1. STRATEGIC CONSIDERATIONS

As established earlier, there is a wide array of options at national and international level for financing climate change interventions in Bangladesh, with differences in funding conditions, focus areas as well as access modalities. Many of them offer special and unique features to help drive their agenda forward. Going ahead, there are a number of strategic considerations that stakeholders operating within the climate change sphere in Bangladesh should take account of, in order to enhance availability, access and utilisation of climate funds in the country. Some of these have been presented below:

# Building capacity for developing bankable projects

Accessing multilateral and bilateral climate financing typically requires applicants in developing countries to prepare strong project proposals that can be considered as bankable by the funders. Bankability of climate finance projects depend on a number of factors. One of the prominent ones is driven by the notion of ‘additionality’. Additionality in the context of climate finance dictates that funding for climate change should be ‘additional’ and separate from ‘traditional’ development aid programmes, wherein they must be targeted specifically for addressing climate risks and impacts. As such, funders place a strong emphasis on project proposals demonstrating the climate relevance and adaptation rationale of an investment. Proposals must clearly specify how a project will address climate risks now and in the future, and how proposed interventions are distinct from business-as-usual development activities.

Considering the uncertain and dynamic nature of climate change, specifying and calculating additionality can be also highly challenging. This requires the availability of, and access to high-quality weather and climate related data. While there are datasets available from different sources, there is no comprehensive database in Bangladesh, and there is often a lack of uniformity. This issue is exacerbated by the fact that many project implementers and relevant stakeholders in Bangladesh possess limited understanding on what exactly constitutes adaptation and therefore have difficulty establishing linkages between climate change risks and expected project outcomes and impacts. Proposal formats also require proponents to demonstrate cost-effectiveness and provide plans for results-based monitoring of project outputs and outcomes. Certain funders require proposals to be supported by comprehensive risk assessments and a number of feasibility studies which requires time and resources

As such, it is important to provide skills training and capacity building, and well as financial support to potential project proponents in Bangladesh to help them develop strong, robust project proposals and thereby secure climate funding from multilateral and bilateral sources. Research organizations, training institutes, NGOs and CBOs as well as the private sector can support this process. Also, GCF has set up a Project Preparation Facility (PPF)46, through

46 Green Climate Fund (GCF). (2020). Project Preparation Facility (PPF) Guidelines.

which they up to USD 1.5 million in financial and technical assistance for the preparation of project and programme funding proposals. PPF is accessible by the GCF Accredited Entities in the country.

# Enhancing coordination among financial mechanisms and entities

Despite the presence of various and funding mechanisms and entities in Bangladesh, they often operate in a disparate manner. Implementing agencies also tend to compete for funds. This often leads to overlapping actions, resulting in inefficient use of scarce financial resources. Also, due to the cross-sectoral nature of climate change, addressing the issue calls for a range of actors to collaborate with one another in assessing risks and problems, and identifying crucial and cost-effective solutions.

As such, there is a need for climate finance entities at various levels, national and international, to enhance coordination among themselves. This will allow for fairer and more efficient allocation of resources, help avoid duplication of efforts and achieve optimum benefits. Collaboration will also help ensure funded projects are well aligned with various national strategies and plans on climate change and development.

# Decentralising the delivery of climate finance

While ensuring sufficient quantity of climate finance is important, it would be just as critical to ensure effective utilization of these funds. Climate finance can only considered as effective, if they adequately address the needs of local communities, who are considered to be most vulnerable to the impacts of climate change. However, studies have found that less than 10% of mobilised global adaptation finance reaches the local level47. While several multilateral climate financing entities apply the principle of country ownership, it must be acknowledged that enabling fund access and management at the central government level does not necessarily ascertain that money will flow to the local level to those who need it the most. Many developing countries, including Bangladesh, often lack the necessary institutional capacity and governance structure to effectively do so.

Therefore it would be important to establish mechanisms and democratic processes through which climate finance can be effectively channelled to local governments and authorities, who will then be responsible for the management and disbursement of funds at the local level. Structures and measures which allow for direct transfer of funds to local authorities should be put in place. At the same time efforts must be made to mainstream climate adaptation activities within local government planning and budgets. Delegation of responsibilities should be such that local authorities can define their own adaptation needs and practise flexibility in the usage of funds. To this end, capacities of local governments to undertake bottom-up climate risk

47 Soanes, M, Shakya, C, Walnycki, A and Greene, S. 2019. Money where it matters: designing funds for the frontier. IIED Issue Paper. IIED, London.

assessments, and also to practice transparent fiduciary management and institutional coordination will also need to be enhanced. As presented in the report earlier, the UNDCF LoCAL programme has made notable contributions to catalyse such a process in Bangladesh. Similar programmes will need to be explored by both multilateral funders and national policymakers

# Engaging the private sector in climate change adaptation efforts

The private sector in Bangladesh has the potential to mobilize large volumes of investment towards climate action, and also develop efficient innovative solutions to the issue. While private actors are increasingly engaging in environment and climate friendly activities, but they have largely been geared towards mitigation. Their contribution in adaptation activities has been limited so far. This can be attributed to the limited understanding among private actors on the rewards or economic benefits that can arise from investing in adaptation interventions.

Therefore, an enabling environment with necessary policies and regulatory frameworks should be in place to incentivize the private sector to invest in climate action. Knowledge exchange and lessons sharing among the private sector and other state and non-state actors should be promoted through setting up necessary platforms. Strong public-private partnerships (PPPs) can play a useful role here. PPPs allow the private sector to transfer some of the risks to the public, thereby increasing the likelihood of private investment in public projects. PPPs have the benefit of increasing quality of services, reducing implementation time as well as cost of providing goods and services. PPPs also transfer the risk to the private sector while promoting greater transparency and accountability.

To facilitate the realization of PPP projects in the country, the government has set up a Public- Private Partnership Authority (PPPA) and a Public Private Partnership Technical Assistance Fund (PPPTAF) has been established to this end. However the role of PPPA in climate action in not well understood and their participation in climate change decision-making and programming has been limited. It would be critical to catalyse their engagement in climate action area in Bangladesh, as they can play a vital role in promoting low-carbon, climate compatible infrastructure development in Bangladesh.

# Exploring diverse and innovative financial instruments

Addressing the challenges posed by climate change, and compounded by the COVID19 pandemic in Bangladesh, would require exploring diverse and multifarious channels through financial support can be delivered and extended to those affected. This would entail looking beyond the predominant medium of loans and grants provided by multilateral climate finance entities and bilateral partners, and exploring additional instruments.

Climate risk insurance offers a means through which financial risks associated with climate change, particularly extreme weather events, can be minimized. Climate risk insurance can come in many forms, of which weather-index based insurance has gained reasonable footing in recent years, particularly in the agriculture sector. Index-based insurance is a means through which smallholder farmers can be compensated for their losses, by offering payouts in correlation with a particular weather-index such as rainfall, temperature, precipitation etc. An innovative Index-Based Flood Insurance (IBFI) program has been recently developed by the International Water Management Institute (IWMI) in partnership with the CGIAR Research Program on Climate Change, Agriculture and Food Security (CCAFS), and other partners with a view to provide tailored solutions to smallholders farmers affected by climatic shocks and stressors in Haor areas of the country. 48

Climate bonds or green bonds have emerged in recent years, as a promising financial instrument for attracting private sector investments in projects that offer environmental and climate change benefits. In 2021, Bangladesh launched its very first green bond, through a charity organization called the SAJIDA Foundation. The bond valued at approximately USD 12 million will help support and expand green and renewable energy projects in Bangladesh, and help ensure energy access for the poor and vulnerable49.

Microfinance has long been playing an instrumental role in poverty alleviation and socioeconomic empowerment of marginalized communities in Bangladesh. Their role in climate change adaptation needs to be better understood. Microfinance not only helps contribute to livelihood diversification of vulnerable communities, but also helps build their adaptive capacity through teaching them asset management50. In addition, microfinance institutions in Bangladesh have country-wide networks of delivery, and can thus reach a larger population through their services. Both funders and project proponents need to explore how microfinance can be integrated within the delivery of climate change projects and programmes.

48 Saini, S., Giriraj, A. (2020). INNOVATIVE INDEX-BASED AGRICULTURE INSURANCE: WHERE HOPE MEETS

POSSIBILITY. CCAFS. URL: https://ccafs.cgiar.org/news/innovative-index-based-agriculture-insurance-where- hope-meets-possibility. Retrieved on 12 July 2021

49 Hossain, R. (2021). First ever Green Bond in Bangladesh approved for Sajida Foundation. Sajida Foundation. URL: https://sajidafoundation.org/first-ever-green-bond-in-bangladesh-approved-for-sajida-foundation/.

Retrieved on 12 July 2021

50 Hammill, A., Matthew, R., & McCarter, E. (2008). Microfinance and climate change adaptation. IDS Bulletin