Briefing

Policy and planning

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Climate finance governance in Bangladesh: synergies in the financial landscape

Policy pointers

The government needs to fast track the process of adopting and implementing the Climate Fiscal Framework. This will ensure better synergy among financing intermediaries to leverage investments that are greater than the sum of their parts.

Policymakers should establish a coordination mechanism to manage and oversee the multiple intermediaries working in Bangladesh. This would compress fragmented prioritisation and resource allocation.

The government should introduce effective intermediaries at local level, and develop the capacity of local government bodies to efficiently draw down finance and disburse resources more effectively.

Finding innovative financial and economic instruments to leverage climate finance from international sources would allow the government to minimise the resource gap while also maximising the best use of resources.

There are diverse intermediaries, instruments and planning systems in Bangladesh's financial landscape. Although they all play a role in mobilising and channelling resources to climate-related investments, disbursement is fragmented. Between 2009 and 2013, Bangladesh needed US$5 billion of investment in climate-related initiatives, but only leveraged US$1 billion. To minimise this deficit and maximise opportunities, it needs to establish local financial intermediaries to complement existing intermediaries, use innovative economic and financial instruments and use financial planning systems to ensure better synergy across the financial landscape.

Bangladesh has adopted a pro-poor, climate-resilient, low-carbon development pathway for attaining sustainable development by 2021. Its Climate Change Strategy and Action Plan (BCCSAP) indicates an investment requirement of around US$5 billion in climate-sensitive activities for the period 2009–2013. However, to date Bangladesh has only leveraged a little over US$1 billion from the major funds available.

Bangladesh's financial landscape includes a wide range of intermediaries, instruments and planning systems that play a role in mobilising and channelling funds to support investments in low-carbon, climate-resilient development. But the lack of internal resources and shortage of overseas funds call for an integrated approach to ensure that available funds are effectively mobilised and used. This paper outlines how policymakers can design Bangladesh's financial landscape to ease its transition to a climate-smart development pathway.

Coordination and synergies among intermediaries

Bangladesh uses diverse financial intermediaries to tap into public and private funding from national and international sources. Each specialises in drawing down from a particular source of finance and disbursing to specific investors. For example, Bangladesh Climate Change Trust Fund (BCCTF) draws from national public sources; Bangladesh Climate Change Resilience Fund (BCCRF) draws from bilateral sources, including UK, EU, Sweden, Switzerland, USA, Australia and Denmark; and the Strategic Climate Fund's Pilot Project for Climate Resilience draws from multilateral sources.

The country also relies on multilateral development banks and agencies to draw down on and disburse resources to support low-carbon resilient development (LCRD) investments, such as the World Bank, Asian Development Bank and International Finance Corporation. Other major intermediaries include the Global Environment

Facility (GEF) and national banks such as green banking through the Central Bank.

The multiple intermediaries work efficiently because they specialise in accessing different sources. But they are also very projectised in nature, and resource prioritisation and allocation is fragmented as a result. There needs to be better synergy among all the intermediaries so that investments are greater than the sum of their parts. This can be achieved by designing institutional arrangements that have the mandate and capacity to manage and coordinate climate investments.

Better synergy among intermediaries will make investments greater than the sum of their parts

With its bird's eye view of the entire development portfolio, the Planning Commission will be able to ensure better coordination among all these intermediaries and better synergy in fund allocation and investment decisions. Establishing close links with the Ministry of Finance, which has absorptive and financial capacity, will ensure the efficient management of resources. Working closely with a body with proven financial management capacity will also give the Planning Commission access to international funds it may otherwise be denied.

Developing the capacity of local government intermediaries

There is currently a gap in local-level financial intermediaries. Given that a large proportion of LCRD investments target the local level, it is essential to establish intermediaries that have the mandate and capacity to channel finances into local-level LCRD investments. Local government institutions (LGIs) are one option. The lowest level of government, LGIs in rural and urban areas have different set-ups, but they all have a mandate to mobilise and disburse resources to support development initiatives.[2]

Regardless of the intermediary involved, channelling the flow of climate finance through LGIs would establish a sustainable institutional mechanism at local level. But LGIs do not have the tools, systems or manpower in place to determine climate impacts on different vulnerable communities. Their current funding — via central government and donor funds, locally generated revenues, household spending and private funds — does not meet existing local needs.[3]

To enable LGIs to leverage funds from different intermediaries, their mandate needs to be enhanced to include mobilisation, management and disbursement of climate finance. To this end, they should be supported by capacity building initiatives to:

Table 1. Bangladesh's climate change financial landscape

Sources of climate finance	Intermediaries	Economic and financial instruments	Financial planning systems and institutional arrangements	Uses and users of climate finance
National public finance (national budget)	Bangladesh Climate Change Trust Fund Ministry of Environment and Forest	Grants Fixed deposits	Bangladesh Perspective Plan (2010–2021) Sixth Five Year Plan (2011–2015) BCCSAP (2009) Bangladesh Climate Change Trust Fund Policy Climate Change Trust Act (2010) National budget	Various BCCSAP initiatives, implementing government agencies, local non-governmental organisations, universities, research organisations
National private finance	Green banking through Central Bank Commercial banks	Concessional loans Refinancing	Policy guidelines for green banking (2011)	Renewable energy, green buildings, clean transportation, water management, waste management, land management
Multi-donor international public finance	Bangladesh Climate Change Resilience Fund World Bank	Grants	BCCSAP	Various BCCSAP initiatives
International public finance	Climate Investment Funds Multilateral development banks Ministry of Environment and Forest	Grants (45%) Concessional loans (55%)	BCCSAP	Improving climate resilient agriculture and food security, strengthening the security and reliability of fresh water supply, sanitation, infrastructure, enhancing the resilience of coastal communities and infrastructure
	GEF (Least Developed Countries Fund)	Grants	BCCSAP GEF policies and procedures	Biodiversity, climate change, land degradation

- Increase their understanding of climate change, disaster risk reduction and climate finance
- Develop climate change and disaster-smart local development strategic planning at local level (current costed plans tend to emphasise infrastructure development, and LGIs usually overlook climate change when they allocate their yearly budgets and plans)
- Establish public financial management systems so LGIs can prioritise actions and identify costs and sources of funding, and
- Ensure that they have proper monitoring and evaluation systems in place so they can track progress and measure impacts at local level.

Economic and financial instruments

Bangladesh uses various financial instruments, including grants, concessional loans and other tools, to mobilise and disburse financial resources. For example, in November 2010, the World Bank approved a US$110 million PPCR project, US$50 million of which was in grant form, US$60 million as a concessional loan. Alongside the US$37 million in grants illustrated above, GEF is also pulling US$369 million in co-financing.

Bangladesh has the opportunity to increase diplomatic efforts to collect more grants from major international funding sources such as GEF's Green Climate Funds and the Adaptation Fund. Devising additional, innovative financial and economic instruments to pull more resources could also help close the existing resource gap. For example, the Ministry of Finance's Economic Relations Division recently signed an agreement with the Japanese government that will pull US$2 million to develop innovative crop insurance products that will give smallholder farmers in Bangladesh income protection from increasingly severe storms and natural disasters.

Formulating some portfolios that blend different instruments — such as grants, concessional loans and revenue budgets – is another option for the government to consider.

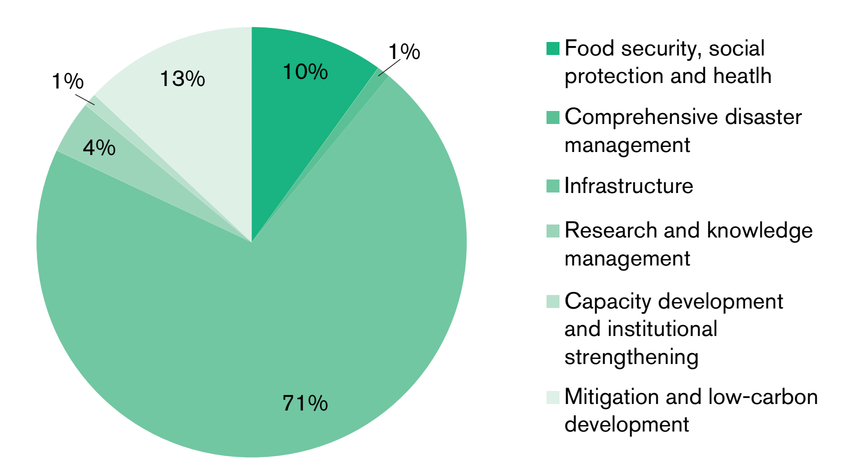
Financial planning system

Financial planning systems, which include institutional arrangements and budget and planning systems, play an important role in leveraging synergy across the financial landscape.

At present, Bangladesh practices two approaches to governing climate-sensitive initiatives.[4] The first relies on the institutional arrangements and budget and planning systems set out for regular development planning. In this approach, ministries develop short- and medium-term plans that target development and economic growth objectives. These development plans are collated by the Planning Commission into the Annual Development Programme (ADP), which is financed by the national budget through the development budget. All activities included in the ADP are monitored and evaluated by Implementation Monitoring and Evaluation Division, part of the Ministry of Planning, to guide effective investment in development, policy formulation and coordinated public procurement. Between 2009/10–2011/12, on average 51.6 per cent of the national development budget was allocated to climate-relevant expenditure.[2]

The second approach emerged with the advent of the climate change funds — the BCCTF and the BCCRF. Finances are channelled into these funds via the non-development budget, which is the responsibility of the Ministry of Finance. The funds are managed by the Ministry of Environment and Forest, via the Climate Change Unit, Board of Trustees and a technical committee. The funds allocate resources to projects that fit into BCCSAP's 44 priority actions under six thematic areas (see Figure 1). They are disbursed as a block budgetary allocation to the implementing entity — government agencies, NGOs, universities and research organisations. Between January 2010 and February 2014, the BCCTF pulled approximately US$347 million from national revenues, allocating 66 per cent to end users

Figure 1. BCCTF spending, by BCCSAP theme



Box 1. Green banking

Green banking is a system introduced by the Central Bank, which formulates the relevant policies and supervises the activities. The system makes commercial banks set aside a sum of their annual budget for the Climate Risk Fund, which is also managed by the Central Bank.

The Central Bank provides other banks with incentives — for example, refinancing facilities at a lower interest rate — if they give loans to those investing in green activities.

implementing 270 projects and keeping 34 per cent as a fixed deposit for future use.

Given that the majority of identified climate-sensitive initiatives are linked to development initiatives, there is an opportunity to leverage synergy in investment into climate-sensitive initiatives by improving coordination between the two approaches. The following could support this:

1. Closer links between the Ministry of Finance and the Planning Commission would support the integration of climate change initiatives into the annual development planning process enabling more sustainable and coherent investments into climate change initiatives. The Ministry of Finance and Planning Commission are best placed to identify demand and supply for climate finance and to coordinate and manage the finance of an integrated budget.
2. Budget and planning systems, such as the proposed Climate Fiscal Framework (CFF), will integrate climate change into national budgeting and planning processes, thereby leveraging synergy in investment. Operationalising the CFF will enable policymakers to link climate change with expenditure and taxation decisions, and ensure that external finances are used more effectively.
3. Using existing monitoring and evaluation systems like the IMED can enhance the effectiveness of climate finance. Climate change initiatives should either be integrated into the ADP process so that they can be monitored and evaluated by the IMED or the Cabinet should amend IMED's allocation of business to give it a mandate to monitor and evaluate climate change projects implemented via the non-development budget.

Uses and users of climate finance

Bangladesh uses the flow of climate finance for different purposes, including renewable energy, green buildings, clean transportation, water management, waste management, land management, agriculture and food security, capacity building and knowledge management, water supply, sanitation, infrastructure, biodiversity and reversing land degradation. Funds from both national and international finance can flow to any initiative that matches with BCCSAP's programme areas.

Various implementing agencies — including government bodies, NGOs, community-based organisations, civil society organisations, multilateral development banks, research organisations and universities — use these funds in different projects.

Conclusion and recommendations

Climate change poses a serious threat to sustainable development in Bangladesh. Our understanding of how climate finance can be managed effectively and efficiently is still developing. Bangladesh is already piloting a number of intermediaries, institutions and sources of funding to address extreme climatic events in future. We believe that the government now needs to take further steps to tackle the challenges posed by climate change.

- At central level, the government should implement the Climate Fiscal Framework to ensure better synergy between financing intermediaries to leverage investments.
- Policymakers should establish a coordination mechanism to manage and oversee the multiple intermediaries working in Bangladesh. This needs to be led by the Planning Commission, which already has strong links with all concerned ministries, in strong partnership with Ministry of Finance.
- The government needs to scale up practices at local level. To do this successfully, it should focus on introducing effective intermediaries at local level, and developing the capacity of local government bodies to increase understanding of climate change, plan and monitor climate change activities, efficiently draw down climate finance and disburse resources more effectively.
- To overcome its resource constraints, the government needs to find innovative financial and economic instruments to leveraging climate finance from international sources to minimise the budget gap.

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Knowledge Products

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Notes

[1] Government of Bangladesh, Ministry of Environment and Forest, 2009. Bangladesh climate change strategy and action plan. Dhaka. / [2] Government of Bangladesh, Planning Commission, General Economics Division, 2012. Climate public expenditure and institutional review. Dhaka. / [3] Government of Bangladesh, Ministry of Finance, Finance Division, 2014. Climate fiscal framework. Dhaka. / [4] Action Aid Bangladesh, 2013. Financing climate change adaptation. Dhaka, Bangladesh. / [5] Buchner, B et al. 2013. The global landscape of climate finance. Climate Policy Initiative. http://climatepolicyinitiative.org/wp-content/uploads/2013/10/The-Global-Landscape-of-Climate-Finance-2013.pdf