

## Towards sustainable finance: the global and local imperatives

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Following the global financial crisis of 2009, there has been growing recognition that the financial system must stay grounded and look beyond short-termism.

It must be stable, resilient and sustainable in the long run. It must also enable a country's transition to a low-carbon green economy in the face of increasingly erratic climate change, which is no longer a local issue but a global one.

The 2009 crisis made it quite clear that financial institutions all over the world were performing poorly in financing sustainable economies. Fiscal policies also lacked the interventions needed to incentivise public and private investments in inclusive green economies.

Some regulators, international institutions, local governments, and socially responsible private sector entrepreneurs felt that it was imperative to sensitise and enable financial systems to support this green transition, capitalising on policy innovations and the existing best practices.

There have been some proactive moves by local regulators in this regard. Bangladesh has been a pioneer in innovating sustainable financing policies and regulations that address critical issues related to climate change and global economic slowdowns. As such, the ongoing coronavirus pandemic has made this policy stance even more urgent.

The sustainable finance pursued by Bangladesh refers to the process of the financial sector taking investment decisions in order to transition to a sustainable economy while including environmental, social and governance (ESG) considerations.

The environmental considerations include climate change mitigation and adaptation, preservation of biodiversity, prevention of pollution, and promotion of the circular economy. The social considerations are related to inequality, inclusiveness, compliance with desired labour relations, and investment in human capital and communities.

The governance of public and private institutions includes management structure, employee relations, executive salary structures, and conflict resolution in the interest of different stakeholders, including risk management.

The objectives of ESGs include channelling private investment for the transition into a climate-neutral, climate-resilient, resource-

efficient and fair-play economy, as a complement to public funds.

Bangladesh is well-known for promoting a climate-resilient economy by coordinating with both governmental and central bank initiatives.

Other than establishing a separate regulating authority for renewable energy, the government has been farsighted in initiating the National Adaptation Plan and community-led adaptation programmes in the coastal belt.

It has also committed to medium and long-term planning, including five-year and twenty-year perspective and delta plans.

The government is now working on a strategic investment framework, called the "Mujib Climate Prosperity Plan", to mobilise financing through international cooperation for renewable energy and climate resilience initiatives like the National Solar Energy

also mobilised climate funds from external sources such as the Green Climate Fund, Global Environment Facility, and other agencies.

This strategy fits very well with the Social Development Goals (SDGs) and Paris Climate agreement.

Interestingly, Bangladesh has been encouraging its central bank to think outside the box and become a developmental regulator for financial inclusion and green financing.

As early as 2011, Bangladesh Bank began a comprehensive green banking initiative to support environmentally responsible financing, issuing guidance for the environmental risk assessment of borrowing proposals and for the greening of internal processes and practices within banks.

In fact, Bangladesh Bank started its sustainable finance initiatives more than

leather industries. With its regulatory support, the state-owned Infrastructure Development Company (IDCOL) excelled in intermediating refinance to procure and use renewable energy tools such as biogas, solar irrigation and mini-grids.

I am happy to see Bangladesh Bank has seriously focused on these green financing initiatives and continued its regulatory prowess to change the mindset of financial intermediaries, not only providing them policy guidelines but also following up with the actual implementation with predetermined targets.

Moreover, it has designed a harmonised and sound policy and regulatory framework which tries to ensure "clarity of purpose, protects consumers, supports market development, and facilitates transition in key economic sectors".

Encouragingly, it has been able to design a sustainable rating framework to see the progress made by financial intermediaries in not only the designated green finance sector, but also in financing agriculture, cottage, micro, small-and-medium enterprises, socially responsible financing, R&D for sustainable product innovation, marketing, awareness, capacity building and sustainable finance disclosures.

A standard identification process has also been introduced to track and hunt products/projects linked to sustainability. The Sustainable Finance Policy of Bangladesh Bank is anchored on the government's development plan, its global commitment for sustainability, and the strategic goals of the central bank.

The challenge is now to implement this policy and create more opportunities for inclusive sustainable business enterprises with active collaboration from the younger generation, educational institutions, and other stakeholders.

The potential for a green transition in local businesses has particularly increased in the wake of the plunging cost of technology for producing solar and wind power.

In 2014, the governor of Bangladesh Bank was made one of nine members of the Advisory Panel of the UNEP's "Inquiry: Designing a Sustainable Financial System", which investigated options for guiding the global financial system.

The inquiry's report, titled "The Sustainable System That We Need", mapped the best practice and potential for advancing an alignment of financial institutions and sustainable development.

The report had a huge impact in sensitising global financial leaders to focus their attention

on increased green bonds, large scale divestments in carbon-intensive investments, commitment to the Principles of Responsible Investments, and development of roadmaps for green and sustainable finance.

The Inquiry also prepared a report on Bangladesh, saying it has been a "leader in innovations in policies, regulations and norms to shape a greener and more inclusive financial system".

Bangladesh's sustainable finance actions immediately after the global financial crisis in 2009 have now been vindicated by experts from developed countries. Only recently, Professor Eichengreen of the University of California, Berkeley, in one of his op-eds in Project Syndicate said, "central banks as regulators have tools with which to address climate change and income inequality. The best way forward for central bankers is to use monetary policies to target inflation while directing their regulatory powers at other concerns."

Christine Lagarde, president of the European Central Bank, shared this opinion.

Bangladesh Bank has been doing exactly this under its flagship sustainable policies like financial inclusion, corporate social responsibility policy support, and green financing.

It has been sowing seeds of sustainable finance for more than a decade and some green shoots are already visible. However, there is no room for complacency. We still have miles to go. Other financial regulators must join hands with the central bank to take this campaign forward.

The government must also take more fiscal measures to incentivise all actors. Bangladesh Bank could be well-advised to continue refinancing to encourage the off-take of sustainable finance, provide public recognition to best performers, and promote partnerships between financial institutions, CBOs and MFIs.

It has already played a strategic role in promoting such finance by providing stimulus packages in response to Covid-19.

Bangladesh's leadership, as the chair of the Climate Vulnerable Forum, has the best card to showcase to the world in the upcoming COP26 in Glasgow how the country has augmented sustainable finance through its government agencies and central bank.

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Roadmap (2021-2041).

In addition, it is implementing the National Action Plan for Clean Cooking (2020-30), preparing inventories on the country's forests and carbon levels, and reducing short-lived climate pollutants.

Similarly, the energy efficiency and conservation master plan leading to 2030, clean development mechanisms, and various initiatives to enhance the production of solar energy are underway while green technology is being promoted as well.


Bangladesh has set examples with innovative fiscal measures like setting up the Bangladesh Climate Change Trust Fund and designing a climate change budget, providing 8 per cent of the national budget for integrated multi-ministerial climate actions. The country has

a decade ago, including regulations for encouraging financial institutions to pursue environmentally sustainable, socially responsible, and inclusive finance to prioritise investing in sustainable projects.

The central bank assumed that all financial institutions were knowledge brokers, and given their knowledge of ground realities based on their intensive interactions with borrowers, they could certainly encourage and inspire them to become green entrepreneurs.

Bangladesh Bank went out of its way to create a green fund for small-and-medium enterprises (SMEs) to refinance small projects in green energy, effluent treatment plants, and biogas plants at lower costs.

It also implemented a large Green Transformation Fund to support textile and




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