

# **Review of Climate Budget and Recommendations for Green Public Finance Management in Bangladesh**

Presented by  
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## Acknowledgement

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# Outline of the Presentation

1. Introduction

2. Climate Related Legal and Policy Framework

3. Climate Fiscal Framework and Climate Budget in Bangladesh

4. Assessment of Coherence, Implementation, and Adequacy

5. Climate Public Finance Tracking

6. Way Forward



# **1. Introduction**

# 1.1 Context

- The physical, economic and social implications of the climate related risks are widely acknowledged in Bangladesh
- The need for finance in tackling the climate change related challenges is huge.
  - The implementation of National Adaptation Plan (NAP) will require **USD 230 billion during 2023 to 2050**. Moreover, developing climate resilience will require seven times the current spending to transform adaptation, **at a rate of USD 8.5 billion per year, with USD 6.0 billion per year from external sources or international climate funds and development partners** (MoEFCC, 2022).
  - **Bangladesh will need at least USD 12.5 billion, approximately 3% of GDP** in the medium-term by 2025 for climate action (World Bank, 2022).
- There exists a large gap in climate related expenditures despite national and global commitments on climate finance
- Public expenditure plays an important role in climate change related finance.
  - Public expenditure serves as a catalyst in mobilising climate funds from other sources

# 1.1 Context (Contd.)

- Therefore, national climate budget is important. It helps **identification and classification** of climate related expenditures.
- Climate budget helps **improvements in the allocation of public expenditures** for climate and environmental goals. It also helps improve revenue generation through green fiscal measures which are aligned with climate and environmental objectives.
- Climate budget helps **accountability and transparency** of public expenditure on climate concerns.

# 1.2 Green Public Financial Management (PFM)

- **Green Public Financial Management (PFM)** refers to the integration of an environment and climate-friendly perspective into PFM processes, systems, and frameworks, particularly the budget process in order to promote climate and environment sensitive fiscal policies.
- The **Organisation for Economic Co-operation and Development (OECD)** established the **Paris Collaborative on Green Budgeting in 2017** which has subsequently created an inventory of green budgeting building blocks and successful national experiences, particularly in advanced economies.
- However, green PFM practices remain nascent in most countries, including advanced economies.
- **Only 14 countries of OECD members** are currently implementing some form of green budgeting (Austria, Canada, Columbia, Denmark, France, Finland, Germany, Ireland, Italy, Luxemburg, Mexico, Netherlands, Norway, and Sweden).
- In Bangladesh, the climate change relevance of the national budget has increased since the first implementation of the climate budget in FY2017.



## **2. Climate Related Legal and Policy Framework**



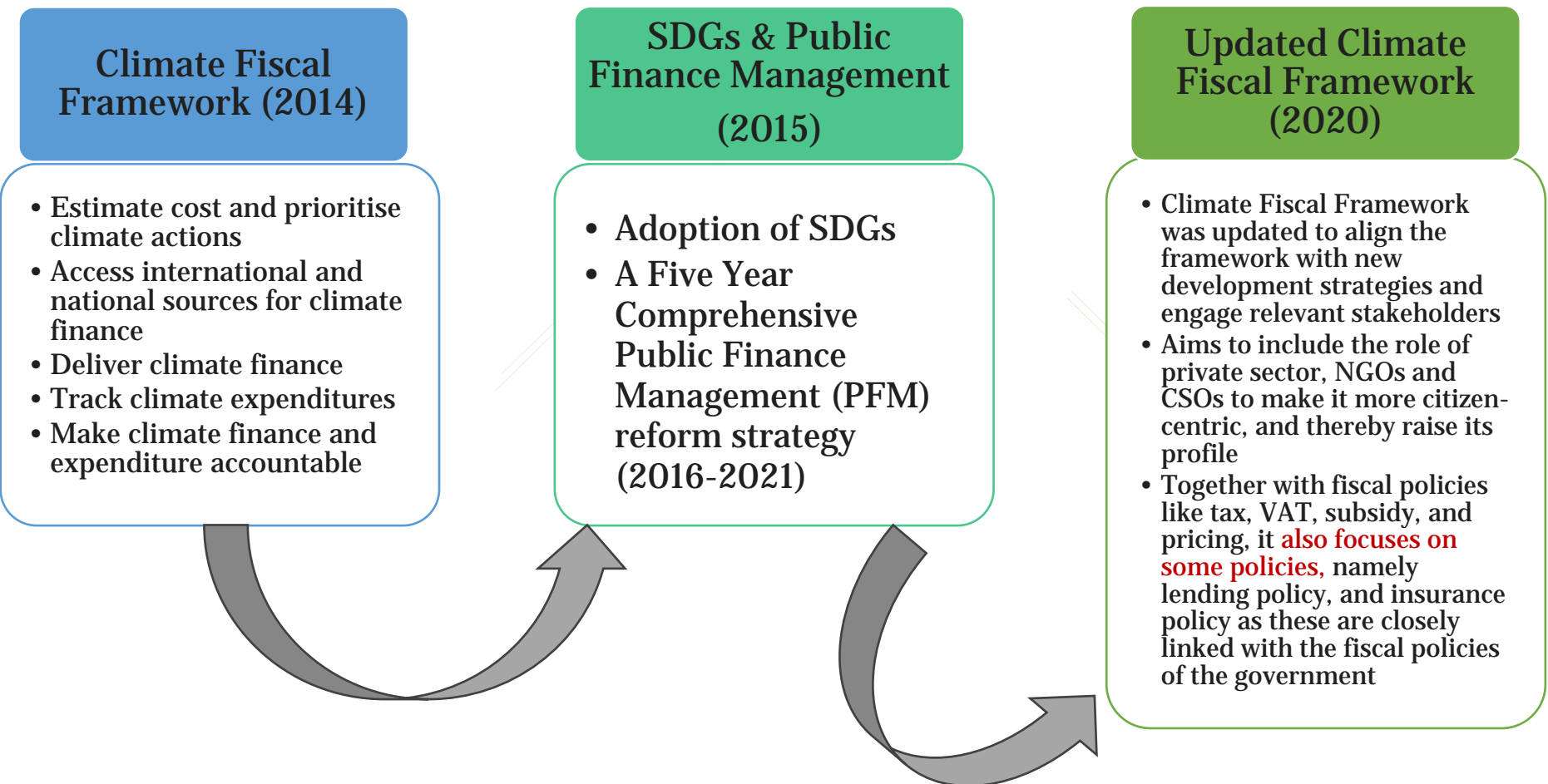
# 2. Legal and Policy Framework on Climate Change in Bangladesh

|  |  |   |  |
|--|--|---|--|
| Bangladesh Environment Conservation Act (1995)                     | National Adaptation Programme of Action (2005)                     | Bangladesh Climate Change Strategy and Action Plan (2009) | Climate Change Trust Fund Act (2010)                 |
| Climate Public Expenditure and Institutional Review (CPEIR) (2012) | Climate Fiscal Framework (2014)                                    | Nationally Determined Contributions (2015)                | Climate Public Finance Tracking in Bangladesh (2018) |
| Bangladesh Delta Plan 2100 (2018)                                  | Bangladesh's Country Programme for Green Climate Fund (GCF) (2018) | 8 <sup>th</sup> Five-year Plan (2021-2025)                | Updated Climate Fiscal Framework (2020)              |
| Nationally Determined Contributions (2021)                         | Mujib Climate Prosperity Plan (2021-30)                            | National Adaptation Plan (2022)                           | Policy for Green Bond Financing for Banks & FIs      |



## **3. Climate Fiscal Framework and Climate Budget in Bangladesh**

# 3.1 Climate Fiscal Framework in Bangladesh



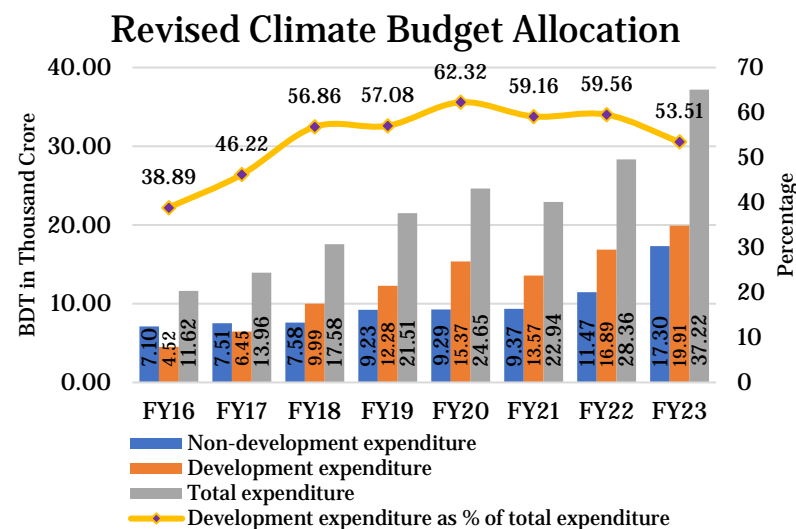
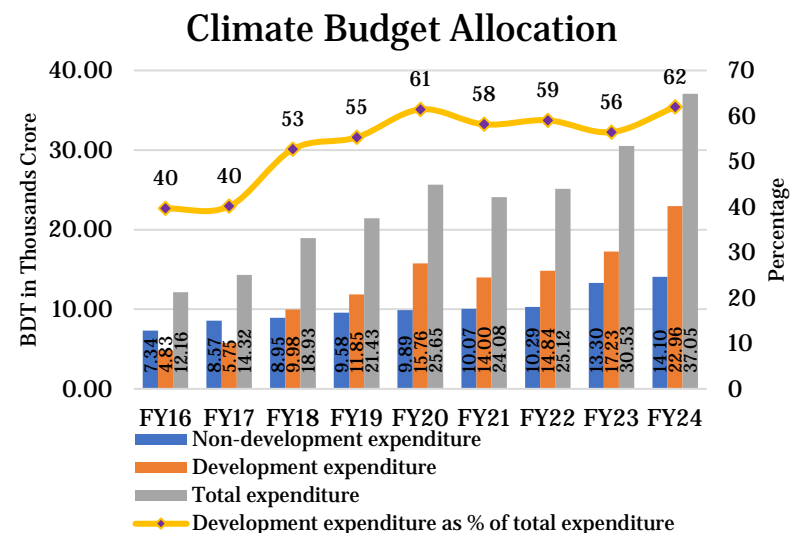
# 3.2 Climate Budget in Bangladesh

- Following the recommendation of Climate Fiscal Framework prepared by Finance Division, Ministry of Finance and published in 2014, the first climate budget report was published in 2017
- In FY2017-18, **six ministries and divisions** (Ministry of Primary and Mass Education, Local Government Division, Ministry of Agriculture, Ministry of Environment and Forest, Ministry of Water Resources, and Ministry of Disaster Management and Relief) were considered to prepare the climate budget
- Currently, in FY2023-24, **a total of 25 ministries and divisions** were considered in preparing the climate budget
- The climate relevant allocations are considered from the **total allocation for the projects and programmes** under 25 ministries and division under six thematic areas mentioned in the Bangladesh Climate Change Strategy and Action Plan (BCCSAP).
- These areas include: (1) Food security, social protection and health, (2) Infrastructure, (3) Mitigation and low carbon development, (4) Comprehensive disaster management, (5) Research and knowledge management, and (6) Capacity building and institutional strengthening.

# 3.3 Budgetary Allocation under BCCSAP Thematic Areas

## Climate budget allocation since FY2016

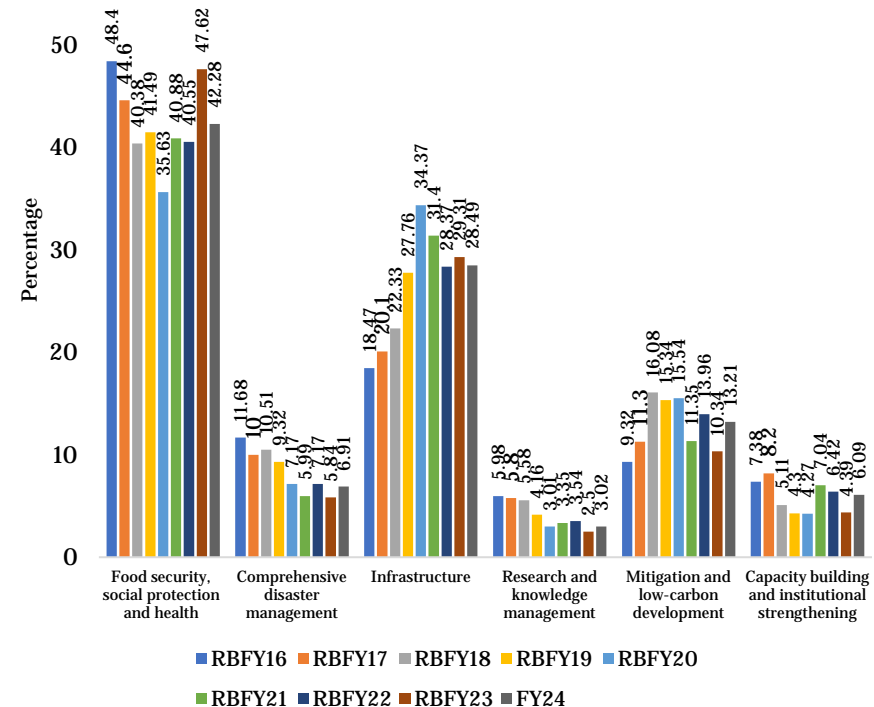
- Climate relevant development expenditure increased from **40% of total climate budget expenditure in FY16 to 62% of total expenditure in FY24**, a positive initiative by GoB
- The cumulative budget allocations for **25 Ministries/Divisions** account for **54.09% of total budget**, of which **8.99%** are climate relevant.
- The budget allocation has decreased by **0.45%** in FY24 compared to the revised budget in FY23
- Total revised budget allocation for climate change increased by **0.85%** from **4.78% of total revised climate budget in FY22 to 5.63% of total revised climate budget in FY23**.
- However, as a share of GDP, the total allocation increased to **0.84% in FY23 from 0.71% in FY22**, a small increase by **0.13%**



# 3.3 Budgetary Allocation under BCCSAP Thematic Areas (Contd.)

- The highest share of climate budget (42.28%) was allocated for “Food security, social protection and health” theme of BCCSAP.
- On the other hand, the lowest share of climate budget (only 3.02%) was allocated for “Research and knowledge management” theme
- Two important thematic areas, “Mitigation and low carbon development” and “Comprehensive disaster management” are not among the top recipients of climate budget
- The allocation for “Mitigation and low carbon development” increased over the years from 9.32% in FY16 to 13.21% in FY24, and the allocation for comprehensive disaster management decreased over the year from 11.68% in FY16 to 6.91% in FY24

BCCSAP Thematic Areas in Budget for 25 Ministries/Divisions (% of Revised CC Budget)

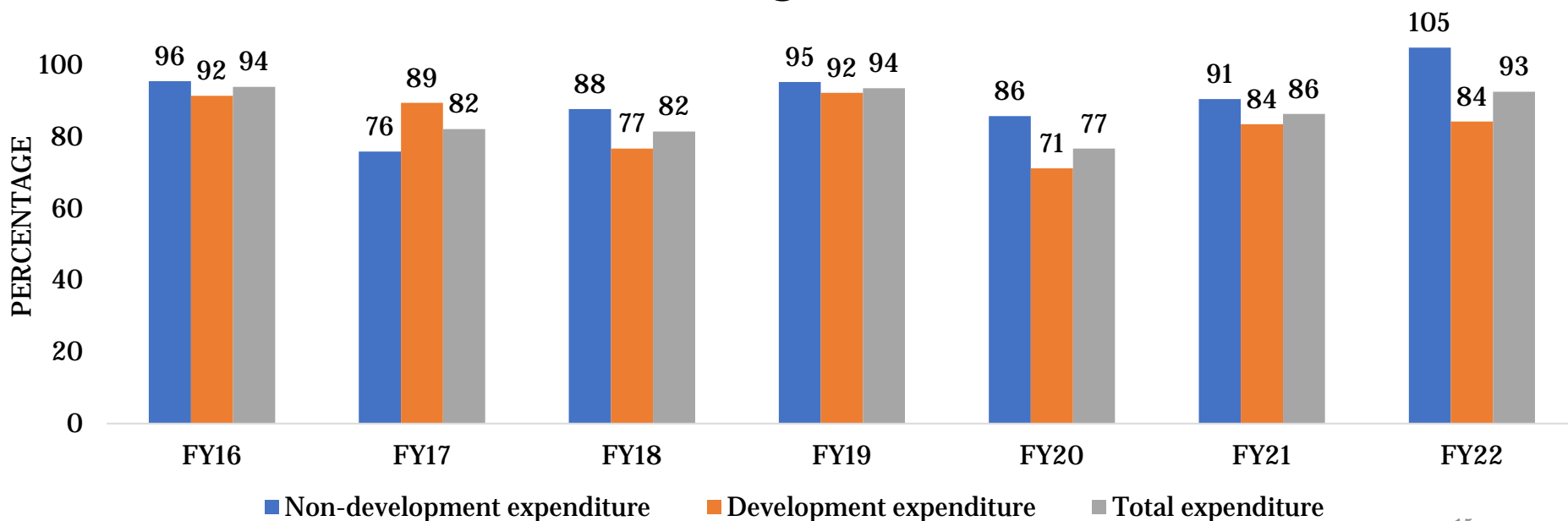


# 3.4 Utilisation of Climate Budget (Contd.)

## • Climate Budget Utilisation

- The budget utilisation has shown a fluctuating trend since FY16. The utilisation of development expenditure remained lower than non-development expenditure
- The climate budget utilisation in FY16 was 94%. Since then, the utilisation rate decreased over the years except in FY19 when it was 94%
- In most years, utilisation of non-development climate budget is higher than utilisation of development climate budget

### Climate Budget Utilisation

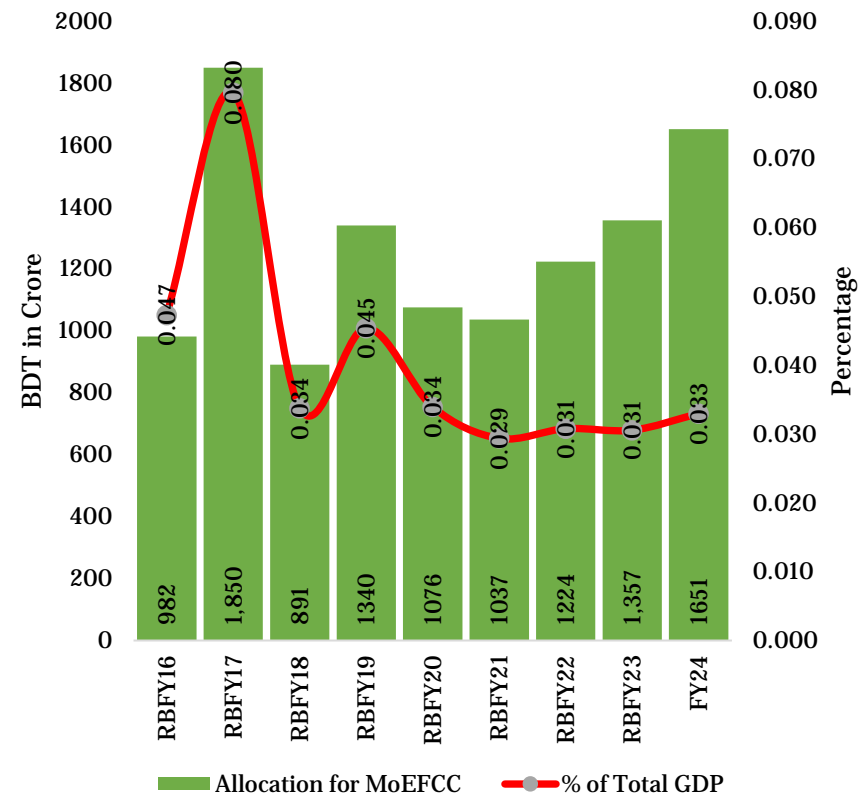


# 3.4 Utilisation of Climate Budget (Contd.)

- **Budget Allocation for the Ministry of Environment, Forest and Climate Change (MoEFCC)**

- The allocation for MoEFCC has increased to **0.033% of GDP in FY24** from **0.031% in RBFY23**, far behind the target stated in 8FYP of 0.10% of GDP by 2025 and 0.5% of GDP by 2041
- The allocation for the climate criteria “**Strengthening institutional capacity for climate risk management**” under BCCSAP thematic area “Capacity building and institutional strengthening” increased for the ministry by **58.66% in RBFY23**—from **BDT 3.87 crore in RBFY22** to **BDT 6.14 crore**
- However, budget utilisation has decreased to **75.71% in FY22** from **90.71% in FY21** under the criteria “Strengthening institutional capacity for climate risk management”
- Budget utilisation of this climate criteria should be increased since strengthening institutional capacity is crucial for climate risk management

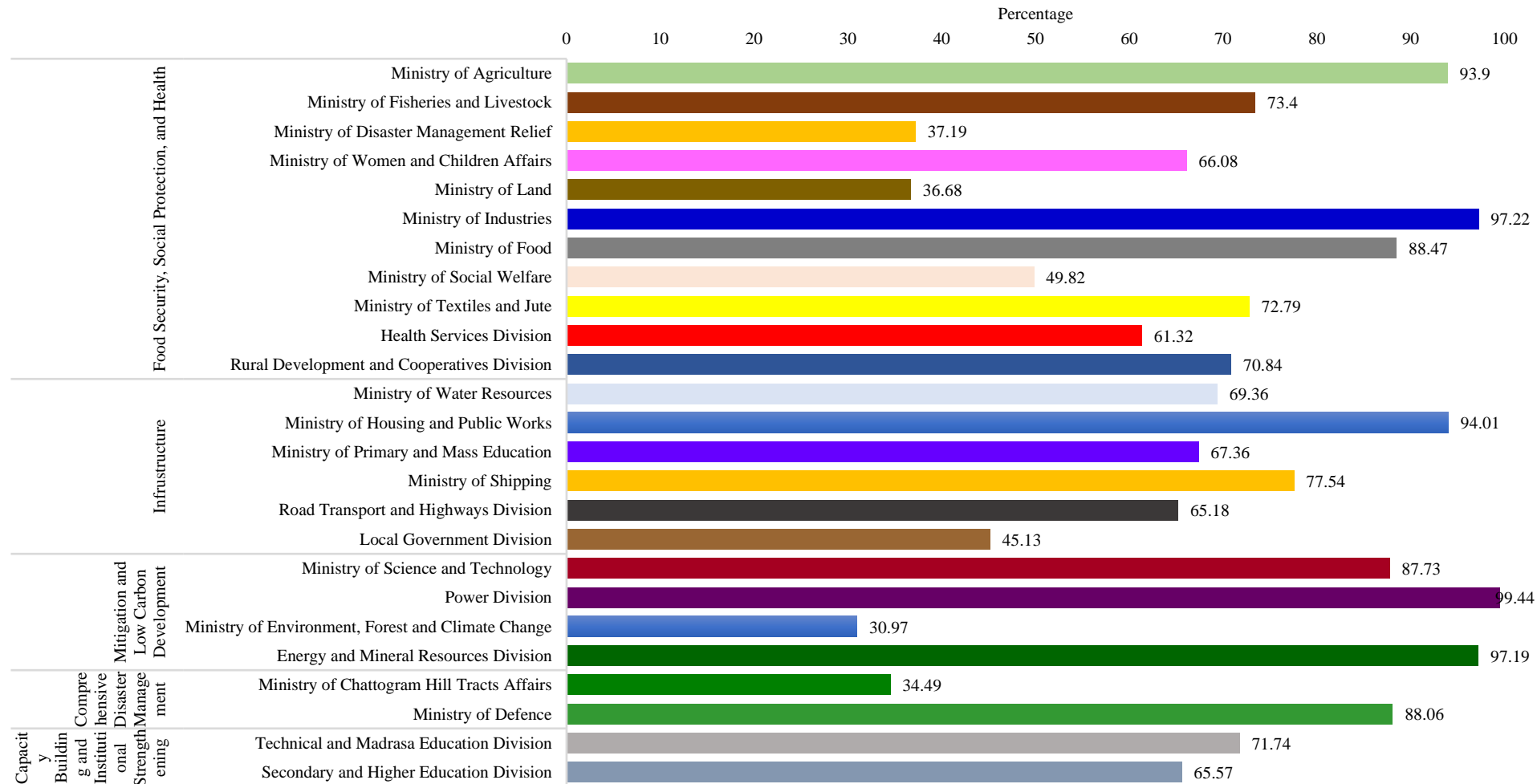
Budget Allocation for MoEFCC





# 3.4 Utilisation of Climate Budget (Contd.)

## Priority areas of 25 Ministries and Divisions



# 3.4 Utilisation of Climate Budget (Contd.)

- **Where are the priorities for climate related budgetary allocation?**
  - “Food security, social protection, and health” is the top priority of 10 ministries and divisions
  - Ministry of Agriculture (MoA) and Ministry of Industries (MoI) have the highest allocation under this category - 93.9% and 97.22% respectively
  - Over 95% of total allocation under BCCSAP thematic area “Food security, social protection and health” for the MoI is for “Development of climate resilient cropping systems and production technologies”.
  - However, this actually includes expenditures for construction of 47 new buffer warehouse (out of which 13 were approved in 2017 and 34 were approved in 2018) in various districts with the goal of facilitating fertiliser distribution and addressing damages caused by climate change. **This contradicts with environmental objectives because these are chemical fertilisers which are harmful for the environment and human health**
  - Allocation for “Mitigation and low-carbon development” is only BDT 0.38 crore or **0.15% of total climate relevant budget** of the MoI
  - For environment friendly and sustainable infrastructure, the Road Transport and Highways Division has an important role. Allocation for this division on climate relevant activities has increased to **3.22% of total climate budget** in FY2024 from 2.14% in FY2023
  - However, allocation for BCCSAP theme “Mitigation and low-carbon development” has declined drastically from **81.29%** (revised) of total climate change related allocation in FY2022 to **21.06%** (revised) in FY2023 and to **24.54%** (budget) in FY2024

# 3.5 Climate Focused Social Safety Net Programme (SSNP)

➤ In FY24, BDT 6,897.85 crore was allocated for directly affected climate vulnerable people which is **6.07% of total allocation in SSNP**

## SSNP Allocations for the Direct Climate Vulnerable People in FY2024

| Programme Name  | Implementing Agency | Allocation (BDT Croroe)                                  |
|---|---------------------|--|
| Work For Money (WFM)  | MoDMR               | 1500   |
| Test Relief (TR) (Cash)   | MoDMR               | 1450   |
| Vulnerable Group Feeding (VGF)  | MoDMR               | 1089.8   |
| Food For Work (FFW))  | MoDMR               | 991.97   |
| Gratuitous Relief (Food)  | MoDMR               | 648.68   |
| Construction of the Multiple Disaster Shelters                          | LGD                 | 418.71   |
| Construction of Flood Shelter in the Flood and River Erosion Prone Area | MoDMR               | 250  |
| Relief Goods  | MoDMR               | 180  |
| Char development and settlement project-bridging                        | MoWR                | 117.58   |
| Relief Works (Flood, Drought, Cyclone and Others)                       | MoDMR               | 80.2   |
| Gucchagram (Climate Victims Rehabilitation) Project                     | MoEFCC              | 59.35  |
| Flood Management and Livelihood Improvement Project in Char/Haor Area   | MoWR                | 44.07  |
| Disaster Grant  | MoDMR               | 40   |
| Housing Support for Homeless People/House grant                         | MoDMR               | 27.5   |
| <b>Total</b>  |                     | <b>6897.85</b><br><b>(6.07% of total SSNP in FY2024)</b> |

# 3.6 Allocation for Renewable Energy and Fossil Fuel in ADP

- Bangladesh has been **investing in solar power projects**, particularly through the installation of solar home systems and solar mini grids in rural areas. The government has also **implemented policies** to promote investment in wind, biomass, and hydropower projects
- The allocation for renewable energy in ADP shows a fluctuating trend over the years.
- **Only 3.08% of total allocation for energy sector was allocated for renewable energy in FY 2023-24**
- The share of allocation for renewable energy in ADP should be increased in order to achieve the target of 40% power generation from clean energy by 2041

**ADP Allocation in Renewable Energy and Fossil Fuel Based Energy**

| Fiscal Year | Allocation in Renewable Energy (% of total ADP Allocation in Energy Sector) | Allocation in Fossil Fuel (% of total ADP Allocation in Energy Sector) |
|-------------|---|--|
| FY 2016     | 4.08  | 95.92  |
| FY 2017     | 5.22  | 94.78  |
| FY 2018     | 7.41  | 92.59  |
| FY 2019     | 3.34  | 96.66  |
| FY 2020     | 8.88  | 91.12  |
| FY 2021     | 1.42  | 98.58  |
| FY 2022     | 1.55  | 98.45  |
| FY 2023     | 2.91  | 97.09  |
| FY 2024     | 3.08  | 96.92  |

Source: Ministry of Planning



## **4. Assessment of Coherence, Implementation and Adequacy**

# 4.1 Aligning Policies, GoB Initiatives and Progress

- As part of its medium and long-term strategies, the government is committed to undertake the following activities-
  - ***Mobilising Resources for Climate Change Trust Fund:*** The Government is committed to strengthening the Climate Change Trust Fund (CCTF). As of June 2023, the size of the climate change trust fund is over BDT 1,435.90 crore which is way behind the target of mobilising more than BDT 8,000 crore from 2020 to 2025 as stated in 8FYP.
  - ***Utilising the Green Climate Fund (GCF):*** As of June 2023, a total of USD 374 million under the GCF financing facility for 7 projects was approved for Bangladesh.
  - ***Increased Oversight of the Climate Change Fund:*** The Government will ensure third party monitoring of the Climate Change Trust Fund (CCTF), so that the funds are not misused by any actors undertaking unproductive projects.
  - ***Formulation and Advancement of National Adaptation Plan (NAP):*** Bangladesh submitted its first NAP to the UNFCCC in 2022. The NAP will facilitate the integration of climate change adaptation into relevant new and existing policies, programmes, and activities in a coherent manner, in particular development planning processes and strategies, within all relevant sectors and at different levels, as appropriate.

# 4.1 Aligning Policies, GoB Initiatives and Progress (Contd.)

- ***Improved Understanding of Climate Change in the Local Government:*** A key mechanism for the government is to enhance the national capacity to improve the measures for adaptation to climate change at the local level. As part of this, a multi-donor collaborative initiative of GoB, UNDP, UNCDF, EU and SIDA has been undertaken which aims to enhance the capacity of vulnerable communities, Local Government Institutions (LGI) and civil society organisations (CSO) for planning and financing climate change adaptation solutions in selected climate vulnerable areas.
- ***Addressing Climate Change Induced Migration:*** The government is committed to address climate change induced migration in various plans such as NAP and Mujib Climate Prosperity Plan (MCPP) through extension of SSNP. However, only **6.07% of total SSNP** is allocated for climate vulnerable people.
- ***Commitment to Renewable Energy:*** As a part of its commitment to reduce CO<sub>2</sub> emission, the government plans to sharply increase the total power generation from renewable sources. Bangladesh has set a target of 40% power generation from clean energy by 2041. However, given the country's current share of budgetary allocation in ADP for renewable energy, the government needs to increase the budgetary allocation for power generation from clean energy.

# 4.1 Aligning Policies, GoB Initiatives and Progress (Contd.)

- **Gender Focus of Climate Action:** The government prioritised the gender transformative climate action. In 2013, the government formulated Bangladesh Climate Change and Gender Action Plan (ccGAP). The plan has recently been updated and is to be approved by the policymakers.
- **ADP Allocation for Improving the Capacity of MoEFCC:** The MoEFCC undertakes coordinating functions and plays the lead role in developing and enforcing environmental policies. The 8FYP proposed a significant increase in the ADP allocation for environment and climate change. **However, the proposed ADP allocation in the budget for the ministry continues to fall behind the target as stated in 8FYP.**

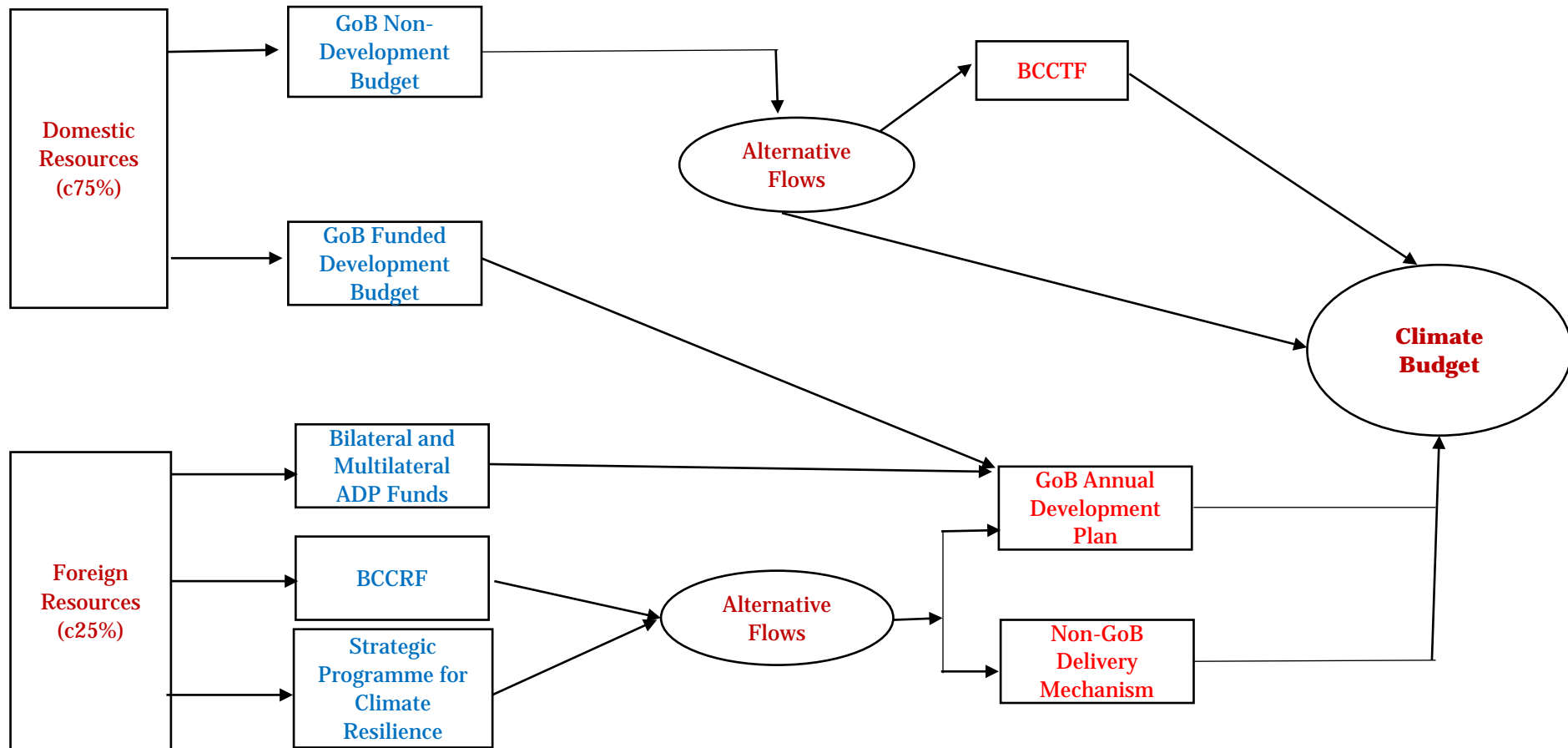
## Proposed ADP Allocation in 8FYP and Actual ADP Allocation in the Budget

| Allocation  | FY2021 | FY2022 | FY2023 | FY2024 | FY2025 |
|---|--------|--------|--------|--------|--------|
| <b>Proposed Allocation in 8FYP (BDT billion Current Prices)</b>       | 9.4    | 11.5   | 13.3   | 15.5   | 18.6   |
| <b>As a Share of ADP Allocation (%)</b>                               | 0.46   | 0.51   | 0.54   | 0.59   | -      |
| <b>Proposed Allocation in the Budget (BDT billion Current Prices)</b> | 5.99   | 5.42   | 7.39   | 8.51   | -      |
| <b>As a Share of Proposed ADP Allocation (%)</b>                      | 0.29   | 0.24   | 0.30   | 0.32   | -      |



# 4.2 Methodology for Tracking Climate Finance and Climate Budget Formulation

## A Simplified Overview of Climate Finance in Bangladesh



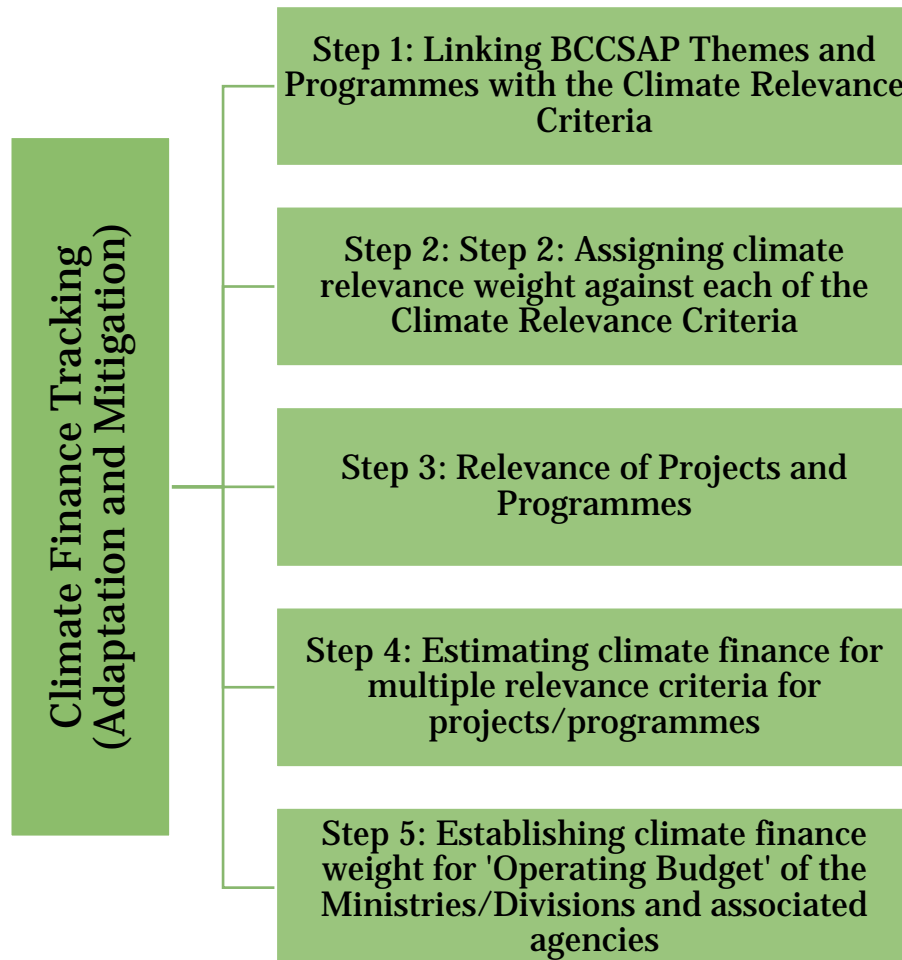
Source: Climate Public Expenditure and Institutional Review (CPEIR) (2012)

## 4.2 Methodology for Tracking Climate Finance and Climate Budget Formulation (Contd.)

- Since FY2018-19, 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 Integrated Budget And Accounting System (iBAS++) system.
- **Only public finance** has been considered for tracking at this stage. There is a scope in the methodology **to incorporate tracking of private sector financing** if it is introduced to the system.
- Bangladesh has adopted a **hybrid approach** (mix of objective-based and benefit-based approach) that was described as **‘Objective-Based Cost Component Approach’** in Climate Public Finance Tracking in Bangladesh in 2018.

# 4.2 Methodology for Tracking Climate Finance and Climate Budget Formulation (Contd.)

The climate finance tracking methodology has five systematic steps



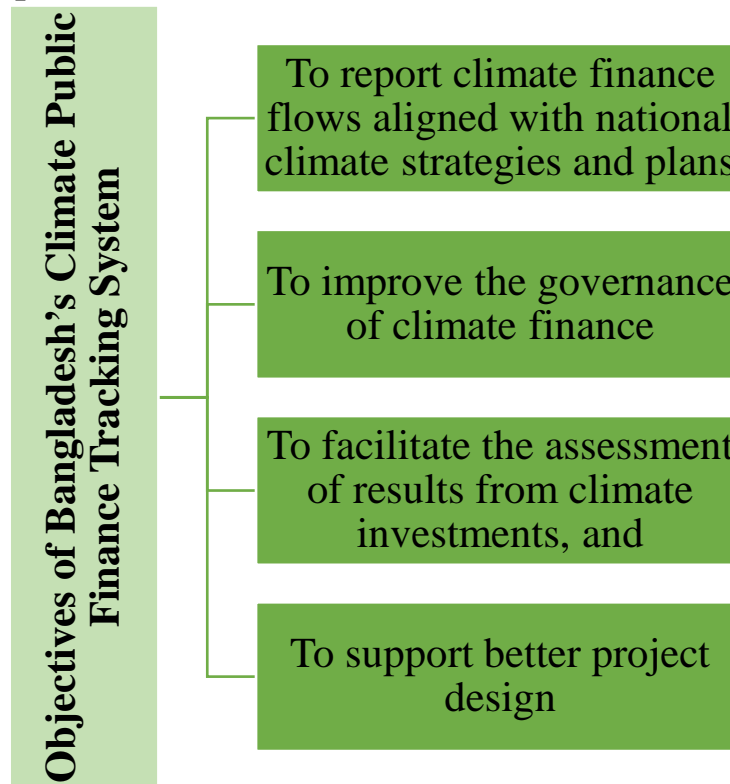
Source: Finance Division, Ministry of Finance (2018)



# **5. Climate Public Finance Tracking**

# 5.1 Climate Public Finance Tracking in Bangladesh

- **What is climate finance tracking?**
  - Climate Public Finance Tracking is one of a set of climate related financial planning and management tool designed to understand a country's resource commitment to address the adverse effects of climate change.
  - In 2018, Bangladesh published its first Climate Public Finance Tracking system



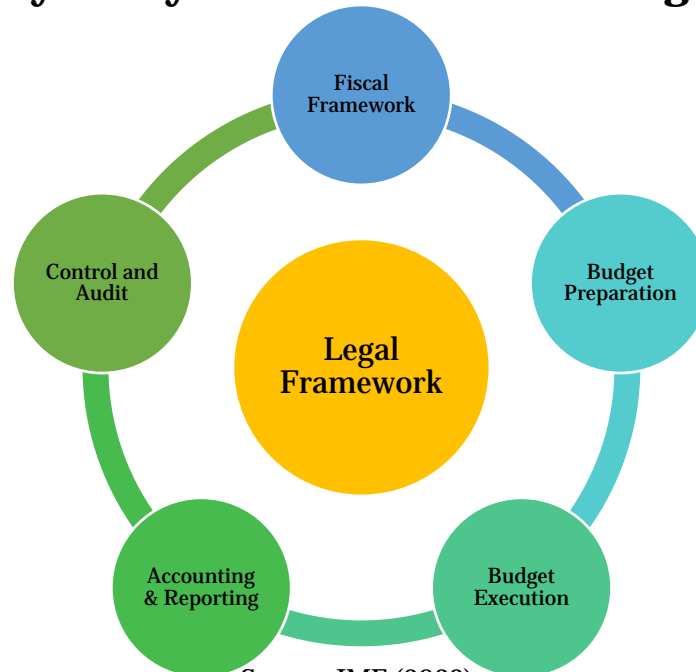
Source: Finance Division, Ministry of Finance (2018)

# 5.1 Climate Public Finance Tracking in Bangladesh (Contd.)

- **How effective climate finance tracking?**

- Bangladesh made a significant step in formulating the fiscal framework aligned with existing policy measures to make the key entry points to green budgeting
- Bangladesh has integrated few components (i.e., tagging green expenditure) of green Public Financial Management.
- However, the country needs a comprehensive Green PFM to ensure budget execution and accountability, and public participation at all stages

## **Key Entry Points for Green Budgeting**

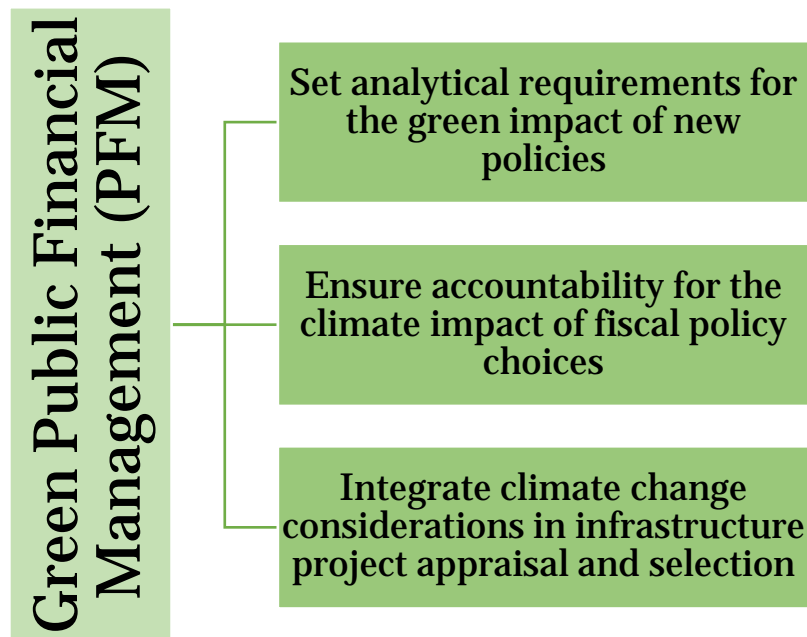


Source: IMF (2022)

# 5.2 Importance of Green Public Financial Management (PFM)

## • What is Green PFM?

- Green PFM aims at **adapting existing PFM practices** to support climate-sensitive policies
- Green PFM **can enable an integrated government strategy** to combat climate change
- Green PFM **ensures that green policies are effective and funded** within fiscal constraints



Source: Based on IMF (2022)

# 5.3 Principles for the Implementation of Green PFM Reform

## Some Guiding Principles to Implement Green PFM



Source: IMF (2022)



## 5.4 Green PFM as Part of the Legal Framework: Country Examples

- *Kenya's* Climate Change Act of 2016 mandates the integration of the National Climate Change Action Plan into sectoral strategies.
- *Sweden's* Climate Act (2018) establishes that the government's climate policy must be implemented in a manner that enables climate targets and budgetary targets to interact.
- *Uganda's* Public Finance Management Act (PFMA) 2015 was amended by the National Climate Change Act (2021) to include climate considerations in the budget processes.
- In *Canada*, the Auditor General Act was amended in 2022 to provide the auditor general a specific mandate related to the environment and sustainable development.



# **6. Way Forward**

# 6.1 Recommendations

- Bangladesh has laid the foundation for Green PFM mechanism by formulating necessary policies and initiatives. However, the country needs to **design and implement a comprehensive Green PFM**
- Bangladesh **actively seeks climate finance from international sources**, including the Green Climate Fund (GCF), Global Environment Facility (GEF), and bilateral sources. These funds are used to support climate-related projects and programmes. Despite the approval of highest amount of climate fund, the share of disbursed climate fund is lower compared to other Climate Vulnerability Forum (CVF) countries in Asia and Pacific due to lack of bankable projects. Hence, projects should be developed with support from experts. Capacity development for project designing is also needed. **Mobilisation of resources for climate change trust fund should be expedited**
- Utilisation of development climate budget should be enhanced
- The project tagging in various BCCSAP thematic areas are weighted following objective based method **which warrants more clarity**
- **Private sector fund from developed countries to developing countries** is a significant source of climate funding. In Bangladesh, private finance flow should be integrated into the system
- **Allocation for climate vulnerable people** should be increased in the SSNP

# 6.1 Recommendations (Contd.)

- Climate budgeting should be reformed so that it is considered as an **all-inclusive strategy aligned with national priorities**
- Climate budgeting reform should be **integrated with PFM reform agenda**
- Methodologies for **reporting, monitoring, verification of climate related expenditures** should be robust
- **The ministry of finance should be in charge** to drive climate budgeting reforms. **Other ministries should be part of the reform process** to establish their ownership in the process
- **Broader stakeholders** including the private sector, non-government organisations, civil society organisations, and community-based organisations **should be engaged** in the formulation and implementation of climate budget process
- For **better integration of climate budget tagging** into the national budget process, and for better tracking of climate related expenditures, **capacity development** of relevant human resources is essential

# Thank you!



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