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EXECUTIVE SUMMARY

Leveraging Governance Innovation for Urban Climate Resilience:

Strengthening Municipal Fiscal Autonomy in Bangladesh

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Executive Summary

Bangladesh is facing an unprecedented urban crisis driven by the convergence of rapid, often unplanned, urbanization and the escalating impacts of climate change. With its urban population expanding at an alarming rate, cities are under immense pressure to provide basic services and protect citizens from intensified floods, extreme heat, and other climate-related threats. This challenge is particularly acute due to the nation's highly centralized governance system, which leaves municipalities with severely limited control over their own finances and a profoundly constrained ability to respond effectively.

This research addresses a critical gap by investigating how governance innovation, combined with enhanced fiscal autonomy, can empower Bangladeshi municipalities to build and strengthen urban climate resilience. The study employs a rigorous mixed-methods approach, including a detailed analysis of seven municipal budgets and extensive Key Informant Interviews (KIIs), to provide a data-driven diagnosis of the barriers and opportunities for more effective, equitable, and sustainable urban climate action.

The central aim of this research is to understand how governance innovation can strengthen urban climate resilience in Bangladesh by enhancing municipal fiscal autonomy. To achieve this, the report:

1. **Evaluates the current status of fiscal governance** and decentralization in Bangladeshi municipalities, identifying key barriers and opportunities for innovation.
2. **Leverages governance innovations** to enhance municipal financial autonomy and empower local governments towards sustainable, climate-resilient urban management.
3. **Develop evidence-based, strategic recommendations** for reforms that promote transparent, accountable, and climate-resilient governance.

The research reveals a systemic crisis at the heart of urban governance: a debilitating "**governance-finance-resilience trilemma**." This is a self-reinforcing cycle where fiscal constraints, institutional deficits, and climate vulnerabilities perpetuate each other, effectively trapping municipalities in a cycle of dependency and underperformance.

- **The Illusion of Fiscal Autonomy:** Municipalities operate with a profound, yet illusory, sense of fiscal autonomy. They are chronically underfunded, heavily reliant on central government transfers that are consistently described as "**nominal**" and grossly

insufficient to meet even basic needs, let alone fund climate initiatives. In one case, central funds covered less than 1% of the required development investment, while another city's typical annual grant was dwarfed by the cost of its waste management alone. This financial dependency is a "**fiscal dependency trap**," which stifles innovation and forces a reactive, rather than proactive, approach to planning.

- **The "Crowding-Out Effect" on Local Revenue:** The research provides strong statistical evidence that large, predictable inflows of external funds inadvertently reduce the incentive for municipalities to collect their own-source revenues (OSR). This "**crowding-out effect**" means the current system of intergovernmental grants inadvertently weakens the very local revenue base needed for long-term fiscal stability, creating a perverse incentive that undermines the goal of self-sufficiency.
- **The "Boom-Bust" Cycle and the "Maintenance Trap":** Climate action at the local level is not a consistent, mainstreamed function. Instead, it follows a "**boom-bust**" cycle, spiking in years when large-scale, externally funded infrastructure projects are active and receding sharply in their absence. This episodic approach creates a perilous "**maintenance trap**," where new climate-resilient infrastructure (e.g., roads, drains) is built with external funds, but the municipality lacks a corresponding local revenue base to fund its long-term operation and maintenance (O&M). This risks premature decay of valuable assets and leaves communities vulnerable once project funding ends.
- **Institutional Deficits and the "Manpower Crisis":** Even with adequate funding, municipalities lack the skilled personnel and modern organizational structures to effectively plan and implement complex initiatives. A pervasive "**manpower crisis**," rooted in rigid, outdated staffing structures or "**organograms**," is a primary barrier to functions as basic as tax collection and as complex as climate-resilient urban planning. This structural weakness is a core feature of a centralized system designed to keep local government technically weak and dependent.

To break this cycle, the report proposes a multi-level, dual-track reform agenda aimed at fostering local agency, building a more enabling national framework, and strategically leveraging external partnerships.

For Municipal Authorities:

- **Diversify and Digitize Revenue:** Move beyond volatile revenue sources by improving tax administration and collection through digital tools and transparent assessment systems.
- **Develop a "Local Climate Resilience Fund":** Create a dedicated, ring-fenced fund capitalized by a small percentage of local revenue to ensure a stable, predictable source of funding for community-driven projects.

- **Adopt a "Service Delivery First" Approach:** Frame governance innovations as solutions to tangible, everyday problems (e.g., waste management, drainage), thereby building public trust and generating the revenue needed for long-term climate action.

For National Policymakers:

- **Reform Intergovernmental Fiscal Transfers:** Overhaul the grant system to include performance-based incentives that reward municipalities for improving their local revenue collection and financial transparency.
- **Fundamentally Overhaul Staffing Structures:** Replace the rigid, "one-size-fits-all" staffing model with a flexible framework that allows municipalities to tailor their human resources and technical expertise to their specific needs and climate vulnerabilities.
- **Legislate for Accountable Fiscal Autonomy:** Devolve greater, clearly defined authority to municipalities to set local tax rates, paired with mandatory public transparency and independent audit functions to ensure accountability.

For Development Partners and Civil Society:

- **Shift from Projects to Integrated Programs:** Move away from funding isolated infrastructure projects and instead support integrated programs that bundle capital investment with mandatory components for institutional strengthening, capacity building, and digital governance systems.
- **Empower Citizen-Led Accountability:** Support civil society organizations to build citizen literacy on municipal budgets and urban planning, transforming perfunctory participation into a meaningful check on power.

This research is more than a diagnosis; it is a roadmap for a fundamental paradigm shift. By strategically strengthening municipal fiscal autonomy and fostering governance innovation, the project provides actionable insights to empower local governments as the primary agents of change. The implementation of these recommendations has the potential to significantly improve the lives of vulnerable urban populations, who are disproportionately affected by climate change, and contribute to building more resilient, equitable, and sustainable cities for all.