Need for sustainable finance: A policy maker's perspective

KHONDKAR MORSHED MILLAT

The world at large is now experiencing the devastating effects of the global climate crisis, including droughts, floods, tsunamis, water scarcity, and rising sea levels.

These consequences of climate change threaten sustainable living on the planet, which calls for an urgent and collective response from both developed and developing nations, especially countries like Bangladesh.

From that standpoint, we need to take the necessary steps for our sustainability in the long-run. Sustainability in this context means the quality of not being harmful to the environment or depleting natural resources, and thereby supporting long-term ecological, social balance and governance (ESG).

Bangladesh Bank defines sustainable finance in a broader manner taking the country's present scenario in due consideration as well as in conformity with international norms and standards.

Sustainable finance refers to any form of financial service that includes investment, insurance, banking, accounting, trading, economic and financial advice that integrate ESG criteria into the business or investment decisions for lasting benefits for both clients and the society at large.

Sustainable finance is about green finance, sustainable agriculture, sustainable cottage, micro, small and medium enterprise sector, and CSR activities that include socially responsible finance activities. Sustainable finance is needed for sustainability considerations in order to mobilise funds towards sustainable growth. Bangladesh Bank's monetary policy prioritises green finance as a part of sustainable finance.

This is not only to fulfill the Bangladesh's commitment to the conventions of the Kyoto Protocol and Paris Climate Agreement to reduce greenhouse gas (GHG) emissions by 5 per cent unconditionally from the Business as Usual (BaU) levels by 2030, or a conditional 15 per cent reduction in GHG emissions from BaU levels by 2030, but also to be aligned with the Intended Nationally Determined Contributions for attaining Social Development Goals (SDGs).

Banks and other financial institutions are required to allocate budgets separately on their previous year's net outstanding basis -- one is an allocation for sustainable finance, including the amount of green finance, and the other allocation is only for green finance.

It is expected that lenders will play an active role in attaining the minimum sustainable finance target of 20 per cent of their total disbursements, where 5 per cent green finance of term loans are required.

It is also expected that all concerned stakeholders, including banks and other financial institutions, will be passionate, proactive and concentrate on sustainable finance policies with due consideration in a collaborative and collective manner for making any challenge (if any) into an opportunity.

Rationale of Sustainable Finance is justified in Sustainable Finance Taxonomy, which means classification of sustainable finance.

Sustainable Finance Taxonomy includes not only Green Taxonomy, but also sustainable finance and CSR Policies, economic and governance (good governance and green governance), green finance based on (i) climate change mitigation (ii) climate change adaptation (iii) other environmentally sustainable implementations and impact on inclusive sustainable green growth.

High initial investment and costs, lack of public awareness, communication gap, lack of proper documentation, and lack of motivational approaches from the top-level management are some of the current major challenges.

But at the same time, we cannot ignore the opportunities of green governance, structured sustainable finance policies, strong screening mechanisms, stricter monitoring, Bangladesh Bank's green and sustainable finance refinancing schemes, MIS, Knowledge Hub, capacity building on green issues, green marketing and innovation, and checklist for structured documentation and disclosures.

From a policy maker's perspective, Bangladesh Bank in connection with the Sustainable Finance Policy has issued a sustainability rating methodology for rating banks and financial institutions (FIs) with respect to their ESG performance in five major components, where contribution to sustainable finance, core banking sustainability, banking services coverage and activities in green refinance and CSR are evaluated.

Banks and FIs are now more motivated and they seem to be more concerned to become proactive and passionate to concentrate on the said five components for each year's ESG evaluation in sustainability rating.

Immediate intervention of top management of banks and FIs are needed to guide their sustainable finance units of both head offices and potential branch help desks for jumping into actions regarding sustainable finance with respect to establishing inclusive sustainable growth.

Sustainable finance is a work-stream to support the delivery of the objectives of green products/projects/initiatives by channeling private investment into the transition to a climate-neutral, climate-resilient, low-carbon, resource-efficient, green, competitive and inclusive sustainable economy.

Sustainable finance has a key role to play in mobilising the necessary capital to deliver on the policy objectives as national and international commitments on climate and sustainability objectives.

It has to go with the UN 2030 agenda, SDGs and the Paris Climate Agreement. It has to go with the eighth Five-Year Plan and other prospective plans as well.

Lastly, international cooperation is key to success and international coordination as well as national level coordination is essential for shaping a secure and sustainable financial future for all.

Global cooperation and coordination are required to be in place where proper demand mapping, establishing national level standards for the identification of green products and initiatives, and supportive policy framework for all types of financial instruments, green credit guarantee fund and instruments, effective regulation for green governance in banks and FIs, policy initiatives for carbon footprint measures, carbon trading mechanisms justifying global carbon prices, policy initiatives for green bonds and Sukuk, and developing regulatory frameworks to combat "green-washing" are structurally addressed.

So, let us work together for a sustainable economy.

Khondkar Morshed Millat is general manager of the sustainable finance department at Bangladesh Bank.

Walk the talk

MASHRUR AREFIN
Managing Director & CEO, City Bank Limited

Sustainable finance has become one of the mainstream considerations of City Bank. City Bank is a good contributor in financing sustainable rural agri-businesses and women entrepreneurs through its small and micro financing. The bank has also attained core banking sustainability with robust financial metrics and continued CSR initiatives.

City Bank established 32 help desks in different locations to scale up sustainable finance. Our "External Communication Mechanism", first of its kind in Bangladesh, enables external parties to lodge complaints in bank's website if affected by its customer's activity having environmental and social adverse impacts.

In view of SDGs, and to bring greater momentum in banking sector, I propose a "Sustainable Banking Alliance" among the leading banks, which will play a critical role in improving the consistency and raising the ambitions of Sustainable and Green Finance initiatives.

MOHAMMED SHAWKAT JAMIL
Managing Director, United Commercial Bank PLC

United Commercial Bank PLC (UCB) has been committed to eco-friendly financing since the last decade. The bank has adopted Environmental and Social Risk Management (ESRM) guidelines of the Bangladesh Bank and incorporated it as an integral part of credit risk methodology.

The bank has extended green financing facility to RMGs (for green industry and remediation financing), green brick fields, industrial waste management, etc. based on the environmental assessment. The management took initiatives to include marginalised farmers under direct financing while attaining agro-financing target.

UCB has already signed agreement with Bangladesh Bank to avail funds from the Green Transformation Fund, Technology Development/Up-gradation Fund, and Refinance Scheme for Green Products/ Initiatives/Projects.

M. JAMAL UDDIN
CEO & Managing Director, IDLC Finance Limited

In 2007, we became a member of UNGC and decided to align our business practices to the UNGC principles. Later in 2010, IDLC became a member of United Nations Environment Programme Finance Initiatives (UNEP FI), and from 2019 we became a signatory of four major initiatives offered by UNEP FI: 1. Principles of Responsible Banking (PRB); 2. Collective Commitment to Climate Action (CCCA); 3. Tobacco-Free Portfolio; and 4. Net-Zero Banking Alliance.

IDLC has adopted Green Banking Policy in 2012 and have been successfully implementing Environmental and Social Management System (ESMS).

The future plan for a sustainable portfolio includes carbon footprint analysis by a professional entity to form initiatives to neutralise adverse impacts.