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POLICY BRIEF
2024 (5)

How Bangladesh's Renewable Energy Sector Can Attract Chinese Overseas Investment?

Addressing the Fiscal and Financial Challenges

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Highlights

Financing in renewable energy-based power generation in Bangladesh is overwhelmingly dominated by conventional loans (91.7 per cent) followed by green bonds (3.1 per cent), syndicated term loans (2.0 per cent), equity (1.6 per cent) and non-concessional loans (1.1 per cent), etc.

Only a few financial and fiscal instruments are available for attracting overseas investment in the renewable energy sector in Bangladesh. China's multiple fiscal and financial models can be tested in Bangladesh in the future. These include (a) Public-Private Partnerships (PPPs); (b) Build-Operate-Own-Transfer (BOOT); (c) Loan from National Development Banks; (d) Tax Credits and Exemptions; (e) Accelerated Depreciation; (f) Preferential loans; (g) Carbon trading; and (h) Renewable energy certificates.

Attracting Chinese overseas investment requires special measures: establishing a fund offering hedging products, subsidised currency swaps, and partial guarantees for foreign exchange losses; establishing bilateral currency swap agreements; offering long-term PPAs with fixed tariffs; collaboration with Chinese educational institutions; a functional 'one-stop-shop' system for managing all permits and approvals under a single agency; and MDBs such as World Bank, ADB, and IFC, could extend partial risk guarantees to minimise investment risks.

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1. Introduction

Accelerating renewable energy financing is essential for Bangladesh to achieve its ambitious target of 40 per cent renewable energy-based power generation by 2041. Currently, renewable energy constitutes only 4.5 per cent of the country's total energy mix, underscoring the need for substantial investment to meet future goals. Along with different domestic and international energy financing overseas investment, particularly from China, could be a key contributor to the sector. China is the largest overseas investor in the renewable energy sector – it has invested about USD 676 billion in clean energy in 2023, accounting for about 38 per cent of the global total. According to Bloomberg, it is projected to be USD 680 billion in 2024. Given the substantial investment requirement in Bangladesh's renewable energy sector (USD 1.53 billion to USD 1.71 billion per year), Chinese overseas investment could be an important source for that financing.

It is to be noted that Bangladesh's traditional fiscal and financial instruments are likely to attract overseas investment at limited scale. China's practices of various fiscal and financial instruments in attracting investment at domestic and overseas markets, could be good lessons for Bangladesh. In this backdrop, this brief is prepared based on a detailed study on 'Navigating Fiscal Landscapes: Targeting Chinese Overseas Investment in Bangladesh's Renewable Energy Sector 'with four specific objectives: (a) reviewing the existing fiscal and financial instruments for renewable energy financing as well as their limitations in attracting investment; (b) identifying major constraints related with supply chain development in the renewable energy sector; (c) taking lessons from China's renewable energy financing and (d) finally, putting forward, a set of recommendations for the policymakers, bureaucrats and financing agencies to attract overseas investment, especially Chinese overseas investment in the country.

2. Overview of Financing in the Renewable Energy Sector of Bangladesh

Bangladesh's overall power generation based on renewable energy is 1374MWp – out of which 798 MWp is generated through on-grid and 576MWp is generated through off-grid. About 39.1 per cent of this power is generated by solar-based on-grid power plants (537 MWp), 4.4 per cent is generated by wind-based power plants (60.9 MWp), 14.6 per cent by hydropower (200MWp) and the remaining 41.9 per cent is generated by off-grid solar home system (576 MWp). Private sector generates the highest share of this renewable energy base power (847MWp, 61.6 per cent), followed by the public sector 292 MWp, 21.2

Table 1: Solar and Wind-based On-Grid Power Plants

Ownership	Solar based on grid power plants		Wind-based on-grid power plants		
	No. of plants	Total generation capacity (MWp)	No. of plants	Total generation capacity (MWp)	Completed and running plants
Public	4	91	4	112.9	0.9 (1)
Private	6	211	3	215.0	60 (1)
Joint venture	2	235	1	30.0	n.a.
Not classified			4	275.0	n.a.
Total	**12**	**537**	**12**	**632.9**	**60.9**

Source: Based on the database available at: www.changeinitiaitves.bd

per cent) and by the joint venture (235 MWp, 17.1 per cent). Table 1 presents solar-based and wind-based power plants in terms of their ownership.

Investors in Bangladesh's renewable energy sector primarily use loans to finance projects (Table 2). According to BPDB, about USD 9.5 billion has been invested in 11 solar-based power plants generating 537 MWp of electricity till 2003. Loans account for the largest share of financing, at 91.7 per cent (USD 8.7 billion). Other financing options include bridge loans (0.27 per cent), concessional loans (0.16 per cent), equity (1.62 per cent), green bonds (3.12 per cent), non-concessional loans (1.1 per cent), and syndicated term loans (2.04 per cent). This highlights a strong reliance on loans for financing renewable energy projects.

Despite private entities owning more solar plants, public entities receive more investment due to factors such as government prioritisation, access to international aid, and concessional loans. Public projects are often perceived as lower risk because of government backing, guarantees, and economies of scale, which make large-scale projects more attractive to investors. In contrast, private entities typically handle smaller projects with higher perceived risks and limited access to capital.

From 2010 to 2022, cumulative investments in the sector reached approximately USD 39 billion, with around USD 1 billion directed towards renewable energy between 2016 and 2021, according to the International Energy Agency (IEA). China has been the largest investor in Bangladesh's power sector during this period, contributing USD 12.29 billion from 2010 to 2023. However, most of this investment was concentrated in non-renewable energy sources, with 51.7 per cent in coal-based projects, 9.4 per cent in gas, 8.1 per cent in oil, and only 4.8 per cent in alternative energy.

The peak of Chinese investment occurred between 2015 and 2019, with 77.5 per cent of the total investment during these years, but this trend has declined in recent years. Chinese state-owned enterprises (SoEs) have dominated the investments, accounting for 93.2 per cent of the total, while only 6.8 per cent came from private investors. Globally, the private

Table 2: Finance in Solar-based On-Grid Power Plants Currently Running

(mil. USD)

Source	Public (mil. USD)	Private (mil. USD)	Joint venture (mil. USD)	Total (mil. USD)
Government funded	n.a. (1)	n.a.	n.a.	n.a. (1)
Bridge loan	n.a.	25.8 (1)	n.a.	25.8 (1)
Concessional loan	15 (1)	n.a.	n.a.	15.0 (1)
Equity	n.a.	155.5 (3)	n.a.	155.5 (3)
Green Bond	n.a.	n.a.	300 (1)	300.0 (1)
Loan	8,766 (2)	31.5 (1)	n.a.	8797.5 (3)
Non-concessional loan	103 (1)	n.a.	n.a.	103.0 (1)
Syndicated term loan	n.a.	196.0 (1)	n.a.	196.0 (1)
Total (mil. USD)	**8884 (5)**	**408.8 (6)**	**300 (1)**	**9592.8 (12)**

Source: Based on the database available at: www.changeinitiaitves.bd

sector is increasingly leading investments in renewable energy, whereas, in Bangladesh, SoEs still play the primary role. To enhance its renewable energy sector, Bangladesh needs to attract more private investments along with financing of Chinese SoEs.

China is a major global investor in the renewable energy sector across the world. Chinese companies, including SoEs and private firms, have been major global investors in the power sector, with a significant focus on renewable energy. With approximately USD 115 billion in electric power assets worldwide, Chinese investments have been predominantly directed towards developing countries in Asia and Latin America. These investments span various power sources, with hydropower, wind, and solar receiving the most attention. Notably, while a substantial portion of Chinese investment still supports fossil fuel-based projects, there is a growing trend of private Chinese companies focusing on renewable energy technologies. By adapting China's successful investment strategies, Bangladesh can overcome barriers, mitigate risks, and create a more conducive environment for attracting Chinese investment into its renewable energy sector.

3. Financial Instruments Available for Overseas Investment in Bangladesh's Renewable Energy Sector

There are only a few financial instruments available to attract overseas investment in Bangladesh's renewable energy sector.

3.1 Bangladesh Bank Refinancing Schemes

Bangladesh Bank has introduced several refinancing schemes to support sustainable projects. The Green Transformation Fund (GTF), initially USD 200 million and later expanded to Euro 200 million (totaling USD 418.7 million), offers long-term financing at favourable rates for green and energy-efficient machinery, particularly in renewable energy. The Technology Development Fund (TDF), valued at Tk 1,000 crore (USD 118 million), supports technological upgrades in export industries, providing loans at 5 per cent to 6 per cent interest over 3 to 10 years.

In 2023, Bangladesh Bank allocated significant funds toward green finance, with banks disbursing BDT 126.41 billion (USD 1.06 billion) and non-bank financial institutions BDT 23.58 billion (USD 0.2 billion). Bangladesh Bank mandates that 15 per cent of banks' annual loans go to sustainable projects, with 2 per cent specifically for green projects, ensuring financial resources are directed toward environmentally beneficial initiatives. Green loans must meet strict environmental criteria, with provisions for transparency and accountability.

Additionally, Bangladesh Bank issues and promotes green bonds, which finance climate and environmental projects. These bonds require certification from accredited organisations, adherence to recognised standards like the Climate Bonds Initiative (CBI), and regular reporting on the environmental impact, ensuring their contribution to sustainability goals.

3.2 Development Loans and Grants

The International Development Association (IDA) has committed USD 40 billion, with USD 524 million dedicated to renewable energy. A collaborative USD 320 million climate finance initiative involving the ADB, World Bank, and others further underscores global support for Bangladesh's energy transition.

The European Investment Bank (EIB) and the European Union have pledged Euro 395 million to install 750 MW of renewable energy capacity, including a Euro 350 million framework loan and a Euro 45 million grant. Additionally, the International Finance Corporation (IFC) is investing USD 15 million in the Southeast Asia Clean Energy Fund II, targeting renewable projects in Bangladesh. Germany has also offered Euro 232.5 million in assistance under the Bangladesh-German Development Cooperation Negotiations 2024.

4. Fiscal Instruments Available for Overseas Investment in the Renewable Energy Sector

There are a few fiscal instruments available for investment in Bangladesh's renewable energy sector. All the fiscal incentives apply for renewable energy projects that require local and foreign financing including those of the overseas investment and financing from China.

4.1 Tax Holiday

In Bangladesh, power generation companies (excluding coal-based) that begin operations between January 1, 2023, and June 30, 2024, receive a full income tax exemption until June 30, 2036, limited to income from power generation. Companies starting between July 1, 2024, and June 30, 2025, receive a 100 per cent tax exemption for five years, reducing to 50 per cent for the next three years and 25 per cent for the following two years. Additionally, 30 per cent of tax-exempt income must be reinvested, with 10 per cent of profits invested in shares of listed companies in Bangladesh. However, compared to China, Bangladesh's tax holiday tools are not stable, long-term and follows a progressive reduction in exemptions.

4.2 Reduction on Custom Duties

In Bangladesh, parts and machinery for renewable energy production often benefit from customs duty exemptions, with some items, like photovoltaic cells and solar lanterns, entirely exempt. Complete photovoltaic systems and wind power

generators enjoy a minimal 1 per cent duty, while solar water heaters with insulated tanks are subject to a reduced 10 per cent duty. These incentives aim to stimulate investment in renewable energy technologies. Unlike China, Bangladesh's reduction on custom duties is not across the entire renewable energy supply chain.

4.3 Net Metering Policy

Bangladesh's Net Metering Guidelines-2018, developed by the Sustainable and Renewable Energy Development Authority (SREDA), aims to promote renewable energy through rooftop solar installations. Under this policy, consumers with renewable energy systems can export excess electricity to the grid, with their electricity bills adjusted accordingly in the following month. Residential users can install up to 25 kWp systems, while commercial users are allowed up to 300 kWp. The tariffs for excess solar energy fed back into the grid vary by distributor, ranging from BDT 4.3679 to BDT 6.4531 per kWh. Currently, Bangladesh has 1,941 net metering systems, amounting to 84.592 MW. While Bangladesh's policy is a significant step towards renewable energy promotion, the variation in tariffs and capacity limits for residential and commercial users introduces complexity. It may limit the full potential of larger-scale installations, making the system less attractive compared to China's more straightforward and uniform approach.

4.4 Feed-in Tariff

In Bangladesh, solar projects are incentivised with a Feed-in Tariff (FiT) of USD 0.10 per kWh, and the inaugural onshore windmill is set at USD 0.12 per kWh. The BPDB guarantees to purchase power from these projects at these fixed rates for about 20 years. In 2023, the government approved FiTs for three major solar projects totalling 370 MW, including a 200 MW facility in Dinajpur, a 100 MW project in Feni, and a 70 MW plant in Bandarban, ensuring stable revenue throughout the project lifespan.

However, the government has yet to establish long-term, competitive tariffs that guarantee stable and predictable revenue for renewable energy producers across all projects. These tariffs are also not periodically adjusted to reflect market and technological changes, reducing financial risks for investors like the case of China.

5. Challenges and Risks for Overseas Investment in Bangladesh's Renewable Energy Sector

Investors in Bangladesh's renewable energy sector face multiple risks, particularly due to high fixed costs and challenges in securing financing. To support these investments, Bangladesh Bank has implemented several refinancing schemes, including a BDT 4 billion fund for green initiatives, a BDT 1.5 billion scheme for Islamic banks, a USD 200 million Green Technology Fund (GTF) for the textile and leather sectors, and a BDT 10 billion Technology Development Fund (TDF).

China's investment in Bangladesh's renewable energy sector largely depends on access to favourable financing. While global funds totalling USD 39.74 billion are available, Chinese investors prefer financing from Chinese institutions like those linked to the Belt and Road Initiative (BRI) due to their concessional rates and longer repayment terms.

However, economic challenges in Bangladesh are creating uncertainty about future Chinese investments. Chinese investors typically avoid direct involvement in the early planning stages of projects, preferring that local entities handle planning and site selection. This allows Chinese companies to join later as equipment providers and investors, which also facilitates access to Chinese financing.

Chinese companies may establish local entities to operate energy projects, but they prefer quick ownership transfers, contrasting with Bangladesh's preference for longer-term transfers. To attract Chinese investment, Bangladesh needs to focus on rapidly developing its transmission infrastructure. Without this, Chinese investors may hesitate to invest in renewable energy projects despite the potential benefits. Adopting a short-term Build-Operate-Transfer (BOT) model could help address these infrastructure challenges and align with Chinese investor expectations.

There are some key risks that persist, including currency risks due to local currency volatility, permit risks from bureaucratic hurdles, and financing risks related to securing affordable funding. Additional challenges include land acquisition issues, social acceptance, grid limitations, and off-taker credit risks, all impacting project feasibility.

A major concern for Chinese investors is the Bangladesh government's insistence on resolving disputes domestically, contrary to international norms favouring neutral, third-party arbitration. Additionally, the ongoing foreign reserve crisis and lack of guaranteed initiatives for foreign investors have raised concerns about the ability to repatriate returns in USD. Unlike other developing countries, Bangladesh has not adopted strategies like Partial Risk Guarantees (PRG) through institutions such as the New Development Bank (NDB) or the Asian Infrastructure Investment Bank (AIIB), further discouraging foreign investment.

Among the non-financial issues, a total of 9 concerns have been found under 3 major categories. Under the category of institutional environment, the challenges are administrative delays, corruption in project allocation, risks owing to

Table 3: Major Concerns from an Overseas Investment Point of View

Category	Variable	Concerns
Institutional Environment	Administrative Delays	• Lengthy authorisation procedures
		• Significant expenses for Environmental Impact Assessments (EIAs)
		• Customs delays
	Corruption in Project Allocation	• Lack of competitive bidding
		• Projects are often allocated through direct negotiations
		• Risks and delays in project completion
	Inconsistency of Rules and Processes	• Regulatory framework inconsistency
		• Multiple approvals are needed for EIA reports, causing extra costs and delays
	Lack of Priority Access to the Grid	• National grid's limited capability to absorb and dispatch renewable energy
		• Peak power output access issues
	Development Plan and Renewable Target	• Existing laws need amendment and congruency
		• Demand for a unique policy for investors and companies
Macroeconomic Environment	Absence of Fixed Exchange Rate	• Exposure to exchange rate fluctuations
		• Financial viability concerns
	Access to Local Finance	• High costs of local finance
		• Limited venture capital and bond market
		• Bureaucratic hurdles and high financing costs
	Lack of Skilled Labour	• Inadequate sector knowledge among professionals
		• High training costs and time lost
Natural Condition	Availability of Land	• Prolonged negotiations with landowners

Source: Authors' findings from the KIIs.

regulatory inconsistency and lack of priority access to national grid. In case of macroeconomic environment, the challenges are currency risks, access to local finance, and a lack of skilled labour. On the other hand, the challenges under natural condition include limited availability of land, regulatory barriers in accessing land by foreign investors and complex process of setting land related negotiations, Table 3 presents the challenges under above mentioned three different categories. Detailed discussion is available in the paper.

6. Financial and Fiscal Instruments for Renewable Energy Financing in China: Lessons for Bangladesh

To address the challenges and risks associated with attracting overseas investment in Bangladesh's renewable energy sector, it is essential to examine the successful strategies employed by key global players like China. As a leading investor in renewable energy, China has implemented effective fiscal and financial mechanisms that have driven its renewable energy expansion both domestically and abroad. By understanding these strategies, Bangladesh can better align its policies with the expectations of Chinese investors, enhancing its appeal as an investment destination.

Multiple fiscal and financial models for promotion of renewable energy in China can be duplicated in Bangladesh in the future.

Public-Private Partnerships (PPPs): Public-Private Partnerships (PPPs) in renewable energy involve private companies providing funding and expertise while the government offers subsidies, tax incentives, and favourable regulations. These long-term contracts share risks and rewards between the public and private sectors, with the government often guaranteeing minimum revenues to attract investors.

In China, PPPs drive innovation by bringing advanced technologies and efficient management to renewable energy projects, accelerating their development, and helping meet renewable targets. Policy certainty is vital for financing these projects; China's 2013 reform, which fixed electricity prices for

25 years, provided the stability needed to secure investments and achieve ambitious renewable energy goals.

Feed-in Tariffs (FiTs): Initially introduced in 2009 for onshore wind, solar PV, distributed solar, and offshore wind sectors, the National Development and Reform Commission has periodically adjusted China's Feed-in Tariff (FIT) rates. These adjustments have set benchmark tariffs and subsidies to promote technological advancement and competitiveness in the renewable energy sector. In 2021, the subsidy structure shifted towards market-oriented transactions, reducing central government subsidies for new projects. This change aims to foster sustainable growth in industries such as photovoltaic power generation, onshore and offshore wind power, and solar thermal power generation.

Build-Operate-Own-Transfer (BOOT): The Build-Operate-Own-Transfer (BOOT) model is a public-private partnership approach widely used in sectors like infrastructure and energy, including China's renewable energy sector. In this model, a private entity finances, designs, constructs, and operates a renewable energy facility for a set period, during which it owns the project and bears all operational risks and costs. Revenue from energy sales provides a return on investment. After the agreed period, ownership of the project transfers to the public sector, typically at no cost.

The BOOT model offers significant advantages for China's renewable energy sector. It allocates operational risks to the private sector, allowing the public sector to focus on providing a stable regulatory environment. This risk transfer enhances efficiency and innovation as private entities bring advanced technologies and management practices. Additionally, the BOOT model leverages private capital, reducing the need for immediate public expenditure and easing fiscal burdens. These benefits lead to higher quality standards and potentially faster deployment of renewable energy projects, supporting China's environmental goals and energy demands.

Loan from National Development Banks: China has emerged as a global leader in renewable energy, driven by policy banks like the National Development Bank (NDB). By 2023, China saw an 85 per cent increase in solar PV and a 60 per cent rise in wind energy capacity, part of its strategy to meet 2030 targets ahead of schedule. The NDB, crucial to this growth, plans to increase its loans by USD 1.2 billion annually, with USD 911 million already allocated to clean energy projects. With strong financial backing and a supportive policy environment, China is on track to achieve nearly 60 per cent of the world's new renewable capacity by 2028, underscoring its commitment to a sustainable energy future.

Tax Credits and Exemptions: China offers VAT exemptions on the import of essential renewable energy equipment, such as wind, solar, biomass, and hydroelectric power generation systems, to reduce initial capital costs and enhance project viability. Additionally, enterprises in the renewable energy sector can benefit from a reduced Corporate Income Tax (CIT) rate of 15 per cent, down from the standard 25 per cent, significantly lowering operational costs. Furthermore, some renewable energy projects are eligible for tax holidays, providing full CIT exemption in the initial years and reduced rates thereafter. This phased tax relief supports improved cash flow and financial stability for renewable energy companies during their crucial early stages.

Accelerated Depreciation: Renewable energy assets in China often qualify for accelerated depreciation schedules, enabling companies to write off investment costs more quickly, thereby improving financial returns and encouraging further investment. Additionally, enterprises investing in renewable energy can sometimes deduct a substantial portion of their investment from taxable income, providing a direct financial incentive to support renewable energy development.

Green Bonds: In 2023, China solidified its position as one of the world's largest issuers of green bonds, with a total issuance of approximately USD 77.7 billion, marking a significant increase from previous years. A substantial portion of these funds was directed toward renewable energy projects, such as solar, wind, and hydroelectric power. For example, the Industrial and Commercial Bank of China (ICBC) allocated a large share of its green bond proceeds to develop large-scale solar and wind farms, supporting China's goal of reaching 1,200 GW of solar and wind capacity by 2030.

To enhance the green bond market, the People's Bank of China (PBOC) introduced new guidelines in 2022 to standardise the market, including clear definitions of green projects, stringent reporting requirements, and third-party verification. Additionally, in 2023, China adopted the Green Bond Principles (GBP) from the International Capital Market Association (ICMA), aligning its green bond market with international standards. This alignment not only boosts transparency and investor confidence but also attracts foreign investment by meeting global best practices in environmental standards.

Preferential Loans: China's policy banks, such as the Export-Import Bank of China (Exim Bank), provide preferential loans. These financial products, including low-interest loans and long-term financing, are specifically designed to support clean energy initiatives.

In 2023, the China Development Bank (CDB) alone provided over USD 30 billion in preferential loans for renewable energy projects. This funding has supported various initiatives, from large-scale solar farms in desert regions to offshore wind projects along the coast.

Notable projects benefiting from these loans include the Three Gorges New Energy project, one of the world's largest solar farms, which received significant financing from the CDB to add 10 GW of solar capacity. Additionally, the Longyuan Wind Power Group, backed by preferential loans, expanded its wind energy capacity by over 5 GW.

Carbon Trading: China launched its national emission trading system (ETS) in July 2021. It became the world's largest carbon market by covering approximately 2,200 power plants and accounting for about 4.5 billion tons of CO_2 emissions annually. The ETS incentivises reductions in greenhouse gas emissions by putting a price on carbon, thereby making renewable energy projects more economically attractive compared to fossil fuels.

The ETS directly supports the renewable energy sector by increasing the cost competitiveness of clean energy sources like wind, solar, and hydroelectric power. In 2023, the average carbon price in China's ETS was around 40 yuan (USD 6.20) per tonne of CO_2, with the trading volume reaching over 179 million tonnes of CO_2 and a market value exceeding 7.1 billion yuan (USD 1.1 billion). As the market matures and expands to include more sectors, such as cement, steel, and petrochemicals, the ETS is expected to cover about 8 billion tonnes of CO_2 by 2025.

To ensure the effectiveness of the ETS, the Chinese government is enhancing its regulatory framework and market mechanisms. This includes improving monitoring, reporting, and verification (MRV) systems and developing financial instruments like carbon futures and options to provide greater flexibility and risk management for market participants.

Renewable Energy Certificates (RECs): China's Renewable Energy Certificate (REC) market, launched in July 2017, supports renewable energy development by allowing producers to sell certificates for the energy they generate, separate from the physical electricity. By the end of 2023, over 20 million RECs had been issued, reflecting strong market growth.

Government policies, including mandatory REC purchases for large energy consumers and subsidies, have driven demand and provided stable revenue streams for renewable energy projects. China is also integrating the REC market with its carbon trading system (ETS) to help companies meet renewable energy and carbon reduction targets more efficiently.

In 2023, REC revenues supported over 5 GW of solar PV and 4 GW of wind energy projects, contributing significantly to China's renewable energy goals.

7. Suggested Measures for Attracting Overseas Investment in the Renewable Energy Sector of Bangladesh

Based on the findings, the following recommendations are prescribed for both the Bangladesh's authority and potential Chinese investors according to the timing of their implementation (immediate and long-term actions):

7.1 Financial Strategies and Currency Risk Management

Immediate Actions: To address currency risks, the Bangladesh government should establish a fund offering hedging products, subsidised currency swaps, and partial guarantees for foreign exchange losses. This would immediately provide a safety net for Chinese investors concerned about currency fluctuations. Local banks should be encouraged to offer credit in BDT and incentivise foreign investors to use BDT-denominated bonds, reducing reliance on foreign currency debt.

Long-term Actions: Establishing bilateral currency swap agreements with key partners will help stabilise local currency liquidity and reduce foreign currency risks over time for Bangladesh. Bangladesh can develop a foreign exchange stabilisation fund and promote local currency financing, following China's example of RMB-denominated investments. State-backed institutions can offer hedging instruments, such as forward contracts and swaps, to provide long-term exchange rate stability.

7.2 Market Risk and Revenue Certainty

Immediate Actions: To provide revenue certainty and reduce market risks, the government should offer long-term PPAs with fixed tariffs to ensure predictable returns for investors. A stabilisation fund must be created to compensate investors for revenue losses due to unexpected regulatory changes or market fluctuations.

Long-term Actions: Public-Private partnerships with government-backed financial guarantees must be promoted to further enhance investor confidence in the long term.

7.3 Labour Market Development

Immediate Actions: Collaboration with Chinese educational institutions to set up specialised training institutes and vocational programmes to quickly upskill the local workforce can be made.

Long-term Actions: Implementation of labor mobility programmes to distribute skilled labour where needed, and foreign companies could be incentivised to establish local training centers and partner with local firms to improve competitiveness over time.

7.4 Access to Local Finance and Green Investment

Immediate Actions: Bangladesh Bank and local private banks should establish state-backed green banks or dedicated renewable energy funds to offer lower-cost financing and accelerate renewable energy projects.

Long-term Actions: Tax incentives, subsidies, and a favorable regulatory environment for green bond markets and venture capital investments must be provided. This will create a robust ecosystem for renewable energy financing in the future. Simplifying administrative processes and reducing bureaucratic barriers to lower the cost of accessing finance will make the investment environment more attractive.

7.5 Regulatory Framework and Investment Climate

Immediate Actions: To reduce corruption in project allocation, Bangladesh should adopt a transparent competitive bidding system, similar to China's model, ensuring fair opportunities for all investors.

Long-term Actions: A 'one-stop-shop' system for managing all permits and approvals under a single agency to reduce delays and minimise regulatory burdens for investors should be established. Implementing a consistent and clear regulatory framework, modeled after China's Renewable Energy Law should be initiated to reduce investor uncertainty and foster long-term investment stability.

7.6 Risk Mitigation for Foreign Investors

Immediate Actions: Bangladesh Bank, in collaboration with global financial institutions such as the World Bank, ADB, and IFC, should enable partial risk guarantees to minimise investment risks and attract more foreign investment.

Long-term Actions: Bangladesh should adopt a dispute resolution policy aligned with international arbitration standards, allowing for neutral third-country venues in cross-border investment disputes. This will strengthen investor confidence in long-term project stability.

7.7 Currency Conversion Channels and Investor Assurance

Immediate Actions: In light of Bangladesh's foreign reserve crisis, Bangladesh Bank should establish a dedicated local currency conversion channel for renewable energy investors, ensuring timely conversion of returns from BDT to USD.

Long-term Actions: Bangladesh should continue pursuing China's proposed loan assistance of USD 5 billion in Chinese currency to mitigate foreign reserve pressures and further strengthen investor confidence.

7.8 Global Climate Funding and Diversified Financing

Immediate Actions: Chinese investors should be encouraged to diversify their funding sources by tapping into global climate funding, particularly non-Chinese resources, to align with global efforts to support renewable energy in vulnerable regions.

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October 2024