



The Impact of Green Finance in Bangladesh

CHARTING A GREENER FUTURE

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Bangladesh has been profoundly affected by global human-induced climate change, despite its minimal contribution to the problem. The consequences are stark, with the country experiencing frequent cyclones, tornadoes, floods, coastal and riverbank erosion, droughts, landslides, heat waves, and prolonged summer seasons. According to the Global Climate Risk Index 2021, Bangladesh is ranked as the seventh most disaster-prone country in the world, underscoring its extreme vulnerability to both natural disasters and climate change.

In response to this existential environmental crisis, the banking sector has taken proactive measures by offering green finance loans, refinancing options, and dedicated funds aimed at mitigating the devastating effects of climate change and promoting a sustainable future for Bangladesh.

"We are pioneers in green financing, an initiative started by the central bank in 2009-2010. The United Nations recognized Bangladesh Bank as the first central bank to implement green finance, and now other central banks have followed suit. We created a fund with 200 crores for refinancing small and medium enterprises with only three products," shares Professor Atiur Rahman, former governor of Bangladesh Bank.

He also elaborated on the context of why the green fund for small and medium enterprises was expanded to include heavy industries, such as the garment sector, noting that Bangladesh has been globally recognized for its RMG products.

"After the Rana Plaza incident, we secured a three million dollar fund from the World Bank and another three million dollars from Bangladesh Bank, which continue to support the green transformation fund. The results have been fantastic, with over 200 green factories established and another 500 in the pipeline. Out of the 20 best green factories in the world, 18 are now in Bangladesh," adds Atiur Rahman.

According to the central bank's latest report, the total amount of green finance disbursed during FY23 was BDT 126.41 billion by banks and BDT 23.58 billion by NBFIs. Green finance accounted for 5.84 percent of the total term loan disbursements.

The central bank has made Environmental and Social Risk Rating (ESRR) mandatory for banks and NBFIs, under ESRM guidelines.

During FY23, 229,592 projects were rated using the Environmental and Social Due Diligence (ESDD) checklist. A total of BDT 4,165 billion was disbursed across 179,022 rated projects in FY23. Additionally, a total of BDT 0.88 billion was utilized from the climate risk fund by banks and NBFIs in FY23, provided as grants.

The green banking policy has encouraged banks to establish online branches and power them with solar energy. By the end of FY23, there were 720 branches powered by solar energy. Moreover, the sustainability rating methodology for banks and NBFIs, circulated on December 31, 2021, includes green refinance as one of its five components. This rating assesses the performance of banks and NBFIs in terms of their sustainability practices.

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In 2009, a revolving refinance scheme worth BDT 2.0 billion was instituted to offer accessible financing for green products and initiatives. This fund was later augmented to BDT 4.0 billion. Initially, the scheme identified six green products or initiatives for the refinance facility. By FY22, the number of eligible green products and initiatives for refinance had risen to 68.

The central bank's latest initiative to promote sustainable finance is the establishment of the Green Transformation Fund (GTF). Initially targeted at the export-oriented textile, leather, and jute sectors, it was later expanded to encompass all export-oriented industries, facilitating sustainable export growth as the nation transitions to a greener economy. As per

the Bangladesh Bank report, disbursements from the Green Transformation Fund (GTF) totaled USD 140.94 million across 47 projects and Euro 71.21 million across 30 projects by FY22. Furthermore, by June 30, 2023, BDT 1778 million had been disbursed to five clients of four banks from the local currency GTF fund.

Bankers opine that if projects are carefully selected, green finance loans are unlikely to turn into bad debts over time. Consequently, they foresee significant potential for green finance.

"In 2023 alone, EBL financed BDT 1,180 crore across 385 diverse projects dedicated to promoting energy and resource efficiency, effective liquid waste management, circular economy ventures, LEED certified factories, green CMSMEs, information and communication technology projects, and more," shares Ali Reza Itekhhar, Managing Director, Eastern Bank PLC.

"BRAC Bank has been recognized as one of the top sustainable banks in Bangladesh for the past three consecutive years. We continuously emphasize green and sustainable financing, increasing the percentage of such financing each year. In the last quarter, we disbursed BDT 15,472 million in green financing, constituting 23% of our total term loan disbursements," says Md. Sabbir Hossain, DMD & Chief Sustainability Officer, BRAC Bank PLC.

"Our bank consistently prioritizes green finance. As a result, we were among the top 10 award recipients from the Central Bank for sustainable finance in 2020 and 2021. Last year, we disbursed loans to approximately 100,000 borrowers across all loan segments with a particular focus on small clients, totaling BDT 53170.77 million only for sustainable finance, including BDT 182 million in green finance. Moving forward, we aim to provide loans for renewable energy, solar projects, environmentally friendly buildings, and energy-efficient equipment for manufacturing," states Shafiuzzaman, AMD & Chief Credit Officer at Bank Asia PLC.

When asked about whether the existing level of green finance is adequate to tackle Bangladesh's urgent climate and environmental issues, Atiur Rahman points out that the current financial crisis has somewhat slowed the flow of green investment. Yet, he remains optimistic that once the financial situation stabilizes, there will be a resurgence of initiatives aimed at bolstering this crucial sector.

FACING THE CRISIS

Environmental Challenges in Bangladesh



Bangladesh is the seventh most vulnerable country to climate change.

Between 2000 and 2019, the country faced 185 extreme weather events.



The mean temperature rose by 0.39°C from 1991-2000, 0.53°C from 2001-2010, and 1.06°C from 2011-2019.

Climate change has made heatwaves 45 times more likely in Bangladesh and South Asia.



Sea levels in Bangladesh are rising 3.8 to 5.8 mm annually, outpacing the global average.

Salt-affected coastal areas in Bangladesh have increased by 27% since the 1970s, impacting crops and livelihoods.



In the past 50 years, Bangladesh has experienced about 20 droughts, with the northwest particularly vulnerable.

Tropical cyclones cause \$1 billion in losses annually.



Dhaka ranks second globally in methane emission, with 47% of emissions stemming from garbage.

Bangladesh lost 246,000 hectares of forest between 2001 and 2023.



The number of rivers is 907. Till November 2021, a total of 65,127 river grabbers had encroached on various parts and foreshores of some 770 rivers.



From 2015 to 2022, lightning strikes killed 2,142 people and injured 538 others in Bangladesh.



Current contribution to global greenhouse gas (GHG) - 0.4 percent.

Bangladesh's shifting climate exacerbates conditions for diseases like dengue, malaria, and chikungunya. Between January and April 2024, there were 2,290 cases of dengue, with 24 fatalities.



In 2022, 7.2 million people in nine north-eastern districts severely affected by the flash flood.

In 2005, Bangladesh was one of the first least developed countries to put forward a national adaptation programme of action



In 2009, Bangladesh developed its Climate Change Strategy and Action Plan, a blueprint for other climate-vulnerable nations.

SOURCE: GLOBAL CLIMATE RISK INDEX (2021), MINISTRY OF ENVIRONMENT, FOREST AND CLIMATE CHANGE, NATIONAL ADAPTATION PLAN 2022, WORLD BANK, NATIONAL RIVER CONSERVATION COMMISSION, WORLD WEATHER ATTRIBUTION (WWA), CLIMATE CHANGE IMPACTS IN BANGLADESH - A REPORT BY ICCAD AND BUET, CEGIS 2022, GLOBAL FOREST WATCH, ENVIRONMENTAL RESEARCH LETTERS (2023), UN RC BANGLADESH (2022), AND INT. J. CLIMATOL (2018) ETC.