

# CLIMATE FINANCE IN BANGLADESH: SITUATION ANALYSIS

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## CEADIR

**Contract No.: AID-OAA-I-12-00038**  
**Task Order AID-OAA-TO-14-00007**

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### **DISCLAIMER**

The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development (USAID) or the United States Government.

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# ACRONYMS AND ABBREVIATIONS

<b>ADP</b>	Annual Development Programme
<b>ADB</b>	Asian Development Bank
<b>AF</b>	Adaptation Fund
<b>BCCRF</b>	Bangladesh Climate Change Resilience Fund
<b>BCCSAP</b>	Bangladesh Climate Change Strategy and Action Plan
<b>BCCT</b>	Bangladesh Climate Change Trust
<b>BCCTF</b>	Bangladesh Climate Change Trust Fund
<b>CAG</b>	Comptroller and Auditor General
<b>CCC</b>	Climate Change Commission
<b>CCU</b>	Climate Change Unit (MoEF)
<b>CDMP</b>	Comprehensive Disaster Management Program
<b>CFB</b>	Climate Finance Board
<b>CFF</b>	Climate Fiscal Framework
<b>CFS</b>	Climate Finance Secretariat
<b>CIP</b>	Country Investment Plan
<b>COP</b>	Conference of parties
<b>CPEIR</b>	Climate public expenditure and institutional review
<b>CSO</b>	Civil society organization
<b>DfID</b>	Department for International Development (United Kingdom)
<b>DoE</b>	Department of Environment (MoEF)
<b>DPs</b>	Development partners
<b>DPP</b>	Development Project Proforma
<b>ECNEC</b>	Executive Body of National Economic Council
<b>EFCC</b>	Environment, forestry, and climate change
<b>EU</b>	European Union
<b>ERD</b>	Economic Relations Division (MoF)
<b>FAO</b>	Food and Agriculture Organization of the United Nations
<b>FD</b>	Finance Division (MoF)
<b>FY</b>	Fiscal year
<b>FYP</b>	Five-year plan
<b>GC</b>	Governing Council (BCCRF)
<b>GCF</b>	Green Climate Fund

<b>GDP</b>	Gross domestic product
<b>GED</b>	General Economic Division (MoP)
<b>GEF</b>	Global Environment Facility
<b>GHG</b>	Greenhouse gas
<b>GIZ</b>	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Development Agency)
<b>GoB</b>	Government of Bangladesh
<b>IDA</b>	International Development Association
<b>IDCOL</b>	Infrastructure Development Company Limited
<b>IFC</b>	International Finance Corporation
<b>IMED</b>	Implementation, Monitoring, and Evaluation Division (MoP)
<b>IPPC</b>	Intergovernmental Panel on Climate Change
<b>KfW</b>	Kreditanstalt für Wiederaufbau (German Development Bank)
<b>KM</b>	Knowledge management
<b>LCG</b>	Local Consultative Group
<b>LDCF</b>	Least Developed Countries Fund
<b>LGED</b>	Local Government Engineering Department
<b>MC</b>	Management Committee (BCCRF)
<b>MDB</b>	Multilateral development bank
<b>MoEF</b>	Ministry of Environment and Forests
<b>MoF</b>	Ministry of Finance
<b>MoP</b>	Ministry of Planning
<b>MIE</b>	Multilateral Implementing Entity
<b>MRV</b>	Monitoring, reporting, and verification
<b>NAP</b>	National Adaptation Plan
<b>NAPA</b>	National Adaptation Programme of Action
<b>NCCC</b>	National Climate Change Centre (MoEF)
<b>NCF</b>	National Climate Foundation
<b>NDCs</b>	Nationally Determined Contributions
<b>NEC</b>	National Environment Committee
<b>NDA</b>	National Designated Authority
<b>NGO</b>	Nongovernmental organization
<b>NIE</b>	National Implementing Entity
<b>NSC</b>	National Steering Committee
<b>PD</b>	Programming Division (MoP)



<b>PEC</b>	Project Evaluation Committee (MoP)
<b>PECM</b>	Poverty-Environment-Climate Mainstreaming
<b>PKSF</b>	Palli Karma-Sahayak Foundation
<b>PPCR</b>	Pilot Program for Climate Resilience
<b>PPF</b>	Project preparation facility
<b>ROP</b>	Rules of procedure (parliament)
<b>UNDP</b>	United Nations Development Programme
<b>UNFCCC</b>	United Nations Framework Convention on Climate Change
<b>USAID</b>	United States Agency for International Development

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# EXECUTIVE SUMMARY

USAID/Bangladesh asked the Climate Economic Analysis for Development, Investment, and Resilience (CEADIR) Activity to conduct a situation analysis on climate finance in Bangladesh. The purpose was to assess the policy environment, institutional arrangements and the government's capacity to access and implement climate change projects; and explore modalities for achieving a functional institutional arrangement for managing climate finance in Bangladesh.

The assessment consisted of a literature review and key informant interviews with USAID and other donors, implementers, the Government of Bangladesh (GoB), and civil society representatives. CEADIR reviewed government policies, strategies, and plans as well as annual reports and assessment documents related to climate change finance and implementation. CEADIR focused the analysis on three general aspects of the climate-related finance experience: enabling environment, institutional structures and functions, and institutional capacity. CEADIR reviewed government policies, actions, regulations, and strategies and the experience with domestic and external resources for climate finance.

The key enabling environment challenges for climate finance are the need for greater high-level commitment in setting priorities and improving governance, accountability, and transparency. Some of the identified problems included large amounts of unaccounted funding and failure to adhere to mandated processes for project review and implementation monitoring.

CEADIR focused on two main institutional structure issues—coordination of whole-of-government strategic planning and monitoring, reporting, and verification capacity. The delineation of climate finance roles and responsibilities across ministries was not sufficiently clear. However, key informants did not agree on whether the lead coordination role should be taken by Ministry of Environment and Forests (MoEF), Ministry of Finance (MoF), Ministry of Planning (MoP), or a new ministry or commission. There were also concerns on the limited focus of monitoring and reporting on tracking project expenditures rather than identifying implementation issues and results.

Donors have invested significant resources to help the GoB develop and sustain technical and financial capacity related to climate finance. Nevertheless, there were still commonly reported gaps in systems, tools, and skills for greenhouse gas (GHG) emission inventories, vulnerability assessments, adaptation planning, and project preparation that have limited the country's ability to compete for external finance. The GoB has relied heavily on the staff and consultants of development partners in designing or analyzing projects, preparing reports, and developing strategies rather than sustainable government capacity development.

Despite a wide range of views on how to strengthen Bangladesh's climate finance system, there was general agreement on four priorities:

1. Demonstrating greater political will by elevating climate changes issues in the development agenda and using the authority and convening power of government;
2. Strengthening political and technical leadership on climate change to make better policy, regulatory, investment, and implementation decisions;
3. Increasing coordination and collaboration of public sector institutions for cohesive and harmonized action; and
4. Improving the accountability and transparency of GoB processes and systems for full compliance with international standards for financial management, reporting, and verification.

To address these priorities, CEADIR developed five options to consider for strengthening climate finance in Bangladesh. The first option focused on addressing and technical gaps in project preparation and analysis while the other four options were designed to improve the government's capacity to manage domestic and external climate finance.

**Option 1 – Establish a project preparation facility** to improve the quality of projects developed by government ministries for domestic and external climate finance. To increase its competitiveness in the early rounds of Green Climate Fund (GCF) funding, the GoB should reduce its reliance on external multilateral implementing entities (MIEs) by obtaining national implementing entity (NIE) accreditations within the government. Increasing the capacity to prepare successful project proposals for external climate finance can also improve the quality of projects financed from the national budget. The GoB could help the private sector develop the capacity to obtain external financing from the GCF, impact investors, and other private sources. The potential climate-related financing from the private sector is much larger than the amount available from multilateral and bilateral public sources. Development partners could help Bangladesh establish a project preparation facility for climate change adaptation and mitigation activities offering a range of project design services, assistance in identifying external financing, and support in developing appropriate monitoring, reporting, and verification (MRV) processes.

**Option 2 – Establish a Climate Change Commission** as an apex institution above existing ministries to take a lead role in accessing and implementing climate finance. This option would require establishment of a new high-level, governmental climate change commission (CCC). The CCC would gather many of the core public sector functions for climate finance within one apex organization with greater authority, power, and influence. This option would require a declaration from the Prime Minister and parliamentary approval.

A new CCC could be housed within the Prime Minister's office and take on responsibility for planning, coordination, project selection, and MRV across ministries. The CCC would work closely with all GoB institutions involved in climate change work and could be responsible for strategic planning, including development of climate change-specific plans and strategies. It would need to work closely with various ministries and other stakeholders to ensure that climate-related plans and strategies align with national development plans and strategies and reflect the interests of constituents.

**Option 3 – Establish a Climate Finance Board** with representatives of the GoB, donors, and other funders. This board could set priorities for types and sources of external finance for climate change projects. Option 3 would facilitate access to external resources by creating a pooled donor climate fund governed by a Climate Finance Board (CFB) with representatives from the GoB, donors, and local NGOs, and supported by a donor-funded Climate Finance Secretariat (CFS).

The CFB and CFS could play similar roles as the GCF Board and Secretariat, but on a more limited scale to support priority GoB climate change projects. Option 3 is similar to the BCCRF, except that it would not require the GoB to assume leadership roles for the board or secretariat or commit staff and financial resources to the secretariat. This option could also include independent, third-party MRV to track project technical and financial performance.

**Option 4 – Restructure the Bangladesh Climate Change Trust Fund as a national climate fund.** This option would change the current structure of the Bangladesh Climate Change Trust Fund (BCCTF) by diversifying its role in supporting public and private sector projects and its capacity to receive external funding in addition to domestic budget resources. Key informants noted that the BCCTF had not demonstrated a high level of accountability in disbursing funds for government and NGO projects and was no longer receiving the higher level of annual funding that it had received in its early years. To fill these new roles, the Bangladesh Climate Change Trust law would have to be amended and the BCCTF would need to make major changes in project cycle management; staffing, roles, responsibilities, and skills; and accountability and compliance with procedures. One possibility would be to work with a private sector fund manager and technical experts, rather than civil servants.

**Option 5 – Create a National Climate Foundation** to manage climate finance as an independent entity. This option would create a new national climate foundation (NCF) or fund to replace the BCCTF and support climate change projects submitted by the GoB, NGOs, or the private sector. It could combine pooled donor partner financing with other external and domestic funding and could support climate change projects submitted by GoB line ministries, NGOs, or the private sector. This option would require new legislation and the development of new procedures and systems. It could address questions about the performance and sustainability of the BCCTF and help the GoB establish a climate foundation that can meet international standards.

The five options offer alternatives to strengthen the institutional arrangements for climate finance and project design, implementation, and monitoring to meet international expectations for fiduciary responsibility, accountability, transparency, relevance, scale, impact, and sustainability. Decisions on which option or options to adopt should be made through consultations between the GoB and development partners that address the following questions:

1. ***What is the timeframe for supporting climate?*** Option 1 could be structured as a limited-term project that could subsequently be handed off to the GoB. Options 2, 4, and 5 may require considerable time to establish or reconstitute institutions before operations. Option 3 does not involve establishment of a new GoB institution, but would require GoB and development partner collaboration in setting up the board and secretariat.
2. ***How quickly does the donor financing need to be allocated and spent?*** Development partners are interested in speeding up investments and results from their own separate or pooled funding. Options 2, 4 and 5 could be time consuming because of the legal requirements for creating or restructuring climate finance institutions.
3. ***How receptive is the GoB?*** Several key informants emphasized the importance of GoB ownership in communicating priorities to development partners. Option 1 is unlikely to be controversial with the GoB since it emphasizes technical assistance to improve the quality of climate change projects. Option 2 would involve creating a high-level, whole-of-government approach to climate finance.

Option 3 could be a feasible replacement for the Bangladesh Climate Change Resilience Fund. Many development partners agreed on the important role of GoB in articulating priorities and the benefits of pooling finance as opposed to bilateral projects. Option 3 appears to be relatively easy to implement since it has minimal requirements for new institutions. Option 3 could also be implemented as a limited-term pilot or a bridge to a long-term, sustainable approach to financing climate change adaptation and mitigation.

Options 4 and 5 may be more controversial. There are differing views within the GoB on whether to continue providing budget financing through a restructured Bangladesh Climate Change Trust Fund. Restructuring the BCCTF might be more politically acceptable than creating a national climate foundation, but it may be less effective. Option 5 might provide the greatest opportunities for reform and achieving substantial scale and impact in climate change adaptation and mitigation if it is accepted by all parties. It could also serve as a model for financing reform in other sectors.

# I. INTRODUCTION

## I.1 BACKGROUND

Bangladesh is one of the world's most vulnerable countries to climate change (Maplecroft, 2014; IPCC, 2013; World Bank, 2012). Climate change is expected to have devastating consequences for vulnerable populations and businesses in low-lying coastal areas and flood plains in the country. Bangladesh has substantial potential to mitigate greenhouse gas (GHG) emissions and capitalize on green growth opportunities. Both climate change mitigation and adaptation are important considerations for Bangladesh as it seeks to reach middle-income country status by 2021 (Bangladesh Ministry of Planning, 2012).

Bangladesh must cope with an abundance of climate stressors, including extreme temperatures, irregular rainfall, floods, droughts, cyclones, sea level rise, tidal surges, salinity intrusion, and ocean acidification, among others (MoEF, 2015). These climate stressors, paired with non-climate stressors affecting the country such as corruption, pollution, changing population dynamics, urban development, and natural resource extraction, will strain the future economic growth of the country and endanger development gains made over the past 30 years. Without global action to reduce GHG emissions, the costs of adapting to climate change in Bangladesh will be much greater in the future. The annual economic costs of climate change in Bangladesh could amount to 2 percent of gross domestic product by 2050 and 9.4 percent by 2100 (MoEF, 2015).

The GoB estimated that the power, transport, and industry sectors will generate 69 percent of the country's total GHG emissions by 2030 (excluding the land use, land use change, and forestry sector), a 264 percent increase from 2011 (MoEF, 2015). Bangladesh has good opportunities to curb GHG emission growth through renewable energy and energy efficiency. Bangladesh laid out unconditional and conditional mitigation targets in its Nationally Determined Contributions (NDC). The NDC noted that additional assessments are required to quantify mitigation investment needs and that the conditional mitigation targets would require significant international support for finance, technology transfer, and capacity building.

The GoB has taken significant legal, strategic, and financial actions to respond to climate challenges and capitalize on opportunities. Despite these achievements, Bangladesh must continue to commit to significant and strategic actions for sustainable low emission, climate-resilient development (World Bank, 2014). Overcoming the climate challenges in Bangladesh will be a major undertaking requiring strong political will, operational and transparent institutional structures, sufficient technical capacity, and strategic and effective use of domestic and international climate finance.

## I.2 PURPOSE OF THIS SITUATION ANALYSIS

Donors and multilateral development banks have provided technical assistance to support strategic planning and capacity development, and climate change mitigation and adaptation project financing. During this collaboration, some development partners have expressed concerns about insufficient coordination, strategic planning, and the performance of previously supported climate change activities.

To address these concerns, financing for climate change adaptation and mitigation activities will need to be spent more transparently, accountably, and effectively.<sup>1</sup>

The Bangladesh Climate Change Resilience Fund (BCCRF) was established in 2008 with funding from seven development partners.<sup>2</sup> This was the first fund of its kind in developing countries and it began operations in 2010. Development partners pledged \$187 million and ultimately contributed \$130 million to this fund. The World Bank served as trustee of the fund and exercised internal controls over its governance.<sup>3</sup> The BCCRF implemented all of the projects in its pipeline by the end of June 2017 and ceased operations. Many stakeholders had concerns about its rate of progress. Some development partners are interested in exploring other models for continued collaboration with the GoB on climate change mitigation and adaptation and increasing the government's ability to access external climate finance.

Many development partners have identified gaps in the government's commitment to strategic planning, capacity development, and effective coordination between ministries on climate finance. In their view, the GoB has not yet established effective institutional arrangements for accessing, managing, and complying with conditions and monitoring, reporting, and verification requirements of international funds, such as the Green Climate Fund (GCF) and the Adaptation Fund (AF). Insufficient technical capacity also poses challenges to future public sector climate change projects.

Although many development partners remain committed to helping Bangladesh achieve its climate change priorities through capacity development, strategic planning, and financing, they want to increase the efficiency and effectiveness of their support. They are also looking to support projects that have demonstrated government interest and commitment. To help address these concerns, USAID/Bangladesh asked the Climate Economic Analysis for Development, Investment, and Resilience (CEADIR) activity to conduct this situation analysis on climate finance in Bangladesh.

## 1.3 OBJECTIVES OF THE SITUATION ANALYSIS

The climate finance situation assessment had the following objectives:

- Assess the GoB's policy environment, institutional arrangements, and capacity for climate finance access and management, project cycle management, and other core functions of effective climate change action;
- Identify gaps and formulate options for how the GoB can achieve a functional institutional arrangement for managing climate finance; and
- Propose a roadmap for achieving the recommended measures.

It addressed the following topics:

- **Enabling Environment:** (1) Climate-related policies, actions, regulations, strategies, and other foundational documents that underpin the structure and functions of the GoB relating to climate change; (2) recent and projected climate-related budget allocations; and (3) institutional mandates

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<sup>1</sup> Bangladesh is expected to experience more frequent and intense flooding, tropical cyclones, and drought in the future due to climate change. Bangladesh is the most vulnerable of the 170 countries included in the Climate Change Vulnerability Index (<http://maplecroft.com/about/news/ccvi.html>).

<sup>2</sup> *Development partners* refers to the seven bilateral and multilateral donors that provided financial support for the BCCRF: Australia, Denmark, the European Union, Sweden, Switzerland, the United Kingdom, and the United States and have expressed potential interested in supporting pooled funding mechanisms in the future.

<sup>3</sup> Unless otherwise noted, the World Bank refers to the International Bank for Reconstruction and Development.



of the Ministry of Environment and Forests (MoEF) and other agencies in climate change adaptation and mitigation, including any significant overlaps and gaps in roles and responsibilities.

- **Institutional Structures and Functions:** (1) Current institutional structure and functions of the GoB institutions involved in climate change activities and mapping of the relationships among institutions and (2) recommendations for changes in institutional arrangements to strengthen the GoB's ability to access and manage climate finance as well as the constraints, risks, and strengths associated with the proposed institutional arrangements.
- **Institutional Capacity of the GoB and Areas That Require Strengthening:** (1) Technical capacity to address climate change and the ability of each institution to carry out its roles and responsibilities; (2) financial management capacity for current climate change programs and potential access to international climate financing in the future; and (3) capacity in strategic planning, coordination, and project cycle management (project development, appraisal, selection, implementation, monitoring, reporting and verification, and knowledge management).

## I.4 ORGANIZATION OF THE SITUATION ANALYSIS

Section 2 describes the methods used to conduct the situation analysis. Section 3 presents the findings on the current landscape of climate finance (policies, regulations, and documentation and institutional structure and functions of national initiatives and programs). It also highlights key challenges and opportunities within the climate finance system in Bangladesh, as well as the requirements for effective institutional arrangements.

Section 4 discusses five options for strengthening the climate finance system in Bangladesh and facilitating the continued support of development partners on climate change investments. For each option, the roles, responsibilities, and functions of proposed institutional arrangements and the various GoB entities are described, strengths and weaknesses noted, and a general plan for implementing the option proposed. The section concludes with a series of questions that might help USAID and development partners frame discussions of next steps.

## 2. METHODS

This section describes the methods that the CEADIR team (hereafter, CEADIR) used to conduct the situation analysis:

- Phase 1: preparatory work
- Phase 2: data collection
- Phase 3: data analysis and reporting

### 2.1 PHASE I – PREPARATORY WORK

CEADIR developed the following list of questions to guide data collection for the literature review and structured key informant consultations:

- What are Bangladesh's current climate finance mechanisms and initiatives? What are the gaps?
- What are the positive and negative aspects of the enabling environment for large-scale climate finance management? What additional reforms would be important in the short-term (two years), medium-term (five years), and long-term (10 years)?
- What is the GoB's institutional, technical, and human resources capacity to carry out the core climate change management functions?
- Which institutional arrangements are the most appropriate for future climate finance?
- What are the most appropriate institutional arrangements for developing a climate finance management strategy/policy consistent with the Climate Fiscal Framework (CFF) and a whole-of-the-government approach?
- What are the most appropriate institutional arrangements that meet the requirements of international finance mechanism for a credible National Designated Authority (NDA) and National Implementing Entity (NIE)?
- What would be the potential roadmaps for achieving the recommended institutional arrangements over the short-, medium-, and long-terms? What are the funding requirements to support these roadmaps?

### 2.2 PHASE 2 – DATA COLLECTION

CEADIR reviewed GoB materials including the Bangladesh Climate Change Trust (BCCT) Act and reports, the Bangladesh Climate Change Strategy and Action Plan (BCCSAP), 2012 Bangladesh Climate Public Expenditure and Institutional Review (CPEIR), 2014 Climate Fiscal Framework (CFF), the Bangladesh Seventh Five-Year Plan, and the Bangladesh Vision 2021 plan. The team also reviewed documents from other sources, such as the Bangladesh Climate Change Resilience Fund Implementation Manual, BCCRF Mid-Term Review, the Local Consultative Group (LCG) on Environment and Climate Change's capacity and institutional mapping review, and other policy briefs and assessments by development partners and nongovernmental organizations (NGOs).

CEADIR conducted 18 key informant interviews during March 10-24, 2016 involving 46 individuals. Table I categorizes the informants who are listed in Annex A. An important gap was the limited number of meetings with GoB staff. CEADIR interviewed representatives of the Department of Environment (DoE) and the Bangladesh Climate Change Trust Fund (BCCTF), but interviews with the

MoEF, Ministry of Finance (MoF), and Ministry of Planning (MoP) could not be arranged during the field visit.

**Table 1: Summary of Key Informants**

Stakeholder Group	Sample of Institutions within Key Informant Stakeholder Group	Number of Meetings	Number of Key Informants
Government of Bangladesh	Ministry of Environment and Forests, Ministry of Finance, Bangladesh Climate Change Trust	3	14
Bilateral donors	USAID, German Development Agency (GIZ), DFID, EU	11	18
UN agencies and multilateral development banks	Food and Agriculture Organization of the United States, United Nations Development Programme, World Bank	4	7
NGOs	Arannayk Foundation, Bangladesh Centre for Advanced Studies, Centre for Global Change, International Centre for Climate Change and Development, International Union for the Conservation of Nature, Maleya Foundation,	4	7

CEADIR then used the findings of the literature review and key informant interviews to formulate options to strengthen climate finance in Bangladesh. The team obtained feedback on the draft findings and options from some development partner representatives.

# 3. FINDINGS ON THE CURRENT CLIMATE FINANCE LANDSCAPE IN BANGLADESH

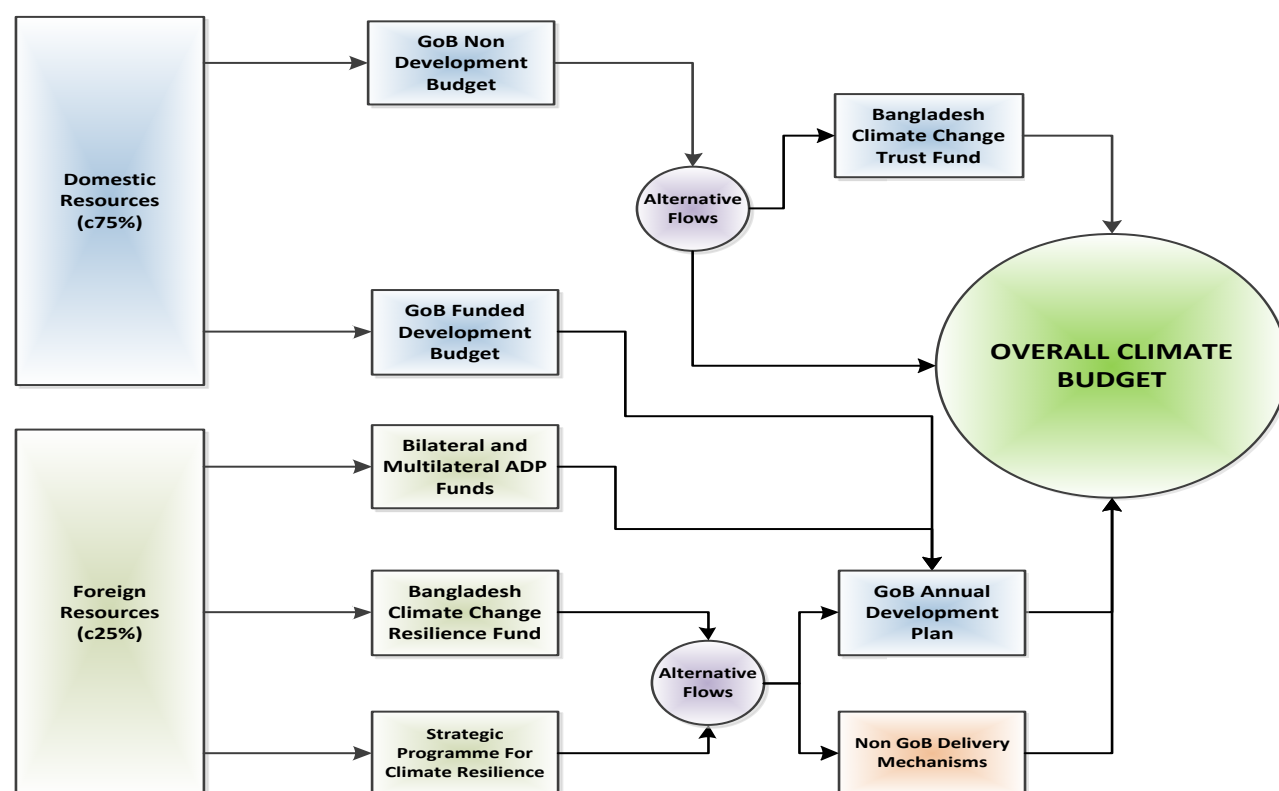
This section provides an overview of climate finance trends in Bangladesh and potential climate financing resources. It reviews the current institutional arrangements of the GoB by describing the institutions that carry out the core functions of the climate finance system in Bangladesh. It also summarizes key climate finance challenges and opportunities in Bangladesh. It highlights governance, institutional arrangement, and capacity challenges, as well as the opportunities that can be capitalized to strengthen the climate finance system.

## 3.1 CLIMATE FINANCE TRENDS

Climate change projects and other development projects with climate change components are funded through either the revenue or development budget in Bangladesh. The **revenue budget** is financed from domestic revenues and pays for regular government operations. The **development budget** is financed through foreign and local resources and covers investment projects and technical assistance.

The Climate Fiscal Framework (CFF) estimated that national expenditures on climate-related activities were 1.0 - 1.4 percent of GDP and 5.3 - 7.5 percent of the combined development and revenue budgets between July 2010 and June 2014 (Bangladesh Ministry of Finance, 2014). During this four-year period, the development budget financed 60 percent of climate activities and the revenue budget financed the remaining 40 percent. Domestic resources financed 81 percent of climate-related projects and programs and 19 percent was from foreign sources. Approximately two-thirds of the foreign financing was from loans and one third from grants. Figure 1 shows the sources and flows of climate finance in Bangladesh. There were six main sources for climate change related financing, the (1) revenue budget, (2) Annual Development Programme (ADP), (3) BCCTF (government funds), (4) BCCRF (donor funds), (5) multilateral climate funds, and (6) bilateral and multilateral development bank funds.

**Figure 1: Current Climate Finance Flows in Bangladesh**



Source: CPEIR 2012

**Revenue Budget.** Line ministries submitted Ministerial Revenue Budgets to the MoF's Finance Division (FD). The FD's budget wing was responsible for compiling and analyzing the annual revenue budget for submission to parliament every year. The revenue budget provided direct support for climate change activities within ministries, particularly for social protection and the BCCTF (Ministry of Planning, 2012). Climate change-related expenditures were 6.4 percent of the GoB budget in Fiscal Year (FY) 2013-2014 (MoF, 2014).

**Annual Development Programme (ADP).** The ADP supported approved capital investments aligned with the GoB's long-term development policies, programs, and investment plan. It was based on the annual development budget approved by Parliament. Line ministries drafted development project proposals for submission to the Planning Commission. An appraisal committee in the Planning Commission reviewed proposals and forwarded them to the Project Evaluation Committee (PEC) for revisions. The Minister of Planning approved development projects below Taka 250 million (\$3.25 million). The Executive Body of National Economic Council (ECNEC) approved larger projects. The Finance Department funded the approved projects.

The ADP included financing to support climate change related activities within ministries. The CPEIR found that these projects tended to focus on infrastructure and were generally capital intensive. Examples included emergency rehabilitation or flood protection. Between 12 and 17 percent of the development budget was spent directly on climate change adaptation and mitigation from FY 2009-2010 to FY 2011-2012.<sup>4</sup> Climate finance was provided to 25 different ministries and supported climate

<sup>4</sup> Calculated from CPEIR Tables 15 and 22

components in an average of 438 programs per year (GED, 2012). Although donor-financed projects went through the ADP process, this assessment classifies them separately. Domestic development funds were often used as co-financing for donor projects.

**Bangladesh Climate Change Trust Fund.** The BCCTF was a block budgetary endowment created by the GoB. This fund was financed out of the revenue budget and supports BCCSAP implementation. About \$385 million was allocated to the BCCTF in the seven years since it was established in 2009. During its first three years of operation, the BCCTF received \$100 million per year in funding. After three years, the MoF received increasingly smaller amounts. The BCCTF only received \$15 million in FY 2015-2016. Approximately 66 percent of the allocated funds were available for climate projects. The remaining 34 percent was retained to finance emergency projects and held in an interest-bearing deposit account or endowment. As of October 2015, 397 projects had been approved under the BCCTF, including 61 for NGOs. At that time, only 154 of the 397 projects had been completed, including 56 of the NGO projects (MoEF, 2016).

**Bangladesh Climate Change Resilience Fund.** The BCCRF was established in 2010 as a country-led financing partnership of the GoB, World Bank, and other development partners to support implementation of the Bangladesh Climate Change Strategy and Action Plan (BCCSAP). The BCCRF received \$130 million in commitments from Denmark, Sweden, the European Union (EU), the United Kingdom, Australia, Switzerland, and the United States for GoB and NGO projects (MoEF, 2013). Initially, the World Bank served as the trustee of the BCCRF and provided secretariat services. It was originally expected that these functions would be transferred to the GoB later, along with responsibilities for implementation of the committed funds.

The BCCRF was authorized to fund \$130 million of projects. However, it only approved five projects with a total cost of \$82 million. The difference between the available funds and allocated funds was due to two proposed projects that were prepared, but not funded. The \$25 million Modern Food Storage Facility activity did not start because it could not have been completed before the BCCRF ended. The \$25 million Agricultural Adaptation activity did not receive Ministry of Agriculture approval.<sup>5</sup> As of December 31, 2016, 87 percent of the BCCRF's allocated funding had been disbursed and the remaining \$11.9 million was expected to be disbursed by the end of June 2017 (World Bank, 2017). The BCCRF transferred \$13 million to the Palli Karma-Sahayak Foundation (PKSF) for grants to local NGOs relating to climate change. Table 2 summarizes the projects, budget, and disbursements of the BCCRF through the end of 2016.<sup>6</sup>

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<sup>5</sup> Personal communication with Dr. Shahpar Selim (World Bank)

<sup>6</sup> The World Bank charged a fee of 4.3 percent of expenditures for its project administration and management services.

**Table 2: Summary of BCCRF Projects and Disbursements Through December 2016**

Project	Budget	Implementing Agency	Expected Results	Implementation Status
Multipurpose Cyclone Shelters	\$25.0 million	World Bank's International Development Association (IDA) with Local Government Engineering Department (Ministry of Local Government, Rural Development and Cooperation)	61 cyclone shelters and 11.05 km access road (part of larger IDA programme)	\$23.1 million disbursed (92.3 percent)
Community Climate Change Project	\$13.0 million	Facilitated by Palli Karma-Shayak Foundation (PKSF) <sup>7</sup>	40 community-based grants awarded	\$12.9 million disbursed (99.8 percent)
Afforestation and Reforestation in Coastal and Hilly Areas	\$33.8 million	Bangladesh Forest Department, MoEF	17,000 ha reforested; 1,672 ha of additional forest coverage	\$29.9 million disbursed (88.4 percent)
Solar Irrigation Project	\$10 million (reduced from \$ 24.5 million)	Infrastructure Development Company Ltd.	518 solar irrigation pumps	\$5.0 million (50 percent) disbursed
Capacity building BCCRF Secretariat – phase I	\$200,000	MoEF	Recruitment of 5 staff members	Staff recruited, but left when BCCRF was not extended .0
Analytical and Advisory Activities	\$2.09 million	World Bank	Technical reports	\$2.05 million (98%) disbursed

Source: BCCRF Annual Report, 2016 (World Bank, 2017)

**Multilateral climate funds.** The GoB can access financial resources from the Green Climate Fund (GCF), Least Developed Countries Fund (LDCF), Adaptation Fund (AF), and Global Environment Facility. Bangladesh received two grants from the LDCF for reforestation.<sup>8</sup> The GCF was established in 2011 under the United Nations Framework Convention on Climate Change (UNFCCC). It began accepting applications in 2015 after reaching agreement on project cycle management procedures, fiduciary standards, environmental and social safeguards, and gender policies.

The GCF only accepted applications from accredited multilateral implementing entities (MIEs) or national implementing entities (NIEs). Although Bangladesh did not have an accredited NIE, two proposals for Bangladesh were submitted to the GCF by accredited MIEs -- the German development bank *Kreditanstalt für Wiederaufbau* (KfW) and the United Nations Development Programme (UNDP). The GCF awarded \$40 million to KfW for the Climate-Resilient Infrastructure Mainstreaming in Bangladesh Project in November 2015. The German Federal Ministry for Economic Cooperation and Development will provide \$15 million in co-financing for this project and the GoB will provide an additional \$25 million (KfW, 2015). The project had not started as of June 2016.

<sup>7</sup> The PKSF was established by the Government of Bangladesh in 1990 as a not-for-profit company under the Companies Act.

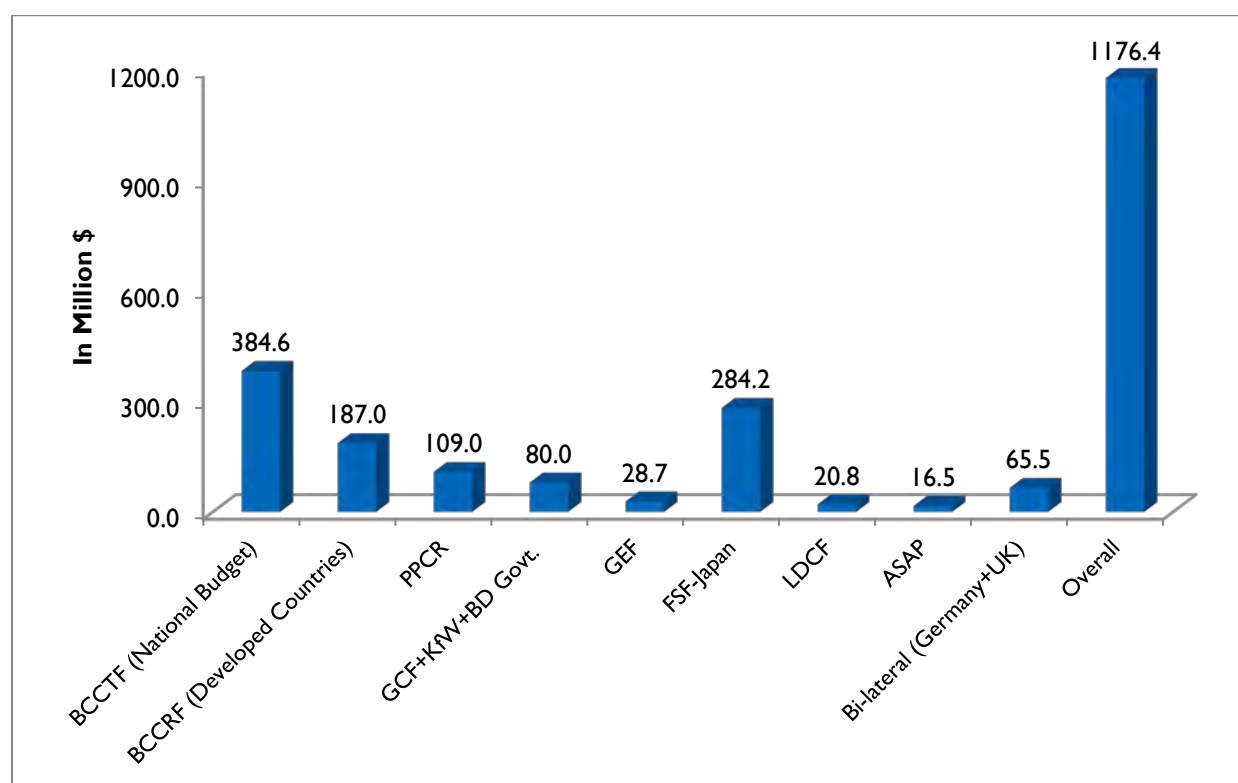
<sup>8</sup> See: [http://unfccc.int/adaptation/knowledge\\_resources/ldc\\_portal/items/5632.php](http://unfccc.int/adaptation/knowledge_resources/ldc_portal/items/5632.php)



**Bilateral donor and multilateral development bank projects.** The main bilateral donors for climate-related activities in Bangladesh were DFID, GIZ, and USAID. Bangladesh has received climate-related support has come from the United Nations Development Programme (UNDP), World Bank, and Asian Development Bank (ADB) The World Bank's Pilot Program for Climate Resilience (PPCR) and the Asian Development Bank have provided about \$110 million. Under the PPCR, the ADB and the World Bank have implemented seven feasibility studies and project preparation grants and the GoB has implemented three projects.

CPEIR (2012) estimated that the BCCRF and PPCR accounted for 2 - 3 percent of external and GoB climate change-related expenditures in 2011. Most of the domestically funded climate-related projects received financial support from the Annual Development Program (ADP) or the BCCTF. Figure 2 summarizes the climate finance commitments to date, excluding the ADP and revenue budget investments with climate change components. These commitments were allocated for climate change projects, except for the BCCTF's contingency accounts, the BCCRF's unspent balance, and \$2.09 million for analytical and advisory services by the end of December 2016. The Local Consultative Group (LCG) Working Group on Climate Change and the Environment estimated that bilateral assistance and multilateral investments provided over \$1 billion for climate change activities in Bangladesh since 2008 (World Bank, 2014).

**Figure 2: Climate Finance Commitments in Bangladesh**



Source: Khan, M. Zakir Hossain; Transparency International Bangladesh, January 2016

Between 2015 to 2030 Bangladesh would need to spend \$40 billion for adaptation measures described in the BCCSAP, the National Adaptation Programme of Action (NAPA), the National Adaptation Plan (NAP) Roadmap for 2015-2030, and the Seventh Five-Year Plan (MoEF, 2015). Although there has been debate over this estimate, a recent annual funding allocation of \$1.2 billion was substantially lower than the amount required to implement these measures.

Additional climate financing grants may be available from the GCF and other donors (project-specific funding or pooled funding for multiple projects). There is also potential for concessional loans from the multilateral development banks (MDBs). Even though the BCCRF has had challenges, the development partners remained committed to continued support of climate finance in Bangladesh.

## **3.2 GOB INSTITUTIONAL ARRANGEMENTS AND FUNCTIONS**

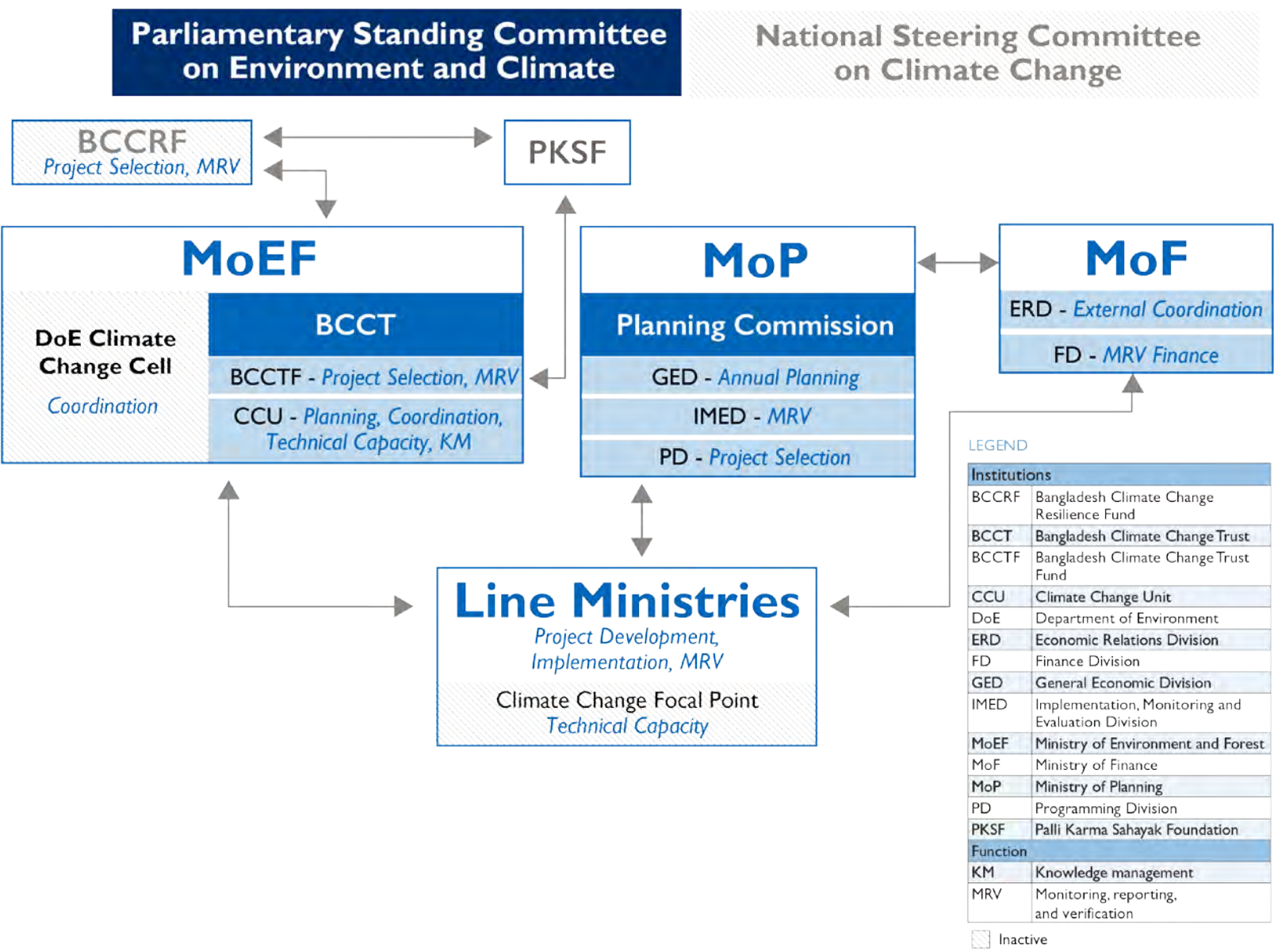
The following functions are integral to the climate finance system in Bangladesh:

1. Strategic planning and coordination;
2. Project cycle management including project identification, project appraisal, and selection; project implementation; and monitoring, reporting, and verification (MRV); and
3. Technical capacity and knowledge management.

This section identifies the roles and responsibilities of institutions involved in performing three key functions: (1) strategic planning and coordination, (2) project cycle management, and (3) technical capacity and knowledge management. Figure 3 provides an overview of the institutional structure for climate finance in Bangladesh. The institutions with diagonal lines are considered inactive as they will be irrelevant within the space of climate finance in Bangladesh in the future.

There were over 40 standing committees in Parliament, one for each ministry, as well as one on Environment and Climate Change. The standing committees examined draft bills and other legislative proposals, reviewed activities of the ministries, and investigated allegations of irregularities and malpractice. The Parliamentary Standing Committee for Environment and Climate Change could review the MoEF's activities, but it did not have this authority as mandated in Parliament's Rules of Procedures (ROP) and cannot convene public hearings or disclose committee proceedings to the public.

Figure 3: Current Institutional Arrangements for Climate Change Finance in Bangladesh



## 3.2.1 STRATEGIC PLANNING AND COORDINATION

### Adaptation and Mitigation Planning under the UNFCCC

Bangladesh was an early signatory of the UNFCCC and an active participant in the UNFCCC's annual Conferences of Parties (COP). The MoEF represented the GoB as the UNFCCC's focal point. The Department of Energy (DoE) was responsible for adaptation and mitigation planning. The DoE had a lead role in preparing and reporting on obligations to the UNFCCC and taking advantage of the opportunities for adaptation and mitigation planning support. The DoE has worked on the following items:

- UNFCCC National Communications—Bangladesh submitted its Initial National Communications in 2002 and Second National Communications in 2012. These documents addressed the GHG inventory, climate change vulnerability, and adaptation and mitigation progress.
- NDC —The MoEF submitted the NDC with baseline GHG emissions, projected business-as-usual GHG emissions and mitigation contributions through 2030 (unconditional and conditional), and existing and planned adaptation and mitigation efforts.
- National Adaptation Programme of Action (NAPA) — Bangladesh received UNFCCC support for preparation of a NAPA in 2004. The GoB updated the NAPA in 2009. Both NAPAs included an assessment of climate vulnerability and urgent and immediate actions to reduce vulnerability.
- National Adaptation Plan (NAP) roadmap —With support from the Government of Norway, a team of national experts prepared a NAP roadmap in collaboration with the MoEF and UNDP. The NAP roadmap described medium- and long-term adaptation priorities within a comprehensive plan that integrated adaptation into new and existing policies, programs, and activities.

### Climate Resilient, Low-Carbon Development Plans

The DoE was responsible for the development of the Bangladesh Climate Change Strategy and Action Plan, which was prepared with UNDP support in 2008 and revised in 2009.<sup>9</sup> The 2009 BCCSAP described 44 short-, medium-, and long-term programs in six pillars covering food security, social protection and health; comprehensive disaster management; infrastructure; research and knowledge management; mitigation and low carbon development; and capacity building and institutional strengthening.

The BCCSAP was not a strategic planning document because it did not set priorities for adaptation and mitigation actions. It was also not directly linked to development activities and did not reflect input from other GoB institutions. The GoB did not identify the resource requirements for implementation of the BCCSAP. Although the BCCSAP set the foundation for climate change action, the 2004 and 2009 documents have had little impact on actions taken by the country. The GoB planned to revise the BCCSAP in 2018.

Although the MoEF was responsible for preparing climate strategies and plans, it was not a cabinet-level ministry at the time the BCCSAP was prepared. The Climate Public Expenditure and Institutional Review (CPEIR) attributed the MoEF's weak external coordination to its legal mandate and governance structure, insufficient staff training, and the division of climate change mandates across the government.

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<sup>9</sup> The 2009 revision of the Bangladesh Climate Change Strategy and Action reflected changes in the development priorities of the Government of Bangladesh and planning documents, such as the Vision 2021 (BCCSAP, 2009).

At the time of this assessment, the MoEF was preparing a Country Investment Plan (CIP) to identify investment priorities for environment, forestry, and climate change (EFCC) with support from the FAO and USAID.<sup>10</sup> This plan will set priorities for the MoEF, but not set for other GoB ministries. It will include estimates of MoEF costs for natural resource management, pollution control, and climate change adaptation and mitigation. It will also link policies and actions in a results chain to help track progress and communicate results. The MoEF planned to establish a CIP Coordination and Monitoring Unit to ensure that this plan is used internally and monitor progress.

In 2009, the National Environment Committee (NEC) and the National Steering Committee (NSC) within the MoEF were tasked with coordinating and facilitating intra-governmental actions under the Bangladesh Climate Change Strategy and Action Plan. The NEC, chaired by the Prime Minister, had only met twice since its inception and the last meeting was in 2009. The National Steering Committee was headed by the Minister of Environment and Forests and included the secretaries of climate-sensitive ministries, civil society representatives, and the business community. The NSC has not been active.

There was some disagreement about climate change coordination responsibilities within the GoB. The MoEF stated that a Climate Change Unit (CCU) had been established as part of the Bangladesh Climate Change Trust to oversee and coordinate implementation of the BCCSAP.<sup>11</sup> However, the Bangladesh Climate Change Trust Fund stated that it served as the MoEF's Climate Change Unit. The Climate Fiscal Framework indicated that the CCU was responsible for supervising and coordinating BCCFR and BCCTF activities.

### **National Development Planning**

The Annual Development Programme (ADP) compiled all development projects proposed by line ministries and approved by the Programming Division of the MoP's Planning Commission.<sup>12</sup> The Ministry of Planning was responsible for developing the ADP, five-year plans (FYPs), and other long-term development plans (such as the Perspective Plan of Bangladesh for Vision 2021). The General Economic Division (GED) of the MoP's Planning Commission was responsible for preparing five-year plans. Each FYP discussed accomplishments in the previous plan period, development goals in all sectors, and issues to be addressed to achieve these goals. The seventh FYP covering 2016-2020 specified a whole-of-government approach for climate readiness.

UNDP's Poverty-Environment-Climate Mainstreaming (PECM) Project supported climate change mainstreaming in the ADP process by revising the standard Development Project Proforma (DPP) form to address environment, climate, and poverty. The MoP prepared a manual to help line ministries integrate climate change in the design stage of DPPs to coordinate and facilitate the integration of climate change in all projects, as required under the seventh FYP (Bangladesh Ministry of Planning, 2014).

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<sup>10</sup> On May 31, 2016, the MoEF and FAO, with support from USAID, organized a public consultation on the draft. <http://www.fao.org/bangladesh/news/detail-events/en/c/416890/>

<sup>11</sup> See MoEF's website's list of two-year achievements

<sup>12</sup> The CPEIR and other documents also referred to the Annual Development Plan as a summary of the active development projects during the previous and current years.

## Climate Finance Coordination

Multiple GoB institutions were responsible for the coordination of internal and external climate finance. For internal climate finance, the Programming Division within the Ministry of Planning coordinated the Annual Development Programme process, with input from the line ministries. The BCCTF project operated outside the ADP process, with the ministries submitting project descriptions to the BCCTF's Board of Trustees for approval.

The Ministry of Environment and Forests served as the UNFCCC's focal point for external climate finance and chaired the Bangladesh Climate Change Resilience Fund's Governing Council (GC) and Management Committee (MC). The MoF's Economic Relations Division (ERD) was responsible for coordinating with donors and multilateral development banks on all finance. The ERD was the GCF's National Designated Authority (NDA) in 2014. The ERD was actively working with GIZ's Climate Finance Governance program to develop its capacity to understand the requirements of various climate change funds. The ERD was engaged in ongoing discussions to determine the best organizational structures for external climate finance coordination (e.g., whether to set up a climate finance wing or climate finance cell and how it would work with other donor-specific units).

The MoEF was initially designated as the counterpart for the BCCRF Secretariat. By early 2014, the MoEF Secretariat was operational and performing certain functions, including organization of Governing Council and Management Committee meetings and other workshops, collection of project level data, and procurement of equipment for the secretariat (World Bank, 2014). However, it had not taken over all of the secretariat responsibilities from the World Bank when the decision was made to close the BCCRF in June 2017. Although the MoEF was the designated lead on climate change issues for the GoB, it did not have a well-defined role in coordinating climate finance or providing guidance on climate change priorities and costs. The Climate Fiscal Framework also noted key roles for the ministries of planning and finance.

### 3.2.2 PROJECT CYCLE MANAGEMENT

This section discusses GoB responsibilities for the four steps of project cycle management:

- Identification
- Appraisal and selection
- Implementation
- MRV, auditing, and evaluation

#### Domestically Funded Climate Change Projects

Line ministries developed climate change projects funded with domestic resources. After the projects were prepared, they either followed the ADP or BCCTF process:

- **Annual Development Programme**—Line ministries submitted projects to the Programming Division in the MoP's Planning Commission. If approved, they were implemented by the line ministry using MoF Finance Division resources. Line ministries were responsible for project implementation and MRV, while the FD tracked implementation expenditures. The Comptroller and Auditor General conducted final audits of implementation expenditures. The Implementation, Monitoring, and Evaluation Division of the Planning Commission was responsible for project evaluations.
- **Bangladesh Climate Change Trust Fund**—Line ministries submitted projects to the BCCTF's Technical Committee for an initial appraisal before submission to its Board of Trustees. Line ministries received funding from the MoF Finance Division on behalf of the BCCTF and



implemented the projects. MRV responsibilities were shared by the line ministry and the BCCTF's Monitoring and Evaluation Unit.

Monitoring and reporting for domestically funded projects focused on tracking implementation expenditures. There was no requirement for impact monitoring. A public procurement rule precluded NGOs from conducting independent evaluations of climate change projects implemented by government ministries.

### Externally Financed Climate Change Projects

Externally financed climate change projects were developed by line ministries, donors, or MDBs. These projects generally followed the ADP process, but were subject to external oversight and independent evaluation, depending on the funder's conditions. Two examples of the project cycle for externally financed projects are described below:

- **Bangladesh Climate Change Resilience Fund**—Line ministries submitted a grant request to the BCCRF's management committee, which screened the proposal based on seven criteria.<sup>13</sup> After the management committee approved a project, the line ministry prepared a Development Project Proforma for approval by the BCCRF's governing council. This process required information from feasibility studies and took a year or more. After governing council approval, the DPP went through the ADP process, which required approval from the Executive Body of the National Economic Council (ECNEC).<sup>14</sup> The MOEF chaired the MC, which was responsible for proper implementation) and the BCCRF's governing council, which was responsible for providing strategic direction. Both committees included representatives of line ministries, development partners, and CSOs.

The World Bank prepared concept notes for internal review and independently assessed projects following its own, regular procedures. The Palli Karma-Sahayak Foundation reviewed and selected projects implemented by NGOs and other civil society organizations, which comprised 10 percent of BCCRF's portfolio.<sup>i</sup> An MoF official and the World Bank Country Director signed the grant agreement for each approved project. Grant recipients (governmental or nongovernmental) were responsible for implementation. The World Bank provided fiduciary and technical oversight. MRV was the responsibility of the BCCRF Secretariat.

- **Green Climate Fund**—International, regional, national, and subnational entities could access GCF funding if they were accredited by the fund and complied with its implementation and fiduciary standards. The GCF accepted concept notes and proposals from national implementing entities (NIEs), multilateral implementing entities (MIEs), and private sector entities.<sup>15</sup> A National Designated Authority (NDA) had to agree in a non-objection letter that all GCF proposals aligned with national climate objectives. With GIZ support, Bangladesh was in the process of establishing internal procedures for reviewing proposals prior to GCF submission. GCF projects may be prepared by line ministries or with external support, but will be linked to the ADP process.

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<sup>13</sup> The seven selection criteria included size of the proposal (between \$15 and \$25 million), consistency with BCCSAP objectives, experience with development operations, readiness for implementation, targeted results, complementarity or overlap with other programs, and social and environmental benefits (BCCRF, 2010).

<sup>14</sup> The Governing Council only met four times (World Bank, 2017). The infrequent GC meetings added to the delays in project implementation due to its role in the approval process.

<sup>15</sup> National implementing entities submitted funding proposals to the GCF, oversaw project management and implementation, and provided co-financing. Multilateral implementing entities could perform similar functions as NIEs, particularly in countries where the National Designated Authority had not been appointed. MIEs also can support NIEs by filling gaps in implementation, oversight, or capacity development.



After GCF approval of a project, the national or multilateral implementing entity was responsible for management, implementation, fiduciary standards, and MRV. The GCF measured progress using a results management framework and plans to re-assess MIE or NIE accreditation every five years.

### **3.2.3 TECHNICAL CAPACITY AND KNOWLEDGE MANAGEMENT**

The first phase of UNDP's Comprehensive Disaster Management Program (CDMP) program took place between 2004 and 2009. Starting in 2006, individuals in each line ministry were designated or embedded and trained as focal points for climate change. The CDMP trained approximately 250 government staff as climate change focal points. The focal points were responsible for identifying the implications of climate change for their ministry's programs and sharing information from the Ministry of Environment and Forests. However, a survey in 2010 found that only 30 percent of the individuals who had been trained as focal point could remember being designated for this role and none were actually carrying it out.

The second phase of the CDMP had a knowledge management component that included assessments of climate vulnerability and impacts and adaptation and disaster risk management projects in Bangladesh. It supported establishment of a climate change technical assistance cell in the MoEF's Department of Environment in 2010. The climate change cell was disbanded in November 2015 and the CDMP was expected to end in June 2016.

GIZ supported establishment of a Vulnerability Lab in the Department of Environment to conduct national- and district-level climate vulnerability assessments for each key sector of the economy. The Vulnerability Lab held workshops to build awareness of climate vulnerability in local governments and communities. The DoE planned to recruit two experts for the Vulnerability Lab.

The Ministry of Environment and Forests proposed to establish a National Climate Change Centre (NCCC) within the DoE for climate change research, knowledge management, and technical support to other GoB entities. The MoEF was marketing the concept to donors as a project that would eventually become a regular unit.

Several key informants stated that the Ministry of Planning and the Ministry of Finance did not consider technical capacity development for climate change to be within their expertise. These two ministries expected the MoEF to provide this support for the government. This view was consistent with the recommendation in the Climate Fiscal Framework that gave the MoEF responsibility for technical capacity development, the MoP responsibility for policy and planning coordination, the MoF responsibility for financial planning and performance coordination, and other ministries responsibility for implementing adaptation activities (Ministry of Finance, 2014).

## **3.3 SUMMARY OF KEY CHALLENGES AND OPPORTUNITIES IN CLIMATE FINANCE**

### **3.3.1 PRINCIPAL CHALLENGES**

#### **Governance**

Governance challenges affected the government's ability to access more climate finance. These challenges included the need for greater commitment, transparency, and accountability. Many key informants agreed that the most important factor needed for public sector leadership in climate change actions was having a demonstrated commitment from the highest levels of government. Some informants recommended that the Prime Minister's Office provide more strategic guidance or delegate leadership to a new or existing ministry or supra-ministerial commission. Establishment of the

Bangladesh Climate Change Trust Fund and the allocation of domestic budget resources demonstrated some governmental commitment to addressing climate change. However, there has not been sufficient high-level oversight and accountability to address operating problems and the reductions in the amount of available funding and the spending rate.

The BCCTF's project selection process was supposed to include a 13-member technical committee headed by the secretary of the MoEF. A technical committee reviewed projects and made recommendations for approvals to a 17-member trustee board headed by the Minister of Environment and Forests. However, this technical committee reportedly has never met to review project proposals. Instead proposals were submitted directly to the BCCT Secretariat and passed to the BCCTF's Board of Trustee without a technical committee review. Nevertheless, 397 BCCTF projects were approved for implementation (MoEF, 2016).

Similar governance issues arose in the management of the Bangladesh Climate Change Resilience Fund. Since the GoB was slow to staff the Secretariat, the BCCRF functioned as a project management unit with World Bank staff. Several informants stated that improvements in accountability and transparency would have required high-level direction. Some provided examples of violations of public procurement rules in project contracts and weak financial oversight that led to large amounts of climate funding that could not be shown in proper accounting.

The BCCRF also experienced challenges in the GoB roles. A ministerial-level governing council was expected to meet twice a year and the secretariat management council was to meet four times a year. However, the Governing Council only met four times and the Management Committee eleven times between 2010 and the end of 2016 (World Bank, 2017). The infrequent meeting schedule delayed BCCRF project approval and implementation.

### **Institutional Arrangement and Functions**

Some key informants noted the need for improvements in managing the climate finance system from a whole-of-government perspective, coordination, strategic planning, technical capacity, knowledge management, and MRV systems. In 2015, the MoEF submitted a proposal to the cabinet division for revising the rules of business for allocating work across government ministries. However, no decision had been made on this proposal at the time of this assessment.

Several interviewees recommended a stronger coordination role for the MoEF in climate change work. Others thought it would be better to have the MoP or the MoF as the coordinating body or create a Ministry of Climate Change or Climate Change Commission. Some informants also recommended improving strategic planning and priority setting and collection of more information on the costs and benefits of climate actions. Information gaps have affected the ability of the MoF, MoP, and BCCTF to finance the most important projects. The MoP has not adequately considered climate-related priorities in preparing the five-year plans and list of proposed projects for the Annual Development Programme.

Monitoring and reporting have largely focused on tracking project expenditures, rather than identifying and addressing project implementation and impact issues. As a result, it often did not contribute to decisions on (1) adjusting project designs or resolving technical problems; (2) collecting baseline data, measuring progress toward the achievement of targets, and revising indicators; and (3) generating and disseminating lessons learned. The MoEF had not taken a leadership role in providing technical climate change information or developing and disseminating knowledge, but the establishment of the Vulnerability Lab in 2016 was a positive step.

### **Technical Capacity and Knowledge Management**

Despite considerable assistance from donors, many key informants reported that insufficient technical capacity and knowledge management still limited effective, public sector climate actions. Gaps were often reported in available systems, tools, and skills for GHG emission inventories, climate change vulnerability assessments, and adaptation planning. The MoEF recently demonstrated greater initiative in

seeking domestic financing for climate change activities. However, it should take a more proactive leadership role in developing and disseminating technical information on climate change for other governmental units.

The GoB has had challenges in technical staffing for climate change work. The MoEF relied heavily on external consultants to prepare reports, conduct analysis, and develop strategies, which did not contribute to sustainable internal capacity. In addition, much of the GoB's technical expertise has been tied to projects that ended when donor financing ran out (such as the MoEF's Climate Change Cell). Insufficient technical capacity within the BCCRF's Secretariat constrained operations of the fund. The director of the MoEF's Secretariat for the BCCRF was only part time and the Secretariat only had one other technical advisor.

There were also more general challenges affecting public administration in Bangladesh. Officials were regularly transferred to unrelated ministries, reducing the number of staff with relevant training, experience, and institutional memory on climate change activities. Other sources of delays and inflexibilities in the public administration system included the competitive examinations for civil service positions, the Public Service Commission's review of appointments, and difficulty of hiring technical staff above the entry level. Each ministry had a planning cell, but most did not have expertise for the design, implementation, and monitoring of climate-related activities. One exception was the Food Planning and Monitoring Unit within the Ministry of Food, Disaster Management, and Relief. Over the last decade, donors and civil society organizations have supported the development of the GoB's capacity on climate change issues. However, there was still too few qualified staff for project review, selection, and implementation, causing difficulties in the timely progress of ADP projects.

Bangladesh has been able to compete successfully for multilateral environmental and climate funds. From 1999 to 2016, the Global Environment Fund awarded 28 grants for environmental projects in the country, with a value of \$54 million.<sup>16</sup> The GoB also received grants from the Least Developed Countries Fund to support adaptation projects. Further improvements in increasing the capacity of government staff to prepare projects that meet international financing standards could allow Bangladesh to obtain more climate change support while reducing dependence on the Multilateral Implementing Entities in project preparation.

### **3.3.2 WAYS TO STRENGTHEN THE CLIMATE FINANCE SYSTEM**

Many key informants agreed on the need to take better advantage of current opportunities by improving the ability to identify, manage, implement, and monitor and evaluate climate finance in support of national priorities, including the most vulnerable populations, locations, and sectors. A strategic plan that takes a whole-of-government approach in addressing climate variability and change could help in mainstreaming these issues in existing systems and processes and defining roles and responsibilities for various institutions within the larger system.

A faster timeframe for strengthening project preparation, implementation, and MRV is critical because the GCF has begun financing global climate change activities and planned to greatly scale up funding globally as more NIEs are accredited. The GCF could be a large, new source of finance since Bangladesh is one of the most vulnerable countries to climate change. Further progress in institutional capacity will be important for increasing financial support from other donors and the private sector.

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<sup>16</sup> See

[https://www.thegef.org/gef/project\\_list?keyword=&countryCode=BD&focalAreaCode=all&agencyCode=all&projectType=all&fundingSource=all&approvalFYFrom=all&approvalFYTo=all&ltgt=lt&ltgtAmt=&op=Search&form\\_build\\_id=form-SslI9E0q5DgnuH0xkLM4pxMRjTOmvjXWOWOIUF79c&form\\_id=prjsearch\\_searchfrm](https://www.thegef.org/gef/project_list?keyword=&countryCode=BD&focalAreaCode=all&agencyCode=all&projectType=all&fundingSource=all&approvalFYFrom=all&approvalFYTo=all&ltgt=lt&ltgtAmt=&op=Search&form_build_id=form-SslI9E0q5DgnuH0xkLM4pxMRjTOmvjXWOWOIUF79c&form_id=prjsearch_searchfrm)

## Key Opportunities

There are important opportunities for the GoB to increase international public and private sector financing to mitigate and adapt to climate change. NGOs, multilateral development banks, donors, intergovernmental institutions, and experts have been deeply engaged in climate change work in Bangladesh and have committed large amounts of resources to learning, analysis, and capacity development that the GoB could tap.

Bangladesh has made important changes in the institutional landscape for climate finance and implementation. For example, the MoEF, MoF, and MoP have taken on new functions in the system and proactively developed their capacity. The Infrastructure Development Company Limited (IDCOL), Local Government Engineering Department (LGED), and Palli Karma-Sahayak Foundation, have begun implementing climate change projects. The GoB can build on the experience of these organizations to develop a strong climate finance system that better delineates roles and responsibilities.

Despite the challenges encountered to date, many donors and development banks are interested in providing more funding and capacity development support for climate change adaptation and mitigation in Bangladesh. The GoB should continue strengthening its program cycle management so it can compete for climate finance from the GCF and other sources. Specifically, efforts should focus on building donor confidence by strengthening fiduciary systems, environmental and social safeguards, and monitoring and evaluation. Government policymakers have demonstrated a greater awareness of the importance of climate change for development in the seventh FYP:

We must undertake climate change investments with communities, learn from them, build on their knowledge of their local environments, and ensure that proposed investments meet their needs. The Government recognizes that tackling climate change requires an integrated approach involving many different ministries and agencies, civil society and the business sector. There is also a need to strengthen the capacity of Government and other organizations to plan and implement development programs. Development organizations need to strengthen their capacity so that they can implement their regular programs more effectively and rise to the challenge of climate change (Ministry of Planning, 2015).

## Priorities for Effective Climate Financing and Implementation

Despite the wide range of views on how to strengthen Bangladesh's climate finance system, there was general agreement on the characteristics of effective institutional arrangements and some priorities for increasing climate finance. The first priority would be to demonstrate greater political will by elevating climate change issues in the development agenda and using the authority and convening power of government. The second priority would be to strengthen political and technical leadership on climate change to make better policy, regulatory, investment, and implementation decisions. This would require greater application of technical information across a range of decisions, from identifying priorities to financing activities.

A third priority would be to increase coordination and collaboration of public sector institutions for cohesive and harmonized action. Although the MoEF had the nominal responsibility for addressing climate change in the GoB, it did not have the authority or convening power to work with other agencies, finance priority climate change activities, and ensure that activities are done well. It will need greater authority and convening power to facilitate, coordinate, and work across all levels of government to build climate resilience and mitigate GHG emissions.

A fourth priority would be to improve the accountability and transparency of GoB processes and systems for full compliance with international standards for financial management, reporting, and verification. This may require greater engagement with NGOs in preparing and implementing plans, strategies, and projects and carrying out monitoring and evaluation activities. The GoB will need to

establish more proactive policies and procedures for sharing information on a timely basis, citizen grievance redress mechanisms, and MRV systems with multiple stakeholders.

## 4. OPTIONS FOR STRENGTHENING CLIMATE FINANCE

This section presents five options that could help address the challenges and opportunities for climate finance in Bangladesh:

- **Option 1 – Establish a project preparation facility** to improve the quality of projects developed by government ministries for domestic and external climate finance.
- **Option 2 – Establish a Climate Change Commission** as an apex institution above the level of existing ministries to take a lead role in accessing and implementing climate finance.
- **Option 3 – Establish a Climate Finance Board** with representatives of the GoB, donors, and other funders. This board could set priorities for types and sources of external finance for climate change projects.
- **Option 4 – Restructure the Bangladesh Climate Change Trust Fund as a national climate fund.**
- **Option 5 – Create a national climate foundation** to manage climate finance as an independent entity.

These options are designed to advance one or more of the following objectives:

1. Strengthen the institutional structure and capacities of the GoB to use climate finance effectively;
2. Improve Bangladesh's capacity to access and manage external finance; and
3. Facilitate access to pooled bilateral donor finance.

Table 3 summarizes key features of the five options. These options are not mutually exclusive and could be implemented with individual donor funding or pooled donor funds. Many of the donors that supported the BCCRF are interested in combining their resources for other climate change projects.<sup>17</sup> Pooled funds can be a cost-effective way for donors to support projects consistent within their mutual priorities, while reducing coordination problems and avoiding duplication of efforts. and partner government

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<sup>17</sup> USAID uses the term “pooled funds” to refer to multi-donor financing. The World Economic Forum defines “blended finance” as a mix of international donor, public sector, private sector, or private philanthropic sources. <https://www.weforum.org/reports/blended-finance-toolkit/>

**Table 3: Five Options to Advance Climate Finance Priorities**

Climate Finance Priorities	Option 1 – Project Preparation Facility	Option 2 – Climate Change Commission	Option 3 – Climate Finance Board	Option 4 – Restructured BCCTF	Option 5 – National Climate Foundation
Strengthen institutional structure to use climate finance effectively		√		√	
Strengthen capacity to use climate finance effectively	√	√		√	√
Improve capacity to access and manage external climate finance	√	√		√	√
Facilitate access to pooled bilateral donor climate finance			√	√	√

These five options can be implemented separately or together and either sequentially or simultaneously. It is also possible to mix and match components of some options. For example, a project preparation facility or an independent MRV system could be established along with other options. The options could also be modified to fit the political context or functions. For example, a Sustainable Development Commission or Ministry of Climate Change and Development could be formed as an alternative to a climate change commission (option 2).

Successful implementation of these options will require the GoB to continue strengthening existing institutions. The GoB and donors have worked together to further develop the capacity of government entities on climate change adaptation and mitigation, including finance.<sup>18</sup> Nevertheless, more remains to be done.

Additional capacity development is essential for all five options. Specifically, the GoB needs to improve systems and processes are developed to fulfill the stringent requirements of major international funds and private sector investors. Some priority capacity development activities to strengthen the climate finance system are listed below:

- **MoEF.** Donors could help the MoEF fulfill its responsibilities as the technical lead on climate change. MoEF is currently proposing establishment of a National Climate Change Centre (NCCC) within the DoE for climate change research, knowledge management, and technical support to

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<sup>18</sup> These include GIZ Climate Finance Governance; USAID/FAO Bangladesh Environment, Forestry, and Climate Change Country Investment Plan; UNDP Climate Fiscal Cell in the FD of the MoF; ICCCAD support to the MoF, among others.



other GoB agencies.<sup>19</sup> The NCCC should be a permanent entity within the DoE working with MoP, MoF, and line ministries to provide the technical support they need.

- **MoP.** The MoP was responsible for preparing plans and forming economic policies, The General Economic Division (GED) of the MoP could take on greater responsibility and leadership with climate change planning. Donors could support an expanded role for the GED in mainstreaming climate adaptation and mitigation in national development plans and sector policies/plans and partnering with the MoEF to develop plans and strategies, such as the revised BCCSAP, NAP, and NDC.<sup>20</sup> The Programming Division of the MoP could continue to strengthen its systems and mechanisms for integrating and budgeting climate change in the ADP process, especially for priority climate change actions.<sup>21</sup> In addition, the capacity of the MoP's IMED to monitor and evaluate the impact of climate change adaptation and mitigation investments should be strengthened.
- **MoF.** Donors could continue to support the role of the MoF's Economic Relations Division (ERD) in liaising with external sources of finance, aligning internal GoB systems with international funding processes, and coordinating with the GED to help ensure that external financing is mobilized for high priority activities. UNDP plans to support establishment of a climate fiscal cell within the Finance Division (FD) of the MoF to estimate sectoral funding requirements for climate change adaptation and mitigation and mobilize climate-related finance. Donors could continue to support the FD in monitoring climate finance for the domestic budgeting process.
- **Line Ministries.** Donors could continue to support line ministries in developing, implementing, and monitoring climate change projects. Although the previous climate change focal points in each line ministry did not result in sustainable improvements in capacity, the concept may be worth revisiting with better implementation. Donors could consider supporting a new cohort of climate change focal points in the planning wings of each line ministry. These focal points could improve the Development Project Proforma (DPP) process for climate change projects and mainstreaming climate change considerations in other projects. They could also assist in monitoring and evaluation of projects.<sup>22</sup>

Sections 4.1 to 4.5 contain detailed descriptions of each option including the roles, responsibilities, and functions of each institution in the climate finance system; their strengths and weaknesses; and a roadmap for actions. Section 4.6 contains additional recommendations for strengthening climate change finance and implementation in Bangladesh.

## 4.1 OPTION 1: ESTABLISH A PROJECT PREPARATION FACILITY

To increase its competitiveness in the early rounds of GCF funding, the GoB could reduce its reliance on external MIEs by obtaining NIE accreditations within the government. After the NIEs receive

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<sup>19</sup>Various names have been discussed for an institution responsible for technical leadership in climate change, including NCCC, Climate Change Unit, Climate Change Wing, etc. The different names lead to part of the confusion in the status and operation of this institution but regardless of the name that is used.

<sup>20</sup>These plans should be developed with a whole-of-government approach, and be aligned with a comprehensive climate change strategy.

<sup>21</sup> The MoP should coordinate with the BCCTF to avoid duplication of projects financed through the ADP.

<sup>22</sup> Successful implementation will require more than one-time trainings. It may require recruiting new staff with relevant educational backgrounds and experience or continued training and mentoring to maintain and replace the focal points.

accreditation, the GoB can shift more responsibility for project preparation to line ministries and focus take on more of a quality control role.

Increasing the capacity to prepare successful project proposals for external climate finance can also improve the quality of projects financed from the national budget. The GoB could help the private sector develop the capacity to obtain external financing from the GCF, impact investors, and other private sources. The potential amount of financing from the private sector is much larger than the multilateral and bilateral public sources.

This option would help Bangladesh establish a project preparation facility that is initially donor funded and focused on helping the GoB develop projects. However, it would eventually need to be self-sustaining and could expand to provide services to the private sector. Services could include

- Support for project design, plus project proposal review;
- Pre-project economic, social, and environmental screening and impact assessments;
- Technical assistance to identify external financing;
- Clearinghouse for technologies and best practices, external financing options, and project selection criteria;
- Design of implementation and MRV strategies;
- Capacity development on all aspects of project cycle management; and
- Review and improvement of proposal designs and analyses.

#### 4.1.1 INSTITUTIONAL ARRANGEMENTS AND FUNCTIONS

A project preparation facility (PPF) would provide support to project developers in GoB ministries (Figure 4). This facility could recruit highly skilled staff knowledgeable of GoB priorities, procedures, and international standards for project cycle management and the criteria that climate funds use to evaluate proposals.

The project preparation facility could work in three modes:

- 1) **Line ministries**—The PPF could help line ministries identify adaptation and mitigation good practices for climate change adaptation and mitigation, analyze benefits and costs, screen for social and environmental safeguards, and develop implementation and MRV plans that meet international standards (including performance indicators).
- 2) **Ministry of Environment and Forests** —The PPF could coordinate with the DOE's Vulnerability Lab to ensure that project proposals of line ministries reflect a climate vulnerability assessment. The PPF would consult with the MoEF on national and sectoral priorities. It could also collaborate with the proposed NCCC or other units within the MoEF to disseminate knowledge products generated by the PPF.
- 3) **Ministry of Planning** —The PPF could respond to MoP questions about proposed technologies and practices in projects submitted to the Planning Commission's Programming Division. If it does not have the necessary expertise on staff, the PPF could seek input from international or domestic experts. The PPF might also work with the MoP to upgrade project proposal standards.

The PPF could be donor funded to facilitate rapid start-up and recruitment of well-qualified staff since it may require higher salaries and greater flexibility than the regular civil service rules. However, the donors should reach an advance agreement with the GoB on a sustainability plan as a condition of

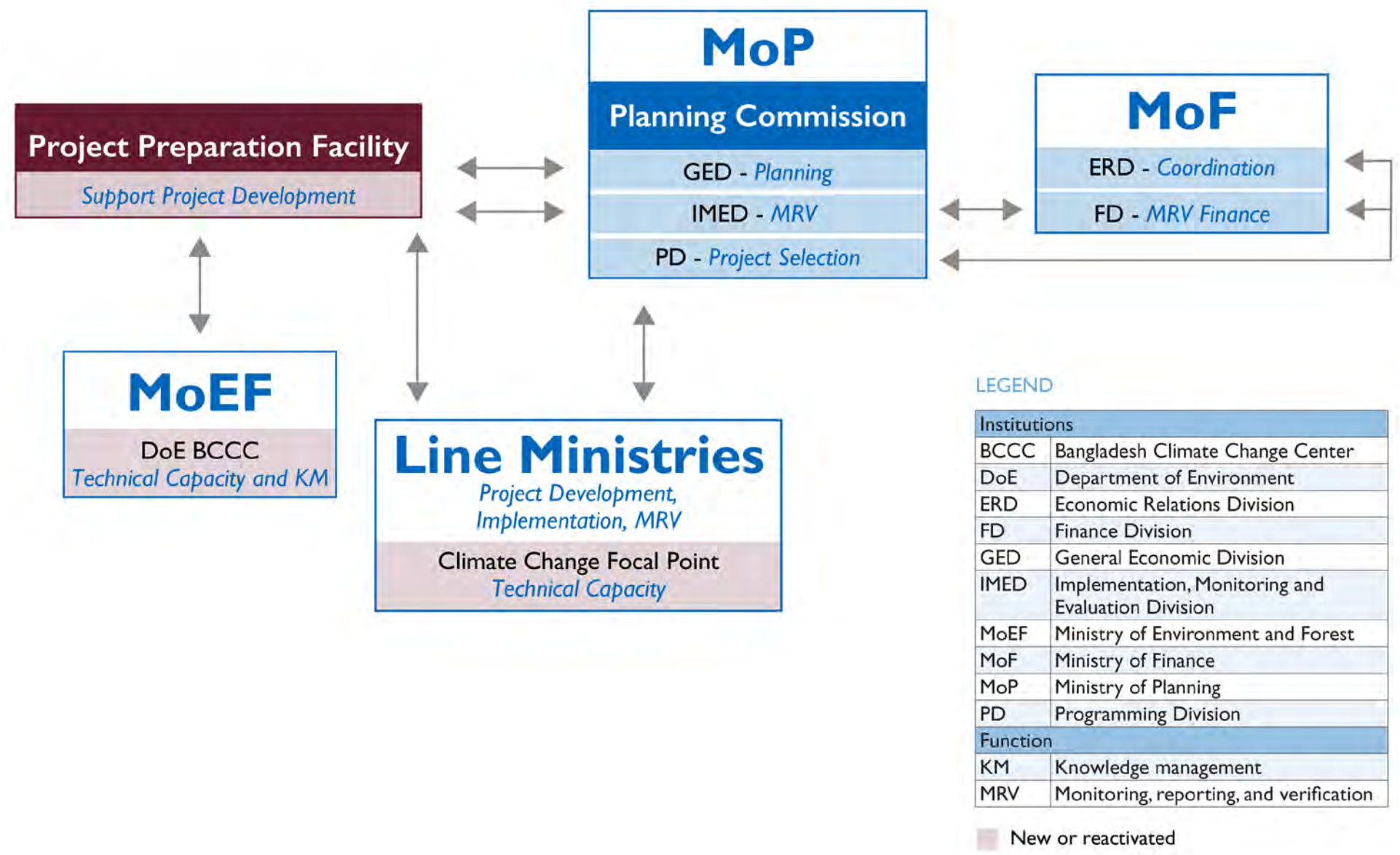
funding. The sustainability plan would address the transition from a project-based facility to a new or existing GoB entity, including the timetable, a source of continuing funding, and staff remuneration policies after the transfer.<sup>23</sup> The PPF could be structured as a cell or unit in the MoEF or MoP, or a government-supported center functioning independently of a particular ministry.<sup>24</sup> The PPF could provide training for project developers in line ministries. Alternatively, this training could be provided by the National Academy for Planning and Development.

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<sup>23</sup> Some GoB entities, including the BCCTF, are allowed to pay higher salaries than the standard civil service scale to recruit and retain highly skilled experts

<sup>24</sup> The PPF could be attached to the Office of the Prime Minister. Alternatively, it could be attached to the Climate Change Commission (option 2).

Figure 4: Institutional Arrangement for Option I



## 4.1.2 STRENGTHS AND WEAKNESSES

A project preparation facility could help increase access to external and domestic financing, especially multilateral donor funds. It would draw on and transfer international good practices, experiences, and knowledge of selection criteria to improve the quality of project proposals and reduce project preparation time. It could increase the capacity of ministries through on-the-job collaborations and classroom training.

Some potential weaknesses will need to be addressed. The GoB would have to ensure that the services are available to all ministries on a demand-driven basis. This could require a high level of staffing and funding, which could be augmented through funding from client ministries. The PPF will also need to work closely with the MoEF and MoP.

The largest challenge may be in sustaining the PPF beyond the period of donor project support. This will require working out details on its future institutional home, staff recruitment and retention policies, rules for accessing the PPF, and cost recovery. A potential problem is that PPF staff will develop skills and experience that may increase their opportunities with other employers. Even if salaries are higher than the standard civil service skills, staff may be able to get even higher remuneration from international donors and organizations within or outside the country.

Although the PPF is envisioned as a support facility for developing fundable GoB projects, private sector developers could also benefit from this assistance, perhaps at a later stage. A public sector PPF could serve as proof of concept for a similar private sector facility.

## 4.1.3 ROADMAP

There are three phases for implementing a project-based PPF for the public sector:

1. Establishment of the facility
2. Operations
3. Transition to a sustainable governmental structure

### Phase 1

The first step in establishing a PPF would be to assess GoB and donor interest in this option after conducting briefings on the concept, potential scope of activities, initial and eventual institutional structures, and sustainability strategy. The PPF would need to gain the interest of the major line ministries so that it will be demand responsive. If there is sufficient GoB and donor interest, the next steps would be to assess funding levels and sources, determine the duration of donor support, and prepare an exit and sustainability plan.

Agreement would then need to be reached on funding levels, arrangements with collaborating partners, and desired commitments from the GoB and procurement. USAID could team with another donor to move this forward. Decisions would need to be made on donor and governmental support and management, the process for responding to requests, and consultations with potential clients about the structure, services, and general terms.

### Phase 2

Phase 2 would span the duration of the donor-funded PPF project. It would begin with procurement of a contractor or governmental home base. Start-up activities would focus on staff recruitment, development of information on PPF services, and the process and criteria for accessing the services. The PPF would not prepare projects, but would work with ministries to improve the technical and financial quality of proposals to meet funders' selection criteria.

The PPF could also develop a training program for GoB staff on preparing and financing climate change projects and setting up MRV systems. This could include classroom instruction and learning-by-doing approaches in conjunction with PPF staff. The PPF could consider collaborating with the National Academy of Training to provide a possible vehicle for sustainability after the project period. It may be necessary to offer repeat training for new PPF and ministry staff, as well as refresher courses or advanced courses for previously trained clients.

The PPF would work with the MoP to develop guidance on meeting international standards for project design, analysis, implementation, and MRV systems. The PPF could develop case studies on good practices and technologies, methods to assess social, economic and environmental benefits and costs, and experiences in developing and applying performance indicators. The PPF could either establish its own website or link to the website of the National Climate Change Center, MoEF, or MoP.

### **Phase 3**

Phase 3 would transition the PPF to a permanent governmental structure. Phase 3 would overlap with Phase 2 and begin with a review of the sustainability plan developed in Phase 1 and evaluation of the experience as a project entity. The project staff could transfer to the new organizational structure. The PPF will also need to identify continuing sources of core funding and the potential for charging fees for services.

Donors and the GoB could also explore the possibility of creating a project facility to assist private sector developers of climate change projects. A market study could assess the potential effective demand from the private sector. If the market study shows promise, the next step would be to prepare a business plan. However, establishing a parallel private sector facility could drain staff from the public sector facility if the GoB cannot offer competitive remuneration packages.

## **4.2 OPTION 2: ESTABLISH A CLIMATE CHANGE COMMISSION AS AN APEX INSTITUTION**

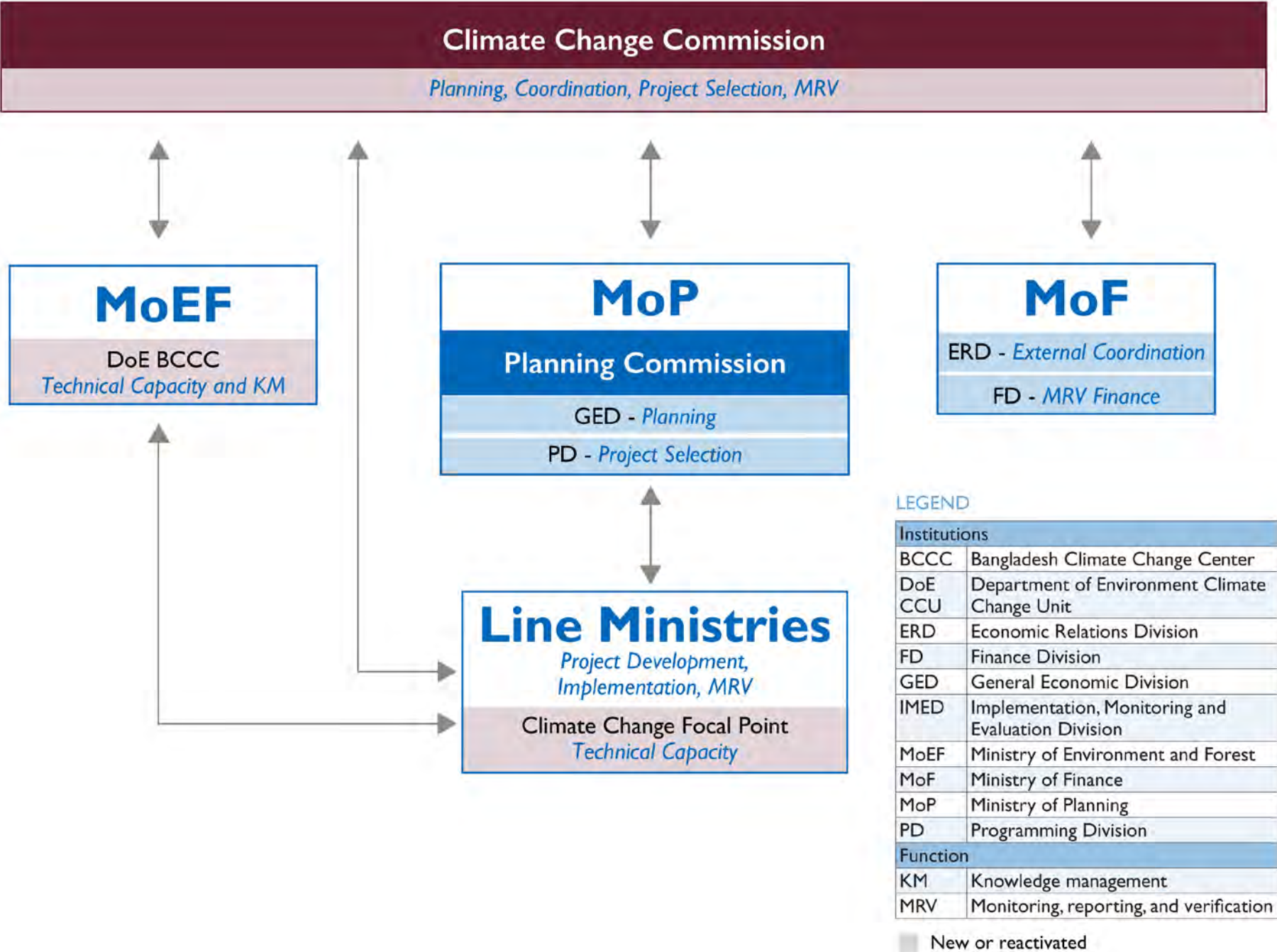
Option 2 would establish a new high-level, governmental Climate Change Commission (CCC). The CCC would place many of the core public sector functions for climate finance in one apex organization with greater authority, power, and influence. This option would require a declaration from the Prime Minister and eventual parliamentary approval.

### **4.2.1 INSTITUTIONAL ARRANGEMENT AND FUNCTIONS**

Figure 5 contains an illustrative institutional structure for climate finance that includes a Climate Change Commission.



Figure 5: Institutional Arrangement of Option 2



**Climate Change Commission.** A new CCC could be housed within the Prime Minister's office and take on responsibility for planning, coordination, project selection, and MRV across ministries. The CCC would work closely with all GoB institutions involved in climate change work. For example, it could be responsible for strategic planning, including development of climate change-specific plans and strategies (such as the National Communications, BCCSAP, NAP, and NDC). It would need to work closely with the GED to ensure that climate-specific plans and strategies align with national development plans and strategies. In addition, the commission could collect input from other government entities and nongovernmental stakeholders.

The CCC's coordination activities could involve the MoF, MoEF, and MoP among others. It could be responsible for developing and communicating strategic plans, policies, and priorities. The CCC could coordinate with external institutions, including NGOs, CSOs, other country governments, and the UNFCCC. In addition, it could be responsible for selection of priority actions and MRV systems or adaptation and mitigation projects. It could serve as a liaison with the line ministries developing and implementing these projects, IMED evaluations, and the FD tracking of the finances. It could also ensure that sufficient technical information informs strategic decisions, project designs, and climate change focal point training in the line ministries.

**Ministry of Environment and Forests.** The MoEF could continue to serve as the technical lead on climate change after creation of the CCC. The MoEF could maintain its technical functions for climate change research, knowledge management, and technical support for other GoB institutions..

**Ministry of Planning.** The MoP's Programming Division could work with the CCC on project selection through the ADP process. The Programming Division could also strengthen the mechanisms to integrate, evaluate, and budget climate change, but would consult with the CCC on the selection and evaluation of climate change projects.

**Ministry of Finance.** The MoF's Economic Relations Division should continue its coordination role in external climate finance by coordinating and liaising with external finance sources, but in collaboration with the Economic Relations Division. . In particular, the ERD would coordinate to ensure the mobilization of external financing to support high priority actions and align external finance processes with internal GoB systems.

The Economic Relations Division would continue to take responsibility for tracking and monitoring climate finance in the domestic budgeting process. The CCC could coordinate with the climate fiscal cell to estimate sectoral funding needs for climate change adaptation and mitigation and identify climate finance sources. The climate finance cell could prepare policy briefs on climate change expenditures for the CCC to integrate into decision making and investment monitoring and evaluation.

**Line Ministries.** Line ministries could continue to take responsibility for developing, implementing, and monitoring climate change projects. The CCC could develop a new cohort of climate change focal points within the planning wing of line ministries to help ensure that climate change is adequately considered in the Development Project Proforma process for climate change projects and mainstreaming climate change in other projects.



## 4.2.2 STRENGTHS AND WEAKNESSES

A Climate Change Commission could signal that the GoB has the political will to elevate climate change leadership within the country's development agenda. A single, lead institution could have greater domestic and international influence than multiple, separate entities. The higher profile of a CCC could signal that Bangladesh places a high priority on climate change actions, which could increase access to external finance. It could clarify leadership authority for important strategic decisions and reduce conflicts and coordination problems across multiple government offices. It could help ensure that plans, policies, and strategies are developed, implemented, and monitored effectively for greater accountability.

Option 2 has some disadvantages. Establishment of a CCC could be delayed by lack of political consensus on the need to create a new public institution. The MoEF may also want to maintain its current roles. A single entity could also be a source of increased political risk, reduced innovation, and less transparency and accountability if this option is not implemented well. It is easier to start up a new government agency than to ensure that it is effective, flexible, and dynamic with adequate oversight.

## 4.2.3 ROADMAP

The first step in establishing a Climate Change Commission would be to secure a strong commitment from the Prime Minister.<sup>25</sup> It may take several years for the commission to become fully operational. The GoB should include major donors in the design of the Climate Change Commission. Important factors to address include

- The commission's objectives, goals, responsibilities, and relationship within the climate finance system.
- The commission should be an independent body with the political backing to be effective, authoritative, and accountable.
- The relationship between the commission and key institutions involved in climate finance should be clearly defined and agreed upon in the design stage.
- The commission would need to meet the requirements and expectations of bilateral and multilateral donors and be organized to allow it to access, manage, and monitor international climate finance.
- The CCC should get National Implementing Entity accreditation and take on the role of a National Designated Authority.

A Climate Change Commission is likely to need donor support for institutional strengthening. Ongoing engagement between the donors and the commission would be important in securing support and meeting international expectations.

## 4.3. OPTION 3: ESTABLISH A CLIMATE FINANCE BOARD WITH DEVELOPMENT PARTNERS

Option 3 would create a pooled donor climate fund governed by a Climate Finance Board (CFB) with representatives from the GoB, donors, and local NGOs. It could receive support from a donor-funded Climate Finance Secretariat (CFS). This option is similar to the Bangladesh Climate Change Resilience

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<sup>25</sup> The Office of the Prime Minister can establish a commission through executive power using the gazette notification process, but it will eventually require legislative approval.

Fund, except that it does not require the GoB to assume leadership roles in the board or secretariat or commit staff and financial resources to the secretariat. Option 3 could include a third-party MRV system.

### **4.3.1 INSTITUTIONAL ARRANGEMENTS AND FUNCTIONS**

The GoB is establishing the Economic Relations Division as a National Designated Authority and taking the necessary steps to achieve National Implementing Entity accreditation from the Green Climate Fund.<sup>26</sup> GIZ has been helping the GoB identify alternative ways to organize the project design and internal review process and define roles and responsibilities to meet GCF requirements.

Figure 6 contains proposed institutional arrangements for a national, pooled, multi-donor climate fund governed by a Climate Finance Board that includes representatives of development partners, the GoB, and local NGOs. A secretariat would be responsible for day-to-day activities. The CFB would have responsibility for the overall direction of the climate change financing program, selection of projects, and Climate Finance Secretariat oversight. The CFS would have the following functions:

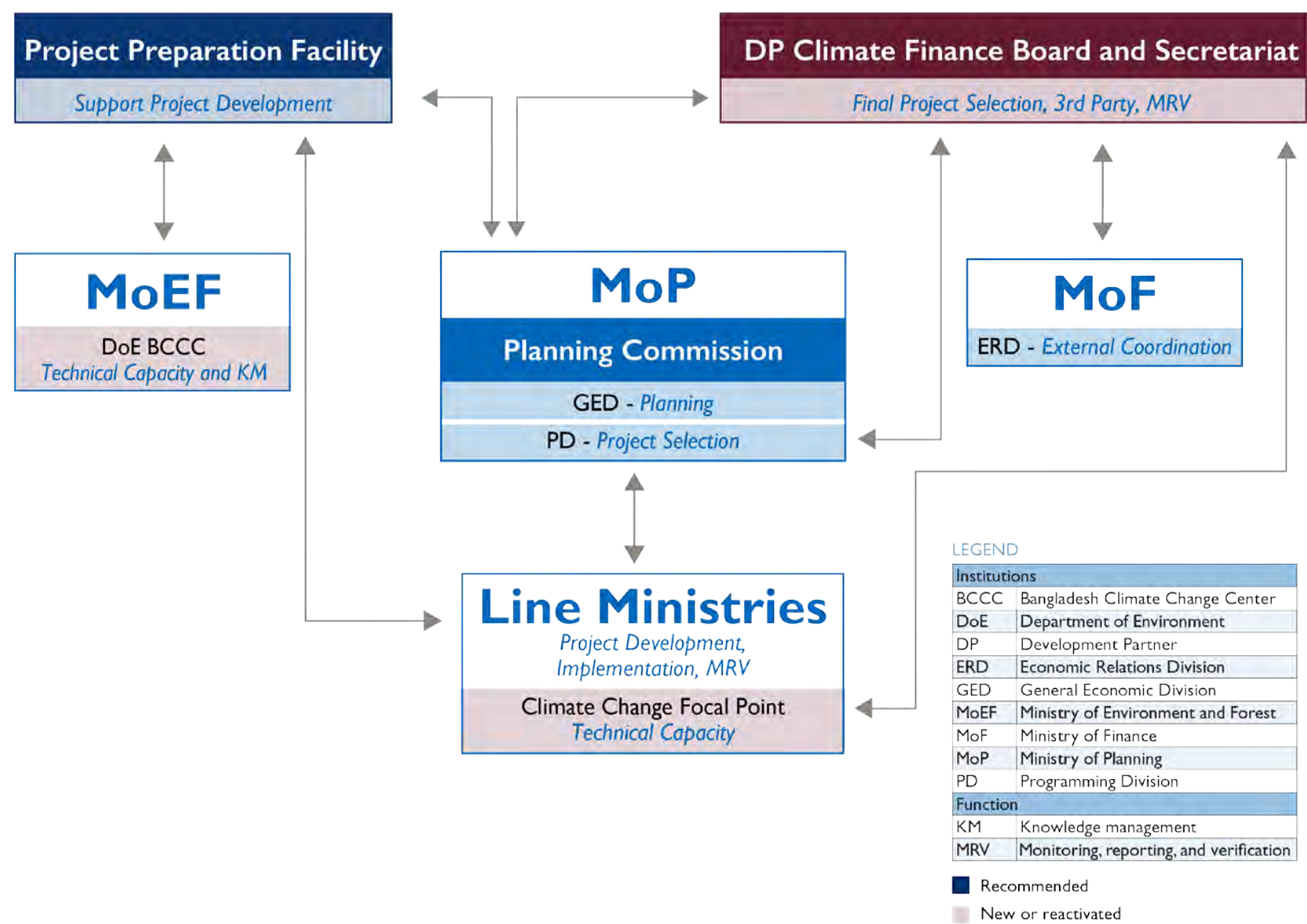
1. Coordinate with GoB ministries on project priorities; financing prospects for each project; and the process of project review, selection, and implementation;
2. Manage project funding requests and prepare selection packages (proposal reviews, proposals, and supporting documentation) for CFB meetings;
3. Communicate selection results to project applicants and prepare contractual documents;
4. Contract for independent MRV systems for funded projects;
5. Communicate with line ministries and project implementers; and
6. Prepare annual reports on implementation progress.

Prospects for the success of option 3 will depend on continued donor support for helping the GoB obtain financial resources from the GCF and other public and private climate funds. The PPF (option 1) could be a useful complement for option 3 by increasing the pipeline and quality of potential projects.

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<sup>26</sup> Rai and Soanes (2015) described the GCF accreditation process for NIEs.

Figure 6: Institutional Arrangement for Option 3



## 4.3.2 STRENGTHS AND WEAKNESSES

Option 3 provides an opportunity to program pooled donor resources without creating any new governmental structures or requiring significant GoB financial or staff resources. Donors could provide the resources for operations, contract with independent experts for MRV, and work with the GoB and other local stakeholders to establish the Climate Finance Board and Secretariat. This option could also leverage the project preparation and review processes that the GoB has strengthened to facilitate access to GCF resources. A Climate Finance Board could help the GoB obtain more external climate finance by meeting donor expectations for technical and financial performance. It could be combined with external MRV service providers to increase donor confidence in results reporting.

Project cycle management would need further improvement to ensure that the highest priority climate change-related projects are identified in a government-driven process with sufficient stakeholder involvement. The main challenge for option 3 might be difficulty in convincing the government to accept a smaller role in project selection and implementation than it had under the Bangladesh Climate Change Resilience Fund. Although the GoB would be represented in the Climate Finance Board and Secretariat and have an important role in selecting projects, this option might involve a larger donor role in setting strategies and policies and management.

## 4.3.3 ROADMAP

### Phase I

The first step in establishing a Climate Finance Board would be to develop an agreement among interested donors and the GoB. Donors could prepare a concept note that outlines the size and duration of the fund, project sizes and lengths, types of projects, the project review process, oversight, and potential funding sources. After the development partners have reached consensus, discussions could begin with the GoB on a pooled financing mechanism, project cycle management, and roles and responsibilities.

The donors and GoB would need to agree on the size and composition of the CFB and criteria for nominating and approving interim or regular members of the board. Project cycle management procedures should be prepared to guide project submission, review, selection, implementation, and MRV. Decisions would have to be reached on how the CFS will be organized and staffed. It could be set up as a limited duration project housed within one of the donor organizations (similar to the PPF).

### Phase 2

The next step would be establishment of the CFS, and recruitment of staff and a roster of consultants. Some donors might be willing to second some staff. The board would set the proposal submission and review process, which could involve regular or periodic funding windows or a rolling process. The CFS could issue an annual program statement or solicitation for each funding tranche. It could convene informational workshops for line ministries and NGOs and CSOs.

After the CFB makes a decision on a proposal, the CFS would work with project developers on milestones, deliverables, disbursement schedules, and implementation and MRV requirements. The CFS would provide oversight for project implementation, develop project descriptions and outcomes in collaboration with implementers and MRV experts, and prepare an annual report summarizing CFB operations. The CFS could also arrange periodic independent reviews of the CFB to identify the need for changes in project cycle management procedures or address other issues. The development partners would need to decide on the duration of CFB and CFS operations and continuation of financial support. Over time, increases in government capabilities may allow the development partners to increase direct reliance on the GoB, rather than working through the CFB.

## 4.4 OPTION 4: RESTRUCTURE THE BANGLADESH CLIMATE CHANGE TRUST FUND AS A NATIONAL CLIMATE FUND

Over the past two decades, multilateral and bilateral donors have supported a variety of environmental funds. UNDP has administered more than 750 trust funds with a value of over \$5 billion worldwide.<sup>27</sup> Under the US Tropical Forest Conservation Act, 19 countries, including Bangladesh, have established conservation trust funds with USAID technical support and capital from \$223 million in debt swaps from the United States. The Arannayk Foundation administers the Bangladesh Forest Conservation Trust Fund. Other countries have also established national climate funds (see box).

National funds for climate change activities can use financial resources that are pooled or earmarked by multilateral, bilateral, or private funders or allocated from general public budgets or dedicated revenue sources (such as carbon taxes). National climate funds can be established as (1) **endowment funds** with capital invested to generate income for operations and project support; (2) **revolving funds** that receive revenue on a continuing basis; or (3) **sinking funds** with an initial capitalization that are expected to be fully spent and end by a specified date (“sunset provision”).

### Other National Climate Funds

- **Brazil National Fund on Climate Change:** supports both public and private sector projects in adaptation and mitigation
- **Indonesia Climate Change Trust Fund:** supports low carbon and climate resilient investments with a donor supported innovation fund and planned transformation fund using domestic resources
- **Cambodia Climate Change Alliance Trust Fund:** capitalized by bilateral donors and UNDP to support capacity development and institutional strengthening to prepare for and adapt to climate risks

Source: Flynn (2011)

### 4.4.1 INSTITUTIONAL ARRANGEMENT AND FUNCTIONS

The Bangladesh Climate Change Trust Fund managed a portfolio of climate change projects developed by line ministries and the Palli Karma-Sahayak Foundation managed a smaller portfolio for NGO projects. The funding for BCCTF projects came from national budget allocations. It amounted to \$100 million per year for the first three years (July 2009 to June 2012), but was only \$15 million in FY 2015-2016. The GoB made a commitment to provide some BCCTF support for FY 2016-2017. In the most recent year, approximately 34 percent of the funding was reserved for emergency situations such as cyclones and flooding and other disasters.

Figure 7 shows proposed institutional arrangements for option 4, which are significantly different from the original structure of the BCCTF (Figure 3). Under this option, the fund would manage private sector climate change projects and assume greater responsibility for managing NGO projects or continue to rely on the PKSf. In addition, the fund would coordinate with the MoF's Economic Relations Division to obtain additional external resources.

To fulfill both of these new roles, the BCCTF would need to make major changes in project cycle management; staff roles, responsibilities and skills; and accountability and compliance with procedures. For example, technical committee reviews would need to be convened to review project proposals. The specific changes in project cycle management and staffing that would be needed may depend on changes in the project portfolio and funding sources.

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<sup>27</sup> See Flynn, Cassie (2011). Blending Climate Finance through National Climate Funds: A guidebook for the design and establishment of national funds to achieve climate change priorities. United Nations Development Programme, New York, NY, USA, p.3.

- **Private sector projects:** The BCCTF could also provide loans for private sector projects. Considerable working capital would be required for start-up, but a sustainable fund could be created through loan repayments. Alternatively, the fund could provide grants to project developers for preparation of applications for commercial bank financing. It could also provide grants to reduce project costs to make them more attractive to banks or provide loan guarantees to the banks (“de-risking”). It might be possible to facilitate access to commercial financing through technical feasibility reviews by the fund staff prior to bank reviews of the applicants’ creditworthiness. A substantial staffing increase would be needed to enable the fund to administer private sector loans or grants at a significant scale.
- **NGO projects:** The BCCTF supported 63 NGO projects through October 2015. There are a large number of NGOs throughout the country that could absorb additional funding for climate change projects.<sup>28</sup> If the volume of NGO projects increases substantially, the ability of the PKSf to manage a larger portfolio should be assessed and additional staff may be needed. More information should be obtained on donor plans for expanded funding for NGO climate change projects.
- **Pooled funding from development partners:** Pooled development partner funding could support GoB, NGO, or private sector projects, but donors would require assurances that the GoB is committed to restructuring the fund. Major donors want project cycle procedures to be strengthened and applied consistently with greater transparency in review and selection and broader stakeholder engagement in project design and implementation.

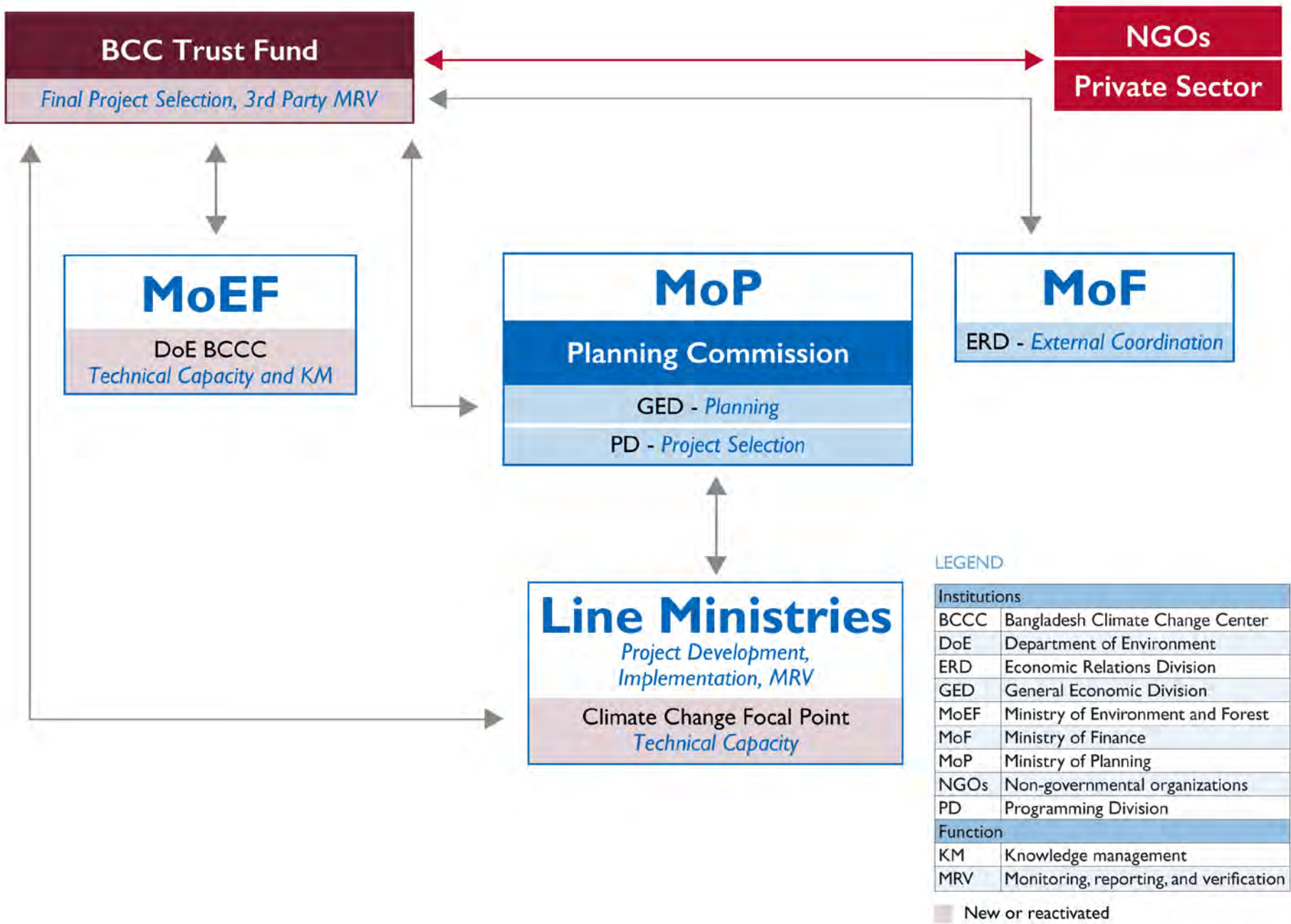
The GoB should consider replacing the current civil service structure of the BCCTF with an independent management team. Additional experts should be recruited for the Technical Committee and the MRV system upgraded to meet international fund standards.

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<sup>28</sup> The BCCRF received over 500 project concept notes from Bangladeshi NGOs (<http://www.worldbank.org/en/news/feature/2014/07/17/bangladesh-community-driven-attempts-to-build-climate-change-resiliency>).



Figure 7: Institutional Arrangement for Option 4



## 4.4.2 STRENGTHS AND WEAKNESSES

Option 4 would provide more flexibility in the types of projects and applicants supported than the current BCCTF. The basic institutional structure is already in place for this option, but improvements would be needed in the management structure, technical staffing, project cycle management procedures, coverage of the private sector, sources of funding, and MRV systems. It might be more politically acceptable to strengthen the BCCTF than to replace it with a new institution. Changes in the BCCT law would be required to replace the current civil service management structure and diversify the fund's portfolio and capital sources. BCCT should prepare a new management and staffing plan to support implementation of this option.

## 4.4.3 ROADMAP

### Phase I

Discussions between donors and the GoB would determine the interest in restructuring the BCCTF instead of establishing a new alternative. If there is sufficient interest in continuing with the BCCTF, an independent assessment should be commissioned to identify its strengths and weaknesses and recommend changes in the BCCT law and systems, procedures, and operations of the organization. Some possible changes could include broadening the focus of the fund, increasing transparency and accountability, obtaining an exemption from civil service rules, and a process and timetable for removing or transferring unqualified staff and hiring replacements.

### Phase 2

The second phase would begin with parliamentary approval of an amended BCCT law. After that, key steps would include changes in human resource systems, staffing, project cycle management procedures, and funding. The fund could then hire a professional manager or management team, prepare a staffing plan with job descriptions, assess current staff skills, and develop a staff retention and retrenchment plan and staff training plan.

The BCCTF will also need to determine if the current composition of the board is appropriate for the new mission of the Trust Fund. Since the BCCTF's Technical Committee has been inactive, a decision would be needed on its future role and composition. The process of filling vacancies on the Technical Committee may need to be re-examined.<sup>29</sup> The BCCTF may need to change its project selection process from a rolling basis to a regular schedule to help ensure that enough board members can participate.

BCCTF management will need to work with donors and the ERD to comply with fiduciary, programmatic, and reporting requirements for external funders. If it plans to leverage resources from commercial lenders, collaboration agreements will need to be finalized on roles and responsibilities, including possible de-risking support. Before its first solicitation for project proposals, the BCCTF should conduct an outreach campaign to inform potential applicants about the process, eligibility, and decision criteria.

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<sup>29</sup> The 13-member Technical Committee's members are nominated by their own organizations, including the MoP's Planning Commission, the Department of Environment in the MoEF, the MoF, the Centre for Environmental and Geographical Information Services, and local NGOs.



## **4.5 OPTION 5: CREATE AN INDEPENDENT NATIONAL CLIMATE FOUNDATION**

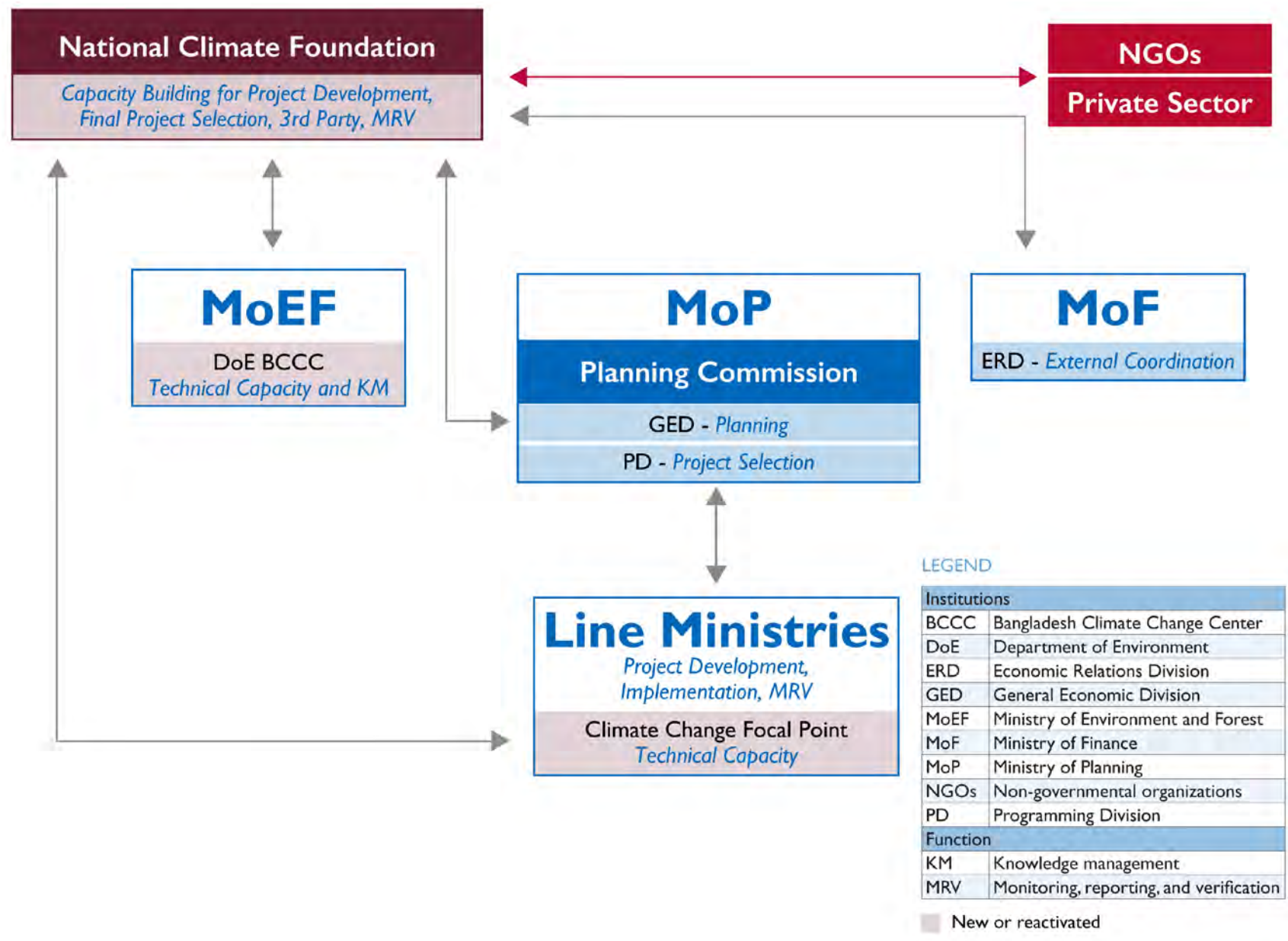
Option 5 would create a new National Climate Foundation (NCF) or fund to support climate change projects submitted by the GoB, NGOs, and the private sector. It could combine pooled donor partner financing with other external and domestic funding and support climate change projects submitted by GoB line ministries, NGOs, or the private sector.

### **4.5.1 INSTITUTIONAL ARRANGEMENT AND FUNCTIONS**

A new NCF could be structured as a secretariat with a governing board. Some recommendations on its structure and functions follow:

- The board could provide guidance on governance and operations, including criteria for selection of projects. It could either make or review the funding decisions. The board should include government and civil society representatives. Major donors would decide whether to participate in a voting or ex officio role.
- The secretariat would provide support for the board, including screening or appraisal of project proposals and coordination with development partners, GoB ministries, and applicants. The secretariat could also offer training on preparing project applications, implementing projects, and monitoring and evaluation, possibly in collaboration with the PPF. A contracting unit would be responsible for negotiating and finalizing agreements and resolving disputes with awardees.
- If sufficient time and resources are available, the secretariat could also develop knowledge products, such as lessons learned and case studies.
- The NCF would work with the MoF's Finance Division for domestic funding and the Economic Relations Division for external financing. It could collaborate with development banks and commercial lenders to support private sector loans.

Figure 8: Institutional Arrangement for Option 5



## 4.5.2 STRENGTHS AND WEAKNESSES

Option 5 would provide a fresh start with a new organization designed to meet international fund standards from the outset. It could also facilitate greater transparency, accountability, and stakeholder engagement. It would also avoid staffing issues that could arise in restructuring an existing institution. Some major multilateral and bilateral donors as well as local stakeholders might prefer option 5 over option 4.

Creation of a new National Climate Foundation would require an executive order and parliamentary approval of new legislation, which could take two years or more. This proposal could be controversial since the Bangladesh Climate Change Trust Fund is an existing, legally authorized alternative and the creation of a new institution would raise questions about the effectiveness of the BCCTF. There may also be political concerns that a new NCF would be less consistent with GoB priorities than the BCCTF. It would take considerable time to hire the management team and staff for a new organization and establish its policies, procedures, and systems.

## 4.5.3 ROADMAP

### Phase 1

The first step would involve discussions between the GoB and donors. After consensus has been reached on the proposal, authorizing legislation would need to be introduced and initial funding commitments. After the law has been passed, the GoB would have to set up a search committee to recruit the director and nominate board members.

### Phase 2

Phase 2 would begin with the hiring of the NCF's director, who would then oversee preparation of policies and procedures as well as a staffing plan and the recruitment process. The NCF's board would approve mission and vision statements, plans, policies, and procedures, and a funding plan. An outreach campaign would be needed to publicize the new funding opportunities. The NCF should have its own technical staff for reviewing project proposals. Separate periodic solicitations could be issued for applications from GoB line ministries, NGOs, and the private sector.

## 4.6 RECOMMENDATIONS

The five options presented here are illustrative examples of how to strengthen the institutional arrangements for climate finance and project design, implementation, and monitoring to meet international expectations for fiduciary responsibility, accountability, transparency, relevance, scale, impact, and sustainability. Decisions on which option or options to adopt should be made through consultations between the GoB and donors that address the following questions:

1. **What is the timeframe for supporting climate?** Option 1 could be structured as a limited-term project later handed off to the GoB. Options 2, 4, and 5 could require considerable time to establish or reconstitute institutions before operations. Option 3 does not require the creation of a new GoB institution, but development partners and the GoB would need to set up the board and secretariat.
2. **How quickly does the donor financing need to be allocated and spent?** One of the major criticisms of the BCCRF was that many development partners and other stakeholders perceived it to be too slow in getting projects funded and implemented. The initial expectations of many development partners were that funding disbursements and desired results would occur quickly. However, these expectations did not account for the time required for project identification, prioritization, assessment and approvals following World Bank processes. Future progress should occur more quickly under any of the options. However, options 2, 4 and 5 could take more time because of the legal requirements for creating or restructuring climate finance institutions.
3. **How receptive is the GoB?** Several key informants emphasized the importance of greater government ownership, but the GoB did not discuss its views on these options with the team. Option 1 is unlikely to be controversial with the GoB since it emphasizes technical assistance to improve the quality of climate change projects. Option 2 constitutes an effort to create a high-level, whole-of-government approach to climate finance and could be a model for other developing countries.

Option 3 could be a feasible replacement for the BCCRF if development partners have greater control and the World Bank is not involved. Many key donors agreed on the important role of GoB in setting priorities and the benefits of pooling finance as opposed to bilateral projects. Option 3 appears to be relatively easy to implement since it has minimal requirements for new institutions. Donors could provide grants to the GoB and NGOs over the short term while moving toward a more flexible and diverse climate fund that could also support private sector projects over the medium term. Option 3 could also be implemented as a limited-term pilot or bridge to a long-term approach to financing climate change adaptation and mitigation.

Options 4 and 5 may be more controversial with the government. There are different views within the GoB on whether to continue providing budgetary resources through a restructured BCCTF or just maintain the trust fund as an endowment with the interest used for emergency projects. Restructuring the BCCTF might be more politically acceptable than creating the National Climate Foundation, but it may be less effective. Donors would need to make a compelling case on the benefits of restructuring the BCCTF or developing a new fund. If all parties are willing to accept Option 5, it might provide the greatest opportunities for reform and achieving substantial scale and impact in climate change adaptation and mitigation. It could also serve as a model for financing reform in other sectors.

# ANNEX: KEY INFORMANT INTERVIEWS

Schedule of Key Informant Consultations	
<b>03/10/2016 – Thursday</b>	
	Meeting with IUCN Country Director, Mr. Ishtiaq Ahmed
<b>03/12/2016 - Saturday</b>	
	Meeting with Azharul Mazumder
<b>03/13/2016 - Sunday</b>	
	Entrance Meeting with the USAID/Bangladesh Mission Director, Janina Jaruzelski
	Group meeting with Technical Representatives from Development Partners
	Meeting on Environment, Forestry, and Climate Change Country Investment Plan (CIP) with FAO, Marco Boscolo and Shah Mohammad Mahboob
	Entrance meeting with USAID/Bangladesh Economic Growth Office Director, Farhad Ghaussy
<b>03/14/2016 - Monday</b>	
	Meeting on Climate Finance Readiness and Climate Finance Governance with GIZ Principal Advisor on Climate Finance Governance, Bjoern Surborg, and Technical Adviser on Climate Finance Governance, Mahmudur Rahman
	Meeting on Comprehensive Disaster Risk Management Plan, In, and Climate Fiscal Framework with UNDP Assistant Country Representative, Khurshid Alam, Technical Advisor, AKM Mamunur, and Regional Climate Finance Advisor, Kevork Baboyan
	Meeting with Ministry of Environment and Forestry, Department of Environment, Joint Secretary, SM Munjurul Hannan Khan (Project Director for Clean Air and Sustainable Environment Project)
<b>03/15/2016 - Tuesday</b>	
	Meeting with DFID Governance Advisor, David Gray
<b>03/16/2016 - Wednesday</b>	
	Meeting with Bangladesh Climate Change Trust Fund (BCCTF)
	Meeting with Center for Global Change, Executive Director, Dr. Ahsan Uddin Ahmed
<b>03/17/2016 - Thursday</b>	
	Meeting with World Bank, Shahpar Selim and Lia Sieghart
<b>03/20/2016 – Sunday</b>	
	Meeting with civil society organizations and non-governmental organizations
<b>3/21/2016 – Monday</b>	
	Meeting with High Commission of Canada, First Secretary (Development), Joseph Sebhatu

<b>3/22/2016 – Tuesday</b>
Meeting with International Centre for Climate Change and Development (ICCAD), Director, Dr. Saleemul Huq
<b>3/23/2016 – Wednesday</b>
Meeting with Ministry of Environment and Forests and Ministry of Finance
<b>3/24/2016 – Thursday</b>
Exit briefing with donor partner technical representatives

<b>List of Key Informants Consulted</b>
<b>Donor Representatives</b>
<p>Ms. Janina Jaruzelski, USAID Mission Director, USAID/Bangladesh, <a href="mailto:jjaruzelski@usaid.gov">jjaruzelski@usaid.gov</a></p> <p>Dr. Azharul Mazumder, Environment and Climate Change Specialist, USAID/Bangladesh, <a href="mailto:azmazumder@usaid.gov">azmazumder@usaid.gov</a></p> <p>Mr. Farhad Ghaussy, Office Director, Economic Growth Office, USAID/Bangladesh, <a href="mailto:fghaussy@usaid.gov">fghaussy@usaid.gov</a></p> <p>Mr. Nathan Sage, USAID/Bangladesh, <a href="mailto:nsage@usaid.gov">nsage@usaid.gov</a></p> <p>Dr. Karl Wurster, USAID/Bangladesh, <a href="mailto:kwurster@usaid.gov">kwurster@usaid.gov</a></p> <p>Mr. Shahadat Shakil, USAID, <a href="mailto:sshakil@usaid.gov">sshakil@usaid.gov</a></p> <p>Ms. Helen O'Connor, DFID, <a href="mailto:h-connor@dfid.gov.uk">h-connor@dfid.gov.uk</a></p> <p>Mr. David Gray, Governance Adviser, DFID, <a href="mailto:d-gray@dfid.gov.uk">d-gray@dfid.gov.uk</a></p> <p>Mr. Magnus Andre, Second Secretary, Environment &amp; Climate Change, Embassy of Sweden, <a href="mailto:magnus.andre@gov.se">magnus.andre@gov.se</a></p> <p>Mr. Asif Aziz Khan, Embassy of Denmark, <a href="mailto:asikha@um.dk">asikha@um.dk</a></p> <p>Dr. Bjoern Surborg, Principal Adviser, GIZ, <a href="mailto:bjoern.surborg@giz.de">bjoern.surborg@giz.de</a></p> <p>Mr. Md. Mahmudur Rahman, Technical Adviser, GIZ, <a href="mailto:Rahman.mahmudur@giz.de">Rahman.mahmudur@giz.de</a></p> <p>Mr. Manfred Fernholz, EU, <a href="mailto:Manfred.hernholz@eeas.europa.eu">Manfred.hernholz@eeas.europa.eu</a></p> <p>Mr. Mohammad Sifayet Ullah, EU, <a href="mailto:mohammad-sifayet.ULLAH@eeas.europa.eu">mohammad-sifayet.ULLAH@eeas.europa.eu</a></p> <p>Mr. Shah Riazun Rahman, SDC, <a href="mailto:shah-riazun.rahman@eda.admin.ch">shah-riazun.rahman@eda.admin.ch</a></p> <p>Mr. Joseph Sebhatu, First Secretary, High Commission of Canada, <a href="mailto:Joseph.Sebhatu@international.gc.ca">Joseph.Sebhatu@international.gc.ca</a></p> <p>+ two additional key informants lacking specific contact information</p>
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<sup>i</sup> <http://www.pksf-cccp-bd.org/>