

## Cross-country dialogue

30-31 March, 2015  
Kathmandu, Nepal

Event Report

# Financing inclusive low-carbon climate resilient development

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Workshop Report

## Author information

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*Group photo*

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## Summary

From 30 March to 31 March, 2015 participants from Nepal, Bangladesh, Rwanda and the United Kingdom gathered in Kathmandu, Nepal to take part in a cross-country dialogue on 'financing inclusive low-carbon climate resilient development (LCRD)'.

The cross-country dialogue was jointly hosted by Clean Energy Nepal (CEN) and the International Institute for Environment and Development (IIED). It builds on two years of research on the political economy of climate change planning conducted by the IIED and research institutions in Bangladesh, Ethiopia, Nepal and Rwanda. In its second year, this project focused on how to finance a transition to a low-carbon, climate resilient pathway, bringing together research partners, bilateral and multilateral partners, financial actors and local beneficiaries.

Low carbon climate resilient development is seen by many countries as a pathway to sustainable poverty reduction and economic development. Inclusive investment in LCRD, particularly by individual households, cooperatives and small and medium enterprises, can be enhanced by access to sustainable, scalable and flexible climate finance. Whilst, flows in climate finance have increased, they are not always tailored to financing 'inclusive' investment in LCRD.

This cross-country dialogue brought together country cases that focus specifically on the role of financial intermediaries in enhancing the flow of climate finance for inclusive investment in LCRD. The dialogue provided a platform for participants to develop a shared understanding of the incentive and resources structures that enable financial intermediaries to mobilise and channel climate finance for inclusive investment in LCRD.

## Participant List

The workshop brought together participants from Nepal, Bangladesh, Rwanda and the UK (Ethiopian participants were unfortunately unable to attend due to border control issues) – including research partners working on low-carbon climate resilient development, government officials, technical advisors, financial experts, microfinance experts, representatives from the private sector, and development partners. The full list of participants were as follows:

| Name                 | Position  | Country    |
|----------------------|---|------------|
| Sunil Acharya        | Clean Energy Nepal                              | Nepal      |
| Anu Adhikari         | IUCN  | Nepal      |
| Sabina Basnet        | NYCA  | Nepal      |
| Pradeep Bhattarai    | NYCA  | Nepal      |
| Ramesh Bhushal       | Independent                                     | Nepal      |
| Kul Raj Chalise      | DDC Gorkha                                      | Nepal      |
| Raju Pandit Chhetri  | Independent                                     | Nepal      |
| Hohit Gebreegziabher | IIED  | UK         |
| Bir Bahadur Ghale    | Hydro Energy Concern Pvt. Ltd                   | Nepal      |
| Saran Gurung         | Rural Empowerment Society, Tanahun              | Nepal      |
| Prithvi Gyawali      | Central Renewable Energy Fund Secretariat, AEPC | Nepal      |
| Nazmul Haque         | Infrastructure Development Company Limited      | Bangladesh |
| Asif Iqbal           | Central Bank of Bangladesh                      | Bangladesh |
| Bhuvan Karki         | Ministry of Finance                             | Nepal      |
| Nanki Kaur           | IIED  | UK         |
| Roksana Khan         | Ministry of Finance                             | Bangladesh |
| Uttam Kunwar         | FNCCI   | Nepal      |
| Raju Laudari         | AEPC  | Nepal      |
| Tek Jung Mahat       | CCRA  | Nepal      |
| Tasfiq Mahmood       | ICCCAD  | Bangladesh |
| Jony Mainaly         | NRRC  | Nepal      |
| Ugan Manandhar       | WWF   | Nepal      |
| Maliha Muzammil      | Independent                                     | Bangladesh |
| Aarti Paudel         | NYCA  | Nepal      |
| Basanta Paudel       | Clean Energy Nepal                              | Nepal      |
| Apar Paudyal         | Practical Action                                | Nepal      |
| Neha Rai             | IIED  | UK         |
| Bimal Regmi          | Practical Action                                | Nepal      |
| John Rwirahira       | IPAR  | Rwanda     |
| Netra Sharma         | USAID, Kathmandu                                | Nepal      |
| Krity Shrestha       | Clean Energy Nepal                              | Nepal      |
| Nabena Shrestha      | PPCR, Component 3, Nepal                        | Nepal      |
| Saleha Binte Siraj   | Ministry of Finance                             | Bangladesh |
| Dave Steinbach       | IIED  | UK         |
| Sujan Subedi         | MoSTE   | Nepal      |
| Kumar Thapaliya      | Astha Nepal Surkeht                             | Nepal      |
| Suman Udas           | Clean Energy Nepal                              | Nepal      |
| Batu Krishna Uprety  | LDC Expert Group                                | Nepal      |
| Lalmani Wagle        | NYCA  | Nepal      |
| Bowen Wang           | ICCCAD  | Bangladesh |
| Antara Zareen        | Independent                                     | Bangladesh |

# Workshop Schedule

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## Day 1 – 30 March 2015

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*Welcome remarks and introduction*

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Session 1: Overview of the climate finance landscape

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Session 2: Climate finance flows in Nepal, Bangladesh, Ethiopia and Rwanda

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Session 3: Keynote speech by Honourable Bharatendra Mishra, National Planning Commission

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Session 4: Understanding the political economy of climate finance

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Session 5: *Buzz session – what do we mean by ‘inclusive investment in LCRD’?*

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Session 6: Country case study session pt.1

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## Day 2 – 31 March 2015

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Session 7: The GCF role in financing inclusive LCRD

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Session 8: Country case study session pt.2:

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Session 9: Meta-analysis of findings across the four country case studies

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Session 10: *Buzz session – designing policy recommendations for inclusive LCRD*

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*Conclusion and thank you*

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# Workshop Proceedings – Day 1: 30 March 2015

## Introduction

Participants were welcomed to Nepal for the cross-country dialogue by **Neha Rai** from the International Institute of Environment and Development. The presentation provided an overview of the four country projects on 'financing inclusive investment for low-carbon climate resilient development', and outlined the objectives of the workshop over the coming two days.

## Session 1: Overview of the climate finance landscape

The first session of the workshop, led by **Nanki Kaur** from IIED, provided an overview of the global landscape on climate finance. Nanki outlined how the landscape can be broken down into different categories, which include the sources of climate finance, intermediaries, instruments, and use and users.

The presentation highlighted how financial intermediaries play a crucial role in accessing and channelling money for investment in LCRD – and how both public and private sector intermediaries can be key actors. In terms of instruments, the major instruments that were highlighted in the presentation were loans, equity, and debt finance, although the latter two may not be easily accessible for the poor countries as their market are not very capital intensive.

The presentation then provided data from the Climate Policy Institute on global climate finance flows in 2012, which amounted to \$359 billion with 62% accounted for private finance and 38% for public finance. Of these funds, approximately 76% of investment remained in the country of origin which means it is not flowing to LDCs or other developing countries. Further, she highlighted how 94% of the finance is being used to fund mitigation-related projects, whereas the main policy priority for the least developed countries (LDCs) is adaptation.

The main message from Session 1 was that the current flows of climate finance are not aligned with the key needs of LDC countries – due to insufficient finance reaching LDCs, the high focus on mitigation, and the short-term nature of finance where long-term, flexible finance is needed. Accordingly, this dialogue provides participants with an opportunity to share lessons on innovative policy options to access, mobilize and disburse climate finance; to develop new policy responses; and to engage with new actors – all with an aim to improve the delivery of finance towards LCRD outcomes that benefit the poor.

## Session 2: Climate finance flows in Nepal, Bangladesh, Ethiopia and Rwanda

Following the background presentation on the global climate finance landscape, the second session of the workshop provided an overview of the climate finance landscape and climate finance flows in each of the study's four countries. These presentations aimed to contextualise the discussions over the coming two days.

### Nepal

Nepal's climate finance context was presented by **Bhuwan Karki**, Under Secretary in the Ministry of Finance's International Economic Cooperation and Coordination Division. He explained the Government of Nepal has accorded the highest priority to climate change issues, with the Ministry of Environment, Science and Technology as the focal point for all climate change issues. To date, Nepal has received important climate finance contributions from international sources, which include \$6 million from the Global Environmental Facility, \$35 million from the Least Developed Country Fund, \$111 million from the Climate Investment Funds, and \$21 million from bilateral sources, which include the EU and UK government.



Bhuwan Karki then outlined a number of initiatives that have been undertaken by the Government of Nepal, which demonstrate its commitment to responding to the issue of climate change. These include:

- The adoption of a climate change budget code to track investments made in the climate change sector
- A commitment of 10% of the national budget allocation to climate change issues
- The country's flagship LAPA framework, which mandates that 80% of climate-related budgets will be delivered to the local level for implementation of climate adaptation programs
- The undertaking of a Climate Public Expenditure and Institutional Review
- Joint work by the National Planning Commission and Ministry of Finance to work in close collaboration on climate change issues
- The awarding to Nepal of the Global South-South Development Leadership Award 2013, due to its implementation of the climate change budget code and Climate Public Expenditure and Institutional Review initiatives

Finally, the presentation concluded with a list of some of the challenges Nepal faces in accessing climate finance and implementing climate-related projects:

- Limitation of resources- demand of resource is high but the supply is low
- The difficulty in accessing finance for sector-wide or programmatic approaches to climate change
- The non-use of country system (i.e. off budget financing), which limits the Government's ability to ensure transparency, accountability and development results
- Low capacity of government agencies in climate change negotiations and also in implementation of programmes and projects related to climate change
- The lack of direct access to international funds, with money mostly channelled through international agencies.

## Bangladesh

Bangladesh's climate finance context was provided by **Roksana Khan** of Bangladesh's Ministry of Finance, Bangladesh. She began by explaining three ways in which the country is using its own resources to implement climate-related initiatives:

- Bangladesh's Climate Public Expenditure and Institutional Review found that every year public expenditure amounts to \$1 billion in climate-related areas, of which 75% comes from the domestic resources.
- The Climate Fiscal Framework, approved in 2014, aims to ensure effective use of climate finance through budgetary process. Bangladesh has received support from development partners for its Climate Fiscal Framework through the Inclusive Budgeting and Financing for Climate Resilience project.
- The Sixth Five Year Plan also focuses the climate change interventions.

The presentation then provided an overview of the climate finance landscape in Bangladesh, detailing the sources, intermediaries, instruments, and uses of climate finance:

- Sources: national budget, private finance institutions and international public sources
- Intermediaries: Bangladesh Climate Change Trust Fund, MoEE, Bangladesh Bank, Commercial Banks, microfinance institutions, etc.
- Instruments: grants, fixed deposits, concessional loans, refinancing
- Financial planning system: Perspective Plan of Bangladesh, Bangladesh Climate Change Strategy and Action Plan (BCCSAP), Green Banking Policy

- Uses: renewable energy (e.g. solar home systems)

## Ethiopia

On behalf of the Ethiopia delegation, who were unable to attend the workshop, **Nanki Kaur** from IIED presented Ethiopia's national climate finance landscape. Ethiopia is committed to transitioning towards a climate resilient green development future. The country has prepared a Climate Resilient Green Economy (CRGE) strategy that will cost an estimated \$150 billion dollars over the next 20 years for investments in green economy alone (i.e. the climate resilient element of the strategy will cost even more). This equates to an average annual cost of \$7.5 billion/year for green economy investments where the current annual GDP of the country is about \$5 billion, making it a considerable financing challenge. The Ethiopian government is therefore trying to explore all sorts of funding options, including public and private climate finance to implement the CRGE strategy.

As detailed in the presentation, the climate finance landscape in Ethiopia has the following characteristics:

- Sources: In 2012, overseas development assistance amounted to approximately \$80 million of investment for adaptation and mitigation. In addition, on the basis of a brief climate change expenditure review, approximately 1.8% of the GDP is allocated to address climate sensitive areas.
- Intermediaries: The Climate Resilient Green Economy Facility is a climate change fund which is tasked to mobilize, manage and allocate resources for investment under the CRGE strategy. The fund is designed to work with multiple intermediaries in managing resources and dispersal.
- Instruments: Ethiopia is considering a range of instruments including guarantees, grants, and loans.
- Institutional arrangement: The fiduciary management of climate change lies in the Ministry of Finance and Economic Development. Ethiopia is planning to integrate its CRGE planning into the regular planning and budgeting cycle.
- Use and Users: Climate finance in Ethiopia targets green economy and climate resilience objectives that are articulated in the CRGE Strategy. The Ministry of Finance in Ethiopia is currently trying to get accredited for Green Climate Fund and Adaptation Fund. If any other actors intend to consider a direct access in Ethiopia to implement elements of the CRGE Strategy, then they should partner with central agencies.

## Rwanda

**Nanki Kaur** also stepped in on behalf of **John Rwirahira** to present the overview of Rwanda's climate finance landscape. Rwanda is one of the frontrunners in Africa in its LCRD policy response, which is articulated in the country's Vision 2020 strategy. Their climate finance landscape has the following characteristics:

- Sources: Rwanda is prepared to use a range of sources – both public and private from national and international sources. However, given that there is limited international public or private finance available, Rwanda has designed its landscape in such a way so as to unlock domestic sources.
- Financial Intermediary: Rwanda's Ministry of Environment has partnered with the Rwandan Development Bank (RDB) to disperse climate finance.
- Financial Instruments: Since only public finance is currently available, climate finance in Rwanda comes in the form of grants, which aim to catalyse larger private investment in climate-related activities. Once private investment becomes feasible, the plan is to move to loans, guarantees and finally to equity and debt to ensure commercial viability.
- Institutional Arrangement: There is coordination between the Ministry of Environment and Ministry of Finance and Economic Planning to avoid duplication in their investment.
- Use and Users: The focus is in climate resilience and climate adaptation.

### Session 3: Keynote speech

Following the opening presentations, participants were formally welcomed to Nepal and to the cross-country dialogue by the **Honourable Bharatendra Mishra**, a member of Nepal's National Planning Commission, Nepal. His remarks highlighted the importance that Nepal is placing on the issue of climate change through its national policies and strategies. Specifically he mentioned that investment in LCRD is important for countries like Nepal, and that this dialogue can play an instrumental role in sharing research findings among similarly situated countries.



*Chief Guest, Honourable Bharatendra Mishra sharing his keynote remarks*

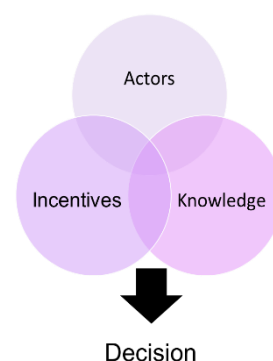
### Session 4: Understanding the political economy of climate finance

Next, **Neha Rai** took participants through the political economy conceptual framework which has been the main analytical tool behind the LCRD research in each of the four different countries. She explained that in the project's four countries, research teams have identified financial intermediaries who are delivering climate finance for LCRD in the studied countries. The experience of these intermediaries in financing LCRD were treated as case studies by research teams (see Sessions 6 and 8 for more details), and were analysed using a political economy lens.

Political economy analysis is a conceptual tool that analyses the actors, their ideologies, and the knowledge at their disposal, which lead to decisions being made. For the project that brought together all the participants at the cross-country dialogue, the research question asked how is political economy (i.e. these three dimensions that lead to decisions being made) shaping inclusive climate finance decisions for LCRD for the poor?

Specifically, the presentation explained that the research took the financial intermediaries from each of the four countries, and analysed the political economy that shaped these LCRD financial delivery arrangements. Researchers then asked the question 'whether, and to what extent, the channels are inclusive, equitable and bring co-benefits for the poor?'

While results from these case studies would be presented over the course of the dialogue, an overall finding is that if actors/stakeholders across the LCRD finance value chain have a shared vision for inclusive climate inclusive development and are supported with strong



incentives, policies are then able to deliver strong results. However if there is no shared vision across different actors or if incentive structures do not line up, then LCRD finance can be less effective in targeting the poor. In that regard, political economy plays an instrumental role as a risk reduction approach, which can be used to foster a shared vision for LCRD policymaking.

## Session 5: *Buzz session - What do we mean by 'inclusive investment in LCRD'?*

**Dave Steinbach** from IIED conducted the next session – a 'buzz session' which provided a more informal opportunity for participants to interact with each other. During the buzz session, participants were divided into three groups for discussions on two main questions. The objective for these groups was to identify and generate shared understanding of what we mean by 'inclusive investment for LCRD'. The two questions were as follows:

- What are the financing needs which lead to inclusive investment?
- What are the financing needs for investment in LCRD?

After each of the groups had time to discuss these questions one member reported back to the rest of the participants:

**Group 1** explained to the broader audience that they discussed how LCRD is incentivized by ensuring sustainable economic growth which is achieved when it is aligned with environmental and societal needs. In order to incentivize inclusive investment, the group explained that there is a need for policy support and regulatory incentives. Similarly, capacity and knowledge incentives are important, since recipients of new technologies need the capacity to use the new technology and the private sector needs to ensure that they are investing in the least cost LCRD option. Finally, Group 1 explained that more research and development in the field of green technology is important for incentivizing inclusive investment, since it will ultimately drive down costs and improve the market viability of green technologies.

Next, **Group 2** outlined the main points from their discussion. For the first question on how to incentivise inclusive investment key points that were discussed included which actors to involve; the timing of interventions; and which instruments to use that can facilitate inclusive investment. For the second question on the financing needs of LCRD, the group highlighted hard and soft skill development and addressing the issue of how to decentralize funding to local level so as to unlock investment in LCRD.

**Group 3** concluded the buzz session with their insights on the two main questions. For financing needs to incentivize inclusive investment in LCRD, Group 3 explained that there should be appropriate financial and non-financial incentives that encourage the participation of different actors. In terms of financial incentives, Group 3 believed that the option to invest in LCRD should be the least cost solution which can be incentivized by grants and concessional loans. However, they also explained that financial support does not always suffice in incentivizing the investment in LCRD, which means that non-financial incentives such as compliance and regulatory incentives, capacity and knowledge development incentives, and reputational incentives are instrumental in incentivizing investment in LCRD. For the second question on identifying financing needs for LCRD, Group 3 discussed the importance of a risk sharing mechanism that ensures mitigation of credit risk for private sector actors; providing subsidies to promote entrepreneurship; and of providing financial incentives (subsidies/low cost loans) to intermediaries to incentivise their participation and ensure long-term sustainability.

Following the group work, the presentation summarised the **two main messages** that were emerging as themes across the discussions of each of the groups:

- A common understanding of the financial needs for inclusive investment include: capacity building, unlocking private sector finance, and targeting the right instrument for the right group of actors. In addition, there are also incentives for different actors to promote inclusive investment beyond purely financial incentives, which include compliance/regulatory incentives and reputational incentives.
- Similarly, a shared understanding of the financing needs to incentivise investment in LCRD include: investment in skill development; research and development of renewable energy technologies (RETs)

to reduce costs of technologies; and different financial instruments such as low-cost loans, subsidies, and some risk sharing mechanism.

## Session 6: Country case study session pt.1

After the buzz session, the dialogue continued with the first of two sessions where country representatives presented their case studies on financial intermediaries that are investing in LCRD. These two sessions formed a core component of the cross-country dialogue, as they enabled researchers and actors in the policy and financial landscape to share emerging practices from their own national context which could provide policy direction and lessons for participants from other countries.

### Nepal: the role of the Alternative Energy Promotion Centre (AEPC)

The Nepal case study focuses on Nepal's leading institution for promoting renewable energy technology – AEPC – and its flagship National Rural Renewable Energy Programme (NRREP). The presentation on the case study began with an introduction by **Raju Laudari**, AEPC's Assistant Director, who outlined how AEPC is promoting solar, micro-mini hydro, biogas, watermills and wind power technologies with a generating capacity of less than 10MW to off-grid communities in Nepal. These technologies are being delivered to both household and community levels. Generally speaking, at the household level the focus is on lighting and cooking facilities through solar home systems. At the community level, the main technology that is being promoted is micro-hydro systems, though solar and biogas are gradually beginning to be implemented.



*Raju Laudari providing background on the AEPC financing modality*

The presentation then provided an overview of AEPC and the NRREP funding modality, using the climate finance landscape framework.

- **Sources:** The NRREP is funded by national and international public sources, totalling USD 170.1 million over five years from 2012-2017.
- **Financial Intermediaries:** AEPC is piloting a new model of funding renewable energy projects, channelling the NRREP funds to a Central Renewable Energy Fund (CREF), which in turn disperses finance through commercial banks. At the local level, microfinance institutions (MFIs) receive funds from commercial banks and deliver finance to communities with the support of private companies, NGOs and District and local-level governments.
- **Instruments:** The NRREP provides both subsidies and loans. With the move towards commercial banks managing CREF, the subsidy component of the programme is expected to decrease over time and credit will play a larger role.
- **Financial planning systems:** renewable energy subsidy policy; subsidy delivery mechanism; investment guidelines for internal risk screening.
- **Uses:** A range of renewable energy technologies that include community electrification through mini/micro hydro, solar PV home systems, institutional solar, household biogas plants, improved cooking stoves, and the promotion of income-generating activities.
- **Users:** Regional Service Providers help in creating demand for new technologies and facilitate their delivery to the community level. Households and local-level user committees are the main beneficiaries.

Following the overview of the AEPC funding modality, **Sunil Acharya** – the case study's lead researcher – explained the methodology of the case study and the preliminary findings that were emerging from analysis of stakeholder interviews. These findings were broken down into three categories: investment needs, incentives shaping investment in LCRD, and effectiveness in investing in inclusive LCRD.



The investment needs to promote LCRD in Nepal can be split into financial and market development needs. For *financial needs*, there was agreement among almost all actors that subsidies are an important financial instrument to target poor. In addition, private sector view long-term concessional loans as critical to incentivize their investment. For *market development needs*, a number of issues were highlighted throughout the research, which include: improving the capacity and knowledge of banks to enter the renewable energy market; improving rural infrastructure for delivering RETs; awareness raising in targeting the poor; and removing red tape so that communities can access subsidies from AEPC more quickly.

Analysis of the incentive structures shaping investment in LCRD in Nepal differ across actor groups:

- For sources of finance (donors, government) political and economic incentives shape investment, for example the Government's agendas to promote national development and energy access for all.
- In terms of delivery side financial intermediaries like banks, the incentives include economic incentives, market expansion opportunities, capacity development incentives, and reputational incentives.
- For beneficiaries, incentives are primarily socio-economic – for example through the opportunities for income generating activities, increased entrepreneurship, better access to health, and improved education for children.

Sunil concluded by providing early findings on the effectiveness of the AEPC and NRREP in promoting inclusive investment. On the one hand, the model brings different co-benefits including increased incomes, enterprise development, education, health, etc. However in terms of promoting inclusive investment there is concern that the credit-based model that is being championed under CREF will exclude the poorest communities who don't have access to banking services in rural areas, cannot provide co-finance to invest in RETs, and who therefore need more targeted subsidy support if they wish to have access to RETs.



*Sunil Acharya presents findings on AEPC*

## **Bangladesh: the role of Bangladesh Bank in financing LCRD**

Day 1 concluded with the presentation of the second financial intermediary case study by **Antara Zareen and Asif Iqbal**, who outlined the role of Bangladesh Bank (BB) in delivering LCRD finance.

Bangladesh Bank is the central bank of Bangladesh. It has played an instrumental role in policy responses to invest in LCRD in Bangladesh, and has stood out in green banking policy initiatives. Over the past 6 years, Bangladesh Bank has quickly incorporated green products into its investment portfolio. Between 2009 and 2014, the number of green products increased from 5 products to 47 green products in 2014 which was just 5 in 2009. Further, through its Green Banking Policy (GBP), BB requires that banks and other partner financial institutions have a minimum total loan disbursement in green products identified by the BB.

According to the presentation, Bangladesh Bank's financial delivery structure has the following characteristics:

- Sources: It has mandate to acquire, mobilize and disburse all sources of finance public, private and climate finance.
- Financial Intermediaries: BB regulates all financial intermediaries - commercial banks, non-banking financial institutions, MFIs, NGOs, private sectors.
- Instruments: BB uses grants, concessional loans (re-finance), equity (collateral).
- Financial Planning System: Green Banking Policy, risk frameworks, technical standards committee, etc.



- Use and Users: Investment in the green products identified by BB.

The presentation concluded by discussing the effectiveness of the Bangladesh Bank case study in targeting LCRD finance to the poor. In practice, there is no explicit policy for the Bank to target the poor when selling their 47 products. A main challenge is that there are certain financial requirements that the poor struggle to meet when investing in solar home systems and the solar irrigation programme. The lack of financial incentives to include different income groups, gender differences, ethnic groups, etc. means that targeting the poor is not currently as effective as it could be.



*Antara Zareen presenting the Bangladesh Bank case study*

# Workshop Proceedings – Day 2: 31 March 2015

## Session 7: The GCF role in financing inclusive LCRD

Day two of the workshop began with an assessment of how international climate finance can be scaled-up in the future to promote LCRD investment at the national level. **Dr. Binu Parthan**, Regional Advisor for Asia at the Green Climate Fund (GCF) joined the workshop via Skype to explain the latest developments at the GCF which have relevance to countries looking to access GCF finance in the future. The presentation began by highlighting some of the achievements that the GCF has made so far, which include:

- May 2014 – the GCF adopted essential operational policies
- October 2014 – the Fund adopted its readiness programme and accreditation framework
- November 2014 – the GCF held its Pledging Conference, which by December 2014 had raised USD \$10.2 billion
- March 2015 – 7 entities were accredited to the GCF, with many more applications received for accreditation at the July Board meeting
- Before the COP in Paris, the GCF plans to approve some of the funding proposals

The presentation then provided an update on a number of important topics, including highlights on the vision of the Fund, the Fund's allocation portfolio among different countries, modality of channelling funds, readiness support that the Fund can provide, and updates on accreditation of NIEs to access the Fund. A more detailed summary of these points is outlined below:

- The total GCF portfolio will be equally split between mitigation and adaptation projects. Of the adaptation funds, the GCF aims to allocate at least 50% to SIDS, LDCs & African states, with the other half to other developing countries.
- The private sector will play an important
- The Fund will provide both grants and concessional loans
- GCF funds will target four strategic impact areas for adaptation and four for mitigation
  - Adaptation: increased resilience of people and communities; food and water security; increased resilience of infrastructure; and increased resilience of ecosystem
  - Mitigation: reduced emissions from land use and forests; reduced emissions in buildings and cities; reduced emissions in energy; and reduced emissions in transport
- Readiness support is a priority for the GCF, as the readiness support helps maximize the effectiveness of country level operations, reduce the risk of implementation and ensures good delivery of projects
  - There is an initial USD \$30 million of funding for the readiness support programme, of which 50% is being utilized for readiness support to SIDS, LDCs and African States
  - The GCF can give direct grants to NDAs/FPs, and there are different other modalities to deliver readiness partners (e.g. through UN Agencies like UNDP, UNEP and also institutions like IIED)
  - \$1 million is the cap for this support so as to ensure that the support is distributed equitably
- Accreditation of National Implementing Entities is important, since it will ensure direct access to the Fund – a centrepiece of the GCF funding modality.
  - Any entities willing to be accredited should apply to the Fund with no-objection from its respective NDA

- The entities should be in compliance with the fiduciary standards of the Fund: one basic fiduciary standard and three other specialized standard relating to project management, grant management and granting and lending standard.
- Compliance to gender policy is also required
- The accreditation process occurs in three stages. Applications are now open. The stages are:
  - Stage I – No objection, institutional assessment and readiness support (if needed; is only for national entities, not international institutions)
  - Stage II – Review by the accreditation panel and decision
  - Stage III – Final Validation and Legal Arrangement
- On Enhancing Direct Access, the GCF Board has not made decision yet whether this will be part of the funding structure, but they are considering it. There is currently a proposal to carry out 5 pilot projects with \$100 million in SIDs/LCDs and African states which is yet to be finalized.

Following the presentation, a number of key points were reflected on by the participants as **main messages** on the GCF:

1. The GCF is trying to unlock various options to improve developing country access to funds so that climate actions are possible. The various delivery options range from existing international organizations to unlocking new channels like the government entities by enhancing their direct access to the Fund.
2. The strict fiduciary standards that CGF requires may be challenging for some LDCs to meet, which may limit their ability to access finance from the Fund. This will be a critical priority for readiness support to LDCs.
3. The GCF is trying to be as flexible as possible and in designing its access and delivery modalities it has learnt lessons from the other funding mechanisms like the Adaptation Fund and Least Developed Country Fund.

## Session 8: Country case study session pt.2

### Bangladesh: IDCOL's Contribution to Low Carbon Climate Resilient Development in Bangladesh

Session 8 continued the previous day's discussion, with case studies from different countries on the role of financial intermediaries in financing inclusive investment in LCRD. The second of two case studies on Bangladesh began with a presentation by **Nazmul Haque**, Director of Investment at the Infrastructure Development Company Limited (IDCOL) in Bangladesh. IDCOL is a state owned non-banking financial institution in Bangladesh that promotes economic development and environment friendly investments in infrastructure, RE and energy efficiency projects. As such, it was selected as the second financial intermediary case study.



The case study presentation began by explaining some of the LCRD initiatives that IDCOL has undertaken in recent years, focusing on IDCOL's major investment in solar home systems (SHS) through a flagship programme that started in 2003. The programme began with the target of installing 50,000 over the period of five years, but was so successful that it met this target in 3 years. The programme has spread exponentially since then, and is now aiming to have 6 million SHS installed by the year 2018, making it one of the world's largest solar programs (its current targets would mean that 10% of Bangladesh's population has access to solar power).

*Nazamul Haque, discussing the role of IDCOL in financing LCRD*

The presentation concluded by highlighting a number of other programmes that IDCOL supports in the RE sector, like the Solar Irrigation Program, Domestic Biogas Program, Solar Mini-Grid Program, Improved Cooking Stove Program, and Green Brick Program. Through these different initiatives IDCOL is offering subsidies and soft loans (depending on the programme), along with training, capacity building and market promotion support.

After this introduction, **Maliha Muzammil** and **Tasfiq Mahmood** of the International Centre for Climate Change and Development (ICCCAD) – IIED’s research partners on the Bangladesh case studies – presented their case study findings on IDCOL. The analysis focused on IDCOL’s SHS and solar irrigation programmes, which have the following characteristics:

- Sources: funding began from the World Bank, but now there is a broader range of support after the initial success of the programme.
- Financial Intermediaries: NGOs, MFIs, suppliers,
- Instruments: Capital buy down grants for POs, institutional development grants and refinancing schemes that are lucrative for POs, subsidized interest rates and long repayment period which are incentives for POs, reduced duties on RE technologies, SHS Program registered in UNFCCC to redeem CDM benefits.
- Financial Planning System: RE Policy frameworks in place, Implementation Guidelines, Protocols, international procurement laws, GHG reporting and accounting, Technical Standard Committee, PO Selection Committee, Monitoring and Inspection team
- Users: households

Maliha and Tasfiq then provided initial findings on incentives structures that have shaped the design of the programmes. These incentives include policy incentives for the government; capacity building and support incentives for POs (e.g. institutional development grants and refinancing schemes, subsidised repayment and long-term repayment terms for intermediaries); financial incentives from the government (e.g. reduced duties on RET imports and tax holidays); and incentives for households such as access to financial services at the local level.

The presentation concluded with a discussion on how the IDCOL model is seen to be highly effective in targeting the poor. Four main points were raised relating to effectiveness:

- The nature of the programmes are pro-poor by default, as they target to rural, off-grid areas
- Upfront grants from IDCOL have been effective in targeting the poor, especially for solar irrigation
- Larger sized subsidies for the poor have been effective in providing access to SHS
- A number of co-benefits have been observed as a result of LCRD investment by IDCOL, such as increased crop yields from solar irrigation, increased quality of water, health benefits, reduced working hours, reduced air pollution, and education.

### **Rwanda: financing private RE initiatives – a case study of the Development Bank of Rwanda (DBR)**

The next presentation jumped across continents to focus on the case study of the Development Bank of Rwanda and its financing of the National Biogas Programme, which was presented by **John Rwirahira** of the Institute of Policy Analysis and Research in Kigali.

John began by explaining that Rwanda is one of the frontrunners in Africa in terms of exploring options to mobilise different sources of climate finance. The DBR plays a crucial role in this process, as it channels climate finance for private sector investment from the national climate change fund of Rwanda (FONERWA). The DBR also plays an important role in motivating the private sector (mostly business) to co-finance investment in LCRD. The DBR’s financing modality has the following characteristics:

- Sources: Two streams of funding:

- Normal funding stream: Government of Rwanda (GoR), agencies, national and international private sectors
- Joint basket funding stream: DFID, UNDP, GoR- FONERWA, RDB
- Financial Intermediaries: Private sectors
- Financial Instruments: Divided into three phases. In short-term there is the provision of grants and capacity building for actors such as NGOs, community-based organisations, government bodies, business enterprises. In the medium term low interest loans will be provided, while in the long-term investment will be provided to ensure full commercial viability. Beneficiaries of the normal funding stream receive loans at the normal market rate (15%), whereas in the joint basket funding stream loans are provided below the market rate (11.45%).
- Use and Users: Funding is allocated to private businesses (in this case, investing in biogas). The selection criteria for beneficiaries is more scrutinised for the concessional loans (joint basket funding stream) than for the normal funding stream.

After providing this overview of the DBR funding modality, the presentation turned to an initial analysis of the DBR in financing inclusive investment in LCRD. It began by highlighting the incentives to the private sector for investing in RE, which included aligning themselves with a national development priority; financial incentives such as feed-in tariffs to independent power producers; power purchase agreements with the Government; and tax exemptions for importing solar energy equipment.

The presentation concluded with a preliminary analysis on whether the DBR and its financing of the National Biogas Programme is effective in targeting the poor. Two main points were highlighted:

- The programme does not directly target the poor, however the poor indirectly benefit through job creation, income generation, and energy access.
- The beneficiaries that are invested in are mostly medium in size, rather than small. Since, this agreement has been signed between FONERWA and DBR only some 8 months back, it is too early to assess whether the programme will truly be pro-poor.



*John Rwarihira discussing the role of DBR in financing LCRD*

### **Ethiopia: the role of the Development Bank of Ethiopia (DBE) in financing inclusive investment in a Climate Resilient Green Economy**

The final country case study was presented by **Nanki Kaur** on behalf of the Ethiopian delegation. This case study covers the role of the Ethiopia's main national development in financing LCRD under the



Climate Resilient Green Economy strategy. She began with a quick refresher from Day 1 of the dialogue on Ethiopia's CRGE strategy, which aims to target and benefit the poor. The capital needed to transition to a CRGE is huge and therefore, as a national development finance institution, the role of the DBE is crucial in financing inclusive investment in CRGE. The specific objective of the case study is to develop the shared understanding of the financing needs for inclusive investment in CRGE, to identify financial intermediaries and instruments, and to identify the incentive structures that the policy makers may take into consideration to promote inclusive investment in CRGE. CRGE Facility is trying to partner with DBE and it is to explore whether the partnership can unlock private sector investment in LCRD.

The DBE case study focuses on the example of the Market Development for Renewable Energy and Energy Efficient Programme (MDRREP) to identify the role the DBE played in channelling funds for inclusive investment in renewable energy. This is a new program which aims to remove the barriers to private investment in RE, such as access to credit, foreign currency and collateral. The MDRREP has the following characteristics:

- Source: World Bank
- Intermediaries: MFIs, NGOs
- Instruments: It uses concessional loans in two ways:
  - Credit line to support working capital of project developers through direct access to developers
  - Credit line to provide on-lending support to MFIs, who lend on to small households
  - MFIs then lend in market rate loan with short term-repayment tenure- market rate is quite high- biogas- 15% and solar 18%
  - Households prefer concessional loans and long term loans as market loans are higher
- Financial Planning System: DBE has a Credit Policy to invest in RE area, Rural Finance Policy that does not allow MFIs to access foreign direct investment
- Use and Users: It aims to promote RE and energy efficiency products like solar home systems, biogas etc. The users are project developers and households

The presentation then explained the various co-benefits, pro-poor targeting, and incentive structures that characterise the programme:

- Co-benefits include resilience benefits (social and economic) and emission reduction benefits (REDD, clean energy switch, organic fertilizer)
- Targeting the poor:
  - Technology choice: solar targets the poor, but biogas is less effective since it requires capital.
  - Through Intermediaries like MFIs who have the mandate to give money to saving groups.
- Incentive structures include: policy incentives, technological incentives, capacity based incentives, economic incentives

## Session 9: Meta-analysis of findings across the four country case studies

After having heard presentations from all the financial intermediary case studies, **Nanki Kaur** provided a meta-analysis of the findings. This analysis examined the collective investment needs, choices in the financial landscape, effectiveness metrics, and incentive structures that had been outlined by different case study presentations over the two-day event.

- Investment needs: financial and market development needs that includes access to finance, capacity of actors in the investment chain, effective markets.
- Choices in the financial landscape:



- Financial intermediaries: range of intermediaries - central funds, commercial banks, development banks, private sector organizations, credit linkage institutions (MFIs, NGOs)
- Financial instruments: grant, concessional loans, equity (from collateral), also there is a demand for risk finance from the countries
- Financial planning systems: all countries have policy direction to invest in LCRD, and institutional architectures to manage the finance and govern the flow are in place (some are new, and some are old institutional structures)
- Effectiveness in financing inclusive investment in LCRD:
  - Targeting the poor: targeted policy for pro-poor (some countries have this, while others do not), explicitly designed financial intermediaries and instruments, and technology choice may enable inclusive investment – though results vary by country
  - Co-benefits: all countries case study finding suggest that investing in LCRD can bring co-benefits relating to resilience, socio-economic development, emission reductions, and unlocking more investment
  - Appropriateness of finance: choices in the climate finance landscape can deliver appropriate finance in terms of long term finance, concessional loans, also identified risk finance as a means to leverage additional investment
- Incentives for:
  - Choice of financial intermediaries: economic, policy, and capacity based incentives (MFIs in case of Bangladesh and Ethiopia have the capacity to reach out to rural areas and have policy incentives)
  - Choice of financial instruments: economic, policy, capacity
  - Investment in LCRD: policy, economic, technological and capacity

## Session 10: *Buzz session - Designing policy recommendations for inclusive LCRD*

The final session of the dialogue once again allowed participants to interact in an informal manner – with a focus on synthesising lessons that had been learned throughout the two-day dialogue. In Session 10, participants split into two groups to discuss the types of policy recommendations that they would make if they were designing programmes to invest in inclusive LCRD.

Participants were asked to reflect on the following three questions, and report their findings back to the wider group once they had finished their discussions:

- What does inclusive mean?
- How do you mobilise and deliver finance – in terms of intermediaries, planning systems, etc.?
- What are the incentives structures that you can provide in unlocking additional finance?

### **Policy recommendations from Group 1:**

Group 1 began by explaining their recommendations in the context of the energy sector in a hypothetical LDC country:

- On the topic of inclusiveness, the Group said that the programme in question should disaggregate their targeting strategy into four categories on the basis of income level: i) poor ii) relatively poor iii) middle class iv) rich. For each category there will be separate policy intervention to ensure their access to energy.

- For the delivery of LCRD finance, Group 1 provided two policy recommendations. First they proposed the idea of having consumption-based prices for RE technologies, in order to address different income levels and lower prices for poor people who are likely to consume less. Second, the Group recommended that the government would work with the private sector to provide subsidised energy access to off-grid and remote areas of the population.
- Finally, on the topic of incentives, Group 1 explained that they would provide economic incentives for the poor such as access to low interest credit and upfront capital support, as well as encouraging rural monopolies so as to ensure private sector investment.

### Policy recommendations from Group 2:

Session 10 concluded with the recommendations from Group 2, followed by a discussion on the findings between the two groups.

- Group 2's first point was that at the policy level, decision-makers need to define the target beneficiaries of LCRD investment to make it more inclusive. This should be based on i) regional targeting, ii) targeted groups such as women and girls, socially marginalized groups, etc., and iii) based on a needs assessment within specific communities.
- Group 2 also discussed the best way to mobilise and deliver finance, highlighting the importance of rural intermediaries (e.g. MFIs) to leverage rural credit, and the importance of public-private partnerships to deliver LCRD investment programmes. Crucial here is the link between policy and economic incentives, which was a main theme coming out of the presentations and the meta-analysis.
- Concluding on the topic of incentives, Group 1 discussed the importance of supply-side incentives to incentivise the banking sector to invest in rural areas (e.g. tax incentives, concessional loans), as well as demand-side incentives for the poor to improve their ability to access and use LCRD finance effectively (e.g. capacity development of MFIs, support to entrepreneurs and people engaging in income-generating activities).



*Group 1 discussing policy recommendations for LCRD investment*

## Conclusion

After 10 engaging sessions over two days, the conference organisers wrapped up the two-day dialogue – thanking presenters for their enlightened presentations, and participants for their important contributions to the discussions. IIED representatives thanked Clean Energy Nepal in particular, for organising an excellent workshop, and acknowledged all the hard work that went into planning such a successful event.

## Further reading

See <http://www.iied.org/reaching-those-need-it-most-learnings-for-climate-finance-programmes> for a blog summarising the two day dialogue.

From 30 March to 31 March, 2015 participants from Nepal, Bangladesh, Rwanda and the United Kingdom gathered in Kathmandu, Nepal to take part in a cross-country dialogue on 'financing inclusive low-carbon climate resilient development (LCRD)'. It builds on two years of research on the political economy of climate change planning conducted by the IIED and research institutions in Bangladesh, Ethiopia, Nepal and Rwanda. In its second year, this project focused on how to finance a transition to a low-carbon, climate resilient pathway, bringing together research partners, bilateral and multilateral partners, financial actors and local beneficiaries.



## Event Materials

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### Theme

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*Keywords:*  
low-carbon climate resilient development,  
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