EDC2020

SEVENTH FRAMEWORK PROGRAMME

Project funded under the Socio-economic Sciences and Humanities theme

[POLICY BRIEF]

Climate Finance in Bangladesh: lessons for development cooperation and climate finance at national level

By Merylyn Hedger, Institute of Development Studies and Overseas Development Institute

As a key player, the European Union (EU) has stepped up and climate change has become an increasingly important component of its development cooperation effort. It has contributed most of the committed Fast Start Funds The Bangladesh case study has thrown light on how this effort is currently working, what the constraints are, and potential factors which will affect outcomes in 2020.

What is working on the delivery of climate finance?

Bangladesh shows a positive expansion of effort on climate funding and demonstrates that some tricky issues can be resolved. Effort has been stepped up by the Government of Bangladesh (GoB), donors, notably the EU and its member states, particularly the UK: several funds and programmes are now in place. There are two trust funds, one funded by the GoB – the Bangladesh Climate Change Trust Fund – BCCTF, $100mn); and the other funded by several donors (the Bangladesh Climate Change Resilience Fund – BCCRF, $110million). The dual approach arose from 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 fiduciary risk. 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 $70mn), 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. Considerable effort has been expended to get good matching.

Climate change has the potential to undermine development efforts of countries and finance is critical for achievement of the post Kyoto global deal. The Cancun Agreement enshrined the Copenhagen Accord commitment to a new Green Climate Fund with an interim Fast Start Funding (FSF) package. Financing of a sustainable climate deal is still a vision, not a reality, although pieces of the future package are now in place. The emerging structure is being framed from the global level – knowledge about what is happening at country level can help inform its future development. It will be at the country level that efforts of development partners will be scrutinised under Monitoring, Reporting and Verification requirements.

No. 14 . March 2011

What are the main challenges ahead?

There are three main challenges ahead.

Firstly the proliferation of funding mechanisms obviously runs contrary to the principles of harmonisation and alignment in the aid effectiveness agenda. From the outside, it is not clear yet how the funding mechanisms will be differentiated coherently in terms of action on the ground – for example there are several references to capacity building but as no detail is given in the programme descriptions it is not clear what each will do. Since 2008, Bangladesh has had its Climate Change Strategy and Action Plan (BCCSAP) which provides an overall framework for action on adaptation. However, it is not a fully 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. That is why the integration of climate change into the annual five year and longer term development planning process is vital to provide this programme planning framework.

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 Bangladesh[1]. This shows that in a typical year, the GoB spends nearly $4.7bn dollars in development projects in its eight sectors (including the block allocation for local governments). Of them, 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 by donors (around $230mn).

Secondly, achieving convergence and improved coordination is constrained by capacity in all organisations. Climate change is a complex cross-cutting issue and climate change adaptation interventions closely interact with the main thrust of development effort. Climate change needs to be seen as part of the bigger picture on development at all scales, and it presents new challenges on coordination and capacity. Within Bangladesh there is currently a backlog of aid for disbursement. Capacity enhancement could further improve financial management systems, and could mean there would be greater confidence and less fiduciary risk for the EU. If increased investments are to be made for climate change it is vital that the EU further supports the GoB in these areas. This would be a medium term strategy to adopt, which would benefit the utilisation of climate finance in due course.

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 capacity to increase awareness and understanding of climate change 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 products.

Thirdly, there are now increasing pressures on ODA due to the on-going impacts of the global financial crisis on key donor governments, particularly in Europe, so that it is clear that in terms of long term sustainability of »new and additional funds«[2], the climate finance issues will fall within a broader patterns of aid use and disbursement for donors in their countries. Of course with climate change there is the potential use of innovative sources of funding based on carbon markets or special levies.

The next round of the international aid effectiveness process (Paris Declaration) is prompting policy renewal in Brussels. This is also recognising increased pressures from the United Nations Millennium Development Goals (MDG) process for more impact on poverty alleviation at the same time as there is likely to be increased pressure on country aid budgets. Two new Green Papers were issued in October 2010 that reflects increased concern about poverty, and achieving economic development. Also, due to the financial pressures on many European Governments, there is an anticipation of increased pressures on aid budgets. In 2007, EU-27 increased aid spending as a share of GNI from 0.08 per cent to 0.42 per cent but decreased in volume to € 49billion. A total of 12 EU member states maintained or increased their budgets' but others

1 Haque , A.K. An Assessment of climate change on the Annual Development Plan (ADP) of Bangladesh 15-11-09

2 Scholz, 2010 and Fallasch, F and L De Marez (2010) New and Additional? A discussion paper of fast-start finance commitments of the Copenhagen Accord 01-12-10 Climate Analytics www.climateanalytics.org;

IS CLIMATE CHANGE SPENDING DIFFERENT FROM DEVELOPMENT SPENDING IN BANGLADESH?

Within the EU and some member states, climate change programmes are impacting on spending on the environment and there is some confusion about how far climate change should be handled separately in view of its close relationship with long-established investments on agriculture, food security and livelihoods, and Disaster Risk Reduction (DRR). Climate change is changing and modifying the development cooperation agenda in several ways:

- Evolutionary approaches: some donors are evolving their development portfolios to accommodate climate change in an incremental manner;
- Step change in response to international political developments: as a result of international developments and the increased visibility of climate change challenges, representatives of development partners in Bangladesh are stepping up activities significantly;
- Response to country drivers:- increased activity by the GoB in addressing climate change is prompting donors to align their development work;
- Response to donor country politics:– the way that climate change is being handled by each development partner reflects the extent to which the donor Government works bilaterally or multilaterally

It will thus be very challenging to differentiate spending on climate change adaptation and development to assess what is »new and »additional«.

(Germany, Italy, Austria, Greece and the Netherlands) cut theirs[3].

Despite its increasing profile and visibility in some spheres, climate change still barely features on donors' websites and spend is generally low, with few development partners yet committing significant funds to the issue, the UK being one exception. There has been investment in climate change adaptation projects for almost a decade in Bangladesh, albeit not at high levels of spending. However, it is very difficult to ascertain who has done what and where, and databases will need to be improved to cope with new requirements for Monitoring, Reporting and Verification (MRV under the UNFCCC).

Collectively, the EU is a major player in the Fast Start Funding (FSF). However, member states and the European Commission (EC) 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 probed on this issue and shown what a wide range of interpretations are possible. It is evident that there is a need for some consistency, so there is predictability for Bangladesh. It is vital this is pursued within the context of the MRV discussions in the UNFCCC. In the meantime the collective branding of different EC and member states approaches was effective at Cancun. The EU report shows that Bangladesh has already received FSF from the EC and some Member States: more has been promised.

Lessons for national finance frameworks from Bangladesh

- Despite the stepping up of effort by donors and the Government of Bangladesh there is a need to coordinate more effectively, and for planning and prioritisation.
- More capacities to develop robust programmes and spend money effectively are needed. There is already considerable experience with successful development effort in some sectors that is not necessarily being accessed.
- 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
- There are very weak records everywhere, including development partners, on current and past projects on climate change 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).
- If the monitoring, reporting and verification of climate finance is to work, 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 challenging.
- Development partners need to be more transparent and work to clearly established priorities over medium term timescales.

3 EDC 2020 European Climate and Development Financing before Cancun- Imme Scholtze, Opinion no7 Dec 2010

- Efforts to embed climate change into the development planning process need to be considerably strengthened and given a higher profile.
- The EC and its member states should also act more vigorously so the aid effectiveness process can gain momentum, and should support strengthened financial management processes

For the government and development partners there is a now a combination of circumstances that means this is a pivotal moment to ensure that the financing of climate change adaptation in Bangladesh gets established institutionally and starts to deliver a coherent pipeline of projects that are implemented on the ground.

Note: This brief derives from a case study undertaken within the EDC 2020 project between November 2010 to January 2011. Two main sources of knowledge were used: a review of published reports and web-based material, and primary information collected through individual meetings with key Government of Bangladesh (GoB) officials, donors, policy institutes and selected NGOs

EADI
Kaiser-Friedrich-Strasse 11
D-53113 Bonn

Tel.: (+49) 228 . 2 61 81 01
Fax: (+49) 228 . 2 61 81 03
www.eadi.org

www.edc2020.eu

This series provides summarised research outcomes of the EDC2020 project on European Development Co-operation to 2020. This project carries out research on three major emerging issues: new actors in international development, the linkage between energy security, democracy and development and the impact of climate change on development.

Consortium partners: European Association of Development Research and Training Institutes (EADI, Germany), Overseas Development Institute (ODI, United Kingdom), Institute of Development Studies (IDS, United Kingdom), German Development Institute (DIE, Germany), Fundación para las Relaciones Internacionales y el Diálogo Exterior (FRIDE, Spain), Society for International Development (SID, Netherlands).

SEVENTH FRAMEWORK PROGRAMME