

Climate Budget Scenario of Bangladesh

I. Context

Adoption of a Climate Fiscal Framework (CFF) by the Government of Bangladesh (GoB) in 2014 formally marked the beginning of the pursuit of climate finance governance agenda in the country. It was developed amidst a range of challenges arising mainly from its novelty- as till then no other countries could develop and adopt such a framework for mainstreaming climate finance in their policy architecture. The document drew the attention of many comparator countries and earned global appreciation for the country's innovative approach in dealing with the challenges it faces. However, following the adoption of CFF, Finance Division began implementing a project titled *Inclusive Budgeting and Financing for Climate Resilience (IBFCR)* since 2016 with a set of agenda designed to achieve certain objectives on climate budgeting.

II. Milestones Achieved So far: A Snapshot

The following narrative provides a snapshot of what the Government of Bangladesh has achieved so far:

✓ Climate Dimension Embedded in Budget Circular

As part of the process of linking the major climate policies and strategies (e.g. Bangladesh Climate Change Strategy and Action Plan) with the budget setting process under MTBF, the Budget Circular (BC) which provides strategic directions to the line ministries for preparation of Ministry Budget Framework (MTBF) has been turned climate inclusive.

Together with strategic directions, the BC also provides operational guidelines for the relevant budget desk officers of the line ministries setting out the steps and procedures they are to follow while embedding climate dimension in the MBFs.



✓ Development of Climate Finance Tracking Methodology

Last year while embarking on the exercise for preparation of the climate budget report, a methodology was developed to track climate expenditure subsumed in the total budget allocation of relevant ministries. Essentially it turned out to be rudimentary as the information available at that point in time was not enough to make it comprehensive.

Based on the learning from last year's tracking exercise, the project embarked on the task of developing a robust and comprehensive tracking methodology to make the results more credible and unbiased. A wide consultative process was undertaken to finalize this tracking methodology. As there is no widely agreed methodology for tracking climate public finance, a conceptual framework was developed having reviewed the available literature to lend it a credible premise.

✓ Developed a separate climate finance module in Integrated Budgeting and Accounting System (iBAS++) through mapping climate issues using new Budget and Accounts Classification System (BACS)

The project accomplished the task of mapping climate issues with the BACS and iBAS++ by working closely with the teams engaged for development of these systems. As a result, the iBAS++ will now generate climate relevant reports to meet the requirements of various stakeholders. This will facilitate tracking of climate expenditure down to lowest tier of local governments including climate hotspots. This is for the first time the climate issues have been mapped in BACS and iBAS++. Developed a climate finance tracking module in iBAS++ based on the tracking methodology

✓ Ministry Budget Framework of 20 Line Ministries Turned Climate Inclusive

Following the issuance of Budget Circular, a total of 20 line-ministries with technical support from the project turned their MBFs climate inclusive. For the first time, all these MBFs were then included in the MTBF document for FY 2018-19 published by Finance Division and presented before Parliament along with the budget documents.



✓ **Climate Inclusive Medium Term Macroeconomic Framework**

Preparation of a climate inclusive medium term macroeconomic framework using a macroeconomic model embedded with the climate change variables. This has been done in an attempt to draw the attention of a high-level policy making body **headed by the Minister for Finance (Coordination Council)** to the pitfalls of **business as usual** approach of climate investment while highlighting the benefits of taking **calculated climate investment decisions** now to counteract the possible shocks arising from climate change. Drafted a production function based climate inclusive macroeconomic framework

✓ **Climate Budget Report**

In order to inform the wider stakeholders about the GoB commitment towards climate resilience, the first report was published in 2017 titled **Climate Protection and Development** covering six large climate spending ministries and presented before Parliament with budget documents for FY 2017-18.

The report drew the attention of the Hon'ble Prime Minister who while recognizing the importance of the document, made glowing comments on its contents and even requested the members of parliament to read through the report to understand the depth and dimension of the adverse effects of climate changes and the measures being taken by the government to address those effects to reduce the resulting impacts. That apart, the report also drew the attention of NGOs and CSOs working with climate agenda in the country and motivated them to pay more attention to the issue of climate finance as a priority. The second climate budget report titled **Climate Financing for Sustainable Development** published this year was also presented before Parliament along with the budget documents for FY 2018-19. The report covered a total 20 ministries including those six ministries covered last year. Most of the leading national dailies featured news stories after the presentation of the report before Parliament. A couple of salient features of the second report include: (i) it has been prepared using a robust and comprehensive climate public finance tracking methodology as opposed to the one used for the first report which was rudimentary in character and contents (ii) the data used for presenting analyses in the report were generated by the FD's financial management information system called **integrated budgeting and accounting system (iBAS++)** which significantly reduced the scope of applying individual judgments and (iii) a separate climate budget module was developed within iBAS++ to extract data on climate relevant allocation from both development and operating budgets.



✓ **Climate Performance Audit**

As part of the process of strengthening governance to reduce the fiduciary risks in the utilization of climate finance, technical support to the Office of the Comptroller and Auditor General (OCAG) to conduct climate performance audit of two projects of the government financed by Bangladesh Climate Change Trust Fund (BCCTF) and Bangladesh Climate Change Resilience Fund (BCCRF) on a pilot basis was given. The insights gathered from this piloting exercise prompted the project to work out proposals for addenda to the existing **Audit Code, Auditing Standards, and Performance Audit Manual** of OCAG to incorporate climate dimensions in these important documents to guide the auditors in conducting climate performance audit of the projects/programmes included in the development budget.

In addition, two more documents setting out generic criteria for climate performance audit as well as guidelines for planning the new audit intervention were made. All these documents have been accepted for adoption by OCAG after CAG's approval. Side by side, since there is a challenge of sustaining the results of this intervention in audit arena, the project as part of its agenda for building capacity of a critical mass of auditors prepared a Training Manual to be used by the OCAG's training outfit (Financial Management Academy) for providing training to the prospective auditors. Finalized the documents incorporating the feedbacks received from the validation workshop and obtained approval of CAG

✓ **Climate inclusive fiscal policy (tax, vat, subsidy, pricing)**

A review of existing fiscal policies (tax, VAT, subsidy and pricing) has been undertaken to identify areas where (i) revenue measures will recognize the effects of climate change and indicate tax incentives for low carbon green development, (ii) the government can provide subsidy for green products and reduce it where it harms the process of low carbon green development and improved climate adaptive livelihood, and (iii) the government should adjust its energy pricing policy to promote the renewable energy generation options.



✓ Updated Climate Fiscal Framework (CFF):

A review of the existing CFF 2014 to make it more relevant in the context of adoption of a Public Financial Reforms Strategy (2016-2021) has been undertaken by GoB in 2016 as well as the developments that took place in the landscape of climate finance during the past four years since its adoption and updated it through a wide consultative process involving both state and non-state actors.

The updated CFF, therefore, brings to sharper focus the supply side of climate finance given the country's vulnerability to the risks of loss and damage arising from climate change.

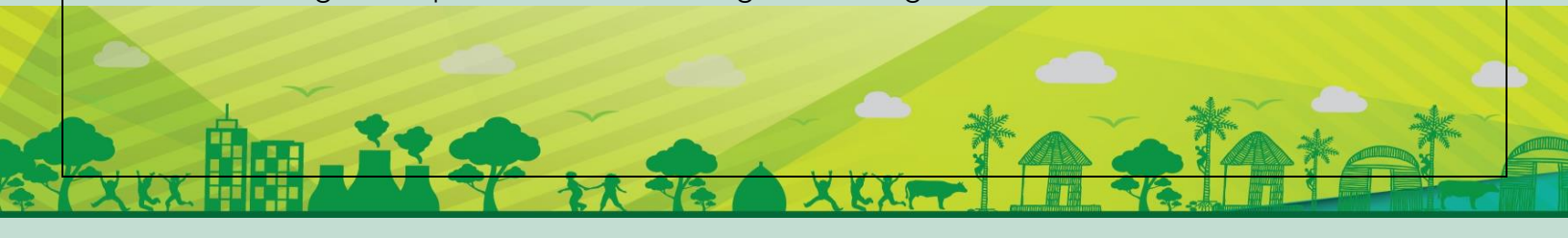
✓ Localizing Climate Fiscal Framework (CFF)

Two pilots are undertaken for localizing climate fiscal framework in two lowest tier local government institutions (Union Parishads) located in climate hotspots of the country in an attempt to improve the climate adaptive livelihood of the most vulnerable and marginalized community, in particular the women. Once successfully implemented, these pilots will be rolled out to other Union Parishads (UPs) called Local Government Initiative for Climate Change (LoGIC) recently taken up for implementation by the Local Government Division (LGD) to scale up the intervention.

While implementing these pilots, a risk assessment was carried out involving the community to understand the pattern of their livelihood together with the intensity of the vulnerability they are facing because of climate change. Conducted household socio-economic baseline survey focusing on climate vulnerabilities

✓ Reflection of Climate Change Dimension in the Strategic Policy Documents

Inclusion of climate change dimension in two strategically important policy documents- **Medium Term Macroeconomic Policy Statement (MTMPS) and Bangladesh Economic Review** is an important pathway. Both the documents gave sufficient space to reflect climate change dimension in relevant sections to demonstrate its importance as a critical development agenda. The purpose of MTMPS is to provide an outline of the recent macroeconomic situation together with the growth potential of the economy, medium term targets and strategic priorities of the government. In chapter 1 of the document a separate section has been devoted to discussing how the government is addressing the impact of climate change. The Bangladesh Economic Review, on the



other hand, is an important and informative annual publication of the Government of Bangladesh.

The trends of macroeconomic indicators, development policies, strategies and sectoral progress of Bangladesh are discussed in details in this document. One of the important content of the document described elaborately the climate policies and strategies together with the climate financing strategy of the government. Besides these, while delivering his **budget speech for FY 2018-19**, the Finance Minister made the following statement on climate financing to draw the attention of the Members of Parliament:

213. In order to make the budget setting process climate sensitive, the Ministry Budget Frameworks (MBFs) of 20 ministries/divisions have been embedded with climate dimensions, for the first time. I am submitting a report titled 'Climate Financing for Sustainable Development' based on the contents of MBFs. This report will tell us the share of climate expenditure subsumed in the total budget of the selected ministries/divisions. This apart, training has also been provided to the relevant officials of Finance Division and line ministries on the guidelines developed for imparting the techniques of inclusion of climate dimension in the MBFs. To ensure accountability and transparency in climate financing, climate performance audit has been introduced to assess the economy, efficiency and effectiveness of climate relevant projects. Moreover, in order to mainstream climate audit in the government audit operations two guidelines on climate performance audit together with addenda to include climate dimension in auditing standards, audit code and performance audit manual have been prepared.

The Finance Minister's statement focuses that the country's PFM system is climate inclusive.

✓ **Planned Milestones: Next Steps**

To address the climate issue in a more effective and efficient manner the government undertook a number of projects. The next steps of the Government through those projects are briefly as follows:

Climate Inclusive Debt Management Strategy

The existing Medium-Term Debt Strategy (MTDS) will be reviewed, in consultation with treasury and debt management wing of the FD and BB, for inclusion of debt instruments related to financing climate expenditure. This will promote new debt instruments dedicated to finance climate expenditure on a sustained basis. The project will present



the results of review with various options to the policy makers for choosing appropriate options for implementation.

Social Audit Protocol in Government Audit Operations

The possibility of introduction of social audit protocol in the audit operations of OCAg in relation to climate change will be explored. Support to develop standards and guidelines for conducting such audit for climate change related projects will be provided. This will capture people's perception about the efficiency and effectiveness of project approach together with resource utilization to address climate change issues. The possibility of undertaking social audit will also be explored.

Climate Sensitive Lending policy

In consultation with Bangladesh Bank (BB), the existing lending policies for the Banking sector will be reviewed to identify areas where channeling of loans to different sectors can be linked with climate change effects. This will encourage channeling of loans to the projects which will promote low carbon development and enhance adaptive capacity of the vulnerable population.

Interfacing between Different Climate Relevant IT systems and iBAS++

The existing IT based systems established in other relevant agencies within the government e.g. AIMS, DMFAS, and identify the possibility of interfacing with iBAS++ for collection of climate relevant data and information, and provide technical support for interfacing, where necessary will be reviewed. Since the systems are already established, it would be possible to identify the links to work out interface at less cost. This will ensure real time and regular flow of information between the systems established in different agencies.

Insurance Policies for Climate Risk Management

Appropriate steps has been taken to review existing insurance policies to identify areas where innovative tools related to climate risk transfer issues can be included. This will improve adaptive capacity of the climate vulnerable communities. The results of pilots carried out by different NGOs and propose relevant tools to IDRA will also be reviewed.

Creating a Critical Mass of Trainers

Government of Bangladesh will provide training using climate inclusive training curriculum in regular flagship courses offered by Institute of Public Finance (IPF) to create a critical mass of trainers. IPF is a public facility at the arm's length of the FD. The courses have stood the test of time and will continue in future. The courses are held regularly which draw around 150 government officials annually.

Regular Internal Monitoring by Line Ministries



Incorporating climate finance issues in the agenda of the monthly ADP review meeting of different line ministries is critical in the context of introduction of climate sensitive ministry budget framework. The agenda of monthly ADP review meeting is being examined to incorporate climate finance issues. Once incorporated, the line ministries will get regular information on the status of climate expenditure subsumed in the annual development budget. This in turn will instigate appropriate actions against any lapses in terms of non-inclusion of climate spending in the reporting framework on ADP.

Revision of ToR of Public Accounts Committee (PAC)

The existing ToR of the PAC as set out in the Rules of Procedure of Parliament and work out proposals for consideration of the Parliament Secretariat to include climate finance issues in its ToR will be reviewed.

Revision of ToR of Budget Management Committee (BMC)

Incorporating climate finance issues in the ToR of the BMC is important for carrying out internal oversight of the utilization of climate allocation. The ToR of BMC to work out proposals for its revision will be reviewed.

Climate Expenditure Tracking Methodology for Local Government Institutions (LGIs)

Appropriate tools and associated guidelines to track climate expenditure in the local government budget in partnership with Local Government Initiatives on Climate Change (LoGIC) Project will be introduced. This will help inform the policy makers about the level of climate spending at the LGIs to address the adverse effects of climate change. Replication of the tools at the local level that are already developed to track climate expenditure in the national budget.

Review of Ministry Key Performance Indicators (KPIs)

The existing KPIs of the line ministries are in most cases not climate sensitive. In order to monitor the utilization and impacts of climate investments, it is important to establish climate smart KPIs for relevant ministries. The existing KPIs of all relevant ministries and work out proposals for inclusion of new KPIs, where necessary will be reviewed.

Project and Programme Monitoring by Implementation Monitoring and Evaluation Division (IMED)

Technical support to IMED will be provided to embed climate dimensions in the existing project and programme evaluation framework. Once incorporated, the climate finance issues will remain as standing agenda for project and programme evaluation.

III. Conclusion



It is, thus, expected that the results of these interventions will have a high impact on future climate policies and strategies of the government including those related to climate finance.

