

B.O. 2. “Bangladeshi Green SME Financing: A First Mover Advantage”

Md.Mehbuboor Rahman has been with IDLC for two years, since then he has been building the green portfolio in IDLC from the start.

Intro: In past times we tried to use our natural resources, however as we are experiencing the negative effects of climate change, we need to think of ways that are steered towards a greener future.

FI's contribution in carbon emission;

In-house: paper consumption, power and fuel

Financing perspective; construction materials, power, textile and leather, pharmaceuticals & pesticides.

In 2009 the Bangladesh Bank (BB) started stimulating the financial sector to take on green financing through their Green Financing Scheme. IDLC kicked off their journey in 2013 together with assistance of FMO's CD.

Their roadmap towards green banking:

- 1) Establishment of a green banking unit; specific capacity is needed to push forward green banking
- 2) Formulating a green policy – with help from the international consultant
- 3) Awareness raising was very important to get internal buy in which is being assisted by partnerships with DFIs, including in-house trainings on E&S risk and opportunities management but also sector specific customer awareness events (where they focus on specific sectors that represent the low hanging fruits for EE/RE).
- 4) Green marketing; we are trying to pool stakeholders (BB, DFIs, consultants) to help us, this enhances our green branding image.
- 5) Green Finance, building the a green portfolio (14 mln might not be much but considering it has been built in 8-9 months is worth mentioning)

In addition IDLC together with help of international consultants, have been able to develop a ESMS to manage their E&S risks.

Key point 1: Having a clear roadmap towards green banking is essential for success!

“I need to change myself in order to change others, I cannot clean your house if my own house is dirty” meaning that we need to do first simply modifications our self for in-house environment management

Key point 2: You will need to invest heavily in creating internal buy-in and internal awareness!

Ongoing projects that IDLC invests in is; fire safety, solar energy, energy efficiency (converting old machinery, or using less resources)

Key point 3: Making use of public private partnerships* for green financing can create win-win opportunities and scale up business!

* Example of partnership IDLC had with USAID

Free energy audits and grants provided by USAID but they couldn't find clients, IDLC had a large client base already so they partnered up and ensured win-win on both sides, in addition for the client as well as the energy efficiency alterations lead to cost efficiency as well. Also the clients benefit by, having longer tenors, flexible terms and the lower interest rates (IDLC lend the rest amount) which was made possible by the Green re-financing Scheme.

Key point 4: With IDLC's projects (for example Solaric) we are able to create both environmental and social impact at scale at rural areas!

Key 5: We are trying to be a one-stop shop for our clients, thus serving the client not only financially but also with technical assistance, thus doing much more to fix market imperfections!

In the coming 5 years the context of Bangladesh is a bit more ripened to do without grant components, however now it is still a big sweetener for most entrepreneurs. Despite the subsidizing aspect, and the re-financing schemes it is a profitable business. The question is more on how to think of smart incentives that can be used to push for a more market based model.

Key 6: A key component to green financing is the technological aspect, being able to recognize opportunities, but also enabling, building capacity at clients to recognize EE opportunities!

Key 7: However the most important in this green-inclusive financing, is the commitment, enthusiasm of the bank to do this: developing internal capacity and awareness, establish relationships with partners and this being able to from the start identify opportunities. In addition the ultimate role of DFIs is to build further with these type of clients!

In Bangladesh not many other banks are motivated to do this. IDLC is one of the few who does this, therefore IDLC advises others that they need a top down approach to trickle down with their motivation. But also having the room to be trained, so IDLC's management send 6 of their staff to take a course on energy auditing to be knowledgeable on the subject. Furthermore in Bangladesh the EE projects do yield benefits but it does take a long time period therefore incentives are needed.

Key 8: To make the 'green pie bigger' or to upscale green financing, DFIs and other donors should coordinate efforts better to create the whole infrastructure that supports both public regulation, capacity building and the cooperation between IFIs to push this forward.