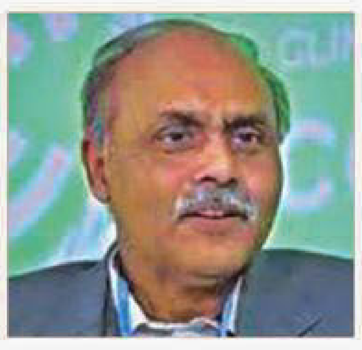
Making public financial management green is urgent



QUAMRUL ISLAM CHOWDHURY

BANGLADESH was ranked second to last in the 2018 Environmental Performance Index (EPI) by Yale and Columbia University that scores 180 countries on 24 performance indicators across ten categories.

The metrics provide a gauge at a national scale of how close the countries are to reach environmental policy goals.

Despite efforts of the government, it illustrates how the issue of environmental sustainability in Bangladesh is still at the lowest of the low. In terms of environmental health, out of 178, Bangladesh ranks at the very bottom.

The insignificant efforts are embodied by the comparatively weak ministry of environment, forest and climate change.

We are yet to make any dent in arresting our deterioration in terms of air quality, water and sanitation, ecosystem vitality, biodiversity and habitat, forests, fisheries, climate and energy, air pollution and agriculture.

We must halt the current trend of environmental degradation by improving our EPI. A Green Fiscal Framework for Bangladesh is urgently required. The finance division is working in this regard but needs to do more and fast.

A recent paper by Bushra Ferdous Khan said the Public Financial Management (PFM) system offers some of the strongest tools to government to signal its development priorities and to focus actions towards achievement of development outcomes.

The paper offered suggestions on how the principles of environmental conservation and sustainable use of natural capital can be embedded in and delivered through the PFM system of Bangladesh.

So, how to proceed with greening of Bangladesh's PFM system?

Many economists, especially natural resource specialists, think it should begin with greening of its planning and policy development phases.

Environment and natural capital base stand to be affected by policies adopted in the national or sectoral domain.

Potential impacts of any proposed or existing policies on environment and natural capital reserves should be evaluated before any policy is adopted or reformed.

Bangladesh Planning Commission may consider setting up institutional arrangements to assess environmental sustainability of policies.

It should answer critical questions about renewability, convertibility, depletion rate, susceptibility to pollution, usage efficiency, recyclability, usage authority and valuation of environmental services provided by the environmental resource.

The policy's impact assessment should be answered before the policy is sent to the cabinet division for approval. Quantitative assessment along these criteria should be mandated in the long-term after environmental statistics capacities through implementation of the Bangladesh Environmental Statistics Framework (BESF).

In the short-term at least qualitative assessment along these dimensions should be part in place.

It has also been argued in the paper that selection of market-based or non-market-based policy instruments should be guided by considerations of execution cost, administration capacity and political economy to achieve environmental goals.

Khan's analysis suggests that in the context of Bangladesh the short-term deployment of policy instruments like prohibiting environmentally harmful products or practices, promoting voluntary agreements, and taxing proxies for pollution would be suitable.

In the medium-term, policy instruments like promoting green technology via fiscal incentives and setting technological standards and guiding the set-up of private-sector managed deposit-refund systems could be utilised.

The paper also called for greening Bangladesh's budget formulation process that would require reforms to individual ministry/division's Ministry Budget Framework (MBF).

Towards that end, in Section 2 of the MBFs, each ministry/division is expected to pronounce relevance of their strategic objectives and specify the activities to environmental conservation and sustainable management of natural capital, resulting in greening Sections 4 and 6 of the MBF as well.

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Bangladesh is yet to make any dent in arresting deterioration in air quality and eco-system vitality.

This will formalise the embedding of environmental concerns in the recurrent and development budgets.

The paper's recommendation is aimed at ingraining environmental conservation and sustainable management of natural capital as an integral part of the core activities of ministries/divisions itself.

New KPIs should be introduced in Section 5 of ministries/divisions' MBFs to enable a robust evaluation of their environmental performance.

How to make the public investment management green?

In the short-term, the pro forma used to submit investment project implementation related information to Implementation Monitoring and Evaluation Division (IMED) should be updated to include environmental issues like waste management, pollution control and Environmental Management Plan execution.

It will help agencies implementing the projects become more mindful of these issues in the project implementation phase.

In the medium-term, concentrated efforts would be needed to improve the Development Project Pro forma (DPP) preparation process.

Primarily, an independent institute of environmental economists should be created to perform financial and economic analysis of environmental costs and benefits, and climate change-related benefits generated by development projects.

As a climate negotiator, I know resources invested in establishing and operating such an institute could generate significant return on investments as their calculated valuation of the environmental and climate change related benefits could be used by Bangladesh government to negotiate better access to international climate funds.

Secondly, the legal and technical loopholes that weaken the utility of Environment Impact Assessment (EIA) reports for Red Category projects and Environmental Clearance Certificates (ECC) for all investment projects would need to be addressed.

Development of a legally binding code of conduct and introduction of accreditation system for EIA consultants and creation of an electronic database of EIA reports submitted to the Department of Environment would be needed to strengthen the efficacy of EIAs for environmentally risky projects.

Relevant provisions of Environmental Conservation Rules 1997 must be amended so that ECCs with more practical validity period can be issued to infrastructural development projects, reissuance of ECC is mandated for major project expansions, and the provision of starting land development work simply after obtaining site clearance is eliminated.

In the long-term, a decision matrix of the environmental grounds should be designed to reduce reliance on subjective judgments instead of objective ones.

Policy support in the form of development of a Green Public Procurement Plan or issuance of an official notice to give a concrete signal about the government's commitment in this regard would be needed.

Any requirement to adhere to green procurement practices should be completely voluntary and used selectively only for projects that are heavily reliant on international procurement.

The government should support the development of a domestic market for green items through measures like easing access to green finance for potential suppliers of green items and providing them guarantee of buying their produced items, fulfilling the government's green technical requirements.

Training of procurement staff and suppliers would need to be established as a core function of the Central Procurement Technical Unit and continued on a regular basis. Further, a national eco-labelling scheme should be launched in Bangladesh.

To make accounting practices green while the implementation of BESF is in process, the government may consider adopting a donor-funded technical assistance project to conduct research on how to best implement green accounting practices in Bangladesh.

The calculation of green GDP along with its traditional counterpart may be considered only if a tried and tested method of calculating the measure has internationally been promulgated.

I think for greening auditing practices, Bangladesh could follow the Canadian example, positioning an independent commissioner for environment and sustainable development, who directly reports to the auditor general, within the Office of the Comptroller and Auditor General (OCAG).

As in Canada, the commissioner could be assigned the task of reporting to the parliament on behalf of the auditor general on issues pertaining to environmental conservation and sustainable development. I trust new CAG Muslim Chowdhury will take steps in this regard.

In Bangladesh most audits are compliance audits.

Green auditing should be introduced in the PFM system of Bangladesh. This would require auditing for compliance with Environmental Conservation Act 1995, Environmental Conservation Rules 1997, and other national environmental policies by public offices.

In the long-term, performing green audits as part of financial audits could be initiated. Green auditing as part of financial auditing would require checking for the impacts of environmental expenditures, liabilities, outcomes and financial statements.

Greening public financial management would be a very long and arduous journey that requires strong political commitment, courage and capacities. But, in the long run, greening would give us dividend and help achieve sustainable development fast.

Quamrul Islam Chowdhury is an environment and sustainable development specialist and chairman of Forum of Environment Journalists of Bangladesh.

Samsung reinvents itself in battle for India's smartphone market

REUTERS

A customer tries a Samsung Gear VR at a Samsung showroom in New Delhi, India.

REUTERS, *Mumbai*

SOMETIMES keeping ahead of the game means learning some tricks from rivals - a strategy Samsung Electronics Co Ltd hasn't been too proud to adopt in India where Xiaomi Corp and other Chinese brands have made hefty inroads.

Pages pulled from their playbooks include becoming savvier with online marketing to millennials as Samsung seeks to reinvent itself as a 'younger brand', as well as providing sales staff for smaller stores and even finding a new love for cricket with a sponsorship deal.

Combined with a slew of new models - many aimed at undermining Chinese dominance of the $150 to $300 phone segment - the new tactics are paying off with the South Korean tech giant reclaiming the No. 1 spot in the second quarter.

"Samsung was living in a sort of denial of the threat that Xiaomi, Oppo, Vivo posed but now they've come out of the ostrich hole," said Rushabh Doshi, research manager at industry tracker Canalys. "Now they are fighting back, definitely."

Its Galaxy J6 launched in May and the J8 sold from July have been doing especially well, each selling 50,000 a day, says Samsung. In an appeal to millennials, the phones have a new "chat over video" feature which allows users to view videos without interruption even as they chat by text due to a transparent keyboard.

To be sure, Samsung has long dominated the premium end of the smartphone market in India and features like "chat over video", designed at its Indian R&D centre, underscore its tech prowess. It has also built up a wide retail network in the country.

But Samsung, which logged slower profit growth in April-June, knows it has to pull out the stops in India if it wants to avoid harsh lessons meted out in China.

Just five years ago, it had 20 percent of the Chinese market only to see that fall to less than 1 percent this year, outgunned by Huawei, Xiaomi, Oppo and Vivo, particularly on pricing.

And India is too big a prize to lose - the world's No. 2 smartphone market with about 400 million users and worth an estimated $20 billion annually.

It's also the world's fastest-growing major mobile phone market, expanding about 20 percent last quarter from a year earlier. For Samsung, India is its biggest market outside the United States and one where it has invested heavily, opening the world's biggest smartphone factory outside New Delhi last month.

But Chinese brands now account for every one in two phones sold in India with Xiaomi making the greatest strides. After its 2014 market entry, the "Mi" brand steadily gained share to knock Samsung from the top spot last December. Although Samsung regained the title last quarter, it was only by a hair's breadth - 29 percent market share to Xiaomi's 28 percent, according to research firm Counterpoint.

Global factory growth slowing; China-US trade war biting

REUTERS, *London/Hong Kong*

FACTORY growth stuttered across the world in July, heightening concerns about the global economic outlook as an intensifying trade conflict between the United States and China sent shudders through trading partners.

Global economic activity remains solid, but it has already passed its peak, according to economists polled by Reuters last month. They expect protectionist policies on trade - which show no signs of abating - to tap the brakes.

But slowing growth, wilting confidence, and trade war fears are not likely to deter major central banks moving away from their ultra-loose monetary policies put in place during the last financial crisis.

"Growth overall is still there, and while there are risks, it's holding up. The big picture of a trade war and protectionism is that it is a slow death - a death by a thousand paper cuts instead of anything sudden and shocking," said Richard Kelly, head of global strategy at TD Securities.

"Growth is still resilient, unemployment rates are low, inflation and wages are rising - that's the bigger picture and so they (central banks) have to keep tightening in the face of that," he said.

Last month, China and the United States imposed tit-for-tat tariffs on $34 billion of each other's goods and another round of tariffs on $16 billion is expected in August.

US President Donald Trump's administration, according to a source familiar with its plans, is poised to propose 25 percent tariffs on a further $200 billion of imports, up from an initial proposal of 10 percent. Its threat of tariffs on the entire $500 billion or so worth of goods imported from China still stands.

Beijing has pledged equal retaliation, although it only imports about $130 billion of US goods.

World stocks fell and the dollar strengthened on Wednesday on fears of an imminent escalation in the US-China tariff war.

Morgan Stanley analysts estimate an 81-basis-point impact on global growth in a scenario of 25 percent tariff hikes across all imports from China and Europe, with US growth slowing by 1 percentage point and China's by 1.5 points.

Despite lethargic expansion rates, the European Central Bank last week reaffirmed plans to end its 2.6 trillion-euro stimulus programme this year and the Bank of England is widely expected to raise borrowing costs on Thursday.

REUTERS/FILE

A worker walks past second-hand robots in a factory in Shanghai.

On Tuesday, the Bank of Japan pledged to keep its massive stimulus in place but made tweaks to reduce the adverse effects of its policies on markets and commercial banks as inflation remains stubbornly out of reach.

China has been cutting bank reserve requirements to ease the pain of its campaign to de-risk the financial system for smaller companies and support growth.

It is also planning more spending on infrastructure to cushion the impact of trade tensions.

Nevertheless, any fiscal and monetary measures would take time to filter through.

"China's economy is on track to slow this quarter and next," said Julian Evans-Pritchard, senior China economist at Capital Economics in Singapore.

In the United States, growth is expected to cool slightly, but remain strong enough for the Federal Reserve to stay on track for two rate hikes this year, even if it is likely to hold rates steady this week.

European factory growth remained subdued in July, with scant sign of a pick up anytime soon. Manufacturers across Asia provided evidence of a loss of momentum across the region.

IHS Markit's July final euro zone manufacturing Purchasing Managers' Index only nudged up to 55.1 from June's 18-month low of 54.9, unchanged from an initial reading and still comfortably above the 50 level that separates growth from contraction.

Meanwhile, British factories lost momentum and manufacturers were their most downbeat in nearly two years, likely raising fresh questions about the actual need for a Bank of England interest rate hike on Thursday.

China's Caixin/Markit Manufacturing PMI dropped to 50.8 from June's 51.0, broadly in line with an official survey on Tuesday.

The headline number remained above the 50-point mark for the 14th consecutive month, but a reading on new export orders showed a marked contraction at 48.4.

"The data breakdown indicates that an uncertain demand outlook amidst the US-China trade tariffs weighed on both output and sentiment," said Aakanksha Bhat, Asia economist at HSBC in Hong Kong.