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Bangladesh Climate Policy: Introducing Green PFM and Green PIM

1. Bangladesh an Innocent Victim of Climate Change

Climate change is one of the most crucial factors impeding the development process, adversely affecting the lives and livelihoods of communities at large, especially the poor and vulnerable. Unfortunately, Bangladesh is one of the most vulnerable countries affected by climate change despite its negligible contribution to greenhouse gas (GHG) emissions. According to the Global Climate Risk Index 2021, published by Germanwatch, Bangladesh ranks seventh among the countries most affected by climate change from 2000 to 2019.

In the last two decades, despite facing various adversities, Bangladesh has achieved significant progress and economic resilience. Bangladesh has already fulfilled all criteria to graduate from the least developed country (LDC) status by 2026. Despite all the remarkable achievements of Bangladesh, we are constantly facing multi-faceted development challenges and the impact caused by climate change continues to be a recurring thorn in our development journey. It is extrapolated that an annual GDP loss ranges from 1.1 percent for moderate climate change to over 2 percent of GDP for extreme climate change. A recent note by the IMF refers to the fact that *“annual average damage has already reached 1 billion USD (0.7% of GDP) due to tropical cyclones alone in Bangladesh”*.

To tackle the threats posed by climate change, the Government of Bangladesh has adopted a range of national policies, plans and strategies, including the Climate Fiscal Framework (CFF), Bangladesh Climate Change Strategy and Action Plan (BCCSAP), National Adaptation Plan (2023-2050), and the Bangladesh Delta Plan 2100.

2. Policies and Institutions for Climate Change/Legal and Policy Framework of Bangladesh

Bangladesh, being a victim of climate change, has been putting policies, plans, laws, rules and regulations in place for conserving the environment and biodiversity and protecting people against the adverse effects of climate change since the mid-1990s. Some of the notable ones are as follows:

A. Bangladesh Delta Plan (BDP): This plan extrapolates an annual GDP loss that ranges from 1.1 percent for moderate climate change to over 2 percent of GDP for extreme climate change. This calls for an aggressive investment policy to counter the negative impacts on the environment. Delta Plan Policy option incorporated the adoption of strong climate change related adaptation measures to sustain growth trajectories in the face of climate induced hard and risks. Under BDP total of 80 projects are planned to be implemented with \$37 billion investment, among those, 34 projects are identified as climate-sensitive.

B. Perspective Plan (2021-2041): Perspective Plan 2021-2041 outlines the vision of developing Bangladesh as a prosperous country by 2041 with an emphasis on vulnerability

due to climate change. The plan also aims to develop a sound Environment and Climate Change Financing Strategy and emphasizes several financing options between the public and private sectors.

- C. 8th Five-year Plan (2021-2025):** The 8th FYP emphasizes the government's commitment to addressing the environmental challenges duly highlighting Bangladesh's extreme climate vulnerability. It also emphasizes the integration of environment and ecosystem conservation and climate change issues in planning and budgeting as well as in the Public Financial Management (PFM) agenda. It also sets a target of introducing carbon tax of 5% by 2030.
- D. Bangladesh Climate Change Strategy and Action Plan (BCCSAP)** was introduced in 2009 as part of its commitment to take all measures so that climate change is managed in a way to protect people from its adverse effects. It sets out 44 programmes to be taken by Bangladesh over the short, medium and long term to face adversities of climate change—based on six pillars (six strategic areas): (i) ensuring access to basic services like food, safe housing, and employment to most poor and vulnerable groups, (ii) comprehensive disaster management, (iii) Infrastructure- to ensure existing assets such as river and coastal embankments, cyclone shelters and urban drainage systems, etc are well managed and fit for purpose; (iv) research and knowledge management, (v) mitigation and low carbon development, and (vi) capacity building and institutional strengthening.
- E. National Adaptation Plan (NAP: 2023-2050):** The National Adaptation Plan (NAP) 2023-2050 has been adopted in 2022 to reduce the adverse impacts and enhance resilience to climate change. The plan encompasses eight sectors: water resources; disaster, social safety and protection; agriculture; fisheries, aquaculture, and livestock; urban area ecosystems, wetlands and biodiversity; policy and institutions; and capacity development, research and innovation. In the said adaptation plan, 113 (90 high-priority and 23 mid-priority) interventions have been identified in 8 thematic areas (having 11 stress areas) The estimated cost for implementing these 113 interventions over a 27-year period is approximately 230 billion US dollars. A brief investment plan for the NAP: 2023-2050 has also been formulated.
- F. Nationally Determined Contribution (NDC):** In the NDC, Bangladesh committed to reducing GHG emissions in three sectors, namely, power, industry and transport by 5 percent below 'business-as-usual' emissions by 2030, or by 15 percent below 'business-as-usual' emissions by 2030 if the country receives enough and appropriate support from developed countries. Bangladesh expanded NDC (2021 increased the scope of emissions reductions from only the energy sector to the entire economy of the country.
- G. Sustainable Development Goals (SDGs):** SDGs include new areas such as climate action, economic inequality, innovation, responsible consumption, peace and justice etc. SDG 13 is on climate change. Bangladesh has made a reasonable progress in by approving Disaster

Risk Reduction Strategies of Bangladesh (2016-2020) To take forward the agenda and to facilitate and implement of SDGs Action Plan, a committee called 'SDGs Implementation and Monitoring Committee' has been formed at the Prime Minister's Office.

H. National Solar Energy Roadmap 2021-2041: The main objectives of the solar energy roadmap include: increasing the proportion of renewable energy in the total energy mix; ensuring energy security and sustainable energy; increasing private investment in renewable energy projects; achieving global and national targets for renewable energy production; and reducing greenhouse gas emissions.

I. Mujib Climate Prosperity Plan: MCPP (2030): The vision of MCPP (adopted in 2023) is to achieve energy independence (maximizing share of renewable energy & energy efficient technologies) setting Bangladesh's trajectory from one of vulnerability to resilience, resilience to prosperity. The plan is expected to bring an estimated USD 80 billion investment over the next decade (2021-30) in energy, water resources, transport, supply chain and value chains on the path to achieving climate resilience. **Key initiatives under Mujib Climate Prosperity Plan:**

- Energy storage infrastructure development
- Power grid modernization
- Implementation of Revenue raising carbon market regime¹
- Climate-resilient and nature-based agriculture and fisheries development
- Environmentally friendly transportation

J. Recent Reforms under 'Green and Climate Resilient Development (GCRD)' Program (2023): The Government has enacted new regulations as well as made necessary amendments to existing regulations to strengthen public investment management for clean, efficient and climate resilient investments in line with Green and Climate Resilient Development (GCRD) criteria:

- It has been made mandatory for all ministries to include disaster risk and impact assessment in the design of projects worth Tk 50 crore.
- 'Sustainable Public Procurement (SPP)' policy has been pronounced to encourage environmentally and socially sustainable business and investment.
- The Environment Conservation Rules, 2023 has been promulgated to ensure environmental and social impact assessment and mitigation of adverse impacts of industrial units and projects.
- The 'Control of Air Pollution Rules, 2022' has been enacted to improve air quality and reduce greenhouse gas emissions.

¹ Carbon tax implementation would require a dividend to transfer revenue to low-income households through rebates, and in order to raise additional revenue of up to 0.15% of GDP by 2025 and 1% of GDP by 2030 (MCPP, Decade 2023, p. 53)

- Necessary directives have been issued to the local government institutions for enhancing the formulation, financing and implementation of green and climate resilient priority projects at the local levels.

3. Policies to Integrate Climate Change into Economic Management and Budgeting Process

- A. **Climate Fiscal Framework (CFF)** was adopted by the government in 2014 to integrate climate change into economic management, and it was updated in 2020. The CFF essentially laid the foundation for mainstreaming climate change into public financial management (PFM) system. The CFF aims to provide incentives² and guidance for costed and prioritised climate actions reflected within the existing Medium-Term Budget Framework (MTBF), access international and national sources of climate finance; track climate-related allocation and expenditures; and make climate finance and expenditure accountable.
- B. **Aligning Climate Policies and Strategies with Budget Setting Process:** Climate change considerations have been integrated into the Medium-Term Budget Framework (MTBF) to mainstream climate change in public financial management. The Ministries/Divisions are given guidelines (through Budget circular) to include specific information on how climate change impacts (mitigation and adaptation) will be addressed in the budget formulation process. To complete the exercise of alignment, the climate issues were mapped with the new Budget and Accounts Classification System (BACS) and iBAS++ by working out appropriate methodologies. Furthermore, climate change has been incorporated into development project planning.
- C. **Climate Finance for Sustainable Development (Climate Budget Report):** Since 2018-19, the Finance Division has been quantifying the amount of climate finance in the Climate Budget Report from the built-in Climate Public Fiscal Tracking methodology in the iBAS++ system. The climate budget report presents data on allocation together with actual climate-related spending subsumed in the total budgets of the relevant 25 Ministries/Divisions, to demonstrate the Government's commitment to addressing the adverse effects of climate change.

4. Allocation of Funds from Internal Resources for Implementing Climate Change Strategies and Actions

The Government of Bangladesh has been allocating funds in each budget from its own revenue and implementing relevant policies, plans and strategies to address climate change. In the last few decades, the Government of Bangladesh has invested more than US\$10 billion in structural (polders, cyclone shelters, cyclone-resistant housing) and non-structural (early warning and awareness-raising measures) to reduce the hazards of natural disasters (Source:

² The CFF 2020 suggests Tax Interventions to Facilitate Adaptation and Mitigation (CFF, 2020, p. 86-93)

BCCSAP, 2009) and improve the country's disaster preparedness system. Other vital initiatives for climate finance include:

A. Climate Change Trust Fund 2010 (CCTF): Climate Change Trust Fund was established in Bangladesh to mobilize internal resources for implementing climate change strategies and actions. Until 2022-23, a total of Tk.3532 crore was allocated from the Government budget to implement the climate change agenda under this fund. As of December 2022, 790 projects (most of these projects are related to adaptation) have been implemented by various Ministries/Divisions.

B. Sustainable Financial System: Bangladesh Bank (BB) joined the Sustainable Banking and Finance Network (SBFN) in 2012. It took the following measures for green banking:

- Set a minimum annual target of green finance at the rate of 5 percent of total loan disbursement for all financial institutions in 2016.
- issued the Sustainable Finance Policy for banks and financial institutions in 2020, and the Green Bond Financing Policy (including the Green Taxonomy and Green Bond Framework) in 2022.
- BB Refinance Scheme's: BDT 04 billion) (low cost)-to support to Participating Financial Institutions (PFIs) (Banks/FIs) against their financing of renewable energy generation and other environmentally benign projects. The scheme includes 55 green products/projects/initiatives³.
- Green Transformation Fund (GTF)⁴ Guidance Note of BB is in place to guide BB GTF USD 200 (two hundred) million Refinance Scheme for all export-oriented industries for importing Green Machinery.
- A comprehensive list of products/initiatives of Green Finance for banks and FIs¹⁵ has been circulated in September 2017.
- Banks and FIs were instructed to form a "Climate Risk Fund"¹⁶ having an allocation of at least 10% of their Corporate Social Responsibility budget for Climate Risk Fund.
- Capital Market Instruments is being developed along with the country's first two corporate green bonds issued in 2022 to develop green finance.

C. Global Climate Public Finance: In addition, to combat climate change, Bangladesh has received funding from several key international climate finance institutions, including Global Environment Facility (GEF), Green Climate Fund (GCF), Climate Investment Fund (CIF), DFID, USAID, SIDA and GIZ, as well as multilateral banks such as the World Bank and the Asian Development Bank (ADB) and UN agencies such as UNDP, UNEP, etc. However, the complex architecture of international climate finance appears to be a stumbling block for countries like Bangladesh to access international climate finance.

³ SFD Circular No.02/2020

5. Final Comments

Bangladesh has established itself as a model in disaster management. Bangladesh has been able to overcome the humanitarian and economic crisis caused by various natural disasters. The implementation of various people-centric policies by the government focusing on the welfare of the marginalized and the larger population is behind this achievement. Bangladesh has included in its PFM and PIM policies on how to continue economic development by overcoming the effects of natural disasters and ensuring the maximum welfare of the people. However, it should be noted that countries like Bangladesh are facing huge economic losses and fiscal burdens due to environmental changes. Last, but not least, it is the responsibility of the international community not to shift the burden of climate change debt to underdeveloped and developing countries but to provide adequate support to them, because these countries are not primarily responsible for climate change but are the innocent victims of pollution elsewhere.