

Sustainable development must be financed from domestic resources



SADIQ AHMED and SUVOJIT CHATTOPADHYAY

Bangladesh faces a significant challenge attempting to achieve and sustain high growth while ensuring environmental degradation is kept to a minimum. As global climate negotiations attempt to elicit commitments from rich countries towards the climate finance pots, countries such as Bangladesh must not forget that the key to long-term environmental sustainability rests largely on their own ability to focus policy attention and allocate sufficient financial resources towards it.

Research done for the Perspective Plan 2041 (PP2041) exercise suggests that in order for Bangladesh to implement a green growth strategy to ensure consistency of growth and poverty reduction targets with environmental protection, Bangladesh needs to increase its spending on environmental protection and climate change related programmes from 1 percent of GDP now to 3 percent of GDP by FY2031 and to 3.5 percent of GDP by FY2041. As compared to this huge funding requirement, from 2009 to 2016, donor funds directed towards environmental protection or climate change have amounted to around \$800 million, which is a mere \$100 million per year (0.04 percent of GDP).

Bangladesh played a leading role in helping set up the global Green Climate Fund (GCF) with an ambitious agenda to mobilise \$100 billion per year from rich countries by 2020 to finance climate change initiatives in developing countries. As of November 2017, the GCF had raised \$10.3 billion equivalent in pledges from 43 governments. So far the GCF has authorised some \$2.6 billion in projects globally. Bangladesh got only one

project approved so far, the Climate Resilient Infrastructure Mainstreaming (CRIM) project, worth \$40 million.

Apart from the very slow progress in mobilising funding, the GCF has reached a road block. The largest donor USA has announced its intention to withdraw from the Paris global environmental accord including the GCF. Additionally, cumbersome procedures in accessing GCF funds remain a major hurdle. In any case, while all efforts must be made to benefit from the GCF, the quantum of funds that Bangladesh will be able to access from the GCF in the near future is uncertain. So an undue reliance on external funds could mean that the scale of funds Bangladesh requires for sustainable development will never be mobilised.

To achieve the development targets of Vision 2041 Bangladesh must make strong efforts to unlock domestic resources towards environmental management and sustainable development. Reliance on domestic funds will provide a reliable basis on which long-term initiatives can be planned and executed. Deploying domestic resources is also the best mechanism to get citizens involved in holding the government to account, as they know that the money being spent comes from the taxes they pay, and not from external sources.

Environmental management suffers from poor resourcing

Direct spending by the coordinating environmental ministry, the Ministry of Environment and Forests (MoEF), is very limited, increasing from 0.05 percent of GDP in FY2000 to 0.06 percent of GDP in 2016. The lack of a substantial allocation from the national budget indicates, most importantly, absence of a strategic vision and roadmap towards sustainable development. If the MoEF has to be the true custodian of environmental management and protection activities in Bangladesh, the first step is to invest in its capabilities and increase its budget allocation to at least 0.5 percent of GDP by FY2041.

Beyond the MoEF, there are arms of the government that carry out functions critical to sustainable development. Overall public spending of core ministries dealing with water and environment-related services and

the water and sanitation component of the local government division (LGD) and local government institutions (LGIs) constitute 1 percent of GDP. Much of the resources come from spending on water, sewerage and waste management funded by the LGD and own resources of LGIs (0.54 percent of GDP in FY2016).

Yet, a spending level of 1 percent of GDP for a country with 160 million people, with a huge environmental protection problem, and rated as the fifth most natural-hazard prone country in the world, speaks volumes about the relative neglect of the environmental protection agenda.

Stepping up domestic financing is feasible

Public financing policies: The public finance constraint on the budget in Bangladesh is well-known. Most public programmes are under-funded. Large infrastructure and human development needs regularly overshadow financing requirements of other programmes. As noted, successful implementation of the green growth strategy calls for a sharp increase in public funding for environmental services from the current level of 1 percent of GDP to 3.5 percent of GDP by FY2041. How can this level of public funding be mobilised? A suggested financing plan is shown in the table.

Overall, some 2 percent of GDP of additional financing will need to come from tax resource mobilisation. Bangladesh has one of the lowest tax-to-GDP ratios in the world and the 2041 PP Macroeconomic Framework allows for an additional tax-GDP ratio increase of 5 percent that can accommodate this additional financing.

The remaining 0.5 percent of GDP domestic financing can be mobilised through the application of the beneficiary pays principle (cost recovery) and the polluter pays principle (green taxes). Presently, there is minimal cost recovery from water and sewerage services provided by Wasa and municipalities. This imposes a serious financing constraint on the public agencies that in turn limits the quality and quantity of supply. This pricing policy must change, both to mobilise funding for new investments as well as to ensure efficient use of water. The water and sewerage pricing

PUBLIC FINANCING OPTIONS FOR ENVIRONMENTAL PROTECTION FOR THE PERSPECTIVE PLAN

Financing options (% of GDP)	FY2017 (Base year)	FY2031	FY2041
Tax resources	1	2	3
Cost recovery (Beneficiary pays principle)	0	0.3	0.3
Green taxes (Polluter pays principle)	0	0.2	0.2
Foreign financing including Green Climate Fund	0	0.5	0
Total financing	1	3	3.5

SOURCE: SADIQ AHMED (2017). GREEN GROWTH STRATEGY PAPER DONE FOR THE PERSPECTIVE PLAN 2041

policy must move to full operating cost recovery by FY2020 and 100 percent capital cost recovery by FY2031.

Regarding green taxes, the combination of fossil fuel tax and pollution tax on industries polluting air and water and households polluting water should generate adequate revenues to finance environmental protection and other important transport sector programmes. Emission taxes may be imposed, if legal limits are exceeded, on highly polluting products and sectors. By the same token, incentives must be offered to the use of materials and consumer goods that are eco-friendly. These taxes will be politically tough, but a start has to be made if the government is serious about protecting the environment.

This is also one area where external support in the form of funds to partially subsidise technology adoption, and technical assistance to facilitate technology transfer, and in the design of tax instruments, can be beneficial to Bangladesh.

Private financing options: There are three main instruments for boosting private financing for environment. First, in a number of areas, such as forestry for timber, fisheries, ecotourism, water supply and waste management, private supply can be encouraged with proper regulatory and pricing policies. These are commercial components of the environmental services and many good-practice international experiences exist for boosting

private supply in a framework that is consistent with environmental protection.

Bangladesh can learn from these experiences and develop proper policies and institutions to attract private investment.

Second, legal and regulatory policies can be used to encourage proper adoption of measures that include private investment in protection of the environment. Important examples include adoption of clean air technology in industries, installation of effluent treatment plants (ETPs) in industries and private hospitals, and prevention of land degradation through proper farming practices including the banning of jhum cultivation while providing alternative livelihoods to the affected population.

Third, the public sector can enter into co-financing arrangements of a range of environmental services through public-private partnerships including partnerships with communities. For example, programmes for clean rural water supply and sanitation, clean-up of rural ponds used for bathing and household cleaning, public toilet and public bathing facilities can all be implemented through public subsidy to private suppliers as well as through cost-sharing arrangements with the community.

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H&M to close more stores as customers go online

AFP, Stockholm

Swedish clothing giant Hennes & Mauritz on Friday said sales fell below expectations in the fourth quarter and it would close more stores as customers increasingly prefer to shop online.

H&M CEO Karl-Johan Persson said in a statement that the company's "online sales and sales of the group's other brands continued to develop well" but that physical stores "were negatively affected by a continued challenging market situation with reduced footfall to stores due to the ongoing shift in the industry".

Sales between September and November dropped by four percent compared to the same period last year to 50.4 billion kronor (5.0 billion euros, \$5.9 billion). In local currencies, sales fell by two percent.

"The numbers are really, really bad," Joakim Bornold, an economist at the investment bank Nordnet, told the daily Svenska Dagbladet.

"I can't remember when H&M had a quarter in which the sales fell," he added.

At 1539 GMT, the company's share price plunged by 13 percent on Stockholm's stock exchange.

"In order to respond even quicker to customers' fast-changing behaviour, the company's ongoing transformation journey is being accelerated," Persson said.

"This includes continued integration of the physical and digital stores, and intensifying the optimisation of the H&M brand's store portfolio -- leading to more store closures and fewer openings," he added.

The group did not specify exactly how many stores would be closed and where.

Jasper Lawler, head of research at the financial services company, London Capital Group, said "the retail apocalypse" has reached H&M, which is "several steps behind competitors in their online offering".

China, UK vow to bolster economic cooperation, speed up stock connect plan

REUTERS, Beijing

CHINA and Britain have vowed to continue and strengthen cooperation on a wide range of economic, financial and trade issues, including speeding the introduction of a London-Shanghai stock connect programme.

In a joint statement on Saturday, coinciding with an official visit to China by British

finance minister Philip Hammond, the countries also said they opposed trade protectionism and reaffirmed their support for the World Trade Organisation as a key pillar of the global trade system.

The statement comes as China, in an unusual step, accused the United States and the European Union of breaking promises that they made when China joined the WTO.

Speaking at a press conference in Beijing together with Chinese Vice Premier Ma Kai, Hammond said the two countries were also discussing a long-awaited London-Shanghai stock connect program, as well as a possible scheme to connect their bond markets.

"We have agreed to accelerate the final preparations for the London-Shanghai stock connect initiative and we've agreed to commence feasibility studies for a UK-China

bond connect and for mutual recognition of funds between the two jurisdictions," he said.

Hammond, who also visited a separate forum on Saturday where the London and Shenzhen stock exchanges signed a pact on supporting innovative companies, said he hopes to see more Chinese small firms "make the most of our country's startup expertise, networks and capital raising capabilities."

Fang Xinghai, vice chairman of China Securities Regulatory Commission, told the forum that China is looking to increase cooperation with Britain.

"China's savings are ample and we should create conditions to turn more savings into capital of innovative firms, rather than letting most of the savings stay in the property market," said Fang. "If we can achieve this, China's economy will move up to a new level."

Talks on the Shanghai-London stock connect scheme, which would allow investors on one bourse to invest in the other, started two years ago, but progress has been slow partly due to Britain's unexpected decision to leave the European Union.

Closer ties between China and U.K. capital markets would be

welcomed by London, whose future as a global financial hub is clouded by Brexit. It would also be a boon to the London Stock Exchange Group, which is grappling with turmoil including the recent abrupt departure of its CEO, Xavier Rolet.

For China, connecting London and Shanghai's exchanges would mark another milestone in its deregulation of capital markets. Beijing's commitment to financial reform has won global recognition, with U.S. index publisher MSCI agreeing to include China A-shares in its global indexes next year.

The London-Shanghai stock connect is modelled after a similar scheme that links Hong Kong and Shanghai, but it faces more technical and regulatory challenges, as Chinese and British investors trade in different time zones.

Other areas of cooperation highlighted in Saturday's joint statement include encouraging each country's banks to increase their presence and activity in the other country, the promotion of China-U.K. cross-border yuan business, an agreement to cooperate on ultra-low-emission vehicles, and support of the yuan as a settlement currency.



Delegates attend the UK-China Economic Financial Dialogue at the Diaoyutai State Guesthouse in Beijing yesterday.

Nafta Washington talks said to leave major differences untouched

REUTERS, Washington

Nafta negotiators made some progress on less controversial issues this week but left untouched the thorniest subjects of autos, dispute settlement and an expiry clause to be tackled at pivotal talks in January in Montreal.

Some participants said on Friday the Washington "intersessional" round of negotiations to modernize the North American Free Trade agreement focused on technical issues and areas like environmental standards, digital trade, energy, telecommunications and regulatory practices.

Canada and Mexico have not yet offered counterproposals to the Trump administration's automotive demands that half the content for

North American-made vehicles come from the United States along with sharply higher regional content, a proposal that would dramatically reshape the industry.

Canada and Mexico rejected the US proposal as unworkable last month in Mexico City, but some officials said they expected alternatives to emerge in Montreal.

"There wasn't much of a discussion on autos" at the Washington talks this week, Mexican chief negotiator Ken Smith told reporters. "So we'll take that conversation up again in Montreal, and hopefully, what I told my US counterparts, is that we should start a dialogue that takes into consideration the position of the industries of the three countries because we cannot operate in a vacuum."

US Trade Representative Robert Lighthizer has repeatedly expressed frustration that Canada and Mexico have not accepted his demands in autos and other areas to "rebalance" the trade agreement to shrink US trade deficits.

"The United States continues to look for serious engagement and meaningful progress in these talks for a modernized and rebalanced Nafta," USTR spokeswoman Amelia Breinig said in a statement on Friday as the talks wound down.

But she said the three countries did manage to substantively complete a sectoral annex on energy efficiency standards, marking the first time a Nafta negotiating area or so-called chapter had closed since September.

Amazon to settle Italy tax row with 100m euro: tax office

AFP, Milan

Amazon has agreed to pay the Italian taxman 100 million euros (\$118 million) to settle a dispute over suspected tax fraud, the Italian revenue service said Friday.

Italian authorities have been investigating Amazon for tax evasion in the period between 2011 and 2015, but the deal meant the case is now closed, it said in a statement.

Citing investigators, Italian media reported in April that Amazon had established a mechanism to declare some 130 million euros of Italian profits in Luxembourg, which has a much lower corporate tax rate. Italy has previously forced other US internet giants to pay up for taxes owed, including Apple, which in

December 2015 agreed to pay 300 million euros to end a tax fraud investigation.

Last May, Google agreed to pay 306 million euros. The tax authorities said Friday that they would now seek "preventative agreements" with Amazon to ensure that the company properly pays its taxes on Italian earnings.

It also "confirmed its commitment to a policy of fiscal control concerning Italian operations of internet multinationals". Amazon said the deal concerned "historical matters" and that it created an Italian country branch in 2015 "with all retail revenues, expenses, profits and taxes due now accounted for in Italy".

In a statement, Amazon also said that it had invested more than \$800 million in Italy since 2010 "and created over 3,000 jobs".