Policy Note on:
Options for a carbon tax in Bangladesh

Carbon taxes can be win-win for Bangladesh. They can help show the world that Bangladesh is serious about climate mitigation, boosting the country’s influence in international negotiations and helping it to access financing and technology promised during the COP-21. They can play a role in nudging Bangladesh’s growth to a lower carbon and cleaner path, helping to make it more sustainable and improving environmental (and health) conditions for its citizens. They can help to raise additional resources – up to 1 percent of GDP – for social and economic development, including infrastructure investment. Some of the additional resources can be used to reduce taxes on labor or firms. Carbon taxes are much simpler to implement than most other taxes and most fuel costs would increase by only a few Taka per liter. At the same time, implementation needs to be done well to reduce opposition and win over firms and citizens. But Bangladesh can learn how other countries have succeeded. This Policy Note and accompanying Brief summarizes why carbon taxes make sense for Bangladesh and how to succeed.

Background

Bangladesh has made significant economic and social progress, thanks to sustained economic growth, and has been at the forefront of several development movements. Economic growth has averaged 6.2 percent over the last decade, helping to reduce the poverty rate to less than 20 percent by 2015. The country has also performed well on many Millennium Development Goals, improving the quality of life of its citizens. Bangladesh has also been at the forefront of several development movements including microfinance and solar power. The environment is no exception. Bangladesh was among the first developing countries to publish an integrated Climate Change Strategy and Action Plan (in 2009) and to establish its own Climate Change Trust Fund to help mitigate and adapt to climate change. It also amended its constitution to enshrine protection of the environment as a key national aim.

Challenges

Bangladesh still faces many challenges. Bangladesh has many development needs, including significantly increased power availability and transport infrastructure, as well as continue progress in social indicators. It is one of the most vulnerable countries to climate change, with estimated annual loses of around 2 percent of GDP by 2050. A significant proportion of the country is vulnerable to flooding and other climate-related risks. At the same time, Bangladesh is an extremely resource constrained country, with public sector revenue averaging only 10 percent of GDP over the last decade.

Broad-based charges on greenhouse gases, such as a carbon tax, are effective instruments for encouraging cleaner fuels and reducing energy use. Carbon taxes are a highly practical extension of existing administration for fuel taxes, can potentially raise substantial amounts of revenue and can be in Bangladesh’s national interest due to domestic health and other associated benefits. These notwithstanding, carbon taxation is likely to face significant political challenges such as strong lobbying by fossil fuel stakeholders (such as public transport owners and, power producers); opposition from the general public because of the price impacts of the tax; transparency regarding the effects on winners and losers; and the perception that taxes reduce welfare and increase unemployment.

Solution

A carbon tax can help Bangladesh signal an unwavering commitment to combating climate change. A carbon tax can be part of a strategy to reduce environmental damage associated with its development and raise additional resources for development. It can make it possible to finance tax reduction in “goods” such as work and production, shifting the tax burden toward “bads” such as pollution. In tandem with efforts to reduce pollution overall, a carbon tax can improve the nation’s health and environment.
addition, by signaling to the international community that Bangladesh is prepared to contribute to combating climate change it can help the country gain increased influence in the international arena and access resources (financial and technological) promised under the COP21. It will help Bangladesh to meet its obligations under the COP21 Paris Agreement to reduce climate harming emissions by 5 percent compared to the “business as usual” baseline by 2030. Bangladesh has nearly maintained fuel prices despite a decline in international prices. A carbon tax would make explicit Bangladesh’s commitment to ensure fuel prices reflect negative externalities. Preliminary estimates suggest that Bangladesh could, over time, raise up to 1 percent of GDP in carbon tax revenues (before any offsetting reductions).

**Carbon taxes are easier to implement than many other taxes.** International experience suggests that carbon taxes are administratively simpler to implement than many other forms of taxation. Carbon taxes can be levied “upstream” on relatively few producers/importers and the costs allowed to filter down (charging individual consumers is administratively difficult).

**Earmarking of resources from carbon taxes is not recommended but the additional resources will allow for increased developmental expenditures – something Bangladesh badly needs.** Resources raised through a carbon tax can be used to finance improved infrastructure and can compensate for reduced taxes or duties. Bangladeshi firms suffer from a significant lack of infrastructure, harming their competitiveness. A recent World Bank Systematic Country Diagnostic\(^1\) found that transport and energy infrastructure are two of the country’s major constraints to future economic growth. In addition, despite low tax receipts, Bangladeshi firms face high rates of taxation. Carbon tax receipts can be partially used to finance reductions in other taxes or duties. This has been done in several countries – notably a Canadian province where all carbon tax receipts must be “returned” to households and firms through reductions in other taxes. This can both be beneficial for firms and help to tilt Bangladesh’s development toward a lower carbon growth path.

**A carbon tax would lead to only small price increases but it will be important to moderate the impact on vulnerable firms and households.** The overall impact of a carbon tax on prices is fairly low. Some price adjustment can be offset with corresponding reductions in other taxes or duties. However, some sectors will be more impacted than others. Industries that currently benefit from preferential pricing (compared to other sectors or citizens) will see the largest price increases in percentage terms. Addressing the impacts on poor households will be particularly important. Preliminary estimates suggest that the poorest 20 percent of households could face price increases equivalent to 1 percent of their total consumption, even at low ($5 per tonne of CO2 equivalent) carbon tax rates, largely through increased electricity tariffs, though they could be further impacted through fertilizer prices (impact not yet estimated). Ensuring compensatory improvements in social welfare or public services for these households will be important.

**Further analysis and preparation is required to implement a carbon tax.** While international experience suggests implementation is simpler than for many other taxes, it will be important to identify and prepare the administrative systems required to implement a carbon tax. In addition, it will be important to assess in more detail which sectors and which types of household will be most impacted. This will allow the government to determine compensatory reductions in other taxes and duties, as well as how to adjust the social protection system or other social spending to ensure the burden on poorer households is minimized. Further work will notably be required to understand the pass-through to households of energy price increases, particularly for power and fertilizers. In addition, greater consideration should be given to energy price liberalization while implementing the carbon tax.

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Introduction

Bangladesh has made significant economic and social progress during the last decade. Economic growth has averaged 6.2 percent over the last decade. GNI per capita\(^2\) increased from $540 in 2005 to $1,190 in 2015, pulling Bangladesh into lower-middle income status. Adjusting for prices\(^3\), GNI per capita increased from $1,800 in 2005 to $3,550 in 2015. Economic growth has spurred poverty reduction. Projections using 2010 Household Income and Expenditure Survey (HIES) data (the latest available) indicate that the national poverty rate more than halved from 58.8 percent rate in 1991-92 to 24.8 percent in 2015. Bangladesh also performed well on many dimensions of the Millennium Development Goals (MDGs). It has attained gender parity at primary and secondary education (with 1.1 girls to each boy in 2013), reduced under-five mortality (38 per 1000 in 2015), and increased the proportion of children under five sleeping under insecticide treated bed nets (to 92.2 percent in 13 high risk malarial districts in 2014).

Yet, Bangladesh faces several significant challenges to continued economic and social progress. Two key challenges are its susceptibility to climate change and its low level of public revenue.

- Bangladesh is one of the most climate vulnerable countries in the world, and will become more so as a result of climate change. The country’s Climate Change Strategy and Action Plan notes that “floods, tropical cyclones, storm surges and droughts are likely to become more frequent and severe in the years to come … threatening the significant achievements Bangladesh has made over the last 20 years in increasing incomes and reducing poverty.”\(^4\) A recent Climate Change Vulnerability Index (CCVI-2011) calculated the vulnerability of 170 countries to the impacts of climate change over the next 30 years and found Bangladesh to be the most vulnerable. Indeed, the impacts may already be being felt. For example, over 85,000 houses were destroyed and 1.2 million acres of crops destroyed or damaged as a result of flooding in 2007, with damages estimated of over $1 billion. Despite contributing less than 0.35 percent of global CO2 emissions, climate change could cost Bangladesh severely, with estimated annual losses of around 2 percentage points of GDP by 2050.\(^5\)

- At the same time, Bangladesh has extremely limited resources to adapt to the effects of climate change and, indeed, to pursue continued poverty reduction. The World Bank Public Expenditure Review update found that Bangladesh has the lowest public revenues in the world, as a share of GDP.\(^6\) Over the last decade, revenue has averaged only around 10 percent of GDP, the lowest in South and East Asia.

\(^2\) Based on the World Bank Atlas methodology.
\(^3\) GNI per capita in purchasing power current international dollars.
\(^6\) World Bank (2015), “Bangladesh Public Expenditure Review Update”: [http://www-wds.worldbank.org/external/default/WDSContentServer/IWSPAR/2015/08/26/090224b083093d36c/3_0/Rendered/PDF/Bangladesh000P0c0expenditure0review.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/IWSPAR/2015/08/26/090224b083093d36c/3_0/Rendered/PDF/Bangladesh000P0c0expenditure0review.pdf)
**Benefits of carbon taxes for Bangladesh**

**Carbon taxation can help to meet these two challenges.** As a result, the World Bank considers it prudent for Bangladesh to consider implementing a carbon tax.\(^7\) It would not be the first time that environmental taxes have been considered in the country. The 2014 budget proposed a “green tax” aimed at reducing pollution from factories\(^8\) and it has considered similar taxes in the past.\(^9\) The potential benefits of a carbon tax for Bangladesh are numerous.\(^10\)

- Carbon taxes, when well designed, are easier to collect than many other types of taxes. This is a particular benefit in a challenging revenue raising environment and with low capacity in the National Board of Revenue (NBR).
- Carbon taxes can boost Bangladesh’s low revenue while allowing it to lower other taxes to boost competitiveness.
- Carbon taxes will send the signal that Bangladesh is prepared to combat climate change, giving it more visibility in international discussions and potentially helping it to access some of the financing committed during the 21\(^{st}\) Conference of the Parties in Paris (COP21).
- Carbon taxes, combined with mobilized climate financing will add to resources available for Bangladesh to adapt to the impacts of climate change.
- Carbon taxes can help Bangladesh to meet its international commitments under the COP21 Paris Agreement of reducing carbon emissions to 5 percent below the “business as usual” scenario.\(^11\)
- Carbon taxes can help Bangladeshi firms to pre-empt changes in sentiment in increasingly environmentally aware export markets.

**Carbon taxes can be simple to implement.** The carbon tax can be collected using the same administrative systems as existing taxes, or with only minor modifications. In addition, when collected “upstream” – i.e. on fuel wholesalers (imports or producers) – carbon taxes need only be collected from a few firms. Wholesalers then pass the tax on to retailers, who pass it on to consumers. This “keep it simple” approach is strongly recommended by the British Columbia government following its own experiences on implementing a carbon tax. In addition, a carbon tax does not (immediately) need to cover all carbon emissions. In Bangladesh, it could focus on fuel, since it can be difficult to collect carbon taxes from other sources, such as landfill or forestry. Typically, carbon taxes only cover two thirds to three quarters of total emissions and even developed countries exclude emissions that are hard to measure.

**Carbon taxes can boost public revenue in Bangladesh and reduce revenue fluctuations.** Governments that implement carbon taxes raised an estimated $14 billion from carbon taxes in 2015 (and a further $34 billion from other carbon pricing instruments). The price of carbon emissions varies considerably from $1 to $130 per tonne, with the vast majority set between $5 and $30.\(^12\) Simulations presented below suggest


\(^8\) [http://www.industrytap.com/bangladesh-green-tax-against-factories/20741](http://www.industrytap.com/bangladesh-green-tax-against-factories/20741)


\(^10\) Carbon taxes tend to be considered in addition to other forms of taxation or excise on fuels, and, in general, tend to be lower than these other charges. See. E.g. [https://onclimatechangepolicydotorg.wordpress.com/carbon-pricing/6-energy-taxes-as-carbon-taxes/](https://onclimatechangepolicydotorg.wordpress.com/carbon-pricing/6-energy-taxes-as-carbon-taxes/) or Ireland’s tax schedule for fuel: [http://www.revenue.ie/en/tax/excise/duties/excise-duty-rates.html](http://www.revenue.ie/en/tax/excise/duties/excise-duty-rates.html)

\(^11\) [http://www4.unfccc.int/submissions/INDC/PublishedDocuments/Bangladesh/1/INDC_2015_of_Bangladesh.pdf](http://www4.unfccc.int/submissions/INDC/PublishedDocuments/Bangladesh/1/INDC_2015_of_Bangladesh.pdf)

\(^12\) This is significantly below the $80 to $120 most scenario analyses find would be consistent with a goal of limiting global warming to 2\(^{\circ}\) Celsius.
that Bangladesh could raise up to 1 percent of GDP in tax revenues, at $30 per tonne of CO2 equivalent (tCO2e) with minimal exemptions. In addition, revenues from carbon taxes are less susceptible to economic cycles than most other taxes. While these do vary with the economic cycle, they tend to do so by less than other factors that impact tax receipts since, while energy consumption tends to decline (or growth slow) during periods of slow growth, it does so by less than firm, labor market and import performance, which generate the bulk of fiscal revenue. This helps to make them less pro-cyclical than other taxes, helping to shore up fiscal revenue during periods of economic slow-down.

**Carbon taxes can increase Bangladesh’s visibility in international climate discussions and may help Bangladesh access additional resources.** During the COP21 in 2015, developed countries agreed to provide developing countries with significant financial and technical resources to help mitigate climate change. In particular, the COP21 decided that developed parties should provide $100 billion per year up to 2025 and a new bigger goal will be agreed by then. Introducing a carbon tax would not only help Bangladesh to raise revenue domestically but will help it to strengthen strong case for access to climate mitigation and adaptation financing globally. Thus, carbon taxes could help to “crowd in” other financing sources.

**Carbon taxes can help Bangladeshi businesses pre-empt increasingly environmentally aware export markets.** Carbon taxes can help Bangladeshi exporters to demonstrate their environmental awareness in increasingly environmentally-conscious export markets. Several supermarkets in France began labeling the carbon footprints of products in 2008 and such labelling is being rolled out, including on imported goods. Similar trends can be observed across several countries and a carbon tax can help Bangladesh and its exporters to get “ahead of the curve”. While firms will see some increases in costs, many of these can be offset by reductions in other taxes. In particular, the 2015 Public Expenditure Review update found that corporate tax rates were higher in Bangladesh than most other South and East Asian countries. The resources, combined with any additional climate adaptation and mitigation resources raised following COP21 commitments, can also be used to reduce climate risk for firms (e.g. through climate resistant infrastructure).

**Who uses carbon taxes?**

The popularity of carbon taxation has been increasing rapidly, first in developed and now developing country contexts. The first carbon taxes were imposed in Europe in 1990, covering just a tiny share of global carbon emissions. Since then, there has been a significant increase in the use of carbon taxes and Exchange Traded Schemes (ETS) with 37 jurisdictions using either taxes or ETS by 2016, covering around 12 percent of global emissions (a threefold increase between 2005 and 2015).

**Several developing countries are implementing carbon prices including carbon taxes.** China is currently running nine ETS pilot schemes, which could be expanded. Mexico implemented a carbon tax (albeit with

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13 See paragraphs 51-71 of the COP21 Decision Document: [https://unfccc.int/resource/docs/2015/cop21/eng/l09r01.pdf](https://unfccc.int/resource/docs/2015/cop21/eng/l09r01.pdf)
limited coverage) in 2014. A draft carbon tax law is currently being reviewed by the South African parliament and Chile plans to implement a carbon tax beginning in 2017. Other countries are likely to follow, both to contribute toward climate mitigation and to raise resources.

**Lessons from other countries’ experiences**

Since several countries have already implemented carbon taxes or plan to do so, Bangladesh is in a good position to learn from their experiences. Lessons from other countries include how to design the administration of carbon taxes, how to implement them, how to communicate with the public and firms, and how to moderate negative impacts of carbon taxes, about which some firms and consumers will have genuine concerns that need to be considered.

**Administrative design lessons**

- Keep the tax simple by charging it “upstream” on relatively few producers/importers and allow the costs to cascade down the value chain. Charging individual consumers is administratively difficult.
- Use existing administrative systems. This avoids the need to design new agencies, IT systems, etc.
- Focus (initially) on easy-to-identify sources of carbon emissions such as oil, coal and gas. Avoid (initially) more challenging sources such as forest degradation or waste disposal. No country taxes 100 percent of carbon emissions.
- Charge the tax on per tonne equivalent of carbon dioxide (to capture other greenhouse gases such as methane but keep the design clear and simple).

**Implementation lessons**

- Begin with a low price but increase it regularly according to a pre-announced plan until it reaches its intended price. This gives some time for firms and people to adjust but doesn’t delay implementation too long.
- Adhere strictly to the announced plan. This prevents introducing uncertainty, which could harm businesses and consumers.
- Link the intended final carbon cost to inflation. This will prevent erosion of the real cost of the carbon tax and also safeguard real revenues.
- Avoid (too many) exemptions or reductions for specific groups. These create political uncertainty for firms, open the door to unproductive lobbying, tax avoidance, corruption, and complicate implementation.

**Communication lessons**

- Identify groups that bear a particular burden as a result of the carbon tax.
- Discuss extensively and genuinely with all concerned parties and be prepared to listen to the concerns of those who are affected.
- Communicate clearly to the public and firms – particularly potential losers – the reasons and benefits of the tax.
Moderating negative impacts on firms and consumers

- Be prepared to “return” a significant amount of revenue to groups hit hard, for example by reducing other tax rates (e.g. company tax) or through increased expenditure (e.g. social protection for the poor).

Using the revenue raised wisely

While a carbon tax can help Bangladesh to meet the emission reduction targets included in its INDC, using the resources wisely will be essential to ensure sustainable mitigation and adaptation, as well as to achieve sustained economic growth and poverty reduction. Options include but are not necessarily limited to:

- Reduce other taxes (strongly recommended to moderate the negative impacts on industries and to ensure industry support).
- Return some taxes to the public through increased expenditure on targeted social protection (especially important to moderate the impact on poorer households).
- Improve infrastructure, which can benefit all firms and the public.
- Invest in climate adaptation (including infrastructure). According to World Bank estimates, by 2050, adaptation to tropical cyclones, storm surges and inland monsoon flooding alone will cost Bangladesh as much as $6.6 billion, with annual recurrent costs of $166 million.
- Invest in climate mitigation (e.g. energy efficiency projects).
- Contribute toward the Bangladesh Climate Change Resilience Fund (BCCRF) already established. The BCCRF was established in 2010 with support from donors with the aim of enabling the government to channel around $170 million in grant funds to millions of Bangladeshi to build resilience to the effects of climate change.
- Invest in a disaster risk fund to ensure resources are available quickly in the event of climate and other disasters.

In addition, it will be important that the Government of Bangladesh leverage the goodwill gained from implementation of the tax to encourage other countries to (a) reduce carbon emissions and (b) provide Bangladesh with additional funds and technologies for further mitigation and adaptation measures.

How much could Bangladesh raise from carbon taxes?

The World Bank Group (WBG) has created a simple Excel-based tool to estimate potential tax revenues in Bangladesh. It focuses only on emissions from fuels (rather than forestry or landfill) and is based on projected fuel use and standard international emission factors (adapted for Bangladesh, where appropriate). It offers the user a significant degree of control over the main factors that determine the results (inputs).

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18 https://www.bccrf-bd.org/
Resources that can be raised

Carbon taxes could be a significant revenue source for the government. Carbon taxes could raise up to 1 percent of GDP, at $30 per kilo of CO2 equivalent. This is no small amount for a country that usually collects a little over 10 percent of GDP – an increase of close to 10 percent. If the tax is phased in (following a pre-announced schedule), it would take a number of years to reach this amount. Figure 1 reflects a steady increase in carbon taxes from $5 per ton CO2 equivalent in 2019 to $30 by 2024.

Simulation show that most revenue would initially come from gas and petroleum products. However, if a more “coal intensive” energy mix is favored, as seems likely, an increasing amount would come from coal. Carbon taxes are likely to be more stable than other revenue sources as they are less impacted by cyclical economic factors.

Who pays? – households

Households of all wealth levels would pay a similar amount as a share of their income, making the first round effects of a carbon tax distribution neutral. At $5 per tonne CO2 equivalent, first round costs can be up to around 0.8 percent of consumption for the poorest two quintiles of the population (Figure 2). This is especially large since cash expenditures represent a smaller share of consumption for the bottom 40 percent households than for wealthier groups.

However, these results should be seen as particularly tentative since only “first round” effects are included. Several studies have found that poorer households can be particularly affected with second round effects included (e.g. increases in the prices of fertilizer that result from increase fuel prices) but are also often significant net beneficiaries when health and other positive impacts – such as improved social welfare – are considered. Further studies may show that the tax can be overall beneficial for poorer consumers. Nonetheless, it will be important to find ways to compensate poorer households.

Who pays? – sectors

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A carbon tax increases the cost of fuel but only by a small amount. At $5 / tCO2, the motor gasoline price could be expected to increase from TK 89 / liter to TK 90 / liter. At $30 / tCO2, it would increase to an estimated TK 94-95 / liter. Other fuels would see similarly small increases (Figure 3).

Figure 3. Cost per liter

However, some sectors would be more affected than others, particularly since some currently receive special treatment, benefiting from cheap fuel. For example, even though all sectors would face the same increase per cubic meter of gas in Taka terms (Figure 4), the percentage increase will differ (Figure 5). Industry will face larger percentage price increases than transport as many industrial firms currently benefit from cheap fuel. That is, the impact on transport costs in percentage terms will be small compared to increase in industrial costs. It will be important to engage in dialogue with the private sector and to consider the impact of a carbon tax on sectors that are most affected, and find ways to moderate the impact.
Mitigating the risks

Carbon taxes can have significant benefits for Bangladesh but are not without risks that need to be considered. Policy-makers could justifiably be concerned about the impacts of carbon taxes on poorer population and on some economic sectors.

Mitigating risks for exporting sectors

Policy-makers should consider the impact on exporting sectors. In particular, there is a risk of “carbon leakage” if firms leave Bangladesh to countries without carbon taxes or other carbon pricing mechanisms. The evidence to date suggests that such negative impacts are non-existent to minimal. However, they may impact some sectors, and Bangladesh’s garment sector may be one example that deserves consideration. The risks are, however, reducing as more countries impose a carbon tax.

Carbon taxes can also benefit firms, including exporters. First, there is well-established empirical evidence that environmental regulations can stimulate innovation. A recent World Bank report argued that, while more research is necessary in a developing context, this may provide long-term benefits for some of the largest employers in developing countries, as they would be encouraged to make productivity-increasing investment. Second, it would allow firms producing in Bangladesh to market their products as more sustainable than those produced in other countries. Third, it would allow Bangladesh to pre-empt the potential imposition of “green taxes” on imports into other countries. While such taxes do not appear to be imminent, the recently agreed Trans-Pacific Partnership (TPP) does subject trade to other environmental protections.

Given the mix of risks and benefits, jurisdictions that have implemented a carbon tax (or other carbon pricing policy), or propose to do so, have taken steps to moderate the negative impacts for firms. Risk-moderating options include:

- **Reducing other taxes**, such as payroll taxes or corporate tax. This has the advantage of reducing incentives for informality, encouraging lower-carbon firms to operate and making it possible for firms to reduce their overall tax bill by reducing carbon emissions. This has been strongly implemented in British Columbia, where legislation mandates that all carbon tax revenues must be returned to taxpayers through tax cuts (on pain of a 15 percent cut in the Finance Minister’s salary).
- **Phasing in the tax** to give time for firms to adapt. This makes it easier for firms to adapt over time and has been used in British Columbia, South Africa (proposed) and the European Carbon Trading Scheme, among others.
- **Providing partial exemptions** to some sectors defined as export oriented for a certain period of time. This is an important part of the South African approach but Bangladesh should try to avoid or limit such exemptions. They increase administrative requirements and create political uncertainty for firms, open the door to unproductive lobbying, tax avoidance, corruption, and complicate implementation.
- **Investing in infrastructure** that can be used to improve firms’ competitiveness – for example, by ensuring good transport links and reliable energy supplies, two key considerations in Bangladesh.

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21 See: [https://ustr.gov/tpp/#preserving-the-environment](https://ustr.gov/tpp/#preserving-the-environment)
Mitigating risks for vulnerable households

Given the estimated impact of the tax on households, policy-makers should consider how to alleviate the costs for poorer households. Risk-moderating options include:

- **Reducing other taxes**, such as payroll taxes or increasing the exemption thresholds for personal income taxes. This has the advantage of reducing incentives for informality. This has been implemented in British Columbia, where legislation mandates that all carbon tax revenues must be returned to taxpayers through tax cuts (on pain of a 15 percent cut in the Finance Minister’s salary).
- **Providing specific tax credits targeted toward poorer groups.**
- **Boosting social protection schemes.**
- **Providing “dividends” for households paid for by the carbon tax.** This would be similar to direct distribution of resource revenues, as used in Alaska. Similar schemes are discussed in a recent IMF Working Paper. They have also been proposed for developing countries, notably by the World Bank Africa/Middle East Chief Economist, Shanta Devarajan.
- **Finance a disaster risk fund** that could be used to ensure resources are quickly available to support poorer households in the event of climate and other disasters. This would be particularly beneficial given the evidence that short-term shocks can have long-lasting – even inter-generational – impacts on livelihoods.

Conclusions

The economic and fiscal impact of carbon taxes can be positive for Bangladesh. They build on Bangladesh’s commitment to contribute toward climate change mitigation as well as providing resources for adapting to future climate change. They help to prove Bangladesh’s willingness to act on climate change, which may ensure that, as one of the most vulnerable countries to climate change, it is able to amplify its voice at international climate discussions. It may also help it to access additional financial resources and technological transfers committed as part of the COP21. They provide a way to raise additional public revenue with lower administrative burden than many taxes, and will make it possible to reduce other burdensome taxes and duties.

Carbon taxes do not come without challenges but Bangladesh can benefit from other countries’ experiences. In particular Bangladesh will need to consider how to moderate the impact of a carbon tax on poorer households and on the economic sectors that are most affected, and those that compete in international markets. Lessons from other countries suggest that Bangladesh is well-placed to deal with these challenges.

Given the potential benefits, and its ability to mitigate the risks, Bangladesh should consider implementing a carbon tax and continue its path toward being a global leader in environmentally sustainable development.

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