



## Green Financing in Bangladesh

Human activity is causing our climate to change, our industries and power plants are heating up our planet, resulting in heatwaves, hurricanes, floods, droughts and a wide array of unnatural weather patterns. This information, though not new nor surprising, often has very little impact on the way organizations do business. The result of our ever-changing climate is visible in Bangladesh now, resulting in millions of dollars in damage every year. This June alone, around 6.77lakh hectares of cropland were damaged by flooding in Bangladesh, affecting 67 lakh people according to government statistics. Investment is needed to not only help combat climate change in Bangladesh but to create proper infrastructures for those affected. According to the Climate Change Vulnerability Index (CCVI) by Maplecroft, Bangladesh is at most at risk of adverse impacts of climate change among 170 countries.

Bangladesh has not turned a blind eye to the impact of climate change and the threats it imposes. Despite having been a least developed country (LDCs) at the time of the study conducted by Maplecroft, Bangladesh was the first LDC to come up with a national strategy and a clear vision to deal with climatic challenges. The Bangladesh Climate Change Strategy and Action Plan identified 44 programmes under six areas such as: food security, social protection and health; comprehensive disaster management; infrastructure; mitigation and low carbon development; research and knowledge management; capacity building and institutional strengthening.



The government has established two green funds, namely the Bangladesh Climate Change Trust Fund (BCCTF) and the Bangladesh Climate Change Resilience Fund (BCCRF), and these currently, are the main sources of green finance in Bangladesh. Bangladesh Bank has also prepared policy guidelines and instructed banks and financial institutions to form a “Climate Risk Fund” directing the banks and financial institutions to allocate at least 10% of their corporate social responsibility (CSR) budget to this.

This is to be accomplished either by providing direct grants or by providing finance at a reduced rate of interest. Bangladesh Bank also introduced the refinance scheme ‘Green Transforming Fund (GTF)’ of \$200 million in 2016. The majority of the funds, around 75% are handled by private commercial banks while foreign commercial banks contribute 21% and state-run banks only 4% to this initiative. The Private commercial banks along with non-bank financial institutions (NBFI) are also the dominant players in financing most categories of environment- oriented initiatives such as renewable energy, fire burnt bricks, liquid waste management, recycling and setting up green industries.

The coverage and benefits of green financing/banking are largely accepted. However, its implementation is lagging behind. Green financing has a positive effect on the business environment, but the lack of skills and interest from leadership can often become obstacles in its avenue. This however, does not mean that the area is without its share of opportunities in Bangladesh. There are many initiatives that can be undertaken to facilitate its growth in Bangladesh along with a fair few obstacles that need to be removed.

### Opportunities in Green Financing in Bangladesh



The opportunities regarding green banking and financing are wide and varied. Major stakeholders need to play a more active role in green financing measures in the country for the initiative to actually work and yield results. Some of the recommendations are discussed below:

- Companies can be instructed to disclose information regarding the environmental impact of their operations in their financial reports. This would give them ownership over their actions and more liability. This would also enable organizational stakeholders have a better idea of how their investment decisions are impacting the environment and participating in ‘greening’.
- Organizations could be given incentives to take a more active role in participating in green financing. This can be done by introducing a rating system for various market indicators. Companies introducing IPO or debt issuance for green financing projects can be provided incentives through providing concessions in their registration and transactional costs.
- For manufacture related companies or those whose operations might indirectly or directly harm the environment, environmental risks should be incorporated within the core risks and be considered as a factor when granting loans and their

eligibility to obtain financial assistance. FIs and Banks can also promote the use of fuel efficient vehicles by clients by providing discounted interest rates to such clients and also to those who use loans to buy environmentally friendly vehicles with higher mileage. When opening L/Cs for environmentally friendly products such as solar energy, CNG driven, ETP, etc, the charge or commission should be lower than for other products.

- The insurance sector could be integrated into the green financing process through risk minimization of green projects. Such solutions can help investors minimize risks of renewable energy, or low carbon projects. This will help attract investors to invest in more environmental friendly projects.



- Bangladesh has the third most active impact investing market in South Asia. Impact investing in green projects would generate social and environmental impact alongside financial ones. In order to monitor such investments and their subsequent effectiveness, a regulatory authority could be set up in order to ensure the investments are being used properly.
- The most direct method to enhance green financing would be to attract equity financing to green businesses. Such investors are able to find businesses at their research and development stage and this allows them to take greater risks and opens up opportunities for green businesses to experiment with new ideas and technologies.
- Bangladesh Bank could publish the list of banks and financial institutions having good green performance and award better CAMELS ratings based on green banking performance. The performance of organizations engaging in green financing need to be acknowledged.

## Challenges regarding green financing in Bangladesh

The government of Bangladesh and Bangladesh Bank are taking numerous steps to encourage green financing. While this has been widely acclaimed, numerous challenges remain. Some of the major challenges include lack of demand or understanding of the importance of green financing, lack of proper skills to implement green financing or avail it, high risk factors associated with innovative ‘green’ businesses, high cost of operations, etc.

One of the main stumbling blocks in the green financing is the lack of proper monitoring authorities regarding the effectiveness of different green initiatives in Bangladesh. Special monitoring cells need to exist specially for companies working with hazardous materials and homogenous policies need to put in place regarding the usage and disposal of hazardous waste.

Lack of awareness of green financing is currently one of the major challenges in Bangladesh. The leadership are not motivated to implement it in their organizations, thus are not very invested in skill building in this area. This is creating a knowledge gap between the conception of the financial instrument and its use. Many organizations, both big and small, are unaware of its existence and importance and do not deem it necessary to its day to day functions. This has immensely affected its popularity in Bangladesh. For the organizations that *do* implement green financing and are interested in ‘greening’ there is a dearth of adequate reward mechanisms commending their efforts. Thus, this results in a lack of motivation on the part of entrepreneurs to engage in greening or take up green financing opportunities.



### In Conclusion...

Bangladesh is among 38 emerging market economies having initiated key banking reforms to drive development and fight climate change. Financial institutions are now promoting environmentally friendly practices and reducing carbon footprints due to operations. Though many large organizations are now committed to sustainability, there is still a long way to go. Without considering the potential impact of climate on our everyday lives and our businesses, and emphasizing their importance to the people of this country, our future vision of a burgeoning and prosperous Bangladesh cannot be realized nor can it be sustainable on the long run. It is important for organizations, both public and private to band together and combat climate change using environmentally friendly business operations.