



Climate Fiscal Framework

Dr. Krishna Gayen
Joint Secretary
Finance Division

April 06, 2015

Outline of the Presentation

- ▶ Introduction
- ▶ Issues in Climate Finance in Bangladesh
- ▶ Why CFF
- ▶ Overview of CFF
- ▶ Building Blocks of CFF
 - Demand Side Issues
 - Supply Side Issues
- ▶ Conclusion

Introduction

- ▶ Bangladesh Government developed NAPA in 2005 & also updated in 2009
- ▶ Developed BCCSAP in 2009
- ▶ The country is now developing NAP and NAMA in coming years
- ▶ Fifth Assessment Report of IPCC confirmed that climate change is more severe and faster than earlier
- ▶ Bangladesh has ranked fifth among 10 of the most vulnerable countries of the world (Climate Risk Index (CRI) 2014 by *Germanwatch*).

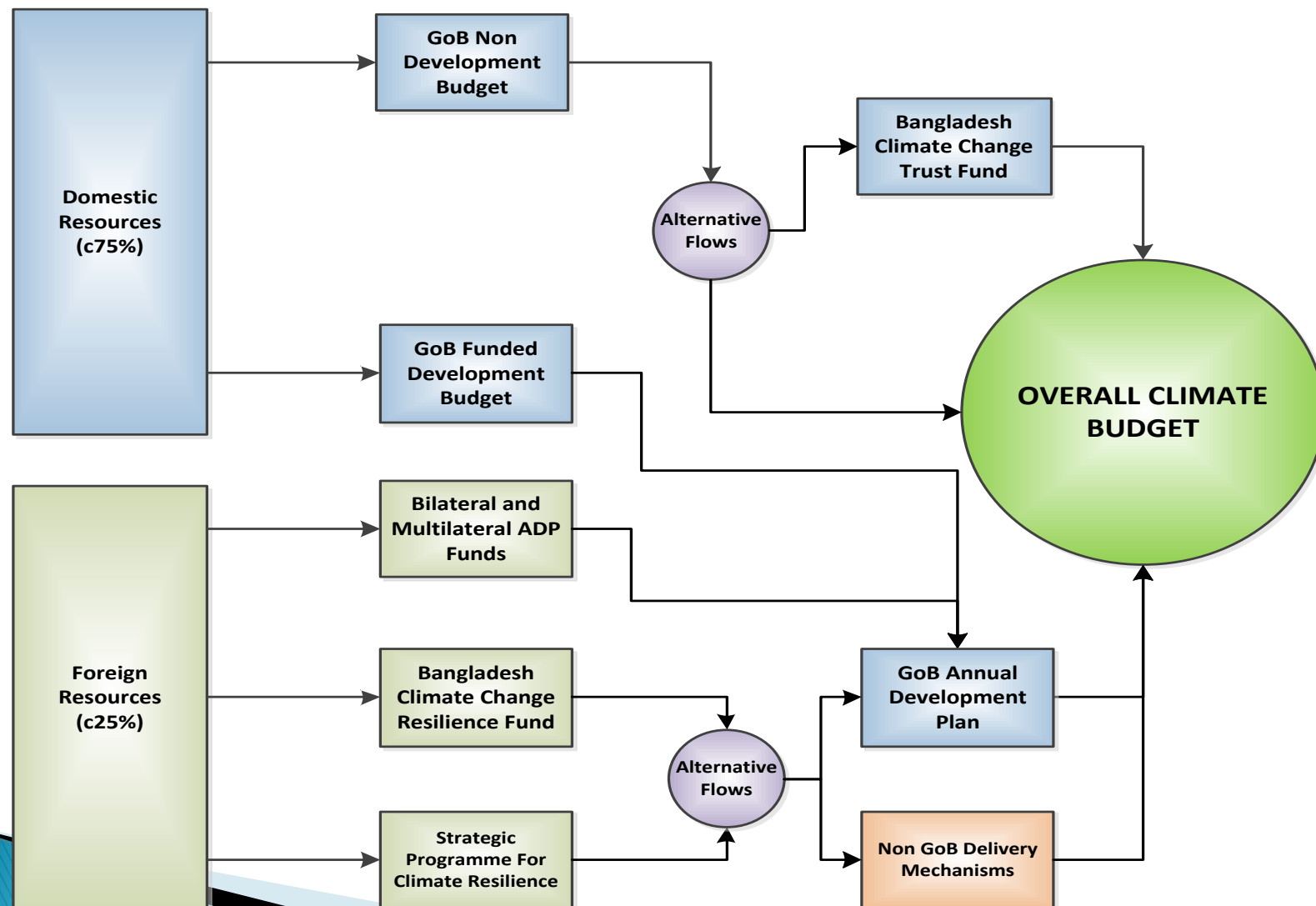
Introduction (con.)

- ▶ CC issues have traditionally been broken into two major categories- **mitigation** and **adaptation**
- ▶ Though CC is a **development** issue, but is sometimes treated as **environmental** issue
- ▶ Financing CC related activities entails many ramifications vis-à-vis **fiscal** policies and modalities.

Issues in Climate Finance in Bangladesh

- ▶ Separation of climate change from other activities within programs
- ▶ Associating funding with expenditure
 - Climate expenditure within projects assumed to have same funding structure as project as a whole
- ▶ Classification of budgets and expenditure
 - Extensive use of existing budgets, policy and institutions
 - Compliance with Government Finance Statistics Manual (2001)

Climate Finance Map in Bangladesh



Why CFF

- ▶ GoB needs to manage CC challenges by adopting budget priorities, financial market rules, etc.
- ▶ Basis of Climate Fiscal Policy is BCCSAP 2009 - to study and map out fiscal issues for climate change, *hence the need for a CFF*
- ▶ CC is not yet incorporated in the accountability, performance management and governance structure through MTBF and budgetary process.
- ▶ It is imperative for GoB to be able to *identify CC related expenditures* to determine budget priorities - consistent with its overall development, gender and poverty reduction objectives.

Why CFF (con.)

To develop a CFF for Bangladesh as per recommendation of CPEIR:

- for tracking climate related expenditures
- to estimate potential costs of long term finance needs to combat adverse effects of CC
- elaborate on the role of GoB towards managing climate finances so as to maintain the path to sustainability
- identify areas of institutional weakness and skills gap with recommendations for further institutional development.

Overview of CFF

- ▶ **CFF**: a framework to ensure most effective use of internal and external resources to fight negative impacts of CC.
- ▶ To achieve such a framework we need to:
 - (i) identify existing expenditures and modalities of financing
 - (ii) identify additional expenditure requirements drawing from action plans, such as BCCSAP
 - (iii) create an enabling environment for private financial flows
- ▶ CFF provides an account of fiscal developments and estimates for Short, Medium, and Long-term climate expenditures.

Overview of CFF (con.)

CFF is expected to identify:

- ▶ the state of present expenditures for CC related adversities
- ▶ the demand for climate funds in future
- ▶ areas of financial authority for revenue-raising, national and international financing options and fiscal tools.

Building Blocks of CFF

► Demand Side

- Costed Climate Actions
- Prioritized Climate Actions
- Climate Expenditures
 - Financial Planning, Disbursement, Tracking, and Reporting.

► Supply Side

- Domestic Climate Finance
- Accessing International Climate Finance
- Monitor, Report, Verify (including performance, result and input monitoring)
- Parliamentary Oversight

Demand Side Issues of CFF

Existing Climate Expenditure Analysis

- ▶ Both development and non-development expenditures of FY12 through FY14 were reviewed to identify CC related projects/programs
- ▶ A total of 206 non-development programmes and 612 development projects were identified
- ▶ Climate expenditure as % of total Budget: 5.31, 7.50, and 6.36 respectively
- ▶ Climate expenditure as % of GDP: 0.94, 1.37, and 1.19 respectively

Demand Side Issues of CFF

- ▶ It would be ideal to have a costed and prioritized climate change plan in Bangladesh. BCCSAP 2009 is a policy and action plan document, which is not costed nor prioritized.
- ▶ Given the fact, finance division has opted a proxy measure to estimate the needs of climate finance. The Planning Commission's CPEIR methodology was used to understand the current climate spending. That was used as proxy to project the demand of climate finance.
- ▶ The tracking of climate finance using climate marker is also identified as a priority area for further refinement of CFF.
- ▶ CFF offered an indicative tracking mechanism, which needs to be discussed in upcoming days. IBFCR is suppose to support such discussions and further technical inputs.

Climate Expenditure Analysis Template (CEAT)/ ClimateTracking Framework (CETF)

Main features of CEAT/CETF Database

- ▶ Development of a separate database, independent but yet closely attached/linked, with Budget database and CGA accounts database
- ▶ Tagged proportion estimates in percentage terms for the six thematic areas of CC related expenditure - user-friendly and changeable, if so desired
- ▶ System capable of generating different types of budget and account reports at different levels, having defined proportion.

Supply Side Issues: Climate Fiscal Framework

- ▶ Fiscal instruments – taxation, and government spending on variety of products and individuals. Both instruments can be applied to address negative impacts
- ▶ Carbon tax to limit the release of carbon dioxide into atmosphere through combustion of fossil fuel like coal, oil and natural gas
- ▶ Removing fossil fuel subsidies and subsidy on green energy
- ▶ Climate investment and Green Banking
- ▶ Funds: BCCTF, BCCRF, PPCR

Audit and Oversight Issues

- ▶ Existing audit policies vis-à-vis CC have been reviewed:
- ▶ Climate change yet to mark its presence in the audit system of Bangladesh as an issue, though the newly created Performance Audit Directorate prepared a plan to conduct audit of the projects/programs implemented under the auspices of the BCCTF.

Audit and Oversight Issues (con.)

- ▶ **Obstacles to inclusion of climate change in the audit policy**
 - Capacity constraint
 - Absence of climate change marker in the Ministry Budget Framework
 - Lack of information on climate change related activities and expenditure
 - Lack of demand from the stakeholders

Future prospect of Integration of Climate Change in the Audit Policy of Bangladesh

- ▶ Establishing Climate Fiscal Framework will fulfill necessary conditions for mainstreaming climate change issues in the audit policy
- ▶ To redress capacity constraint, appropriate training and knowledge sharing with Audit Institutions may be considered.

Conclusion

- ▶ Present study CFF is of one of the first of its kind, and is still at a nascent and evolving stage
- ▶ Most Ministries and NGOs do not yet have tangible for the future. Projection based upon the trend of expenditures incurred in recent years
- ▶ BCCSAP has not been updated or revised since 2009. There is a need of costed and prioritized climate plans to do full blown CFF
- ▶ As new projects/programs are adopted and implemented, CEAT/CETF will require to be revised and updated.

Thank you