Climate Finance – summary report

UK-Bangladesh Climate Partnership Forum

11 March 2021

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Strengthening Resilience and Responses to Crises
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1 Introduction

"Unless we get finance flowing, we cannot and will not see the action we need, to reduce emissions, to adapt, and to rise to the growing challenges of loss and damage" — Rt Hon Alok Sharma, President for COP 26, the 26th United Nations Climate Change Conference

Mott MacDonald and ODI have coordinated a webinar series on behalf of the Foreign, Commonwealth & Development Office (FCDO) as part of the UK-Bangladesh Climate Partnership Forum virtual series which is building momentum on the journey to the 26th UN Climate Change Conference of the Parties (COP26) in Glasgow in November 2021. The climate talks will be the biggest international summit the UK has ever hosted; bringing together over 30,000 delegates including heads of state, climate experts and campaigners to agree coordinated action to tackle climate change. In its role as president of the Climate Vulnerable Forum, Bangladesh will be representing more 1.2 billion people living in 48 of the world's most climate vulnerable countries at COP26.

This UK-Bangladesh Climate Partnership Forum virtual series creates an opportunity to advance the climate agenda in the journey towards COP26 and beyond by bringing together experts and leaders from Bangladesh and the UK. It is intended to help to identify innovative ideas, partnerships and initiatives, and further strengthen collaboration between the two countries by catalysing climate action and building a community of practice.

The forum builds on a long history of cooperation between the UK and Bangladesh and is structured around four key COP26 themes: 1) Adaptation and resilience**,** 2) Nature, 3) Clean Growth and 4) Finance. Beyond each event, it is expected that active members of the discussions from both countries will continue the dialogue and coalesce around key areas of interest and initiatives that can be taken forward in the run up to COP26 and beyond. A 2-hour virtual event co-moderated by Simon Maxwell and Saleemul Huq was held on "Financing a climate-resilient and low-emission future" on 3 March 2021.

Given Bangladesh's vulnerability to climate change, climate finance is a high priority for the country. The country could lose up to 15% of its land with sea level rise and is currently ranked 7th on the Climate Risk Index for extreme weather. The Government has been a global leader in efforts to mobilise climate finance, mainstreaming climate finance across a government budgets, and reporting on spending regularly and transparently. Bangladesh was the first developing country to establish a dedicated Climate Change Fund with its own financial resources and has allocated US$450 million since 2009 to implement 789 projects. This year the Government has allocated 7.75% of the national budget – or 1% of GDP for climate action. Bangladesh has also developed a US$37 billion Mujib Climate Prosperity Plan, which aims to construct an economy-wide investment agenda that delivers effective protection, improved economic opportunities and enhanced resilience. It is also pressing the international community to scale-up efforts to address loss and damage associated with climate change impacts including supporting people displaced by climate threats and establishing international responsibility for compensation for displacement. Through its Presidency of the Climate Vulnerable Forum and the V20 group, Bangladesh declared a Planetary Emergency to call on the world to work on a war footing to tackle climate change and has established a multi-donor fund Climate Vulnerable Fund to scale up actions by member countries.

The UK has committed to double its international climate finance to £11.6bn over 2021-2025 with 50% of this allocated to adaptation and £3bn on protecting nature, recognising the critical role that ecosystems play both in mitigation and adaptation. It has set out 11 COP26 priorities for public finance setting a clear benchmark for the international community and calling for an increase in the proportion of grant-based financing. It has pledged to align its entire ODA portfolio with the Paris Agreement, and will continue to support governments and central banks to fully integrate climate risk into macroeconomic financial stability systems. It will be the first country in the world to make the recommendations of the Taskforce on Climate-related Financial Disclosures mandatory and is channelling the appetite from the financial sector for investments in the low carbon transition and enhanced climate resilience by creating new methods for investors and governments to work together such as the Coalition for Climate Resilient Investment and the International Development Infrastructure Commission. The UK COP26 Presidency will hold a Climate and Development Ministerial at the end of the month to address five key issues: access to finance; quantity, quality and composition of climate finance; response to impacts; and fiscal space and debt.

The session was introduced by Judith Herbertson, Director of Development, FCDO with opening remarks from the Advocate Md. Fazle Rabbi Miah, MP, Honourable Deputy Speaker, Bangladesh Parliament. The session included four presentations and a panel discussion by Dr Atiur Rahman, Governor, Central Bank of Bangladesh 2009-2016; Bob Buhr, Director at Green Planet Consulting Limited, and an Honorary Research Fellow at the Centre for Climate Finance and Investment at Imperial College Business School; Prof. Mizan R. Khan, Deputy

Director, ICCCAD and Programme Director, LUCCC and Sam Evans, Head of Natural Environment, Greater Manchester Combined Authority.

Robert Chatterton-Dickson, British High Commissioner in Dhaka introduced two guest speakers, the Rt Hon Alok Sharma MP, President of the COP26 Climate Change Conference and Hon'ble Foreign Minister Dr. Abdul Momen. The series ended with closing remarks from Judith Herbertson, Director of Development, UK Foreign, Commonwealth and Development Office Bangladesh. The full programme and profiles of all the speakers are included in Annex 1 and 4 respectively.

2 Key messages from the presenters

2.1 Main messages from the presentations

'Finance plays a key role in the enhanced ambition and effective mitigation of climate change", Honourable Minister for Foreign Affairs, Md Abdul Momen

"We need to improve the quality of the public finance that is available. And to get it going to the right places. At the moment, too little is gender-responsive. Too little is provided in the form of grants. And too little is making its way to adaptation, or indeed to tackling loss and damage." Rt Hon Alok Sharma, President for COP 26, the 26th United Nations Climate Change Conference

The ongoing priority for vulnerable countries is for developed countries to meet and sustain the commitment of US$100bn per year as promised and to ensure a 50:50 allocation to adaptation and mitigation. LDCs can access climate finance through UN windows such as GCF, LDCF and SCCF which were created to support adaptation. However, these funds are under- resourced. There's a need for renewed global leadership to create another climate fund and G20 members should take the lead in mobilising funds, increasing transparency and predictability in climate finance as well as increasing access to technologies for all LDCs and SIDs. It was widely agreed that there is a need for the UK and Bangladesh to strengthen collaboration ahead of COP26.

Honourable Bangladesh Foreign Minister Dr A.K. Abdul Momen reaffirmed the commitment of the Government of Bangladesh to build resilience to tackle climate change. He also sought the UK's cooperation for making finance more accessible to build resilience and amplify climate actions. Apart from financing, the Minister highlighted the need for technology transfer and expertise to mitigate the impact of climate change.

"We know that the world must do more to avert, minimise, and address loss and damage. And agreeing the structure and form of the Santiago Network will be vital. So the UK's COP Presidency is working with Chile, as well as with our moderator today, Professor Huq, to get the Network operating." — Rt Hon Alok Sharma, President for COP 26, the 26th United Nations Climate Change Conference.

Dr Atiur Rahman, Bangabandhu Chair Professor and Chairman of the Executive Committee of Centre for Advance Research on Arts and Social Sciences, Dhaka University

"Greening of the minds of the stakeholders including the regulators is a must to promote sustainable finance for a cleaner and greener world."

Leveraging Domestic Finance for Climate Resilient Future

- The government of Bangladesh government has developed an enabling policy environment to increase investment in renewable energy as well as ensuring wider electricity access through tax holidays, reduced taxes on the import of RE equipment, net metering arrangements etc. Blended finance including grants and low-cost loans has also encouraged private sector engagement.
- Bangladesh's central bank has played a pioneering role in promoting sustainable finance by creating a USD 50 million green fund for green SME's along with a USD 500 million fund to support the green transformation of textiles exporting factories. It also encouraged the state-owned financial institution (IDCOL) to intermediate green finance to support the uptake of RE by remote households through non-state actors.
- The central bank also encourages all banks to make disclosures on green activities by publishing sustainable finance reports; providing updates on environmental activities/ performance of major clients; and is establishing a CSR fund to address climate challenges.
- Financial service providers can play a key role in supporting green entrepreneurs thanks to their client interactions and knowledge of on the ground realities. They are learning about new customers and markets and are greening of their lending processes.
- To remain interconnected with global green financing initiatives, a cultural transformation is needed (e.g. through linkages between Islamic banking and sustainable development as well as maintaining linkages to global green financing initiatives) along with changes to the governance architecture to align monetary policy targets with sustainability objectives. Suggested ways forward include a re-doubling of efforts to:
    - enhance market practices through a review of practices and the impact of ESG risk management, developing a protocol for financing clean energy technology, green equity and debt products, and scaling up green finance literacy;
    - leverage private capital with public finance by developing existing refinancing, encouraging banks to develop long-term deposit accounts, and helping to de-risk low-carbon solutions;

- develop a roadmap for sustainable finance with leadership from the central bank - involving MFIs and other regulators; and
- increase Direct Finance through policies that incentivise SME credit policies, with specific targets for key areas of green investment.

Bob Buhr, Director at Green Planet Consulting Limited, and an Honorary Research Fellow at the Centre for Climate Finance and Investment at Imperial College Business School

“A number of climate related undertakings in Bangladesh are proving increasingly urgent—salinization, river flooding, coastal flooding and storm surge, and arsenic levels in soil. There are a number of potential adaptation and mitigation projects that can be funded through capital market fund raising. However, the scope of these potential projects exceeds the ability of Bangladesh to fund these projects internally. Sovereign borrowing in international markets remains a possible option."

Bangladesh Delta Plan: what capital markets can (and cannot) do

- There are a number of potential adaptation and mitigation projects that can be funded through capital market fund raising. Sovereign borrowing in international markets remains a possible option. Emerging market investors are actively seeking investments at present and potential demand for a US Dollar-based international bond issue is expected to be high.
- Bangladesh has a developed domestic government bond market which allows the government to fund a range of longer-term projects, including water infrastructure climate initiatives outlined in the Bangladesh Delta Plan.
- Local infrastructure is generally funded through partnerships, local borrowing, federal government funds disbursed at through local governments or institutions while larger infrastructure tends to be funded through unsecured borrowings at federal or institutional level or project finance which almost always involves the project as security for the borrowings.
- Capital markets are good at large-scale unsecured public fundraising for governments, companies, institutions. Size can range, but Developed Markets sovereign issues are generally around US$500 million. Bank loans can range in scale. Developing market issues are generally smaller, but at materially higher interest rates. For companies, debt is serviced by operating cash flows. For governments, debt is generally serviced by tax revenues and other government sources of income.
- Capital markets aren’t particularly good at financing local projects (with the exception of the US Municipal Bond Market) and natural resource protection projects that do not generate cash flows.
- Bangladesh has a number of capital market options for funding climate remediation efforts, these include: (1) sovereign borrowing in international markets —guaranteed by tax receipts; (2) “Labelled” Sovereign Bond–with targeted use of proceeds: green, social, transition, nature; and (3) domestic government bonds. Is there any justification for a Green Bond, for example, as opposed to a straight sovereign bond? What would the interest rate differential be between domestic and foreign debt?
- Two main obstacles to connecting investments from developed markets with green infrastructure project in emerging markets: 1) emerging markets are considered too risky, and 2) lack of knowledge on infrastructure financing.
- The IFC/Amundi green financing model aims to overcome these by by increasing global demand (through risk sharing) and developing local markets (supporting local financial institutions in issuing green bonds in line with the Green Bond Principles).

Prof. Mizan R. Khan, Deputy Director, International Centre for Climate Change and Development (ICCCAD) and Programme Director, LDC Universities’ Consortium on Climate Change (LUCCC)

“We still live in a world where two trillion dollars are spent each year to face the `perceived' threats in the name of security, while a fraction of this money is not available for meeting the `real' threat to humanity, i.e. climate change.”

Global climate finance, UK and Bangladesh

- Under the Paris Agreement, developed country parties have an assumed legal obligation to support developing countries with new and additional money in their mitigation and adaptation actions.
- The Copenhagen pledge of $100bn a year by 2020 has not been reached. This is hampered by a lack of an agreed definition of climate finance which means there is double/triple counting of the same money (based on individual country interpretations) which creates mistrust. The UK and Bangladesh, together can press for an agreed definition of climate finance and the mobilisation of alternative sources, in the lead up to COP26.
- Despite a commitment to allocate 50% of public climate finance to adaptation, so far only 20% funds adaptation. Of this, 10% reaches the local, most vulnerable communities. The share of loans versus grants in climate finance now stands at 80:20, even for LDC adaptation finance where the share is 2/3 vs 1/3.
- With vulnerable countries suffering disproportionately due to climate change and the costs escalating, the world must to more to address loss and damage including operationalising the Santiago Network.
- With the unprecedented economic shock of Covid-19, securing additional money from developed countries will be challenging. Serious efforts are needed to look for alternative funding sources for adaptation. For example long term bilateral debt can be renegotiated to fund adaptation activities. These Debt-for-Adaptation Swaps could create sustainable funding streams for adaptation.
- Carbon pricing even if fixed at half the social cost of ton/$C0_2$ could be a key source of climate finance to capture the external costs of carbon emissions and to shift the burden for the damage back to those who are responsible for it. Key challenges include deciding on the correct price, designing the process and developing the necessary supporting policies.

- Currently, the private sector contributes only 3% of global adaptation finance and only 6% of private finance leveraged by development finance goes to LDCs. The Coalition for Climate Resilient Investment (CCRI)[1] and the 2019 Call for Action on Adaptation and Resilience are positive developments but more work is needed.
- Greater efforts are also needed to improve access to climate finance – application processes are too bureaucratic resulting is low levels of finance reaching developing countries DCs (14% and 2% to LDCs and SIDs respectively) – the UK wants to work with vulnerable countries to address this.

Sam Evans, Head of Natural Environment, Greater Manchester Combined Authority

"As well as in our fight to adapt to the impacts of climate change, we know nature-based solutions can bring a range of other benefits – for nature, people and our economy. Translating this knowledge into greater investment in nature-based solutions is a huge challenge. But it's also where the opportunity for innovation lies and where, in Greater Manchester, we are working to overcome this."

Funding models and finance mechanisms to deliver nature-based solutions

- Greater Manchester faces significant impacts from the effects of climate change, particularly from the risk of surface water flooding due to intense rainfall on sealed urban surfaces and capacity constraints on drainage infrastructure.
- Responsibilities and opportunities to address this risk sit across multiple public and private sector organisations, and public funding to take action has become increasingly limited. Nature-based solutions (NBS) are accepted as having significant potential to address these challenges and provide multiple benefits, beyond just managing climate risks. However, translating that acceptance into action and investment in NBS beyond public financing is not being realised.
- The value of natural capital (our stocks of natural assets and resources) in Greater Manchester is £1bn a year in terms of the benefits it provides to our economy, people and environment. However, the acknowledgement of these benefits is not translating into investment, beyond small-scale public sector financing. To bring in private finance, we need to make NBS investable, moving beyond proving their benefits to confidence that those benefits can be translated into a financial return on investment.
- Natural capital funding currently draws on a limited (mainly public sector) business models and financing strategies. There is a barrier between investment and projects driven by: a lack of robust business cases; a lack of pipelines of investable projects of sufficient scale; and other delivery, financing or contracting issues impacting investor confidence and views of risk around ROI.
- Through the IGNITION project, funded by the Urban Innovative Actions initiative, we are working to take a set of NBS projects through to a stage where they can attract private investment. Installing Sustainable Drainage Systems – natural features like ponds, basins and channels can provide financial benefits to the water company, as it would reduce the number of flooding events it had to pay out for, and to owners of those sites, in reduced charges on their water bills. Bringing in private investment could help catalyse this, share risk and generate genuine returns for the investors over the longer term.
- There are several key steps:
  - Technical proving – through construction of a Living Lab and publication of a comprehensive NBS evidence base, to increase confidence in the environmental outcomes NBS can deliver;
  - Monetisation –translating these outcomes into financial benefits and identifying beneficiaries willing to pay for them;
  - Investment readiness – assembling an investible project pipeline to raise investment;
  - Pathfinder funding – patient capital to demonstrate sustainable revenue at scale; and
  - Capital investment – market data and finance at standard commercial (risk-adjusted) rates.

More detail on each presentation can be found in Annex 2.

Moderator Simon Maxwell offered 11 key take-aways from the event, summarising the discussion (posted on Twitter following the event):

1. It is tempting to think the 'climate finance' field can atrophy, redundant in the face of greater commitment from 'mainstream' finance.
2. However, green funding is still deficient in quantity, quality and accessibility.
3. Why? There are market failures, including a lack of patient capital, and some big risks, especially associated with loans taken in foreign currencies.
4. Governments and international institutions can help: for example, central banks setting up new funds, encouraging changes by market actors, or insisting on better reporting; or international institutions setting up new instruments to reduce risk and make green bonds more accessible.
5. Still ,there remains a lot of 'baggage' with green-specific funding, including greater transactions costs.

[1] co-led by Egypt and the UK, with coalition partners, Bangladesh, Malawi, the Netherlands and Saint Lucia, supported by the UN Development Programme (UNDP)

6. And it remains true that a great deal can be done outside the formal ‘climate finance’ envelope.
7. The transition to green finance would be a great deal easier if the externalities were properly priced, including carbon and general environmental financing.
8. Meanwhile, much of climate action cannot be financed through the market: much adaptation work falls into this category, as does payment for ‘loss and damage’. There is particular concern for important work that does not generate a large financial return.
9. This means grants are needed, including ODA.
10. And climate-focused ODA should not be at the expense of other priorities: new and additional remains a valuable mantra.
11. All this suggests that the priority for international ‘climate finance’ should be in the non-market sphere: grant-focused and public-good oriented. That implies a significant institutional reform.

2.2 End of series comments by Judith Herbertson, Development Director, UK Foreign, Commonwealth and Development Office Bangladesh

The events have been very popular with 200-300 people joining each one, from all sectors of society – academia, policy think tanks, private sector, government, NGOs, and others. The events have been informative: comments during and after the events show that the presentations were particularly well received, and that many participants have learned something new during the events – either about their own country or about the other country.

The events have strengthened our partnership with several requests for follow up meetings which will be facilitated by the BHC over the coming weeks. For example, parliamentary groups from our two countries will have further exchanges of experience, clean energy companies from UK and Bangladesh want to review business models, and academic institutions and regulatory authorities want to further discuss energy transition.

The Energy Transition Council national dialogue in March is designed to find concrete policy, analytical and financial mechanisms to ensure a just transition to clean energy. This event will draw on many of the issues raised at the 3rd forum on clean energy, such as regional energy markets, grid infrastructure, and investigating renewable energy potential. It is important not to lose momentum; FCDO hopes to host several physical visits at Ministerial level before COP26 as soon as travel restrictions ease. We want to hear suggestions from you on what would be most useful – is there appetite for more of these events or do you want to see something else?

3 Main points raised in discussion

'We need donor countries to step up, honour their commitments on international climate finance, and deliver on the pledge that has been made." Rt Hon Alok Sharma, President for COP 26, the 26th United Nations Climate Change Conference

3.1 Meeting the US$100 billion per year target

Aligning financial flows with low-emission, resilient development is critical in meeting the goals of the Paris Agreement. Increasing the level of climate finance will be one of the most intractable issues at the COP26 especially given the economic impact of the pandemic on many of the donor countries and the lack of an agreed definition of what constitutes climate finance. While signatories recognise that developing countries have a responsibility to support vulnerable countries, the commitment to provide US$100 billion per year by 2020 has not yet transpired. Moreover, with vulnerable countries suffering disproportionately due to climate change and the costs escalating, the world must to more to address loss and damage. The launch of the Santiago Network in June 2020 to catalyse and channel technical assistance to support efforts to address loss and damage is a positive development but more work is needed to get the network operating.

Recent efforts to galvanise action to increase the share of adaptation finance from 20% to at least 50% include the Coalition for Climate Resilient Investment (CCRI)[2] which is supporting the integration of physical climate risks (PCRs) in investment decision-making to drive funding into adaptation and the 2019 Call for Action on Adaptation and Resilience which advocates a vision that puts adaptation at the centre of decision making. Improved carbon pricing is another solution, the transition to green finance would certainly be a great deal easier if the externalities were properly priced. However, not all adaptation investments can be financed through the market as these are largely in the realm of public goods. Grant based finance will continue to be an important source of funding for adaptation though these will be constrained in the short term by the economic impact of Covid. New financial innovations, such as the renegotiation of long-term bilateral debt to fund adaptation activities, are needed to ramp up the funds available to support adaptation.

Greater efforts are also needed to improve access to climate finance – application processes are too bureaucratic resulting is low levels of finance reaching developing countries (14% and 2% to LDCs and SIDs respectively).

"The long-term transition to a net-zero and resilient future presents huge economic and development opportunities, yet there is a gap between the needs and actual finance flows which is felt most in developing countries, particularly those vulnerable to the impacts of climate change. Mobilizing the needed climate finance will require collective global action across the public and private sectors." — Judith Herbertson, Director of Development, FCDO**.**

"I am being very clear and very direct with our fellow donor countries that they must follow suit. They need to play their part in collectively meeting the $100 billion a year target." — Rt Hon Alok Sharma, President for COP 26, the 26th United Nations Climate Change Conference.

"The tipping point is now, the money has to be on the right side of history." — Judith Herbertson, Director of Development, FCDO

'I am calling on multilateral development banks and development finance institutions to play their part in delivering the $100 billion goal. As well as urging these institutions to support a green, inclusive and resilient recovery from Covid-19. And to ensure that their portfolios are fully aligned with the goals of the Paris Agreement." — Rt Hon Alok Sharma, President for COP 26, the 26th United Nations Climate Change Conference.

"A major concern on finance is improving accessibility. We have heard very clearly what developing countries have told us. That application processes are too bureaucratic. They are arduous. They are variable. And they are complex. An indicator of the current state of affairs is the low level of finance making its way to the most vulnerable nations. In 2018, the least developed countries and small island states received just 14 percent and 2 percent respectively of total public climate finance." — Rt Hon Alok Sharma, President for COP 26, the 26th United Nations Climate Change Conference.

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[2] co-led by Egypt and the UK, with coalition partners Bangladesh, Malawi, the Netherlands and Saint Lucia, supported by the UN Development Programme (UNDP)

3.2 Getting private finance flowing

The main focus of the private sector to date has been on supporting mitigation activities. Financing clean energy investments is now easier as the costs have reduced considerably. However, it is still important to ‘green the minds of policy makers’ to provide incentives for green industries to prosper and operate at scale. The banking sector has a key role to play in terms of improved market practices and working closely with MFI’s and regulators to increase the flows of private finance.

Capital markets have the potential to finance adaptation and mitigation projects through large-scale unsecured public fundraising for governments, companies, institutions. In fact, there is a high demand from emerging market investors for these types of bond products. A key question is whether governments decide to issue a green/climate bond or a sovereign bond given that a great deal can be done outside the formal ‘climate finance’ envelope. There are certainly advantages for the latter around the reduced transaction costs associated with monitoring and verifying project portfolios against Green Bond Principles – and there would still be a strong appetite among investors.

Increasing flows of private finance into adaptation investments (e.g. for flood protection, food security and sustainable forestation) is more challenging as they don’t tend to generate a financial return and the economic benefits tend to accrue to the wider community. However businesses are increasingly developing goods and services that reduce climate risk and there is an emerging demand from large institutional investors (such as pension funds, insurance companies and banks) for new investment products. However, more work is needed to develop local financial markets particularly to increase knowledge and understanding of business opportunities and associated lending risks among financial institutions. This will require forging new partnerships between banks, development organisations and large institutional investors to develop and roll out investment products tailored towards adaptation.

Leveraging private sector funding into small-scale adaptation and nature-based investments is particularly challenging as evidenced by the small flows of private finance into global adaptation especially in LDCs where small projects predominate. However, it’s not impossible as shown by the Manchester IGNITION case study. Projects need to be attractive to investors translating adaptation and resilience benefits into a financial return on investment. This requires strong business cases; pipelines of investable projects of sufficient scale; and supportive delivery, financing or contracting environment. Debt through direct project lending and credit lines to local finance institutions that can be repaid through taxes is one option. This can work well where there are clear savings to be made in terms of avoided costs from flooding etc.

“as well as the public finance, we also need to get the private finance flowing if we are to raise the trillions of dollars needed to make the Paris Agreement goals a reality.” — Rt Hon Alok Sharma, President for COP 26, the 26th United Nations Climate Change Conference.

“That Nature pays is increasingly clear…. It’s enabling it to pay back that’s hard” — Sam Evans, Head of Natural Environment, Greater Manchester Combined Authority.

Annex 1: Programme for finance

Financing a climate-resilient and low-emission future, Wednesday 3 March 2021

Moderators: Professor Saleemul Huq and Simon Maxwell

- Introductions – Judith Herbertson, Director of Development, UK Foreign, Commonwealth and Development Office Bangladesh

Opening Remarks

- Advocate Md. Fazle Rabbi Miah, MP, Honourable Deputy Speaker, Bangladesh Parliament

Presentations

- Leveraging domestic finance for a climate-resilient future - Dr Atiur Rahman, Governor, Central Bank of Bangladesh 2009-2016
- Bangladesh Delta Plan: What Capital Markets Can (and Cannot) Do. Bob Buhr, Director at Green Planet Consulting Limited, and an Honorary Research Fellow at the Centre for Climate Finance and Investment at Imperial College Business School
- Global Climate Finance, UK and Bangladesh - Prof. Mizan R. Khan, Deputy Director, ICCCAD and Programme Director, LUCCC
- Funding models and finance mechanisms to deliver nature-based solutions in Greater Manchester - Sam Evans, Head of Natural Environment, Greater Manchester Combined Authority

Guest Speakers

- Introductions - Robert Chatterton Dickson, British High Commissioner, Dhaka
- Hon'ble Foreign Minister Dr. Abdul Momen
- Rt Hon Alok Sharma, President for COP 26, the 26th United Nations Climate Change Conference

Closing remarks

- Her Excellency Ms. Saida Muna Tasneem, High Commissioner of Bangladesh to the United Kingdom
- FCDO end of series remarks - Judith Herbertson, Director of Development, FCDO

Annex 2: Presentations

Leveraging Domestic Finance for Climate Resilient Future – Dr Atiur Rahman, Governor, Central Bank of Bangladesh 2009-2016

Introduction

The ongoing pandemic has already revealed that we have not been that kind to the nature. The lockdown has shown that nature can still revive itself if humans are restrained from destroying it. We therefore need to strengthen environmental protection to build back better. The world needs proactive policies in tackling the challenges of climate change through taking adaptation measures and supporting climate smart investments for green growth. Fortunately, both the UK and Bangladesh are aligned to push climate resilient future through sustainable finance. The Bangladesh premier is committed to promote 'cleaner, greener and safer' world despite the fact that Bangladesh is at the forefront of climate change challenges. The upcoming COP26 will provide an opportune platform for Climate Vulnerable Forum led by Bangladesh to straighten climate resilient policies in coordination with the developed countries led by the UK. Fortunately, the US will also remain engaged in this forum.

Bangladesh's Support for Renewable Energy

The government of Bangladesh government has provided needed space for developing a diverse set of policies to encourage wider renewable energy. The tax holidays and reduced taxes on import of RE equipment's helped private sector to generate renewable energy to sell the same to the national greed. Blended finance including grants and low-cost loans has been supportive of this private sector engagement.

The Green Central Bank

Bangladesh Bank has utilized its tools for supporting sustainable finance in addition to its main job of controlling inflation. The Bangladesh's central bank has played a pioneering role in promoting sustainable finance by creating green fund for both small and medium enterprises. It also created a 500 million USD long term fund given in foreign exchange for green transformation of textiles exporting factories. It also encouraged a state-owned financial institution (IDCOL) to intermediate green finance to remote households through non-state actors. The central bank also encourages all banks to make disclosures on green activities. The impact of this green initiative of the central bank has been quite impressive as risk sensitized financing has been on the rise.

The Ways Forward

The ways forward may include how to enhance market practices, leverage private capital with public finance and develop a roadmap for sustainable finance with leadership role of the central bank. There is a need for cultural transformation for remaining interconnected with global green financing initiatives and upgrading of governance architecture to align monetary policy targets with sustainability objectives.

Bangladesh Delta Plan: What Capital Markets Can (and Cannot) Do – Bob Buhr, Honorary Research Fellow, Centre for Climate Finance & Investment, Imperial College Business School

Bangladesh has a number of capital market options for funding climate remediation efforts. These generally derive from three possible options: (1) sovereign borrowing in international markets; (2) domestic government bonds; and (3) infrastructure specific project bonds. Other mechanisms, such as joint development efforts with international agencies, are also available, but outside our current focus, and generally have a smaller, more local footprint.

Bangladesh has a developed domestic government bond market. This allows the government to fund a range of longer-term projects, usually relating to water infrastructure. A number of climate related undertakings in Bangladesh are proving increasingly urgent—salinization, river flooding, coastal flooding and storm surge, and arsenic levels in soil. There are a number of potential adaptation and mitigation projects that can be funded through capital market fund raising. However, the scope of these potential projects exceeds the ability of Bangladesh to fund these projects internally. Sovereign borrowing in international markets remains a possible option. Potential demand for such a US Dollar-based international bond issue is expected to be high. Emerging market investors are actively seeking investments at present, and the sovereign bond market is quite active for developing countries. Should the government pursue this option, it has some alternatives to consider. Is there any justification for a Green Bond, for example, as opposed to a straight sovereign bond? What would the interest rate differential be between domestic and foreign debt? There are a number of points worth discussion here. Moody's indicates that Bangladesh's levels of government debt is relatively low for the country rating, implying that there is some room for additional debt issuance, although this would need to be balanced by the problems associated with the country's "shallow revenue base."

Bangladesh's credit rating, with stable outlooks at major credit ratings agencies at present, is likely to come under pressure in the event of sustained rice production declines from climate change impacts--either from salinization or from increased freshwater flooding. The impact of such declines would negatively affect critical measures of focus for rating agencies, including possible increased government borrowing, increased domestic food inflation, and deteriorating external trade balances. Increased adaptation and mitigation efforts will diminish the potential impacts of these events.

Global climate finance, UK and Bangladesh – Prof. Mizan R. Khan, Ph.D, Deputy Director, ICCCAD and Programme Director, LUCCC

Climate finance stands at the core of negotiations under the UN Framework Convention on Climate Change (UNFCCC). The reasons are obvious. Under provisions of the Convention and the Paris Agreement, developed country parties have assumed legal obligation of supporting the developing countries with new and additional money in their mitigation and adaptation actions. The Copenhagen pledge of providing $100bn a year by 2020 is far from meeting the target. A Himalayan gulf between the claimed delivery and actual receipts in developing countries continues for the last two decades, because of lack of an agreed definition of climate finance. So there is double/triple counting of the same money, based on individual country interpretations. On the other hand, private sector contributes only 3% of global adaptation finance. Here are few disquieting facts on climate finance: 1) Though developed countries pledged to allocate public climate finance as 50:50 between mitigation and adaptation, the share of the latter still stands at around 20% of the total; 2) Of this, only 10% of money reaches the local, most vulnerable communities; 3) The share of loans vs grants in climate finance now stands at 80:20, even for the LDC adaptation finance, the share is 2/3 vs 1/3, 4) While climate finance goes up a little over the last years, development assistance goes down, even before the Pandemic, even an increasing share of ODA is used as climate finance. So, increasing trend of ODA displacement is evident, which seriously undermines basic development needs in the low-income countries (LICs).

Now, with the unprecedented shocks of Covid-19 to the economies, both rich and poor, additional money from developed countries can hardly be expected. Years back it was evident that only public international climate finance will not suffice to address climate change. So, there are provisions in the Paris Agreement for alternative sources. This is time for a serious effort to look for such sources. Debt, particularly long term bilateral debt, can be a feasible candidate as a swap for adaptation in the LICs. Besides, carbon pricing in varied forms, as application of the polluter-pays-principle, fixed even at half the social cost of ton/$C0_2$, should be the cardinal source of climate finance, as internalization of externalities. UK and Bangladesh, together with the progressive alliance, can bear on other parties to agree on a definition of climate finance and on mobilization of some alternative sources, in the lead up to COP26 in Glasgow. Finally, UK as a leader of climate diplomacy, and Bangladesh as a global leader in adaptation and disaster management, and as the Chair of the Climate Vulnerable Forum, can showcase their collaboration in different areas based on mutual strengths.

Funding models and finance mechanisms to deliver nature-based solutions – Sam Evans, Head of Natural Environment, Greater Manchester Combined Authority

Summary

Greater Manchester, like many urban areas, faces significant impacts from the effects of climate change, particularly from the risk of surface water flooding due to intense rainfall on sealed urban surfaces and capacity constraints on drainage infrastructure. Responsibilities and opportunities to address this risk sit across multiple public and private sector organisations, and public funding to take action has become increasingly limited. Nature-based solutions (NBS) are accepted as having significant potential to address these challenges and provide multiple benefits, beyond just managing climate risks. However, translating that acceptance into action and investment in NBS beyond public financing is not being realised. In Greater Manchester, we are working to change this.

The challenge

In Greater Manchester, we know the value of our natural capital (our stocks of natural assets and resources) is £1bn a year in terms of the benefits it provides to our economy, people and environment. But we are facing a biodiversity and climate emergency and the acknowledgement of these benefits is not translating into investment, beyond small-scale public sector financing. Bringing in private finance could help change this, by reducing costs, sharing risks and leading to investment the public sector might not be able to prioritise and deliver alone. To bring in private finance, we need to make NBS investable, moving beyond proving their benefits to confidence that those benefits can be translated into a financial return on investment.

The potential solutions

Through the IGNITION project, funded by the Urban Innovative Actions initiative, we are working to take a set of NBS projects through to a stage where they can attract private investment. This would involve Sustainable Drainage Systems – natural features like ponds, basins and channels – being installed around buildings in areas where they could reduce the risk of surface water flooding. This would provide financial benefits to the water company, as it would reduce the number of flooding events it had to pay out for, and to owners of those sites, in reduced charges on their water bills. Bringing in private investment could help catalyse this, share risk and generate genuine returns for the investors over the longer term. We have seen similar models work in other cities, for example in the United States.

Getting there

To do this, they are several key steps we need to work through:

- Technical proving – through construction of a Living Lab and publication of a comprehensive NBS evidence base, we are increasing confidence in the environmental outcomes NBS can deliver.
- Monetisation – we are currently translating these outcomes into financial benefits and identifying beneficiaries willing to pay for them.
- Investment readiness – assembling an investible project pipeline that we then hope to be ready to raise investment that will help us prove this model works and can be scaled up elsewhere to become mainstream.

We are working in partnership across Greater Manchester to make this happen.

Annex 3: Speech by the Rt Hon Alok Sharma

President for COP 26, the 26th United Nations Climate Change Conference

Good evening. It is a pleasure to join you all. I'm currently in Paris, I've had a number of very good meetings on climate issues and I'll be returning to London shortly.

I really want to thank the British High Commission Dhaka, the High Commissioner and the whole team, for organising this brilliant series of events. I think they add an enormous amount to our understanding and our close cooperation together.

And it is very much an example of the strength of the relationship between our two nations when it comes to tackling climate change.

And there's a whole range of collaborations that we have. Some of that is the UK Met Office and Bangladesh's Meteorological Department doing work on projecting sea level rises.

Or our governments working together on the transition to clean energy, and of course to develop the new Adaptation Action Coalition.

I do believe that our partnership on climate change has never been stronger.

As COP26 President, I want to build on this relationship.

And I want to work with our friends in Bangladesh, and other countries most vulnerable to climate change, to make progress on the critical challenges we face.

And I'm really looking forward to visiting Bangladesh, to coming back in person as soon as possible.

Because I am very well aware of the leadership that you, your Government are showing when it comes to climate action. And of course what's also vital and important is your ability to influence and inspire others.

From your extraordinary success in early-warning systems and disaster-risk reduction, as we witnessed in your response to Cyclone Amphan.

To your powerful and longstanding advocacy from Bangladesh on international finance.

The UK COP26 Presidency wants to amplify that leadership.

And we want to work together to find practical solutions on vital issues.

Issues like finance, which is one of our top priorities for our COP26 Presidency.

Because unless we get finance flowing, we cannot and will not see the action we need, to reduce emissions, to adapt, and to rise to the growing challenges of loss and damage.

We have listened to what those countries most vulnerable to climate change have told us about the challenges they face. And I continue to do that in my travels as well as in my virtual discussions.

And we know that three of the critical issues we must address are:

Firstly, getting finance flowing.

Secondly, improving the quality of that finance, and increasing sums for adaptation.

And thirdly, making finance more accessible.

Critically, we need donor countries to step up, honour their commitments on international climate finance, and deliver on the pledge that has been made.

I hope to be frank with you. I am under no illusion about how important it is that this happens.

It is a matter of trust.

It is a matter of need.

And also in terms of our commitment to solving the crisis before us.

Climate change is a global problem and it requires a global response.

So it is imperative that as well as taking action at home, developed countries support others to do the same.

For our part, the UK Government has doubled its international finance commitment to £11.6 billion over the next five years.

And I am being very clear and very direct with our fellow donor countries that they must follow suit. They need to play their part in collectively meeting the $100 billion a year target.

And to be clear and ambitious about their post-2020 financial commitments, so that countries can plan for the future.

Let me assure you I will be pushing for action through the UK's G7 Presidency this year too.

And I am calling on multilateral development banks and development finance institutions to play their part in delivering the $100 billion goal.

As well as urging these institutions to support a green, inclusive and resilient recovery from Covid-19.

And to ensure that their portfolios are fully aligned with the goals of the Paris Agreement.

Of course as well as the public finance, we also need to get the private finance flowing if we are to raise the trillions of dollars needed to make the Paris Agreement goals a reality.

So the UK COP26 Presidency is taking action.

We are encouraging governments to follow the UK's lead. To mandate climate risk disclosure in line with the Taskforce on Climate-related Financial Disclosure, as one example of the work we're doing.

And of course I'm also urging every financial institution to commit to net zero by 2050.

But as I say, we need to improve the quality of the public finance that is available.

And to get it going to the right places.

At the moment, too little is gender-responsive. Too little is provided in the form of grants. And too little is making its way to adaptation, or indeed to tackling loss and damage.

So, again, the UK COP26 Presidency is working with development banks and donor countries, including through the G7.

To increase the proportion of grant-based financing. To improve gender-responsiveness. And to get more funding to adaptation which is so critical.

We are also working with the Coalition for Climate Resilient Investment, to drive private money to adaptation.

Which, for too long, has been seen as the poor cousin of mitigation.

It has been a personal mission of mine to bring about this change.

As UK Secretary of State for International Development, I launched the Call to Action on Adaptation and Resilience in 2019, with support from good friends like Bangladesh.

And established the International Development Infrastructure Commission, to drive investment to green, sustainable infrastructure.

And now, as COP26 President, I am putting the issue centre stage.

As climate impacts intensify, the cause only becomes more pressing.

And of course, you in Bangladesh knows this all too well.

From mudslides to cyclones, you are disproportionately suffering the effects of our changing climate.

And, despite the success of your adaptation work, loss and damage is escalating as a result.

We know that the world must do more to avert, minimise, and address loss and damage.

And agreeing the structure and form of the Santiago Network will be vital.

So the UK's COP Presidency is working with Chile, as well as with our moderator today, Professor Huq, to get the Network operating.

Finally, a major concern on finance is improving accessibility.

We have heard very clearly what developing countries have told us.

That application processes are too bureaucratic.

They are arduous.

They are variable.

And they are complex.

An indicator of the current state of affairs is the low level of finance making its way to the most vulnerable nations.

In 2018, the least developed countries and small island states received just 14 percent and 2 percent respectively of total public climate finance.

As I say, the UK COP26 Presidency wants to work in partnership with countries most vulnerable to climate change to address this and other finance issues.

That is why, at the end of this month, we will hold a Climate and Development Ministerial.

This will bring together Ministers. As well as multilateral and regional development banks, and the UN.

We will look at four vital issues:

Access to finance; quantity, quality and composition of climate finance; response to impacts; and fiscal space and debt.

With issues like gender and social justice cross-cutting our discussions.

And together, we will plan how to make progress in each of these areas, through events such as the G7, the UN, the Spring Meetings of the international financial institutes, and COP26 itself.

I very much hope Bangladesh will join us for the event.

Continuing the strong partnership between our countries on climate change.

So that, together, we make real progress on finance ahead of COP26.

Thank you.

Annex 4: Speakers and panellists

Moderators

Simon Maxwell

Simon Maxwell is an economist who began his career working in Kenya and India for the UN Development Programme, and then in Bolivia for the UK aid programme. He was a Fellow of the Institute of Development Studies in Sussex from 1981-1997 and was Director of the Overseas Development Institute from 1997-2009. Since 2009, he has inter alia been Executive Chair of the Climate and Development Knowledge Network (2010-17), and Specialist Adviser to the International Development Select Committee of the UK House of Commons (2010-17). He is currently on the Steering Committee of the annual UN Environment Emissions Gap Report. Simon is a past President of the Development Studies Association of the UK and Ireland. In 2007, he was awarded a CBE for services to international development. He writes extensively on development policy. In January 2016, Simon delivered the Anniversary Lecture of the Centre for Policy Dialogue in Dhaka, on the topic of 'Climate Compatible Development: Pathway or Pipedream' (see here). For further information, see www.simonmaxwell.net.

Saleemul Huq

Prof. Saleemul Huq is the Director of the International Centre for Climate Change and Development (ICCCAD) at Independent University, Bangladesh (IUB) since 2009 and Senior Fellow at the International Institute for Environment & Development (IIED) in London. He is also Senior Advisor on Locally Led Action, Global Centre on Adaptation (GCA) and Advisor of Climate Change Programme at Brac. Before that Dr Huq was the Director of the Climate Change Programme at IIED and founding Executive Director at the Bangladesh Centre for Advanced Studies (BCAS). He has worked extensively in the inter-linkages between climate change (both mitigation and adaptation) and sustainable development, from the perspective of the developing countries, with special emphasis on least developed countries (LDCs). He has published numerous articles in scientific and popular journals, was a lead author of the chapter on Adaptation and Sustainable Development in the third assessment report of the Intergovernmental Panel on Climate Change (IPCC), and was one of the coordinating lead authors of 'Inter-relationships between adaptation and mitigation' in the IPCC's Fourth Assessment Report (2007). He has been named among the "World's 100 Most Influential People in Climate Policy for 2019" for making a positive difference by The Apolitical, a London-based public servants' networking group.

Speakers

Prof. Mizan R. Khan, Deputy Director, ICCCAD and Programme Director, LUCCC.
Prof. Mizan R. Khan has a PhD in Environmental Policy and Management from the University of Maryland School of Public Policy, USA. Currently he is Deputy Director, Int'l Centre for Climate Change & Development (ICCCAD), Independent University, Bangladesh (IUB), and Programme Director, LDC Universities' Consortium on Climate Change (LUCCC) at ICCCAD, Dhaka. He served at North South University (NSU), Dhaka as Chair of the Department of Environmental Science & Management (DESM) during 2003-2009 and had been Director of External Affairs at NSU during 2015. He was an Adjunct Professor at the Natural Resources Institute (NRI), University of Manitoba, Canada, during 2009-2013. Dr. Khan had been a Visiting Professor/Fellow at the School of Public Policy, University of Maryland at College Park, MD, USA during Fall 2018; Universite de Poitiers, France in February 2015 & at Brown University, USA during the Spring & Fall of 2012, Spring of 2013 and Fall of 2016. He is a Lead Author of the Intergovernmental Panel on Climate Change (IPCC). From August 1981 he served at the Bangladesh Institute of International & Strategic Studies (BIISS), Dhaka, where he was a Research Director during May 1998–June 2001. Before joining NSU, he served for four years (1999-2002) as UNDP Environment Policy Specialist, working with the Govt. of Bangladesh. In the early 1990s, he worked for 3 years as a Senior Researcher at the Centre for International Development and Conflict Management (CIDCM) of the UMCP, MD. He was Vice Chair of the LDC Expert Group under the UNFCCC during 2002-2004. He attends climate negotiations as the lead negotiator on climate finance with the Bangladesh delegation since 2001. Dr. Khan is the Focal Point of the Nairobi Work Program of the UNFCCC representing the Academia in Bangladesh. He is an invited speaker in global expert meetings on climate change. Dr. Khan is a reviewer of many peer-reviewed journals like Climate and Development, World Development, Climate Policy, Climatic Change, International Environmental Agreements, Ethics, Environment and Policy, etc.
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Dr Atiur Rahman, Bangabandhu Chair Professor and Chairman of the Executive Committee of Centre for Advance Research on Arts and Social Sciences, Dhaka University

Dr. Atiur Rahman, Bangabandhu Chair Professor, Dhaka University has recently taken over the charge of chairmanship of the Executive Committee of Centre for Advance Research on Arts and Social Sciences of the same University. Popularly known as the 'Poor Peoples' Economist' and a 'Green Governor', Dr. Rahman is a many time awarded central bank governor with a human face.

A life-long campaigner for sustainable development focusing on financial inclusion and green growth Dr. Rahman has demonstrated his commitment for empowering the poor and the disadvantaged both as a researcher, teacher, and a regulator. After a long spell of research tenure at the Bangladesh Institute of Development Studies (BIDS) he joined Dhaka University as a Professor of Development Studies in 2006. He was picked up as the tenth Governor of Bangladesh Bank by the Government in 2009 where he served about seven years. He returned to Dhaka University in March 2016 and continues to serve the University as a honorary Professor at the same Department. In addition, he is currently the chair of the board of directors of the national think tank Unnayan Shamannay and its subsidiary Shamunnay. He is a Fellow of Bangla Academy and Life Member of Asiatic Society, Bangladesh and Bangladesh Economic Association. He is also contributing globally for improving the state of inclusive sustainable development as a Special Adviser to Social Innovation Japan (SIJ), a diverse platform of change-makers led by Professor Emiratus Sei Yonekura of Hitotsubashi University, Tokyo. He has also served as a member of the Advisory Board of UNEP's 'Inquiry on Designing Global Sustainable Finance' and continues to share his green mind with the group. Until recently, he was traveling a lot around the world advocating inclusive sustainable development, green finance movement and promoting peace building through participatory development.

He has published more than 65 books in English and Bengali, besides, numerous papers in national and international journals. His book titled 'Peasants and Classes' which has been published by both Oxford University Press, Delhi and Zed Books, London- is considered a semi-classic and taught all around the world. He has been awarded profusely both at home and abroad for his seminal work and professional performance. His significant achievements include: 'The Best Central Bank Governor Asia and Pacific, 2015', awarded by the Banker (of the Financial Times); 'The Central Bank Governor of the Year for Asia 2015', awarded by the Emerging Markets (of the Euromoney); Winner of the 'GUSI Peace Prize International 2014', awarded by GUSI Foundation Manila; 'Indira Gandhi Gold Plaque 2011' for his outstanding contribution towards human progress, Asiatic Society, Kolkata; 'A Regulator with a human Face', awarded by Dhaka University; 'Sheltech Award 2010' for financial inclusion; and National Literary Award (Bangla Academy Award) 2015. Email: dratiur@gmail.com.

Sam Evans, Head of Natural Environment, Greater Manchester Combined Authority

Sam is Head of Natural Environment at GMCA, leading the Combined Authority's work to improve the city region's natural environment through developing strategy and policy, delivering key projects and working with a range of partners. This includes the £4m IGNITION project, which is seeking to increase and attract alternative sources of investment into greening the urban areas of Greater Manchester to help adapt the city region to climate change. Prior to that, Sam led the development of the Mayor's 5 Year Environment Plan, launched in March 2019.

Sam joined GMCA in October 2018 on secondment from the Department for Environment, Food and Rural Affairs where most recently he was Head of Strategic Coordination. Before that, Sam held various roles in the civil service, including leading on Liverpool City Region's devolution agreement and designing and implementing government policy on tackling bovine TB.

Bob Buhr, Director at Green Planet Consulting Limited, and an Honorary Research Fellow at the Centre for Climate Finance and Investment at Imperial College Business School

Bob Buhr is founder and Director at Green Planet Consulting Limited, and an Honorary Research Fellow at the Centre for Climate Finance and Investment at Imperial College Business School. A former Managing Director at Citigroup, and most recently a Director at Societe Generale before his retirement, he was often cited as a top-ranked bond analyst in investor polls. He previously worked at Loomis, Sayles & Co., and at Moody's Investors Service. He is currently involved with several NGOs in a variety of climate-related activities, with climate change and natural capital risks as a core focus. At the Centre for Climate Finance and Investment he is pursuing research into Green Funding issues, particularly some of the issues surrounding Green Bonds and sustainability, assessment of the impact of climate risks on vulnerable countries, and developing a firm-based taxonomy of climate and natural capital risks for various economic sectors. He has a B.A. in Philosophy from Ithaca College, and a Ph.D. in Linguistics from Brown University.