

[OPINION]

Climate Finance in Bangladesh: Ongoing Challenges¹

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Despite progress, there is still work to do on climate change adaptation programmes in Bangladesh. Bangladesh as a Least Developed Country (LDC), is one of the most vulnerable countries in the world to climate change due its extreme environmental vulnerability to climate hazards. Since the first NAPA (1995) there have been a series of policy and institutional changes undertaken by the Government. There is a widespread awareness the dangers that climate change poses for economic growth. Since 2008, Bangladesh has its Climate Change Strategy and Action Plan (BCCSAP) which provides an overall framework for action on adaptation. Bangladesh shows a positive expansion of effort on climate funding: by the Government of Bangladesh (GoB), and donors, notably the EU and its member states, particularly the UK.

Challenges to implementation of action on climate change for donors, for Government and for civil society arise from funding, monitoring and planning constraints.

Consolidation of funding routes

It will be vital to ensure there is consolidation and convergence through the newly established funding routes. Contested issues over the past three years between the GoB and NGOs on one side and donors and the World Bank concerning control of funds and perceived fiduciary risk have been resolved, so that there are now two trust funds. One is funded by the GoB (the Bangladesh Climate Change Trust Fund – BCCTF, \$100million) and the other funded by several donors (the Bangladesh

Climate Change Resilience Fund – BCCRF, \$110 million). There are also two multi-donor programmes on climate change. One is part of the World Bank's Pilot Programme for Climate Resilience (PPCR), the Bangladesh Special Programme for Climate Resilience (\$110 million). A second phase of the Comprehensive Disaster Management Programme (CDMP) has started (2010 with \$70 million), which includes some activities on climate change. Each mechanism draws on different funding routes. For those who have created them, they are perceived to have different functions, be closely aligned and be complementary. Organising the institutional arrangements and getting buy-in from all parties has taken considerable time.

From the outside, it is not clear yet how each will be differentiated coherently in terms of action on the ground. It is vital that there is a learning-by-doing phase and experience is shared and that there is a move to convergence to reduce transaction costs. Relative success amongst the different funding routes should be carefully monitored so that good practice can be shared and further investments channelled in the most effective ways. Current commitments on climate change finance fall way short of what will be required so it important to structure institutional arrangements effectively at an early stage.

Monitoring, reporting and verification (MRV)

It will be necessary to define what is climate funding and what is development funding to create a clear baseline during 2011 over which future effort can be monitored. This will be required if monitoring, reporting and verification of climate finance is to work, within the context of the MRV discussions in the UNFCCC around »new and

1. This brief derives from a case study undertaken within the EDC 2020 project between November 2010 to January 2011 which included meetings with Government officials, donors and NGOs.

additional« funding. This will be very challenging. Collectively, the EU (member states and the European Commission-EC) is a major player in the Fast Start Funding (FSF) and funds already allocated to Bangladesh have been designated »fast start«. However, Member States are interpreting what can be designated FSF in different ways, and this relates to the fundamental »new and additional« issue within the UNFCCC. Various analyses have shown what a wide range of interpretations are possible. There is a need for some consistency, so there is predictability for Bangladesh.

This is a problem as there are very weak records everywhere, including development partners, on projects and no coherence on modalities for data collection. There is no clear storyline on what has been done so far and there is a need for a clearing house (and to include research). How were the current FSF projects identified? Development partners need to be more transparent and work to clearly established priorities over medium term timescales.

Planning for change

Bangladesh has increasingly become a significant player in the United Nations Framework Convention on Climate Change (UNFCCC) negotiations as a LDC with special status and with moral voice. It can expect additional funding as an LDC and has already received some EU fast start funds (FSF). It is demonstrating leadership globally with its own trust fund. However the Government of Bangladesh (GoB) needs to ensure its own citizens continue to back investments to avert potential failures on climate change action, and to ensure donors can maintain the confidence of their citizens.

The Bangladesh Climate Change Strategy and Action Plan is not a costed and sequenced delivery framework. Fewer controversies would emerge between the Government, civil society and donors on funding allocations and fast start funds, if there could be agreement on priorities. Enhanced action under the Local Coordinating Group on Environment and Climate Change could provide one crucial mechanism to build trust around prioritisation. Issues around planning is not a problem which is unique to climate change as weaknesses in the GoB's overall approach to development planning have been identified

during assessment for aid effectiveness in that the preparatory phases do not ensure participation of all stakeholders². Generally efforts to embed climate change into the development planning process (annual, five year and longer term development planning) need to be considerably strengthened and given a higher profile.

This is especially important as external assistance is likely to be only part of the story. An important assessment has been made of the impact of climate change on the Annual Development Plan (ADP) of Bangladesh³. It has been estimated that about \$2.7bn of investment is now at risk due to climate change. These figures dwarf what is currently being mobilised for climate funding from donors (\$230mn).

One of the additional limitations which affects all players is capacity to develop robust programmes and spend money effectively. As a cross-cutting issue, there are challenges for all players to handle the coordination demands. Strengthening of the Ministry of Environment and Forests is not completed and there is a need for more capacity in all key ministries. Capacity constraints on programme development are also evident in donors and NGOs. Capacity issues also seem to inhibit private sector involvement, despite various efforts to raise awareness. There is a lack of capacity in financial institutions in both public and private sectors to evaluate projects, so that the lack of understanding of specific types of climate change investments and their risk profiles means that banks often find it difficult to develop and structure appropriate financial products⁴.

Bangladesh has been an early mover on adaptation and is an international player. But, unless the GoB and development partners step up together to act, there is a danger that momentum will dissipate and efforts fragment. Implementation and delivery should be the new focus for effort.

2. Polycarp, C (2010) Governing CC finance in Bangladesh. An assessment of the Governance of Climate Finance and the Paris Declaration on Aid Effectiveness. A report for CDDE October 2010
3. Haque, A.K. An Assessment of climate change on the Annual Development Plan (ADP) of Bangladesh 15-11-09
4. Asian Tiger Capital Partners 2010. A strategy to engage the private sector in CC adaptation in Bangladesh. Prepared for the International Finance Corporation. September 2010.

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