Bangladesh should work in harmony and be

ambitious with regards to what Bangladesh can achieve towards CCA and LCD. Since CCA and LCD projects will include the

commercial and socio-economic objectives, private sector can also receive project-based incentivised finance from the GoB for their specific investments in such projects.

Conducive dialogues with the private sector should

be held more frequently. These dialogues should discuss on how private sector can lead the green development of Bangladesh, how they envision this and what resources do they need.

### Prepared by

Dr. Atiq Rahman | Golam Rabbani | Khandaker Fokhrul Alam  
Dr. Samia Saif | Soburun Nessa Chowdhury

Published in January 2018



### Bangladesh Centre for Advanced Studies (BCAS)

House 10, Road 16A, Gulshan - 1, Dhaka 1212, Bangladesh  
Tel : (880-2) 9848124-27, 9852904, 9851237, Fax: (880-2) 9851417  
E-mail: info@bcas.net Website: www.bcas.net

We gratefully acknowledge the support from PROKAS, British Council and UKAID