

The Bangladesh National Climate Funds

A brief history and description of the Bangladesh Climate Change Trust Fund and the Bangladesh Climate Change Resilience Fund

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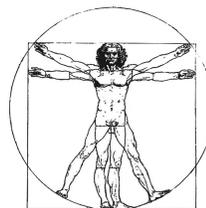
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1. Introduction

Bangladesh is a Least Developed Country (LDC) - a group of countries recognized by the United Nations as economically vulnerable,⁴ and by the UN Framework Convention (UNFCCC) as among the most vulnerable to the adverse effects of climate change. Recognizing its own extreme vulnerability, it was one of the first LDCs to complete its National Adaptation Programme of Action (NAPA), listing “urgent and immediate” adaptation needs. The NAPA was funded by the UNFCCC’s LDC Fund (as were the NAPAs carried out by other LDCs), and followed the guidelines provided by the international community and the UNFCCC’s LDC Expert Group. It consisted mainly of a list of stand-alone adaptation actions.

Upon its completion, policy makers in Bangladesh realized that the NAPA was an inadequate plan, which did not address the magnitude of the climate change problem in the country. The government of Bangladesh then undertook a more comprehensive planning process, with its own financial and intellectual resources. The Bangladesh Climate Change Strategy and Action Plan (BCCSAP) was completed and presented to the Cabinet of Bangladesh in 2009. The BCCSAP was a much more comprehensive strategy listing six pillars (including mitigation, which was not part of the NAPA) and over forty actions.

The Bangladesh Minister of Finance felt that immediate action on the BCCSAP was so crucial, that the country should initiate action with national funds, rather than wait for finance from the international community. At the same time, since the costs involved were far greater than the government could provide on its own, they appealed to the international community for assistance and donations. This resulted in the creation of two separate funds: the Bangladesh Climate Change Trust Fund (BCCTF), and the Bangladesh Climate Change Resilience Fund (BCCRF).

The BCCTF is resourced entirely from the government’s own budget (with US\$ 100 million each in 2009, 2010 and 2011). The BCCRF consists of funds pledged and provided by developed countries or groups (such as the United Kingdom, Sweden and the European Union). The two funds have differing governance and management arrangements, but both are meant to support the implementation of the BCCSAP. This is a considerable departure from previous models of piecemeal contributions by developed countries to support separate, stand-alone projects.

Other developing countries (such as the Maldives and Indonesia) have also established similar national funds or entities.⁵ Their creation is of considerable significance to the international community, particularly in the context of the design of the Green Climate Fund. At the fourth meeting of the Transitional Committee for the design of the Green Climate Fund in October 2011, LDCs emphasized the need for funding decisions to be made at the national level, through enhanced direct access by national funding entities such as the two Bangladesh Funds. They pointed out that devolving decision-making to national institutions through such national funding entities will consolidate a country-driven approach to project identification, formulation and implementation, as developing countries are more conversant with their national circumstances, and better able to set national priorities.

4. <http://www.un.org/special-rep/ohrls/ldc/ldc%20criteria.htm>

5 Gomez-Echeverri, L (2010). *National Funding Entities: Their Role in the Transition to a New Paradigm of Global Cooperation on Climate Change*. European Capacity Building Initiative. <http://www.eurocapacity.org/downloads/NFESPolicyReport.pdf>

As a result of this intervention by LDCs, the *Draft Governing Instrument for the Green Climate Fund* annexed to the report of the meeting contains the following paragraph on direct access:

*Recipient countries will nominate competent sub-national, national and regional implementing entities for accreditation to receive funding. The Board will consider additional modalities that further enhance direct access, including through funding entities with a view of enhancing country ownership of projects and programmes.*⁶

The design, governance and management of the two Bangladesh funds, described in this paper, could provide a starting point for other developing countries to establish similar national entities or trust funds.

2. Brief history of climate change planning in Bangladesh

Climate change poses a serious threat to Bangladesh's goal to accelerate economic growth, substantially eradicate poverty and become a middle-income country by 2021.⁷ This became starkly obvious in 2007, when two consecutive floods in June and August caused economic damage to the tune of nearly US\$ 1.1 billion, followed by Cyclone Sidr in November, which killed 3500 people and led to estimated economic damage of US\$ 1.7 billion. These events and their impacts led to intensified efforts to tackle climate change and disaster impacts in Bangladesh.⁸

The Government of Bangladesh produced the Bangladesh Climate Change Strategy and Action Plan (BCCSAP) in 2009. The BCCSAP is focused on medium and long-term actions (it lists 44 such actions) based on the following six thematic pillars: 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. Powerful ministries and departments, including Finance, Planning, Agriculture, Water Resources, Foreign Affairs, Local Government and the Prime Minister's Office, were involved in the planning.

Recognizing the uncertainties and inadequacies of international adaptation finance from both multilateral and bilateral sources, the Government of Bangladesh decided to establish the Bangladesh Climate Change Trust Fund (BCCTF) based on revenue from the national budget, within a legal mandate by the Climate Change Trust Act passed in Parliament in 2010. At the same time, an alternate Bangladesh Climate Change Resilient Fund (BCCRF - formerly known as the Multi Donor Trust Fund, or MDTF) was created to pool funds from the country's development partners.

2. The Bangladesh Climate Change Trust Fund

The Bangladesh Climate Change Trust Fund is a 'block budgetary allocation' of US\$ 100 million each year for three years (2009-2012, totaling up to US\$ 300 million), in the form of an

⁶ Transitional Committee (2011). *Report of the Transitional Committee for the Design of the Green Climate Fund to the seventeenth session of the Conference of the Parties*. Annex 1, Section 5.4.1, Paragraph 47 <http://www.eurocapacity.org/finance/documents/TC4-3.pdf>

⁷ Government of Bangladesh (2006). *Bangladesh Vision 2021*. <http://boi.gov.bd/about-bangladesh/government-and-policies/government-vision-2021?format=pdf> (accessed 24 December 2010)

⁸ Khurshid, A., *et al* (2011). The Political Economy of Climate Resilient Development Planning in Bangladesh. *IDS Bulletin*. Volume 42, Number 3. May 2011

endowment. The Climate Change Act stipulated that 66 per cent of this amount will be spent on the implementation of projects/programmes prioritized in the BCCSAP, and 34 per cent will be maintained as a ‘fixed deposit’ for emergencies. The interest accrued on the 34 per cent fixed deposit will also be spent on project implementation. Funds from the BCCTF can be used to finance public sector and non-government projects, and it is not mandatory to spend the total grant within a given financial year.

Of the US\$ 200 million endowed in the first two years, therefore, US\$ 132 million (66 per cent) is available for use on projects and programmes. Of this amount, US\$ 95.36 million has been allocated for 58 projects mainly related to agricultural research, mitigation, adaptation and disaster risk reduction, and non-government projects relating to research and knowledge generation (see **Table 1**).

Table 1: Projects funded by the BCCTF as of 2011⁹

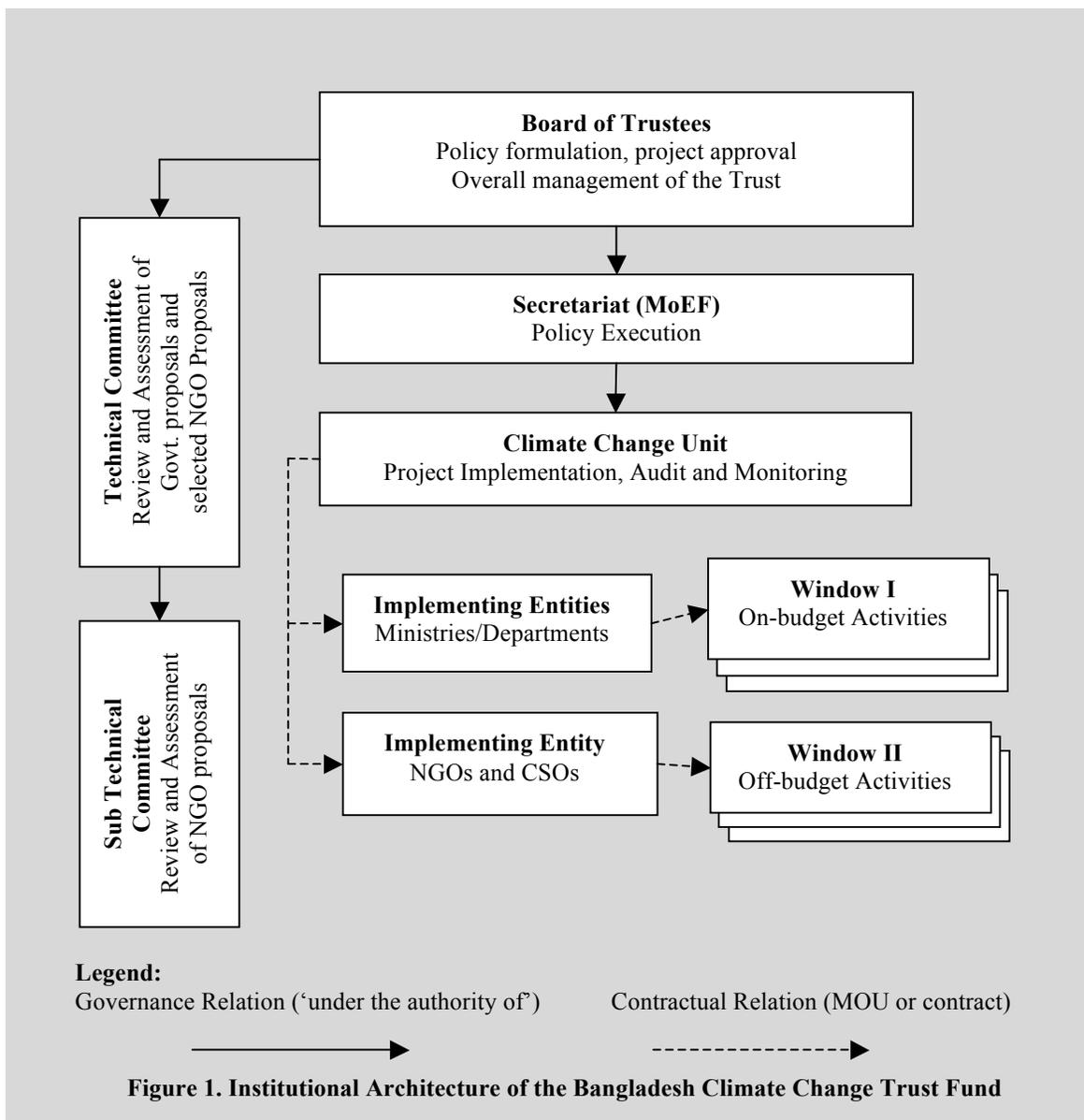
Thematic Area		Amount (US\$ Million)	% of the total amount allocated so far (US\$ 95.36)
Food Security, Social Protection and Health		13.887	14.562
Comprehensive Disaster Management		10.462	10.970
Infrastructure		31.700	33.241
Research and Knowledge Management		07.537	7.903
Mitigation and Low Carbon Development	Renewable Energy	10.751	11.273
	Forestation	12.671	13.287
	Waste Management	04.716	4.945
Capacity Building and Institutional Strengthening		03.638	3.814
Total		95.363	99.995

a) Governance and Structure

The governance arrangements for the BCCTF are elaborated in the Bangladesh Climate Change Trust Act, 2010, which lays out the following three tiers for transparent and accountable governance:

- Board of Trustees
- Technical Committee
- Sub-Technical Committees

⁹ Huq, S and Rabbani, G (2011). Climate Change and Bangladesh: Policy and Institutional Development to reduce vulnerability. *Journal Of Bangladesh Studies*. Volume 13, pp 1-10. Updated by the authors based on information from the Ministry of Environment and Forests.



In addition, a Climate Change Unit under the Ministry of Environment and Forests serves as a Secretariat for the BCCTF.

Board of Trustees: An independent Board of Trustees, chaired by the Minister for Environment and Forests, oversees the governance and management of the Climate Change Trust Fund. There are 17 members, of which two are from CSOs and the rest are from government ministries and departments. The two non-government members serve for a period of three years, while the other members serve for the period that they hold that particular position. (The first Board has been in place and operational since 2010.)

Members serve without any financial compensation and are expected to play a neutral role, without bias to the ministry, department or organization to which they belong. Ensuring total neutrality is a challenge – however, decision-making through consensus, and openness and transparency in the

decision-making process serve to promote neutrality. In addition, the Parliamentary Standing Committee responsible for oversight of the Ministry of Environment and Forests also serves as another ‘checkpoint’ for the decisions of the Board.

The functions of the Board of Trustees include, *inter alia*:

- Overall management of the Trust Fund, including approval of projects and activities for funding, and investment of the 34 per cent set aside for emergencies;
- Policy advice and directives relating to funded activities and projects;
- Overall direction and guidance to the Technical Committee;
- Fundraising from donor countries or organizations;
- Annual evaluation and dispute settlement; and
- The implementation of government directives in response to climate change.

Technical Committee: The 12-member Technical Committee is responsible for reviewing proposals, and advising the Board of Trustees. It is headed by the Secretary to the Ministry of Environment and Forests, and includes members from key government ministries and departments, and two representatives from CSOs. The functions of the Technical Committee include, *inter alia*:

- Preparation of an annual work plan and budget for climate change activities, for approval by the Board of Trustees;
- Assisting the Board in developing policies, by providing technical input, and by ensuring the implementation of funded activities; and
- Reviewing proposals to make recommendations to the Board of Trustees.

Sub-Technical Committees: The Technical Committee, with the permission of the Board of Trustees, can form Sub-Technical Committees to review the technical feasibility of proposals submitted by NGOs and CSOs. Based on the six thematic areas identified by the BCCSAP, six sub-technical committees on the following themes have been formed so far:

- Food security, social protection and health
- Comprehensive disaster management
- Infrastructure
- Research and knowledge management
- Mitigation and low carbon development
- Capacity building and institutional strengthening

Each of these Sub-Technical Committees has representation from government, academic and civil society organizations.

Climate Change Unit: A Climate Change Unit, established under the Ministry of Environment and Forests, serves as a secretariat for the BCCTF. The Unit is headed by the Secretary of the Ministry of Environment and Forests, and coordinated by an additional secretary of the ministry. It is responsible for ensuring efficient implementation of the activities funded by the BCCTF.

b) Project Cycle

Projects under the BCCTF are to be completed within 2-3 years – a shorter project cycle than development projects under the national planning process. Eligible parties submit proposals based on the BCCSAP and the proposal guidelines to the Ministry of Environment and Forests. The

proposals are reviewed by the Technical Committee (or the Sub-Technical Committee, for NGO projects), which submits its recommendations to the Board of Trustees for the final decision. This process is much quicker than the project approval process followed by the Bangladesh Planning Commission, which has a relatively lengthier and more complex approval process.

c) Auditing and Monitoring

Project budgets submitted by grant-seeking agencies are further reviewed and finalized with the assistance of the Climate Change Unit, on the basis of the government's procurement and sectoral implementation plans. The office of the Comptroller and Auditor General of Bangladesh, the supreme audit institution of the government, audits "on-budget" (government) projects and activities. The Board of Trustees of the BCCTF also has the authority to assign an independent audit of projects. Projects implemented by non-government agencies are audited by the Climate Change Unit, and may also be subject to independent audits based on a decision by the Board of Trustees.

While the 'planning unit' of each ministry monitors "on-budget" projects and activities, the Climate Change Unit monitors projects implemented by non-government agencies.

3. The Bangladesh Climate Change Resilience Fund

At the First UK-Bangladesh Climate Conference held in Dhaka in April 2008, development partners expressed the urgency of establishing a 'financial mechanism' to assist Bangladesh in combating the impacts of climate change. Subsequently, at the London Climate Change Conference organized jointly by Bangladesh and the UK in September 2008, the UK pledged a grant of US \$75 million towards the implementation of the BCSSAP over a period of five years. As the amount could not be directly transferred to the Government of Bangladesh, a "Multi-Donor Trust Fund" was established to manage fiduciary risk.

The Multi-Donor Trust Fund soon evolved into the Bangladesh Climate Change Resilience Fund (BCCRF), with contributions from four main donors: the UK, with a contribution of US\$94.6 million; Denmark, with a contribution of US\$1.8 million; Sweden, with a contribution of US\$13.6 million; and the EU, with a contribution of US\$11.7 million. Switzerland has subsequently contributed US\$ 3.8 million.

The BCCRF has two funding windows: an "on-budget" window for public sector projects, and an "off-budget" window for civil society and private sector projects. The off-budget window, which currently receives 10 per cent of the total funding, supports the development of grassroots mechanisms for communities to increase their resilience to the impacts of climate change and to support applied and/or action research to strengthen the capacity of the community for climate resilient planning. It is administered by a Government-designated implementing agency (the Palli Karma Sahayak Foundation, PKSF).

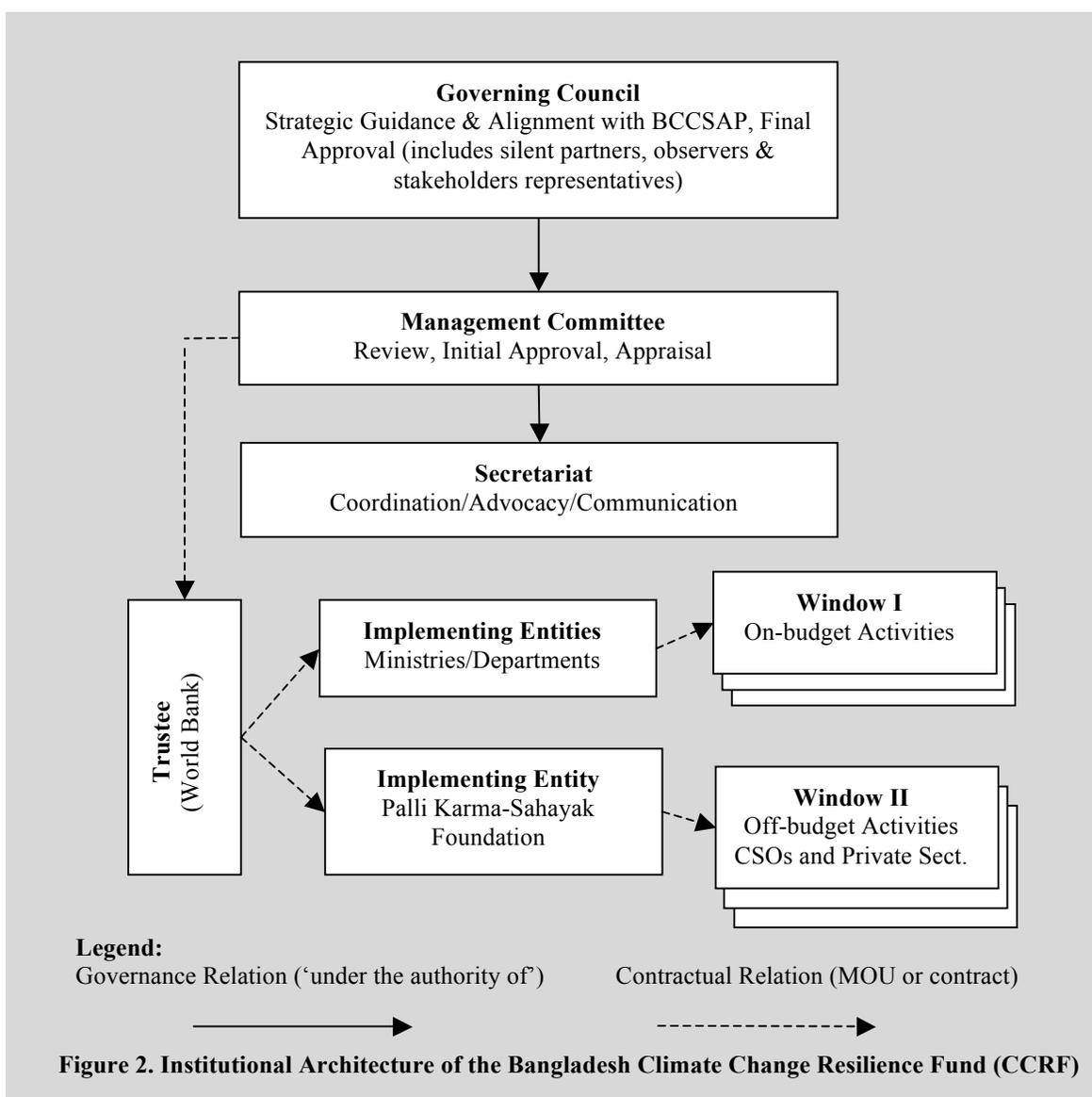
As of November 2011, the fund has approved one project of US\$ 25 million for building multipurpose cyclone shelters. Two others have been approved for development into full project proposals: a US \$22.8 million proposal submitted by the Ministry of Agriculture on 'Agricultural Adaptation in Climatic Risk Prone Areas of Bangladesh - Drought, Flood and Saline prone areas'; and a US\$ 24.95 million proposal by the Ministry of Environment and Forests, on 'Afforestation and Reforestation for Climate Change Risk Reduction in Hilly and Coastal Areas'.

a) Governance and Structure

The governance arrangements of the BCCRF were finalized in an Implementation Manual following an open and intense debate and discussion between the Government and Development Partners. It is composed of three tiers:

- Governing Council
- Management Committee
- Secretariat

In addition, the World Bank will serve as the Trustee of the Fund for a five-year period from 2010 to 2014, and provide technical assistance. It is charged with ensuring due diligence (including fiduciary management, transparency and accountability), and the implementation of projects with due regard to economy, efficiency and effectiveness. The World Bank receives 4.5 per cent of the fund towards a service charge. At the end of the interim period, the Secretariat of the BCCRF will take over financial management from the World Bank.



Governing Council: The 16-member Governing Council is responsible for providing strategic direction and guidance to the BCCRF, and ensuring its alignment with the BCCSAP. The Minister of Environment and Forests serves as the Chairperson, while the Secretary of the same Ministry serves as Member Secretary.

The Governing Council includes two representatives from the development partners (selected by donor countries); two representatives from civil society (nominated by the government); high-level representatives from the Prime Minister's Office and the Planning Commission; and the Ministers of Finance, Food and Disaster Management, Foreign Affairs, Agriculture, Women and Children Affairs. The World Bank has an observer status, without voting right.

The primary responsibilities of the Governing Council, laid out in the Implementation Manual, are to:

- Provide advisory guidance on programme strategic goals and alignment with the BCCSAP, grant criteria and high-level issues, such as, transfer of fiduciary management responsibility to the Government of Bangladesh.
- Oversee overall management and utilization of the fund and approve Development Project Proposal prepared for projects to be funded by the BCCRF.
- Develop a long-term project and programme guide, and instruct the expert committee on annual plan and financial plan.
- Review the achievement of results envisaged by the fund.
- Approve recommendations of the technical committee on the implementation of the projects and programmes to tackle the impacts of climate change.
- Guide the preparation of an annual evaluation report by forming an evaluation team.
- Take necessary measures to mobilize funds from other donors.
- Review the achievement of results envisaged by the BCCRF.
- Provide advocacy support to the BCCRF.
- Issue resolutions at close of Governing Council meetings endorsed by the majority (defined as 80 per cent of members).

Management Committee: A Management Committee is responsible for developing the work programme of the BCCRF, ensuring that it is implemented in line with the agreed Implementation Manual, and considering grant requests submitted by various line ministries and other eligible institutions. The Secretary of the Ministry of Environment and Forests chairs the Management Committee, while the Joint Secretary (Development), also from the same Ministry serves as the Member Secretary.

The nine members of the Management Committee include two representatives from the donor partners (of which only one has a vote) and one civil society representative, in addition to representatives from the Economic Relations Division; Planning Commission; and the Ministry of Environment and Forests. A representative from the World Bank has observer status, for the period that the World Bank serves as a Trustee.

The primary responsibilities of the Management Committee are to, *inter alia*:

- Review and endorse the Implementation Manual.
- Review and endorse the BCCRF's work programme and budget allocations.

- Carry out a detailed review of, and endorse, grant requests submitted by the Secretariat.
- Ensure that grant requests submitted are in line with the Implementation Manual.
- Review and endorse the reports prepared by the BCCRF Secretariat for submission to the Governing Council as well as for public dissemination.

Secretariat: A Secretariat will be established in future, to support the Governing Council and Management Committee and manage the day-to-day operations of the BCCRF. A Joint Secretary or an official of a higher rank will head the Secretariat, and play an important coordinating role for all the projects supporting the BCCSAP, in particular those funded by BCCRF.

Trustee: The World Bank will serve as interim trustee of the BCCRF until 2014. The task teams of the World Bank, responsible for different aspects of operationalizing BCCRF, will ensure that all funded activities are aligned with the objectives of the BCCRF, expenses incurred are eligible, and due diligence to economy and efficiency is performed.

b) Project Cycle

The project grant cycle under the BCCRF consists of three phases: preparation, implementation and evaluation. The first preparation stage includes initial design, detailed preparation, appraisal, grant approval, and declaration of effectiveness of the grant from the BCCRF. Though a typical project preparation cycle in Bangladesh takes two to three years to complete, the urgent need to adapt to climate change and prevent socioeconomic loss and damage to communities and the environment will be taken into account, and the grant preparation cycle of BCCRF will be compressed as much as possible, ideally to under a year.

The Secretariat and the World Bank will play a significant role in coordinating partners and maintaining and monitoring a processing schedule. A World Bank team, with members of the Secretariat, will undertake regular implementation support missions every six months to review the implementation progress of the grant project activities. The team will review all technical and fiduciary aspects of the project, and consult beneficiaries and stakeholders.

c) Auditing and Monitoring

The project grants approved for government implementing agencies are governed by a legal Grant Agreement between the World Bank as Trustee, and the recipient. Funds may be used only for the purposes and activities described in the Grant Agreement, ensuring that expenditures are incurred using the Bank's procurement and financial management guidelines.

The World Bank will provide the donors with an annual report on the financial and physical progress of activities, and an annual single audit. In addition, the World Bank and the Secretariat will carry out regular monitoring of the project implementation. For each project, a Results Framework and Monitoring table will be designed during project preparation, for use for both project management and supervision by the World Bank. Besides, a separate mid-term evaluation will be carried out two years after the start of the grants programme, to assess progress in achievement of the BCCRF objectives.

5. Future challenges

Both the Bangladesh Funds are charting new territory and there are few established procedures to follow. However, even at this early stage, there are some issues that need further attention.

The first set of issues relates to the BCCSAP. The Plan is clearly a ‘knowledge strategy’, which needs to be transformed into an implementation strategy by the respective ministries and departments. While it identified six thematic areas, it did not prioritize action on the ground within the context of vulnerability, which is critical for allocating resources to deal with immediate and urgent needs. And while it acknowledged the importance of mainstreaming as a means to address the multi-sectoral nature of climate change, planning and fiscal processes need to be better centralised.

The BCCTF, meanwhile, is an exemplary initiative that authorized the use of national revenue to finance climate action, despite other urgent national priorities like poverty reduction. However, this makes it all the more important that public funds are used effectively, and prioritize the need of the most vulnerable areas and communities. It is also imperative that the decisions of the Board of Trustees are not influenced by partisan politics and political interest, given that most of the members are Ministers. Instead, the members should use the opportunity to reinforce political commitment to fight climate change.

The main challenges with regard to the BCCRF will be maintaining country ownership if differences arise between the government and development partners on the priorities of the Fund in future, and ensuring effective and efficient fiduciary management once the World Bank’s role as interim Trustee comes to an end. The amount of funding available (US\$ 125.5 million, compared to US\$ 300 million in the BCCTF) will need to be addressed through accelerated fund-raising efforts, perhaps aimed for the time being at the Fast Start Finance promised by developed countries in the Copenhagen Accord for the 2010-2012 period.